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MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
 2007 COMPETITIVE LANDSCAPE PROCEEDING

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
September 24th, 2007
Vol IX
Pages 1771 to 2015

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1 --- Upon commencing at 9:07 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Hope you had a reasonably all right weekend other than
5 Blue Bomber fans anyway. Okay, Mr. Hoaken...?

6 MR. ERIC HOAKEN: All right. Thank you,
7 Mr. Chair. Are we going to wait for Mr. Peters or...?

8 THE CHAIRPERSON: Mr. Peters will be here
9 soon.

10

11 CENTRA PANEL, Resumed

12

13 VINCE WARDEN, Resumed

14 HOWARD STEPHENS, Resumed

15 ROBIN WIENS, Resumed

16 GREG BARNLUND, Resumed

17 LLOYD KUCZEK, Resumed

18

19 CONTINUED CROSS-EXAMINATION BY MR. ERIC HOAKEN:

20 MR. ERIC HOAKEN: All right. nice to see
21 you this morning, Mr. Peters.

22

23 (BRIEF PAUSE)

24

25 MR. ERIC HOAKEN: Okay. I think when we

1 broke on Friday, I was speaking with you, Mr. Kuczek,
2 about the fact that the market research you conducted
3 demonstrated that approximately 65 percent of Manitoba
4 Hydro customers said that they benefited from
5 competition, right?

6 MR. LLOYD KUCZEK: Correct.

7 MR. ERIC HOAKEN: And I think what you
8 and I were about to do as we broke, was take a look at
9 some of the follow-on questions then that were asked. So
10 if you could turn in the Customer Research Report to page
11 32, table 10.

12 And this table tells us that the majority
13 of residential hydro customers are willing to pay
14 something to ensure that there's competition in the
15 market, right?

16 MR. LLOYD KUCZEK: That's correct.

17 MR. ERIC HOAKEN: And this may be a fair
18 question for Mr. Barnlund but you testified, in general
19 terms, about the seven hundred and fifty thousand dollars
20 (\$750,000) in WTS administration costs.

21 Could you just help us understand a little
22 bit better what is subsumed in that amount, and how has
23 that amount been calculated?

24 MR. ROBIN WIENS: That amount
25 incorporates the cost of personnel who are working in gas

1 supply, who are responsible for carrying out the
2 enrollment of customers and maintaining those records.

3

4 (BRIEF PAUSE)

5

6 MR. ERIC HOAKEN: Okay. I'm sorry, I
7 thought you were going to add something to that.

8 So -- so how many employees are we talking
9 about then, Mr. Wiens?

10 MR. ROBIN WIENS: Four (4).

11 MR. ERIC HOAKEN: All right. And so the
12 seven hundred and fifty thousand dollars (\$750,000)
13 includes their salary; does it include 100 percent of
14 their salary?

15 MR. ROBIN WIENS: Yes, I believe so.

16 MR. ERIC HOAKEN: And is there some
17 portion of allocated that is -- or excuse me, overhead
18 that is allocated as well?

19 MR. ROBIN WIENS: Overhead is allocated
20 to all salaries at Manitoba Hydro.

21 MR. ERIC HOAKEN: All right. So, could
22 you, by way of undertaking, could you show us what the
23 salaries are of those individuals, and how the
24 calculation has been done, and particularly how overhead
25 has been allocated, so that we have a better

1 understanding of how that seven hundred and fifty
2 thousand dollars (\$750,000) figure has been calculated?

3 THE CHAIRPERSON: I don't think the
4 individual names are required, simply the aggregate you
5 mean, right?

6 MR. ERIC HOAKEN: I -- I agree. I agree,
7 Mr. Chair, that's what I meant.

8

9 (BRIEF PAUSE)

10

11 MR. ROBIN WIENS: We'll undertake to do
12 that.

13 MR. ERIC HOAKEN: All right. Thank you,
14 Mr. Wiens.

15

16 --- UNDERTAKING NO. 12: Centra to provide DEML/ESMLP
17 with salaries of those
18 individuals in gas supply and
19 how the calculations are
20 done; particularly how
21 overhead has been allocated

22

23 CONTINUED BY MR. ERIC HOAKEN:

24 MR. ERIC HOAKEN: But that seven hundred
25 and fifty thousand dollars (\$750,000) then, if we were to

1 spread that over all gas customers, so be they system
2 supply or direct purchase, and if we were to divide it by
3 the number of customers, and then spread it out over
4 twelve (12) months, you'll agree with me that that would
5 result in an additional charge per month to each
6 customer, of significantly less than a dollar (\$1) each.
7 is that right?

8 MR. ROBIN WIENS: You're looking at
9 something in the order of three dollars (\$3) or a little
10 more than three dollars (\$3) a year.

11 MR. ERIC HOAKEN: All right. Which then
12 translates on my example, and I'm not going to do math
13 for reasons I demonstrated last week, but that's going to
14 result in an amount per month of substantially less than
15 a dollar?

16 MR. ROBIN WIENS: That would be correct.

17 MR. ERIC HOAKEN: And what you know from
18 your survey, is that the majority of respondents are
19 willing to pay something for competition.

20 And certainly the majority of those who
21 are willing to pay something, are willing to pay
22 something in the order of less than a dollar a month?

23 MR. LLOYD KUCZEK: Yeah, when -- when I
24 said majority, it should be recognized that, you know,
25 it's marginally more than those not willing to pay as

1 well. And the numbers speak for themselves, of course.

2 MR. ERIC HOAKEN: Yes they do, but it's
3 still a majority, Mr. Kuczek, correct?

4 MR. LLOYD KUCZEK: If you look at
5 Manitoba residential -- Manitoba Hydro residential
6 customers, I think 44 percent say that they're not
7 willing to pay anything, and then if you add up all the
8 other numbers on -- it would come up to maybe 48 percent
9 that are willing to pay something.

10 MR. ERIC HOAKEN: Well, I added it up to
11 50 percent. I don't think this adds up to 100 percent.

12 MR. LLOYD KUCZEK: It's close, yes.

13 MR. ERIC HOAKEN: Turning to hedging --
14 yeah, there's a mistake in table 10, correct? It adds up
15 -- for some reason it adds up to more than 100 percent.

16 Turning to hedging, if I may. If I
17 understand it correctly, and maybe you're the right
18 person to ask this, Mr. Stephens, but if I understand it
19 correctly, one (1) of the primary justifications for
20 Manitoba Hydro continuing to hedge its primary gas, is
21 that it perceives that customers want it to do that; is
22 that fair?

23 MR. HOWARD STEPHENS: That's been the
24 indication from our customers that they -- in fact, I
25 believe, during one (1) -- during one (1) of the surveys,

1 whether it was the '04, or the most recent, indicated
2 that -- well, some customers indicated that they would
3 like us to do more, rather than less.

4 MR. ERIC HOAKEN: All right. So are you
5 agreeing with me then, that if you were to list the
6 reasons why Manitoba Hydro hedges and why it wants to
7 continue hedging, it's because it perceives that its
8 customers wanted to do so?

9 MR. HOWARD STEPHENS: That's correct. We
10 are in a position to provide a one (1) service
11 offering; we introduced the rate setting methodology, and
12 hand-in-hand with that we required some element of
13 hedging, so -- in order to meet our customers'
14 requirements and manage volatility as well as getting
15 them the best possible price.

16 MR. ERIC HOAKEN: But your perception of
17 what your customers want and need, I take it, is based
18 upon the customer research, is that fair?

19 MR. HOWARD STEPHENS: We've tried at
20 every turn to do customer research, and I guess it's
21 going back to 1998. I mean, we are hedging on behalf of
22 the customers so it's obvious that it's necessary for us
23 to ensure that we understand what the customers are
24 looking for.

25 MR. ERIC HOAKEN: But that understanding

1 is based on the results of the customer research you've
2 conducted since 1998, fair?

3 MR. HOWARD STEPHENS: Yes. For the most
4 part, yes. I mean there -- sometimes it's not quite as
5 clear as you would like it to be, as market research can
6 be, but we had a very -- we have had a very strong
7 indication from our customers that they agree with what
8 we're doing.

9 I think the -- the -- as an observation
10 that I would make, is that the fact that we have been
11 operating our program now for three (3) or four (4) years
12 and we've been using the quarterly rec -- rate setting
13 mechanism and we have been hedging, and we have our
14 quarterly rate adjustments and, quite frankly, we're
15 flying below the radar, our customers don't even see the
16 differences.

17 I mean, the issue -- I mean, they haven't
18 -- I mean, we've seen this tremendous amount of gas -- or
19 volatility in the gas prices, and they've climbed
20 considerably over that period of time, and we haven't had
21 a lot of complaints from our customers. And certainly
22 there has not been an outcry or any headlines associated
23 with it, in terms of customers being concerned about our
24 efforts.

25 MR. ERIC HOAKEN: Right. Couple of

1 reasons for that, though, right? First of all, as you
2 know from your surveys, 99 percent of your customers
3 don't even know you're hedging, right?

4 MR. HOWARD STEPHENS: Yes. But I guess
5 whether they know they're hedging or not -- we're hedging
6 or not is not really the issue. I guess the point that
7 I'm trying to make is that they seem to be relatively
8 satisfied with the service offering that we've had.

9 MR. ERIC HOAKEN: Right. But when you
10 say "flying below the radar," Mr. Stephens, at least part
11 of the reason for that is when you experience a year such
12 as 2006/2007, where there's a significant addition to gas
13 costs, that's not something that you advertise to your
14 customers, fair?

15 MR. HOWARD STEPHENS: Nor do we advertise
16 the years that we make significant money on the program.

17 MR. ERIC HOAKEN: All right. So you are
18 inferring from the fact that there's no customer outcry
19 in a year such as 2006/2007, where you've added \$73
20 million to primary gas costs; you're inferring from the
21 absence of an outcry that that means customers are
22 satisfied?

23 MR. HOWARD STEPHENS: I would suggest
24 that it -- the addition to gas costs -- actually, it's
25 not an addition to gas costs, as we've listed in the one

1 (1) IR -- IR that's identified, you have to look at this
2 over a longer period of time. And certainly, we did not
3 hear a large outcry, even though we did have the large
4 PGVA balance the one (1) year.

5 MR. ERIC HOAKEN: Now just turning back
6 to this idea that customers can give you a meaningful
7 indication of what they want you to do when it comes to
8 hedging.

9 I take it you read the Board's decision,
10 175/06, coming out of the cost of gas hearing last year?

11 MR. HOWARD STEPHENS: Yes, I did.

12 MR. ERIC HOAKEN: And if you can turn
13 that up, Mr. Stephens; I don't know if somebody can put a
14 copy of it in front of you.

15

16 (BRIEF PAUSE)

17

18 MR. ERIC HOAKEN: Page 29, Ms. Derksen.

19

20 (BRIEF PAUSE)

21

22 MR. ERIC HOAKEN: And if you look, Mr.
23 Stephens, towards the bottom part of the page, under the
24 heading, 4.7, do you see the second sentence that starts,
25 "however"?

1 I'll just read it for those that don't
2 have it. It says:

3 "However, to expect the average
4 consumer to be able to adequately
5 understand the approaches that are
6 available, and or employed, in the
7 options, is perhaps to much to expect,
8 particularly with the complex approach
9 Centra now takes to restraining rate
10 volatility. And..."

11 MR. HOWARD STEPHENS: I -- I understand
12 what it says and I understand what you just said, yes.

13 MR. ERIC HOAKEN: Okay, excellent. So
14 now I can ask my next question.

15 You'll agree with me that that is a
16 recognition of some of the limitations inherent in asking
17 customers questions about hedging, is that fair?

18 MR. HOWARD STEPHENS: Certainly it's --
19 it -- it is a complex program.

20 MR. ERIC HOAKEN: Right. And there's a
21 couple of problems. First of all, it's a complex program
22 that 99 percent of respondents know nothing about, to
23 start off with, right?

24 MR. HOWARD STEPHENS: Correct.

25 MR. ERIC HOAKEN: And then when you are

1 educating those respondents for the purposes of asking
2 them questions, you are, by definition, limited to giving
3 them a fairly brief and simplistic explanation of the
4 program.

5 MR. HOWARD STEPHENS: No, I don't think
6 that I would accept that at all. We were in a position
7 to provide whatever length of explanation that we want.
8 So I won't agree with your point with respect to that.

9 MR. ERIC HOAKEN: Okay. So if you were
10 to look, for example, at the description that's on page
11 38 of the Customer Research Report, is it your position
12 that that's a full and complete description of the
13 hedging program that would educate a consumer about the
14 complexities that the Board is referring, in that passage
15 of its decision, Mr. Stephens?

16 MR. LLOYD KUCZEK: I -- I think you'd
17 have to go to page 61 to see exactly what was asked, for
18 the full explanation. I don't believe on page 38 it
19 provides that.

20

21 (BRIEF PAUSE)

22

23 MR. HOWARD STEPHENS: Did you get the
24 answer that you were looking for, Mr. Hoaken?

25 MR. ERIC HOAKEN: No, I didn't. I

1 thought you were going to answer the question, Mr.
2 Stephens.

3 MR. HOWARD STEPHENS: I think Mr. Kuczek
4 was in there.

5 MR. LLOYD KUCZEK: I guess I could add
6 some context. I'm not sure what exactly you're looking
7 for. But when we did the '04 study, and I wasn't
8 directly involved but my understanding was is that we
9 explained the program to the customers in the focus group
10 sessions -- and Mr. Stephens probably could testify to
11 this -- and so that's how we explained what the program
12 was there, and we got feedback from the customers in
13 terms of what their feeling was towards that program.

14 MR. ERIC HOAKEN: Now -- sorry, that was
15 in 2004?

16 MR. LLOYD KUCZEK: Correct.

17 MR. ERIC HOAKEN: That was back when you
18 still called it a hedging program?

19 MR. LLOYD KUCZEK: I'm not sure what it
20 was called back then.

21 MR. HOWARD STEPHENS: We called it a
22 hedging program since -- or a price management program or
23 a hedging program; the terminology is interchangeable and
24 has been used since 1995.

25 MR. ERIC HOAKEN: But -- just to be

1 clear, Mr. Stephens, in the 2004 Customer Research you
2 called it a hedging program.

3 MR. HOWARD STEPHENS: That may be the
4 case but the terms are -- have been used interchangeably,
5 so there seems to be some inference that we've changed
6 the terminology because it's distasteful if you use the
7 term "hedging." We're not trying to hide anything.

8 MR. ERIC HOAKEN: All right. Well, maybe
9 we'll come back to that point a little bit later.

10 But just to get an answer to my question,
11 Mr. Kuczek, I think what Mr. Stephens has already agreed
12 with me on, is that there are complexities to hedging
13 that may well be beyond -- may well be beyond the average
14 consumer, right?

15 MR. LLOYD KUCZEK: Well, the feedback, or
16 the advice we got from our market research consultant
17 suggested not using the word "hedging," I believe in the
18 '07 study as well, for the reason that consumers out
19 there generally have a negation connotation to it because
20 of the public attention that's been received to some
21 catastrophic events for certain companies.

22 MR. ERIC HOAKEN: Now does that include
23 the hedging losses of Centra in 2006/2007?

24 MR. LLOYD KUCZEK: No, the -- the way we
25 described the program to our customers as well as eNRG,

1 is that the way it's described in here and the Rate
2 Management Program is:

3 "Like buying insurance to provide short
4 term protection against extreme
5 increases and decreases in the market
6 price for gas caused by events like
7 hurricanes. Customers enjoy the
8 protection from short term rate
9 increases but give up the benefits of
10 rates falling in the short term."

11 And I could go on. But what we did not do
12 is talk about the pluses and minuses in a qualitative --
13 quantitative sense, as you're suggesting there. We just
14 told them, over the long run the theory is the cost will
15 be small, less than 1 percent to your overall gas cost.

16 So the consumers were not informed about
17 how the magnitude, in terms of a number. And to be fair,
18 if we were to give that to them I think we should
19 probably give that to them in terms of what it means to
20 them, as opposed to some big number like that.

21 MR. ERIC HOAKEN: And having done that,
22 it might well effect their views on hedging, is that
23 fair?

24 MR. LLOYD KUCZEK: I could only answer
25 the way the consultant answers: every time you change the

1 question, you get -- you'd likely get a different answer.

2 MR. ERIC HOAKEN: And --

3 MR. HOWARD STEPHENS: Mr. Hoaken, I'd
4 suggest that the initial couple of customer research that
5 we did I was responsible for. One (1) of first round was
6 just focus groups so it wasn't quanti -- quantitatively
7 valid, but I wanted to do it on the basis that this is a
8 relatively complex matter and we wanted to make sure that
9 the people that we discussed this with, the customers we
10 discussed this with, understood what it was that we were
11 talking about.

12 And once they did understand -- and it's
13 not that complex. I mean once you sit down for five (5)
14 or ten (10) minutes and explain the basic fundamentals
15 associated with it, I mean people grasp, I mean, the idea
16 very quickly.

17 MR. ERIC HOAKEN: But that's not --

18 MR. HOWARD STEPHENS: And just let me
19 finish, sir. The other aspect I'd suggest, is that, I
20 mean, the gas industry in itself, when it comes to making
21 choices, takes far more than fifteen (15) minutes -- a
22 fifteen (15) minute discussion with a sales rep at your
23 door to make a decision.

24 And so from that perspective if you have
25 concerns with this -- with respect to this process I

1 would think you would have greater concerns with respect
2 to the process that's used in terms of door-to-door
3 sales.

4 MR. ERIC HOAKEN: No, let's just come
5 back to what you said though, Mr. Stephens. You said if
6 somebody sits down for five (5) and ten (10) minutes you
7 can explain this to them, is that right?

8 MR. HOWARD STEPHENS: Generally speaking,
9 yes.

10 MR. ERIC HOAKEN: Right. But that's not
11 what happens for those people who were answering the
12 customer research survey. They didn't get a five (5) or
13 ten (10) minute explanation, did they?

14

15 (BRIEF PAUSE)

16

17 MR. LLOYD KUCZEK: For the '07 study our
18 intent wasn't to assess what our customers' preferences
19 were to that degree. With -- with the '07 study we did
20 extensive research and -- with the '04 study. And with
21 the '07 study we had many things that we were trying to
22 accomplish and so we had to minimize how much time we
23 would spend on this, and we thought it was fair just to
24 get a confirmation in terms of providing the customer
25 with this amount of information, what do they generally -

1 exactly what the questionnaire shows.

2 MR. ERIC HOAKEN: That's right and
3 nothing close to a five (5) or ten (10) minute
4 explanation, right?

5 MR. LLOYD KUCZEK: As long as it takes to
6 read that question.

7 MR. ERIC HOAKEN: Right. Now also, I
8 want to make sure I completely understood something you
9 just said a moment ago, Mr. Kuczek.

10 It is your evidence that the title of the
11 program was changed in the draft survey for 2007 from
12 Hedging Program to Price Management Program, at the
13 suggestion of your consultant?

14 MR. LLOYD KUCZEK: I can -- you're
15 testing my memory. I'd have to go check but I do recall
16 the word "hedging" coming up in one (1) of the
17 conversations and might have even been in the -- one (1)
18 of the drafts.

19 MR. ERIC HOAKEN: I don't mean to test
20 your memory, but you just testified a moment ago that --
21 I thought you did -- that the title got changed in the
22 2007 survey from Hedging to Price Management Program at
23 the suggestion of your consultant; is that your evidence?

24

25

(BRIEF PAUSE)

1 MR. LLOYD KUCZEK: There was input from
2 staff at Manitoba -- Centra -- Manitoba Hydro, in terms
3 of what the program was called. We sent an email to Mr.
4 Stephens and had asked, I guess, for his input. And Mr.
5 Stephens pointed out what the program was called.

6 The discussion with hedging was with the
7 eNRG and they -- as I recall it, they were the ones that
8 suggested the concern about using the term "hedging" and
9 what that -- and I believe that's what I just testified.
10 That's what the concern was in terms of using that in the
11 market -- or in the survey.

12 MR. ERIC HOAKEN: All right. We'll come
13 back to that in a second, then.

14 MR. HOWARD STEPHENS: Mr. Hoaken, I'd
15 like to add a little bit here.

16 MR. ERIC HOAKEN: Sure.

17 MR. HOWARD STEPHENS: With respect to the
18 components, the hedging components, I don't know that the
19 -- whether our customers understand what we're doing,
20 with respect to hedging, is really that critical.

21 As long as they are satisfied with what we
22 are what they are receiving as a final bill, they don't
23 need to understand all of the various components that go
24 into that bill to drive out the final -- I mean, to drive
25 out the final amount for the bill.

1 I mean, and they don't understand the full
2 regulatory process with respect to cost of capital and
3 rate base, rate of return and all of the rest of that,
4 they accept the fact that those -- the mechanisms that we
5 use are generally approved by the Public Utilities Board,
6 and from that perspective they can take some comfort.

7 And also on the basis of the reaction that
8 we get from customers, I mean, as I indicated before, it
9 certainly, I mean, has not caused a great deal of
10 consternation. It perhaps caused me a little bit less
11 hair on the top of my head because we've discussed it for
12 ten (10) years, but we've gotten to the point where we
13 believe that we're doing the appropriate thing for the
14 customers.

15 So I think that isolating this one (1)
16 piece of information as to whether customers understand
17 that, is akin to asking the customers how we establish
18 our rate base or our -- any other of the components of
19 our bills. So I don't know that I would make that much
20 of it.

21 MR. ERIC HOAKEN: All right. So in your
22 opinion, Mr. Stephens, there's certain information that
23 customers just don't need to have when they're evaluating
24 hedging; is that your position?

25 MR. HOWARD STEPHENS: Well, no. I would

1 suggest that I would prefer and, I mean, have been
2 calling for, more information for customers in all
3 respects, with respect to different service offerings and
4 what the pros and the cons associated with those are.
5 And it's -- as we've indicated, if we have additional
6 service offerings, it's our intention to ensure that
7 customers know the pros and the cons of any options that
8 they take, and we'll want them to sign off that they
9 understand.

10 It's very akin -- much akin to what the
11 banks do when you -- they look at your risk profile,
12 which they are expected to do on an annual basis, and I
13 think that that's something that we are going to have to
14 look at, to ensure that our customers are buying and
15 getting what they expected to get.

16 MR. ERIC HOAKEN: But if I understood
17 you, maybe I didn't -- but I understood you to say that
18 as far as hedging is concerned there's certain things
19 that consumers don't need to know about hedging in order
20 to express an opinion on it.

21 Is that what you said?

22 MR. HOWARD STEPHENS: All we have to do
23 is talk to them in terms of -- I mean, you know I'm not
24 trying to hide anything, but I think for a customer to
25 understand what goes in to his bill, he doesn't have to

1 have a detailed understanding how a hedging program
2 works.

3 MR. ERIC HOAKEN: Right. Does he --

4 MR. HOWARD STEPHENS: We can explain that
5 we buy insurance, there's a cost associated with it. We
6 can tell them quite -- I mean, they won't -- they won't
7 participate in the extreme spikes, and by the same token
8 they won't benefit from any significant reductions in
9 price.

10 And we're trying to -- but in the end they
11 will pay market price and all we're trying to do is
12 smooth the path from current prices to the ultimate
13 market price.

14 MR. ERIC HOAKEN: So when we're thinking
15 then, Mr. Stephens, about the information that consumers
16 need to have and don't need to have, in your opinion do
17 they need to know about the risks associated with
18 hedging, including the fact that there can be significant
19 additions to gas costs in any given year?

20 MR. HOWARD STEPHENS: I think it's
21 important, as I just finished saying. But it -- there
22 are going to be times when they don't participate in
23 spikes and they got -- at the same time they aren't going
24 to participate in some of the downside. And that is part
25 and parcel of the customer's risk tolerance.

1 If they -- if they have a regret with
2 respect to that type of a program where they want to
3 participate in all of the downside, they have to take the
4 other features that go along with it, which is tremendous
5 volatility.

6 MR. ERIC HOAKEN: And how has Centra --
7 what steps has Centra taken to explain that thinking to
8 its consumers?

9 MR. HOWARD STEPHENS: Not nearly enough,
10 sir. And that is some -- one (1) of the things that --
11 and I think I alluded to this earlier is a -- my own
12 personal opinion, that there needs to be much more
13 information out there for the customer; I mean unbiased
14 information with respect to what we provide as well as
15 what the brokers provide, so that customers can make
16 informed decisions.

17 And, quite frankly, I think -- I mean,
18 from my perspective, if you get right down to it -- I
19 mean, if customers were really to make informed
20 decisions, a lot of them won't want to spend the time
21 that it takes to really understand what the markets are
22 doing to make the choices.

23 MR. ERIC HOAKEN: All right. I accept
24 that, but I think you agree then, Mr. Stephens, it is
25 important for customers a) to have the ability to make a

1 choice and b) to make a choice that is an informed one.
2 Is that fair?

3 MR. HOWARD STEPHENS: Well, having the
4 ability to make the choice -- to me, there's a question
5 mark there -- and the only way we can determine whether
6 or not that's a valid alternative or a valid statement is
7 to put it into practice.

8 And b) is definitely, if they're going to
9 be making choices, they better understand what it is that
10 they're doing before they make a choice.

11 MR. ERIC HOAKEN: All right.

12 MR. HOWARD STEPHENS: I'd hate to see a
13 customer making a choice and finding out that it's doing
14 something completely different than what they
15 anticipated.

16 MR. ERIC HOAKEN: You know from the
17 customer research you've done that not all customers are
18 concerned about volatility, right?

19 MR. HOWARD STEPHENS: I dare say that the
20 vast majority of the customers, and I don't have anything
21 quantitative to back this up, Mr. Hoaken, so don't ask me
22 for an undertaking.

23 MR. ERIC HOAKEN: You're looking for
24 trouble, Mr. Stephens.

25 MR. HOWARD STEPHENS: I'm willing to go

1 there if you like. The vast majority of our customers
2 don't give it a hell of a lot of consideration.

