MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
2006/07
COST OF GAS APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Monica Girouard - Board Member
Alan Molgat - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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APPEARANCES

R.F. Peters	)Board Counsel
Marla Murphy	)Centra Gas
Brent Czornecki	)
Eric Hoaken	)Direct Energy Marketing
Andrea Gibbs	)Limited/Municipal Gas
Nola Ruzycki	)Energy Saving (Manitoba)
	)Corp.
Kris Saxberg	)CAC/MSOS
Brian Meronek	)

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LIST OF UNDERTAKINGS

--- Upon commencing at 9:25 a.m.

THE CHAIRPERSON: Good morning, everyone. Another fine day in Winterpeg. Mr. Peters, anytime you're ready to begin.

Vince Warden, Resumed
Howard Stephens, Resumed
Lori Stewart, Resumed
Brent Sanderson, Resumed
Kelly Derksen, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Thank you and good morning, Mr. Chairman. The first thing I'd like to do is change my time estimate I left on the record yesterday. But leaving that aside, I want to start with Ms. Derksen and question that I pondered since she provided some information yesterday.

Ms. Derksen, you indicated to the Board that for the special contract class and the $13.2 million accumulated funds in the deferral accounts and purchased gas variance accounts, Centra has negotiated with that customer to pay a lump sum payment.

MS. KELLY DERKSEN: We have, sir, yes.

MR. BOB PETERS: And that lump sum payment was approximately two hundred and seventy-three thousand dollars ($273,000).

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: That wasn't a term of the service that you provide to that customer but it's rather a matter of negotiation, would that be fair?

MS. KELLY DERKSEN: Yes, sir, we don't -- that specific agreement is not written in their contract; it's just something that we've agreed with and it's being for -- that way for about the past three (3) years or so.

MR. BOB PETERS: When that special contract customer owes Centra money, do they pay it to Centra in a lump sum?

MS. KELLY DERKSEN: Yes, they do.

MR. BOB PETERS: Rather than have a rate rider on their billed rate, they pay it off by way of lump sum payment?

MS. KELLY DERKSEN: Yes. Their concern was that they wanted to true-up at the end of every period and generally it's in August, and because it's one (1) customer, our -- our largest customer, we're able to -- to deal with that.

MR. BOB PETERS: I suggest they want to true-up at the end of August because they would like their costs confined to the period in which they produced the products that they produce?

MS. KELLY DERKSEN: Presumably that's the case, yes.

MR. BOB PETERS: They want to know what their true cost of production was and that helps them determine what they charge their customers?

MS. KELLY DERKSEN: That's probably the case, yes.

MR. BOB PETERS: Would that probably be the case for the other hundred and sixty-three (163) or hundred and sixty-two (162) large-volume customers that Centra serves?

MS. KELLY DERKSEN: It possibly could. It's really a cashflow issue. And, you know, to the extent that customers can identify a few months in advance - and these applications always take a number of months - so by the time that we actually file the information with the Public Utilities Board, we are in contact with those hundred and fifty/sixty (150/60) customers about what their rates are going to look -- look like for the upcoming year, and no one has -- other than this one (1) customer -- has expressed concern.

MR. BOB PETERS: Do you know if the service and sales and key contact people from Centra ask the hundred and sixty-three (163) largest volume customers whether they would prefer to deal on a fiscal basis where all of the costs are either -- are netted out within that time period, whether they are owing to Centra or owing to the customer?

MS. KELLY DERKSEN: They don't specifically ask, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, do the principles change whether Centra owes money to the large-volume customer or the large-volume customer owes money to Centra?

MS. KELLY DERKSEN: Can you describe for me what principles would change, please?

MR. BOB PETERS: Well, the principles of confining the -- the costs of the large-volume customers to a fiscal period so that they know what their total costs were within that period and they're not paying or receiving refunds in subsequent periods?

MS. KELLY DERKSEN: Mr. Peters, we have no way of knowing what their fiscal periods are. There could be some that run a calendar and some that don't run a calendar and so an August to July timeframe, which is typically the period by which we -- we set our rate riders flowing from gas costs applications, may very well not coincide with any of their fiscal periods.

MR. BOB PETERS: Would it be administratively more convenient for Centra to net out the hundred and sixty-three (163) largest volume customers by way of lump sum payments on the rate riders?

MS. KELLY DERKSEN: No, sir, it would not. It would be -- it would be fairly onerous and the only reason that we agreed to these terms with the special contract classes, it's one (1) customer in a class. We know through the cost allocation study precisely what amount is owed to them or owed from them and from that perspective it can be accommodated.

It is even a fair amount of work on -- on my part to be able to accommodate that. But we have agreed to do so; to do that for the other -- other hundred and fifty or sixty (150 or 60) customers would be a fair undertaking, sir.

MR. BOB PETERS: Ms. Derksen, do the hundred and sixty-two (162) other large customers know that Centra is refunding to the special contract customer the amount in the PGVA's in one (1) lump sum?

MS. KELLY DERKSEN: Likely not, sir, no.

MR. BOB PETERS: And you've told me

already that you don't give that option to those hundred and sixty-two (162) customers; that's not something that's discussed with the.

MS. KELLY DERKSEN: We don't explicitly tell them that they don't -- that they can have that option but if they were to approach us, we'd have to consider it obviously.

MR. BOB PETERS: So you leave it in the -- in the hands of the large volume customers to decide whether they want to make that request of the Company or not?

MS. KELLY DERKSEN: We do and -- and no one has asked that of us, sir.

MR. BOB PETERS: All right. Let's go down that slippery slope. If -- if starting tomorrow two (2) or three (3) people made that request because they read the transcripts today of -- and find out that a special contract customer has -- getting their lump sum, what would Centra do?

MS. KELLY DERKSEN: My thoughts initially are that if it's several customers that we -- we may not want to go down that road because talking about one (1) customer in their own class is one issue, talking about several customers imbedded within a class of ninety (90) or a hundred (100) is a different matter entirely. So

I'm not sure that we would want to go down that road.

THE CHAIRPERSON: Would you mind, just for the benefit of the Panel Members, to explain why it's -- you indicated be an onerous task?

MS. KELLY DERKSEN: Sir, it has to do with the fact that we would have to retroactively go and look at how much -- well, first of all, you need to decide how that you're going to bill out that lump sum.

So if you decide that you want to go back and look at each of the customers individually and figure out how much volume they consumed during the past year and how much that they are then entitled to, that in itself is a difficult process, particularly when you're talking about two hundred and fifty thousand (250,000) customers. To then track them later on to find out where they have gone to is another matter entirely.

And we have a significant number of moves and changes on the system such that the customers that were on the system in the year that the amount has accumulated may no longer be on the system. And so, that's a difficult process as well.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Ms. Derksen, but the -- the onerous part that you talked about with the Chairman that pales in comparison then and it's not as onerous when you're talking about a hundred and sixty-two (162) as opposed to two hundred (200) and -- two hundred and three thousand (203,000)?

MS. KELLY DERKSEN: I guess -- I guess the difficult thing is, you either do it all for everyone in that class or you don't do it at all because you don't want to have differential rates between the customers within the class.

So it can be done. It's fairly lengthy to do that and we've avoided that in the -- the last time that we have issued a lump sum payment was through an issue that we dealt with in 1993 and it's because of the administrative complexities of -- of doing that.

And so as long as you were to keep it consistent for each customer within a class and don't give them an option such that you have differential rates it can be accomplished. It's not our preference at this -- at this time.

MR. BOB PETERS: All right. And just to close off on that, at Tab 6 of the Book of Documents that I hope you took home last night and brought back today, Schedule PUB/CENTRA 5(a) is a chart that contains customer numbers.

And just to put the discussion you've had with the Chairman and myself into a context, looking in the PUB/CENTRA-5(a) Attachment 1 -- it's the second page in Tab 6 of the book of documents. Looking at the March '06 column for example, you would have to -- if you did it on an entire class basis, you would have to do it for not only the system-supplied customers in the top half of the page, but also those supplied under Western Transportation Service in the bottom half of that page.

MS. KELLY DERKSEN: That's correct and I might add that we'd also have to do the same thing for your transportation customers to the extent they don't obviously incur transportation-related cost or supplemental-related costs because they are responsible for their own supplies.

But to the extent that amounts have accumulated in the distribution PGVA, for example, transportation customers would also have to be included in this amount.

MR. BOB PETERS: All right, understood. And if you flip to Tab 14 of the book of documents and look at Schedule 7.4.0, and this the one that we find a little difficult to read, I'm not sure why, but the -- am I correct that for some classes there would be a rate rider not refunding money but recovering money from some of these classes?

MS. KELLY DERKSEN: That's a very good point as well, Mr. Peters, that I should have -- have brought up. And indeed we can look on a general basis and say we are refunding an amount of 13.2 million but because of our -- the unbundled nature of our rates, that would mean that some rates we would be collecting a lump sum money payment from a customer, and other amounts would be refunding -- on a net basis we would be refunding. But that doesn't mean that there aren't gives and takes and that could be very confusing to the customer.

MR. BOB PETERS: Well, in terms of the gives and takes, Ms. Derksen, on Schedule 7.4.0, am I correct in interpreting that the mainline customer would receive on their distribution rate a rate rider that is charging them more money than the base rate?

MS. KELLY DERKSEN: That's correct, sir.

MR. BOB PETERS: Why is that? And I appreciate mathematically how it is but what -- what led to the mainline customer not getting a rate rider that will reduce the base rate like most other classes, but having to -- having to pay more when there's a $13.2 million total refund going out?

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, while you're perhaps looking for some information, I see the same question could be asked of the power stations, and perhaps Mr. Warden's other utility would be interested in the answer, but is it -- it's under the distribution column and do I take from that that it relates to the unaccounted for gas portion?

MS. KELLY DERKSEN: It, indeed, relates to unaccounted for gas, and I can answer with respect to the power stations. I don't know off the top of the -- my head what's happening in the mainline class although I'm suspecting at this point that it's the same reason for both.

And for the power stations we -- we have seen a significant reduction in their -- their annual usage such that last year we projected a certain volume, and to the extent that they did not use that volume of gas we would have under-collected the amount that we had forecasted to collect from that class. And that's what you're seeing this year, is -- is the amount owing from that class. I'm thinking it's probably the same for the mainline but that would be subject to check.

MR. BOB PETERS: And when you do check that, if it is different, maybe through your counsel you can let us know but I'll -- we'll take that answer subject to any -- any revisions that you would have later.

MS. KELLY DERKSEN: Fair enough.

MR. BOB PETERS: Yeah. All right.

THE CHAIRPERSON: Ms. Derksen, when you're carrying forward these balances either due or from, you also apply -- you impute interest too, do you not?

MS. KELLY DERKSEN: We do, sir.

THE CHAIRPERSON: I'm just trying to recall what the rate is. It's on your short-term borrowings is it? Is that you develop it? And it's identical whether owing to or from?

MS. KELLY DERKSEN: It is indeed short-term -- the short term interest rate and regardless of its -- if it's owing or that we have to collect and interest is applied to both.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, maybe you can assist Ms. Derksen and the Chairman in the -- in terms of the short term debt rate that is charged on these deferral accounts.

That's the short term debt rate that

Manitoba Hydro was able to secure for Centra Gas?

MR. VINCE WARDEN: Yes, that's correct.

MR. BOB PETERS: Would you know off the top, Mr. Warden, what it would have been for the '05/'06 fiscal year?

MR. VINCE WARDEN: I don't know precisely, Mr. Peters. We perhaps could get that -- deal with that. It -- the short term rate by its very nature is quite variable so I would have to determine that and get back to you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And just help me out, and help the Board out, I hope in terms of how you charge that short term rate recognizing it's variable, is it averaged out and charged on an annual basis or is it charged as of the short term debt rate for the day, or the week, or the month in which the debt occurs?

MR. VINCE WARDEN: The -- the rate would change every month depending on what the borrowing rate is for that month for -- for Manitoba Hydro.

THE CHAIRPERSON: Mr. Warden, does it include the debt guarantee fee?

MR. VINCE WARDEN: It does.

MR. BOB PETERS: And the debt guarantee

fee is .95 percent?

MR. VINCE WARDEN: No, it's 1.0 percent now.

MR. BOB PETERS: Did it go up or have I--

MR. VINCE WARDEN: It went up effective April the 1st of 2007, yes -- sorry, 2006.

MR. BOB PETERS: Yeah. So it was 1.0?

MR. VINCE WARDEN: It was 0.95 prior to that date. April the 1st, 2006 it went up to 1.0.

MR. BOB PETERS: I have to read those budgets more carefully. The -- thank you, sir.

I'd like to turn, Mr. Stephens, to the Western Transportation Service offerings.

And while My Friends opposite may have some specific questions, let's just understand that Centra had a number of meetings with stakeholders and one (1) of the discussion points on Western Transportation System for the -- the four (4) discussion points are found under Tab 16 of the Book of Documents and flip to the second page of that which is actually marked Page Number 3.

There were four (4) issues that Centra was asked by the Board to look at and this is your report on the results of that examination, would that be fair?

MR. HOWARD STEPHENS: Give me a moment,

Mr. Peters.

MR. BOB PETERS: Yes. I'm on Tab 16, Mr. Stephens, and I'm on the second -- on the page marked Number 3.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I haven't got my glasses here today, so, it's going to take me a little bit longer to respond to your questions.

Yes, this is the report that we provided on the basis of that.

MR. BOB PETERS: I'll try not to make you look at some of those schedules that we've been looking at.

MR. HOWARD STEPHENS: You can make me look but I won't be able to answer.

MR. BOB PETERS: Now, let's just go down these four (4) points. Centra presently establishes the maximum daily quantity in its gas supply arrangements from Alberta, is that correct?

MS. LORI STEWART: Mr. Stephens and I may tag team on this, Mr. Peters. And, yes, Centra does currently establish the MDQ.

MR. BOB PETERS: What was the request

from the broker community on this -- on this issue?

MS. LORI STEWART: Issues 1, 2 and 3 are not as discreet as they may seem. So they're -- they're quite inter related and it -- and it has to do I guess from the broker's perspective.

There is some discomfort as it relates to the variability of our nominations. And the ability for Centra to adjust the MDQ on a daily basis. And Centra is required to do that because of the market in which we operate which is an extremely variable weather -- weather load.

MR. BOB PETERS: Are you suggesting then that brokers are asking that the -- that the amount nominated from them be a -- perhaps a fixed percentage of a year, one three hundred and sixty-fifth (1/365th) of their volume?

MS. LORI STEWART: Yes, my understanding is that the broker's preference would be that we flatline in essence the MDQ and they flow the same -- same volume of gas to us every -- virtually every day of the year.

MR. BOB PETERS: And that wouldn't recognize the -- the heat sensitivity of the load?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And what problems does that cause for Centra if that was to be done? Just before I -- let me rephrase that.

To do what's being requested by the brokers is permitted under your -- under your contract, is it not?

MR. HOWARD STEPHENS: We ask the brokers to follow the same load profile that we purchase the system supply so that it's a level playing field.

And that has been the premise of all of our services that we've provided since going back to 1986, that when we -- and because we don't have the benefit of storage and we do operate and I talked yesterday of our purchase load factor being on the order of 70 to 80 percent means that the -- the purchase load factor that we take, the broker supplies, is at the same level.

So if we have to change nominations during the course of the day and we've gone to great extent or, I mean, great lengths to avail ourselves of additional nomination windows with a different pipeline so that we can balance our load it can mean within -- within the day a number of changes if the weather is very changeable.

So what they're looking for though is akin to the experience they have out in the east where the -- the LDC's have a significant amount of storage which acts as a big surge tank and to the extent that you put five (5) in and take ten (10) out, there's no real impact on the system.

For us if you put five (5) in and take out -- well, you're taking ten (10) out that's delivered -- supposed to be going someplace else or causing an imbalance on the pipeline.

MR. BOB PETERS: But you said you wanted the same level playing field for the brokers as well as the system supply.

Does it -- does it -- how does it impact the system supply if the brokers have a flatline nomination?

MR. HOWARD STEPHENS: Well, now they have the benefit of just delivering -- we would make -- well, presumably if it's one three sixty-fifth (1/365th) we'd make one (1) nomination during the course of the year and then I would have to reduce our baseload supply because I don't know how much it's going to vary over the course of the year and increase the amount of swing service that we can get and make sure that it's at a very -- what's the term I'm looking for? We'd need much more flexibility in terms of how frequently we can nominate during the course of a day.

And we would now have to compensate for those variances between what the -- I mean and there are naturally going to be variances between what the brokers' consumers are taken and what they're delivering. And in the winter months it would be huge. I mean, their loads would be double what they would be delivering to us and in the summer months it would be half.

So I would have to be able to accommodate that with swing services which draw a premium.

MR. BOB PETERS: And that premium you told us about yesterday and of course I've forgotten it but for one (1) of the swing services it was at ten (10) cents a gigajoule?

MR. HOWARD STEPHENS: No, the premium for our swing services depending on the first tier as I described yesterday is two and a half (2 1/2) cents and on the second tier is five (5) cents.

MR. BOB PETERS: And have you approached the brokers to see if they're prepared to pay those premiums on -- on the swing service if you accommodated their flatline nominations?

MR. HOWARD STEPHENS: Well, when we developed both the WTS service which was really just a modification of the original western buy/sell service and prior to that our city gate T service or I should say city gate buy/sell service -- there's been so many different variances I'm certain to forget.

We've always held the premise that we would make sure that the broker customers got the same benefits and disadvantages as the customers that are buying gas on the system -- system supply so that -- and it's basically under the premise that there be...

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I mean - and this was something that was actually dictated by the Regulator during the course of the -- of deregulation involving that - when we provide a service, that there would be no costs as a result of us implementing a service that provided for competition that would be thrown back into the lap of the system supplier -- system customer.

MR. BOB PETERS: I'm not sure I heard the answer to my question, Mr. Stephens.

Are the brokers prepared to pay the additional costs, if any?

MR. HOWARD STEPHENS: Oh, I'm sorry, Mr. Peters, because I was giving you the preamble, I never did get to the answer.

The answer, in short, is based -- based upon those principles. We have never endeavoured to pro -- I mean pursue that avenue because taken to the extreme if we -- I mean, the entire market were displaced, all of the broker -- say the broker community took all of our customers, we would have an unworkable system.

We'd have customers delivering gas at one hundred and three sixty-fifth (103/65th) of their daily requirement -- of their MDQ, but their daily requirement is going to be something substantially different and then all the customers are doing that, I have got a mess in my hands. In the middle of January I haven't got half the gas and even in the middle of the summer I got twice as much gas that I need.

So it would put the onus on us in terms of developing a huge amount of storage with a great deal of flexibility.

MR. BOB PETERS: And the brokers haven't offered to pay for that.

MR. HOWARD STEPHENS: Not that I have heard that.

MR. BOB PETERS: On the --

MS. LORI STEWART: Additionally, Mr. Peters, simply to, you know, account for each Gj of gas that's flowing at the premiums will -- would of course complicate our operations and those costs as well, if we're going down that path, would -- would need to be considered in terms of the appropriate party which caused the cost to thus incur the related cost.

MR. BOB PETERS: Ms. Stewart, are some of those related costs for balancing fees?

MS. LORI STEWART: Certainly we -- we would -- those -- those are some of the costs that -- that we're -- we're discussing in terms of needing to balance the system and of course the penalties that we're subject to on TCPL.

MR. HOWARD STEPHENS: On the -- Mr. Peters, I'll --

MR. BOB PETERS: Your turn again.

MR. HOWARD STEPHENS: -- I'll just add to that. I mean, the T-Service customers are really the ones that expose us to most of the balancing fees because they're making their own nominations and forecasts and delivering a certain amount of gas relative to their actual takes-off versus -- so they can cause us to incur a -- a load balancing fees.

With the WTS customers because we control the gas and because we nominate the supplier, we don't ask the broker customers to pay the balancing fees because we're essentially controlling. So if there are any errors in the forecast relative to their actual requirements, they're errors that we have made.

MR. BOB PETERS: Do you ask the T-Service customers to pay the balancing fees?

MR. HOWARD STEPHENS: If -- and I mean -- and I've talked about this before. We don't have a formal penalty charge for a balancing fee for our T-Service customers right now. As I eluded to yesterday, we do quite a bit of babysitting with the T-Service customers but only because we only have a handful of them; they can make a significant difference. So that we're on the phone with them almost daily.

And the understanding -- I mean the -- we -- I mean -- or the premise that I've worked from in terms of providing it -- this type of service is that because we have so few and -- we could look at it on a day to day basis.

If somebody is making a significant -- is not being diligent and they're not providing the gas on a responsible basis causing us to incur very large imbalances, then to the extent that we can discreetly identify those, we will charge them back.

But for the most part the -- the T-Service customers -- and I don't know why it is, but typically when we're going along, if we're low on gas, they're short gas and one offsets the other. So they get the benefit. There is no penalty.

I mean, in the ordinary course if you set a penalty charge on our system, regardless of whether or not we were harmed by the fact that they were out of balance, we would be obliged to charge them an imbalance fee when we're really not incurring any costs.

So we're giving them the best -- best of both worlds or the most reasonable approach, but it does take some extra effort on our part. If we were to increase the number of customers that we have on T-Service, then it would become too onerous for us to be babysitting the customers and helping them trying to balance and then we would have to implement something.

MR. BOB PETERS: Did you charge any balancing fees back to customers in the '05/'06 fiscal year?

MR. HOWARD STEPHENS: Yes, we did.

MR. BOB PETERS: Where would those have been shown in the -- in the cost of gas rule, 506?

MR. BRENT SANDERSON: They would have flowed through the transportation PGVA as an offset to any TCPL penalties to which we would have been exposed as a utility. So in any given month where a charge-back like that occurred, the net amount of TCPL balancing fees that are shown in our figures, if -- if there isn't net amount remaining, would include the net amount of what we incurred as a utility, offset by any amount charged back to any T-Service customers.

MR. BOB PETERS: Thank you, Mr. Sanderson. In the -- in the report that's at Tab 16, Ms. Stewart has explained to me that some of these points, 1, 2, and 3, interrelate but in terms of alternatives to Centra controlling the daily nominations, you've indicated, Mr. Stephens, that if Centra didn't control it, you'd have a real mess on your hands and those may have been your words.

MR. HOWARD STEPHENS: Well, if I didn't say it before, I'll say it now, we'd have a real mess on our hands.

MR. BOB PETERS: Is the suggestion from the broker community that they control their nominations or that a third party control the -- the nominations?

MR. HOWARD STEPHENS: I don't know how they could forecast the load any better than we could. Certainly being at a distance and looking at the variety of factors that we have to look at in terms of trying to get the appropriate amount of gas into our very weather-sensitive system, it would be very difficult for them to bring the appropriate amount of gas to the system.

So we would -- in the end if they were providing their own nominations and left them sit, then we would have to be making much more drastic changes on the system supply which would likely result in additional costs.

MR. BOB PETERS: But I don't understand what the request is. Is the request from the broker that they control the nominations or that they have a third party control them?

MR. HOWARD STEPHENS: Well, that be request -- request that they -- they've elucidated to us is that they want to provide the nomination for their supply; that they would know better what their customer is going to take. And it -- the individual customer it -- went into the WTS service is really not the issue, it's -- we look at it on an aggregated basis and then we -- I mean and there's give and take with respect to different customers, et cetera.

MR. BOB PETERS: On the other -- the third -- the third issue being alternatives to Centra controlling the reduction of daily nominations of direct purchase gas, presently Centra controls those nominations intra-day?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And the brokers would like to do that on their own?

MR. HOWARD STEPHENS: Well, I'm -- I would presume that if the brokers were doing -- and we haven't gotten into a great deal of detail with respect to that, but I mean brokers wouldn't necessarily have the information available to them in terms of what their relative takes for their group of customers are as compared to what they've delivered to their system.

And we look at it as an aggregate in terms of what the overall load is doing and then we have to make cuts on the basis, or increases as the case may be, to manage the difference between what we'd originally anticipated needing for the system and what we ultimately will need for the system.

And we make our last change with respect to that at eleven o'clock effective for nine o'clock in the morning. This is in the -- so eleven o'clock at night.

MR. BOB PETERS: Why do you suggest that brokers wouldn't know what their customers need and what the brokers have already delivered?

MR. HOWARD STEPHENS: Because they're all lumped into -- they would have to have meter readings from each one of their individual customers which we don't have.