3 MR. ERIC HOAKEN: And so don't want it --
4 or at least don't -- don't care about it one way or the
5 other?

6 MR. HOWARD STEPHENS: That's right. I
7 mean you have to understand, we're not talking Corvettes
8 or stereo equipment or of any of the very high profile
9 sexier products. We're talking natural gas. I mean --
10 and most customers' expectation from my twenty-seven (27)
11 years of experience has been, as long as when they turn
12 the thermostat up and the heat comes on and the rates are
13 not too ridiculously high, they're satisfied.

14 MR. ERIC HOAKEN: Okay. But even in the
15 unsexy domain of natural gas, I think you've agreed that
16 customer choice should exist and it should be an informed
17 customer choice, fair?

18 MR. HOWARD STEPHENS: That I will agree
19 with you.

20 MR. ERIC HOAKEN: All right. And so in
21 this environment that we have, where the vast majority or
22 a large portion of customers don't know much about
23 volatility and don't care much about it, Centra is
24 effectively assuming that customers want volatility
25 protection and by hedging is acquiring it for them at a

1 price.

2 So in that sense, customers are being
3 deprived of the ability to make their own choice, are
4 they not?

5 MR. HOWARD STEPHENS: No. I mean -- but
6 that is not because of the fact that we are doing
7 something the customers don't know about and don't want.
8 We have done market research that indicates they don't
9 want all of the volatility associated with it. They do
10 want us to provide some hedging.

11 Now, it's not every customer on the
12 system. We've -- we've only had one (1) service offering
13 and it has to be a one-size fits all, and certainly there
14 are some customers it doesn't fit very well. But I think
15 in other cases, I mean in the majority of cases based
16 upon consumer reaction, that we're doing pretty well.

17 MR. ERIC HOAKEN: But in a marketplace
18 where there are options available for customers to manage
19 volatility, why do you have to be a one-size fits all?

20 What's wrong with an unhedged primary
21 product and for those customers who want volatility
22 protection, go into the market and get it?

23 MR. HOWARD STEPHENS: Well, as I said
24 before, the -- the customers that choose not to choose
25 are entitled to get a viable product. And if we aren't -

1 - allowed to have -- well even if we are allowed to have
2 multiple service offerings, I think that the default
3 offering still has to be a viable alternative, and that
4 is what we have tried to develop with the existing tools
5 that we had with the limitations that have been placed
6 upon us.

7 MR. ERIC HOAKEN: Which means, therefore,
8 the customers who don't care about volatility protection
9 and may not want it are paying for it nonetheless, fair?

10 MR. HOWARD STEPHENS: No. I would
11 suggest that the customers that don't care about it
12 likely don't understand it and haven't considered it. I
13 mean, they look at their bills and if they had a concern,
14 they would do some investigation with respect to it. And
15 that's where other service choices come in.

16 The customers that I talked about are the
17 customers that choose not to choose. They're not
18 interested.

19 MR. ERIC HOAKEN: So those customers who
20 assume not to choose, you're concluding that they would
21 be supportive if they took the time to understand what it
22 is you're doing and why you're doing it.

23 Is that your hypothesis?

24 MR. HOWARD STEPHENS: That's been --
25 that's how we've arrived at the position that we've

1 arrived at, in terms of our rate design and our rate
2 setting methodology, et cetera. We have done an
3 extensive amount of work with respect to this.

4 Mr. Hoaken, I get no thrill out of going
5 out and hedging. I've got no pre -- predisposition to
6 hedging. But I think we're doing it in the interest of
7 the customers and that's why we are doing it.

8 I mean, it does complicate the matters and
9 it does make -- I mean bring on -- I mean a couple of
10 elements of risks associated with it. We have the
11 program very well defined and we have all of the
12 necessary controls in place, so from that perspective I
13 think we're doing the customers exactly what our -- the
14 majority of our customers are looking for.

15 MR. ERIC HOAKEN: I think, Mr. Barnlund,
16 you made reference earlier, I can't remember exactly
17 when, to an OEB decision that had directed the LDC there
18 to discontinue hedging.

19 Was that you who had talked about that?

20 MR. GREG BARNLUND: Yeah. And to be more
21 accurate I guess there's really two (2) decisions. One
22 (1) of them was referred to in our rebuttal evidence, and
23 the other decision I refer to is the more recent one.
24 But I think if we looked in at both of those decisions
25 and understood the difference in context between the one

1 (1) decision and certainly the situation here in
2 Manitoba, it would be quite apparent in terms of some
3 differences.

4 First of all --

5 MR. ERIC HOAKEN: And I'm sorry. Could I
6 stop you because I -- I have a copy of the decision --
7 I'd like you to take a look at with me. This is the 2007
8 decision out of Ontario, which is I think the second one
9 that you made reference to.

10 Could we mark this as an exhibit? Take a
11 quick look at it and if you confirm it's what you're
12 referring to we'll mark it as an exhibit.

13 MR. GREG BARNLUND: Could you give me a
14 second, please?

15 MR. ERIC HOAKEN: Sure.

16 MR. GREG BARNLUND: Yeah.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRPERSON: Mr. Singh, could you
21 help Mr. Hoaken distribute it?

22

23 (BRIEF PAUSE)

24

25 CONTINUED BY MR. ERIC HOAKEN:

1 MR. ERIC HOAKEN: Okay. I'm ready when
2 you are, Mr. Barnlund.

3 MR. GREG BARNLUND: I'm ready now, yeah.

4 MR. ERIC HOAKEN: Okay. Turn if you will
5 to page 44 of the decision, and this is I think where the
6 analysis on hedging -- oh, I'm sorry, we should mark this
7 as an exhibit. Thank you, Mr. Peters.

8 I've lost track. Maybe you know what
9 number this will be?

10 MR. BOB PETERS: I have it as Direct
11 Energy Savings Exhibit Number 8, Mr. Chairman.

12 THE CHAIRPERSON: Very good.

13 MR. ERIC HOAKEN: Thank you.

14

15 --- EXHIBIT NO. DEML-8: 2007 OEB decision

16

17 MR. GREG BARNLUND: I'm at page 44, yes.

18 MR. ERIC HOAKEN: Thank you.

19

20 CONTINUED BY MR. ERIC HOAKEN:

21 MR. ERIC HOAKEN: And if you read the
22 first sentence, or at least first two (2) sentences under
23 that heading, you'll see that it appears that the Ontario
24 Energy Board, just as this Board did in 175/06, had some
25 reservations about the usefulness of customer research in

1 this context. Is that fair?

2 MR. GREG BARNLUND: I see that they're
3 saying that customer research shouldn't be the sole
4 determinate in terms of disposing a decision.

5 MR. ERIC HOAKEN: Right. And so I'm just
6 suggesting to you -- I didn't think it was a stretch, Mr.
7 Barnlund -- that that's an expression of a reservation
8 about the use that can be made of customer research in
9 this context. Is that a fair reading do you think?

10 MR. GREG BARNLUND: Well, I don't know if
11 it's that. I mean I don't want to try and read the mind
12 of the Ontario Energy Board, but clearly they have a
13 number of different considerations they have to take in
14 place -- that have to be taken in place, in terms of
15 making any decisions, so.

16 MR. ERIC HOAKEN: Okay. And turn then
17 over to page 45, and if you look at the third paragraph
18 that starts "The Board Notes"...

19 MR. GREG BARNLUND: I have that.

20 MR. ERIC HOAKEN: I'm not going to read
21 the whole paragraph to you. You may just want to take a
22 moment to look at it.

23 But this appears to me to be a suggestion
24 that for customers on the budget plan, or the EPP plan,
25 that hedging of the primary gas offering is of no value

1 to those customers. Do you see that?

2 MR. GREG BARNLUND: I've read that and I
3 think that's -- I have a hard time agreeing with that for
4 the simple reason that I think the OEB is disregarding
5 the fact that if you abandon hedging you are going to put
6 yourself at risk of exposure to an increase in market
7 prices.

8 If that increase in market prices is
9 substantial and if it occurs through a season of the year
10 where there is large amounts of consumption as you'd find
11 in the winter months, that is going to have an impact on
12 -- certainly in this Utility, would have an impact in
13 terms of readjusting the EPP.

14 And so the EPP as is -- shouldn't be
15 construed as being a flat, eleven (11) month repayment
16 plan; it's subject to some revision. And I disagree with
17 the assertion put forward by the OEB here, in this
18 regard.

19 MR. ERIC HOAKEN: All right. And you
20 don't think then that conclusion has any application for
21 this Board in considering this issue?

22 MR. GREG BARNLUND: Well, there's another
23 mitigating factor. In terms of the decision with
24 Enbridge they drew a lot of emphasis on the fact that
25 they didn't see that the Enbridge price management

1 program, the hedging aspect of it was contributing
2 appreciable dampening to the volatility.

3 I think they mentioned something in the
4 neighbourhood of six dollars (\$6) per 10-3 m3, and I
5 think that if we turn back in this decision -- and I'll
6 get you the page here. First paragraph on page 40:

7 "The largest variance is negative six
8 dollars and seven cents (-\$6.07) per
9 10-3 m3. Generally, the volatility
10 reduction over the period was in the
11 one (\$1) to two dollar (\$2) per 10-3 m3
12 range."

13 And I'd probably turn to Mr. Stephens to
14 provide some information.

15 There's an exhibit that was provided last
16 week that shows a significantly greater amount of
17 volatility dampening that occurs, with regards to the
18 comparison of hedged versus unhedged rates that would
19 flow from Centra Gas Manitoba. The results and the
20 amount of dampening is significant different than six
21 dollars (\$6) per 10-3 m3, and so I think that the facts
22 underlying the case are significantly different between
23 Centra and between Enbridge case.

24 MR. ERIC HOAKEN: Okay. What about this,
25 though, Mr. Barnlund; turn to page 46. You'll see

1 there's a reference to the inter-generational impacts
2 that losses or gains have.

3 Now that clearly is a consideration that
4 applies here in Manitoba, right?

5 MR. GREG BARNLUND: Well, this is again
6 being taken very narrowly, because if you end up without
7 hedging and you end up building up an enormous PGVA
8 balance, then the time period by which you recover that
9 PGVA, or dispose of that PGVA balance itself has got some
10 inter-generational impacts.

11 So I think it's -- it's selective to only
12 pick on hedging and say that there's inter-generational
13 impacts associated with hedging, because absent hedging
14 there will be significant inter-generational impacts that
15 would emerge in terms of the recovery of the PGVA
16 balances.

17 MR. HOWARD STEPHENS: And --

18 MR. ERIC HOAKEN: But -- I'm sorry, can I
19 just follow up question, because I want to make sure I
20 understand the answer, and then I'm -- I'll come back to
21 you in a minute, Mr. Stephens.

22 But are you saying then, that if there's
23 no hedging there will be a quarterly adjustment of the
24 rates based on the prevailing prices; that's how it would
25 work here, right?

1 MR. GREG BARNLUND: Well, they would be
2 -- it would be done the same way it's currently done,
3 absent the influence of hedging on the forward forecast
4 price.

5 MR. ERIC HOAKEN: Okay. So just help me
6 understand why you think in that scenario the
7 accumulation of a PGVA balance would be as big or bigger
8 than it is in a hedging situation.

9 MR. GREG BARNLUND: Well, the hedging
10 will -- if your price exceeds your upper limit on your
11 hedging band, that essentially contains the amount of
12 costs that would be incurred for that gas supply, as
13 opposed to the incremental difference between the market
14 price and the upper limit of the hedge band.

15 MR. ERIC HOAKEN: But if the price is
16 going the other way the analysis works the other way.

17 MR. GREG BARNLUND: Well -- and it
18 creates again an inter-generational problem. If you have
19 a PGVA balance that is largely -- you know, a large
20 balance owing to customers as opposed to owing to the
21 Utility, it's still a large PGVA balance that needs to be
22 dealt with, and the larger the balance the potential for,
23 you know, large inter-generational inequities or problems
24 in that regard.

25 MR. ERIC HOAKEN: Over to you, Mr.

1 Stephens.

2 MR. HOWARD STEPHENS: One (1) comment I
3 would like to make is we're relying a lot on information
4 gathered by the Ontario Energy Board and the proceeding
5 that they had.

6 Be mindful of the fact that we are serving
7 an entirely different market. If our markets were
8 precisely the same, we wouldn't have to do any market
9 research; we could go to the un -- or down to consumers
10 to find out what their customers are saying, and we could
11 save a whole pile of money and debate as to what
12 customers' preferences are.

13 This is a distinct market --

14 MR. ERIC HOAKEN: I -- I --

15 MR. HOWARD STEPHENS: -- so from that
16 perspective I think that it's appropriate that we are
17 mindful that we are dealing with a different marketplace.

18 MR. ERIC HOAKEN: I don't think anyone
19 has ever suggested otherwise. But I think as we've also
20 discussed earlier, there are certain themes in the
21 regulatory decisions that carry over from jurisdiction to
22 jurisdiction, correct, Mr. Stephens?

23 MR. HOWARD STEPHENS: That's correct, but
24 I don't -- don't think, and I certainly wouldn't want to
25 let the Board be steered specifically by decisions that

1 were made in Ontario because we are a distinct market.

2 MR. ERIC HOAKEN: On the issue of costs,
3 you and Mr. Holloway had a discussion about this, Mr.
4 Stephens, and I came away from that discussion
5 understanding that the administrative costs -- or
6 operating expenses, if I can put it that way -- of the
7 hedging program, are in the order of a hundred thousand
8 dollars (\$100,000) a year; is that right?

9 MR. HOWARD STEPHENS: Yeah, that's what
10 Mr. Warden -- and that's a very rough estimate.

11 MR. ERIC HOAKEN: Okay. And again, is
12 there something that you could do to help us better
13 understand how you've calculated that hundred thousand
14 dollar (\$100,000) figure and what it consists of?

15 MR. HOWARD STEPHENS: Well, actually,
16 it's like the -- an overstatement in terms of the costs,
17 because what we do on a quarterly basis is gather up four
18 (4) or five (5) individuals from the gas supply
19 department, and go out and get quotes, do the hedges on
20 the best quotes that we can obtain; it's an open outcry
21 type of system, and the whole process takes at most a
22 half an hour.

23 MR. ERIC HOAKEN: Well, what analysis
24 have you done of how many employees have any involvement
25 at all in hedging, and how much time they're spending on

1 that?

2 MR. HOWARD STEPHENS: We are getting them
3 to book their time. Or when it comes time to setting
4 allocations for costs, we are having that booked so that
5 we can track the costs associated with it. But the cost
6 to actually perform the hedges is a very minimal cost.

7 MR. ERIC HOAKEN: And then I take it from
8 the discussion I had earlier, I think with Mr. Wiens, you
9 would be allocating some overhead then to the time that
10 those people are spending?

11 MR. HOWARD STEPHENS: Sure.

12 MR. ERIC HOAKEN: So that hundred
13 thousand dollar (\$100,000) figure would include both,
14 some apportionment of salaries of those involved in
15 hedging, as well as an allocation of overhead?

16 MR. HOWARD STEPHENS: Well, there are
17 other costs to be considered: the operation of the gas
18 supply committee, other various administrative tasks that
19 are associated with it. But, I mean, you know, we're
20 still not talking a significant amount of money.

21 MR. ERIC HOAKEN: Well, I guess I'm just
22 trying to understand how you know that. And so is there
23 some analysis that you prepared. You said you "booked
24 the time;" is there something that you prepared that you
25 can share with us by way of undertaking?

1 MR. HOWARD STEPHENS: I could only
2 provide you -- I mean, subject to check, but I could only
3 provide you our best estimate in terms of what the costs
4 are, and describe what the activities are associated with
5 it.

6 MR. ERIC HOAKEN: All right, thank you.
7 I'll take that. Would that include some breakdown of the
8 allocation of overhead as well?

9 MR. HOWARD STEPHENS: We would show you
10 the overhead that we researched.

11 MR. ERIC HOAKEN: I'll accept that
12 undertaking. Thank you.

13

14 --- UNDERTAKING NO. 13: Centra to determine for
15 DEML/ESMLP how many employees
16 have any involvement in
17 hedging, and how much time
18 they're spending on that, as
19 well as the costs

20

21 CONTINUED BY MR. ERIC HOAKEN:

22 MR. ERIC HOAKEN: Then going back to what
23 you and Mr. Holloway talked about, as I understood it,
24 then there's some sort of notional accounting, if I can
25 put it that way, for the embedded dealer margins. And I

1 think as the discussion that the two (2) of you had, you
2 ended up at a total figure of about five hundred thousand
3 dollars (\$500,000) annually, for hedging.

4 Is that about right?

5 MR. HOWARD STEPHENS: No, I'd say, based
6 upon our curr -- the current primary cost of gas, it's at
7 that one tenth (1/10th) of 1 percent. When we're talking
8 more like about three hundred and fifty thousand dollars
9 (\$350,000), because it's only the br -- the primary gas
10 that we're talking about here.

11 MR. ERIC HOAKEN: All right. But in any
12 case, the -- the figure of one tenth (1/10th) of 1
13 percent, or the less than 1 percent that you reference in
14 the customer research report, that does not include any
15 treatment of additions or substations -- or subtractions
16 to gas costs, is that right?

17 MR. HOWARD STEPHENS: No, we talk --
18 there's two (2) components: one (1) is, and I would -- I
19 would refer to as the operational costs associated with
20 the hedging program, the other are the results. And the
21 results are not necessarily the measures in terms of the
22 mark-to-market, which is all to commonly the indicator of
23 performance that people look at. Especially if the mark-
24 to-market happens to be negative, it gets a lot of
25 attention.

1 MR. ERIC HOAKEN: Okay. And so, just so
2 I'm 100 percent clear on this, Mr. Stephens, as part of
3 the description that was given to respondents in the
4 customer research study, there's a sentence that says:

5 "Over the long term, twenty (20) years,
6 the theory is the cost will be very
7 small, [and says] less than 1 percent
8 to your overall gas costs."

9 So that figure, or at least that -- that
10 reference to costs is not intended to refer to net
11 additions or subtraction to gas costs, is that right?

12 MR. HOWARD STEPHENS: No, that's not
13 correct. Over the long term, the mark-to-market, if you
14 summed them up and averaged them over the course of
15 twenty (20) years, the net effect of the hedging program
16 should be a zero or very close to zero mark-to-market.

17 MR. ERIC HOAKEN: No, I -- I understand
18 that, but you're telling me that's what you were
19 intending to refer to in this sentence?

20 MR. HOWARD STEPHENS: Yes, I'll --

21 MR. ERIC HOAKEN: You're intending to
22 refer to that, as well as to the operational costs that
23 we've just discussed?

24 MR. HOWARD STEPHENS: Right. Now I
25 wanted to discuss with you, you had made the -- or --

1 MR. ERIC HOAKEN: Well, if you're
2 answering my question, I'm happy to hear from you. If
3 not, I'm about to move to a different area.

4 MR. HOWARD STEPHENS: Well you -- you
5 asked a question of Mr. Barnlund, and he made reference
6 to a point that I can make -- bring -- bring up, and I
7 would like to have this tabled -- it was an exhibit that
8 we did file.

9 It's Exhibit number 17 and it deals with
10 the difference between hedged quarterly rate changes, and
11 unhedged quarterly rate changes. And I think it's an
12 important --

13 MR. ERIC HOAKEN: Well, excuse me, Mr.
14 Chair, I'm not asking the witness a question about this.
15 He's -- my question was answered satisfactorily, and I'm
16 about to move to another area.

17 MR. HOWARD STEPHENS: I'd suggest your
18 answer was not answered satisfactorily, it was only
19 answered in part.

20 MR. ERIC HOAKEN: Well, if you had
21 thought that, it was incumbent upon you to jump in. I'm
22 in a different area, I'm moving on, and I think I should
23 be permitted to ask a question.

24 MS. MARLA MURPHY: Mr. Chairman, in
25 fairness to --

1 THE CHAIRPERSON: It is Mr. Hoaken's --

2 MS. MARLA MURPHY: -- Mr. Stephens --

3 THE CHAIRPERSON: It is Mr. Hoaken's
4 cross-examination.

5 MS. MARLA MURPHY: I agree, Mr. Chairman,
6 but in fairness to Mr. Stephens he did indicate that he
7 wanted to add something to Mr. Barnlund's comment and I
8 think this is the piece that he wanted to add and hasn't
9 had the opportunity to do yet.

10 MR. ERIC HOAKEN: Well that's not true.
11 I expressly went back to Mr. Stephens you'll remember;
12 the record will bear me out on this. I gave him the
13 opportunity to add what he wanted to add. He's answered
14 my question, I -- I'd like to move on.

15 MR. HOWARD STEPHENS: I'll get it in at
16 some point, Mr. Chairman.

17 MR. ERIC HOAKEN: I have no doubt about
18 that but not on my shift, Mr. Stephens.

19 THE CHAIRPERSON: Okay, Mr. Hoaken.

20

21 CONTINUED BY MR. ERIC HOAKEN:

22 MR. ERIC HOAKEN: Now turn if you like,
23 to Tab 7 of the brief that Mr. Peters has put together.
24 And this is the response to DEML/ESMLP/CENTRA-16. And if
25 you could turn to Attachment 2(b), Mr. Stephens.

1 And I have to be very honest with you. I
2 -- I'm probably the only person in the room, in this --
3 in this position but I -- I just do not understand this
4 graph. When I first saw it I thought it was the
5 cardiogram from my last medical. But could you just help
6 us all understand.

7 Maybe there are others in the room who
8 don't understand it but could you just help me understand
9 what the lines are and what they purport to show?

10 MR. HOWARD STEPHENS: Just let me think
11 for a sec so I can --

12 MR. ERIC HOAKEN: I'm glad I wasn't the
13 only one then.

14 MR. HOWARD STEPHENS: What this
15 demonstrates is the various service offerings that have
16 been provided over the last -- since 2002.

17 MR. ERIC HOAKEN: Okay. Which is --

18 MR. HOWARD STEPHENS: Or -- I'm sorry.
19 Yeah, since August 2001. 2000, in fact. And then to
20 February '07. Which is basically the experience that
21 we've had with our hedging program and our rate setting
22 methodology. And it compares the overall actual bills
23 that customers would have experienced at various
24 different -- on the various different service offerings
25 that were available in the marketplace.

1 MR. ERIC HOAKEN: When did you start your
2 current hedging program?

3 MR. HOWARD STEPHENS: Our -- well our
4 program -- it started in earnest in 2002.

5 MR. ERIC HOAKEN: Okay. So in fact, part
6 of this will refer to a time prior to your current
7 hedging program.

8 MR. HOWARD STEPHENS: That's right.

9 MR. ERIC HOAKEN: And part of this also
10 refers to a time prior to contracts being sold on the
11 WTS, is that right?

12 MR. HOWARD STEPHENS: No. That's --

13 MR. ERIC HOAKEN: Sorry, August 2000.
14 Sorry, you're right, you're right, yeah.

15 MR. HOWARD STEPHENS: That's right.

16 MR. ERIC HOAKEN: And so -- okay, we made
17 some progress there, but what's the red line and what's
18 the black line?

19 MR. HOWARD STEPHENS: The heavy black
20 line is our primary gas rate. The others are other
21 various service offerings and we haven't identified any
22 of them in terms of whose offerings they were. Just
23 trying to demonstrate for our own purposes, in terms of
24 analysis that we were doing, as to the impact on month to
25 month bill volatility for consumers if you offer a fixed

1 price offering.

2 MR. ERIC HOAKEN: And -- and so when you
3 say other service offerings, are these other service
4 offerings that you understand were available in the
5 market at the time, or are they service offerings that
6 were actually subscribed for?

7 MR. HOWARD STEPHENS: These are service
8 offerings that were both subscribed for and available in
9 the market.

10 MR. ERIC HOAKEN: Okay.

11 MR. HOWARD STEPHENS: Obviously precedes
12 the other.

13 MR. ERIC HOAKEN: Well not always. And
14 so what I think you said earlier was that what you've
15 done is you've attempted to average out the experience of
16 consumers who were on a primary gas product and also
17 those consumers who were on a direct purchase contract.
18 Is that right?

19 MR. HOWARD STEPHENS: It's not averaging
20 them out. This -- this demonstrates on the basis of the
21 information that we have, what the bill volatility for
22 the customers on the various service offerings would be
23 on our -- our main base on -- on our only offering and
24 other fixed price offerings. And we wanted to see what
25 the volatility reduction in bills, in the customer's

1 bill, was going to be.

2 MR. ERIC HOAKEN: All right. And I take
3 it that for the purposes of this analysis, you excluded
4 those customers who were on the EPP?

5 MR. HOWARD STEPHENS: That's correct.

6 MR. ERIC HOAKEN: And obviously this
7 graph would look a lot differently. It wouldn't look
8 like anybody's cardiogram if you included the EPP, right?

9 MR. HOWARD STEPHENS: Well, if you would
10 have let me finish answering the last question --

11 MR. ERIC HOAKEN: Oh, I'd be delighted to
12 hear from you on that now, Mr. Stephens.

13 MR. HOWARD STEPHENS: Okay, then let's go
14 to Exhibit number 17. And --

15 THE CHAIRPERSON: We have it, Mr.
16 Stephens.

17 MR. ERIC HOAKEN: Sorry, I don't -- I
18 don't have it. Just give me a moment.

19

20 (BRIEF PAUSE)

21

22 MR. ERIC HOAKEN: All right. Thank you.

23

24 (BRIEF PAUSE)

25

1 CONTINUED BY MR. ERIC HOAKEN:

2 MR. HOWARD STEPHENS: Do you have it,
3 sir?

4 MR. ERIC HOAKEN: I do.

5 MR. HOWARD STEPHENS: It is a chart.
6 It's labelled Undertaking 11, part A-2, Exhibit -- well
7 I've written Exhibit 17.

8 It looks like this for everybody else in
9 the room. I don't know how you're going to get that on
10 the record.

11 What this demonstrates is the AECO strip;
12 twelve (12) month forward average of future market prices
13 at AECO, which is the dark -- dark-black line with all
14 the volatility in it.

15 It has -- and as well as a residential
16 primary gas billed rated, dollars per cubic metre and
17 that's in red.

18 And then the same rate, excluding hedging,
19 in dark blue.

20 And you can see the difference between --
21 the rate setting methodology does not deal with the
22 volatility sufficiently to avoid price spikes without the
23 hedging component, even though we're only loosely hedged
24 and we only hedge 60 percent of our supply. So when you
25 have great big spikes and -- I'm sorry but there is no

1 legend in terms of date, but we -- you can see that we
2 have about two-thirds (2/3s) of the way across the sheet,
3 a great big price spike. And we have the corresponding
4 spike in our rates, which completely undermines and under
5 -- I mean, does nothing for our rate setting methodology
6 and does nothing for customers in terms of sheltering
7 them from those spikes.

8 MR. ERIC HOAKEN: Although it gives them
9 a pretty good price signal, right?

10 MR. HOWARD STEPHENS: Well, I don't know
11 that it'S necessarily is the first order of the day, but
12 I can't argue with you on that. Certainly that would
13 give them a price signal at that point in time, but
14 they're now going to see rate changes on a quarterly
15 basis that are going to be much more substantive.

16 So the only other alternative is to change
17 the inclusion factor, in terms of whether or not we
18 recover the full 100 percent and amortize it over twelve
19 (12) months. Or perhaps extend the period of time that
20 we recover the PGVA balances associated with that.

21 Both -- both of those have costs of money
22 associated with them, if they're significant balances,
23 and neither of them will deal with the volatility that
24 the customers are experiencing.

25 And how this relates to the question that

1 you asked me is --

2 MR. ERIC HOAKEN: I was wondering that.

3 MR. HOWARD STEPHENS: Well, I'm getting
4 there. I'm getting there.

5 When you add this kind of significant
6 change with the -- the primary gas offering we would have
7 to change the EPP likely three (3) or four (4) times in a
8 year, on the basis of this kind of volatility to ensure
9 that we didn't give the customer a huge surprise at the
10 end of the program.

11 MR. ERIC HOAKEN: And sorry, when you say
12 "changed," you mean adjusted?

13 MR. HOWARD STEPHENS: Yes.

14 MR. ERIC HOAKEN: Adjust the balance?

15 MR. HOWARD STEPHENS: Yes. So -- well,
16 it would adjust the monthly payment. We would have to
17 look at it two (2) or three (3) times during the course
18 of the year, and if we're seeing these huge swings in
19 terms of the rates every quarter, we're going to have to
20 make an adjustment, otherwise there could be a nasty
21 surprise for the customer at the end of the EPP plan
22 year. And from that perspective, I mean it completely
23 undoes the benefits of that program.

24 MR. ERIC HOAKEN: Okay. So just coming
25 back though to the document that you and I were looking

1 at in Mr. Peters' brief, I think we've agreed that this
2 doesn't show what the experience would look like for EPP
3 customers. You've just given me an explanation about
4 what you think it would look like.

5 But this analysis, as I understand it
6 though, that you've prepared, is to deal with bill
7 volatility; that's right?

8 MR. HOWARD STEPHENS: That's correct.

9 MR. ERIC HOAKEN: It doesn't speak to
10 rate volatility, per se?

11 MR. HOWARD STEPHENS: No, the premise
12 being that customers -- customers like myself have a look
13 at the bottom line on the bill. There's a lot to our
14 bill and as long as the number's not completely out to
15 lunch, the rest goes in the garbage and I pay the bill.

16 MR. ERIC HOAKEN: And I think what you
17 quite fairly said to Mr. Holloway, when he was asking you
18 about this -- I think it was Mr. Holloway -- is that this
19 graph, Attachment 2(b), really is just a snapshot of the
20 market at a point in time, and that in any other time it
21 could look quite different than this.

22

23

(BRIEF PAUSE)

24

25 MR. ERIC HOAKEN: I take it Mr. Barnlund

1 didn't like my use of the word "snapshot".

2 MR. HOWARD STEPHENS: Well, yes, it's --
3 it's a big snapshot you're talking about. We're talking
4 about seven (7) years here. That's Attachment 2(b), is
5 it not?

6 MR. ERIC HOAKEN: 2(b), yes.

7 MR. HOWARD STEPHENS: That's the one with
8 the lines that you thought looked like your cardiac
9 situation.

10 MR. ERIC HOAKEN: I'm sure my cardiac
11 situation looked different before you just gave me that
12 last answer.

13 And -- and this looks to me -- okay. So
14 what you're saying though, I take it, is that at any
15 given time with the market doing what it's going to do,
16 this picture could look different.

17 MR. HOWARD STEPHENS: That's an
18 indication over the course of the last, what is it, six
19 and a half, (6 1/2), seven (7) years. No, I cannot say
20 that they will look the same in a forward-going basis
21 because nobody can predict what the market's going to do.

22 But if the indications and similar
23 volatility that we've seen to this point in time are any
24 indication; and I'm the first to admit that history is
25 not a good predictor of the future -- but then, I mean

1 this -- there is going to be some similarity with respect
2 to this.

3 MR. ERIC HOAKEN: Okay, let's change
4 gears, Mr. Wiens, I think you're up now. Bad debt, is
5 that your bailiwick?

6 MR. ROBIN WIENS: Let's see where we go,
7 Mr. Hoaken.

8 MR. HOWARD STEPHENS: All right. I don't
9 think we're going to go very far. As I understand it,
10 Centra has quantified the amount of fifty thousand
11 dollars (\$50,000) as representing the amount that is
12 being underpaid by retailers on account of bad debt.

13 Am I right about that?

14 MR. ROBIN WIENS: Centra's prepared an
15 estimate that suggests on the basis of past price
16 differentials that customers of the marketers would have
17 experienced, on a per capita basis, more bad debt than
18 customers of Centra.

19 And that amount would be in the order of
20 fifty thousand dollars (\$50,000).

21 MR. ERIC HOAKEN: All right. And there -
22 - there's no analysis that's been done by Centra that
23 suggests, for example, that customers of retailers have a
24 worse bad debt experience, is that right?

25 MR. ROBIN WIENS: No, the number we

1 prepared assumes that customers of retailers have a
2 similar bad debt experience to customers of Centra.

3 MR. ERIC HOAKEN: Or in fact, isn't it
4 assumed they have the same profile?

5 MR. ROBIN WIENS: Yes.

6 MR. ERIC HOAKEN: And, if I understand it
7 correctly, your bad debt expense that you set up for all
8 customers is recovered through your distribution rate,
9 correct?

10 MR. ROBIN WIENS: Correct.

11 MR. ERIC HOAKEN: And therefore recovered
12 from all customers.

13 MR. ROBIN WIENS: Correct. It's
14 recovered through the rates charged to all customers.

15 MR. ERIC HOAKEN: That's a better way of
16 putting it.

17 Now, back to you, Mr. Stephens. You had
18 said on the subject of volumetric requirements that the
19 previous threshold was function of a TCPL requirement.
20 Am I right about that?

21 MR. HOWARD STEPHENS: Yes, it reflected
22 the previous terms and conditions prior to them
23 converting to volume -- volumetric metric.

24 MR. ERIC HOAKEN: Which happened when,
25 Mr. Stephens?

1 MR. HOWARD STEPHENS: I'll say 1995, but
2 I wouldn't -- don't think I want to be quoted on that.
3 Subject to check.

4 MR. ERIC HOAKEN: All right. I -- I
5 understood it was in the same time frame. So since that
6 time, am I correct then, that there's been no external --
7 external factor or requirement that has driven Centra's
8 volumetric requirement to the retailers?

9 MR. HOWARD STEPHENS: No, that's correct.
10 I mean -- although, I mean, it really has not become an
11 issue. Certainly, we've had a number of discussions with
12 respect to the broker market.

13 I did so -- initiated that as a process as
14 a part and parcel of our -- negotiating our new gas
15 supply contract.

16 MR. ERIC HOAKEN: Well --

17 MR. HOWARD STEPHENS: And it certainly
18 has never been an issue with respect to that.

19 MR. ERIC HOAKEN: Didn't the retailers
20 raise it in the 2000 hearing? The WTS Hearing?

21

22 (BRIEF PAUSE)

23

24 MR. HOWARD STEPHENS: Mr. Hoaken, I think
25 that -- I mean I'm taking that 1995 date back. Sorry,

1 I'm going to be a welcher. But I think that when we
2 developed that number, that was in full consultation with
3 all of the stakeholders with respect to the process of
4 developing the WTS.

5 So, if that number was there at that point
6 in time, then I would stand corrected in terms of -- or I
7 would state that, subject to check again, that we were
8 still dealing on a volumetric basis and that's why we
9 used that number.

10 MR. ERIC HOAKEN: Still dealing with TCPL
11 on a volumetric basis?

12 MR. HOWARD STEPHENS: Yes.

13 MR. ERIC HOAKEN: Yeah. Could you then
14 undertake to make best efforts to determine when that
15 change was implemented? My understanding -- it may or
16 may not assist you -- but my understanding was that it
17 had been in 1998, the change was made.

18 MR. HOWARD STEPHENS: Okay, well I'm -- I
19 will certainly undertake that.

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

21

22 --- UNDERTAKING NO. 14: Centra to determine for
23 DEML/ESMLP when they stopped
24 dealing TCPL on a volumetric
25 basis

1

2 CONTINUED BY MR. ERIC HOAKEN:

3 MR. ERIC HOAKEN: All right. Thank you.
4 But, in any case, you had understood, I take it, from
5 statements made by representatives of the retailers in
6 proceedings and also informally, that they were looking
7 to reduce the volumetric requirement for them when
8 enrolling customers, is that fair?

9 MR. HOWARD STEPHENS: My recollection of
10 the process was that was not a major point of contention.
11 Certainly, they wanted to be able to is put a -- I mean,
12 aggravate as few customers as possible so they could
13 bring them to the system or to the direct purchase.

14 But I don't recall that as being a
15 significant issue.

16 MR. ERIC HOAKEN: All right. But it was
17 an issue, nonetheless, that they had raised. You just
18 didn't perceive it as being their biggest concern.

19 Is that what you're saying?

20 MR. HOWARD STEPHENS: You want to run
21 your statement by me again and I'll see if I agree.

22 MR. ERIC HOAKEN: Sure. I think what
23 you've told me is that you -- you understood it to be an
24 issue that was being raised by the retailers, but you
25 didn't understand it to be a major concern for them.

1 Is that fair?

2 MR. HOWARD STEPHENS: We had a variety of
3 issues that needed to be resolved. That was one of them,
4 yes.

5 MR. ERIC HOAKEN: Sorry, that was one of
6 them?

7 MR. HOWARD STEPHENS: Yes.

8 MR. ERIC HOAKEN: And just help me
9 understand then, has Centra been in the position since
10 the time of the TCPL change, which you're going to look
11 into; has it been in a position to accommodate the -- the
12 request from the retailers to change the volumetric
13 requirements?

14 MR. HOWARD STEPHENS: If there was a call
15 for it, yes.

16 MR. ERIC HOAKEN: And, I understood you
17 to say in your evidence earlier that it is something that
18 you can do and something that you're indeed going to do;
19 it's just there's been a bit of a holdup, is that right?

20 MR. HOWARD STEPHENS: It really was not
21 an issue from my perspective. I had not heard concerns
22 or complaints with respect to it.

23 So from that perspective, it does allow --
24 I mean -- I mean, as it stands right now, a hundred and
25 thirty (130) to a hundred and forty (140) -- I mean a

1 batch of a hundred and thirty (130), a hundred and forty
2 (140) customers to be signed up on a contract.

3 Now we're talking a balance as low as
4 potentially four (4) customers. Now I don't know how
5 finely you want to slice this, but certainly we're
6 prepared to look at it, I mean, recognizing all --
7 recognizing ways, though, that the more contracts we get,
8 the longer it takes to process and more administration
9 costs incur and on and on and on.

10 MR. ERIC HOAKEN: Okay. And just back to
11 what you said. You said you didn't understand it was an
12 issue. But when you read the pre-filed evidence of the
13 retailers in this proceeding, you certainly understood it
14 was something they -- they were concerned about, right?

15 MR. HOWARD STEPHENS: Yes, and I think we
16 responded in one of the IR's that we were prepared to
17 deal with it.

18 MR. ERIC HOAKEN: Okay. And so I guess
19 that's what I'm trying to understand is what commitment
20 are you making, first of all.

21 And I think you did testify to this, but
22 secondly, more importantly, when are you going to
23 implement the change?

24 MR. HOWARD STEPHENS: Well, I can't give
25 you a specific date because I want to make sure that I

1 understand all of the ramifications associated with it.
2 But it's something, once we get out of here, we'll be
3 looking at.

4 MR. ERIC HOAKEN: So does that mean you
5 haven't decided whether you're going to do it?

6 MR. HOWARD STEPHENS: I'm not going to
7 give you an absolute answer with respect to it, Mr.
8 Hoaken, simply because I don't -- I haven't had time to
9 think it through in terms of what the potential
10 ramifications could be and potential costs associated
11 with administering it.

12 But I can give you a strong indication
13 that we'll look very favourably upon it.

14 MR. ERIC HOAKEN: And --

15 MR. HOWARD STEPHENS: There would have to
16 be a very good reason for not doing it. Let's put it
17 that way.

18 MR. ERIC HOAKEN: And what commitment, if
19 any, can you give to this Board about the time frame in
20 which you're going to do that and report back?

21 MR. HOWARD STEPHENS: Well, given that
22 we're getting to the point in the time -- or the time of
23 the year where we're starting to become deluged with
24 these -- with new contracts, et cetera; that could slow
25 the process down because it will require a change to the

1 terms and conditions of service. The Board would have to
2 approve that.

3 So -- I mean and that's part and parcel
4 with the issues that I'm thinking about that need to be
5 resolved. So I -- I can't give you a time frame off the
6 top of my head.

7 MR. ERIC HOAKEN: And I guess I'm just
8 struggling to understand what issues you feel need to be
9 resolved, but also what analysis you're going to do to
10 resolve them. Is it just you, basically? You have to
11 sit down in a quiet moment and think about this?

12 MR. HOWARD STEPHENS: Well, that, and I
13 want to consult the people that are directly involved
14 with this and look at the pros and cons associated with
15 it. No, it's not just me. I don't -- I don't run the
16 whole gas division. I mean, I run it, but I don't do all
17 the work; I can tell you that.

18 MR. ERIC HOAKEN: Well, I'm sure it feels
19 that way sometimes.

20 So just so I'm clear when you say, Mr.
21 Stephens, you're going to sit down and consult with those
22 who are affected, I take it you'll also be consulting
23 with the retailers?

24 MR. HOWARD STEPHENS: I think so, yes.

25 MR. ERIC HOAKEN: Now, the issue of the

1 retailers wanting monthly enrollments is also not a new
2 issue, right, Mr. Stephens?

3 MR. HOWARD STEPHENS: No.

4 MR. ERIC HOAKEN: No, that's not right?

5 MR. HOWARD STEPHENS: No, it's not an
6 issue.

7 MR. ERIC HOAKEN: No, it's not a new
8 issue?

9 MR. HOWARD STEPHENS: Not a new issue.

10 MR. ERIC HOAKEN: I'm sure we'll get
11 there finally.

12 So let -- let me put it another way. You
13 -- you've known for some time that this is something that
14 the retailers are concerned about, right?

15 MR. HOWARD STEPHENS: It was made quite
16 plain to me at one (1) of the hearings, yes.

17 MR. ERIC HOAKEN: Right. And that would
18 have been the hearing in 2000; the hearing into the -- I
19 believe it was the hearing into the WTS?

20 MR. HOWARD STEPHENS: No, it's been more
21 recent than that.

22 MR. ERIC HOAKEN: Well, has it happened
23 more than once?

24 MR. HOWARD STEPHENS: Well, the issue, as
25 I understand it, I mean, and the testimony that I gave

1 with respect to this issue when it was tabled was I
2 didn't understand it to be a significant issue, and once
3 I did understand it was a significant issue, we
4 addressed.

5 MR. ERIC HOAKEN: All right. And that's
6 what I want to talk about, really, is that we know that
7 you negotiated a new contract with Nexen and that has
8 taken effect or is taking effect this fall; is that
9 right?

10 MR. HOWARD STEPHENS: That's correct.

11 MR. ERIC HOAKEN: And I take it that in
12 the course of those negotiations, you obtained monthly
13 enrollments but at a cost of half a cent a Gj on your
14 baseload, right?

15 MR. HOWARD STEPHENS: Yes, and I think I
16 indicated that I thought that was a very fair price.

17 MR. ERIC HOAKEN: Right. And prior to
18 concluding the contract, did you canvass the retailers to
19 get their views on the fairness of the price?

20 MR. HOWARD STEPHENS: Not in the process
21 of negotiating the contract.

22 MR. ERIC HOAKEN: At any time did you,
23 Mr. Stephens?

24 MR. HOWARD STEPHENS: No, sir.

25 MR. ERIC HOAKEN: And so this is a price

1 -- this is what you say you think is a fair price, but
2 it's also a price that you're planning to pass on 100
3 percent to the retailers?

4 MR. HOWARD STEPHENS: That's our
5 recommendation, yes.

6 MR. ERIC HOAKEN: So you -- you would be,
7 in a sense, cost neutral or indifferent to what that cost
8 is given that you plan to lay it off on somebody else,
9 right?

10 MR. HOWARD STEPHENS: No, I mean the
11 potential is for that to be laid on the system-supply
12 customers. I should give you indication though. I did
13 provide a report -- I think we'll be talking about that
14 little bit later -- in July of 2005 where I addressed
15 this issue in terms of the concerns that the brokers had
16 and the cost associated with providing more frequent
17 opportunities.

18 And the cost I was quoted at that time
19 was two (2) cents. So we've got this for a fraction of
20 what we originally thought the cost was going to be.

21 MR. ERIC HOAKEN: And is it fair to say
22 that Centra's got considerable bargaining power with
23 Nexen given the quantity of the gas it purchases?

24 MR. HOWARD STEPHENS: Well, I think we
25 have a very -- it's a mutually beneficial arrangement. I

1 don't know that we have anymore market power than any
2 other counterpart. I mean certainly their assets mix
3 with ours very well, so from that perspective, we can get
4 economies out of that arrangement.

5 And with respect to this amount, this is
6 something -- I mean whether you want to believe it or
7 not, I mean, I actually turned down the first offer, I
8 mean, and pressed for a redu -- I mean, a lower cost so
9 that -- it would be beneficial or less painful than the
10 alternative.

11 MR. ERIC HOAKEN: So was this the second
12 offer then?

13 MR. HOWARD STEPHENS: That's right.

14 MR. ERIC HOAKEN: And just going back,
15 though, to the nature of the relationship between Centra
16 and Nexen; certainly, as we heard yesterday, the nature
17 of the relationship is that you're able to secure some
18 concessions from Nexen at no cost?

19 MR. HOWARD STEPHENS: I don't know that I
20 would -- I -- I wouldn't agree that we can obtain the
21 concessions at no cost. There's a cost to everything,
22 just where it materializes is -- is more -- more the
23 matter.

24 MR. ERIC HOAKEN: And who pays the
25 costs?

1 MR. HOWARD STEPHENS: In the end, the
2 customers, assuming they're prudently acquired.

3 MR. ERIC HOAKEN: Although in the case of
4 this half a cent of Gj it may well -- I understand it's
5 Centra's proposal to have direct purchase customers pay
6 that, in which case there's going to be no -- there's
7 going to be no kind of consideration about whether those
8 were prudently acquired.

9 MR. HOWARD STEPHENS: It's our intention
10 to generally identify costs for various services, and the
11 customers that take -- have the benefit associated with
12 all those costs, will -- we will try to collect those
13 costs from them. As opposed to the current situation,
14 where we take all of our costs and spread them all across
15 the whole customer base.

16 So if this -- in this situation, where it
17 required an incremental cost associated with providing --
18 and I mean this is not customers necessarily that are
19 benefiting -- but you can argue with me if you will --
20 but it's more for the brokers to get customers onto the
21 system more frequently.

22 So from that perspective, the brokers were
23 the ones that requir -- requested this sur -- change to
24 the contract. We've responded, provided what was asked
25 for, and from our perspective -- well, in fact Ms.

1 Ruzycki thanked me and -- in one of the documents that
2 was filed with the -- with the Hearing.

3 MR. ERIC HOAKEN: I think that was before
4 you tried to stick her with the bill though, Mr.
5 Stephens.

6 MR. GREG BARNLUND: I just want to
7 clarify, Mr. Hoaken, that we're not -- that we're looking
8 to take this incremental amount and flow it into broker -
9 - or monies to be recovered from brokers to the broker
10 fees, and -- because we are undertaking this at the
11 request of the brokers to be able to provide this
12 additional flexibility.

13 And the brokers receive the benefit of the
14 flexibility, because they're able to have customers
15 potentially flow gas sooner and therefore retrieve --
16 recover revenues from there sooner, and therefore there's
17 some cash flow benefits to the brokers specifically,
18 first up.

19 MR. ERIC HOAKEN: Any benefits at all to
20 consumers; the fact that they make a choice and they're
21 able to have that choice implemented sooner?

22 MR. GREG BARNLUND: Well, I think that
23 that's a much more obscure thing to answer, because I'm
24 not sure -- certainly from the brokers perspective, you
25 can quantify that in terms of dollars and cents, in terms

1 of improved cash flow.

2 MR. ERIC HOAKEN: Now, back to you, Mr.
3 Stephens. Nominations, this is also an old chestnut,
4 right? This has been an issue raised by the retailers
5 for some time?

6 MR. HOWARD STEPHENS: Since the beginning
7 of time.

8 MR. ERIC HOAKEN: Yes, maybe earlier.
9 And let me just ask you a factual question.

10 What weather service does Centra use along
11 with its forecasting methodology?

12 MR. HOWARD STEPHENS: We've tried them
13 all.

14 MR. ERIC HOAKEN: And what is it
15 currently using?

16 MR. HOWARD STEPHENS: AccuWeather.

17 MR. ERIC HOAKEN: Excuse me?

18 MR. HOWARD STEPHENS: AccuWeather.

19 MR. ERIC HOAKEN: And how does Centra
20 determine the contractual requirements for customers, and
21 how does it set the quarterly requirements currently?

22 MR. HOWARD STEPHENS: We look at the
23 customers history, do a calculation of the MDQ, using a
24 regression process, and on the basis of that we establish
25 what the customers daily MDQ is going to be -- will be,

1 on the basis of a normal year consumption.

2 MR. ERIC HOAKEN: And how and through
3 what means is that communicated then to retailers? And
4 how specifically are retailers told if and when there's
5 going to be an imbalance?

6 MR. HOWARD STEPHENS: As we find out
7 whether or not there's going to be an imbalance. As I
8 indicated, this is done on the basis of normal year
9 volumes, so the extent that the weather is significantly
10 colder or warmer than normal -- I mean as the year
11 progresses, as we move through the process -- the
12 different seasons -- then we will advise the brokers that
13 the MDQ may need to be changed. Or the vol -- not
14 necessarily the MDQ, but the amount of gas that we'll be
15 taking from them on a daily basis will be changed.

16 MR. ERIC HOAKEN: How does Centra strive
17 to have broker imbalance amounts trend to zero by the end
18 of the contract?

19 MR. HOWARD STEPHENS: Well, if you're
20 beginning it -- beginning it in November -- I mean, very
21 often in November, by the time we get to November 1st,
22 the beginning of the gas year, the temperatures are
23 sufficiently cold that we are using all of our pipe --
24 TCBL pipeline capacity of which the broker gas is moved
25 on.

1 And we would -- we would be moving that
2 amount at essentially 100 percent load factor, unless we
3 have warm spells and that will drop it and that -- from
4 that perspective we would reduce the amount of gas that
5 we take from our supply up -- supplier and do a pro rata
6 adjustment with the broker suppliers.

7 And then as we progress through the course
8 of the year we will determine as to -- at the end of the
9 storage year how much has been taken by the customers,
10 relative to their actual consumption, and then we will
11 build a refill plan that will return the gas that we have
12 loaned to the customers -- or to the brokers to manage
13 the -- to satisfy those customers and then as well as
14 balance it during the course of the summer.

15 Now, that plan is going to be fully
16 subject to all the variables associated with -- with
17 weather because the plan is initiated -- the refill plan
18 is initiated -- in April. And there are times where
19 April can be akin to June or akin to February, and our
20 plan is entirely dependent upon that.

21 And if it is a very, very cold spring or a
22 very warm spring. and in particularly the warm, it could
23 throw our storage plan out -- out the window. We need
24 the capacity in the gas just to serve the market.

25 MR. ERIC HOAKEN: But if I'm

1 understanding that correctly, won't Centra benefit from
2 monthly changes that are allowed on TCPL?

3 MR. HOWARD STEPHENS: Which monthly
4 changes on TCPL?

5 MR. ERIC HOAKEN: Well, are there not
6 monthly changes that are made by TCPL?

7 MR. HOWARD STEPHENS: We change under our
8 Nexen contract, the baseload amount.

9 MR. ERIC HOAKEN: On a monthly basis?

10 MR. HOWARD STEPHENS: On a monthly basis.
11 And now, I mean given the provisions of this contract and
12 the flexibility that we've gotten, we can only have to
13 forecast our baseload requirements, which are take or pay
14 each day a -- one (1) month in advance; whereas before we
15 had to do it for each of the discreet months, but
16 starting on November 1st, covering off November,
17 December, and January.

18 So -- I mean from that perspective we have
19 a little bit more flexibility, in terms of trying to
20 manage our baseload supplies.

21 MR. ERIC HOAKEN: And I -- I may have
22 missed it, but did you answer my question about how the
23 MDQs are communicated to retailers?

24 MR. HOWARD STEPHENS: No, I'm not sure of
25 the specific mechanism but I would imagine it's by email

1 or some similar form of information.