MR. BOB PETERS: When you do those 11:00 p.m. the night before revisions to the nominations do you treat the brokers' customers pro rata to the way you treat your own?

MR. HOWARD STEPHENS: And that goes back to the level playing field. We treat them exactly the same which is a change that we -- that has occurred since we got out from under the TCP contract which provided us a lot more flexibility with respect to this issue.

Once we started buying gas in the competitive marketplace and we had an opportunity to try and extract a lower price associated with it, I mean we looked very hard now at the cost of the peak -- of the swing services to manage that, the balances/imbalances on the system.

MR. BOB PETERS: In terms of the fourth issue that's raised in this report -- let me move to that. In terms of enrolling WTS customers on a more frequent than monthly base -- or them -- a more frequent than quarterly basis, the present arrangement you have in the Nexen contract is that you can de-contract a certain amount of your baseload supply without penalty if it's taken up by the direct purchase market?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And that quarterly de-contracting has been a provision in your long-term gas supply contract for many years, Ms. Stewart?

MS. LORI STEWART: Yes.

MR. BOB PETERS: And the request has been for many years from the direct purchase community that their customers be allowed to change from system supply over to direct purchase on a more frequent than quarterly basis?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And in this regard, you have had some discussions with Nexen according to this report and Nexen has given you three (3) alternatives.

MS. LORI STEWART: That's correct.

MR. BOB PETERS: Have these alternatives been run by the broker community yet?

MR. HOWARD STEPHENS: No, they haven't.

MR. BOB PETERS: And the alternatives that you've been given, two (2) out of three (3) of them have a price tag on them?

MR. HOWARD STEPHENS: That's right.

MR. BOB PETERS: Let's just start off with the existing situation because maybe I'm not quite clear on it. If a customer wants to leave system supply and receive supply from a broker, how long in advance do you have to notify Nexen?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: Are you talking existing, sir, or are we talking under a new arrangement?

MR. BOB PETERS: I'm talking under the existing arrangement. Sorry about that, the existing arrangement.

MR. HOWARD STEPHENS: Okay, we -- we have a last true-up that we can do for the quarter two (2) weeks prior to the beginning of the quarter. But it's a true-up only for changes in terms of the number -- number of WTS customers that we have on the system.

I can change my mind in terms of how much gas I need for system supply, in other words. So it's an adjustment to allow for last minute adjustments to allow customers to migrate either to or from WTS service.

MS. LORI STEWART: Because an initial estimate is provided thirty-two (32) days in advance of the quarter. However, customers on WTS may enroll up to thirty (30) days in advance of the quarter, thus we have this fifteen (15) day window in order to adjust for WTS submissions either moving the load up or down and then submit a final number fifteen (15) days in advance of the quarter.

MR. BOB PETERS: All right. Thank you for that. So presently you notify Nexen thirty-two (32) days before the gas quarter begins as to what your baseload requirement will be and they allow you fifteen (15) days later to tweak that for any additional direct purchase customers that have signed up?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And in terms of Alternative 1, Nexen's prepared to allow you to let them know thirty-two (32) days before the first day of the month as to what your requirements are and then you can tweak that fifteen (15) days before the month starts; that's their first alternative?

MR. HOWARD STEPHENS: That is the alternative we just discussed.

MR. BOB PETERS: And that -- that's the one that's being offered? Well, maybe I -- maybe I misspoke or misunderstood.

MS. LORI STEWART: No, the difference in what we just described which is the situation with our current contract, that only happens on a quarterly basis. What's described in Alternative 1 would be providing for monthly enrollments on WTS, thus this would happen now on a monthly basis and the premium associated with that estimated by Nexen would be ten (10) cents a Gj.

MR. BOB PETERS: All right. Thank you for that. So the -- the clarification is instead of on a quarterly basis, Nexen will extend the same thirty-two

(32) day before the month and -- and fifteen (15) days before the month final adjustments to you for a price of ten (10) cents a gigajoule?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And that ten (10) cents a gigajoule is for all baseload quantities, not just those that shift over to direct purchase?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And -- and so that calculates out to about a $3.3 million price tag. Is that on an annual basis?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: There's -- there's not $3.3 million of incremental work required from their end, is there?

MR. HOWARD STEPHENS: It's simply the optionality cost, Mr. Peters. The more flexibility you look for, the more optionality you're asking for and there's a cost associated with optionality as we've talked about ad nauseam in our price -- price management program.

MS. LORI STEWART: It's not necessarily the work that Nexen would have to undertake, it's the risk that they're undertaking because they're now into the month, fifteen (15) days in advance of the month, and thus there's a risk in -- a price risk that Nexen is undertaking. It's not necessarily the additional effort.

MR. BOB PETERS: You haven't asked the broker community if they're interested in paying that extra premium for this flexibility?

MR. HOWARD STEPHENS: No, we haven't.

MR. BOB PETERS: All right. The -- the second alternative would be similar to the first one except there would be no fifteen (15) day tweaking allowed and that is you have to know thirty-two (32) days in advance of the month as to what your base load volumes were and -- and that's the second option?

MS. LORI STEWART: Yes, that's correct. And clearly that option would require some changes to the existing parameters of the service because we could not provide Nexen with an estimate of base load volumes thirty-two (32) days in advance and still permit brokers to submit new customers up to thirty (30) days in advance.

We would need to roll that back likely to a forty-five (45) day notice period for new customers to come on the system or come off the system such that we can then do our calculations and provide Nexen with an estimate of -- a firm estimate of base load volumes thirty-two (32) days in advance.

MR. BOB PETERS: So that provides less flexibility, would require some changes to the existing arrangement with the brokers, but the price tag from Nexen is only two (2) cents a gigajoule?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: Or six hundred and sixty-four thousand dollars ($664,000) a year.

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And again, you've had no comment from the brokers as to whether that's something that's of interest to them.

MR. HOWARD STEPHENS: Well the comment that I -- I mean, I was just thinking about that in terms of what the process was going to be, Mr. Peters.

We submitted this report and it was submitted to the regulator per the deadline I think that we were suppose to meet, August the 15th, 2005. And then it was circulated amongst all the broker community, as well, at that time.

And we were looking -- I was actually looking -- interested in looking to see what the responses were going to be and to my knowledge there were none.

MR. BOB PETERS: Stay tuned.

MR. HOWARD STEPHENS: I have no doubt of

that.

MR. BOB PETERS: And Nexen your long-term gas supplier also provides you with a third option and that is to go sixty-two (62) days before the month to make your base load determinations and they'd allow you to do that at no additional charge.

MS. LORI STEWART: That's correct. And the corollary action with this alternative is the fact that we would then need to push back the time that we could accept broker submissions to seventy-five (75) days in advance of the time frame that they're looking to flow such that we have a few days for our calculations could then provide Nexen with a firm estimate of our base load volume sixty-two (62) days in advance of that month.

So there would be some associated negative ramifications for how the service works for brokers today.

MR. HOWARD STEPHENS: I think there's -- I mean -- I just want to make one (1) comment I mean and that's -- it's from my perspective very important.

When we look at these alternatives I mean and I eluded to it earlier is that -- I mean given the current status, we could likely provide for precisely what the -- the brokers are looking for.

But if we always -- and I'm looking at

these services I always look at it on the basis of if the brokers were to fully displace our system -- our system supply, how would we operate the system?

And if we can't -- I mean if I can't see that it's going to be a sustainable process, then it's not viable. And we won't contemplate that sort of a situation.

MR. BOB PETERS: Let me just follow that up, Mr. Stephens.

Presently you could accommodate the request of the broker related to the enrolment issue?

MR. HOWARD STEPHENS: Not under the current contract. But in terms of the other issues that we discussed, in terms of the balancing and the delivery of gas at a hundred and thirty (130) -- one three hundred and sixty-fifth (1/365th) of the their annual requirement et cetera, we could manage those because they are the minority component of our supply -- overall supply coming into the system and it just means that we have to buy more and more swing services to accommodate that.

But even at that -- at some point, if they become the majority supplier, say they now serve 75 percent of the market, I can't buy enough swing service to accommodate the swings that are going to occur day to day and then our Trans Canada Pipeline's balancing fees start to climb through the roof.

And Trans Canada balancing fees are just the first measure that they can take. I mean if we're significantly out day after day after day, they can order us to decease and desist in terms of taking gas that's not equal to our requirements or doing a better job and acting responsibly basically and valve us off at a certain point where we would only be allowed to take so much gas and then there's emergency operating procedures that they can put into place and we get into quite a ball of wax now.

MR. BOB PETERS: All right. So those first three (3) components are ones that while it's technically possible for Centra to accommodate them, there are some long-term ramifications and particularly if Centra's system gas is displaced become the minority or nonexistent?

MR. HOWARD STEPHENS: In that circumstance and it doesn't -- it's not sust -- a sustainable model and it's I guess the point that I wanted to make.

MR. BOB PETERS: In case the Board wants to go back and look at the volumes, Tab 6 of the book of documents contains Centra -- PUB/CENTRA-5(a), Attachments 1 was the customer numbers and Attachments -- Attachment

2 contains the normalized as well as the actual volumes that you were just talking about, Mr. Stephens.

I told you I wouldn't make you look at them, didn't I? But -- but you'll agree with me that you put the volumes and the customer numbers in the materials and PUB-5(a) is -- is a source for that for the Board to do their calculations as to what percentages of volumes are sourced directly and what are -- what are sourced by system supply?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: All right. Then -- then back with the -- with the ability to enroll WTS customers on a more frequent than quarterly basis, Ms. Stewart, I didn't quite follow your suggestion that even the free alternative from Nexen is to the disadvantage of the brokers.

I read that in your answer and you may not have said that, but is that what you're suggesting?

MS. LORI STEWART: No, I simply wanted to ensure that there was some understanding that there -- with that positive benefit of being able to enroll customers on a monthly basis the practical reality of Alternative 3 is such that they would actually -- there would still be a seventy-five (75) day delay between when the deadline for submitting a customer was to when they would actually flow on the system.

And that's currently one (1) of the critiques associated with our quarterly enrollment. So the free option is, in essence, getting us right back to the same place where we are today which is that there's a significant lag between when the broker signs the customer, processes the submission, and when they actually flow on our system.

So the free option doesn't really -- it doesn't really accomplish very much.

MR. HOWARD STEPHENS: Only buys fifteen (15) more days.

MS. LORI STEWART: Yeah. So I -- I simply wanted to ensure that there was some understanding that with a sixty-two (62) day firm notice requirement from our supplier that we would need to back up when we can -- the deadline related to submissions to a seventy-five (75) day window.

MR. BOB PETERS: But the distinction, Ms. Stewart, is sixty-two (62) days on the quarter versus seventy-five (75) days on the month?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And that would be a matter that the brokers would have to determine whether it's to their financial or -- benefit to do it.

MS. LORI STEWART: That's correct.

MR. BOB PETERS: All right. All right. Thank you for that. Included in the Tab 8 of the -- I'm sorry.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Stewart, Mr. Sanderson and Ms. Derksen, included in Tab 8 of the materials was a report from Centra on broker costs. The upshot of that report in Tab 8 of the -- of the application not the book of documents -- the upshot of that was it's an ongoing examination by the Utility and they have nothing concrete to report at this time.

And if I can summarize it further, the suggestion is it will be brought back before this Board at the next General Rate Application which Mr. Warden tells us is forthcoming early in the new year.

MS. KELLY DERKSEN: That's the plan today, yes, sir.

MR. BOB PETERS: You didn't speak with confidence there, Ms. Derksen. The plan today might -- might change I appreciate, but you're -- you're presently investigating the charges that are made to brokers and deciding whether or not it's appropriate, is that fair?

MS. KELLY DERKSEN: That's fair.

MR. BOB PETERS: And is there a discussion ongoing with the broker community itself on those costs and those issues?

MS. KELLY DERKSEN: No, sir, because we have not concluded internally on how that we want to deal with -- with those costs.

MR. BOB PETERS: Do I take from that answer that once you determine internally how you plan to deal with those costs, you will be in consultation with the broker community?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peters, the issue boils down to the fact that there are incremental costs that the utility incurs in providing the WTS service that we don't currently charge explicitly to brokers. We charge to the -- all of customers because we've taken the position in the past that that service is for the benefit of all customers, whether they explicitly choose to use that service or not.

So the issue then becomes if you take -- if the company takes the position that -- that is no longer their position, our position, and that we feel that we want to be incrementally charging the brokers for that, it would be something that we would bring forward to them through a General Rate Application or other proceeding.

THE CHAIRPERSON: Ms. Derksen, you're planning to bring forward information related to that issue then to the GRA?

MS. KELLY DERKSEN: Yes, sir. That is the current plan. We plan to likely file this piece of it not in January but likely later, in February. And it's expected that that issue be raised as part of that piece of the filing.

THE CHAIRPERSON: Regardless of the preference of your choice?

MS. KELLY DERKSEN: We have to make a determination one (1) way or the other and that would be what we would bring forward to the Board regardless of the decision.

THE CHAIRPERSON: Does the review include the matter of bad debts, things of that nature?

MS. KELLY DERKSEN: Those are all part and parcel of the discussions that are -- that are occurring.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just so I'm clear then, Ms. Derksen, you're doing a study, a report and a review, and that will bring forward a number of the incremental costs for WTS that you've identified.

You will also bring forward, independent of that, a position as to whether you're seeking any changes or no changes?

MS. KELLY DERKSEN: That's true, yes.

MR. BOB PETERS: And presently, and I appreciate we're not at a GRA, Ms. Stewart I believe told me yesterday that the ABC service offered to the brokers was at a cost of twenty-five cents ($0.25) per customer per month.

MS. LORI STEWART: Yes, that's correct. And there is no fee associated with Western Transportation Service at this time.

MR. BOB PETERS: And while there's no fee with Western Transportation Service there is a charge made by the utility to the broker for certain operating and maintenance expenses?

MS. KELLY DERKSEN: A nominal fee to recognize the fact that we incur monthly costs to -- to bill.

MR. BOB PETERS: And a nominal fee,

again, is how much, Ms. Derksen?

MS. KELLY DERKSEN: The twenty-five cents ($0.25), sir.

MR. BOB PETERS: And moving through Tab 8 of your application, there was an Attachment 6 dealing with basic monthly charge.

And the upshot of that issue appears to be that Centra is proposing no changes to the basic monthly charges to any of the customer classes?

MS. KELLY DERKSEN: That would be fair, yes, sir.

MR. BOB PETERS: Would it be also fair, Ms. Derksen, that while there may be a principled reason to change the basic monthly charge for the SGS customers including residential customers, the feared human outcry will drown out the principled discussion as to whether or not to change it?

MS. KELLY DERKSEN: That has been our experience for about the last fifteen (15) years, that I can recall, being employed with this company, yes, sir.

MR. BOB PETERS: When you say it's been your experience, is that as a result of discussions with consumers or is that internal discussions?

MS. KELLY DERKSEN: That's our experience with discussions with customers, sir.

MR. BOB PETERS: And that experience then is even though there may be a -- a legitimate reason in principle to change the basic monthly charge, customer acceptability doesn't appear to be there?

MS. KELLY DERKSEN: That's correct, sir.

MR. VINCE WARDEN: Having said that, Mr. Peters, if we determine it was the right thing to do, then we would -- we would go forward with it. We haven't determined internally that it is in fact the right thing to do from a principle point -- point of view.

MR. BOB PETERS: Is there further information on this plan to be forthcoming in the GRA or is -- does the utility consider this issue dormant?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think we've concluded that we are comfortable where we are with respect to how we charge out the basic monthly charge and nothing more further is to be coming through the General Rate Application with respect to that matter.

MR. BOB PETERS: Right. Thank you, Ms. Derksen. In terms of the Attachment 7 at Tab 8 of your application, you had some discussion about customer class composition.

And there was consideration as to whether the customer classes should be changed, is that correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And in terms of that report, as well as some of the information requests that were asked, the company's position is that that will be a matter to be again raised at the next General Rate Application?

MS. KELLY DERKSEN: We are currently undergoing work with respect to the -- the appropriate class structure that Public Utilities Board raised concerns through the primary gas application with respect to November 1, 2005 about creating a residential class as opposed to a class that contains residential customers and others.

And so some of the work that's ongoing is how do you deal then with the several thousands of customers who are not residential however defined and that's not yet defined, how do you deal with those customers?

Do you put them in a class of their own or do you embed them in -- in the LGS class for example? And I'm specifically thinking of local mom and pop stores, corner grocery stores that might be embedded in -- in the small general service class today, because from a cost perspective there's not a lot of difference to serve that type of customer than a residential customer.

How then might you handle that situation? So those are some of the discussions that are ongoing right now.

MR. BOB PETERS: And those discussions also include issues as to how to categorize condominium units whether they're metered separately or on a joint basis?

MS. KELLY DERKSEN: That's probably a fair statement. What I'm hesitating about is while a condominium very well may contain residential type customers, the cost to serve that condominium will be different than a typical residential customer because of the size of the service that we need to put in the ground in order to serve them.

So those are obviously discussions that we too are having.

MR. BOB PETERS: And the Board will next expect to see the fruits of those discussions in the General Rate Application that will be filed early in the new year?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Thank you. And with that, Mr. Chairman, this might be an appropriate time for the morning recess or I can continue on and engage the Panel in the discussion on hedging matters.

THE CHAIRPERSON: I think we'll let you have a bit of a rest, Mr. Peters. Thank you.

--- Upon recessing at 10:25 a.m.
--- Upon resuming at 10:42 a.m.

THE CHAIRPERSON: You know, it's so nice outside, it's almost a crime that we're in here. We should be all outside. We could be meeting under a tree or something. How's that?

Bob, do you want to pick up from where you left off?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you. I'd like to turn, Mr. Chairman, Board Members and Panel Members to the issue of hedging.

Ms. Stewart, historically Centra started hedging, was it in the mid-90's, do you recall?

MR. HOWARD STEPHENS: I think I'm the historian, so yes, mid-90's would be the time.

MR. BOB PETERS: And is it -- why is it that the company started hedging, first of all?

MR. HOWARD STEPHENS: It was at that time that we moved to index contracts and the bank saw an opportunity to sell a bunch of greenhorn gas companies some financial products.

MR. BOB PETERS: And so what you've -- what you're saying to the Board is that because you have an index price in your long term gas supply contract, it's indexed to some trading exchanges, would that be correct?

MR. HOWARD STEPHENS: That's right. I mean the markets were very immature, but they were being established at the time.

MR. BOB PETERS: And so with your contract that you have for your gas supply being indexed, that just meant that your physical supply was being priced according to a contract which used an index for pricing it?

MR. HOWARD STEPHENS: Yes and it was on the basis of the market view at any particular time of the fair value of the commodity and the suppliers were looking for fair market value for the commodity.

MR. BOB PETERS: And this was a change from the suppliers point of view because they used to price their gas long term on fixed arrangements?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And what they saw was the price being below what they thought the market price would be and so, eventually, they wanted to move to a market price?

MR. HOWARD STEPHENS: Well, actually the price was dictated by the Federal government so at that point in time when deregulation hit the scene, they now saw their opportunity to get what they thought was the appropriate value for the gas?

MR. BOB PETERS: And so we have your physical supply which is the molecules that you flow down the pipelines, that's priced according to the contract and the contract has some indexing to it, correct?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: But that also permits from the answer you also gave Mr. Stephens, for the company to enter into derivative transactions to hedge out the price of gas into the future?

MR. HOWARD STEPHENS: It allowed anybody that wanted to purchase gas under an index contract to give effect to fix prices or modified pricing formulas et cetera and there were a number of instruments available to different consumers to accommodate their risk tolerance.

MR. BOB PETERS: And while it was

available to anybody to enter into those derivative transactions, there was some meaning in it for gas companies because you could actually hedge your future price because you knew that you were going to need a physical supply at some point in time?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And so rather than speculate and never take delivery, you knew you were going to take delivery and you could effectively hedge the future price and you would -- you would know with some certainty as to what it would be?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And does the Corporation consider the hedging and the purchasing on the long term contracts as two (2) separate transactions?

MR. HOWARD STEPHENS: Do you want to run it by me again?

MR. BOB PETERS: I'm just wondering from a Corporate point of view, Mr. Stephens and Ms. Stewart, does Centra view hedging as two (2) separate transactions, that is, on one (1) side you have the physical supply and then on the other side you enter into hedging contracts?

MS. LORI STEWART: Yes, there are separate and distinct contractual arrangements given that we're dealing with different counter parties on the physical and financial sides of the business.

However, those two (2) matters definitely inter-relate for us to be in a position to hedge, we need to contract for gas at a liquid -- at a liquid hub.

And as such, the two (2) activities become intertwined or inter-related.

MR. BOB PETERS: I'm not sure I understand the answer, Ms. Stewart, as to why a liquid hub is needed to make the two (2) interrelate.

(BRIEF PAUSE)

MR. BRENT SANDERSON: Maybe I might just add a little bit of a different perspective on it, maybe to help clarify.

While they're two (2) separate and distinct transactions, one (1) transaction is with an eye on reducing the risk exposure on the initial transaction, that being the physical transaction.

To the extent that you take delivery of your physical commodity at a delivery point that is not liquid where there's not an extensive amount of trading activity, there may not be any availability in the marketplace of hedging instruments to hedge that risk exposure on the physical purchases.

There is many delivery points in North America where the activity isn't sufficient that financial counter-parties will not offer financial instruments that would allow the physical buyer to hedge their risk exposure on their physical purchases.

(BRIEF PAUSE)

MR. BOB PETERS: Do you agree that hedging is optional for the Corporation?

MS. LORI STEWART: Yes, we do.

MR. BOB PETERS: And you don't need to hedge to get the physical delivery of gas under your long-term contract?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: You raised the topic in your last answers, Mr. Sanderson and Ms. Stewart, about a liquid hub.

A liquid hub, you're suggesting to the Board, is that when the gas that you're purchasing under your long-term contract for physical delivery is indexed to a hub that has sufficient activity.

You can also enter into future hedging transactions based out of that -- that use that hub as a centre?

MR. BRENT SANDERSON: Yes. It's much more likely that there will be ready buyers and sellers at that market for risk-management instruments and, on top of that, that they will be much more likely to be available at a low embedded margin cost.

To the extent liquidity is less at a given delivery point, there's less buyers and sellers, the cost to manage that risk through financial instruments, if they are available, would be significantly increased.

MR. BOB PETERS: Which delivery point are you now referring to?

MS. LORI STEWART: The AECO 'C' hub.

MR. BOB PETERS: Can you explain to the Board where that is notionally located?

MR. BRENT SANDERSON: It's a point in Southern Alberta that is essentially the southern terminus of the inter-Alberta gathering and processing system for natural gas, and it's actually a physical valve atop a storage site.

And so all of the gathering system from all of the gas wells in Alberta all migrate and interconnect at this large storage field, and then there's a number of takeaway pipelines to the various markets west on the TransCanada system and then into the

US from that point.

So that it's just a natural gathering point for buyers and sellers to exchange physical commodity and risk-management instruments.

MR. BOB PETERS: What's the physical location? Is there a town or a community nearby that..?

MR. BRENT SANDERSON: No. It's -- like I said, it's -- if someone were to take you to AECO 'C', there is a valve in a -- on a storage facility, that that is the notional physical point, but it's a large storage facility is -- is about as specific as it gets in Southern Alberta.

MR. BOB PETERS: All right. We'll rename that valve Alberta then for this proceeding.

And you talk about there being sufficient activity.

Can you explain to the Board over the years how AECO 'C' has become a more liquid centre than -- than it was when it started?

MR. HOWARD STEPHENS: Now, you'll recall, Mr. Peters -- yes, I believe you were around. You've been around longer than I have, so.

But originally indexed contracts with TCP or TransCanada Gas Services, or whatever name they were going by at that point in time, were indexed in fact to the NYMEX, simply because the AECO index was not sufficiently liquid. Or we -- we were of the view at that point in time that it wasn't sufficiently liquid.

MR. BOB PETERS: And the NYMEX is from where?

MR. HOWARD STEPHENS: The NYMEX is gas that is sold at Henry hub in the United States, and it is a very liquid trading point. There are ...

(BRIEF PAUSE)

MR. BRENT SANDERSON: Hundreds of thousands of natural gas contracts trade based on a Henry hub delivery point every day on the New York Mercantile Exchange.

And just to sort of give you some parallel, the Henry hub is similar to AECO, it's a storage facility in Southern Louisiana, near the gulf coast, where there's a significant capacity to accept deliveries of natural gas.