2 MR. ERIC HOAKEN: Who -- who does that?

3 MR. HOWARD STEPHENS: Our direct purchase
4 group.

5 MR. ERIC HOAKEN: And how often do they
6 do it?

7 MR. HOWARD STEPHENS: When there's a
8 change. I think we should be clear as to exactly what it
9 is we're talking about, too. It's -- there's the changes
10 with respect to the MDQ and there are changes to daily
11 nominations.

12 MR. ERIC HOAKEN: Right.

13 MR. HOWARD STEPHENS: And never the two
14 (2) shall meet --

15 MR. ERIC HOAKEN: I think I understand
16 that.

17 MR. HOWARD STEPHENS: Okay.

18

19 (BRIEF PAUSE)

20

21 MR. ERIC HOAKEN: All right. This may be
22 a good time to break, Mr. Chair, if that's acceptable?

23 THE CHAIRPERSON: Very good. We will be
24 back in fifteen (15) minutes. Thank you.

25

1 --- Upon recessing at 10:25 a.m.

2 --- Upon resuming at 10:49 a.m.

3

4 THE CHAIRPERSON: Ms. Murphy, you have
5 more undertakings that are already complete?

6 MS. MARLA MURPHY: Yes, sir, we do. I
7 have circulated our response to Undertaking number 8,
8 which I believe should be Centra Exhibit 19, and
9 Undertaking number 9, which would be Centra Exhibit 20.

10

11 --- EXHIBIT NO. CENTRA-19: Response to Undertaking 8

12

13 --- EXHIBIT NO. CENTRA-20: Response to Undertaking 9

14

15 THE CHAIRPERSON: Thank you. Thank you
16 for your timeliness.

17 Mr. Hoaken...?

18

19 CONTINUED BY MR. ERIC HOAKEN

20 MR. ERIC HOAKEN: Thank you. Back to
21 you, Mr. Stephens, just to finish off on nominations.

22 In view of the way that things work now,
23 isn't the gas of retailers being used by Centra to help
24 balance its portfolio?

25 MR. HOWARD STEPHENS: No, it's helping

1 fulfill part of our portfolio because some customers have
2 elected to purchase that gas. So it's displaced the gas
3 that we would otherwise buy from a -- otherwise buy from a
4 different supplier.

5 MR. ERIC HOAKEN: And -- and what's the
6 distinction you're drawing between my word "manage" and
7 your word "fulfill"?

8 MR. HOWARD STEPHENS: Well, manage and
9 assist in -- I mean, I got from your question, "assist in
10 balancing our portfolio," and that's not the case.

11 MR. ERIC HOAKEN: All right. And if I
12 understood you correctly though, the other day when we
13 were talking in general terms about a possible Centra
14 fixed price offering, you -- you certainly did say -- and
15 the transcript will bear us out on this -- that the --
16 the plan would be to use Centra's portfolio to help
17 balance for the purposes of offering a fixed-price
18 product, correct?

19 MR. HOWARD STEPHENS: I don't recall
20 saying that, sir.

21 MR. ERIC HOAKEN: Okay. I'll -- I'm
22 quite content to rely on what's in the transcript.

23 Now, can we go back to your Exhibit 17
24 that you very proudly took me to against my will earlier
25 this morning. I had a chance to take a look at this at

1 the break.

2 And as I understood what you were telling
3 me, when we got -- and I'm looking at this graph; the
4 three (3) coloured graph -- and as I understood it, when
5 we got to the part with the big price spikes, what you
6 were proudly telling me was, Gee, look how good our
7 hedged product is because look how well it performed
8 compared to what an unhedged product would have looked
9 like.

10 Is that essentially what you were trying
11 to tell me, Mr. Stephens?

12 MR. HOWARD STEPHENS: Yes. Whether I was
13 proudly telling you that, I don't know. But I certainly
14 will agree with your premise in terms of what this graph
15 demonstrates is without hedging, I mean, the customers
16 are subject to much more volatility.

17 MR. ERIC HOAKEN: Right. Didn't you
18 leave out an important detail, though? Because that
19 brown line would have looked a lot different had there
20 not been intervention of this Board; isn't' that fair?

21 MR. HOWARD STEPHENS: Yes, but you're
22 asking me to speculate as to the results. And I will
23 agree with you it looked different, but I think the
24 difference would -- actually would have been beneficial.

25 MR. ERIC HOAKEN: Well, here's the

1 beautiful part, we actually don't need to speculate
2 because what we know -- you can take it subject to check
3 -- but Centra came forward with a proposed rate of
4 thirty-five point zero six (35.06) -- I think that's
5 cents, per metre cubed -- or cubed metre.

6 That was Centra's proposal for the
7 November 1 RSM, correct?

8 MR. HOWARD STEPHENS: I'll take your
9 word, subject to check.

10 MR. ERIC HOAKEN: Okay. And, as a result
11 of the intervention of this Board, the rate that was
12 approved was less than that?

13 MR. HOWARD STEPHENS: That's -- that's
14 correct.

15 MR. ERIC HOAKEN: And I'm going to
16 suggest to you, subject to check if you like, that it was
17 thirty-two point zero cents (32.0)per metre cubed.

18 MR. HOWARD STEPHENS: I'll take it,
19 subject to check.

20 MR. ERIC HOAKEN: Okay. So although your
21 graph doesn't, as you pointed out earlier, have a time
22 line, you'll agree with me that the price spikes that
23 we're looking at are in the time frame of October or
24 November, 2005?

25 MR. HOWARD STEPHENS: That's correct.

1 magnitude in the dark blue line that was just for the
2 prior period.

3 MR. ERIC HOAKEN: Well, I think you're
4 answering a question I didn't ask you. I'm just
5 suggesting to you that this isn't an accurate depiction
6 of what the world would have looked like in ordinary
7 circumstances, right?

8 This brown line -- this is the only part
9 of the graph where this is the case. This brown line
10 appears as it does because of intervention of this Board.

11 MR. HOWARD STEPHENS: Only to a very,
12 very small degree, Mr. Hoaken.

13 MR. ERIC HOAKEN: Well, I guess we can
14 debate that. It's a difference -- all right, well, I
15 think we can all, in our minds, draw that line and see
16 what the graph would look like.

17 But I think you're agreeing with me; it
18 would look different than it does on this graph.

19 MR. HOWARD STEPHENS: By a small amount,
20 yes.

21 MR. ERIC HOAKEN: I hear you keep saying
22 that. Now let's go back to you, Mr. Kuczek.

23 You and Mr. Holloway had a discussion the
24 other afternoon about complaints and you did so in
25 reference to PUB/CENTRA-33.

1 I don't think you need to turn it up.
2 You're certainly welcome to if you'd like to. I'm not
3 going to ask any detailed questions on that document.

4 But I think you -- you told Mr. Holloway,
5 in the course of that discussion, that Centra had
6 received -- for the period July 26th to August 26th,
7 you'd received approximately twenty-five (25) complaints,
8 is that right?

9 MR. LLOYD KUCZEK: Correct.

10 MR. ERIC HOAKEN: And I understood you to
11 say that was a fairly typical volume, is that right?

12 MR. LLOYD KUCZEK: As I recall, yes.

13 MR. ERIC HOAKEN: And I also heard you
14 say as you were discussing the EPP adjustment issue, that
15 Centra's had to deal with a fair amount of customer
16 concern and, indeed, in some cases, anger, I take it.

17 MR. LLOYD KUCZEK: During that period?

18 MR. ERIC HOAKEN: Yes.

19 MR. LLOYD KUCZEK: I believe some
20 customers called during that period. I'm not sure
21 exactly which billing cycle it started. But certainly
22 during August I know we had some customers phone us about
23 the -- that issue.

24 MR. ERIC HOAKEN: Right. And indeed as -
25 - as I understand it, you -- you had not -- as of the

1 26th of August, you had not even completely determined
2 the cause and extent of this problem.

3 I understood from your evidence to me a
4 couple of days ago that it -- it was in the period in
5 early September where you had a chance to look into this
6 and acquired your full understanding of the problem.

7 Is that fair?

8 MR. LLOYD KUCZEK: That was when I looked
9 into, yes.

10 MR. ERIC HOAKEN: And so is it reasonable
11 to assume that for the period of August 26th to September
12 26th, it's possible, or indeed likely, that we're going
13 to see a higher volume than usual of Centra complaints?

14 MR. LLOYD KUCZEK: I'm -- I'm not certain
15 of that. The -- the complaints that we receive varies
16 month by month, and so whether it'll be higher or not --
17 there's shifts as I mentioned in the wintertime -- You
18 know, we've got those meter readers that walk on their
19 shrubs under the snow. And storms will sometimes cause
20 complaints, and yet storms in the rural areas don't cause
21 complaints because customers out there have grown to
22 expect that.

23 And so they don't usually phone and
24 complain about the power outage, whereas in the city it
25 might be different.

1 MR. ERIC HOAKEN: So what you're telling
2 me is that the volume of complaints will vary with
3 activities that are going on that might be expected to
4 provoke complaints?

5 MR. LLOYD KUCZEK: Yes. And throughout
6 the year I don't see -- I don't see the number being that
7 volatile, is what I noticed. But I don't track it, I
8 just kind of -- and I get these reports that I look at
9 and nothing stands out in my mind in terms of the
10 substantial increases.

11 MR. ERIC HOAKEN: Okay. And in speaking
12 with Mr. Holloway about the -- the complaints that had
13 been received about retailers, I think what you said was
14 that this volume for this period of time seemed to you to
15 be somewhat more than was typical, is that fair?

16 MR. LLOYD KUCZEK: Well, what had
17 happened was I don't get the reports, and our customer
18 contact centre doesn't record the broker complaints. And
19 so what had happened prior to the Hearing; and I sent an
20 email to the manager of the contact centre asking her to
21 -- if she can provide me with some information.

22 And so -- 'cause we weren't recording and
23 she asked her staff to start recording it so we had some
24 idea of what was going on. And then -- and so that was
25 the information I had.

1 MR. ERIC HOAKEN: All right. So you --
2 you couldn't say, in fairness to you, you -- you
3 couldn't say if this is a typical volume of complaints or
4 not because you don't typically track it?

5 MR. LLOYD KUCZEK: That's right.

6 MR. ERIC HOAKEN: Okay. And I think what
7 you also said quite reasonably is that the -- the volume
8 of complaints that you're going to see may well depend on
9 what's going out in the marketplace -- or sorry, what's
10 going on in the marketplace?

11 MR. LLOYD KUCZEK: Correct.

12 MR. ERIC HOAKEN: So what activities the
13 retailers are engaging in, because just like you, there
14 could be certain things that they're doing that are
15 leading to a higher volume of complaints.

16 MR. LLOYD KUCZEK: That's correct.

17 MR. ERIC HOAKEN: And I also heard you to
18 say that it may not be fair or reasonable to compare the
19 volume of complaints that Centra gets from its own
20 customers with the volume of complaints that it gets
21 about retailers?

22 MR. LLOYD KUCZEK: I don't recall saying
23 that, actually.

24 MR. ERIC HOAKEN: Okay. Maybe I
25 misunderstood you. You -- you understand, though, that

1 the retailers also get calls and complaints about Centra?

2 MR. LLOYD KUCZEK: No, I didn't know
3 that.

4 MR. ERIC HOAKEN: Oh, you -- you didn't
5 know that? Does that come as a surprise to you?

6 MR. LLOYD KUCZEK: Well, I'm not sure why
7 they would phone you and complain to you as opposed to
8 just phoning us and complaining to us.

9 MR. ERIC HOAKEN: Well, we're not sure
10 why they call you and complain about us.

11 MR. LLOYD KUCZEK: Well, half the
12 customers don't seem to know that you're -- they're your
13 customer so that might explain part of it.

14 MR. ERIC HOAKEN: Well, I think even more
15 don't know they're your customers but in any case we can
16 look at the customer research together.

17 But tell me this, Mr. Kuczek, would it
18 surprise you to know that during the period of June 1 to
19 September 17, there were a total of three hundred and
20 fifty-three (353) calls received by Direct Energy
21 concerning Centra?

22 And I'm not suggesting -- just for the
23 record -- and I'm not suggesting all of those were
24 complaints, but just like you have grouped them into
25 complaints and inquiries, let's assume that that three

1 hundred and fifty-three (353) calls is complaints and
2 inquiries.

3 Would it surprise you to know that Direct
4 Energy staff had to field that volume of calls about
5 Centra or from Centra customers during that period?

6 MR. LLOYD KUCZEK: I'm not sure
7 "surprised" is the right way to describe it, but it's
8 certainly information that I wasn't aware of.

9 MR. ERIC HOAKEN: Right. So you didn't
10 know that the retailers were getting any calls, if I
11 understand your evidence correctly?

12 MR. LLOYD KUCZEK: Well, I assumed the
13 retailers are getting calls. I -- I just didn't know
14 they'd be calling you with respect to Centra matters.

15 MR. ERIC HOAKEN: All right. Now, can I
16 just come back, I think, to you, Mr. Warden, just to
17 finish off a discussion we had on Friday afternoon about
18 regulatory costs?

19 And I think what you said -- I had asked
20 you -- we were having a discussion about cost
21 allocation. You know by now that's one (1) of my
22 favourite subjects. And I was asking how, if at all, the
23 costs of this proceeding are going to be allocated to a
24 fixed price offering.

25 And I understood you to say, and you tell

1 me if I've got this wrong, but I understood you to say
2 that you weren't proposing to allocate any portion of the
3 regulatory costs to that offering; am I right about that?

4 MR. VINCE WARDEN: Yes, that's what I
5 said.

6 MR. ERIC HOAKEN: And how are you
7 calculating what the regulatory costs are associated with
8 this proceeding?

9 MR. VINCE WARDEN: We get the bills.

10 MR. ERIC HOAKEN: Well, isn't it more
11 complicated than that; because there's people like you
12 whose time is very valuable, I'm sure, who have to devote
13 a significant amount of time and energy to a proceeding
14 like this, right?

15 MR. VINCE WARDEN: Yes, and, you know,
16 the bills I was referring to are for external costs. We
17 have a method of tracking our internal costs which
18 involves employees charging to an order number and we
19 tally that up and -- and add that to the bills received
20 and come to a total cost. My own costs would be included
21 in the overhead number that we referred to earlier.

22 MR. ERIC HOAKEN: Okay. So just so I
23 understand that correctly; we've got two (2) categories
24 of costs effectively -- the internal costs and the
25 external costs, is that right?

1 MR. VINCE WARDEN: Correct.

2 MR. ERIC HOAKEN: Okay. So starting with
3 the internal costs, what I think you just told me is that
4 staff of the Utility who are involved in this proceeding
5 would track their time and keep a record of their time
6 and charge it to an order number?

7 MR. VINCE WARDEN: That's right.

8 MR. ERIC HOAKEN: And did I understand
9 you to say that you're not doing that?

10 MR. VINCE WARDEN: I don't do that
11 personally, no.

12 MR. ERIC HOAKEN: So how then, if we're
13 doing an accounting of the internal costs, then how is
14 your time accounted for?

15 MR. VINCE WARDEN: Well, as I think I
16 mentioned my -- my costs are accounted for in overhead
17 and are allocated to every order number in the
18 Corporation. So a portion of my costs would be allocated
19 to the order established for this proceeding through
20 overhead.

21 MR. ERIC HOAKEN: All right. And is
22 there anyone else then who is involved with this
23 proceeding at Manitoba Hydro who would have his or her
24 time accounted for in the same way as you?

25 MR. VINCE WARDEN: Yes, all of the

1 executive would have their -- their costs accounted for
2 in the same manner.

3 MR. ERIC HOAKEN: All right. So the
4 accounting then for the internal costs is, on the one (1)
5 hand, a detailed listing of time spent by certain non-
6 executive personnel, right?

7 MR. VINCE WARDEN: Right.

8 MR. ERIC HOAKEN: And then some notional
9 allocation of the overhead expense of executives like
10 you.

11 MR. VINCE WARDEN: Correct.

12 MR. ERIC HOAKEN: And then turning to
13 external costs; those are, I take it, disbursements.
14 Those are out-of-pocket expenses that are incurred in the
15 course of this proceeding or at least as a result of this
16 proceeding?

17 MR. VINCE WARDEN: Well, out-of-pocket
18 costs plus all the other costs that would be incurred by
19 external participants to this proceeding, yes.

20 MR. ERIC HOAKEN: Okay. Can we just go
21 through a few examples? I'll -- I'll use one that is
22 obvious to me because everyday when I leave here at lunch
23 very hungry I see a beautiful cart going into the Centra
24 room.

25 I take it there's an expense for that. So

1 was that an external cost to the Hearing that you're
2 keeping track of? I'm -- I'm jealous by the way, Mr.
3 Warden; you can tell from my question.

4 MR. VINCE WARDEN: It's not that good.

5 MR. ERIC HOAKEN: All right, beats a few
6 Timbits though, right? So just --

7 MR. VINCE WARDEN: Yes, yes, in answer to
8 your question. Yes, those -- we would receive the bills
9 for those costs and they would be grouped with the other
10 external -- well the other costs and accounted for as
11 part of this proceeding, yes.

12 MR. ERIC HOAKEN: Okay. Can you just
13 give me an idea, in general terms, of what other external
14 costs be incurring.

15 MR. VINCE WARDEN: Well, the costs of the
16 Public Utilities Board, all the Intervenors to this
17 proceeding.

18 MR. ERIC HOAKEN: All -- all the
19 Intervenors -- sorry, Ms. Melnychuk couldn't help herself
20 from laughing -- but all of the Intervenors who are
21 given funding?

22 MR. VINCE WARDEN: Correct.

23 MR. ERIC HOAKEN: Right. And then, other
24 than that, what other external costs are there?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Yeah, there are some
4 other incidental costs like the cost of the transcription
5 service that would also be included in those external
6 costs.

7 MR. ERIC HOAKEN: Okay. So you -- you
8 take the internal costs, you calculate them in the way
9 that you and I have discussed. You take the external
10 costs, boom, that's the cost of this proceeding.

11 And then how do you recover that cost?

12 MR. VINCE WARDEN: Those costs are
13 typically deferred and amortized over a future period.

14 MR. ERIC HOAKEN: Okay. But you
15 ultimately have to recover them, presumably.

16 MR. VINCE WARDEN: Yes.

17 MR. ERIC HOAKEN: And how do you do that?

18 MR. VINCE WARDEN: Those -- those are
19 recovered in our distribution rates.

20 MR. ERIC HOAKEN: All right. So, just so
21 I'm clear then, those are the rates that would be paid
22 both by system-supplied customers and direct-purchase
23 customers.

24 MR. VINCE WARDEN: That's right.

25 MR. ERIC HOAKEN: So direct-purchase

1 customers are paying part of the costs of Centra's
2 expense in this proceeding, is that fair?

3 MR. VINCE WARDEN: Ultimately, yes.

4 MR. ERIC HOAKEN: All right. Now back to
5 you, Mr. Kuczek. You -- you told us earlier that plans
6 were filed with the Public Utilities Board in relation to
7 the customer research you were proposing to do, correct?

8 MR. LLOYD KUCZEK: Correct.

9 MR. ERIC HOAKEN: And I think -- I -- I'm
10 not sure if those plans are in evidence. If they are,
11 maybe Ms. Murphy can tell me where they are.

12 But as I understood it, the -- the plan
13 that was filed with the Board proposed that the focus
14 groups were going to be conducted before the customer
15 research -- the quantitative study -- is that right?

16 MR. LLOYD KUCZEK: That was correct.

17 MR. ERIC HOAKEN: And we've heard in
18 evidence how and why and when that changed. Did you file
19 any amended plan with the Board to let them know that the
20 plans had changed?

21 MR. LLOYD KUCZEK: No.

22 MR. ERIC HOAKEN: And I take it though
23 that, at least as far as you understood it, one of the
24 reasons for filing the plan was to comply with the
25 directive of the Board in its Order 176 -- or sorry,

1 175/06?

2 MR. LLOYD KUCZEK: Yes, we were
3 responding to the request to file a plan.

4 MR. ERIC HOAKEN: And you -- you've
5 spoken in this proceeding on a number of occasions about
6 what you perceived to be the urgency in completing the
7 customer research and having it available for this
8 proceeding, right?

9 MR. LLOYD KUCZEK: Yes.

10 MR. ERIC HOAKEN: And you'll agree with
11 me there's nothing in the directive in Board Order 175/06
12 that requires Centra to have the research available for
13 this Hearing? Is that fair?

14 MR. LLOYD KUCZEK: That's correct.

15 MR. ERIC HOAKEN: And you -- you've told
16 us as well that the urgent -- so that urgency was self-
17 imposed in the sense that that was Centra's objective,
18 not an objective of the Board?

19 MR. LLOYD KUCZEK: That was a decision
20 we made -- we were ordered to do the market research.
21 There was no time line placed on that, and we made the
22 decision to try to provide that information before the
23 Hearing date.

24 MR. ERIC HOAKEN: Okay, now you say we
25 were ordered to do the market research. Is that your

1 understanding of the directive, or was your understanding
2 of the directive simply that you had to file a plan for
3 the doing of market research?

4 MR. LLOYD KUCZEK: I'd have to check the
5 -- the exact Order. I thought the Order said that we
6 would undertake some market research.

7 MR. ERIC HOAKEN: Okay.

8 MR. LLOYD KUCZEK: And we would also
9 file a plan. Sometimes I get mixed up about with -- with
10 regards to the directions provided within the context of
11 the Order, and then the actual Order itself which usually
12 comes right at the end.

13 MR. ERIC HOAKEN: Okay, but you
14 understood that the Board wanted a plan for customer
15 research that would address customer understandings and
16 preferences regarding a number of things; is that fair?

17 MR. LLOYD KUCZEK: That's correct.

18 MR. ERIC HOAKEN: And one of the things
19 was market competition, the views and preferences of
20 customers for competition in the natural gas marketplace?

21 MR. LLOYD KUCZEK: Subj -- subject to
22 check, I'd have to see --

23 MR. ERIC HOAKEN: Okay, take a look if
24 you like, I've got it open. It's page 34 of 35 of the
25 Order, and it's item F, and I'll read it to you as you're

1 turning it up. It says, the Board said:

2 "It's, therefore, ordered that Centra
3 develop plans to conduct additional
4 research into consumer understandings
5 and preferences with respect to
6 hedging, the equal monthly payment
7 plan, fixed price, fixed term offerings
8 and market competitions."

9 "Market competition."

10 MR. LLOYD KUCZEK: Correct.

11 MR. ERIC HOAKEN: All right. And so that
12 was certainly one of the things that you were mindful of,
13 I take it, as you developed the plans and, indeed, as you
14 implemented the plan to do the research, is that fair?

15 MR. LLOYD KUCZEK: Correct.

16 MR. ERIC HOAKEN: Now can you turn to the
17 brief that we marked as DEML/ESMLP Exhibit 7? This is
18 the brief of documents presented to Mr. Enns in his
19 cross-examination.

20

21 (BRIEF PAUSE)

22

23 MR. ERIC HOAKEN: And it's tab 18 I'm
24 going to have you look at, Mr. Kuczek.

25 MR. LLOYD KUCZEK: Got it.

1 MR. ERIC HOAKEN: Okay, and you see down
2 at the bottom of the page, this is part of an email
3 exchange, and you see there's an email that Mr. Enns sent
4 to Mr. Meder on the 2nd of May, 2007?

5 MR. LLOYD KUCZEK: Correct.

6 MR. ERIC HOAKEN: And did Mr. Meder
7 forward that email to you at anytime, do you know?

8 MR. LLOYD KUCZEK: This would be one of
9 the times Mr. Meder just came to my office and spoke to
10 me verbally as opposed to forwarded the email.

11 MR. ERIC HOAKEN: All right. And from
12 that discussion, you were aware that this expert upon
13 whom you were relying heavily, I think to use your
14 expression, had raised a concern about the fact that part
15 of Board's directive was not being captured in the draft
16 questionnaire?

17 MR. LLOYD KUCZEK: I was aware of this.

18 MR. ERIC HOAKEN: And that's something
19 that you and Mr. Meder discussed, I take it, at some time
20 prior to the email he sent back to Mr. Enns on the 7th of
21 May, correct?

22 MR. LLOYD KUCZEK: I would -- that
23 should have been the time frame, yes.

24 MR. ERIC HOAKEN: And you see in Mr.
25 Meder's email back to Mr. Enns, that he says, in the sec

1 -- third line, I guess, second sentence, he says:

2 "Regarding customer preference for more
3 competition, it was the consensus of
4 CAC/MSOS and Manitoba Hydro at our May
5 2nd review meeting that this would be
6 better answered by experts."

7 Do you see that?

8 MR. LLOYD KUCZEK: Yes.

9 MR. ERIC HOAKEN: And is -- is that a
10 position that was developed by you and Mr. Meder in the
11 course of the discussion that you had?

12 MR. LLOYD KUCZEK: That position was
13 agreed to with the representatives from CAC/MSOS at a
14 previous meeting.

15 MR. ERIC HOAKEN: All right. And what
16 experts were discussed at that meeting? What experts
17 were going to address the customer preference for market
18 competition?

19 MR. LLOYD KUCZEK: The experts that were
20 referred to in those discussions would be experts that
21 would be brought before this -- this Hearing here.

22 MR. ERIC HOAKEN: Right, and were they
23 experts in market research?

24 MR. LLOYD KUCZEK: The-- the experts that
25 were brought before this Hearing?

1 MR. ERIC HOAKEN: No, the experts that
2 you're saying could deal with the issue of -- this issue
3 of market competition?

4 MR. LLOYD KUCZEK: The discussion that we
5 had was with regards to how we addressed this market
6 competition issue with customers in a survey, and how --
7 how you can do that with some questions. There was a lot
8 of concern raised by CAC/MSOS whether or not that could
9 be appropriately done through the survey and asked of our
10 customers. And it was strongly suggested that that issue
11 be left to this Hearing and the Board to decide.

12 MR. ERIC HOAKEN: Strongly suggested by
13 CAC/MSOS?

14 MR. LLOYD KUCZEK: I say strongly; that -
15 - that was my perception of the discussion.

16 MR. ERIC HOAKEN: And -- and it looks
17 like what you're saying in this email -- or at least what
18 Mr. Meder is saying -- is that not only do we not need
19 the market research to deal with it, but it's going to be
20 addressed by experts at the Hearing?

21 MR. LLOYD KUCZEK: We agreed that we
22 wouldn't deal with that competition issue in the survey,
23 and it was going to be dealt with at this Hearing.

24 MR. ERIC HOAKEN: By experts?

25 MR. LLOYD KUCZEK: Whoever those experts

1 would be, yes.

2 MR. ERIC HOAKEN: Well, look at the
3 email. Go -- go back to the email. Do you see in -- in
4 the third line that this would be better answered by
5 experts.

6 So, is it your evidence to this Board,
7 that at the time you were proposing -- you and Mr. Meder
8 were proposing -- to have this issue that was the subject
9 of the Board's directive dealt by experts, you didn't
10 know who those experts were?

11 MR. LLOYD KUCZEK: We didn't know
12 specifically who they -- who there were going to be at
13 these hearings, and part of those experts would be
14 anybody that was brought forward by the Intervenors --
15 Manitoba Hydro and -- and the others present here.

16 MR. ERIC HOAKEN: But you did know that
17 they weren't going to be market research experts, fair?

18 MR. LLOYD KUCZEK: This -- we weren't
19 referring to market research people, no, that's correct.

20 MR. ERIC HOAKEN: Right. And so just
21 help me understand then. You've got a directive from the
22 Board about doing plans for market research -- or at
23 least filing plans for market research, right?

24 MR. LLOYD KUCZEK: Correct.

25 MR. ERIC HOAKEN: And in order to comply

1 with that directive, as I understand it, you file the
2 plans?

3 MR. LLOYD KUCZEK: Correct.

4 MR. ERIC HOAKEN: And then indeed you
5 were endeavouring to go beyond that by actually doing the
6 market research, to have that market research available
7 for this Hearing?

8 MR. LLOYD KUCZEK: Correct.

9 MR. ERIC HOAKEN: Okay. So then just
10 help me understand why you decided not to address that
11 part of the Board's directive that suggested the market
12 research should deal with customer preferences for market
13 competition?

14 MR. LLOYD KUCZEK: I think I already
15 testified to this, but we had discussions with the
16 representatives from CAC/MSOS and it was agreed that we
17 wouldn't include that in the -- the market research
18 survey. And so that decision was made based on that.
19 And I would add -- and I've never said this up to now in
20 this Hearing -- but my -- my position also is that when
21 you undertake market research, it doesn't mean that it
22 stops with that particular market research you're doing.

23 You always continuously do more market
24 research as you move forward. We had to make a decision
25 in terms of how much of that wish list that I discussed

1 was reasonable to incorporate for the market research
2 that we were trying to undertake in time for this Hearing
3 and so...

4 MR. ERIC HOAKEN: You were hear for Mr.
5 Enns' testimony, right?

6 MR. LLOYD KUCZEK: I was in the back room
7 for most of it.

8 MR. ERIC HOAKEN: Okay. But you
9 certainly had a chance to look at the transcript, I take
10 it?

11 MR. LLOYD KUCZEK: I didn't read all the
12 transcripts, no.

13 MR. ERIC HOAKEN: Are you aware that Mr.
14 Enns said in the course of designing the survey that it
15 was necessary, in order to cut down the length of the
16 survey, to distinguish between questions that were nice
17 to have from those that were need to have?

18 MR. LLOYD KUCZEK: Can you repeat that?

19 MR. ERIC HOAKEN: Sure. Do you remember
20 Mr. Enns saying that there was an exercise to cut down
21 the length of the survey; that's something you were aware
22 of, right?

23 MR. LLOYD KUCZEK: I was part of that.

24 MR. ERIC HOAKEN: Right. In the early
25 drafts it was longer than you wanted it to be?

1 MR. LLOYD KUCZEK: Correct.

2 MR. ERIC HOAKEN: And so, as part of that
3 process, you needed to cut out some questions?

4 MR. LLOYD KUCZEK: Correct.

5 MR. ERIC HOAKEN: And as part of that
6 process you then needed to distinguish between those
7 questions that were nice to have, as Mr. Enns put it, and
8 those that were need to have?

9 MR. LLOYD KUCZEK: I don't recall Mr.
10 Enns characterizing it that way, but we did make some
11 decisions about which -- we prioritized the questions, I
12 guess. And -- and I made some decisions about certainly
13 not deleting some because I thought they were important;
14 and I tried not to delete as many as possible, as I
15 recall.

16 MR. ERIC HOAKEN: But in the exercise --
17 exercise of prioritizing, you would give priority to
18 those areas that the Board had directed you to consider?

19 MR. LLOYD KUCZEK: We gave priority to
20 that, certainly.

21 MR. ERIC HOAKEN: And so when your expert
22 tells you he's concerned that the market research is not
23 dealing with an area of the Board's directive and you
24 reach the conclusion you've already told me about, did
25 you consider it appropriate to let the Board know that

1 you were not going to address that area they directed you
2 to address?

3 MR. LLOYD KUCZEK: I guess, you know,
4 when -- in the survey we are addressing some market
5 competition issues, so I didn't -- I didn't see us as
6 totally excluding that need. And again, you know, it was
7 a management decision based on input from CAC and MSOS,
8 and I thought it was the appropriate thing to do at the
9 time.

10 MR. ERIC HOAKEN: But you also had input
11 from the expert who you were relying upon, right?

12 MR. LLOYD KUCZEK: I believe the expert
13 was telling us that he -- his concern, if I read this
14 right, was that he reviewed the PUB Order that talked
15 about what the scope was and pointed out to us that
16 possibly we're not addressing a couple of those issues in
17 the -- in the survey.

18 MR. ERIC HOAKEN: Right. And although he
19 pointed that out, you decided to proceed as you've
20 already said for the reasons you've already stated?

21 MR. LLOYD KUCZEK: Yes. And knowing that
22 if we need to do more market research after this Hearing,
23 we still can do that as well.

24 MR. ERIC HOAKEN: All right. And one (1)
25 of the questions that got deleted and that led to the

1 concern of Mr. Enns, was the question that was originally
2 numbered question 11, and if you'd like to look, Mr.
3 Kuczek, turn to Tab 15 of the same brief. Actually,
4 don't give that back to Ms. Derksen so quickly. Tab 15
5 of that brief. And it's stroked through there you'll
6 see.

7 But this is a question that was in the
8 survey up until draft 3. And you can take it from me
9 that that's the case, I didn't -- I think I'm right about
10 that.

11 MR. LLOYD KUCZEK: This is version 3, I
12 understand.

13 MR. ERIC HOAKEN: Right. And so it came
14 out in version 4, and you're quite welcome -- if you want
15 to flip and look at version 4, you'll see it's out.

16 MR. LLOYD KUCZEK: As I recall it, that -
17 - that's when it was discussed is with -- the meeting
18 with the representatives from CAC and MSOS, which was
19 after version 3 was prepared.

20 MR. ERIC HOAKEN: Right. And I think Mr.
21 Enns has already acknowledged that this question came out
22 between versions 3 and versions 4.

23 And this question is as follows. It says:
24 "Currently there are two (2) companies
25 other than Manitoba Hydro that supply

1 residential customers with natural gas.
2 Do you feel this is enough competition
3 or do you feel there should be more
4 competition in the market?"

5 And so that's a question that the expert
6 you were relying upon had framed as being appropriate to,
7 at least in part, help address the directive for the
8 Board, right?

9 MR. LLOYD KUCZEK: I believe that's fair.

10 MR. ERIC HOAKEN: And you and Mr. Meder,
11 for the reasons you've told us, decided that this
12 question wasn't necessary and that it could come out?

13 MR. LLOYD KUCZEK: It wasn't me and Mr.
14 Meder, it was -- it was -- this was discussed as a group,
15 with representatives in CAC and MSOS, and that's when it
16 was decided. It wasn't decided by Mr. Meder and myself.
17 Mr. Meder and I decided that -- after it
18 was pointed out by eNRG, that we wouldn't re-address it
19 because we had already agreed to remove it.

20 MR. ERIC HOAKEN: But come on, Mr.
21 Kuczek, the buck stopped with you. We know there were
22 lots of other things that CAC/MSOS wanted changed in the
23 survey and you didn't agree to those, did you?

24 MR. LLOYD KUCZEK: Actually, I wouldn't
25 say there were a lot of things that we didn't agree to in

1 the end. I mean, quite simply put, not everybody got
2 exactly what they wanted out of the survey.

3 There was -- there was a lot of
4 discussions that went on and I believe, subject to those
5 requests that were provided to us in the last email from
6 CAC/MSOS after our two (2) meetings, and this was when we
7 provided them with version four (4) -- I think most of,
8 if not all of, CAC/MSOS's concerns were addressed in the
9 survey.

10 MR. ERIC HOAKEN: Well, I think the
11 record will give us a picture of how true that is.

12 But you'll agree with me that, if this
13 question -- take a look at question 11. If you'd asked
14 that question, you may well have ended up with survey
15 evidence showing that consumers were quite satisfied with
16 the number of market participants, right?

17 MR. LLOYD KUCZEK: Can't speak to what
18 the response would be.

19 MR. ERIC HOAKEN: Right. But that's
20 certainly -- could have been one of the outcomes.

21 MR. LLOYD KUCZEK: I can't say anything--

22 MR. ERIC HOAKEN: Well -- well how could
23 it not be, come on, Mr. Kuczek?

24 MR. LLOYD KUCZEK: Right. Yes, it could
25 be one of the outcomes. Yes.

1 MR. ERIC HOAKEN: Right. And if -- if
2 they'd said that, we'd have that evidence available in
3 this Hearing right now, wouldn't we?

4 MR. LLOYD KUCZEK: If we asked the
5 question, the evidence that would have -- or the survey
6 results would have been here and they'd be before this
7 Hearing.

8 MR. ERIC HOAKEN: But ultimately it was
9 your call that this question was not going to be asked?

10 MR. LLOYD KUCZEK: I -- I agreed to it at
11 the meeting, in consultations with the representatives
12 from CAC and MSOS.

13 MR. ERIC HOAKEN: But it was your call?
14 You got to make the decision and you made it?

15 MR. LLOYD KUCZEK: I guess if I -- yes, I
16 would say that's true.

17 MR. ERIC HOAKEN: Thank you, those are my
18 questions.

19 THE CHAIRPERSON: Thank you, Mr. Hoaken.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRPERSON: Ms. Murphy, do you have
24 any re-direct?

25 MS. MARLA MURPHY: No, sir, I don't.

1 THE CHAIRPERSON: Thank you.

2

3 (PANEL STANDS DOWN)

4

5 THE CHAIRPERSON: It's just before lunch,
6 but we might as well get ready for the DEML and ESMLP
7 witness panel.

8 MR. ERIC HOAKEN: I was going to ask if
9 we could start that after lunch, given that we are fairly
10 close. By the time we get the panel members over there
11 and sworn in and introduced, we're going to be pretty
12 close to the lunch break.

13 Could we wait until after the lunch break
14 to start that evidence --

15 THE CHAIRPERSON: Sounds reasonable.
16 Okay, let's come back -- we'll give you until 1:00 and
17 then we can have a good start.

18 MR. ERIC HOAKEN: Fine, thank you very
19 much, sir.

20

21 THE CHAIRPERSON: Thank you.

22

23 --- Upon recessing at 11:25 a.m.

24 --- Upon resuming at 1:03 p.m.

25

1 THE CHAIRPERSON: Okay, Mr. Hoaken, you
2 want to -- I am looking for you in the wrong place.

3 MR. ERIC HOAKEN: I was in the wrong
4 place, that's right.

5 THE CHAIRPERSON: There we are. Do you
6 want to introduce your witnesses? We will swear them in
7 and get underway.

8 MR. ERIC HOAKEN: I certainly will.
9 Thank you, Mr. Chair.

10 I'll start with my immediate right.
11 Sitting to my right is Mr. Clinton Roeder. He is the
12 Senior Vice-President of Energy Services for Canada, for
13 Direct Energy.

14 Next down the line Karen Melnychuk, who's
15 known to many, if not all of you. She is the General
16 Manager for Manitoba and British Columbia with Direct
17 Energy.

18 We next have Gary Newcombe, who is the
19 Vice-President of Government and Regulatory Affairs,
20 Canada West for Direct Energy.

21 And finally, we have Nola Ruzycki, who is
22 the Director of Regulatory Affairs with Energy Savings.

23 And with that, I think we can now have the
24 witnesses sworn.

25 THE CHAIRPERSON: Mr. Singh...?

1 DEML/ESMLP PANEL:

2

3 CLINTON ROEDER, Sworn

4 KAREN MELNYCHUK, Sworn

5 GARY NEWCOMBE, Sworn

6 NOLA RUZYCKI, Sworn

7

8 THE CHAIRPERSON: Welcome everyone.

9 Please, Mr. Hoaken.

10

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

12 MR. ERIC HOAKEN: All right. Thank you
13 very much, Mr. Chair. I'm going to start if I may with
14 Mr. Roeder. Just quickly, by way of background, Mr.
15 Roeder, you are, as I said a moment ago, the Senior Vice-
16 President of Energy Services in Canada with Direct
17 Energy, is that correct?

18 MR. CLINTON ROEDER: Yes.

19 MR. ERIC HOAKEN: And I'll come back in a
20 moment exactly what that job entails. Just quickly, by
21 way of background, you graduated from St. Mary's
22 University with a BBA in accounting in 1992, is that
23 correct?

24 MR. CLINTON ROEDER: Yes.

25 MR. ERIC HOAKEN: And then after being in

1 the workforce for some period of time, went back and
2 obtained your MBA from Tulane University, graduating in
3 1998?

4 MR. CLINTON ROEDER: Yes.

5 MR. ERIC HOAKEN: And then worked in a
6 variety of roles that we see detailed on your curriculum
7 vitae, with Union Carbide and Dell Computer?

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

9 MR. ERIC HOAKEN: And then with Vsource
10 and Sirius Satellite Radio?

11 MR. CLINTON ROEDER: Yes.

12 MR. ERIC HOAKEN: Joining Direct Energy
13 in 2003, is that correct?

14 MR. CLINTON ROEDER: That's correct.

15 MR. ERIC HOAKEN: All right. Would you
16 quickly then just explain to us, you joined the company,
17 as I understand it, as VP Finance Growth Markets; just
18 quickly give us an outline of what that role entailed?

19 MR. CLINTON ROEDER: Yes. I would --
20 then -- that role was actually based in Stamford,
21 Connecticut. The way we were structured at the time as a
22 company, our Stamford, Connecticu -- Connecticut office
23 had a -- responsibilities for the markets we were in,
24 about the north east in the US as well as the Midwest and
25 also included Georgia.

1 So at the time, those markets were
2 Michigan, Ohio, Illinois, and Maryland, in addition to
3 Georgia.

4 MR. ERIC HOAKEN: And after being in that
5 role, you then became the VP of Finance, based in Texas,
6 is that correct?

7 MR. CLINTON ROEDER: That's correct.

8 MR. ERIC HOAKEN: And, again, just very
9 briefly, could you detail for us what your role was?

10 MR. CLINTON ROEDER: Yeah. And -- and
11 one thing I didn't clarify -- just to clarify in terms of
12 the role as Vice-President of Finance, in Direct Energy
13 the role of Vice-President of Finance includes
14 responsibility for the mergers and acquisitions, the
15 treasury function, strategy, finance, accounting. Those
16 roles also included responsibility for our load-
17 forecasting group, as well as the overall load and margin
18 management for those respective businesses.

19 MR. ERIC HOAKEN: And then you were first
20 exposed to Canadian winters, I take it, in 2006, when you
21 moved to Canada.

22 MR. CLINTON ROEDER: Yes.

23 MR. ERIC HOAKEN: And at that point, you
24 became or at least entered the role that you're in now,
25 Senior Vice-President, Energy Services?

1 MR. CLINTON ROEDER: That's correct.

2 MR. ERIC HOAKEN: And would you just give
3 us an explanation of what that role entails with
4 particular emphasis, Mr. Roeder, on anything you think is
5 germane for the purposes of this Hearing and the issues
6 that are being considered?

7 MR. CLINTON ROEDER: Yes, and that
8 role in -- as part of the role, I've got responsibility
9 for the residential and small commercial business across
10 Canada in the markets that we currently serve, which
11 includes the power and gas market in Ontario, the gas
12 market in Ontario and the customer base, as well as both
13 our competitive and our regulated business in Alberta and
14 the gas business in British Columbia.

15 As part of the role, I've got
16 responsibility for managing the full profit and loss
17 responsibilities for the business, which includes
18 managing the customer care side of the business, as well
19 as working with a regulatory team and legal, as we try to
20 progress the respective markets.

21 Has also a responsibility for driving the
22 overall strategic direction of the business, including
23 both the energy side as well as our other related
24 services that Centra offers.

25 MR. ERIC HOAKEN: All right. Thank you.

1 Let me start your evidence today with a fairly broad
2 question and that is: Why is Direct Energy participating
3 in this Hearing and what does it hope to obtain or
4 accomplish?

5 MR. CLINTON ROEDER: There are Direct
6 Energy -- in all markets that we serve, one (1) of the
7 strives for us is really to offer consumers choice. And
8 our interest in this is our interest in making sure that
9 consumers do have choice to make the decisions on their
10 behalf. We really sup -- you know, we do support a
11 competitive marketplace; we think it's in the best
12 interest of consumers.

13 And as we look at the market here in
14 Manitoba -- you know, we've been in the market, Direct
15 Energy has, for the better part of fifteen (15) years and
16 during that time we've expanded the business quite a lot.
17 We now have more than a hundred (100) employees
18 throughout the province. That encompasses both the
19 support for the energy business, but also as we've
20 expanded -- in terms of our residential services
21 business, which is our -- typically, our maintenance for
22 air-conditioning, heating, et cetera, also on the
23 commercial services side of the business, and we also
24 offer energy products to the commercial and industrial.

25 If you look at energy -- Direct Energy

1 across North America and our overall landscape, you know,
2 we offer -- the basic strategy is really to offer energy
3 and related services across North America, as well as in
4 Europe.

5 We not only have a footprint, in terms of
6 offering energy, in terms of retail contracts, we also
7 take an active role in terms of managing midstream
8 assets, such as storage, throughout the various
9 locations.

10 We also have a presence in terms of
11 upstream, in terms of generation, as well as upstream gas
12 in Alberta and Texas. We own two (2) natural gas fire
13 plants as well as a wind-generation. As well as -- we
14 have a similar foothold throughout Europe. And our
15 interest, really is -- is to be able to offer a full
16 range of services to consumers where the market allows.

17 I know one (1) of the examples, also, is
18 that in our activity, even in Ontario -- where recently
19 they opened up, in terms of allowing us to participate on
20 the unbundled footprint. And I know there was some
21 reference in the evidence that we were not active and
22 that is not true; we've been active since early 2006. As
23 a matter of fact, in 2007 we doubled the activity on that
24 footprint.

25 And I think that's just further support on

1 mark -- right mark -- right market conditions, we will be
2 active.

3 MR. ERIC HOAKEN: All right. Thank you.

4 Then based on that broader experience in
5 other markets, what is Direct Energy's desired outcome
6 for Manitoba in terms of the market structure that it
7 desires or thinks is optimal?

8 MR. CLINTON ROEDER: In terms of the
9 desired market, I think what I'll touch on first is just
10 kind of a high level desired outcome, and then also then
11 go to some specifics in terms of some issues we encounter
12 here in the Manitoba market.

13 Overall, it really is -- the desired
14 outcome is to ensure that consumers has a broad a range
15 of choices as possible; a market structure to where the
16 barriers to entry are minimal, that allow for as many
17 competitors as possible to enter the markets; as well as
18 to offer as competitive pricing as possible for
19 consumers.

20 In a market such as Manitoba, and if we
21 look at some of the structure and what's in place today
22 and some of the things that prohibit our ability, there's
23 a range.

24 First of all -- I'll just touch on is in
25 terms of there needs to be a level of certainty and

1 stability in the marketplace. Use a few examples that I
2 would just highlight:

3 1. If I reference the Winter Heating Cost
4 Control Act.

5 But also just reference in terms of the
6 elimination of the evergreen, in terms of the ninety (90)
7 day renewal.

8 We entered the market -- as I mentioned,
9 we've been here fifteen (15) years when Centrica acquired
10 the business, in order for us to acquire the customer
11 base it was under certain assumptions in the marketplace,
12 and our ability and our willingness to make an investment
13 as driven based on how much certainty there is.

14 If you take the ninety (90) day ruling as
15 an example. We signed those contracts; it was under
16 certain assumptions.

17 And as I'll get into later, part of the
18 risk that we carry as a business is around things like
19 customer return, the ability to retain them long term.
20 And so all -- as market uncertainty is factored in, that
21 bill is in terms of costs that we have to factor into our
22 price as well.

23 In addition to that, just -- I would touch
24 on just briefly and then I'll go into more detail later -
25 - and Karen will follow up as well -- are just rules in

1 the marketplace that restrict our ability, in terms of to
2 not only offer as competitive products as possible but
3 also to reach as many of the citizens of Manitoba as
4 possible.

5 If you look at it -- and we've touched on
6 a number of these, but as you reference our ability, in
7 terms of multiple sell channels, we reference in there in
8 terms of our desire, in terms of that it be offered -- be
9 able to offer through telesells.

10 As many will reference, not everyone is
11 open to telesells, but if you take even some of the
12 research that was in there and reference in the past, if
13 15 or 20 percent of the market is open to telesells, they
14 should have that choice.

15 You'll hear me reference quite often as we
16 go through this, it's about consumers having the choice,
17 not for us in this room to make the call on what is right
18 for all consumers.

19 In addition to that, when you take some of
20 the market rules that are in place and you go through it
21 -- I touched on already -- already in terms of reversal
22 of the contracts -- but then you have some small-market
23 rules that are in place; for example, having to submit
24 copies of all contracts versus what is in place in most
25 markets, where what's required is for a -- a retail, like

1 our self, to retain a copy of all contracts, and upon
2 request in an audit, to submit those.

3 It's just a way to eliminate cost on --
4 and as I touch on this, I'm just -- as I go through, what
5 I would highlight for everyone -- the reason I point
6 these out; each one has a standalone, you know, if you
7 look at it in terms of sheer cost, is immaterial. They
8 all add up though. And, as you look at it, it prevents
9 us from, you know, offer as competitive a productive
10 product as we'd like.

11 If you look at it, some of things are just
12 the standard transactions that occur back and forth
13 between the utility. That's another market role. It's
14 small, but it's inefficient. Also, in that case, there's
15 some security issues. Karen will touch on that in more
16 detail.

17 The last item that's in place as in terms
18 of just the prevention in terms of -- for us -- for
19 customers to be able to approve a contract through either
20 e-signature or voice recording. Once again, you know, as
21 you look at some of it and what consumers want is the
22 option. For some people, that's what they expect across
23 everything.

24 The -- the world has changed. In terms of
25 technology, has changed with it and we're a little behind

1 on some of this in terms of the industry. And if you
2 look across other -- other provinces in -- throughout
3 Canada, as well as in the US, we have that flexibility.

4 The comment I would make is those rules --
5 all of those may seem small. But, if I compare a market
6 -- as I touched on in terms of my background -- in terms
7 of just across North America, and the different markets
8 that I've worked in; in this Province, in terms of if I
9 compare our cost in terms of acquisition cost to acquire
10 a customer under these market rules, it's more than 75
11 percent higher than any other market.

12 In addition to that, in some markets we
13 can offer in terms of a -- a CTA that's at about 10
14 percent of we offer in this market. And that just shows
15 the extreme magnitude in terms of how all these costs add
16 up, and that's what each customer is paying.

17 MR. ERIC HOAKEN: Sorry, just on that
18 CTA, Mr. Roeder --

19 MR. CLINTON ROEDER: Yes, and just to
20 clarify, you remember your reference that just in case
21 I'm -- we refer it as, that's just our cost to acquire,
22 so you will hear it referred to as an acquisition cost.

23 The other comment I'll just make is -- as
24 I touched on there -- those are certain market roles that
25 res -- kind of limit us in terms of our ability from the

1 standpoint of marketing, as well as add cost to that
2 marketing.

3 The other item that I'll just touch on is
4 just some of the items that are in place with the Utility
5 that also restrict. If you look at -- and we've touched
6 on it -- it's been touched on a few times through this
7 hearing. Karen will go into substantial more detail, but
8 their volumetrical requirements; that's one (1) -- you
9 know if you -- we talk about there's minimum requirements
10 in this marketplace.

11 If I compare it to other markets, Union
12 Gas in Ontario; the requirement, in terms of for each
13 offer that we have in the marketplace, is fifteen (15)
14 customers where for -- they'll move forward and put those
15 on flow. If I look at Enbridge Gas, one (1) customer;
16 Manitoba, a hundred (100) customers.

17 The reason I mention that is because as we
18 reference and we go through a little bit later, and we
19 explain in terms of the overall inherent cost to do
20 business, to get a hundred (100) customers on a potential
21 for pro -- potential product and at a price point; that
22 means at that point, as company, we have to leave that
23 price point open until we have a hundred (100) signed up,
24 regardless of what happens in the marketplace and the
25 movement in market prices.

1 So, as you look at that, it limits our
2 ability to be as competitive as possible, and it also
3 adds to un-satisfaction on the part of consumers.
4 Consumers expect to come on flow and they've approved,
5 they're -- they're expecting a lower rate or a higher
6 rate premium for stability. And they don't get that
7 potentially for a number of months because of a market
8 rule that's been put in place that's substantially higher
9 than any other locale.