There's a large -- a lot of natural gas production in that area and a number of takeaway pipelines to take that gas from the Henry hub to market.

So those are the type of physical points that tend to grow into liquid trading hubs --

MR. HOWARD STEPHENS: The same sort of thing would be said for Dawn because there are a number of intersecting pipelines at that point -- that particular point, and there's a significant amount of trading that goes on and it's, I mean, very easily identified in terms of what the trading is and the volume that's being traded.

So it gives you a sense of security that if you go out to buy gas at that particular point that you're getting the appropriate market value associated with it.

MR. BOB PETERS: If there wasn't sufficient activity, you would be concerned that people could manipulate the market on the hedging that you would transact?

MR. HOWARD STEPHENS: Well, the biggest concern you would have is that -- and this was the case in the early years with AECO, is that if you're setting the index from your contract price on a monthly index price then the only -- on a monthly index if there's only 2,000 gigajoules being traded, you're hinging your whole contract on something that's very small and may be something that's just an anomaly.

So you want to make sure that there's a significant amount of volume, that there are a number of counterparties that are trading at that point to ensure that you're getting the appropriate market value.

MR. BOB PETERS: How does Centra ensure themselves that they are getting the appropriate market price on their -- on their hedging?

MR. HOWARD STEPHENS: Well, we made a decision, I'm going to say in 1999 to move our contract from the NYMEX index to the AECO index simply from the perspective that the liquidity had now improved and we -- so we could get pricing that we felt was representative of the fair market value for the gas.

And it was much more closely related to the fundamental impacts that could drive -- change prices in the marketplace in Canada simply because that's where we were buying the gas. So if something were to occur on the NYMEX prior to that when we were indexed on the NYMEX, we could see changes where it could be driving up prices for us and our customers which had really nothing to do with our customers.

Moving to the AECO index was really much more indicative of the appropriate pricing mechanism for Manitoba consumers.

MR. BOB PETERS: Does that suggest that the AECO and the NYMEX don't parallel each other, Mr. Stephens?

MR. HOWARD STEPHENS: I know the basis differential moves around quite a bit. We saw significant change in the -- in the 2000/2001 year when the Alliance Pipeline was built and that was supposedly going to make the two (2) indexes correlate much better. That has not happened and in fact we've seen a wide divergence right now and in fact the basis differential between the two (2) points is likely as high now as it ever has been.

MR. BOB PETERS: Does that give the Corporation any cause to consider whether it should be indexed back out of NYMEX as opposed to AECO 'C'?

MR. HOWARD STEPHENS: None whatsoever. In fact, I mean to -- to -- well, depending upon the basis differential that we fixed between the two (2) points, the NYMEX index would not be appropriate for us.

In a perfect market the prices would adjust for transportation costs and all the rest of it and you could pick any viable liquid point and buy your gas from that point but the market is not entirely perfect.

MR. BOB PETERS: But you're confident that for Manitobans using the AECO 'C' which is the -- close to the source of where you get your gas, as well as the pricing mechanism in your -- in your long-term contract, it's the appropriate mechanism for Manitobans?

MR. HOWARD STEPHENS: Definitely.

MR. BOB PETERS: In terms of hedging on that, I see at Tab 17 of the book of documents an extract from Appendix B of Tab 8 I believe of the -- of the application and it's Centra's derivative hedging policy and operating principles and procedures.

How long has this policy been in effect?

MS. LORI STEWART: I believe the last time it was approved by our Board of Directors was in 2005.

MR. BOB PETERS: And in 2005, Ms. Stewart, the -- the change that was made to this policy was the giving of -- of hedging up to 100 percent of eligible volumes, is that right?

MS. LORI STEWART: Yes, that's correct, versus the former requirement to hedge 90 percent of eligible volumes. Additionally, we made a number of housekeeping changes to the operating principles and procedures to have it more accurately reflect our organizational structure.

MR. BOB PETERS: And this is the same policy that was before the Board at the last GRA for 2005/'06?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: All right. Your policy for hedging indicates that:

"Centra will mitigate natural gas price -- natural gas price volatility to customers through the use of derivative hedging products restricted to price swaps, call options, and cashless collars. At the start of each gas quarter Centra will have hedges in place for up to 100 percent of eligible volumes for the ensuing twelve (12) months."

That remains the same today as it did back at the last GRA?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And you've indicated there's no hedging on supplemental gas, it's strictly primary gas volumes?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And those are all western Canadian source gas which is priced out of the same index in which you hedge?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And when the policy says, Centra will mitigate natural gas price volatility, what are you specifically referring to in terms of that volatility?

(BRIEF PAUSE)

MS. LORI STEWART: Mr. Peters, I think it's safe to say that our policy statement outlines the objective that Centra has as it relates to its derivatives hedging program, that is the mitigation of rate volatility.

Of -- I'm being a bit cautious here because there are certain months, of course, where the settled price lands between the ceiling and the floor, therefore the volatility reduction delivered by virtue of that hedge is in essence zero. However, on the whole, over the long term this policy statement describes the Corporation's objective.

MR. BOB PETERS: And in that answer, I thank you for it, Ms. Stewart, you also said mitigate -- I think you used the word 'rate volatility'.

Did you mean rate volatility or price volatility?

MS. LORI STEWART: The program delivers rate volatility over the long term. Centra's hedging program will not protect consumers from a long term trend, for example, of natural gas prices increasing. We only hedge a year out. But what we can do in the short term is to miti -- mitigate rate volatility.

MR. BOB PETERS: Why do you mitigate rate volatility?

(BRIEF PAUSE)

MS. LORI STEWART: Customer's energy bills represent a fair portion of their expenditure in Manitoba. And the customer research that we've conducted indicates that customers would like for the Utility to endeavour to constrain what that -- what that rate is going to jump around by on a quarterly basis.

MR. BOB PETERS: Can you remind the Board of this customer research. And I think you've already put on the record that it was done, I think 1999 and also in 2004.

MS. LORI STEWART: It's 1998. Centra contracted with Viewpoints Research at that time to conduct market research on the topic of rate and bill volatility.

Once again, in 2004 we conducted market research. We contracted at that time with Western Opinion Research and we were specifically looking at the topic of primary gas rate volatility which we would then relate specifically to our hedging program.

MR. BOB PETERS: Customers were telling you in your research that they expected the Corporation who bought its gas to try to restrict the rate volatility?

MS. LORI STEWART: Yes, I noted that, in my examination-in-chief, that the general inferences we can derive from that customer research are that customers have some tolerance for rate volatility, but a fairly limited tolerance.

MR. BOB PETERS: How do you quantify that limited tolerance?

MS. LORI STEWART: The benchmark that we work from is derived from our 1998 research and it was validated in 1994, but the benchmark that we work from is the sixty dollar ($60) quarter over quarter increase in a customer's bill or decrease in a customer's bill, on an annual basis.

MR. BOB PETERS: I'm not sure I understand that, Ms. Stewart. The sixty dollar ($60) quarter over quarter, was the -- was the cut -- was the results sixty dollars ($60) on an annual basis in terms of bill volatility?

MR. BRENT SANDERSON: Given that it's a

difficult thing to take somewhat nebulous opinions regarding a subject like this and to quantify them and put them into hard and fast numbers but, yes, Ms. Stewart was correct in describing it as the conclusion of the 1998 research, was that customers felt they could tolerate quarter over quarter increases in their annual natural gas bill of sixty dollars ($60).

And at the time that typical residential customer, in a normal year, used typically a 120 gigajoules of natural gas. So the sixty dollars ($60) divided by the 120 gigajoules in a normal year because we were talking the customer's annual bill in this case, sixty dollars ($60) of divided by a hundred and twenty dollars ($120) yields the fifty (50) cents which is what then we use as our quantitative benchmark to determine the upper bound of the price protection which we would put in place on behalf of customers through the program.

THE CHAIRPERSON: Just remind us, what -- what was a gigajoule costing in 1998?

MR. BRENT SANDERSON: In 1998 and for most of the 1990's it was typical for gar -- natural gas prices to be, over that period I guess they migrated between two and three dollars ($2 and $3) a gigajoule.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Has Centra considered updating that calculation based on more current consumption levels and prices?

MS. LORI STEWART: In -- in 2004, although the approach that we took was slightly different in terms of customer research, customers were provided with a description of the hedging program in layperson's language and then asked to indicate whether or not they would be prepared to pay a little bit more money for more -- more protection, whether the current program was meeting their needs, or whether their preference was to pay a little bit less money over the long haul but incur much more significant rate volatility.

So those three (3) options were presented to consumers and a statistically sample val -- a statistically sample was surveyed by phone. And the outcome of that research was that a total of 66 percent for a customer base would prefer either that we continue to hedge at the current levels or to increase the hedge protection in place.

MR. BOB PETERS: In terms of increasing the hedge protection, how would that be accomplished?

MS. LORI STEWART: Certainly, we could narrow the band or shrink the -- what we refer to as the out of the money band, or we could simply swap the price out.

MR. BOB PETERS: Presently it appears that Centra's hedging is all done through cashless collar instruments, would that be correct?

MS. LORI STEWART: Yes, the cashless collar is our instrument of preference.

MR. BOB PETERS: And that cashless collar restricts the upside price that Centra would have to pay?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And it will also limit the downward price that would -- would be available in a declining market.

MS. LORI STEWART: Yes, we characterize it as limiting the downside participation.

MR. BOB PETERS: And by putting on a cashless collar you would agree with me, Ms. Stewart, that you are just by virtue of putting on such a collar, automatically reducing volatility?

MR. BRENT SANDERSON: From a purely technical perspective, if you were to place collars one (1) year out and then miraculously find yourself in a situation where market prices, either in futures market or one the index has been set, are absolutely flat between the bounds of the collars which you've placed resulting in the end likely circumstance that none of them will be triggered well you would have no volatility reduction relative to if you hadn't placed the instruments.

But that's never occurred since we've undertaken this program.

MR. BOB PETERS: So by undertaking this program with your out of the money positions, you are restricting volatility to some extent as opposed to no restriction of volatility had you not hedged.

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: So your policy is successful as soon as the market price exceeds the limits of the collar?

MS. LORI STEWART: I would suggest that our -- our program is successful even in the instance where the ceiling or the floor are not breached, because consumers have had the benefit of insurance against dramatic natural price increases even if the ultimate outcome is that the insurance wasn't required.

It's akin to purchasing fire insurance for one's home. I wouldn't want to enter the -- the beginning of the year not having my fire insurance in place. And in the event that a premium is -- is triggered, then I'm going to feel -- feel really positive about having put that insurance in place.

THE CHAIRPERSON: Mr. Sanderson, if I may, you indicated a little while ago that since you started the practice the price had always been outside the bend.

Was that the case in 1999?

MR. BRENT SANDERSON: No. I guess more specifically my reference was -- is over an -- we've never experienced an annual period where none of our hedges had been triggered. There have been monthly periods where the price floated between the bands and didn't trigger the hedges.

And I just might also clarify that there's two (2) ways in which the hedge program mitigates volatility.

One is on an actual settled basis, to the extent that the prices we have to pay for our physical supply are outside of the bounds of any given collar; the volatility of that actual price we paid has been mitigated.

But we set our rates on a prospective basis every quarter looking at the forecast market price of natural gases and -- as embedded in the future's market prices. And so to the extent that future's market prices have moved outside the bounds of our collars, customers enjoy protection from that volatility relative to what they otherwise would have experienced even if, at the end of the day, once that instrument settles, it settles with no financial impact one way or the other.

So there's a backward looking, if you will, volatility mitigation and a perspective or forward-looking volatility mitigation. So it's two (2) sides of the same coin, if you will.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And, Mr. Sanderson, maybe to help emphasize your point, if you turn to Tab 8 of the book of documents with the Board, you'll see the settled hedging results for the fiscal year 2005/'06.

Have you found that document?

MR. BRENT SANDERSON: Yes, I have, sir.

MR. BOB PETERS: And I'd suggest to you that for the months of -- the gas months of June, July and August, where in the far right-hand column there are no mark-to-market financial impacts, those would be examples of three (3) months where the gas price settled between the cap and the floor.

MR. BRENT SANDERSON: Yes, exactly. But I wouldn't go so far as to say, sitting looking at only these figures in isolation, that customers did not enjoy any reduction in the volatility of their rates as a result of these instruments having been placed.

This information in and of itself is not enough to make that broad a conclusion.

MR. BOB PETERS: Well, you want to take the measurement on a -- on a longer period of time, is that what you're suggesting?

MR. BRENT SANDERSON: No. You would have to go back to each quarter at which we actually set customers' primary gas rates, where these instruments would have been part of the forward period we were looking at to determine whether on a forward-looking basis the parameters or bounds of those hedge instruments were triggered on a perspective basis to see whether they would have had an effect -- a mitigation effect on customers' rate volatility.

MR. BOB PETERS: All right. Thank you for that. In terms of the volumes that you're entitled under your policy to hedge, how do you define those?

MS. LORI STEWART: They're the base load volumes in our contract with Nexen.

MR. BOB PETERS: And it's -- how much of the base load volumes are you allowed to -- to hedge?

MS. LORI STEWART: The base load volumes are those which are defined as eligible volumes, and we're entitled to hedge up to 100 percent of eligible volumes.

MR. BOB PETERS: And how do you calculate the base load volume?

MS. LORI STEWART: On a monthly basis we forecast those volumes which we're confident that we will take in that forward month.

MR. BOB PETERS: Is it based on warmest-year data?

MR. BRENT SANDERSON: Our gas supply storage and transportation specialists model the world as we know it at the point in time we make -- need to make the decision as to what are our eligible volumes on a forecast basis.

And given how much of the market we serve at that time and how much is supplied by brokers, and given average levels of customer usage and so forth, they make a forecast determination of what they would set the base load levels at for that quarter that's ten (10), eleven (11) and twelve (12) months out into future, such that in the warmest year yet experienced, given what we know today, we would not be in a situation of having take-or-pay gas that we would not have an underlying requirement for -- for our market.

MR. BOB PETERS: I take from that answer that it -- that it is based then on a warmest year?

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: And in terms of an actual typical year or a normal year, Mr. Stephens, if there is such a thing anymore, what -- what percentage of your -- of your normal volumes would be subject to hedging?

MR. HOWARD STEPHENS: In a normal year it's about 65 percent. I should just -- just add to Mr. Sanderson's discussion of how we determine those volumes.

Because we are talking nine (9) to twelve (12) months out there's a little bit of art associated with that process. It's not complete science because we can't tell with absolute certainty how many customers are going to be on direct purchase and what weather pattern are going to do. So we are relatively conservative with respect to that forecast.

MR. BOB PETERS: Is the conservative part the -- using the -- the warmest year volumes?

MR. HOWARD STEPHENS: That's correct. And looking at it from -- I mean, looking at the volumes for -- and then patterns over the -- the past several years. Because we were concerned also that we don't want to have more gas contracted for in those months because it is take-or-pay supply and I don't want to be in a position where we're having to buy gas -- or in a position to be having to buy gas when I don't need it.

MS. LORI STEWART: Mr. Peters, specifically it's the uncertainty relative to Western Transportation Service migration, either on or off the system. Because we are hedging ten (10), eleven (11), and twelve (12) months in the future and at that point we have no indication of the success of the brokers in terms of attracting -- attracting new customers to our system and as a result we need to be conservative relative to what that migration could do to our basal volume estimate.

MR. BOB PETERS: Well, if I turn back to Tab 6 in the book of documents and look at PUB/CENTRA-5(a) and I'll excuse Mr. Stephens if he doesn't want to look at this chart with us, but you -- you list the customers, and I see and maybe it's my interpretation that there's a trend where Western Transportation Service customers are increasing over the years, would that be fair to say?

MS. LORI STEWART: That's a fair characterization of the general trend, yes.

MR. BOB PETERS: And I haven't taken the same time with the volumes but I suspect the volumes are parallelling that increase in customer number?

MS. LORI STEWART: There's more variation around the -- the volumetric trend because the attraction of for example one (1) large industrial customer either on or off the system can swing the -- the volumes fairly significantly.

MR. BOB PETERS: So when you say you're conservative in -- in using your estimates of customers and baseloads do you -- do you go back to a -- a year prior and use those or how do you -- how do you estimate?

MR. HOWARD STEPHENS: Yes, we use prior year history adjusted then again for any changes in customer usage and that sort of thing.

MR. BOB PETERS: Any changes that you're -- that are known?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: All right. Ms. Stewart, why did the policy of Centra change from 90 percent eligible volumes to 100 percent eligible volumes back in 2005?

MS. LORI STEWART: Do you mean why from a policy perspective the discretion or do you mean why the change between 90 percent and 100 percent?

MR. BOB PETERS: No, why the -- why the change between 90 percent and 100 percent in the policy?

MS. LORI STEWART: Prior to the introduction of Centra's supply agreement with Nexen, it was Centra's practice to place hedges on 90 percent of forecast eligible volumes which also represented approximately two-thirds (2/3's) of all natural gas supplies that the Utility expected to purchase in a normal weather year.

Under the terms of the former Nexen agreement volumes equivalent to baseload were termed operational demand volumes or ODV. ODV were priced at the monthly AECO index and Centra could purchase less than the set amount on days -- on days when the full ODV complement was not required as long as it achieved that annual purchase load factor of 85 percent.

Under the current Nexen supply contract daily baseload levels must be determined and communicated in advance to Nexen. Once set, the contract requires Centra to take these volumes at levels low enough to ensure that the Utility would not be in a situation of having purchased more than is actually required, even in the warmest year experience.

Thus the transition to hedging 100 percent of eligible volumes which are really our base load volumes to accomplish the objective of continuing to hedge two-thirds (2/3's) of our total normal weather year requirement.

MR. BOB PETERS: Thank you, Ms. Stewart.

When you do the actual hedging, it's done according to your policy at the start of each gas quarter for the last three (3) months of the ensuing year?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And does that mean then that your hedging actually takes place on approximately four (4) time periods a year?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And when specifically you hedge, that would be a matter that would remain confidential to Centra?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: Why do you keep that confidential?

(BRIEF PAUSE)

MS. LORI STEWART: There's a phrase in the business called 'front running' which is why Centra retains the confidentiality of the dates that it intends to go to market.

And the outcome of -- or a layperson's definition of front running would be trading in advance on the expectation that another counterparty is going to come to market.

So anticipating a trade, trading in advance and therefore perhaps taking -- having an unfair advantage in that marketplace. So you know, it doesn't -- doesn't cost us anything to retain the confidentiality of that information and it provides us with some assurance that we don't have a counterparty that's front running on us.

And potentially resulting in higher embedded dealer margins for consumers in Manitoba.

MR. BOB PETERS: Do you think the counter parties from the phone calls, they're going to get from you every quarter, are going to be able to determine with some precision as to when you'll be going to market?

MS. LORI STEWART: No, our counter parties certainly see the trend of Centra coming to market four (4) times a year, however, we're quite diligent about varying the timeframe within the days -- within -- for example, the span between the two (2) times that we take volumes to market within a given month and also the specific days of the month that we -- that we come to market.

MR. BOB PETERS: When you referenced in your prior answer, counterparties, who are you referring to?

MS. LORI STEWART: Those counterparts

that Centra is authorized to transact financial derivatives instruments with.

MR. BOB PETERS: And in your direct evidence to Ms. Murphy, I think yesterday, you indicated you've increased the number from six (6) to seven (7)?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And when you increase the number of counter parties, there are some legal -- there are some legal due diligence that's being done?

MS. LORI STEWART: Yes, we must put into place what's referred to as an ISDA agreement or International Swaps and Derivatives Association documentation between the two (2) counter parties.

MR. BOB PETERS: Does the Province of Manitoba get involved in that transaction?

MS. LORI STEWART: Yes, we rely on legal counsel from the Province of Manitoba for the bulk of the negotiations related to ISDA documentation.

MR. BOB PETERS: Does Centra seek out a counterparty or do they come looking for you?

MS. LORI STEWART: They come looking for us.

MR. BOB PETERS: Happens with regularity?

MS. LORI STEWART: Yes it does.

MR. BOB PETERS: And I take it then that

a number of them are sent away disappointed?

MS. LORI STEWART: Yes, there's limited benefit for Centra in terms of assuring price discovery. We reach a point where having fifteen (15) quotes on the table, I don't think would deliver any additional benefit as opposed to having six (6) or seven (7) quotes available for the purposes of price discovery and thus extracting the best possible price for Manitobans.

MR. BOB PETERS: Have you ever tested that thought as to whether or not there may be somebody out there -- a group of fifteen (15) that you don't presently have authority to deal with that may have a better price?

MS. LORI STEWART: We -- we also have operational constraints, Mr. Peters, in order to execute our open outcry system whereby we're receiving simultaneous quotes for the -- the given month and the volumes.

We -- we have to have that many individuals on the phone at the same time with counter parties. And there reaches a point where I wouldn't be prepared to incur the execution risk of having fifteen (15) individuals simultaneously on the phone with fifteen (15) different counter parties.

MR. BOB PETERS: Has the in -- has the

increase from six (6) to seven (7) counter parties improved a price discover ability?

MS. LORI STEWART: It's really too soon to assess that.

MR. BOB PETERS: And -- and you say the open outcry and maybe my agricultural commodity trading days cloud my mind on this, but -- but it's not a public open outcry it's -- its electronic over the telephone sequentially through different counter parties?

MS. LORI STEWART: Perhaps an auction would be a good way for everyone in the room to come onto the same or reach the same understanding of -- of what Centra does.

It -- it's not sequential, it's simultaneous that we are receiving price quotes for a certain volume per certain month. And internally we're -- we're able to display those price quotes and thus select the lowest price quote from the auction bids that -- that are on -- on our white board.

MR. BOB PETERS: Maybe more for -- for hopefully more than my curiosity, but do you -- do you tell these counter parties that they have between ten o'clock and 10:15 to send in their -- their price for their either cashless collar or their call option or their put?

MS. LORI STEWART: Approximately -- because we -- because of our requirement of obtaining simultaneous quotes, we do provide our counter parties with approximately forty-five (45) minutes notice that we'll be coming to market.

Such that we can be confident that when we phone at 11:25 a.m. we're getting the dealers and their analysts who can provide the price quotes exactly at that point in time.

MR. BOB PETERS: But if you phone them, you phone each of the seven (7) sequentially?

MS. LORI STEWART: We've got two (2) analysts and they contact our six (6) or seven (7) counter parties within a very narrow time window.

MR. BOB PETERS: And in terms of the instruments just while we look at -- finish up with this policy, the policy restricts the type of instrument that is available to be used by Centra?

MS. LORI STEWART: Yes, it restricts us to price swaps, call options or cashless collars, all what we would refer to as vanilla instruments.

MR. BOB PETERS: Do you believe you have the ability under the policy to go to some other instrument and what's listed in the policy if the executive approves it?

(BRIEF PAUSE)

MS. LORI STEWART: Centra's understanding of the -- Centra's understanding of the policy is that it is strictly -- that it is strictly restricted to price swaps, call options and cashless collars.

MR. BOB PETERS: And in the time period under review at this Hearing the only instrument you have used is the cashless collar.

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And -- and it's called cashless because there is no financial out of pocket expenditure by the utility to implement that hedging transaction?

MS. LORI STEWART: There's no upfront premium transaction cost.

MR. BOB PETERS: And there's no other premium, is there?

MS. LORI STEWART: Well certainly when the collar settles, if it settles out of the money then Centra does write a cheque to its counterparty.

MR. BOB PETERS: But there's no premium on top of that for the -- for the actual instrument itself. It's the -- it's the settling of the -- of the result is all you pay.

MS. LORI STEWART: That's correct.

MR. BOB PETERS: When we talk of volatility, at Tab 18 in the book of -- excuse me -- at Tab 18 of the book of documents is some extracts from some information requests that you -- you answered.

And just quickly looking at PUB/CENTRA-44(b), Attachment 2, which is the first document, Ms. Stewart, do I take from this that this is simply a graphical reproduction of the extreme limits of the cashless collars that the Corporation has put on since April of '02?

MS. LORI STEWART: No. It's an illustration of and a comparison of what happened with the hedging program and what would have happened in the absence of the hedging program.

And the range of primary gas billed rates with our hedge portfolio has been between fourteen decimal seven seven (14.77) cents per M3 ranging up to thirty-five decimal zero seven (35.07) cents per M3, while the range of primary gas rates in the absence of hedging would have been between thirteen point five (13.5) cents per M3 and forty-five point four three (45.43) cents per M3.