10 The other comment I'll just briefly touch
11 on is regards to daily nominations. And I'll touch on
12 this just to highlight in advance of just the impacts we
13 carry, as a business, in terms of how daily nominations
14 are managed.

15 Karen will go into that in more detail.
16 The point -- and the reason I bring that up is just the
17 sheer increase in costs that we incur because of the
18 current process, which takes out of our hand in terms of
19 the ability to actually forecast load.

20 MR. ERIC HOAKEN: Just to pick up, then,
21 on some of those last points, Mr. Roeder; what is the
22 appropriate rule, in Direct Energy's view and in your
23 personal view, for the Utility to play in order to
24 promote customer choice, which you've referenced as being
25 an important factor?

1 MR. CLINTON ROEDER: On -- on behalf of
2 Direct and the view of the Utility should be a neutral
3 participant in the marketplace. They should facilitate -
4 - facilitate in terms of the supply competition. There
5 also should be standardised transactions in the
6 marketplace.

7 And -- and, as important as any, is really
8 the role of the utility to minimise the barriers to
9 customer mobility and look for ways to facilitate the
10 retail choice. A number of the items that I've touched
11 on previously definitely play a role in terms of
12 prohibiting that today.

13 MR. ERIC HOAKEN: All right. Let me
14 bring it back a little bit to the nature of Direct
15 Energy's business.

16 Are there any aspects of Direct Energy's
17 business in this Province that you think require some
18 further explanation; any aspects of the business that are
19 transacted or the risks that are inherent in the business
20 that's being conducted?

21 MR. CLINTON ROEDER: Yeah, I think -- one
22 of the things I -- I found interesting this morning was
23 the discussion regarding the cost in terms of the hedging
24 on -- on behalf of Manitoba Hydro today. And I think
25 it's important that everyone understands the amount of

1 risk that's involved.

2 When you offer a fixed-rate product -- and
3 to ensure that we understand in terms of -- if they --
4 Manitoba Hydro -- was to move forward, in terms of
5 offering any fixed-rate product, who would bear that
6 risk?

7 And the risk we -- you know, I'm referring
8 to, is when we go out and offer a fixed-rate product to a
9 consumer, at a point in time, we're mak -- where you're
10 taking the wholesale market rate and making assumptions,
11 and these assumptions include a number of factors,
12 including when the customers will come on flow.

13 I touched on it -- this market has a
14 minimum volume requirement. We have to make an
15 assumption when we'll fill that bucket. Weather; we talk
16 about hedging risk -- weather is a risk. Now, in this
17 market, which is interesting, is that we have to rely on
18 the accuracy of the forecasting that's done by Manitoba
19 Hydro.

20 And when they ha -- currently have access
21 to data and understand when they're going to make
22 adjustments to the daily requirements -- which are
23 referenced; that Karen will go to in more detail. But
24 our customers and our company bears that risk, even
25 though we do not have direct input into that process nor

1 as much insight into the data. That's what we feel is
2 needed.

3 MR. ERIC HOAKEN: The --

4 MR. CLINTON ROEDER: I'm sorry. The --
5 some of the items that we'd would to touch on is just the
6 ability to forecast load. So, you know, you heard the
7 reference earlier today, which -- all the assumptions
8 that need to be made.

9 We're talking about a client or
10 residential customer or small commercial. We're making
11 that assumption on their profile. We're making
12 assumptions on their usage. Not every residential
13 customer's the same. They can be substantially
14 different. We're making an assumption -- we offer that
15 fixed-rate product that we're going to get a certain
16 profile and mix.

17 We take that risk on behalf of the
18 customer. We are not asking the regulated customer base
19 to bear that risk should we be -- miss our mark and be
20 inaccurate. That's one (1) of the important points I --
21 we just highlight as we touch on -- as -- as I read
22 through a lot of evidence and what I look at.

23 That's a big item that's left out, and I
24 think it's important for all citizens to understand the
25 amount of risk there. That -- the last few things I'll

1 touch on is the other risk which is inherent in any
2 market, wish -- which is discharge risk: customers
3 moving out of a province, as well as a death that occurs
4 in a marketplace. Those are inherent in every one, and
5 that's got to be borne on the part of any company that's
6 offering a fixed-rate price.

7 The -- and the other item is just -- that
8 I did touch on in terms of volumetric and -- and the
9 likes, but just is related to overall in terms of timing
10 in the marketplace; that as we touch on in terms of flow,
11 but when we talk about things like a market role change,
12 taking away evergreen ninety (90) day, midstream.

13 Hedging decisions have already been made
14 based on market rules at a point in time and that gets
15 back into the certainty that's needed. When you go out,
16 we're locking in for five (5) years in terms of on that
17 supply. We're putting in place the various mitigation
18 steps that are -- that build up. So, when you look at
19 our cost-base on behalf of the consumer, just remind that
20 what we offer is a stable product on the part of the
21 consumer.

22 There's no hidden surprises. If the
23 weather is -- is extremely cold and the prices go up,
24 they're going to play -- pay that fixed rate price.
25 That's what we're offering is stability. We do not go

1 out there and -- and promote savings on a regular basis.
2 They do save quite often, and you'll see that in terms of
3 some of the materials that's referenced, which is
4 historically what's performed.

5 MR. ERIC HOAKEN: All right. Let me pick
6 up on that. Just turning a little bit to how gas is
7 procured.

8 What are the market factors, Mr. Roeder,
9 that affect how and when retailers, like Direct Energy,
10 procure their gas to fulfill their commitments under
11 fixed-price offers?

12 MR. CLINTON ROEDER: Every company will
13 have a different hedging strategy. So I'm -- I'm -- and
14 also in terms of it -- somewhat confidential in terms of
15 the strategies that we follow. But I will say in the
16 case of -- when you're offering a consumer a fixed rate
17 product and they don't share -- bear the risk of any
18 issues related to cost fluctuations, it can be
19 proprietary and -- and kept confidential.

20 One (1) of the concerns today, when we had
21 the discussion on the hedging piece, I would challenge
22 the assumption that consumers, in a five (5) to ten (10)
23 minute discussion, understands the amount of risk that
24 they're taking into. As a company, if I think about the
25 amount of exposure we've had across all markets -- and as

1 you look at other companies and the amount of risk that
2 they've taken on -- you have experts that have worked in
3 this field for years, that struggle with it.

4 You heard the reference in terms of --
5 from -- I can't remember -- was it Mr. -- I can't
6 remember, I apologize, one (1) of the individuals at
7 Manitoba Hydro, reference in terms of even -- they've
8 decided on one (1) source to use for weather; there are
9 multiple sources out there. As a company we rely on
10 multiple sources 'cause we know there's not one. You
11 need multiple sources to give you input in those
12 decisions.

13 I can -- you all can rest assured, we
14 spend more than a half hour a month making those
15 decisions because of the amount of risk that exist.

16 And in addition to that, part of the
17 assumptions that have to be made, as I touch on -- when
18 you go out and procure in terms of the market price: At
19 what point are you going to lock in; how much are you
20 going to lock in; are you going to fully hedge; are you
21 going to buy options, in terms of calls or puts to
22 protect your risk.

23 There's a lot of market instruments that
24 are out there. Each one (1) of those have inherent cost
25 that are built into them and depending on what transpires

1 in the market, can mitigate the financial impact, good or
2 bad, that are bad -- that can be taken.

3 But I think if you look even across
4 ourself -- Direct Energy and Energy Savings, quite
5 different just in the standpoint of how we're structured
6 as an organization.

7 Direct Energy, we have an in-house energy
8 management team; that in-house team, as I mentioned
9 earlier, leverages our overall expertise.

10 As I mentioned, in terms of we have
11 activity in the upstream gas -- on the power upstream, in
12 terms of generation. We also are very active in the
13 midstream markets. So we take all that into play and
14 take that and use that to our advantage to offer as
15 competitive a product as possible for consumers.

16 MR. ERIC HOAKEN: All right. Thank you.

17 I'm going to, I think, move on to some of
18 the other panel members, but before I do that, Mr.
19 Roeder, is there anything else you'd like to say in
20 conclusion about the position of Direct Energy or its
21 objectives in this proceeding?

22 MR. CLINTON ROEDER: Yeah, I mean, I
23 would just like to reiterate what I said at the
24 beginning, which is that for Direct Energy, you know, we
25 definitely have an interest in terms that it continue in

1 the market and to build it long term in terms of viable
2 business, across all aspects of the business and the
3 various business that we offer across North America.

4 We do have concern in terms of the
5 ability, in terms of -- to have a level playing field,
6 and to truly offer consumers choice should we -- the
7 discussion on the -- allowing Manitoba Hydro to proceed
8 in the market with a fixed rate product continue.

9 I think in terms, as we touch on
10 throughout, it would substantially limit -- in terms of
11 our ability to be competitive, both from a brand
12 awareness in -- under the current market rules, Manitoba
13 Hydro would have a substantial advantage.

14 And as we touched on, you know, one (1)
15 of the things that can be taken into account is look at
16 the overall market rules before you're going to make any
17 change in the market.

18 Should that continue, it would be
19 disheartening for us, but we'd have to make -- take a
20 long, hard look at whether or not we want to continue in
21 this market. And more than likely a decision would be
22 made not to because it would be very difficult to offer a
23 competitive price.

24 MR. ERIC HOAKEN: All right. Thank you
25 very much.

1 Let me turn, on that note, to you Ms.
2 Melnychuk.

3 Let me just very quickly give you an
4 introduction that you probably don't even need here, but
5 you have been with Direct Energy, as I understand it, for
6 the last fifteen (15) years?

7 MS. KAREN MELNYCHUK: That's correct.

8 MR. ERIC HOAKEN: And you are currently
9 the General Manager for Manitoba and British Columbia?

10 MS. KAREN MELNYCHUK: Yes.

11 MR. ERIC HOAKEN: And prior to that, were
12 the Director for Manitoba and British Columbia?

13 MS. KAREN MELNYCHUK: Yes.

14 MR. ERIC HOAKEN: Prior to that, the
15 Director for Manitoba, and prior to that the Manager for
16 Municipal Gas?

17 MS. KAREN MELNYCHUK: That's correct.

18 MR. ERIC HOAKEN: All right. And could
19 you just tell us, in general terms, what your duties and
20 responsibilities are in your current position, Ms.
21 Melnychuk?

22 MS. KAREN MELNYCHUK: Yes. As General
23 Manager for Manitoba and British Columbia, I oversee the
24 operations in both of those provinces.

25 We just, earlier this year, launched in

1 the British Columbia market so I've been overseeing that
2 market entry; that's taken over a year to do.

3 In regards to Manitoba, I've been involved
4 in this market for fifteen (15) years and I oversee all
5 the operation sales, regulatory; basically, everything to
6 do with Direct Energy in Manitoba.

7 MR. ERIC HOAKEN: Thank you. On that
8 note, then, let me again start with a broader, general
9 question, and that is: From your perspective, having
10 been in the roles we've just mentioned, for the last
11 fifteen (15) years, could you give us an assessment or
12 description of the current state of the market in
13 Manitoba and make particular reference to the role that
14 Direct plays now and has played over the past years.

15 MS. KAREN MELNYCHUK: Okay. I'll take
16 you back fifteen (15) years and we'll start there.

17 I do celebrate my fifteenth (15th)
18 anniversary with the Company next month, so I'm hoping
19 Mr. Roeder acknowledges that later.

20 We entered the market back in 1992 when
21 deregulation was opened in '91 to residential. At that
22 time, the City of Winnipeg put out an RFP, to different
23 marketers looking for a marketer of choice that they
24 could allow to use their endorsement, the city
25 endorsement.

1 Municipal Gas received that en --
2 endorsement and for the first five (5) years of Municipal
3 Gas's lifetime in Manitoba we were under certain
4 obligations of that endorsement, which included no door-
5 to-door. We were only allowed to do direct mail, but we
6 had access to Hydro bills, we had access to a different
7 city of Winnipeg inserts; like their -- their envelopes
8 and different cases, the leisure guide.

9 In -- Direct Energy's always played a part
10 in Municipal Gas as they were a partner in Municipal Gas
11 and they were the supplier to Municipal Gas. In the
12 early days under the buy/sell regime, we often hear of
13 the -- the generic hearing in '96, Direct Energy and
14 Municipal Gas both were Intervenors in that hearing.

15 Some of the parties here have acknowledged
16 they were there, I was there in the background, as well.
17 I was the one (1) running back and forth out of archives
18 for Municipal Gas and Direct Energy, pulling information
19 that -- needed.

20 Direct Energy at that time was present in
21 regards to the wholesale market. Municipal Gas was there
22 to serve the residential market, the retail market, for
23 residential and small commercial and commercial, at that
24 time. Our attendance there, again, was twofold:
25 wholesale in regards to DE and retail on -- in regards to

1 Municipal Gas.

2 Part of -- and our understanding in
3 Municipal Gas at that time, was the unbundling of the
4 merchant function of the Utility in that '96 generic
5 hearing, so that's why -- and it's been made reference
6 that there were many players that hearing. A lot of tho
7 -- those players were in regards to the wholesale market.
8 There were only, I believe one (1) or two (2) -- or two
9 (2) or three (3), I should say, there on behalf of the
10 retail side.

11 We, as Municipal Gas, anticipated that
12 that was the next step, was the -- the order that came
13 out, 15/98, which led to the implementation of the WTS in
14 2000. Again, we took the WTS hearings and stakeholder
15 meetings an the next step in the evolution for retail
16 market to -- progression here in Manitoba.

17 Part of the stakeholder meetings -- and at
18 that time I was leading the charge for Municipal Gas at
19 those meetings -- was we had to provide or -- or there
20 was a lot of consensus as the Hydro panel has testified
21 this morning, a lot of things were -- were up for to --
22 up for debate at those meetings and we conceded to
23 certain things to get other things.

24 Some of those things that we conceded to
25 were the minimum volume requirements, the 310,000 cubic

1 metres, and also the monthly enrollments; which at that
2 time we agreed to the quarterly because there were other
3 things at that point in time that we found to be greater
4 market barriers than those two (2).

5 Those we -- but those we did raise as
6 issues back at the stakeholder meetings.

7 MR. ERIC HOAKEN: And just help me
8 understand, when you say that "you conceded to them," was
9 that sort of the definitive resolution in Direct Energy's
10 view on those issues at that time?

11 MS. KAREN MELNYCHUK: No, sir. We
12 anticipated, and that's why we've been bringing it up
13 since I think 2003, that we wanted monthly enrollments,
14 we wanted the volumetric minimum requirements changed.
15 It's never been hidden that we didn't want these; it just
16 -- at that point in 2000 we conceded to not having them
17 so that we could proceed with the WTS service.

18 MR. ERIC HOAKEN: All right, thank you.
19 Let me just ask you, Ms. Melnychuk, what is the
20 significance of the fact that there are now only two (2)
21 retailers in this market, down from a number that I think
22 has been debated in the course of this proceeding, but
23 was certainly higher?

24 MS. KAREN MELNYCHUK: Yeah, under the
25 buy/sell regime there were quite a few more players. I

1 believe there were six (6) marketers in -- in -- at that
2 time in the late '90s. Direct Energy and Municipal Gas
3 at the time did acquire a couple of those competitors,
4 but at the time that WTS started in 2000, Municipal Gas
5 was the only retailer in that market -- or in the
6 residential market.

7 Since 2000, Energy Savings has entered the
8 market, which happened in 2003, and I'll let Ms. Ruzycki
9 explain as to why they did not enter in 2000, but rather
10 in 2003.

11 So actually what happened since the
12 implementation of WTS in Manitoba, the number of
13 marketers has doubled and that happened within the first
14 three (3) years.

15 MR. ERIC HOAKEN: All right. Let me just
16 ask you then about the significance of the fact you're
17 appearing here today on a panel with Ms. Ruzycki from
18 Energy Savings.

19 What is the relationship, if there is one,
20 between the two (2) companies?

21 MS. KAREN MELNYCHUK: We're very, very
22 fierce competitors. We -- we compete in the same market
23 for the same customers. I believe Energy Savings does
24 not compete on the commercial side, but in regards to
25 residential and small commercial customers we're actively

1 pursuing the same customers. So we've -- there are
2 certain things that we don't want to discuss between the
3 two (2) of us. We are fierce competitors.

4 MR. GARY NEWCOMBE: That's why I'm
5 sitting in between them.

6 MR. ERIC HOAKEN: And could you just
7 comment on the extent to which from your perspective in
8 your role, Ms. Melnychuk, this market in Manitoba is
9 functioning effectively and in keeping with expectations
10 that were discussed in the generic hearing?

11 MS. KAREN MELNYCHUK: The -- the next
12 step was taken with Board Order 15/98 leading into the
13 WTS service, and that was so customers could actually do
14 an apples-to-apples comparison on the primary gas. In, I
15 believe it was either '98 or '99, Centra did unbundle all
16 the -- the lines on their bills, so we could -- customers
17 could then see what they were paying for natural gas
18 versus the other components of their bill.

19 That was the first step. The next steps I
20 don't believe have all been fully taken yet, in regards
21 to removing other market barriers.

22 There are uncertainty or instability in
23 regards to regulatory oversight, I would say. I'm not
24 sure if "oversight" is the word. Political interference
25 and -- and when I say "interference" I'm relating to the

1 Winter Act that was put in place in 2005, where it capped
2 gas prices to system gas only.

3 And I make reference to that because
4 earlier in the proceedings there was, I believe, a
5 mention of Alberta where the -- the rebate is applied;
6 you know there was a cap there. That rebate is applied
7 to all customers, not just system.

8 So any customer in Alberta, retailer or
9 not, that rebate does apply to them. In Manitoba that
10 Winter Act only applied to system customers. Meanwhile,
11 as Mr. Roeder explained earlier, we'd assumed the risk of
12 hedging our products in advance of that happening. And
13 that ruling, that legislation from the Government took an
14 -- actually covered a two (2) year period, so it affected
15 us for more than just what we had in the market at that
16 time but a significant time period.

17 MR. ERIC HOAKEN: All right. And you've
18 been here and heard some of the evidence and you've heard
19 that, at least to some degree, Centra views itself as
20 being in competition with the likes of Direct Energy and
21 Energy Savings.

22 Is that a factor in your view when
23 considering the current state and health of the market?

24 MS. KAREN MELNYCHUK: Yes, that's a huge
25 factor. And -- and we can see that in different examples

1 that have been put before the Board here in IR response.
2 Just in -- in Manitoba Hydro's advertising campaigns we
3 went through the Goldilocks -- the fairytale series, I
4 believe on Thursday, or was it Friday? I don't remember.

5 Those are not and -- and everybody's gong
6 to make their own judgment of what that ad says. We
7 believe that was to promote Manitoba Hydro products. We
8 actually went to the Chairman of the Board of -- of
9 Hydro's Board, met with him, and I believe it was outside
10 of a regulatory hearing, but we did meet with him. We
11 voiced our concerns. We voiced our concerns to the
12 Public Utilities Board at the time and Manitoba Hydro did
13 decide to discontinue that ad, because they then saw that
14 we -- or believe that we saw it as a biased publication.

15 There have been several different examples
16 over the years of where the marketers have felt that
17 Hydro was not just facilitating direct purchase in
18 Manitoba. Again, some of the advertising material about
19 where they're the just right choi -- or the right choice,
20 just right choice, for natural gas consumers here; which
21 leads into some of the advertising that was -- we were
22 part of some consultation in the fall with some other
23 advertising where there was different graphics being used
24 that were leading to uncertainty in -- in one (1)
25 advertising; the focus groups; the biased research

1 survey that was put out earlier this year.

2 There's many indications where the Utility
3 here is not a facilitator; that it's actually acting in
4 competition with the marketers.

5 MR. ERIC HOAKEN: And is the fact that
6 the Utility is a Crown corporation, is that of an
7 significance to us for the purpose of these discussions,
8 in your view?

9 MS. KAREN MELNYCHUK: I believe it is and
10 I believe it's the opinion of Direct Energy. I'll let
11 Ms. Ruzycki voice her concerns on that later.

12 As Mr. Roeder pointed out earlier, Direct
13 Energy assumes the risk when we put out a fixed-price
14 product, so we're assuming all risk and it's our
15 shareholders that -- if -- if we make a wrong decision or
16 hedge inaccurately, our shareholders take that hit. And
17 our shareholders -- in regards -- and -- and -- on -- on
18 the other hand, in regards to Manitoba Hydro, the risk
19 then is passed onto the ratepayers; ultimately, the
20 taxpayers. So it -- the -- there's always someone to
21 pick up the tab; it's -- it's not a direct hit on the
22 company, it's a direct hit onto customers.

23 MR. ERIC HOAKEN: All right, thank you.
24 Let me change gears a bit. Mr. Roeder, I think, deferred
25 to you on some of the details about contracting and the

1 concerns that you have in this marketplace. Could you,
2 perhaps with reference to the pre-filed evidence, could
3 you just take us through some of the aspects of the WTS
4 contract terms that have posed problems or difficulties
5 for the retailers?

6 MS. KAREN MELNYCHUK: I can do that. I
7 also -- at the on -- Mr. Hoaken, I forgot that we have
8 two (2) corrections to our pre-filed evidence. Would it
9 be --

10 MR. ERIC HOAKEN: Yes, and I was supposed
11 to ask you about those. So, yes, if you could just point
12 those out for use. Thank you.

13 MS. KAREN MELNYCHUK: We have two (2)
14 corrections to make to our pre-filed evidence. One (1)
15 can be found at page 11, paragraph 36. And halfway
16 through the paragraph there's a note in parenthesis with
17 the note saying, "see our comments in paragraph 65
18 below". We reviewed the evidence and we can state that
19 that note in parenthesis can be removed; it has no
20 bearing on -- on the evidence or it doesn't refer to 65.

21 And then in paragraph 69, on page 19, in
22 regards to telemarketing, on the third line we have in
23 there that

24 "telemarketing of natural gas is
25 currently permitted in British

1 Columbia, Alberta, Ontario and Quebec".

2 It currently is not allowed in -- in
3 British Columbia. It is up for review in 2008, so it's
4 not currently available in BC.

5 MR. ERIC HOAKEN: All right. Thank you
6 for that. So then just back to the issues that we were
7 starting to speak of under the WTS, can you just take us
8 through the specific of the concerns that the Company
9 has?

10 MS. KAREN MELNYCHUK: Yes. The first one
11 is the minimum volumetric requirements, and Mr. Roeder
12 touched on that in -- in his evidence. Currently, we
13 need to gather a hundred (100) or so customers; Mr.
14 Stephens said this morning it's a hundred and thirty
15 (130) customers.

16 We have to actually accumulate more than
17 that, because if we're offering, let's say, a five (5)
18 year contract, we have to account for churn, so that's
19 customers moving from house to house. Contracts cannot
20 move from property to property, so if a customer moves
21 from the north end to the south end, we lose that
22 customer. So we have to build in that churn into our --
23 our price, as well.

24 So it means the net result is we need to
25 sign on more customers to a certain product before we're

1 even able to -- to flow it with the Utility. This also -
2 - I'm looking for the right word -- hampers us in
3 offering other products, let's say, of a shorter term;
4 shorter term being the one (1) year fixed.

5 Every time -- and -- and as Mr. Roeder's
6 said earlier, we're pan Canadian, North American; every
7 time we go to look at new offerings in other provinces,
8 we look at it in all provinces. The one (1) year fixed-
9 price has been looked at for Manitoba, but because all
10 the costs have to be borne in the first year and only
11 that first year with no evergreen, it is not financially
12 feasible to offer that product with the -- with the
13 market barriers the way they are right now.

14 So it limits what we can offer and for how
15 long we can offer. If we anticipate -- let's say,
16 because we can only flow quarterly, if we've hedged that
17 gas to flow, let's say, on November 1st and we don't sign
18 up enough customers thirty (30) days in advance of that,
19 which is our deadline to flow on November 1st, we then
20 have to hold it off for another possibly three (3) months
21 to get enough customers onto that price point to be able
22 to flow it.

23 Again, if it's not a competitive price,
24 which by then it's now five (5) or six (6) months old, if
25 not longer, it is no longer competitive and the odds of

1 us signing up enough customers usually doesn't
2 materialize. So then we have to go back to the original
3 customers and then tell them, Sorry, we have to void the
4 contract.

5 The other point is Centra's methodology
6 for controlling daily nominations. Ms. Ruzycki will
7 touch on this later in regards to Energy Savings'
8 position as well, but I'll touch on it for Direct Energy.

9 Right now, Direct Energy has no control on
10 the daily nominations that we're allowed to deliver gas
11 into the system. Centra advises us up to four (4) times
12 a day of changes to that nomination. We get an email an
13 hour in advance that that change is taking place. The
14 magnitude of the change, we do not forecast -- we can't
15 forecast because it's all dependent on -- on how they're
16 looking at the load.

17 Every time a change happens, you know,
18 like Mr. Roder -- Roeder said earlier -- I always
19 pronounce your name wrong -- every time changes like that
20 happen, we can only forecast that so much. What actually
21 happens, because we have no control, we -- we're making
22 assumptions. The more -- the higher the frequency of
23 those changes, the higher risk there is for marketers.

24 MR. ERIC HOAKEN: Thank you. Could you
25 also just take us through -- and I think, again, Mr.

1 Roeder touched on this -- could you take us through some
2 of the contracting concerns; and you may have already
3 done at least part of this, but just with reference to
4 the pre-filed evidence; I believe it's paragraph 61 to
5 71?

6 MS. KAREN MELNYCHUK: Yes. The first one
7 we list in our pre-filed evidence is the reverse of the
8 renewal policy. Mr. Roeder touched on that earlier in
9 regards to the thirty (30) day rollover. When Centra
10 purchased Direct Energy and Municipal Gas, we had a
11 thirty (30) day rollover renewal that was allowed in the
12 marketplace.