So the difference between that thirty-five (35) cents per M3 and forty-five and a half (45 1/2) cents per M3 value represents the protection that the hedging program provided against upside price risk.

MR. BOB PETERS: But looking at the first document in Tab 18, which is the Attachment 2 to PUB/CENTRA-42-B, those parameters up at thirty-five (35) cents a cubic metre as a cap, that's not necessarily each and every monthly cap, that's just the -- the highest limit since 2002 that you've placed on the cap?

MS. LORI STEWART: Attachment 2 to PUB/CENTRA-42(b) is attempting to illustrate the range of primary gas rates experienced with our hedge portfolio relative to what the range of primary gas rates would have been in the absence of any hedging on behalf of the company.

MR. BOB PETERS: All right. If we turn to the second page then at Tab 18, Ms. Stewart, Attachment 3 to PUB/CENTRA-42(b), we see a lot more spikes and valleys here with the -- if we compare the spikes and valleys to the horizontal lines, those horizontal lines are the three (3) month rate setting that's done through your rate-setting methodology?

MS. LORI STEWART: Yes. The highlighted straight lines represent our primary gas billed rates, which tend to change on a quarterly basis.

MR. BOB PETERS: And they appear like

steps just to reflect that every three (3) months there's a change and they -- they then go horizontal?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And where -- where the -- the peaks and the -- the chart is above that horizontal lines, that indicates a situation where the placing of hedges reduced the gas cost to consumers?

MR. BRENT SANDERSON: What this significantly variable line shows is an illustration of what I was speaking to earlier about how we need to consider that the hedging program provides customer stability in terms of mitigation of volatility of our purchase prices, but we set our rates on a prospective basis, looking forward.

So this highly variable line is the twelve (12) month average of future's market prices at AECO and that's the basis on which we set our primary gas rates. So what that shows is, is that is what our customers' rates would have been exposed to in the absence of the hedge program.

That is a direct -- a directly corelated value with the basis on which we set our primary gas rates. So it's that prospective or forward-looking illustration of what our customers' rates actu -- so the straight line is what actually happened with our customers' rates, the highly variable line is the variability to which they would have otherwise been exposed had we not hedged.

MR. BOB PETERS: And you set the flat-line rate in advance, whereas you say the -- based on a twelve (12) month forward strip?

MR. BRENT SANDERSON: And as I -- yes. And as I described, this variable line on this chart on Attachment 3 is the depiction of that forward looking price on which we set our rates?

MR. BOB PETERS: In the materials that you filed and I think they're in at Tab 20 of the Book of Documents, particularly on -- I think starting on page 4, you've introduced what may be new to the Board, primary gas rate volatility management program.

Do you find that?

MS. LORI STEWART: Yes.

MR. BOB PETERS: Is this a new program or is this just a combination of tools that were already in the toolbox?

MS. LORI STEWART: I think it's a packaging up of tools that have been in place in an attempt to ensure that our stakeholders understand that hedging is but one (1) of the means that we use to mitigate rate volatility on behalf on consumers in

Manitoba.

MR. BOB PETERS: If we go back to those charts that Mr. Sanderson was explaining to me, can you show those to a consumer and say that we have met the objectives of what you have asked us in either of those documents in Tab 18, that were attachments to PUB 42(b)?

Do those charts, Ms. Stewart, show you that you have followed through with what consumers have asked of you?

MS. LORI STEWART: I believe that they do, yes.

MR. BOB PETERS: In what way?

MS. LORI STEWART: In Attachment 3 to 42(b), one can I think quite clearly see the benefit of the hedging program relative to what the twelve (12) month forward average strip looks like.

Consumers have seen relatively small step changes to their rates versus being subject to dramatic price volatility in the natural gas market.

MR. BOB PETERS: All right. The -- that horizontal line that you say is the relatively modest increases in movements either upwards or downwards in consumer rates, that wasn't strictly then accomplished by hedging alone under this volatility management plan for primary gas?

MS. LORI STEWART: No, it's -- it's a compendium of all of the tools and the benefits that those tools deliver.

MR. BOB PETERS: And one (1) of those tools is the quarterly primary gas rate setting methodology that the Board employees?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And one (1) of them is the disposal of the PGVA account for primary gas on a quarterly basis over the ensuing next twelve (12) months?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And seasonal storage is another methodology for controlling the volatility of the primary gas rate?

MS. LORI STEWART: That's correct. Mr. Peters, it's useful to note that in Attachment 2 to PUB/Centra 42(b), that depiction and that range of primary gas billed rates that I spoke to you, that does represent strictly the benefit delivered by the hedging program.

So that range does -- it's confined to the impact of the hedging program.

MR. BOB PETERS: Ms. Stewart, does the twelve (12) month price strip plus the quarterly rate setting methodology without any hedging, provide customers with the -- with the protection that they request?

MS. LORI STEWART: No, we don't believe that it would.

MR. BOB PETERS: Do you have any -- can you graph that in a different way to show the Board what it would look like if you did -- continued with the quarterly primary gas rates, the disposition of the PGVA quarterly and the seasonal storage, but with no hedging; what would that look like on these graphs?

MR. BRENT SANDERSON: To reiterate what Ms. Stewart just described to you, Attachment 2 does illustrate that. If you look at the wider range of primary gas rates, the range that's depicted as the range of primary gas rates which would have occurred had hedging not occurred, those rates reflect -- still reflect the benefits of the quarterly rate setting methodology, the use of storage, the use of PGVA's and setting rates on a twelve (12) month perspective basis.

So, if we just stripped out hedging, but retained all the other elements of the Rate Volatility Management Program residential customers' primary gas rates would have gone to over forty-five (45) cents a cubic metre last November 1, that wide range we're talking there.

(BRIEF PAUSE)

MR. BOB PETERS: Just so then the Board is clear, the one (1) instance since 2002 where hedging was needed with those other tools to meet the consumer objectives was in approximately September of '05?

MR. BRENT SANDERSON: I wouldn't agree at all that hedging wasn't needed in periods prior to that.

MR. BOB PETERS: Well, I'm just trying to find out and understand your -- your graph here and how the Board should interpret it that if there was no hedging, you're suggesting that the consumers' rates could have gone up to forty-five (45) cents a cubic metre, even with those other tools in the toolbox being used?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And if that was the case, how would it look on Attachment 3 if you had to re-plot that.

Can -- is that something that you can -- that you can do -- take out the hedge impact and just show the Board what would be the results of the Volatility Management Program excluding the results of hedging?

MR. BRENT SANDERSON: We could undertake

to do that, to add in another stepped line showing rates with the benefit of all of the other elements of the program and without.

There's an IR response which we filed which quantifies the relative percentage reductions in rate volatility in each of the fiscal years as a result of hedging alone and then there's a result of all of the other elements of the Rate Volatility Management Program. If you'd like to explore that I can pull that out.

MR. BOB PETERS: No, we've -- we've reviewed that I think and -- and we understand. What you're trying to show in -- in that IR that you're talking about is simply doing a mathematical measurement of how much rate volatility was -- was constrained by virtue of the price management program -- the Volatility Management Plan for primary gas?

MR. BRENT SANDERSON: No, the IR which I referred to separates out in percentage terms the volatility reduction customers enjoyed by virtue of the hedge program alone and then the percentage reduction that they enjoyed as a result of the other elements of the Rate Volatility Management Program separate and apart from hedging.

MR. BOB PETERS: We'll look at that but would you -- would you take from that data, just subtract the hedge volatility from the -- from the total volatility to -- to come up with what it would look like?

MR. BRENT SANDERSON: So just so I'm clear you'd like Attachment Number 3 with another stepped line showing what rates would have been just pulling out the effects of hedging alone?

MR. BOB PETERS: That's correct.

MR. BRENT SANDERSON: We'll undertake to do that, sir.

--- UNDERTAKING NO. 5: Centra to provide Board Attachment Number 3 with another stepped line showing what rates would have been just pulling out the effects of hedging alone.

THE CHAIRPERSON: And presumably in developing that particular chart you would still be excluding any potential intervention by the Board or the Legislature, both of which occurred around that period of time?

(BRIEF PAUSE)

MR. BRENT SANDERSON: Yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Continuing then, would you agree with me, Ms. Stewart, that weather has a far greater impact on consumer bills than does Centra's efforts at hedging?

MS. LORI STEWART: Yes, I would.

MR. BOB PETERS: And in terms of combatting the volatility of consumer bills, another tool in the toolbox is the equal payment plan?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And --

MS. LORI STEWART: Perhaps I should distinguish that the equal payment plan is a bill volatility mitigation tool while the hedging program is a rate volatility mitigation tool.

MR. BOB PETERS: The distinction you're making for the benefit of the Board is that one attempts to control the volatility in the rates, whether it's up or down, whereas one controls -- the equal payment plan controls the bill volatility that the consumer has to pay on a monthly basis?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And you have provided in answer to PUB/CENTRA-41 found at Tab 19 of the book of documents an indication of the number of customers who are on the equal payment plan in Manitoba, is it possible for brokers' customers to be on the equal payment plan?

MS. LORI STEWART: Yes, it is.

MR. BOB PETERS: And in this case 45 percent approximately Manitobans in 2005 were taking -- were -- were on the equal payment plan and that would be for all customers of the Corporation, not just residential?

(BRIEF PAUSE)

MS. LORI STEWART: Subject to check, my understanding is that the equal payment plan is only available to our small general service rate category, Mr. -- Mr. Peters.

MR. BOB PETERS: That was a question I was going to ask because you show the actual customers on PUB/CENTRA 41 and I think if we flip back to Tab Number 6 in the Book of Documents, the total number of small general service customers would be smaller than the total number of customers so you -- you defect the percentages.

MS. LORI STEWART: Yes, the percentages are a percentage of those customers that are eligible to be on the equal payment plan.

MR. BOB PETERS: Why does Centra not make the equal payment plan a default position; that is, every residential customer will get an equal payment plan bill throughout the year?

MS. LORI STEWART: Well, general consumer reaction to negative options has not been favourable and the Corporation is comfortable with providing its customers with choice.

And, you know, there are certainly not barriers to consumers being on the equal payment plan if they choose.

MS. KELLY DERKSEN: Mr. Peters, I might add to Ms. Stewart's response if I might.

In the past ten (10) or more years that I've been involved, the number of customers on that --

MR. BOB PETERS: You said fifteen (15) earlier, but go ahead.

MS. KELLY DERKSEN: Okay. Yes, thank you for listening to that.

As long as I've been around, the number of customers on the budget plan have been consistent and it's always been around a hundred thousand (100,000) number of customer mark and that's suggesting to me that those customers who want to avail themselves of that option have done so.

And second to that, any time a customer moves and we have a significant number of moves annually, that we always ask the customer if they want to be on the budget plan?

So we feel, as a corporation, that -- in addition to that, we send out annual billing stuffers that suggests that if you want to go on the budget plan, to give us a call or they can sign up by the website as well.

So we think that we're doing a pretty good job in advertising that option to customers and I think that's evidenced by the fact that we see a consistent number of customers on the budget plan from year to year.

MR. BOB PETERS: Or maybe, Ms. Derksen, interpreted another way, you're continuing efforts at advertising is having no affect because you're not attracting new customers to the budget plan.

MS. KELLY DERKSEN: Based on my experience, that's not the case, Mr. Peters.

MR. BOB PETERS: Okay. Well I'll -- why -- why don't people want the budget plan though, Ms. Derksen?

Is there -- I appreciate if they move every month maybe that makes it difficult but do you know some specific reasons that are impediments to people wanting to be on the budget plan?

MS. LORI STEWART: Some customers have a preference to pay as they go.

MR. BOB PETERS: Does Centra charge interest to budget -- I'm now using the terminology from fifteen (15) years ago.

The equal payment plan customers, are they charged an interest or a carrying cost component if their account runs at a deficit position?

MS. KELLY DERKSEN: No, sir.

MR. BOB PETERS: And likewise, if it's in a positive position and they've paid more than they consumed you don't afford them any carrying costs or interest on that?

MS. KELLY DERKSEN: We do not.

MR. BOB PETERS: Ms. Stewart, would you agree with me that if the -- if the out of the money band was tightened, that would -- that would restrict volatility further?

MS. LORI STEWART: Yes, I would.

MR. BOB PETERS: And can that be done on a cashless collar basis?

MS. LORI STEWART: Certainly it's feasible that we would have a -- for example, twenty-five

(25) cents out of the money band as opposed to a fifty (50) cents out of the money band.

One could argue that we've got fifty (50) cents of latitude to move or degrees to move in that regard.

MR. BOB PETERS: Have you ever tracked that to see if it would provide consumers with the volatility control that they're expecting of the Corporation?

MS. LORI STEWART: Recognizing that market research is anything but definitive, however, the Corporation has -- has made two (2) attempts at understanding what consumers want and has --- in terms of the market research conducted in 1998 and 2004.

And -- are there different ways to conduct the market research? Certainly there are. Are there different questions that could have been asked? Certainly there are.

However, we went into that process to ascertain whether or not consumers were generally in favour of what we were doing on their behalf in terms of hedging.

And the answer we got back was that almost two-thirds (2/3's) of our customers either were entirely happy with our hedging program and the benefit that it was delivering or that some portion of that 66 percent was 13 percent, would actually prefer that we provide greater coverage.

So a simple majority of our customers landed in the camp of no changes required and we've not altered the parameters of our program because we've got that data in front of us and we don't believe that it should be ignored.

And we -- additionally, we will undertake customer research in the future to further validate or explore options around the parameters of the hedging program.

MR. BOB PETERS: That research that you're talking about, you've told the Board earlier that you're planning on that for 2008?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: Why not 2007?

MS. LORI STEWART: It's a matter of incurring costs that ultimately consumers will have to pay and the question is whether the market is significantly different than what it was in 2004.

Certainly, one (1) of the reasons that we undertook research in 2004 was to address the fundamental shift that happened in natural gas markets, following the winter of 2000/2001.

There was a fundamental shift in the natural gas market. The base price of the commodity has -- it's safe to say has doubled. And that's one of the reasons that we did undertake customer research in 2004.

Has the market changed materially since 2004? I would suggest not. We continue to see -- see dramatic volatility in the marketplace. However, we're satisfied that undertaking and incurring that cost -- undertaking the research and incurring that cost in 2008, is a prudent time frame.

MR. BOB PETERS: Ms. Stewart, if controlling volatility and limiting it to a higher degree was sought after by the Corporation, you could fix an annual price for consumers in Manitoba through derivative instruments, could you not?

MS. LORI STEWART: Yes, we could employ fixed price swaps for each of the months in question.

MR. BOB PETERS: And that would be 100 percent reduction in volatility?

(BRIEF PAUSE)

MS. LORI STEWART: I think it's useful at this point to ensure that there is common understanding that when we talk about hedging 100 percent of eligible volumes, that represents two thirds (2/3's) of our total normal weather year requirements.

That's -- at any given point in time approximately one third (1/3) of customers' volumes are swinging with the market. So if the market is -- is falling, consumers are participating in that falling market and getting the benefit of downside participation on one third (1/3) of the volumes in our portfolio.

(BRIEF PAUSE)

MR. BOB PETERS: So if you're talking about fixing the contract price on a -- on 100 percent basis, even if you did that you're indicating there would be -- one third (1/3) of the actual volumes would be subject to the market swings.

MS. LORI STEWART: I guess that's what I'm -- I'm attempting to ensure that we're talking -- we're not comparing apples to oranges here.

So I'm not sure whether your question was related to the eligible volumes and whether or not I could fix the price on those volumes, or whether or not -- whether you're inquiring I could fix the volumes on the entire portfolio of volumes.

MR. BOB PETERS: All right. Well, you've

answered, I think, the first part of the question, is that if you -- if you fix the contract for eligible volumes you would still be exposing consumers to one third (1/3) of their gas being subject to market -- market swings.

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And --

MS. LORI STEWART: And that's correct today by virtue of -- of the cashless collars. I guess I'm just wanting to ensure that we're not forgetting that at any give point in time one third (1/3) of consumers' volumes are swinging with the market.

MR. BOB PETERS: And in the second part of that question, that you didn't answer, that is if you did 100 percent of the actual volumes used, first of all, are you permitted to do that under the Nexen agreement?

MS. LORI STEWART: Now we're getting into a position where there's volume risk because we, in essence, hedge our warmest-year requirements. And for me to hedge 100 percent of our entire portfolio would cause me to be in a position where I'm -- I'm out on that limb of perhaps having hedged volumes that ultimately I'm not going to take.

MR. BOB PETERS: And if you don't take them you're going to have to pay -- pay to sell them at that time, before delivery is required.

MS. LORI STEWART: Well, I've just got a dirty hedge because I'm -- I'm in a position where I'm hedged and I don't know if I'm even going to take the volumes.

MR. BOB PETERS: Mr. Stephens considered that to be speculative yesterday when we talked.

MS. LORI STEWART: I would concur.

MR. BOB PETERS: Ms. Stewart, under the policy which says that Centra will mitigate natural gas price volatility, if that policy was to also include an objective of reducing the price for consumers, how would you -- how would you accomplish that differently than what you do today?

MS. LORI STEWART: Then I've got a policy statement with conflicting objectives, Mr. Peters.

MR. BOB PETERS: You don't believe that there are occasions when you can still seek to mitigate price volatility and also minimize gas costs to -- to Manitobans?

MS. LORI STEWART: Not without speculating on natural gas markets.

MR. BOB PETERS: And you're indicating then that to have an objective, even a secondary objective of reducing gas costs, you would have to take a market position on what was happening?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: Would it not be correct to say that perhaps the Corporation did take a market position on two (2) occasions in the past couple of years?

MS. LORI STEWART: Fairly recently, yes.

MR. BOB PETERS: And Mr. Warden I think talked to the Board about that in his direct evidence, where on two (2) occasions the Corporation did not put in 100 percent hedges initially, as it could have, but it chose to wait and see what the market was doing instead.

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And in the materials somewhere you explain that by waiting and not putting on 100 percent, that was beneficial to consumers.

MR. VINCE WARDEN: It turned out to be beneficial to the consumers in those instances, Mr. Peters.

MR. BOB PETERS: Would it have been more beneficial, Mr. Warden, had you not put the trailing 50 percent on at all?

MS. LORI STEWART: It was always the Corporation's intention to have its portfolio fully hedged. It was a matter of at what point did we hedge that second 50 percent on, but you're saying you weren't allowed to do that?

MS. LORI STEWART: There was a lesser addition to customers' gas costs related to the deferral of 50 percent of eligible volumes for the months of August, September, and October 2006, relative to when we would have normally contracted for those volumes.

The other outcome is unknown at this point as the months of February, March, and April 2007 have yet to settle, but the outcome will either be a lesser addition to customers' gas costs or a greater reduction to customers' gas costs by virtue of having deferred that portion of volumes.

So the outcomes in both instances were favourable, however, we've also spoken in our evidence about the risk that we undertook in exercising that discretion and that we intend to only exercise that discretion cautiously and infrequently.

MR. BOB PETERS: I have that point and I thank you for that explanation. Now, maybe just one (1) last question before the lunch hour if I might and Mr. Warden may need to weigh in on this as well.

In terms of the choice of instruments that you use, is the payment of the premium a factor that limits you or restricts you or sends you towards the cashless collar as the preferred option rather than paying the premiums?

And what I suppose I'm asking by that is, for some of these transactions if you simply put a cap on, you may pay a very significant premium initially and that money I suppose has to come out of somebody's pocket and perhaps it's the -- the parent corporation that has to underwrite that.

And I'm wondering if that is a limiting factor in the type of instrument that you can choose?

MS. LORI STEWART: I'm -- I'm going to answer in -- in two (2) regards. The call option is -- provides less volatility reduction benefit and that's the primary reason that our instrument of choice is the cashless collar.

The collar represents that balanced middle position in terms of a fixed price swap, the collar, and the call option. However, given our objective of mitigating rate volatility the call option is least effective in that regard and that's the primary reason for our utilization of the cashless collar.

The risk with call options is that at the point in time that one is determining to go to the market, that the so-called price tag is viewed as too expensive, there's a psychological risk that the hedger will back away from the transaction because of the magnitude of the premium being required.

Now, as a -- as a practitioner in this market I know that that premium simply represents an increase in volatility in the market at that time, therefore the premium needed to be extracted by the dealer is going to be higher and that the expected outcome of any transaction at any point in time is zero other than that small embedded margin.

However, as an organization, as a corporation, there is that added psychological risk of us backing away from the transaction because at the -- the -- on the day that we intend to go to the market the price tag is $30 million.

MR. BOB PETERS: With that, Mr. Chairman, this might be an opportune time for the lunch recess.

THE CHAIRPERSON: Mr. Peters, do you have much more on this line?

MR. BOB PETERS: No, I don't. I'll use the lunch hour to go through my notes and tidy up in the short time after lunch.

THE CHAIRPERSON: The reason I ask is that we have a few question too. Do you think it's better to do it now or after?

MR. BOB PETERS: At your pleasure. Any

time.

THE CHAIRPERSON: We'll have our break now. We'll come back at 1:15. Thank you.

--- Upon recessing at 12:02 p.m.
--- Upon resuming at 1:25 p.m.

THE CHAIRPERSON: Okay, welcome back everyone.

Mr. Peters...?

MS. MARLA MURPHY: Mr. Chairman, if I might have the mic for just a moment before Mr. Peters resumes.

THE CHAIRPERSON: Of course.

MS. MARLA MURPHY: There's a couple of items that we wanted to address. First, with respect to an undertaking that was made Ms. Derksen, page 320 and 321 of the transcript.

She's prepared to speak to the -- the impact of the incremental costs for an extra customer added to the RM of Rockwood expansion and the feasibility test.

THE CHAIRPERSON: Ms. Derksen...?

MS. KELLY DERKSEN: Thank you. For feasibility test purposes for that particular expansion project, when we were advised that an additional customer was going -- was interested in taking natural gas service in that area, we had re-run the feasibility test to include the incremental cost of serving that customer.

MS. MARLA MURPHY: Also, Mr. Chairman, on -- on page 324 of the transcript, with respect to the inquiry that Mr. Peters made of the North Cypress Co-Op, the question was posed to Ms. Derksen when Centra expanded to takeover the Co-Op were there capital costs that were incurred?

And I think Mr. Peters and Ms. Derksen had a different impression of that question so she'd like to speak to that as well.

MS. KELLY DERKSEN: I understood the question, Mr. Peters, that -- to mean that when we purchased the distribution facilities there, if we had intended at that time to expand the system or incur additional capital costs for that system and my answer then to you was 'no'.

On retrospect, we did pay some monies to that Co-Op to acquire the distribution facility and if that was the question, yes, indeed we paid a sum of money for the assets.

THE CHAIRPERSON: Thank you.

Mr. Peters, do you have a followup?

MR. BOB PETERS: Just on that, in terms of the Co-Op, do you recall how much -- how much you were paying to the Co-Op for acquiring their assets?

MS. KELLY DERKSEN: We were to pay approximately twenty-four thousand dollars ($24,000), Mr. Peters.

MR. BOB PETERS: And you've paid four thousand (4000) of that so far?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And the balance will come in annual increments provided the volumes are sustained?

MS. KELLY DERKSEN: That is correct, sir.

MS. MARLA MURPHY: Just a couple of other matters. There was an undertaking taken at page 315 of the transcript which related to Schedule 7.1.0.

There was some confusion yesterday as to whether that chart on page 1 and page 2 demonstrated both the impact of primary gas changes as well as non gas and Ms. Derksen is prepared to speak to that.

MS. KELLY DERKSEN: Sorry for the confusion on that one. Yes, indeed on Schedule 7.1.0, page 2 of 2 which identifies the base rate impacts as at August the 1st, 2006.

And I can conclude for you that it

includes both the base rate impacts of the changes to the supplemental transportation and distribution rates as well as the changes that were contemplated flowing out of the primary gas application in terms of base rate impacts for Nov -- excuse me, for August the 1st of 2006.

THE CHAIRPERSON: Thank you.

MS. MARLA MURPHY: Just by way of cleanup, we noted in looking at the book that Mr. Peters had put together, the response to PUB/CENTRA-67 is included at Tab 28 of the PUB book of documents.

We've noted that in the response to Part 'B' at line 13, there's actually an error in the percentage there. It reads 2.5 percent, it should in fact be 2.0 percent. I just wanted to take the opportunity to put that on the record.

And finally Mr. Stephens has had an opportunity to review the comments that he made at page 340 of the transcript relating to Centra's gas supply contract and would like an opportunity to speak to those.