13 June 1st of 2004, the Board -- or just
14 prior to that -- the Board reviewed the renewals clause
15 in the Code of Conduct and decided that the ninety (90)
16 day rollover would be excluded and not allowed any
17 further. That had a considerable impact to the customers
18 and -- or to Direct Energy at that time. Because we had
19 not taken it into that account when we were hedging and
20 pricing our -- our products, and so that risk, again, was
21 borne by Direct Energy.

22 The second point we bring up is the
23 submitting of copies of our contracts to the Utility.
24 And maybe I'll just go through the steps that are
25 entailed for us to enroll a customer. And this can also

1 be found at paragraph 64 of our pre-filed evidence.

2 We need to -- and this is after we've
3 signed up a customer. This is just our transactions with
4 the Utility. We have to do what we call "an enrollment
5 file," and it's in Excel, so we have to manually create
6 that. We then have to save that file and then send it
7 over to the Utility by email; not on a secure line or
8 anything. It's just a standard email. We then have to
9 fax over what's called a "confirmation sheet" which
10 indicates the price of the -- the group that's being
11 enrolled, the start date, and the expiry date.

12 We also have to send over by courier
13 scanned images of every contract. So this has to be
14 scanned onto a CD, the CD is couriered over, though in
15 recent time we have started emailing those. Again, that
16 is unsecure. It's through the Internet and emailed; you
17 know, email address to email address.

18 Once Centra receives all three (3) pieces
19 -- the Excel file, the CD, or -- or the images and the
20 fax, then they will start to process our enrollments.
21 So, if we were using by courier and it's delayed over a
22 weekend, because we typically do on Fridays, if something
23 happens the courier -- flat tire -- they will not start
24 processing until all three (3) pieces are gathered at the
25 same time.

1 Then Centra sends us an email saying that
2 they've -- confirming the commodity rate that we're
3 charging to that group, which we then have to -- it comes
4 by fax, we sign it off, send it back by fax. Centra then
5 processes the batch of enrollments. They send us back
6 two (2) emails; one (1) with rejects, so if they're in
7 arrears or if they're on with another marketer or they're
8 disconnected, we get one (1) file that shows rejects.
9 The other file is one (1) that's being reserved for us to
10 flow.

11 Just before flow, we get an email -- what
12 we call a reserve file -- just before flow which
13 indicates what will flow. And then after flow, we get a
14 flow file -- which we call a flow file -- which is the
15 ones that actually did go to flow. Because anybody who
16 moved in between, would get dropped off because we can't
17 continue their contract because it was for the old
18 address.

19 Did I explain that?

20 MR. ERIC HOAKEN: Yes, you did, thank
21 you. And in fact, in the course of answering that
22 question, you said something that I should ask you about,
23 you made reference to "Centrica".

24 MS. KAREN MELNYCHUK: Oops.

25 MR. ERIC HOAKEN: And I just think -- we

1 all know who Centra is now, but we should probably
2 explain who Centrica is, and I should have asked Mr.
3 Roeder that. Maybe you could just explain.

4 MS. KAREN MELNYCHUK: Can I defer back to
5 Mr. Roeder?

6 MR. ERIC HOAKEN: Yes, you can, and I'll
7 -- I'll go back to you, Mr. Roeder, for a question I
8 should have asked you.

9 MR. CLINTON ROEDER: Okay, that's fine.
10 Centrica is the parent company of Direct Energy.
11 Centrica is based in the UK. It was formed in 1998. It
12 was a demerger with British Gas as part of the move to a
13 competitive marketplace in the UK.

14 The -- in Direct Energy here -- and as
15 Karen had eluded to earlier -- Centrica, when it did the
16 acquisition of Direct Energy -- it was back in 2002 -- it
17 acquired the brand, and that's what we sell under
18 throughout North America.

19 MR. ERIC HOAKEN: Thank you. And we'll
20 all be careful to enunciate properly so that we can
21 differentiate on the transcript "Centra" and "Centrica."

22 Let me just go back to you then, Ms.
23 Melnychuk, and just ask you a bit about the product
24 offerings that Direct Energy has.

25 Could you explain for us historically what

1 it has offered, and what is being offered now?

2 MS. KAREN MELNYCHUK: When WTS was first
3 implemented in 2000, Municipal Gas only offered three (3)
4 year contracts. We did not change to five (5) year
5 contracts, I believe, until about 2002, 2003.

6 In 2005, we started offering, besides our
7 five (5) year, a declining offer, as well. The declining
8 actually goes down a penny every year for the duration of
9 that contract. Whereas, we've got the fixed, where it's
10 just one (1) price across all five (5) years; the
11 declining goes down every year.

12 Earlier this year we offered -- or
13 launched -- two (2) new products in Manitoba. One (1)
14 was the seasonal product which has two (2) rates per
15 year, and one (1) is a summer rate and one (1) is a very
16 competitive winter rate.

17 The other product that we launched on June
18 1st was our carbon neutral product, and maybe I'll just
19 go into our -- our carbon neutral product. When we
20 launched in the British Columbia market on May 1st, we
21 did some consumer research in British Columbia about what
22 consumers were looking for and what their -- their
23 interests were in, And we found that a carbon neutral
24 product was well suited for that market.

25 After the launch there -- that product was

1 developed there -- Mr. Roeder decided that it was a
2 product that was worth rolling out in all the Canadian
3 jurisdictions. So on June 1st we rolled it out across
4 Canada in all our other markets.

5 There is a difference between how we can
6 do it in Manitoba and the other markets. The other
7 markets it's an option, whereas they check a box and they
8 can go green for, you know, fifty (50) cents a GJ in BC;
9 so much a cubic metre in Ontario.

10 Because of the minimum volume requirements
11 and the quarterly enrollments, Manitoba -- we chose to
12 have it as an all-inclusive. So every customer, since
13 June 1st, has been offsetting their natural -- or their
14 carbon -- excuse me, carbon dioxide with our carbon
15 offsetting program. So all our new contracts since June
16 1st have been carbon neutral.

17 MR. ERIC HOAKEN: Could I just bring you
18 back to the idea of a one (1) year product? You spoke a
19 little bit earlier about some of the reasons that you --
20 you don't offer that, and I took it that was related to
21 the market rules.

22 If there was a change in the market rules,
23 would a one (1) year product be something Direct Energy
24 would investigate and launch in this market?

25 MS. KAREN MELNYCHUK: As I mentioned

1 earlier, we look at it every time we're -- we're setting
2 our new -- or setting our new products for the next month
3 or the next quarter.

4 Mr. Roeder has the final say, and I'll
5 defer to him, but if -- if those market barriers are
6 removed, we will offer a fixed-price contract, subject to
7 Mr. Roeder.

8 MR. CLINTON ROEDER: If I can just make
9 the comment, I mean I -- I think further to that point.
10 There's no further proof that's needed than the fact that
11 currently today, across every market in Canada, we do
12 have a one (1) year product. In addition to that, we
13 offer variable month-to-month rate products, and that's
14 not only in Canada, but also in the US. So -- and that
15 is -- and that's largely dependent based on the overall
16 market rules.

17 MR. ERIC HOAKEN: So let me just the onus
18 on you, then. Are you saying that if there is a change
19 in the market rules, Direct Energy will launch a one (1)
20 year product in this market?

21 MR. CLINTON ROEDER: The -- the only
22 hesitation I have at all in that -- in that question is
23 that we taught -- we've gone through a number of market
24 rules that prohibitive that add cost to the structure.

25 What we're talking about is offering a

1 product of one (1) year, where you have twelve (12)
2 months to recover that cost; in addition to that,
3 currently if you take to market rules where we
4 potentially are gonna have to wait three (3) months for a
5 customer to come on flow.

6 So if the -- if the question being asked
7 is: If there was a change in all of the market rules
8 that we've referenced, would be offering a one (1) year
9 product today? The answer is yes.

10 MR. ERIC HOAKEN: All right, thank you.
11 And if I could just finish with you Ms. Melnychuk.

12 There's been discussion about the door-to-
13 door sales channel. Why does Direct use that channel in
14 Manitoba?

15 MS. KAREN MELNYCHUK: That goes back to
16 the contracting concerns that we raised in our pre-filed
17 evidence. Currently the rules that are put in place by
18 the Public Utilities Board, we can only sign up a
19 customer with a wet signature. So that limits us to two
20 (2) sales channels: one (1) door to door, the other one
21 is a direct mail piece.

22 In both instances the customer has to
23 physically sign a contract and be provided certain
24 material as well as per the Code of Conduct. What we're
25 asking for, in our pre-filed evidence, is for the web

1 signature, allowance of web signature and telemarketing;
2 so voice recordings.

3 These are allowed in many other
4 jurisdictions. The web signature right now -- we have
5 our website for Manitoba, but the customer has to
6 physically print off our contract, sign it, and mail it
7 in the -- because of the PUB rules at -- at the present
8 time.

9 The -- so the door-to-door and the direct
10 mail are very high as Mr. Roeder would say CTA, cost to
11 acquire, channels. The electronic bus -- or e-signatures
12 and the voice recordings are lower cost channels and
13 would have -- allows us to -- to have -- to have access
14 to customers that also aren't within the greater Winnipeg
15 area. Manitoba, as everybody knows, is -- is far -- how
16 do you call it -- widespread. We're big between re --
17 cities --

18 MR. ERIC HOAKEN: Yeah, geographically
19 disbursed.

20 MS. KAREN MELNYCHUK: That's the -- the
21 big term, yes. So it would also allow us to reach, you
22 know, different communities that are too far to -- for
23 door-to-door or just accuracy in doing a direct mail
24 piece, as well.

25 MR. ERIC HOAKEN: All right. I think you

1 wanted to add something to that Mr. Roeder.

2 MR. CLINTON ROEDER: The -- the comment I
3 just want to make in reference to what Karen was
4 referring to, is that, for example, in -- in Ontario with
5 the access to some of these sales channels and the -- and
6 not as many restrictions, we're currently able to offer
7 product and terms through some of the sales channel with
8 a substantially lower acquisition cost.

9 The difference in the acquisition costs
10 between here and there allows us, if we had the same
11 acquisition cost here in Manitoba, it would allow us to
12 reduce our price by 5 percent. The example in Ontario is
13 we're currently able to offer a product that is priced
14 below the utility rate, through the use of some of these
15 lower cost distribution channels.

16 And so I think in terms -- as you look
17 across Canada there's many examples of that over the past
18 year, as you try to expand the product offering to our
19 consumers.

20 MR. ERIC HOAKEN: And just coming back
21 though to the whole question of door-to-door Ms.
22 Melnychuk there's been some discussion in this
23 proceeding, you've heard it, that this is a less than
24 desirable way to sell products and that consumers are not
25 happy with this channel.

1 What, if anything, do you have to say
2 about that?

3 MS. KAREN MELNYCHUK: Well, we consider
4 the research to be biased. I think we've put that on
5 the record, so far. So we actually think that the number
6 of customers who are very satisfied with the door to door
7 sales channel are actually higher than what presented in
8 the research study.

9 And -- and we take any dissatisfaction very
10 seriously. We do quality -- quality checks. We've, you
11 know, met with the Board on several occasions to go
12 through what -- how our agents are trained, and the
13 quality controls that we have put in place to ensure
14 that, you know, customers are satisfied, everything's
15 being done, you know, as mandated by the Code of Conduct.

16 So our satisfaction levels we believe, as
17 I said earlier, are actually higher than what has been
18 raised in the survey.

19 MR. ERIC HOAKEN: And just on the subject
20 of the survey and the focus groups, you were present, I
21 take it, at the focus groups. Is there anything you'd
22 like to say to the Board about that?

23 MS. KAREN MELNYCHUK: I was present at
24 four (4) -- all four (4) of the focus groups, the two
25 (2) evenings. It was raised earlier I believe it was in

1 Ms. -- your cross Mr. Hoaken against Mr. Enns; that I had
2 raised some issues in -- at the focus groups and Mr. Enns
3 at the time did not feel it important to correct the
4 impressions or the -- or the misconceptions that the
5 focus groups, the participants of the focus groups, were
6 having about the role of marketers in this market. But
7 when it came to, you know, corrections on -- on -- in
8 regards to some of the material or -- or the
9 conversations being had about Manitoba Hydro, they were
10 corrected.

11 So I -- I had difficulty with the focus
12 groups.

13 MR. ERIC HOAKEN: Finally, you -- you
14 were here and heard the evidence Mr. Kuczek gave about
15 the EPP adjustment issue. Can you give the Board your
16 perspective from Direct Energy of this issue and how it
17 affected your business?

18 MS. KAREN MELNYCHUK: In regards to the
19 EPP, Direct Energy -- you know, we're all about choice,
20 so we want to make sure that customers, when choosing
21 EPP, it is a choice. We don't want it to be a default.
22 The -- what Mr. Hoaken is referring to is the number of
23 calls that we have taken from our customers, and I
24 believe a lot of calls have come into the Public
25 Utilities Board, as well, in regards to the true-up

1 balance on customers' budgets.

2 We advised the utility of those calls
3 coming in. And our concern was -- we've always been
4 under the impression -- and this has been told to us
5 several times and I believe Mr. Hoaken referred to it as
6 earlier this year, but it's over the -- the last ten (10)
7 years -- that we've always been under the impression that
8 when a customer moves from system gas to a marketer, that
9 an adjustment is made at that time.

10 What we found is that that's not accurate.
11 No adjustment is made. That the -- it doesn't actually
12 come up until their -- their budget plan is reassessed in
13 August. Some of the complaints that we did receive this
14 year are -- are in regards to some customers who renewed
15 with us last summer, in 2006.

16 But because their budget wasn't assessed
17 at that time -- coming off an old price, going to a new
18 price -- it wasn't assessed. So their budget plan for
19 the current year was at the old rate and not the new rate
20 that they were being billed.

21 Granted, not all customers look at the
22 budget section of their bill, but it is a concern to us.
23 And, we would like to see that change made to the EPP; is
24 that when a customer does move from system or from one
25 rate to another, that an assessment is done at that time

1 to do a recalculation.

2 And Mr. Hoaken, in some of his cross, had
3 indicated that we had taken several calls. And I went
4 back to the office, and all the calls that we took in
5 regards to budget -- I believe he put on the record one
6 hundred and thirteen (113) -- those all came in, in the
7 month of August. And so I'm not sure of about how many
8 calls came into the Public Utilities Board, but we've
9 also had a couple of emails or faxes from the Public
10 Utilities Board about complaints coming in here in
11 regards to that issue.

12 MR. ERIC HOAKEN: And just to follow up
13 on that; what, if anything, have you heard from your
14 customers about whose fault they think this problem is?

15 MS. KAREN MELNYCHUK: Customers who call
16 us have been telling us that, you know, Centra's call
17 centre is telling them that it's all Direct Energy's
18 fault. We don't believe it's Direct Energy's fault. It
19 was an error, and I believe Mr. Kuczek admitte -- or put
20 that on -- on evidence earlier -- is that there was an
21 error on the processing side of Centra which affect ten
22 thousand five hundred (10,500) EPP customers.

23 I believe there was an Undertaking about
24 how many of those were marketers. I'm not sure if that's
25 come yet. But looking at the reasons and the amount of

1 customers we had for renewal last year, I would assume
2 that a large number of those ten thousand five hundred
3 (10,500) customers were retailer customers.

4 MR. ERIC HOAKEN: All right. Thank you
5 very much. Let me turn to you, Mr. Ruzycki. I'm going
6 to skip over Mr. Newcombe for now.

7 Just quickly, by way of introduction, you
8 are, as I've already said, the Director of Regulatory
9 Affairs for Energy Savings, is that correct?

10 MS. NOLA RUZYCKI: That's correct.

11 MR. ERIC HOAKEN: And you graduated with
12 a Bachelor's of Commerce Degree from the University of
13 Calgary in 1986?

14 MS. NOLA RUZYCKI: That's correct.

15 MR. ERIC HOAKEN: And have worked in a
16 variety of roles detailed in your curriculum vitae in the
17 energy industry, is that right?

18 MS. NOLA RUZYCKI: Yes.

19 MR. ERIC HOAKEN: And especially in the
20 gas industry, is that fair?

21 MS. NOLA RUZYCKI: That's fair.

22 MR. ERIC HOAKEN: And you worked, for
23 example, at TransCanada Gas Services. I take it, you
24 crossed paths with Mr. Stauff, at that time?

25 MS. NOLA RUZYCKI: Yes, I did.

1 MR. ERIC HOAKEN: And you then worked at
2 Cargo Power and Gas Markets and Mirant Canada Marketing
3 Limited?

4 MS. NOLA RUZYCKI: Yes, I did. And
5 perhaps I can just fill in a couple of the contacts. I -
6 - I worked for TransCanada Gas Services up until 2001, at
7 which point in time the company was sold to Mirant.
8 Mirant subsequently, after the Enron fiasco, filed for
9 bankruptcy in Canada and no longer exists, and the
10 company was sold to Cargill. So, through a number of
11 transitions, I ended up at the three (3) different
12 companies.

13 MR. ERIC HOAKEN: All right, thank you.
14 And you have, since 2004, been at Energy Savings?

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

16 MR. ERIC HOAKEN: And you heard Mr.
17 Warden's shameless infomercial when he was giving
18 evidence in direct about an award that his company had
19 won. Do you have anything you'd like to share with us in
20 that regard?

21 MS. NOLA RUZYCKI: Yes, I would also like
22 to shamelessly promote my company. The Energy Savings
23 Group, earlier this month, was named Company of the Year
24 by the Ontario Energy Association, and some of the
25 reasons they cited were the green energy options, our

1 proactive engagement with the regulators in Legislature,
2 and a commitment to customer satisfaction and service.

3 MR. ERIC HOAKEN: Thank you. You've had
4 the benefit of hearing a few of the panel witnesses
5 describe their perceptions of the Manitoba market.

6 Is there anything that you'd like to add,
7 Ms. Ruzycki, from the perspective of Energy Savings?

8 MS. NOLA RUZYCKI: Yes, perhaps with --
9 Ms. Melnychuk touched on earlier about the -- when a
10 customer moves, the contract ends. In other
11 jurisdictions, such as Ontario, a process called
12 "seamless moves" kicks in where the Utility actually
13 moves the customer from their current location to the new
14 location, and seamlessly moves that customer so they
15 don't have to go back to system supply. They stay with
16 the retailer.

17 Also, in Manitoba we only can sign the
18 account holder. We cannot sign anyone else in the home,
19 for example the spouse. In other jurisdictions, the
20 spouse can sign a contract or a resident of the household
21 can sign the contract. So, with respect to attrition, we
22 would find that in the Manitoba marketplace, we would
23 expect more attrition than in other markets owing to the
24 fact that a divorce, a death, a move, could all trigger
25 attrition risk for us.

1 MR. ERIC HOAKEN: All right. Thank you.
2 As I understand it, Energy Savings is somewhat new or
3 quite a bit newer to this market than is Direct Energy
4 and its predecessor companies.

5 Could you just outline for us what led to
6 Energy Savings entering this market and what specifically
7 did it look for, or would it have looked for, when it was
8 making the decision about whether to enter this
9 marketplace?

10 MS. NOLA RUZYCKI: Well, Energy Savings
11 looks at a variety of items every time they move into any
12 new market. Some of these items would be whether or not
13 agency billing and collection services are available;
14 whether or not dual products are offered in the market,
15 for example electricity and natural gas; whether or not
16 purchase of receivables or, as they are called in
17 Canadian jurisdictions, the "bad debt" is covered, and
18 whether the bill is done through the Utility.

19 We also would look at the risks in the
20 marketplace and look into population -- those types of
21 things -- before we would go into the marketplace.

22 MR. ERIC HOAKEN: So you then conducted
23 that analysis and obviously decided that you would, in
24 fact, enter the marketplace in Manitoba.

25 What has the experience been and what is

1 the Company's perception of the state of the competitive
2 market in Manitoba?

3 MS. NOLA RUZYCKI: Well, we did enter the
4 competitive market in Manitoba in January of 2003 and
5 we've -- I guess we've -- we've had our eyes opened to a
6 number of things that we probably didn't anticipate or we
7 anticipated would be moved along or resolved or worked
8 forward towards a solution; for example, the nomination,
9 procedures, the monthly enrolls that we are now getting
10 in November.

11 There -- I -- I think that we also realize
12 now that the Utility appears to have a greater desire
13 than we anticipated to move into the fixed-price
14 offerings to compete directly with us, which is a large
15 concern for us.

16 MR. ERIC HOAKEN: Now, you've had the --
17 the benefit of hearing both Mr. Roeder and Ms. Melnychuk
18 talk about some of what they perceive to be barriers to
19 competition in Manitoba.

20 Is there anything else you'd like to add
21 before we move on?

22 MS. NOLA RUZYCKI: I -- I think the only
23 thing, probably, that I would add here is that in other
24 jurisdictions the utilities tend to be neutral providers
25 of default supply. They don't promote their products,

1 and that -- that would be basically my only addition.

2 MR. ERIC HOAKEN: You heard what -- what
3 Ms. Melnychuk had to say about the WTS contract issues.
4 She spoke about volumetric requirements and nominations -
5 - and I certainly don't need you to repeat what she said
6 -- but is there any perspective that you'd like to offer
7 on those issues on behalf of Energy Savings that's
8 distinct or in addition to that offered by -- by Ms.
9 Melnychuk?

10 MS. NOLA RUZYCKI: One (1) of the things
11 I would add to the nomination practices is the fact that
12 there's no transparency in the numbers that were
13 provided. We receive one (1) number. We don't know if
14 the number is reflection of adjustments owing to weather,
15 whether it's owing to consumption changes. There --
16 there just is one (1) number. We don't know if it's
17 makeup of inventory from a previous day, whether it's
18 declared the balancing agreement between TransCanada and
19 Centra.

20 So we would -- we have asked in the past
21 for more transparency -- more information provided to us
22 so that we could have better idea of why things are
23 changing.

24 MR. ERIC HOAKEN: All right. "More
25 transparency" is a general term; tell me in specific

1 terms what would Energy Savings want in terms of a change
2 in the existing practice as far as nominations are
3 concerned?

4 MS. NOLA RUZYCKI: We would like to see
5 the nomination broken down into an amount that is -- for
6 the existing gas day, an amount that is for make up of a
7 previous gas day's inventory balance -- either positive
8 or negative -- and an amount that is fluctuating, owing
9 to weather changes, so that at least we could determine
10 whether or not the imbalances are trending to zero, as we
11 would like them to trend.

12 MR. ERIC HOAKEN: All right. Thank you.
13 And then on contracting terms, as well,
14 you heard what Ms. Melnychuk had to say. Is there
15 anything that you'd like to say to add to her comments?

16 MS. NOLA RUZYCKI: Sorry, could I just go
17 back and add one (1) thing --

18 MR. ERIC HOAKEN: Yes.

19 MS. NOLA RUZYCKI: -- on the nominations?

20 With respect to the setting of the new DCQ
21 on a quarterly basis, we have recently run into a
22 situation where, because we received one (1) lump sum
23 number, that we -- we received a number that was
24 significantly higher than it should have been. And it
25 took a significant amount of time to determine what was

1 wrong, and our nomination group had to zero for a while
2 in order to correct the error.

3 So, for us, again, here we'd like to see
4 more transparency as to what groups are changing and why
5 they're changing so that we could be pro-active as well,
6 and bring to the attention any errors on either side.

7 MR. ERIC HOAKEN: And -- just so I'm
8 clear -- by "groups," you mean groups of contracts?

9 MS. NOLA RUZYCKI: I'm sorry, yes.
10 Groups of contracts or pools.

11 MR. ERIC HOAKEN: All right. Thank you.

12 And then just on the issue of contracting
13 terms, which has been covered by some of the other
14 witnesses, is there anything you'd like to offer or add?

15 MS. NOLA RUZYCKI: No.

16 MR. ERIC HOAKEN: All right. Thank you.

17 And last but not least then, over to you,
18 Mr. Newcombe.

19 You are the Vice-President, Government and
20 Regulatory Affairs Canada West for Direct Ener -- Direct
21 Energy? And you also have a non-functioning microphone.

22 MS. NOLA RUZYCKI: Actually, can -- sorry
23 --

24 MR. ERIC HOAKEN: Oh, you'd like to add
25 something?

1 MS. NOLA RUZYCKI: Yes, I would like to
2 add something. Sorry.

3 I -- I did want to mention something about
4 contracting in Ontario -- the fact of we are allowed to
5 do renewals on natural gas -- an effort -- an effortless
6 renewal for a one (1) year period, if a customer does not
7 respond to a renewal notice.

8 Also, possibly I could just touch on the
9 EBT transactions -- or electronic business transactions.
10 In a number of jurisdictions, we have EBT transactions
11 which allow more efficiency, more accuracy. They create
12 a better audit trail.

13 Also, there's encryption built in for
14 security reasons. It sets a public standard which the
15 regulators in other jurisdictions have endorsed, and it
16 allows for a means to resolve disputes by a set of rules
17 that are common to all participants.

18 MR. ERIC HOAKEN: All right. Thank you
19 very much.

20 And so finally, we are back to you, Mr.
21 Newcombe.

22 You are the Vice-President, Government and
23 Regulatory Affairs Canada West for Direct Energy:

24 MR. GARY NEWCOMBE: Yes, sir.

25 MR. ERIC HOAKEN: And you are, I take it,

1 a Professional Engineer, having obtained your B.Sc. in
2 Civil Engineering at the University of Alberta; is that
3 correct?

4 MR. GARY NEWCOMBE: Yes.

5 MR. ERIC HOAKEN: I notice that you don't
6 have the year on your curriculum vitae; I won't ask the
7 Board to draw any inferences from that.

8 You, I take it, worked for twenty-three
9 (23) years for the ATCO Group. Could you just outline
10 for us exactly what it was you were doing, who the ATCO -
11 - or at least what the ATCO Group is, and what the
12 significance or, at least, relevance of that experience
13 is to this proceeding?

14 MR. GARY NEWCOMBE: Yes. In those days,
15 we were grouped into a number of different gas
16 distribution -- fully -- fully integrated gas
17 distribution companies. So I worked for both
18 Northwestern Utilities and Canadian Western Natural Gas
19 in Alberta.