THE CHAIRPERSON: Very good.

MR. HOWARD STEPHENS: You'll have to bear with me because I'm dealing with very small font and no glasses so this may be choppy. I may confuse you more than I help you.

We would like to clean up the record on --

on the process that Centra is expecting will be followed regarding its re-contracting for gas supply. As per Board Order 134/04 the PUB ordered that Centra consult with stakeholders prior to issuing a new RFP for gas supply or before entering into an extension of the existing agreement with Nexen.

As outlined in Centra's response to PUB/Centra-40(a) Centra held a consultation meeting -- I'm sorry -- on August 16th, 2006, with stakeholders interested in -- in Centra's gas supply re-contracting process. Centra came out of that meeting with a clear understanding of the charges -- changes -- that the broker community would like to see in term -- in the terms and conditions of Centra's new gas supply contracts.

The PUB also ordered that -- just a sec here. The PUB also ordered that the proposed RFP as well as the results of the stakeholder consultations be filed with the Board prior to issuing the RFP. As outlined in its letter to the PUB on November the 23rd which was filed at -- or is filed at Tab 15 of the PUB's book of documents, should Centra decide to issue an RFP it will provide to the PUB -- provide it to the PUB for review and comment by February 2007.

However, in the event that a decision is made to renegotiate or renew the Nexen contract documentation will be filed in conjunction with the -- with the next General Rate Application.

Now, I certainly hope you got that because I'm not sure I did.

THE CHAIRPERSON: Mr. Warden was watching; he seemed okay.

MS. MARLA MURPHY: Thank you. That concludes our matters.

THE CHAIRPERSON: Okay, Mr. Peters, back to you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: The upshot of that last answer, Mr. Stephens, is that if there's an RFP to be issued for gas supply, that will find its way to the Board in February of '07, but if you're simply going to renew it or that's your proposal to renew it, you're going to incorporate that into the next General Rate Application?

MR. HOWARD STEPHENS: And I would suggest that if we had it available to us -- to us earlier that we might -- may indeed file it sooner but certainly the latest would be the GRA application.

MR. BOB PETERS: All right. Thank you

for that. Turning back to hedging, --

MR. HOWARD STEPHENS: Mr. Peters, just maybe I could ask or just indicate, there was some -- certainly from my perspective in terms of the Order 131/04 -- there was some confusion on my part in terms of exactly what the Board's expectation was with respect to that.

So that's why I had clarified that here so that we are -- I'm sure that we are talking the same language and reading from the same hymn book so if that is an indication or you want something different or something else was envisioned I'd certainly appreciate hearing about it. Thank you.

MR. BOB PETERS: All right. And I guess all I can say is stay tuned and let's see what's -- see what the Board writes and you'll -- you'll get an idea if anything further is needed on that.

I would like to turn back with Ms. Stewart onto the hedging issues. At Tab 22 of the book of documents, Ms. Stewart, you've provided the Board in answer to PUB/Centra 57 with a listing of the seven (7) counterparties that you utilize, correct?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: Are those all Canadian counterparties?

(BRIEF PAUSE)

MS. LORI STEWART: They're all Canadian subsidiaries, however, the -- the parents of some of those subsidiaries may be resident outside of Canada.

MR. BOB PETERS: Can you tell me who is Fimat Alternative Strategies Inc?

(BRIEF PAUSE)

MS. LORI STEWART: They're a subsidiary of Societe Nationale -- Societe Generale. And it's spelled with the French accents, et cetera.

MR. BOB PETERS: I can -- is that an insurance company, Mr. Sanderson?

MR. BRENT SANDERSON: No, they're -- they may not be familiar to most North Americans. They're one (1) of the largest investment banks on the planet, they're Europe based.

MR. BOB PETERS: And they have a Canadian subsidiary?

MS. LORI STEWART: Yes, they're based out of Calgary.

MR. BOB PETERS: And the -- of the other ones, some of them are known. Which other ones have --

are subsidiaries of the -- of the American or international?

MR. BRENT SANDERSON: Citibank Canada would be a subsidiary of Citibank which is based out of the US.

MR. BOB PETERS: And that's the only one other than Fimat?

MS. LORI STEWART: Fimat, yes.

MR. BOB PETERS: Ms. Stewart, when you were telling the Board about the process of, you called it, the open outcry and you gave us a bit more explanation about that, it -- it's really sequentially placing phone calls to the counterparties to receive their bids.

Would that be fair?

MS. LORI STEWART: Not quite. It's simultaneously placing phone calls. So if you can imagine this Panel all picking up the phone at the exact same time dealing with a unique counterparty and obtaining simultaneous price quotes.

MR. BOB PETERS: I thought there was only two (2) people picking up the phones or maybe I misunderstood that.

MS. LORI STEWART: Yes, you did then. What I described in terms of having two (2) analysts who were in contact with three (3) or four (4) counterparties, forty-five (45) minutes in advance of the hedge transaction session to advise the counterparties that we would be wanting to transact at a specific point in time.

And therefore, assuring ourselves that the counterparty would be there with a bid at the precise time that we need it.

MR. BOB PETERS: And you give them a forty-five (45) minute heads up on that?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: In your answer are you telling the Board that on each and every time you go to market, you contact all seven (7) counterparties?

MS. LORI STEWART: Not necessarily all seven (7), anywhere from five (5) to seven (7) counterparties.

MR. BOB PETERS: And who decides whether you do five (5), six (6)or seven (7) counterparties?

MS. LORI STEWART: Sometimes the matter is -- is decided for us as a result of the credit limits within which we must operate.

For example, a counterparty could be outside of or on the other side of its $100 million credit limit with us and as a result that counterparty wouldn't be invited to participate in the hedge transaction session.

Also, another example would be if the hedge transaction that we're about to enter into, if that would push them above the $100 million credit limit then once again we would not accept the price quote because it would put us in breach of our operating principles and procedures.

So that's one (1) example of when a counterparty would not be invited to the table.

Conversely sometimes counterparties are concerned about their credit exposure to Centra Gas Manitoba and will pull themselves away from the table because they don't feel that enough parental guarantee is in place to assure them that future hedge transactions could be covered in a worst-case scenario.

MR. BOB PETERS: Parental guarantees from Manitoba Hydro?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: Has that happened in '05/'06 or '06/'07?

(BRIEF PAUSE)

MS. LORI STEWART: Both of those

situations that I've described are -- are fairly common. The exposures which are calculated relatively conservatively by both Centra Gas Manitoba and our counterparties can push us outside those acceptable credit limits relatively quickly.

MR. BOB PETERS: Would you phone one (1) of the seven (7) and say, we're going to market in forty-five (45) minutes but we won't be calling you?

Do you give them that courtesy call or do you just not bother calling them?

MS. LORI STEWART: No. We -- we would know well in advance if we were in that position.

MR. BOB PETERS: But the counterparty wouldn't be told that you wouldn't be calling them?

(BRIEF PAUSE)

MS. LORI STEWART: To provide some background in terms of the continuity of the relationship that Centra has with its counterparties on a weekly basis we're in contact with our counterparties to obtain -- to obtain quotes of indicative volatility that we then use for some confidence analyses that we perform -- some -- some risk calculations.

And as a result, as we're heading into --

as we're heading into a hedge transaction session and we see that we have got a counterparty who's sitting above our existing credit limit, in the course of that -- that week-by-week relationship that we have with them we would simply indicate to them that, you know, you've reached our credit limits and therefore we can't transact with you next round.

There's nothing, you know, mysterious about it, it's -- it's just sort of a matter of course and like I say our counterparties are performing the identical calculations that we are to assess their exposure to us and so it's quite commonplace.

MR. BOB PETERS: So if you don't exclude the counterparty because of credit limit issues and they don't exclude themselves, they would receive a phone call from you every quarter asking to -- to bid on your -- on your hedging requests?

MS. LORI STEWART: Generally speaking, yes.

MR. BOB PETERS: Are any of these counterparties legally related?

MS. LORI STEWART: No.

MR. BOB PETERS: There's no common ownership or anything else that you know of that would --

MS. LORI STEWART: I don't --

MR. BOB PETERS: -- that would provide some affiliation between them?

MS. LORI STEWART: No.

MR. BOB PETERS: Are any of these counterparties or are all of these counterparties acting on their own behalf or is there a third party hedging firm involved?

MS. LORI STEWART: One (1) of the counterparties acts, in essence, as a broker.

MR. BOB PETERS: And that individual then is not in-house with the particular counterparty then? They're an independent contractor providing a quote on behalf of the -- the counterparty?

MS. LORI STEWART: No, one (1) of our counterparties acts, in essence, as a middle person and I guess it could be described as that counterparty acting as a market maker and we don't know who it's got on the other side of the transaction; who it may be obtaining price quotes from that ultimately flows into the price quote that they provide for us.

MR. BOB PETERS: I'm just not understanding that particular example, Ms. Stewart.

If you phone this individual who is the -- the middle person, they go out and seek some bids but would they seek them from all seven (7) of these counterparties?

MS. LORI STEWART: I'm sorry, Mr. Peters, I'll need you to repeat that question.

MR. BOB PETERS: Let -- let me ask it this way.

In terms of the -- the one (1) -- there's only one (1) counterparty that doesn't have in-house staff doing the hedging; is that your understanding?

MR. BRENT SANDERSON: Maybe I could help out a bit, Mr. Peters, in just describing the nature of the options dealers bid -- the options dealer's business on the other side of the table.

I wouldn't say there's any one (1) circumstance that would apply in all cases as to their business model. There is a chance that with any counterparty when we go to provide a quote for a transaction they may on the one (1) hand choose to price up an instrument based on putting together a number of exchange traded instruments from another market that satisfies our needs, that they can leverage their presence and trading abilities at NYMEX and with basis instruments and foreign exchange and what have you in a much more cost effective way than we could on our own.

But it's just as likely that they could have a natural gas producer on the phone at the same time and that our needs equally offset each other and that their role is to facilitate that transfer of risk to all their customers in a way that serves their customers' needs.

So we have no way of knowing at any point in time where that price is coming from and what type of offset they would be placing on their side in order to hedge their own risk in offering us the instrument.

And we just want to take advantage of what the most advantageous set of circumstances are, that any one counterparty can bring to bear on any given day. But all of our counterparties are the principals to our transactions; be it if they're acting as a middle man between two (2) counterparties or acting in the role of serving our interests by accessing risk management instruments in an exchange traded market.

But all of our counterparties are the principal with which we are dealing.

MR. BOB PETERS: And those are the seven (7) that you listed from whom you have guarantees or parental guarantees?

MR. BRENT SANDERSON: Absolutely. Our transaction in our business is conducted with each of those counterparties directly with which we have a legal agreement.

MR. BOB PETERS: And what you're telling the Board is that any of those seven (7) may choose a variety of ways to -- to provide the bid to you.

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: It's not just one (1) of them is doing it a certain way, but they can all do it the same way and you have no way of knowing.

MS. LORI STEWART: We have no way of knowing what our counterparties are doing on the other side of the transactions in any situation.

MR. BOB PETERS: How do you know, and this probably isn't going to sound very good on the record, but how do you know they're not gaming you in the sense that you phone one (1) person and they quickly have their cell phone phoning another and they're all talking amongst themselves, while you think you're talking to them simultaneously as well? How do you know that that's not happening?

MS. LORI STEWART: Well -- these counterparties are, in essence, in competition with one another. You know, what you're describing sounds like collusion and one of the ways that we assure ourselves that that isn't the situation is the fact that we do have them on the phone.

And I'm -- I -- I keep emphasizing this

because it is important to understand that we have them on the phone, all six (6) of them simultaneously. So there would be, you know, no opportunity for what you just described because within -- by the time I pick up the phone, run through the terms of the deal and ask them to provide a price quote, they need to provide that price quote most often within a fifteen (15) of twenty (20) second window.

MR. BOB PETERS: Are you aware of other volumes or other transactions into which these counterparties have also entered into prior to your phone call?

MS. LORI STEWART: No, sir.

MR. BOB PETERS: So you may know that they have a $100 million credit limit with you but you have no idea what their credit is with other -- other parties?

MS. LORI STEWART: That's correct, although our financial counterparties are required to maintain a minimum 'A' credit rating from a bond rating agency or to provide us with a parental guarantee from an 'A' rated parent.

MR. BOB PETERS: In the second last answer you gave me, you said -- you used the number six (6). The (6) six of them would -- would be on the phone with us.

Did you mean to say seven (7)?

MS. LORI STEWART: No. Until fairly recently we only had six (6) individuals authorized to transact and as a result we had an operational constraint. We recently trained a seventh transactor.

MR. BOB PETERS: So from now on you'll have the opportunity to contact seven (7) counterparties?

MS. LORI STEWART: We'll have the opportunity, yes.

MR. BOB PETERS: And but for those limitations that you've indicated from your end, you expect you will contact all seven (7) on each of the transactions?

(BRIEF PAUSE)

MS. LORI STEWART: I guess I need -- I need for -- for the Board to understand that there are times where counterparties book may be in a position -- their book of trades may be in a position such that they choose not to provide us with a price quote.

It's one of the reasons why we've grown our stable is because there are points in time in the market that a certain counterparty will extract itself from -- from the process because it's book is moving opposite to where -- providing price quotes on the transactions that we're looking for. It -- it might hurt their position and as a result we're -- we're not committing to every session having seven (7) counterparties at the table.

What we're committing to is to exercise our judgment, our best judgment, as it relates to who can be at the table and who should be at the table.

MR. BOB PETERS: But you wouldn't know what their book of business is unless you made the phone call and asked them to be available in forty-five (45) minutes when you call back.

MS. LORI STEWART: Yeah. Or we could become aware of that even earlier as a result of these weekly touch -- weekly conversations that we have with our counterparties.

MR. BOB PETERS: All right. And in the materials as well you have an ability to have an internal audit done at Centra to find out if you, from an operational point from of view, are following your policies and procedures?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And am I correct in that in the materials there was an instance where the internal audit found that there was one (1) issue with one (1) of the counterparties?

MS. LORI STEWART: Yes, an issue in terms of the timeliness of our receipt of verbal confirmations of the transactions. Currently our operating principles and procedures outline that we are to receive verbal confirmations from our counterparties within one (1) business day of the transaction and we were experiencing a bit of lag with one (1) of our counterparties in terms of completing the verbal confirmation.

MR. BOB PETERS: Do you record your verbal confirmations -- audio record?

MS. LORI STEWART: No, our transaction sessions are recorded. However, the verbal confirmations between the back office personnel are not recorded to the best of my knowledge.

MR. BOB PETERS: Are you still doing business with that counterparty that was tardy in making the -- the verbal confirmations?

MS. LORI STEWART: Yes, we are. Following receipt of internal audits, recommendations, a frank conversation was conducted with the counterparty and we helped them understand that this was a -- a term -- a term or condition of our operating principles and procedures and we needed them to abide by that.

MR. BOB PETERS: You know that when you deal with these counterparties that they're making money off of you, do you not?

MS. LORI STEWART: Yes, I knew.

MR. BOB PETERS: And imbedded in the transaction is a dealer cost?

MS. LORI STEWART: A dealer margin, yes.

MR. BOB PETERS: And you estimate in the materials and I'm not sure I -- in one (1) place it looks like you estimate that the cost of the -- the cost of the cashless collar is two hundred and fifty thousand dollars ($250,000) a year on average; in another place I think it was four hundred thousand dollars ($400,000) a year on average.

But having said that, how do you come to that determination?

MS. LORI STEWART: I believe what we say in the application is that the estimated long-run cost of our hedging program would be less than one-tenth (1/10th) of 1 percent of our annual gas costs. And what that equates to is approximately four hundred thousand dollars ($400,000) relative to a $400 million gas cost budget.

And I -- in terms of -- in terms of how we come up with that estimate; number 1, of course we are historically tracking what our long-term costs are since the inception of the program. However, we have relied upon a combination of the KIODEX Report which was filed as part of this -- this proceeding, as well as some clarification conversations with our counterparties in terms of how that estimate is actually derived. I believe the basis of it is three-quarters (3/4's) of a cent per Gj.

MR. BOB PETERS: I was looking, Ms. Stewart, on page 24 of Attachment 3 to Tab 8 of your application, and this was a retrospective review of derivative hedging July of '05. And on page 4 there was an estimate of about two hundred and fifty thousand dollars ($250,000) annually for the costs of the hedging program.

I'm not suggesting a lot turns on the -- on the difference but you don't actually use the KIODEX software to determine dealer margins or estimate dealer margins, do you?

MS. LORI STEWART: Now, we don't, Mr. Peters.

MR. BOB PETERS: You are convinced that -- Centra is convinced that its simultaneous solicitation of prices is sufficient discipline on the market to ensure that there's not an exaggerated dealer margin being charged to Centra.

MS. LORI STEWART: Very much so.

MR. BOB PETERS: And that -- I appreciate you say one tenth (1/10th) of 1 percent of total gas costs, that amount is not discreetly identified is it, Mr. Sanderson, in the cost of gas accounting?

MR. BRENT SANDERSON: It's an estimate and a long run average based on what traders and dealers active in that market have shared with us given the prevailing conditions today and liquidity and the efficiency of the market.

But we're no more likely to be able to determine at the time we place a transaction what the exact margin being embedded by that dealer and the cost of the instrument is any more than if you were to go down and buy a new sofa at the Brick if you were to determine -- to ask the Brick to tell you what their profit margin is on the sale of that sofa.

So it's competitive information and we're never going to be able to determine with certainty what the margin embedded in each transaction is and it would differ depending on the -- the circumstances and the individual dealer.

But it's a long run expected average and we feel there's a lot of support for that number. And if anything, it's been indicated to us that it's probably a little bit conservative on the high side relative to a hedger like ourselves with our credit rating and the term over which we hedge.

MR. BOB PETERS: In the book of documents at Tab 20 is the retrospective review of derivative hedging.

Ms. Stewart, are you speaking to this primarily?

MS. LORI STEWART: Yes, myself or Mr. Sanderson.

MR. BOB PETERS: And this was in response to the Board's Order 131/'04 where they wanted you to give yourself a report card if I may in terms of some of the options you used or didn't use and what the results would have been had you done so.

MS. LORI STEWART: I wouldn't characterize it as a report card but that's -- the other portions of your description I would say you're accurate.

MR. BOB PETERS: All right. What -- what I believe the conclusion -- excuse me, the conclusion was that you can't legitimately test the alternatives because Centra has no competitive information advantage?

(BRIEF PAUSE)

MS. LORI STEWART: The Corporation did go to significant effort, Mr. Peters, to back test the alternative -- the use of alternative instruments.

For example, fixed price swaps and call options relative to cashless collars and also position that relative to an unhedged portfolio. What the corporation is not able to do is to go back and back test or back test any number of permutations and combinations of instruments and -- and dates and actually we would need to know the time that the transaction would take place.

So I -- I don't want to have discounted the effort that went into the analyses performed in the retrospect of review. We felt that it would provide meaningful information in terms of directionally what benefit does a collar provide relative to the alternative instruments that Centra has access to by way of its policy.

And we did undergo significant effort to back test those strategies and to be able to confirm some of our theoretical -- some of our theories about what the benefits and drawbacks of each of the various instruments would be.

MR. BOB PETERS: So was that comment that I suggested to you then in reference to if you had advance knowledge of the market that would taint how you would -- how you would hedge and, therefore it wouldn't be appropriate to back test?

MR. BRENT SANDERSON: I -- I think what you're referring to is there's a term for that type of activity and it's called, "data snooping" and it essentially means testing in essence what could amount to an effectively -- an infinite number of different scenarios, strategies, as Ms. Stewart characterized timing and placement of instruments, different bandwidths and -- and what have you to an historical series of data to try and find the one (1) that would have yielded the most advantageous or attractive financial result.

But that has no value whatsoever in terms of guiding one's actions in the future and -- and it's true you -- you have the benefit with hindsight knowledge of knowing how the market moved and to be able to fit a strategy to that past market movement, but that is absolutely and essentially valueless in providing guidance in terms of subjective placement of hedges in future periods.

MR. BOB PETERS: And that -- you didn't do data snooping to prepare this report then is what you're telling the Board?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: You -- you pretended if I can use that word that you -- instead of using the cashless collar you would have used a call option or a fixed price swap at the same time as you ended up putting on the cashless collar and you would have seen what the results would have been?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: All right. Well, with no more suspense, the last page of Tab 20 contains the results colourfully depicted. It's in the book of documents at Tab 20; it's also Attachment 10 at the back of this report.

And, Ms. Stewart, why don't you briefly explain to the Board what you concluded by doing this retrospective review?

MS. LORI STEWART: The basic conclusion of the retrospective review is that Centra's instrument of choice, the cashless collar, generally speaking is what I would describe as the middle position on the spectrum of volatility reduction.

And clearly, the type of market that we're -- that we're operating within has -- has an impact on which of the other strategies ends up being the most -- delivering the most benefit in terms of volatility reduction or the least benefit.

What this chart demonstrates is that the fixed price swap strategy in the '02/'03, '03/'04, '04/'05, and it was '05/'06 to-date that the fixed price swap strategy would have delivered the greatest reduction in volatility and the lowest addition to customers' primary gas -- primary gas costs.

Conversely, the call-option strategy would have delivered the lowest reduction in volatility and would have contributed the greatest addition to customers' primary gas costs in that period of time and that the collar landed in between the two (2). So it -- it didn't provide the greatest reduction in volatility. It also didn't provide the greatest addition to customers' primary gas costs.

And what it's important to note is that generally speaking the timeframe depicted in this schedule was a timeframe that could be characterized as a trending upwards market. And that's relatively consistent throughout this timeframe.

So these outcomes need to be -- need to be reviewed in that context and we go on in the retrospective analysis to suggest what the theoretical outcomes would be in just the opposite type of market situation in a falling market and which -- which strategy would deliver the -- the most reduction, et cetera.

MR. BOB PETERS: Ms. Stewart, did you find that there was a correlation between the greatest reduction in volatility and the lowest addition to gas rates?

(BRIEF PAUSE)

MR. BRENT SANDERSON: I understood your question, Mr. Peters, and maybe I would answer it this way. What we found was and we covered that in -- in the study in a fair amount of detail.

Given that a fixed price swap would in -- we would expect in the vast majority of circumstances deliver the greatest reduction in volatility and customers' rates and that was proven out in this study and continues to be the case today.

If we bring the analysis to -- up to the current day because it provides the greatest level of volatility reduction coincident with that, it has the greatest potential to either add to or reduce customers' gas cost along with it.

MR. BOB PETERS: I'm -- I'm wondering -- I think you've each said that it's confirmed your suspicions or confirmed your expectations that the fixed price swap strategy would provide the greatest reduction to volatility and it would also add -- it would provide the lowest addition to primary gas cost rates.

MS. LORI STEWART: No. To be clearer we -- our -- our theory or expected outcome was that the fixed price swap would in virtually all situations provide the greatest reduction to customers' gas cost volatility or gas rate volatility.

And -- however, depending on what the market circumstance is the fixed price swap strategy will either deliver the lowest addition to customers' primary gas costs in a rising market or the greatest addition to customers' gas cost potentially in a falling market.

MR. BOB PETERS: All right to follow it through at Tab 20, the Attachment 10, you've caveated your answer by saying this was a rising market and the expectation was realized in terms of which one (1) of those instruments will provide the greatest production to volatility and also would provide the lowest addition to primary gas costs.

MS. LORI STEWART: Yes, given that --

MR. BOB PETERS: All right.

MS. LORI STEWART: -- that market trend.

MR. BOB PETERS: Thank you. And your second last answer, if we turn to Tab 21 of the book of documents, we continue with some -- some coloured graphics here.

What you're telling the Board is that if you update the schedule that we were looking at under Tab 20 to see what's at Tab 21, when the market starts to trend downwards, you end up finding the lowest reduction in volatility associated with a fixed price swap column which is column 7 on PUB/CENTRA-45.

Have I got that right?

MR. BRENT SANDERSON: No, you don't, Mr. Peters. There's no indication on that table as to the extent of the volatility reduction achieved by any of the strategies. It's merely looking exclusively at the relative impact on customers' gas costs plus or minus.

And if I could just take you through in the period of April 2006 through March 2007 and then the forecast period of April 2007 through July 2007. So it's lines 12 and 14 that is that downward trending market that we had described.

And it's been characterized different ways that Ms. Stewart and I have been saying the same thing just in different ways.

But I would put it for the sake of absolute clarity, in a generally upward trending market a fixed price swap strategy would provide the greatest reduction to customers' gas costs of the three (3) strategies we're talking about here in the vast majority of cases.

In a generally downward trending market, a fixed price swap strategy would provide the greatest addition to customers' gas costs of the three (3) strategies that we're talking.

And you can see by virtue of the fact that lines 12 and 14 are highlighted in red, what that indicates is, indeed, in a downward trending market the fixed price swap strategy would have resulted in the greatest addition to customers' gas costs of the three (3) strategies for those two (2) periods.

It makes no statement whatsoever about the reduction of volatility.

MR. BOB PETERS: And the previous -- the previous document at Tab 20, likewise you're saying has no -- has no -- is not making any statement with respect to the greatest reduction and volatility?

MR. BRENT SANDERSON: Right. It's purely the additions or reductions to gas costs which I will reiterate we do not consider to be a valid measure of the program. But we would be more than willing to discuss the -- the degree of volatility reduction as a result of each of the individual strategies that we studied.

MR. BOB PETERS: If we turn in Tab 21 to

the second page which is PUB/CENTRA 43 Attachment 5, we'll now get to your volatility discussion would we, Mr. Sanderson?

MS. LORI STEWART: Yes, that's correct.

MR. BOB PETERS: And which of the three (3) strategies provides the best reduction to volatility which is the policy under which you operate?

MS. LORI STEWART: Generally speaking the fixed price swap strategy would deliver the greatest reduction in gas rate volatility.

MR. BOB PETERS: You knew that before you did the study though, didn't you?

MS. LORI STEWART: Based on market theory, yes.

MR. BRENT SANDERSON: I'd just like -- I'd just like to just add a little -- we -- we've talked about our theorized outcomes under these different strategies. I'd just like to point out that these are not theories that we've dreamed up. These are what one would expect --

MS. LORI STEWART: That's right.

MR. BRENT SANDERSON: -- based on -- on market rules and market theories. So it's just we are espousing general -- generally accepted market theory as we -- when we talk about the expected outcomes of these different strategies.

MR. BOB PETERS: You're being too modest, Mr. Sanderson, but if we look at both Attachments 4 and 5 to PUB/Centra 43 what -- the Board can conclude can it from these that the greatest rate reduction comes from the fixed price swap mechanism in a rising market and that also provides the greatest reduction in volatility.

MR. BRENT SANDERSON: I would agree with you on both counts with just an additional bit of clarification.

We would expect that regardless of the direction of the trending of the market that a fixed price swap would in most cases all -- most of the time be the most effective instrument in mitigating volatility exclusive of the issue of the addition or reduction to gas costs.

MR. BOB PETERS: And why is it then that under your policy you don't exercise this derivative instrument?

MS. LORI STEWART: Our -- our customer research indicates that our customer base generally speaking has -- has some tolerance for volatility. It -- it's not a significant tolerance but if we -- if we swap out -- if we swap out the price, then we're providing with no opportunity for downside participation and our understanding of our customers' needs are such that we believe they're best met by the cashless collar which sort of positions itself in that middle place on the spectrum.

MR. BOB PETERS: Didn't your most recent market survey conclude that the majority of customers wanted you to do more -- more active hedging?

MS. LORI STEWART: No, our 1994 research indicated that 53 percent of our customers stated that they were -- would be satisfied with the status quo in essence and that 13 percent were -- were interested in increased hedge protection in -- sorry if I misspoke, it was 2004.

MR. BOB PETERS: If we look back to Attachment 4, the first page of the book of documents, twenty-one (21), which column represents the -- the no hedging impacts?

MR. BRENT SANDERSON: As this schedule is just looking at the cost impacts relative to underlying market prices under each of the three (3) strategies the no hedging alternative is not indicated because if one weren't to hedge, one would be paying market price and there would be no hedge impact.

So there is no -- there would be -- it would be zero in every case if one were to not hedge.

There would be no cost impact relative to market on customers' gas costs or rates.

MR. BOB PETERS: Looking -- I may be looking at a different schedule than you, Mr. Sanderson, but on -- on Attachment 4 of PUB/Centra 43 isn't column number 2 the total gas costs excluding hedging?

Does that indicate what consumers would pay if you chose not to hedge?

MR. BRENT SANDERSON: Correct, sir.

MR. BOB PETERS: And then the -- column number 3 is the fifty (50) cent out of the money costless collar which is in fact the strategy that Centra has and continues to operate?

MR. BRENT SANDERSON: Those are our actual results under our current program, yes.

MR. BOB PETERS: Actual up until the April 2006/March '07 year and the '07 stub year?

MR. BRENT SANDERSON: They include all instruments that we had placed at the time that it was prepared and results are settled as indicated in line 16 to October -- the end of October 2006.

And at the point we had this prepared we had some forward instruments in place for the period November 2006 to July 2007 and that's on line 18.

And those are shown as an item for

information and that's just the market position of those hedge instruments as of the date of preparation of this schedule.

MR. BOB PETERS: And to which Ms. Stewart has updated it in her oral evidence?

MS. LORI STEWART: Yes, I've updated as the month of November has settled.

MR. BRENT SANDERSON: So just to add clarification, Ms. Stewart's direct evidence was one (1) month more current than what is shown in this schedule here before you right now.

MR. BOB PETERS: And so on line 16 where it's April -- I'm sorry, if we go -- I'm sorry I won't -- I -- I'll do the math later, I won't do it on the record.

(BRIEF PAUSE)

MR. BRENT SANDERSON: I'm just seeing here -- just to avoid any confusion, these things always can get a little busy, I'd just like to add, maybe it'll help you when you're doing the math, line 14 includes results for April 2007 through July of 2007, line 12 April 2006 through to March 2007 and then line 18 -- or line 16 takes all of the columns above it and sum -- and sums them to the end of the period for which we have actual results.

So that period inclusive for which the results are settled and then line 18 shows the period for November 2006 to July 2007 of the numbers above which were not settled at the time of the preparation of this, and that's a forward mark to market positions.

MR. BOB PETERS: All right. And I won't -- we won't go -- update it any further than what's on the paper here and PUB/CENTRA-43, recognizing as we're indicated, Ms. Stewart has given us an updated number.

But looking at column 3 at the bottom down to line 20, as a result of the fifty (50) cents out of the money cost was collar strategy since April of 2002, gas costs will be based on the mark to market $6.7 million more than what they would have been had there been no hedging in place.

MR. BRENT SANDERSON: Cumulatively over the period since April 2002 and that includes, as I said, those results from the months of November 2006 through July of 2007 which were unsettled as of the preparation of this schedule.

So the results for the period itemized on line 20 may be somewhat different and in all likelihood will be once these instruments have all reached maturity.

Line 16 indicates that as of the end of

October 2006 for that entire period inclusive, April 2002 through October 2006, the net result has been a $44.1 million reduction to customers' gas costs and the net overall basis since April 2002

MR. BOB PETERS: You're choosing to deal with the actual settled results at this point in time not anticipating what may happen with the current mark to market on the unsettled positions?

MS. LORI STEWART: We're simply -- we're simply trying to distinguish between what has actually settled and is a realized result and what remains unsettled and thus will ultimately settle at some place different than what we're forecasting here.

MR. BOB PETERS: And the results you show on line 20 under the 5th column and the 7th column, that is results for the fifty (50) cent out of the money call option in column 5 and the fixed price swap in column 7, those final numbers are also unsettled?

MR. BRENT SANDERSON: The same circumstances would apply as we described for the fifty (50) cent of the money call option. Line 16 would give the April 2002 through to October 2006 settled results, if we had a pursuit that's each of those strategies. And then line 18 should -- breaks out what the unsettled impact would be and then line 20 is the sum total of those two (2).

We just want to be careful about making statements such as was made earlier that we can expect for April 2002 through July 2007 customers' gas cost will have been $6.8 million more. We can't make that statement at this point as all we're saying; that's -- we can't make that with certainty.

MR. BOB PETERS: Fair enough. I want to go back quickly to the mechanistic versus the market approach and, Ms. Stewart, I think before lunch you -- you used the words that it would be unusual and infrequent for the Corporation to deviate from the mechanistic hedging approach.

MS. LORI STEWART: To be precise I use the words "cautiously" and "infrequently".

MR. BOB PETERS: You're not denying that you, in fact, did so on at least two (2) occasions?

MS. LORI STEWART: No, sir.

MR. BOB PETERS: And when you did so on those two (2) occasions it was because the Corporation had a market view; would that be fair?

You developed a market view?

MS. LORI STEWART: Yes, I think that's a fair assumation of -- of Mr. Warden's examination-in-chief.

MR. BOB PETERS: Did the Corporation pay money for that market view -- an incremental cost or was that within an internal market view?

MR. VINCE WARDEN: It was internal.

MR. BOB PETERS: Was that internal market view at the executive level or at the -- the gas hedging meeting committee level?

MR. VINCE WARDEN: It would have been at the executive level.

MR. BOB PETERS: And the executive would rely on information it received from -- from staff or was this independent of staff information?

MR. VINCE WARDEN: Definitely information was compiled by staff, yes.

MR. BOB PETERS: What compelled the Corporation to take a market view at those two (2) times when it did, Mr. Warden?

MR. VINCE WARDEN: Mr. Peters, I think I explained that in my direct testimony. I probably couldn't elaborate much more than what I did provide through that testimony. It was the aftermath of Katrina, Rita, and prices appeared to be abnormally high.

MR. BOB PETERS: Mr. Warden, if the Corporation wanted to take a market view on a more regular basis would the Corporation need to expand incremental revenues?

MS. MARLA MURPHY: Mr. Peters, maybe you can clarify that question for us. I'm not sure if you're asking about whether we'd be expending money to do that or you're referring to the policy itself.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: The policy, Mr. Warden, has some discretion in the executive as to whether to -- to hedge fully 100 percent of the eligible volumes, correct?

MR. VINCE WARDEN: The policy does provide for hedging less than 100 percent of the eligible volumes, yes.

MR. BOB PETERS: And when you did hedge less than 100 percent of the eligible volumes, you did so only temporarily, not on a permanent basis?

MR. VINCE WARDEN: Correct. We did it -- did it on two (2) -- two (2) occasions.

MR. BOB PETERS: And you did it based on a market view being taken by Centra's executive?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And in terms of Centra's executive taking a market view more regularly than it has, do you believe that the Corporation would have to obtain additional information or expertise from what it already has?

MR. VINCE WARDEN: Well, we have really no intention of taking a market view on a regular basis so we have not contemplated that situation you're describing.

MR. BOB PETERS: What you're saying, Mr. Warden, is that there is no criteria developed as to when you will hedge less than 100 percent?

MR. VINCE WARDEN: There's really no criteria that anybody that I know of would have for taking a market view so, no, there is no criteria developed.

MR. BOB PETERS: The decision that you made to hedge less than 100 percent at least on a temporary basis then was made in what Ms. Stewart has said would be -- would be done cautiously and infrequently.

MR. VINCE WARDEN: Absolutely. Yes, I agree with that.

MR. BOB PETERS: And -- and how does the Board know that it will be cautious and infrequent if you don't know the criteria against which you will measure that?

MR. VINCE WARDEN: Well, there would have to be special circumstances prevailing, abnormal circumstances, such as the ones I described.

MR. BOB PETERS: Would you agree with me, Mr. Warden, that if you -- if Centra was to decide to start taking a market view more regularly to influence how money -- how much of its volumes it would hedge, it would need to expend additional resources to do that?

MR. VINCE WARDEN: Mr. Peters I think I answered, we have no intention of taking a market -- market view on a regular basis.

MR. BOB PETERS: And -- and my question was only then in a hypothetical, and I thought it would follow that if you did for whatever reason decide to become more market view oriented you would need some additional resources.

MR. VINCE WARDEN: I think I would prefer not to answer that hypothetical.

MR. BOB PETERS: What about the hypothetical, Mr. Warden, of Centra not hedging at all; abandoning the hedging program as has been suggested by -- by others?

Is that something of interest to the corporation?

MR. VINCE WARDEN: Well, we have an approved derivatives hedging policy which was approved by the Manitoba Hydro Board, approved by this Board. If we wanted to change that, it would be appropriate for us to take a -- a recommendation for change first to the Manitoba Hydro Board and back to this Board.

There is no -- at this time no appetite within the Corporation to -- to change that policy. We think the policy serves us and the customers of Manitoba well.

MR. BOB PETERS: And the reason there's no appetite, Mr. Warden, is based on, as Ms. Stewart told us, the market research?

MR. VINCE WARDEN: That's certainly a big component of that, yes. We think what we're doing is serving our customers well and we believe it -- it interprets the -- the wants and needs of those customers in accordance with the market research that was done.

I did indicate that we -- or Ms. Stewart did indicate that we will be doing additional market research in 2008 and we, of course that -- that could influence the policy going forward.

MR. BOB PETERS: And is there, again, no appetite, Mr. Warden, to look at other possible methods of price management or hedging such as those suggested at Tab 26 of the book of documents on page number 2?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, I -- Mr. Peters, I did indicate in -- in my direct that we did consider the directives of the PUB and the discussion document provided to us.

We did conclude however that the current derivatives hedging policy that we have in place is appropriate to our requirements at this time and is not -- we do not intend to change that until such time as we have other evidence that supports the change.

MR. BOB PETERS: Nowhere, Mr. Warden, does the Corporation feel that the policy should have as a -- either a secondary or a stated objective of attempting where possible to reduce the cost of natural gas for Manitobans?

MR. VINCE WARDEN: We believe to reiterate again that the policy that we have in place is appropriate to our requirements.

MR. BOB PETERS: Would Centra need to have a market view in order to consider whether to unwind any positions?

MS. LORI STEWART: Yes.

MR. BOB PETERS: And presently you don't have a market view or one that you're not comfortable enough in to act to lead you to unwind any positions; would that be true?

MS. LORI STEWART: That's correct and additionally the process of unwinding transactions is one (1) in which generally the market has availed itself of information and knows that one is in a position of vulnerability and the market will extract a premium in the process of unwinding the transactions that from our perspective it -- it just -- it wouldn't make sense to do.

MR. BOB PETERS: Well, it wouldn't make sense to do unless you took a market view as to where the market was going to be and then you weighed the cost of unwinding against the cost of additional gas costs that may result if you didn't unwind the position.

MS. LORI STEWART: That's correct.

MR. VINCE WARDEN: And, Mr. Peters, I think I would like to add to the record that because we don't want to include in our derivates hedging policy an explicit objective for -- to reduce costs that we're not concerned about costs. We certainly are.

We're as concerned about the cost of gas to the ratepayer of Manitoba as anybody is but we believe that taking a market view over the long term will not serve to reduce those costs to consumers.

MR. BOB PETERS: Does that answer --

THE CHAIRPERSON: Just to clarify before you go on. This whole hypothetical unwinding, there's no provision in the policy for unwinding in any case, is there?

MS. LORI STEWART: No, sir.

THE CHAIRPERSON: Under your proceedings, if you were even contemplating such an act you'd have to go back to your Board with revisions to the policy to provide you. Like, the way the policy reads right now is that once you have a position it goes to maturity.

MS. LORI STEWART: Yes, sir.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: We're just wanting to bring to your attention to complete that thought, Mr. Chairman and Panel Members, at Tab 17 of the book of documents is the Derivative Hedging Policy and Procedures and in the bottom of what is Appendix B, page 3 of 8, there is an indication under the operating principles that:

> "Once a derivative has been put in place the contract will not be sold or otherwise dealt with, i.e., unwound

except in unusual circumstances."

Maybe I interpreted that wrong, but I interpret that to mean that in unusual circumstances you could unwind a transaction or is it absolutely forbidden I guess?

How do we -- how does the Corporation interpret that?

(BRIEF PAUSE)

MS. LORI STEWART: I think it's a matter of interpretation here, Mr. Peters. I guess the Corporation's understanding of those particular circumstances would be in a situation where we had a counterparty default and as a result were -- were, in essence, forced to unwind the position.

MR. BOB PETERS: Mr. Chairman, with that answer I'd like to thank Mr. Warden, Mr. Stephens, Ms. Stewart, and Mr. Sanderson and Ms. Derksen for their answers. Those complete my questions.

THE CHAIRPERSON: Thank you, Mr. Peters. Just before we break and then come back with Mr. Saxberg I believe just one (1) general question for the general understanding of the Board.

The futures market, generally speaking, is populated presumably by a whole host of different beasts like producers, buyers, and speculators as well; is that not true?

MS. LORI STEWART: Yes, that's correct, sir, the market is comprised of many and varied buyers and sellers.

THE CHAIRPERSON: To what degree does the market take into account say long-term purchase agreements which actually have prices attached to it between a supplier and a purchaser or is the market gone to one of the same type of approach that Centra takes now with Nexen?

MS. LORI STEWART: The market incorporates -- and this is the power of it -- it incorporates every piece of known information. So if the terms of a bilateral arrangement between a producer and a consumer of gas is known, for example, if it was known by virtue of a process like this public process, the market will take that information and incorporate it into -- to whatever extent it -- it sees as relevant to the market price and, boom, the price would change, for example, if the magnitude of the contract was that -- was that great.

So any piece of information that the market becomes privy to that is -- is generally known, it will incorporate it. And that's why that price is moving virtually every second of the day.

MR. BRENT SANDERSON: I would also like to add as well, just to extend what Ms. Stewart said, the market price or the information in the market that's reflected in market prices also reflects private information that is not available generally to the market because participants in the market are acting for their own gain based on information that they have that is not generally available to the wider market, as well as information which is generally available to the market.

And, again, it speaks to the power of the market as we have the advantage of being able to see the distillation of all that information, both public and private, as manifested in the market price, either -- be it current prices of the day for delivery or delivery for some future period.

So it -- it reflects far more information than any one (1) individual participant in the market could ever hope to have at hand in terms of trying to set out to beat the intelligence of that overall market.

THE CHAIRPERSON: Is there any truth to some of the reports in the public press around the time of the collapse of Amoran (phonetic) that some 70 percent or whatever, the NYMEX market was basically comprised of speculative activity?

MR. BRENT SANDERSON: We've actually looked into or perused a lot of information over the past couple of years with respect to speculators' activities in the market and their influence on prices and we've -- we've had people from the New York Mercantile Exchange come to conferences to speak that we've attended at.

We've had the benefit of hearing presentation from people with decades of experience in liberalized markets.

And counter to what we would read in the popular press, the presence of speculators in the market has in fact led to a reduction in volatility when you look at statistically relative to what would have been the case before, the greater percentage of participation by speculators.

And when we heard speakers from the New York Mercantile Exchange Market Oversight Committee, it is not effectively possible in the natural gas market for speculators to -- for want of a better term -- corner the market.

Speculators' positions, they could be referred to as non-commercials, in that they have no -- they are not a buyer and seller of end-use gas. They just speculate on future price movements.

If they accumulate a position or -- in the market that is beyond a certain small percentage of the activity in that market, the Market Oversight Committee calls them in for a review effectively and forces them to explain their activities and why they've accumulated the position that they have.

And if they are not satisfied that the magnitude of their position will not unduly influence the direction of the market, they will force them to unwind a certain percentage of their positions to bring their position in the market below a level at which they don't feel that they can take -- have an undue influence on price.

THE CHAIRPERSON: Was that proven out in the Amoran experience?

MR. BRENT SANDERSON: We really don't know how Amoran's position was accumulated. None of us are going to have access to that competitively-sensitive information.

I would say though that knowing how hedge funds tend to earn their gains, they were probably very heavily leveraged, and a lot of their activity would have been in the options markets, taking a small upfront financial position with an extraordinarily large potential gain, but with a coincident extraordinarily large downside potential risk.

And so it could have been any number of combinations and permutations of positions. But effectively, based on my conversations with the dealer community subsequent to Amoran's failure, they took a very heavily leveraged position in terms of uncovered options positions and were heavily indebted to try and magnify or leverage their gain on a subsequent market movement which didn't materialize, which manifested itself in an extraordinarily large loss.

And this is indicative of what we're talking about when no matter how smart the trader or how large the -- the capital that they have available to them to speculate on their position, ultimately at the end of the day it is effectively impossible over the long term to beat the market.

And that's a case in point I would say as to what happened with Amoran.

THE CHAIRPERSON: When they try, they seem to create a lot of damage. However, they presumably could have had positions with counterparties, could they not?

MR. BRENT SANDERSON: I'm -- I would probably say it's a good bet that they would have had -- and I'm assuming what you mean by with counterparties would meaning over the counter markets or bilateral transactions.

Yes, I -- I don't know for sure, but I think that would be a reasonable assumption to make.

THE CHAIRPERSON: Thank you. Okay, we'll have a break now and then when we come back, Mr. Saxberg, are you ready to begin?

MR. KRIS SAXBERG: Yes, I will be.

THE CHAIRPERSON: Very good, sir.

--- Upon recessing at 2:40 p.m.

--- Upon resuming at 3:00 p.m.

THE CHAIRPERSON: Okay, Mr. Saxberg, it's your time.

CROSS-EXAMINATION BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. Good afternoon to everybody. With me is a familiar face to most, Mr. Brian Meronek from our office, who is helping me out on this file in a consultative manner, so the Panel can breathe easy that he won't be asking any questions today unless things go completely awry.

To begin with, I have put together a book of selective documents that's not intended to be evidence on its own but it's -- it's there to help facilitate the -- the examination and speed things up.

I have left a pile of those books on Hollis' desk; that's right. And I passed -- I passed on the documents to Centra already and they have had them in advance and Intervenors also have them and I've left them with Board counsel, so all that's left is for them to be circulated to the Board.

THE CHAIRPERSON: Mr. Gaudreau is going to give us an exhibit number.

MS. MARLA MURPHY: Mr. Chairman, I prefer that that not be marked as an exhibit, as Mr. Saxberg and I discussed in advance the material in here is not like the book from the Public Utilities Board book of documents. It doesn't all relate to this proceeding. Some of --

THE CHAIRPERSON: Okay.

MS. MARLA MURPHY: -- it in fact is quite old and as such it wouldn't be appropriate, I don't think, at this point to have it admitted as evidence.

THE CHAIRPERSON: That's fine. Mr. Saxberg, could make that motion at some point during the -- yes, Mr. Saxberg?

MR. KRIS SAXBERG: Thank you, Mr. Chairman. And perhaps I'll do that at the conclusion of my cross-examination.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: To begin with some very general and easy questions I hope, would you agree and this is open to anyone to answer, that the Board has to approve the hedging transactions conducted by Centra for the '05/'06 fiscal year?

MS. LORI STEWART: I would agree that the Board has the right to approve the cost consequence of the derivatives -- hedges transactions placed in '05/'06.

MR. KRIS SAXBERG: And with respect to each individual transaction, the Board has to ensure itself that those transactions were executed in accordance with Centra's policy?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: So in that way the Board then is approving the individual hedging transactions?

MS. LORI STEWART: Fair enough.

MR. KRIS SAXBERG: And with the reference that the Board will be looking at to ensure that the transactions are appropriate is the policy that this Board approved at the -- at the last year GRA Hearing, is that correct?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And in general, that policy gives the executive quite a bit of discretion with respect to hedging insofar as the executive can decide not to hedge at all.

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And the executive committee has the absolute discretion as the policy stands today, is that fair?

MS. LORI STEWART: That's correct. I believe we've put on the record the only exception to that would be the instrument used. The policy is quite clear that the -- our options in terms of instruments are the fixed price swap, the call option, or the cashless collar.

MR. KRIS SAXBERG: And Centra's position is that the individual hedging transactions have been placed in accordance with the policy, correct?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: Would you agree that because the policy is so broad in that there's a discretion to not hedge at all, it's fairly hard for these transactions to fall outside the policy, as it's worded.

MS. LORI STEWART: I think the -- that

since the inception of this program in 2001 we've -- we've only seen two (2) exceptions to Centra's matter of course -- matter of course process at it relates to -- to the hedging program. I guess its history seems relatively easy to assess I -- I believe.

MR. KRIS SAXBERG: But if -- if we put aside the matter of course practice for a moment, just based on the express wording of the policy, there -- there really are no restrictions on what Centra can or can't do in terms of hedging. I mean, it can decide not to hedge.

MS. LORI STEWART: That's correct, although the -- Centra's matter of course actions are explicitly defined in the operating principles and procedures for the purpose of outlining what the regulator and other stakeholders should be expecting to see from Centra as it relates to its Derivatives Hedging Program and the transactions.

MR. KRIS SAXBERG: Thank you. And, therefore, notwithstanding this broad discretion on the policy, the practice as a matter of course is fairly narrow and Centra has made promises in past hearings and in some of the related documents that it would implement its hedging in a mechanistic fashion.

MR. VINCE WARDEN: Mr. Saxberg, I

wouldn't -- I wouldn't totally agree that the policy is that broad. It does in fact provide for hedging of -- of up to 100 percent of eligible volumes and in the case where we don't -- don't do that then that's an exception that requires executive committee approval.

So I think in that context the -- the policy is actually quite narrow. I wouldn't agree that it's that broad as -- as you intimated.

MR. KRIS SAXBERG: Okay. Well, maybe we're -- we're just -- we're in agreement but -- in that in terms of the practice that's been enunciated to the Board there is a very narrow range in terms of what Centra can do and it's going to implement its hedging in a mechanistic fashion.

MR. VINCE WARDEN: Yes.

MR. KRIS SAXBERG: And I'm not going to repeat the parameters because we all are extremely familiar with them.

And there was one (1) caveat on that mechanistic practice though that was mentioned at the last hearing and that was that in the case of unusual circumstances Centra may move away from its mechanistic implementation of hedging. Do you recall that?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And I have circulated

a transcript excerpt from that last hearing in which, Ms. Stewart, you at that time gave two (2) examples of unusual circumstances that would cause Centra to divert from its mechanistic implementation.

Have you had a chance to review that transcript?

MS. LORI STEWART: Yes, I had a quick look at it over the break.

MR. KRIS SAXBERG: And the two (2) instances simply put were: 1) if there was a disaster with respect to the TransCanada Pipeline, and 2) if everyone was switching over to broker service, is that fair?

MS. LORI STEWART: Those were two (2) examples provided, yes, of special circumstances.

MR. KRIS SAXBERG: And after that discussion with Mr. Peters, at page 341 of the transcript, which is -- it's included with the material but it's not one (1) of the tabs. It's the loose transcript.

At page 341 Mr. Peters asked you specifically with respect to the definition of unusual circumstances, at line 14:

"Is there any opportunity, Ms. Stewart,
to exercise discretion by taking a

market view?"

And your answer was:

"That is not the intent of the company."

And then Mr. Peters asked:

"What you're telling the Board is that there's no intention in Centra to look and see what the market is doing and put hedges in based on your best guess as to what's happening in the market?"

And your answer was:

"Yes, that's correct. We have not shifted our position to taking subjective price views."

Do you acknowledge giving that evidence?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And there's no difference between special circumstances and unusual circumstances?

MS. LORI STEWART: Not to my knowledge.

MR. KRIS SAXBERG: Now, at Tab 13 of the book of selected documents there is a slide -- PowerPoint slide presentation that Mr. Sanderson and Ms. Stewart should be fairly familiar with.

Are you familiar with the document?

MS. LORI STEWART: Yes, I am.

MR. KRIS SAXBERG: And the document is a PowerPoint presentation put together by Tim Simard, is a former advisor to Centra on hedging; correct?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: Is it fair to say that he's the author of -- of Centra's mechanistic implementation approach to hedging?

MS. LORI STEWART: No. I wouldn't characterize him as the author of our program.

MR. VINCE WARDEN: Mr. Saxberg, he wasn't actually an advisor neither. He -- we engaged Mr. Simard for a special assignment, that's as far as it went.

MR. KRIS SAXBERG: Okay. And Mr. Simard testified for Centra at the 2003 Hearing?

MR. VINCE WARDEN: Correct.

MR. KRIS SAXBERG: About the new policy that Centra was proposing at that time, which is basically the policy that we're talking about today; correct?

MS. LORI STEWART: Yes, with a few modifications.

MR. KRIS SAXBERG: And Mr. Simard testified about what it is to have a mechanistic implementation strategy; correct?

MS. LORI STEWART: Yes.

MR. KRIS SAXBERG: And that's what he's talking about in this slide presentation that we all have before us; correct?

MS. LORI STEWART: I'm sorry, what was the question, Mr. Saxberg?

MR. KRIS SAXBERG: Well, he testified about what it means to put in place a -- a mechanistic hedging program. That's what Mr. Simard was testifying to in 2003.

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: And he was also testifying that Centra really couldn't do anything else because it didn't have the skills.

MS. LORI STEWART: I think it's safe to characterize Mr. Simard's testimony as not being supportive of a utility taking a position that it could outperform the market over the long term, that it could not systematically outperform the market over the long term.

MR. KRIS SAXBERG: And so the upshot is he recommends using a mechanistic approach.

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And he describes it in -- on page 2 of this slide presentation I think quite well, in the very first PowerPoint slide with font on it that says, under, "Definitions":

"Mechanistic implementation strategy. Market directional views play no role in the implementation of hedge positions."

Mr. Simard is correct about that?

MS. MARLA MURPHY: Mr. Chairman, I'm a bit confused about the purpose of this examination. To be clear, this document wasn't prepared for Centra or at Centra's request.

This is, as I understand it, a presentation that Mr. Simard made in Chicago, Illinois, and I don't think it's appropriate to put to our Witnesses his views summarized in a PowerPoint presentation which probably came with a fairly extensive discussion, and I expect that that's going to be a position that can be attributed to an expert who isn't here.

MR. KRIS SAXBERG: Yeah, I'm simply putting statements to the Panel about the mechanistic approach and asking whether they agree or disagree. I'm not asking them what Mr. Simard meant by them or if -- of what the context was.

And it's -- it's just by way of

illustration. And these aren't difficult questions and they're questions the Panel's familiar with.

THE CHAIRPERSON: Okay. Proceed for now. We'll take it under that understanding.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Ms. Stewart, the second bullet says:

"Market [or, sorry, the third bullet says] Even if Management is convinced that prices are likely to fall, hedges are still implemented."

Correct? Is that your understanding of how the mechanistic implementation approach works?

MS. LORI STEWART: Yes, that would describe a strict mechanistic implementation strategy.

MR. KRIS SAXBERG: And in previous hearings you have testified that Centra's implementation strategy was going to be the strong form mechanistic implementation approach.

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And you and I have gone into more than a few exchanges wherein you would correct me that exercising discretion in -- in matters that I had suggested would constitute taking market views and the program simply is not designed to do that.

Is that a fair generalization of the -- of -- of your position?

MS. LORI STEWART: It's a fair generalization, however, the policy has always included that provision for special circumstances such as physical catastrophes like one (1) of the tubes on TCPL being damaged, like hurricanes Rita and Katrina which represent unforeseeable situations that a utility or -- that a utility may -- may then choose to respond to.

MR. KRIS SAXBERG: Okay. Thank you for that and I'll -- I'll get back to that but just again, the next bullet down says:

"No market view discretion around timing and magnitude of the hedge."

That was Centra's position prior to this hearing that the program in the regular course, in the absence of special circumstances, would never take a market view with respect to timing of the hedge or the size, correct?

MS. LORI STEWART: It continues to be Centra's position even in this proceeding that discretion around the timing, the magnitude of the hedge, and the instrument employed will -- that -- that discretion will not be employed in that regard.

However, we've cited special circumstances and Mr. Warden I think gave a good description of the special circumstances that gave rise to the two (2) instances over the course of Centra's program in which the Executive Committee used discretion.

MR. KRIS SAXBERG: Okay. It's a good segue because I want to turn to consideration of those two (2) special circumstances that you've alluded to.

But first perhaps I can correct the record. Is it not the case that there were four (4) instances where the timing of hedges were changed?

MR. VINCE WARDEN: Yes.

MR. KRIS SAXBERG: And on each occasion you'd have to be determining that a special circumstance was present before you would adjust the timing of the hedge?

MR. VINCE WARDEN: You're referring to when the -- the hedges were ultimately placed on the remaining 50 percent that was deferred; is that correct? Is that the four (4) -- the -- the two (2) original 50 percent hedges and then the timing of the deferred -- placement of the deferred hedges?

Is that what you mean by the four (4), Mr. Saxberg?

MR. KRIS SAXBERG: Not quite. October

4th hedging date was changed to October 18th.

MS. LORI STEWART: No, that's -- that's not -- that's not correct actually. Our pre-defined dates for hedging in the month of October were October the 4th and October the 18th.

On October the 4th when we were scheduled to go to the market our executive committee I believe met that morning and provided us with the direction to not go to the market and that it only wanted us to place hedges on 50 percent of the volumes which were then hedged as per the schedule on October the 18th.

MR. KRIS SAXBERG: Right. But for the other 50 percent you changed the timing to discuss the matter on October 18th.

MS. LORI STEWART: No. As I've indicated in my prior answer, we were always scheduled to go to the market on October the 4th and October the 18th.

MR. KRIS SAXBERG: Okay. Well, October the 18th then switched to May the 2nd.

MS. LORI STEWART: No. October the 4th changed to May the 2nd. October 18th went off just as planned.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Okay. Well, I'll come back to that in a second when I go through the -- the transcripts. But -- so that's one (1) instance, October 4th to May 2nd then that we agree on?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: April 15th to September 19th was the change in -- in the timing of the hedge?

(BRIEF PAUSE)

MR. KRIS SAXBERG: Perhaps we could just refer to the other document that I've handed out, which is the source of my information, which is CAC-6, the second page.

MS. LORI STEWART: Yes, I see the reference.

MR. KRIS SAXBERG: So it was originally scheduled for April 15th, 2006 and it was deferred to September 19th, 2006.

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: So that would be the second. The third instance would be July 24th to July 27th, which is also referenced in this answer.

MS. LORI STEWART: Technically, if you'd

like to characterize it as a -- an exercising of discretion. I guess my concern with that is that it was to address an operational consideration and we really don't view that one (1) day deferral as a situation where the Executive Committee exercised discretion.

MR. KRIS SAXBERG: Well, it's -- I'm just following what the IR says, and it says that the Executive Committee instructed this to occur.

"As per Executive Committee instruction."

MS. LORI STEWART: That's the second portion of the sentence. The third portion reads:

"And the hedges that were originally scheduled to be purchased on July 24th" --

Oh. I'm sorry, Mr. Saxberg.

-- "were deferred to Thursday, July 27th, as per Executive Committee instruction."

MR. KRIS SAXBERG: So that would have been after a determination, as Mr. Warden has indicated, of special circumstances.

(BRIEF PAUSE)

MS. LORI STEWART: I guess what I'd like to make clear for the record is the fact that that three (3) day deferral was due to some operational considerations in our shop. It takes us -- we need our transactors available, we had some scheduling conflicts and, as a result, we -- we did defer by three (3) days.

MR. KRIS SAXBERG: And there were two (2) occasions that -- that are synonymous with the -- the timing decisions, in which Centra decided to only hedge 50 percent.

Would you count those as separate exercises of the special -- of the discretion in terms of -- as opposed to the timing of the hedge, the volume of the hedge?

MS. LORI STEWART: Yes. The timing of the hedge -- I mean, the decision encompassed, I guess, if you want to break it out, to discreet -- to discreet changes to the matter of course process.

MR. KRIS SAXBERG: Okay. And then other exercises of the discretion as to whether they're special circumstances would include those other Executive Committee meetings where it was determined not to hedge the balance of the 50 percent.

I think the first one was in January, where there was a report to the Executive and the

Executive considered that this was still not the time to -- to hedge the balance of -- of 50 percent, correct?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: So that would be another exercise of special discretion, would it not?

MS. LORI STEWART: Yes, one must exercise discretion as it relates to re-entering the market following the decision to defer.

MR. KRIS SAXBERG: Right. And in deciding not to re-enter the market on those other occasions, Centra had to take a market view?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And is it too far to say that every single day after the decision to defer hedging, that you -- that you chose not to hedge was really contemplation of the market and taking a market view; because surely you were monitoring what the market was doing?

MS. LORI STEWART: Yes, we were definitely monitoring what the market was doing.

MR. KRIS SAXBERG: And in every day that passed up until May 2nd, there was a decision by someone to not hedge that balance of 50 percent.

MS. LORI STEWART: The Corporation had the choice to go to the market on any day thereafter the decision was made to defer.

MR. KRIS SAXBERG: Right. And there was a conscious decision, at least by somebody within the organization, not to go to the market on those days.

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And that's an exercise of discretion that isn't occurring at the executive level, correct?

(BRIEF PAUSE)

MS. LORI STEWART: Mr. Saxberg, following the occasions on which the Corporation chose to defer, hedging 50 percent of its volumes, at that point gas supply staff were in steady contact with our executive committee as it relates to where the market was going. However, the ultimate decision, just as it is the executive committee's ultimate decision to defer the hedges, it was also ultimately the executive committee's decision as to when to re-enter the market.

MR. KRIS SAXBERG: Had the executive set out any kind of criteria upon which Centra would be re-entering the market?

MR. VINCE WARDEN: There were no specific criteria. We just continued to monitor the -- the market in consultation with gas supply people on a regular basis.

MR. KRIS SAXBERG: Thank you, Mr. Warden. And I'll direct this next question to you then. The essence of the special circumstances was the executive's belief that the prices were unsustainably high, is that fair?

MR. VINCE WARDEN: Yes, as I indicated earlier, we -- we looked at the market, at the price and determined that it was abnormally high and decided for that reason to defer hedging 50 percent of the volumes.

MR. KRIS SAXBERG: And the decision to do that came around the same time that the Board released its reasons for a decision relating to the GRA Hearing, correct?

MR. VINCE WARDEN: Yes. We had that order -- the benefit of that order, yes.

MR. KRIS SAXBERG: And -- but ultimately the decision to not hedge and to exercise discretion was made independent of -- of the Board by Hydro, correct?

MR. VINCE WARDEN: We did not consult with the Board -- the Public Utilities Board I think you're referring to. We did not consult with the Public Utilities Board, yes.

MR. KRIS SAXBERG: And there was nothing

in that Board order that said -- or to Hydro not to hedge?

MR. VINCE WARDEN: Not specifically, however, there was a great deal of concern expressed on that order about the high prices and the potential for the price -- this being a price bubble as was referred to in the -- I believe that was 1 -- Order 135/'05.

MR. KRIS SAXBERG: And my recollection is that the Board was inviting parties to provide input on what should be done in a circumstance like this.

Is that -- was that also Centra's understanding?

MR. VINCE WARDEN: Yes, I recall that.

MR. KRIS SAXBERG: But they didn't give any specific direction to Centra to do anything prior to that consultation?

MR. VINCE WARDEN: Correct.

MR. KRIS SAXBERG: Now, again in April the reason -- the special circumstances at their essence were again a view that the price was unsubstainably un -- that it was too high and that it would likely come down; is that correct?

MR. VINCE WARDEN: Yes, we'd come off -- in April of '06 we had just come through an extremely mild winter; gas inventories were very high. The near prices were coming down but the forward prices were still staying what we considered at the time to be abnormally high.

MR. KRIS SAXBERG: And you were looking at the same forward price strip that you -- that you always look at, correct?

MR. VINCE WARDEN: Correct.

MR. KRIS SAXBERG: Which as Ms. Stewart indicated -- I think it was Ms. Stewart or maybe it was Mr. Sanderson, incorporates every single known piece of information in terms of the -- the prospect of future prices, correct?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: But the executive's view was that every -- was essentially a disbelief in the number, is that fair?

MR. VINCE WARDEN: A concern. A concern that the number was abnormally high.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Now, would you agree, Ms. Stewart, that those special circumstances aren't in any way similar to the examples that you gave in the prior hearing, and that in -- that in fact they are precisely what you said, that Centra wouldn't do, that is take a market view?

MS. LORI STEWART: I think that Hurricanes Katrina and Rita are examples of a physical catastrophe in the natural gas industry similar to my example about a force majeure event on -- on TransCanada Pipeline, and ultimately the executive committee's decision was based on price that was precipitated by a physical catastrophe in the business.

MR. KRIS SAXBERG: In your example though you were referring to a catastrophe that would lead to uncertainty in the marketplace to the extent that counterparties with whom you were doing business wouldn't be willing to enter into hedge transactions.

MR. BRENT SANDERSON: Well, Mr. Saxberg, I can tell you that at the -- and I guess it's hard to define at this point looking back what constitutes the height of the crisis in the wake of those hurricanes, but to give you some idea of the magnitude of the physical catastrophe as Ms. Stewart described it, we had advantage of being part of an internet conference convened by Cambridge Energy Research Associates, one of the most highly regarded energy consulting firms in North America which was -- basically had looked at and quantified the physical deliverability situation in the US in the out --

in the aftermath of those hurricanes.

And at the time, and I can't remember this precise date, but it was in the mid to late fall, had we faced a winter with normal weather in the US last year there would have been firm customers across the southern interior of the US that would have been curtailed. In other words, that means homeowners would have very likely been unable to acquire gas or the utilities required and on their behalf would have been unable to acquire physical gas for homeowners to heat their homes in the event of a normal winter.

Circumstances were that bad and it was only by -- and I -- I guess I use this term cautiously -- by the grace of God that the weather was so warm across North America that that never did unfold.

And the effect of that on the market was -- is, in my conversations with the derivatives dealer community during the course of that crisis, there were many days where many trading shops closed their books and sat out the market because it was so volatile and so unpredictable that they were not willing to take on a position on behalf of a client for even as much as a second given the potential risk to them in the intervening time period between assuming a transaction on behalf of a customer and laying off their own risk.

So there was circumstances where quite large and highly-skilled derivative dealer shops just closed their books and sat out the market on the sidelines until they felt that the market had settled down sufficiently to allow them to conduct their business in a manner consistent with their organizational risk parameters.

MR. KRIS SAXBERG: Were any of them doing that on October 4th, 2005?

MR. BRENT SANDERSON: I had no conversations with any shops specifically on that matter on that day, so I can't say.

MR. KRIS SAXBERG: And surely the market and the forward strip would incorporate all relevant information about the hurricanes into the future price strip; correct?

Everything that you've just said would have been incorporated into the knowledge of the market?

MS. LORI STEWART: It would have been incorporated. However, everyone in the marketplace would have acknowledged at that point in time that there was extraordinary uncertainty and volatility in the marketplace.

MR. KRIS SAXBERG: But if we fast-forward to April, it's a different reason as to why the hedges weren't placed and it relates to disbelief that the price is so high when there was so much supply around; correct?

MS. LORI STEWART: Yes.

MR. KRIS SAXBERG: And you're not drawing any link between that fact and the hurricanes, are you?

MR. VINCE WARDEN: Although there didn't appear to be a direct link because by this time the -- the hurricanes -- we're at the end of August of '05, the price -- the forward prices did remain at that same high level as they were immediately following the -- the hurricanes.

So whether there -- there was a -- a direct link or not, we don't know, but the uncertainty in the marketplace prevailed.

MR. KRIS SAXBERG: So is it your view then that special circumstances occur whenever there's uncertainty in the marketplace?

MR. VINCE WARDEN: Well, there was the one (1) major event that we've discussed and that event led to a lot of uncertainty in the marketplace. And whether there was a hangover that lasted as long as April 2006, we don't know.

We do know that the prices were what we considered to be abnormally high and, as a consequence, we -- we did what we did.

MR. KRIS SAXBERG: Mr. Sanderson, you were at the Risk Advisory Summit, I remember well, since you were the one asking the questions back then, but I'm going to take you to the last page of the Tab 13, just to illustrate what -- the question I'm going to ask.

And it's a -- it's a hypothetical that Mr. Simard is putting to the group that was present there, in Chicago, saying, What would you do if -- if you heard there was a hurricane blowing through the Gulf of Mexico and causing a spike in prices? What would your utility do?

In light of the evidence that you've just put on the record about the effect of the hurricane and -- and its triggering of special circumstances, out of these three (3) responses, what's going to happen with this utility the next time a hurricane like that, as they say in here, blows through the Gulf of Mexico?

MS. LORI STEWART: Mr. Saxberg, it's not possible -- excuse me, for us to advise what the Corporation's course of action would be in that circumstance. Special circumstances are not possible to define because by their very nature they're unforeseeable.

No one in the nat. gas industry predicted the combination of hurricanes Katrina and Rita and the devastation that they would reek on the supply capability in the Gulf.

So for us to suggest to you what we would do in a hypothetical situation that I'm advising is unforeseeable. I just can't do that.

MR. KRIS SAXBERG: Ms. Stewart, would -- would you share with us what your personal view was back in October 4th as to whether or not you would have delayed hedging that 50 percent?

THE CHAIRPERSON: I think that's a bit unfair, Mr. Saxberg. My understanding of the situation is that they were relating back and forth to their executive committee, but I leave it up to Mr. Stewart.

OBJ MS. MARLA MURPHY: Well I was about to register my objection on Ms. Stewart's behalf as well. I -- I don't think it's appropriate that a company with witnesses here presenting evidence on behalf of the Corporation is asked for their personal opinion on this type of issues.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Your position again is -- you're the manager of what? I don't want to get -- I don't want to get the position wrong on the record.

MS. LORI STEWART: Up until quite

recently I was the manager of Gas Supply Pricing and Administration at -- at which time I was responsible for the derivatives hedging program and I am responsible for the program as it relates to this proceeding.

My current position is the Manager of Gas Supply Transport and Storage.

MR. KRIS SAXBERG: Okay. So for the purposes of this Hearing, you -- and at the times that we're reviewing here, you were in charge of the hedging program?

MS. LORI STEWART: I certainly was.

MR. KRIS SAXBERG: And it's only in that sense, in that capacity that I'm asking for what -- for your position on the mater.

MS. MARLA MURPHY: Again, Mr. Chairman, Ms. Stewart can advise us the Company position, but I -- I wouldn't be -- suggest it not go any further.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: I'll just -- I'll move through it in a different way, perhaps. If we could turn to Tab 15 which is a collection of minutes from the Gas Supply Management Committee and the Executive Committee, is that correct?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: Now at page -- I've taken the liberty of writing numbers on the top of -- top right hand corner of the page so that we can all be on the same page.

If you could flip to page 2. Under "Planned Transactions" there's a note that says:

"The Committee discussed whether the hedge session scheduled for October should proceed in the normal course given the high price environment related in part to the catastrophic consequences of Hurricane Katrina. It was agreed that V. Warden would discuss the merits with the Executive Committee prior to the hedge session scheduled for October 4th and October 18th."

That's an accurate description of what happened?

MS. LORI STEWART: Yes, it is.

MR. KRIS SAXBERG: Why wasn't the Gas Supply Management Committee debating the issue? Why was it passing it on to the Executive Committee to do the debating?

MS. LORI STEWART: Oh trust me, the Gas Supply Risk Management Committee debated the issue.

MR. KRIS SAXBERG: And it must have come up with a recommendation then after that debate or reach some form of opinion on the matter?

MS. LORI STEWART: No. The purpose of that committee is not to -- is not to put forward recommendations. It's a forum for discussion and for review and debate with regard to our risk management activities.

MR. KRIS SAXBERG: The committee, you're suggesting, doesn't have any function relative to providing advice to the executive?

MS. LORI STEWART: It provides advice to the executive but not in the form of a formal recommendation. There are a number of senior managers that sit around the table when the Gas Supply Risk Management Committee is convened and all of their knowledge and expertise is shared in that forum for the purpose of guiding the activities of -- of gas supply.

MR. KRIS SAXBERG: So there was no recommendation that came out of the debate at the Gas Supply Management Committee on the subject at that time, correct?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: And there's no written documentation of any of the discussions that took place at the Gas Supply Management Committee at that time, correct?

MS. LORI STEWART: These minutes are the written documentation of the meeting.

MR. KRIS SAXBERG: And these minutes don't include any description of the nature of the debate and the issues that were discussed at the meeting.

MS. LORI STEWART: The minutes are fairly concise.

MR. KRIS SAXBERG: Thanks. And if we move on to the next page, this is the next Gas Supply Management Committee meeting, which is December 15th, 2005, and under (a) Derivative Placement, second paragraph, it states, quote:

> "It was noted that the Executive Committee directed that the planned placement of natural gas derivatives on the other 50 percent of eligible volumes for the months of August, September, and October 2006 be deferred until further notice."

The further notice was going to be from whom?

MS. LORI STEWART: From the Executive Committee following discussion or updates from Gas

Supply.

MR. KRIS SAXBERG: So do I take it that this means that whenever the Gas Supply Committee was meeting then it -- it wasn't discussing the issue of when to place that additional 50 percent, it was to wait until the Executive provided direction on the subject?

MS. LORI STEWART: No. The Gas Supply Risk Management Committee certainly continued to discuss the tranche of hedges that were not placed.

MR. KRIS SAXBERG: And if we flip over to page 4 -- and this just may be a photocopying matter, but -- is there something that's being removed from there or is that just the way that it was copied?

MS. LORI STEWART: I think it's merely a photocopying anomaly.

(BRIEF PAUSE)

MS. LORI STEWART: The minutes do carry on, on page 5 in your book of documents.

MR. KRIS SAXBERG: Okay. And there is another instance at page 9 like that and I -- I just wondered if there was -- it may just be the way that it was printed, I suppose.

MS. LORI STEWART: I think you're right.

MR. KRIS SAXBERG: Now, if we can turn to page 11 then.

At page 11 we have a minute from the Executive Committee, correct?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And it is even more concise than the Gas Supply Management minutes and it states that:

"Following discussion, the Committee agreed to defer placement of natural gas derivatives to October 18, 2005."

Do you see that?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And that's where I -- I suppose, I -- I got in my head that there was a deferral from October 4th to October 18th.

MS. LORI STEWART: The Executive Committee -- I'm not sure that the Executive Committee knew at the time of this minute that we already had a hedge session scheduled for October the 18th. Generally speaking, the dates that we plan to go to market are -- are kept under fairly tight wraps.

So I think their indication was to defer the placement of hedges for two (2) weeks, at which point we received authorization to go ahead. And we considered that hedge transaction to be placed in the normal course because it was always scheduled to take place on October the 18th.

MR. KRIS SAXBERG: And if you look at page 12, there was actually a recommendation made by somebody to the Executive and the recommendation was to defer the dates on which derivatives are placed.

Do you see that under "Justification"?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: Who's making this recommendation on page 12? Where is it coming from?

(BRIEF PAUSE)

MS. LORI STEWART: Mr. Warden takes forward the recommendation to the remainder of the Executive Committee.

MR. KRIS SAXBERG: So I guess the question is for you then, Mr. Warden.

Is this your document and -- and your advice to the Executive Committee to defer dates?

MR. VINCE WARDEN: Well, as Ms. Stewart just indicated it was a recommendation that I took forward to the Executive Committee, yes.

MR. KRIS SAXBERG: Right. You brought it

there because you're -- you're the -- you're the link between the Gas Supply Management Committee and the Executive Committee, correct?

MR. VINCE WARDEN: Correct.

MR. KRIS SAXBERG: But someone else prior to you bringing it there put it together and -- and gave it to you.

And I guess what you're saying is that you endorsed it; is that correct?

MR. VINCE WARDEN: Correct.

MR. KRIS SAXBERG: And the -- the person or body that put it together and gave it to you for your imprimatur was the Gas Supply Management Committee, right?

MR. VINCE WARDEN: No, as Ms. Stewart indicated earlier the Gas Supply Management Committee doesn't really make recommendations. It -- this would have come through Gas Supply Division but the gas -- not through the Gas Supply Management Committee.

MR. KRIS SAXBERG: So who in the -- in the division would be responsible for putting together the recommendation?

MS. LORI STEWART: One (1) of the management staff.

MR. KRIS SAXBERG: And would you agree

that the recommendation to defer the dates is -- is in breach of the mechanical strong form of mechanistic implementation of hedging?

MS. LORI STEWART: It's a deviation from a strong form mechanistic hedge implementation strategy, yes.

MR. KRIS SAXBERG: And shouldn't the Gas Supply Committee have some input before others within the department are making recommendations that are then finding their way to the Executive Council -- Committee?

MS. LORI STEWART: They had input, Mr. Saxberg, at the September 15th meeting.

MR. KRIS SAXBERG: Well, and that's what I -- that's why I had supposed it had come from the Gas Supply Management Committee because in the minutes as we noted they indicated that it was agreed that Mr. Warden would discuss the merits at the October 4th/October 18th and subsequently then we have this recommendation which is delivered to the Executive.

Does -- does that refresh your memory?

MS. LORI STEWART: My memory is clear. The Gas Supply Risk Management Committee does not put forward recommendations to the Executive Committee. They come through front office through the Gas Supply Division.

MR. KRIS SAXBERG: Okay. So front office was recommending that there be a deferral of the dates upon which derivatives are placed and, Mr. Warden, you -- you endorsed that recommendation?

MR. VINCE WARDEN: I did.

MR. KRIS SAXBERG: Now, is it the regular practice then that front office -- that was the term that you used, "front office" or "front management"?

MS. LORI STEWART: Front office.

MR. KRIS SAXBERG: That front office makes recommendations to the Executive whenever the Executive is faced with a discretionary decision regarding hedging?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And I see that in these documents that have been produced. The -- the first recommendation is the one (1) that we just looked at at page 12 but there's another recommendation at page 16.

Can you confirm that that again is from the front office?

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: And this time front office is -- is saying there do not appear to be special circumstances warranting a departure from the normal

mechanistic hedging process, correct?
MS. LORI STEWART: That's correct.
MR. KRIS SAXBERG: And I believe that this recommendation was accepted by the Executive; is that correct, Mr. Warden?
MR. VINCE WARDEN: Correct.
MR. KRIS SAXBERG: Now, there's another recommendation that comes at page 19.
Again that's from the front office?
MS. LORI STEWART: That's correct.
MR. KRIS SAXBERG: And is it -- the date of that memo isn't -- isn't indicated on page 19 but I think it's March 22nd, 2006. I get that from page 18.
MS. LORI STEWART: That's correct.
MR. KRIS SAXBERG: And in this recommendation, once again, front office concludes that there are no special circumstances.
Is that fair?
MS. LORI STEWART: That's correct.
MR. KRIS SAXBERG: And the Executive Committee again endorses that recommendation, Mr. Warden?
MR. VINCE WARDEN: At that particular time they did, yes.
MR. KRIS SAXBERG: And I -- I note your caveat at that particular time because if you flip to

page 22 and 23, the Executive then -- these are minutes from the Executive Committee; correct?

MR. VINCE WARDEN: Yes, correct.

MR. KRIS SAXBERG: And on page 23 the minutes indicate that:

"Derivatives be placed on 50 percent only of eligible volumes for months of February, March and April, until further approved by the Committee, previously approved at 100 percent of eligible volumes on April 4th, 2006."

Do you see that?

MR. VINCE WARDEN: I do.

MR. KRIS SAXBERG: And what's absent from that decision is a recommendation from front office; correct?

MR. VINCE WARDEN: Well, there's no formal document attached to that recommendation, but that doesn't mean there wasn't a recommendation, informal, from -- from Gas Supply division.

MR. KRIS SAXBERG: Is it fair, from -- from looking at all of these -- these records of -- of meetings, that in instances where the recommendation is to stay the course with the mechanistic approach there's -- there's something in writing?

MR. VINCE WARDEN: I'm sorry. Would you please repeat that.

MR. KRIS SAXBERG: In the instances where the recommendation coming from front office is, Stay the course with the mechanistic approach, there's a document in writing to that effect; correct?

MR. VINCE WARDEN: No. No. If we stay the course, mechanistic, we do that as a matter of course, without -- without a supporting recommendation.

MR. KRIS SAXBERG: But in the documents that we've just reviewed the -- when I went to the three (3) occasions where there were recommendations, they were all saying, There are no special circumstances, Stay the course; were they not?

MS. LORI STEWART: No. The first instance of documents that we reviewed were recommending just the contrary.

MR. KRIS SAXBERG: Well, no, quite -- the first -- the first one said to defer, the second one said, There are no special circumstances, and the third one said, There are no special circumstances.

Is that fair?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: What I don't see in any of these is any documentation reflecting recommendations from front office regarding the exercise of discretion to change the mechanistic implementation.

Is there a reason for that?

MS. MARLA MURPHY: I think we're having a little trouble, Mr. Saxberg, given the evidence that's on the record and the reference to the first recommendation, which is in fact to defer the hedging, maybe you can try your question another way.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Well, I'll -- I'll be specific then.

On October 18th the Executive made a decision and the decision was to not hedge 50 percent of volumes and to put it off until further notice, correct?

MS. LORI STEWART: Just to correct the record, on October the 4th the Executive Committee made that decision.

MR. KRIS SAXBERG: Well, let's go back to the minute then.

(BRIEF PAUSE)

MR. KRIS SAXBERG: It's 14402, which is 14.

(BRIEF PAUSE)

MR. KRIS SAXBERG: And if you look at this page, page 14, it indicates that:

"Following discussion the Committee approved as follows:
That the Corporation purchase cashless collars with strike prices set at fifty (50) cents a Gigajoule on 50 percent of eligible volumes for the months August through October. The Committee will provide further direction prior to the placement of derivatives on the remaining 50 percent of eligible volumes for those months."

Do you see that?

MS. LORI STEWART: Yes.

MR. KRIS SAXBERG: So the -- does that -- that corrects your evidence then that the decision was actually October 18th, not October 4th?

MS. LORI STEWART: There's a minute related -- there's an Executive Committee minute on October the 4th which was the initial decision to defer hedges.

MR. KRIS SAXBERG: That's right and

that's what -- that was the distinction that I was making, that on October 4th there was a decision to defer from October 4th to October 18th a decision, correct?

And that's what the -- and that's what the recommendation from front office suggests, correct?

MS. LORI STEWART: To -- to defer, yes.

MR. KRIS SAXBERG: And then on October 18th there's a decision here that's being made by the Executive that for the months of August through October only 50 percent of volumes will be hedged.

That's a decision that's on this minute that we're looking at from the Executive being made on October 18th, correct?

MS. LORI STEWART: Which in essence was simply to carry forward the point in time at which the hedges would be placed, that the -- that the unhedged tranche would be -- would be hedged.

That decision was initially made to defer on October the 4th and then on October the 18th it said go ahead and hedge 50 percent. They were hedged later that morning and also to defer the hedging of the second 50 percent.

MR. KRIS SAXBERG: And you may -- you may be right but if you could just flip with me between pages 11 and page 14 then if you're right the documents are wrong because the documents say on page 11 that what was decided by the Executive was to defer placement of derivatives.

What -- and what you've told me is that notwithstanding that the directive of the Executive was to defer hedges, you did it that day on 50 percent.

MS. LORI STEWART: No, Mr. Saxberg, page 11 is a minute from October the 4th and it says that the Executive Committee agreed to defer placement of natural gas derivatives to October the 18th. It then met the morning of October the 18th because we're scheduled to go to the market at a point later than that to confirm whether or not it wanted us to hedge 100 percent, 50 percent, or zero.

And ultimately the decision was made that the Corporation should purchase cash -- cashless collars in -- as a matter of course on 50 percent of eligible volumes that were subsequently hedged a number of hours later.

We certainly had our Executive Committee endorse the hedges that were placed on October the 18th.

MR. KRIS SAXBERG: And that may very well be the case but these minutes seem to reflect a decision to defer the placement of natural gas derivatives to October 18th, not to defer 50 percent of them, correct?

MS. LORI STEWART: Except that I've just outlined previously that months in advance we have in our calendar the days on which we're going to go to market. One (1) of them was October the 4th; the other was October the 18th.

MR. KRIS SAXBERG: And -- and you also explained that the Executive probably didn't know that date.

MS. LORI STEWART: No, they didn't.

MR. KRIS SAXBERG: Okay. Well, so what I'm saying is the Executive is giving a direction here to defer hedging to October 18th and then if you go to the October 18th date what they say is they've made a decision to only hedge 50 percent; that's what the minutes say.

MS. LORI STEWART: I don't understand your point, Mr. Saxberg. The minutes are what they are and I've also explained that October 18th was always -- we were always scheduled to hedge on October the 18th and we did.

MR. KRIS SAXBERG: I -- I guess it would probably be easier if I just asked Mr. Warden the questions because he was at the Executive Committee meeting.

He could tell us what was decided on

October 4th and what was decided On October 18th?

MR. VINCE WARDEN: Well, Mr. Saxberg, I think the minutes that you have in front of you -- page -- pages 11 and pages 14 accurately describe what transpired at those Executive Committee meetings.

MR. KRIS SAXBERG: And -- and that was that the Board adopted the recommendation on October 14th (sic) to defer the matter to October 18th and then on October 18th the Executive met again and at that time made a decision to only hedge 50 percent, correct?

MR. VINCE WARDEN: I don't think anybody's disagreeing with you.

MR. KRIS SAXBERG: Okay. Well that's all I was getting to. So if we're on October 18th -- then a decision to only hedge 50 percent was made on October 18th. Correct?

MR. VINCE WARDEN: Correct.

MR. KRIS SAXBERG: Well this whole thing, sorry -- we'll -- we'll have to check them in the transcript however messy it is but it started because I -- I thought we were debating whether the decision was made on October 4th 18th.

But anyway with it being made on October 18th then it leads me to what my initial question was.

Where's the written recommendation for

the October 18th meeting from front office about whether or not to hedge 50 percent?

MR. VINCE WARDEN: Well there isn't -- it doesn't appear to be one (1) in your book of documents, Mr. Saxberg. Whether there was a written recommendation or not, I would have to review Executive Committee files but nevertheless the decision was made.

The important point is the decision was made on October the 18th to defer the purchase of 50 percent of eligible volumes.

MR. KRIS SAXBERG: Could you undertake to check your records and see if there is a written recommendation from front office?

MS. LORI STEWART: My recollection is that the original recommendation just stood in that situation. There was a recommendation attached to the decision or the minute on October the 4th and the recommendation remained the same.

MR. KRIS SAXBERG: Where in the recommendation does it say to only hedge 50 percent?

MR. VINCE WARDEN: Well, I think you're looking at page 12 of your book of documents. The recommendation there is dated October the 3rd in support of what went to the Executive Committee on October the 4th and there was no further documentation beyond that point for the decision on October the 18th.

MR. KRIS SAXBERG: And no written recommendation by front office to only hedge 50 percent?

MR. VINCE WARDEN: Other than -- no. None other than what we have before us here.

MR. KRIS SAXBERG: Which doesn't include a written recommendation by front office to hedge 50 percent, correct?

MS. MARLA MURPHY: I think, Mr. Chairman, Ms. Stewart is clear on the record that there is a recommendation on -- on October the 3rd which they view applies to both of those meetings.

MR. KRIS SAXBERG: That's not what Mr. Warden said with all due respect. Unless you did and then you can clarify it. The mic is yours.

MR. VINCE WARDEN: Well, you're right. We -- we are going to have check the transcript on this but the recommendation as I review this documentation before me, on October the 3rd was used in support of the meetings that -- of the Executive Committee that occurred on both October the 4th and October the 18th.

MR. KRIS SAXBERG: Okay. And with respect to the April minutes, the second decision to hedge only 50 percent which is page 22.

Can you confirm that with respect to this occasion there's no written recommendation from the front office to hedge 50 percent rather than follow the mechanistic implementation strategy, correct?

MS. LORI STEWART: Yes, that's correct, Mr. Saxberg.

MR. KRIS SAXBERG: And it just begs the question, why is it that when such important decisions are being made with respect to the hedging program, that there wouldn't be recommendations in writing?

MR. VINCE WARDEN: Well as Ms. Stewart indicated earlier, there is ongoing dialogue between Gas Supply Division and myself and I think is -- I would make the determination as to whether or not I needed a formal recommendation to take forward to Executive Committee and it appears in this instance on April of '06, I determined it wasn't required.

MR. KRIS SAXBERG: Was there a recommendation at all from front office with respect to the October 18th decision of the Executive and the April decision of the Executive.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Warden, just as a suggestion, why don't you take an undertaking to have a look and see whether there was a recommendation, because I think there's some degree of just speculation going on back and forth as to on what the Executive Committee acted on or didn't act on on April 25th.

Correct, Mr. Saxberg?

MR. KRIS SAXBERG: That's right.

MR. VINCE WARDEN: I can certainly undertake to review my files on that, Mr. Chairman, sure.

THE CHAIRPERSON: The way it sounds right now you're saying basically, you sit at the Gas Supply Risk Management Committee, you're ongoing monitoring would carry-on, and then you potentially, short of a document bringing a formal recommendation, you would have carried a view into the Executive Committee meeting and discussed it orally.

MR. VINCE WARDEN: Yes.

THE CHAIRPERSON: Short of you having some other document that you might find.

MR. VINCE WARDEN: Which I will confirm whether I have or not.

THE CHAIRPERSON: Okay, Mr. Saxberg.

MR. KRIS SAXBERG: I know that we're in overtime already --

THE CHAIRPERSON: Well, I want you to break at a point that's convenient for you too.

MR. KRIS SAXBERG: I -- I may be able -- I may be at that point with one (1) or two (2) more questions.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: If you could turn, Mr. Warden, to Tab 17, and this is an excerpt from the last General Rate Application Hearing, just over a year ago. You'll have to take me on my word at that but you can take it subject to check.

MR. VINCE WARDEN: Yeah, I'll do that. Yes.

MR. KRIS SAXBERG: And at that hearing I asked you, at line 23 of page 515:

> "Can the executives make these decisions without input from the Gas Supply Committee?"

And your answer was:

> "They wouldn't do that, I can tell you. I'm a liaison between the Gas Supply Committee and the Executive Committee and they wouldn't take any action without a recommendation coming through myself which would be supported by a recommendation of the Gas Supply

Committee."

Do you see that?

MR. VINCE WARDEN: I do see that, yes.

MR. KRIS SAXBERG: And what I was referring to there was when would it be the case that -- that the Executive would exercise its discretion, and you were suggesting, in this evidence at least, that it would only be on the recommendation of the Gas Supply Management Committee.

That was your evidence at that time; correct?

MR. VINCE WARDEN: It was, but I can tell-- I'll say now that the word "recommendation" there wasn't intended in the formal sense of a recommendation. It would be based on dialogue with the Gas Supply Risk Management Committee, it would be based on dialogue with Gas Supply front office, and recommendations would be conveyed in that manner.

But I believe in the context it was being -- it was being stated here, I was not referring to a formal written recommendation.

MR. KRIS SAXBERG: Who is it within the organization that has the most knowledge and expertise with respect to hedging and the hedging program?

MR. VINCE WARDEN: Well, I think you see

those people on the Panel before you today.

MR. KRIS SAXBERG: And that -- it's always been my understanding that it's Ms. Stewart and Mr. Sanderson, not necessarily in that order.

And my question is, did the Executive receive recommendations from those individuals then in terms of whether or not to hedge in accordance with the mechanistic policy on October -- in October and April?

MR. VINCE WARDEN: Well, I think we've answered that question, Mr. Saxberg. Discussions take place between myself and the Gas Supply front office. Whether it was specifically Mr. Sanderson, Ms. Stewart or other people, there was certainly a discussion that took place prior to that recommendation going to the Executive Committee.

MR. KRIS SAXBERG: And in those discussions was the -- was the consensus to invoke special circumstances and not hedge in accordance with the policy?

MR. VINCE WARDEN: Well, I think the minutes of the Gas Supply Committee meeting that we reviewed earlier and Ms. Stewart indicated there was considerable discussion -- debate at that committee and that the conclusion was that it -- the recommendation or the discussion as to whether or not we should be hedging less than 100 percent of eligible volume should be discussed at the Executive Committee, and that's what was done.

MR. KRIS SAXBERG: But you will agree the Executive Committee was making its decision based on information that came from within the organization outside of the Executive Committee, correct?

MR. VINCE WARDEN: Well, the Executive Committee, as a normal course that's what the Executive Committee does, it -- it considers recommendations that come from all parts of the Corporation. Whether or not it always accepts those recommendations is another matter.

MR. KRIS SAXBERG: And here I believe you're saying that there was no quote unquote "recommendation" but there was discussion.

Do I have your evidence right?

MR. VINCE WARDEN: There was as the record indicates here -- or your book of documents at least and -- and as I undertook to confirm there was in -- in -- not in every instance was there a formal recommendation taken forward to the Executive Committee.

MR. KRIS SAXBERG: And -- and that was the case for October and for April?

MS. LORI STEWART: It was the case for

October the 18th and April the 25th, however, preceding those meetings there were meetings on October the 4th and at some point earlier in April where there was backup material provided to the Executive Committee.

At those future points in time what -- what my recollection is is that Mr. Warden was interested in an update on strip prices for the months in question.

So on October the 4th the Executive Committee received a recommend -- a formal recommendation that was provided to it for the purpose of decision making and a decision was taken to defer hedges.

In the ensuing period and prior to the meeting that the Executive Committee held on October the 18th Mr. Warden would have phoned Gas Supply and said, I'd like an update on where prices are at for the months in question.

We would have provided that information to him to supplement the recommendation, the formal written recommendation, that had already been provided because in essence nothing material would have changed.

The background information necessary for the Executive Committee to assess the situation and make a recommendation was contained in the initial recommendation and what Mr. Warden would have been looking for was an update on the -- of the prices for the months in question.

MR. KRIS SAXBERG: So you're suggesting that the Executive had sufficient documentation in front of them to make the decisions that they made in October and April, correct?

MS. LORI STEWART: The -- my understanding of the Executive Committee is that it doesn't strictly rely on the documentation that is provided. It is also relying on its expertise and its knowledge in the decisions that it makes.

MR. KRIS SAXBERG: And so we know from what you've said that they would have had page 12 before them which is the one (1) page recommendation to defer hedging? Oh, sorry, that's Tab 15.

MS. LORI STEWART: They would have had page 12 before them in advance of the meeting of the Executive Committee on October the 4th.

MR. KRIS SAXBERG: And they may or may not have had it before them on the 18th and the 25th of April, correct -- 18th of October and 25th of April, correct?

MS. LORI STEWART: Well, what I'm suggesting is that they would have had page 12 in front of them relative to their decision taken on October the 18th.

And they would have had pages 19, 20, and 21 in front of them for the meeting held earlier in April on April the 4th and that they may very well have used that information on April the 25th as well.

MR. KRIS SAXBERG: Okay. You weren't at the meeting I guess?

MS. LORI STEWART: No.

MR. KRIS SAXBERG: But, Mr. Warden, you were at the meeting, correct?

MR. VINCE WARDEN: That's correct.

MR. KRIS SAXBERG: Do you remember which documents you had in front of you when you made your decision on October 18th, 2005?

MR. VINCE WARDEN: Well, I think that's what I undertook to confirm and I'll do that this evening.

MR. KRIS SAXBERG: And can -- can you also do that for April 25th as well?

MR. VINCE WARDEN: I will.

--- UNDERTAKING NO. 6: Mr. Warden to indicate to Mr. Saxberg what documents he had with him at meetings of October 18th, 2005 and April 25th, 2005.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: And -- and specifically if you could look for any documents which -- well, let me back up so I can -- page 19 is a recommendation related to the months -- hedging the months of August, September and October 2006, correct? Page 19, 20 and 21, no?

MR. VINCE WARDEN: No. I think that's referring to the forward months of February, March and April 2007.

MS. LORI STEWART: Yes, that's correct.

MR. KRIS SAXBERG: Sorry. What's correct?

MS. LORI STEWART: Pages 19, 20 and 21 are related to hedging the forward months of February, March and April 2007, as noted in the recommendation.

MR. KRIS SAXBERG: Sorry, you're right.

And the recommendation indicates that there are no special circumstances and the usual mechanistic implementation approach should be followed; that's at page 20.

(BRIEF PAUSE)

MS. LORI STEWART: Yes.

MR. KRIS SAXBERG: And what I want to know by way of undertaking is whether there's a document that then reverses this recommendation and indicates that there are, indeed, special circumstances, as the Executive later found on April 25th.

Could you undertake to -- to see if that is the case?

MR. VINCE WARDEN: I think I did earlier, yes.

MR. KRIS SAXBERG: And I'm sure everyone wants to get home or get on their way home in this blizzard, so I -- and this is a good point for me to break off cross-examination, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Saxberg.

Just before closing, just for general information, to remind the Panel here, the Board, the Gas Supply Risk Management Committee is drawn from various locations within Centra/Manitoba Hydro and it provides a forum in which matters related to gas supply, including hedging, market conditions, everything, are just generally discussed and pitched on the table.

MR. VINCE WARDEN: That's right.

THE CHAIRPERSON: The information is brought to it in a regular course, discussions occur, Mr. Warden is a liaison to Executive Committee and carries on any determinations that are reached from there, that's his responsibility.

Are we correct in that?

MR. VINCE WARDEN: That's correct.

THE CHAIRPERSON: Okay. Well, we'll leave it over until tomorrow then. Thanks again everyone.

Those of you walking to your rooms will have an easier time that those of us that are driving.

(PANEL RETIRES)

--- Upon adjourning at 4:21 p.m.

Certified Correct,

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Wendy Warnock, Ms.