20 As I said, we were fully integrated all
21 the way from production, transmission, storage,
22 distribution, and retailing. So my responsibilities were
23 varied over the years. They all included some aspect of
24 regulatory affairs, whether that be cost of service or
25 rate design.

1 Also, at various times, I was responsible
2 for the marketing function for gas supply, gas
3 operations, gas control; those different areas.

4 MR. ERIC HOAKEN: Thank you. And since
5 you've been at Direct Energy -- you joined, I take it, in
6 2003?

7 MR. GARY NEWCOMBE: That's correct.

8 MR. ERIC HOAKEN: And could you just
9 detail for us briefly what your duties and
10 responsibilities are and your current role?

11 MR. GARY NEWCOMBE: Yes, in the area of
12 regulatory affairs, I'm responsible for working with Mr.
13 Roeder's group, and the other components of the Company
14 in the jurisdictions I'm responsible for, to understand
15 the market rules that are in place to ensure that we are
16 complying with those market rules, to assist in, you
17 know, burying those market rules where it makes sense and
18 where we have some ability to do so.

19 I'm also responsible for managing our
20 regulated applications in Alberta. In Alberta, the
21 jurisdiction there has functionally separated the
22 distribution function from the role of default supply or
23 regulated retail.

24 So, we act as a regulated retailer in the
25 Province of Alberta. We serve in the order of eight

1 hundred thousand (800,000) natural gas customers and
2 about a hundred and seventy-five thousand (175,000)
3 electricity customers -- regulated customers.

4 So, as a standalone entity, we're required
5 to go through a full rate application approval process
6 before the Energy Board there, just like any other
7 regulated entity is.

8 And then finally, just the -- the
9 government relations, which really ties very closely in
10 with the -- the regulatory affairs and liaising with the
11 government in those.

12 MR. ERIC HOAKEN: Thank you. From that
13 perspective, then, that you've acquired over the years
14 and in your current role, what are the broader trends in
15 regulation that are relevant to this proceeding, in your
16 view, Mr. Newcombe?

17 MR. GARY NEWCOMBE: That's a big
18 question. Really there's -- there's four (4)
19 jurisdictions in Canada that are really undergoing the --
20 the transition or the evolution to competitive retail
21 natural gas markets in any meaningful way, and that's
22 British Columbia, Alberta, Manitoba, and Ontario.

23 Now, these jurisdictions have all been at
24 this process for varying lengths of time; I believe
25 Manitoba and Ontario have been at it the longest, about

1 fifteen (15) years. And when I say "the retail natural
2 gas market" I'm talking about the mass market for
3 residential consumers.

4 You know, it's been going on a lot longer
5 than that with respect to industrial customers pretty
6 much across Canada. In Alberta, our retail competition
7 was first allowed, if you will, some twelve (12) years
8 ago, but it's really only been in the last three (3)
9 years that there's been any meaningful progress.

10 This followed a recognition by the
11 policymakers -- by the regulators -- that the market
12 rules that had been in place since 1995 were effectively
13 impeding development of -- of a competitive retail
14 market.

15 So in the 2003 time frame there was a full
16 revamp of -- of the market rules and, since that time,
17 the market's picked a lot of momentum and -- and I should
18 probably add that the full revamp of the market rules
19 occurred with respect to the electricity market.

20 With respect to the natural gas market and
21 market rules, we're still undergoing that -- that
22 revamping process in Alberta. The Provincial Government
23 Department of Energy has released a policy paper back in
24 December of 2006 that stated that they would harmonizing
25 the rules as between the electricity markets and the

1 natural gas markets.

2 And they announced -- I think there was
3 three (3) or (4) principles they were -- they were going
4 to be following with respect to that harmonization
5 effort, and one (1) of the first ones was that they would
6 adopt the rules, either from electricity or natural gas,
7 whichever one (1) would be the most beneficial in
8 fostering a competitive retail market.

9 Lastly, British Columbia -- that market
10 there -- retail market, is really in it's infancy. The
11 small commercial market was open to competition in 2005
12 and the residential market was open to compe --
13 competitive sales in May of 2007. First flow under those
14 sales won't actually occur until November of this year.

15 You know, all of these markets -- these
16 jurisdictions, I should say -- are at different stages in
17 this transition or evolution, and they're all moving at
18 different speeds.

19 In all of these jurisdictions, though,
20 there are a number of commonalities and -- and some
21 jurisdictions have all the commonalities -- I would say
22 all of them have some. Every jurisdiction believes
23 they're unique, and I think I heard -- there was an
24 exchange this morning about the uniqueness of the
25 Manitoba market.

1 Every jurisdiction believes that it has a
2 unique size, unique weather patterns, customer mix,
3 geography, pipeline access, whatever there is. One thing
4 that's interesting is I believe that this uniqueness
5 makes them all common. Or certainly the uniqueness is
6 common to all of them.

7 Most of these markets, in the initial
8 phases at least, have faced resistance from incumbent
9 utilities, and certainly in Alberta, when I was at the
10 incumbent utility, we were as guilty of it as anyone.
11 And we were actually pretty darn good at it, if you look
12 at the fact that their competition was allowed since
13 1995, but it didn't really happen until the rules got
14 changed in 2003.

15 I mean, letting go for utilities and for
16 regulators, both, is difficult. And it's uncomfortable.
17 You typically -- utilities don't typically embrace
18 competition. I mean, they spend their lives working in
19 an insulated regulated environment.

20 And I think a lot of utilities come to
21 believe that they are the best position to meet the
22 customers' needs. I mean, when you've been selling black
23 Model-T's for fifty (50) years or, in some cases close to
24 a hundred (100) years, you know, it's difficult to accept
25 that some customers are going to find value in a yellow

1 Chevrolet.

2 And it's even more difficult to accept, I
3 think, that, you know, customers are sophisticated enough
4 to make that choice.

5 You know, there's a number of -- as you
6 asked me, Mr. Hoaken, there's a number of common
7 regulatory issues that these jurisdictions all face and
8 grapple with.

9 Jurisdictions have to deal with the
10 separation of the distribution function from the
11 regulated retail or default supply function. And this --
12 this functional separ -- or this separation is done
13 different ways.

14 In Alberta there are -- it is actually a
15 functional separation. There are different functional
16 entities or different companies -- standalone companies -
17 - that offer either distribution service or regulated
18 retail service.

19 You can handle this separation through
20 rate treatment, as is done in most jurisdictions. But
21 it's very important to clearly delineate the lines of
22 responsibility between the distribution function and the
23 default supply function.

24 Regulators typically grapple with what is
25 the role of the distributor once you've accomplished this

1 functional separation. I think everyone recognizes that
2 the distribution or -- or the network infrastructure is a
3 necessary monopoly function that should remain regulated.

4 And I don't think anybody in this room is
5 suggesting anything different; or in any other
6 jurisdiction, for that matter.

7 However, distribution does play a key role
8 in -- in the retail market success. They are the holder
9 of the customer information. They are the facilitator of
10 transactions as between customers and -- and retailers.

11 And it's important to remember, too, that
12 every customer, regardless of whether they are a customer
13 of a retailer with respect to their gas supply or a
14 customer of the default supplier, are a distribution
15 customer.

16 And that's one (1) thing that doesn't go
17 away. I mean, the provision of distribution service, you
18 know, it's -- it's a necessary monopoly network
19 infrastructure and it's really no different, in my mind,
20 than the provision of public roads or airports. It's
21 just there to facilitate the commercial transactions.

22 The other thing that regulators in all
23 these jurisdictions deal with is what is the ongoing role
24 for default supply? They're searching for a model that's
25 going to facilitate the co-existence of default supply

1 and competitive products.

2 There are, certainly in Canada at least --
3 I don't believe there are any jurisdictions, at least not
4 that I work in, that have come to the point in the
5 transition or evolution where they're suggesting that
6 there's no longer a need for default supply.

7 So the -- the question for the regulator
8 is, How do we facilitate an enablement and a fostering of
9 a competitive market in coexistence with a default
10 supply?

11 I think regulators across all the
12 jurisdictions have reached a fairly common ground in
13 dealing with this, and that's the realization that the
14 default supply and the default supplier should be as
15 market-neutral as possible. I think the commonality that
16 regulators come to understand is that default supply
17 should be limited to some market-reflective variable-
18 price product.

19 And that to allow fixed-price term
20 products to be offered by a default supplier would really
21 undermine any efforts they are making to establish a
22 competitive retail market.

23 And in our direct evidence, we provided a
24 number of findings for the Ontario, Alberta, British
25 Columbia market. And what some of the regulators said

1 about this -- and with Mr. Oaken's indulgence ,I might
2 read some of that into the record. I think it's --
3 they're very, very telling and -- and critical to this
4 deliberation here.

5 On page 5, paragraph 16 of our direct
6 evidence we provided a quotation from Ontario Energy
7 Board's forum report, which was released in March of
8 2005. And I'd just like to read part of that, starting
9 partway down. It says:

10 "The Board believes that introducing a
11 utility provided, fixed-term, fixed-
12 price contract offer at this time would
13 present two (2) risks.

14 First, the fixed-term aspect could
15 reduce the utility's ability to ensure
16 full customer mobility.

17 Second, the fixed-price aspect would
18 compete with the product offered by the
19 retail marketers. It would move the
20 regulated supply away from being a
21 default supply, and result in more
22 direct competition between the utility
23 and competitive suppliers. A fixed-
24 term, fixed-price contract offer would
25 require substantial additional

1 regulatory oversight related to the
2 underlying contracting, the customer
3 utility interface and the allocation of
4 risk.

5 The Board does not believe that this is
6 the appropriate direction to take, and
7 most stakeholders shared this view."

8 On page 7, paragraph 21, we provided some
9 comments made by the Alberta Energy and Utilities Board,
10 and I believe it was decision 2000/175, which was an
11 inquiry into gas cost recovery rate methodology. And
12 some of this is a quotation; some of it's our -- our
13 wording. Having made these specific comments, the AEUB
14 concluded its analysis by noting that it -- and the part
15 in quotations says:

16 "...looks to the effect on retail
17 market development as a major
18 consideration in deciding whether or
19 not to support utility gas price
20 hedging."

21 End of quote.

22 And again, another piece in quotations
23 from there was an except that says that:

24 "Regulated gas utility hedging programs
25 may seriously affect retail gas market

1 development and, therefore, the Board
2 finds that such programs are not seen
3 as necessary at this time."

4 And, lastly, I had just an except from the
5 BCUC's decision -- can't remember when it was. It was
6 fairly recent; it was 2006, I believe. Where they said:

7 "At this point in the development of
8 residential gas commodity unbundling,
9 gas marketers appear to be at a
10 disadvantage."

11 Oh, and I'm sorry, this was on page 8,
12 paragraph 24, the third bullet. Sorry, I should have
13 given you that. I'll start over again. It says:

14 "At this point in the development of
15 residential gas commodity unbundling,
16 gas marketers appear to be at a
17 disadvantage when competing against the
18 existing SRO --"

19 And that was Terasen Gas's stable-rate
20 option, which they had in place for a year.

21 "...which has been marketed under the
22 Terasen Gas, Inc brand for the last two
23 (2) years. The commission panel
24 concludes that it would be detrimental
25 to the development of a robust,

1 competitive market if the SRO were to
2 be permitted to continue in its present
3 form beyond 2007."

4 So, really, I think what the upshot of
5 these excerpts by the different regulators across the
6 country really means, is that they've all come to the
7 conclusion that default supply, default suppliers, should
8 really be a market reflective, variable priced, neutral
9 product. And they see any introduction of fixed-price
10 term products by incumbent utilities as seriously
11 impeding their efforts to foster a competitive retail
12 natural gas market.

13 And it's clear, I think, from -- from that
14 following on, that allowing Centra Gas to enter the
15 market with fixed-price term products would be contrary
16 to regulatory direction in other jurisdictions across
17 Canada. And I believe it would effectively negate all of
18 the efforts that have been made here in Manitoba to date,
19 to foster a competitive natural gas market.

20 In any jurisdiction where incumbent
21 default suppliers are allowed to enter the market and
22 offer any type of competitive fixed-price term products
23 in direct competition with retailers, they are compelled
24 to do so under an affiliate relationship, subject to
25 very, very strict codes of conduct.

1 I mean, this is one (1) thing that we do
2 in Alberta, for instance. As I said, we serve some eight
3 hundred thousand (800,000) regulated natural gas
4 customers in Alberta. Well, Direct Energy also operates
5 as a competitive retailer in Alberta, but it does operate
6 under the rules that have been laid out for that.

7 There are very, very strict codes of
8 conduct governing the treatment of regulated customers'
9 information, governing any sort of use of resources, as
10 between the two (2) affiliates, and there's very, very
11 strict restrictions put on the regulated entity as to
12 equality of treatment of all retailers.

13 So if you have those things in place, yes,
14 you can have the incumbent retailer participant in the
15 competitive market but it cannot be as the regulated
16 entity.

17 MR. ERIC HOAKEN: All right.

18 Let me just jump in and ask you about one
19 (1) thing you said, and that is: Is there typically, in
20 your view or in your experience, a relationship between
21 how long there has been a competitive market and the
22 restrictiveness, if I can put it that way, of the market
23 rules?

24 And can you comment on that with
25 particular reference to what the market rules are in

1 Manitoba and how long we've had a competitive market?

2 MR. GARY NEWCOMBE: Yes.

3 As I said, I think Manitoba and Ontario
4 are the two (2) jurisdictions in Canada that have been at
5 this the longest, some fifteen (15) years. I guess,
6 looking at where the other jurisdictions are at, I would
7 have expected there to have been more progress.

8 I think what most jurisdictions find is,
9 you know, typically regulators are very, very cautious
10 when they deal with this. One (1) of the big questions,
11 as I said, is: What level of consumer protection is
12 required with respect to retail gas markets?

13 And as I said, regulators have moved
14 slowly, but ultimately I believe they come to the
15 realization that there's -- there's nothing inherently
16 unique or special about retail natural gas and at the end
17 of the day, standard consumer protection laws should be
18 adequate.

19 You know, as I said earlier, letting go is
20 a difficult process, both for Utilities and for
21 regulators. But I think at the end of the day you have
22 to realize that consumers are sophisticated, they are
23 smart, and there is a lot of consumer protection laws out
24 there and retail natural gas market doesn't require
25 anything over and above standard consumer protection

1 laws.

2 MR. ERIC HOAKEN: All right. Thank you.
3 Finally, last point. There has been discussion in this
4 room and you may have heard some of it when you were here
5 this morning, about the fact that retailers who are
6 participating in this market get a quote/unquote
7 "subsidy" or benefit from the Utility -- or at least from
8 the Utility customers.

9 Could you speak to that, Mr. Newcombe?

10 MR. GARY NEWCOMBE: Yes. Thank you. I
11 think it's Centra Gas's response to PUB/CENTRA-14, they
12 were asked to provide an understanding of the degree of
13 subsidy currently provided to brokers and detail, the
14 components of that subsidy.

15 And so they listed -- Centra listed a
16 number of items that they believed were providing
17 subsidies to brokers. I'd just like to go through those
18 very, very quickly.

19 The first one talked about the
20 administration of broker service and there was some seven
21 hundred and fifty thousand dollars (\$750,00) a year, that
22 cost that brokers do not pay. At the end of the day, as
23 I understand it, those costs are included in distribution
24 rates, so all customers do pay for that administration
25 and broker service. You know, and -- and the provision

1 of flexibility and choice options and the ability to
2 exercise that choice is really a service provided to
3 customers, it's not a service provided to brokers.

4 Anything that can be done to add some
5 flexibility to existing market rules will really benefit,
6 for the most part; those customers who have not yet taken
7 advantage of a contract with a competitive retailer. In
8 other words, it's really providing a benefit to customers
9 who are still on system gas, in my view.

10 Further on down in that first point, they
11 talk about:

12 "Brokers are not currently held
13 accountable for bad debt related to WTS
14 customers."

15 The reality there again is the bad debt
16 cost, as I understand it, are embedded in distribution
17 rates, so all customers pay that. You know, when it
18 comes to bad debt, there's really only two (2) classes of
19 customers; those that pay their bills and those that
20 don't and unfortunately you have to collect a cost from
21 those that do pay their bills.

22 The second point they talk about:

23 "Broker customers enjoy protection by
24 virtue of the -- Centra's assets and
25 resources."

1 Again, to the extent those costs are
2 embedded in distribution rates, all customers are
3 appropriately paying for it. You know, further to that,
4 there's substantial credit support that's in place at
5 various pieces of the supply chain that we do pay for.

6 And really, the -- the paragraph -- or
7 point 2 there, is really talking about physical supply
8 risk. And that's not really a factor when you're talking
9 about a financial arrangement between a customer and a
10 retailer about how they're going to pay for supply.

11 Number 3. They talked about growth in
12 customer base through no expenditures on -- on the part
13 of the brokers and the retailers. Well, the reality of
14 that is Centra's expanding its system, they're earning a
15 return on the investment, and that's inherently a
16 distribution function. And I don't think that,
17 realistically, anyone in any way, shape or form could say
18 that that is providing any sort of subsidy to retailers.

19 Number 4. They talk again about the cash
20 flow guarantee. Really, that's the same point that they
21 talked about in the first one, the bad debt, and again
22 that's being paid for by distribution level customers.

23 "Brokers being reimbursed for natural
24 gas supplied to a customer who may be
25 in payment default."

1 I'm not sure if that's any different than
2 the supplier arrangements they would have with Nexen.

3 And lastly:

4 "The use of Centra's ABC Service
5 precludes a broker from needing to
6 investing in their own billing system."

7 Again, as I understand it, all customers
8 pay for billing costs through the distribution rates.
9 Again, that's a service provided to all customers and
10 paid for by all customers.

11 So just from my knowledge of cost of
12 service and -- and how things are done, and cost
13 allocation, I don't see that any of these are inherently
14 a -- a subsidy of any sort.

15 MR. ERIC HOAKEN: All right, thank you.
16 With that, I can indicate, Mr. Chair, that the panel is
17 now available for cross-examination.

18 THE CHAIRPERSON: Thank you, Mr. Hoaken.
19 I think we will take our break now. We will come back in
20 fifteen (15) minutes and we'll move on to Board counsel.

21
22 --- Upon recessing at 1:43 p.m.

23 --- Upon resuming at 2:06 p.m.

24

25 THE CHAIRPERSON: We are all yours, Mr.

1 Peters.

2

3 CROSS-EXAMINATION BY MR. BOB PETERS:

4 MR. BOB PETERS: Thank you, Mr. Chairman.
5 Good afternoon to the panel.

6 In my questioning this afternoon, I'll
7 address questions to the panel and I'll leave it to the
8 panel members to decide who can best provide the
9 information to the Board. If one (1) panel member
10 answers and if someone else has something that you
11 believe is of importance to let the Board know, I'd ask
12 you speak up and provide that to the Board.

13 On a second preliminary matter, a little
14 bit unusual in light of the direct evidence from Mr.
15 Hoaken, but because two (2) retailers are represented on
16 the same panel, can the Board assume that the answer
17 given is the answer of both retailers, no matter who
18 answers the question, unless the panel members so advise
19 the Board to the contrary?

20 MR. ERIC HOAKEN: That's fine. Thank
21 you, Mr. Peters.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: All right. So let's be
25 clear that if -- Ms. Ruzycki, if you don't agree with

1 your panel members to your -- to your left, you'll let
2 the Board know, and likewise if they don't agree with
3 you, they'll -- they'll speak up.

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

5 MR. BOB PETERS: All right. And a third
6 preliminary matter is that my questions are not designed
7 to solicit disaggregated retailer information, so if you
8 believe my question goes that far, you can ask me to
9 clarify it or address it accordingly, if Mr. Hoaken lets
10 you get that far.

11 And lastly, as I've told other witnesses,
12 when I refer to a retailer, a broker, a marketer or an
13 aggregator, I am using the term synonymously, and I would
14 like it to -- to be understood that way unless there's a
15 problem with that. That's fine, again?

16 MR. ERIC HOAKEN: That's fine, thank you.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: All right. In terms of
20 having said I don't want to disaggregate the information,
21 I do want to get a bit more factual information on the
22 record, and maybe starting with Direct Energy.

23 I heard the answer through the questions
24 asked of Mr. Hoaken, that Direct has been in Manitoba for
25 approximately fifteen (15) years.

1 MS. KAREN MELNYCHUK: That's correct.

2 MR. BOB PETERS: Now, Ms. Melnychuk, when
3 you say that the fifteen (15) years they've been here,
4 how much have that has been in the wholesale market and
5 how much of that has been in the -- in the residential
6 retail market?

7 MS. KAREN MELNYCHUK: Direct Energy has
8 always been on the retail side as a supplier to municipal
9 gas, so they've been in this market since 1992.

10 MR. BOB PETERS: But Direct Energy hasn't
11 gone directly into contracts with customers, it's always
12 -- it's been Municipal Gas in the early days, correct?

13 MS. KAREN MELNYCHUK: I believe there
14 were some contracts in the early days that Direct Enter -
15 - Energy entered into on its own.

16 MR. BOB PETERS: All right. And in terms
17 of Energy Savings Manitoba Limited partnership, Mr.
18 Ruzycki, it's approximately four (4) years that Energy
19 Savings has had a presence in the Manitoba marketplace in
20 terms of the retail sector?

21 MS. NOLA RUZYCKI: Yes, just to clarify
22 when we initially entered Manitoba, that was through
23 Energy Savings Manitoba Corp. and earlier this year we
24 changed the name, February 1st, to Energy Savings
25 Manitoba LP.

1 MR. BOB PETERS: I apologize if I
2 misspoke, I'm not sure if I mentioned the full name of
3 the Company.

4 But the -- the change in name, Ms.
5 Ruzycki, was really an internal tax matter, as far as
6 you're aware?

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

8 MR. BOB PETERS: All right. So when I
9 say, Energy Savings, of course I'm referring to Energy
10 Savings Manitoba Limited Partnership?

11 MS. NOLA RUZYCKI: Right.

12 MR. BOB PETERS: All right. At this
13 point in time, does Energy Savings Manitoba Limited
14 Partnership have any full time employees based in
15 Manitoba?

16 MS. NOLA RUZYCKI: Yes, we do. We have
17 two (2) employees in Manitoba that are full time.

18 MR. BOB PETERS: And are both of them
19 working in the retailer segment of the market -- the
20 retail segment of the market?

21 MS. NOLA RUZYCKI: Yes, they are.

22 MR. BOB PETERS: And both for SGS class
23 of customers, which in Manitoba includes the residential
24 customer?

25 MS. NOLA RUZYCKI: Yes.

1 MR. BOB PETERS: They also are available
2 to service industrial customers, but I take it that's not
3 a market you're in unless Mr. Melnychuk was incorrect?

4 MS. NOLA RUZYCKI: I think -- we aren't
5 in the industrial seg -- segment, we are in the small
6 commercial to medium commercial, which is under
7 residential, as well.

8 MR. BOB PETERS: Okay. Let's just be
9 clear and maybe it's the Manitoba rate classes, but the
10 SGS class comprises not only residential, but small
11 commercial customers, correct?

12 MS. NOLA RUZYCKI: That's correct.

13 MR. BOB PETERS: And that's a market --
14 and Energy Savings is in that market dealing with not
15 only residential, but some of the commercial customers?

16 MS. NOLA RUZYCKI: Yes.

17 MR. BOB PETERS: There's also a class
18 known as the LGS, large general service, that contains
19 thousands of other commercial customers; is that a market
20 in which Energy Savings presently markets?

21 MS. NOLA RUZYCKI: Yes, it is.

22 MR. BOB PETERS: All right. And in
23 addition, Ms, Ruzycki, to the full time employees that
24 are here in Manitoba, you also use independent
25 contractors when it comes time to market your offerings?

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

2 MR. BOB PETERS: In the materials
3 somewhere, I believe it was PUB/Direct-20, I read that it
4 was thirteen (13) independent marketers. But it -- is
5 that number subject to change or is it a permanent
6 number?

7 MS. NOLA RUZYCKI: Yes, the numbers are
8 subject to change in all our jurisdictions, based on
9 attrition, et cetera. But that number of
10 thirteen/fourteen (13/14) would be a stable number for
11 Manitoba.

12 MR. BOB PETERS: And, Ms. Ruzycki, can
13 you tell the Board what other markets Energy Savings is
14 active in for the residential customer class?

15 MS. NOLA RUZYCKI: Yes. We're active in
16 nine (9) jurisdictions across North America; that would
17 be BC, Alberta, Manitoba, Ontario and Quebec, in Canada;
18 and in New York, Indiana, Illinois and Texas, in the US.

19 MR. BOB PETERS: Any international
20 activity?

21 MS. NOLA RUZYCKI: No, not at this point.

22 MR. BOB PETERS: Okay. Turning over to
23 Direct Energy Marketing Limited. Ms. Melnychuk, in
24 addition -- in terms of the number of employees that are
25 in Manitoba full time at this point, is there

1 approximately nine (9)?

2 MS. KAREN MELNYCHUK: In regards to
3 Direct Energy, there's over seventy-five (75).

4 MR. BOB PETERS: Do those seventy-five
5 (75) include independent sales agents?

6 MS. KAREN MELNYCHUK: Some of them do,
7 yes.

8 MR. BOB PETERS: All right. As I was
9 asking the question, I remembered something that you had
10 said to Mr. Hoaken, and that is that Direct Energy is now
11 the owner of a number of HVAC dealers.

12 MS. KAREN MELNYCHUK: Yes. Two (2) years
13 ago we acquired James Wall Heating and Cooling, and
14 earlier this year we acquired Camco-Mabe which is an
15 appliance service repair company as well.

16 MR. BOB PETERS: And you included their
17 employees in your seventy-five (75) total?

18 MS. KAREN MELNYCHUK: Yes.

19 MR. BOB PETERS: In terms of employees
20 that service the retail -- the retailing of primary
21 natural gas service, how many is that?

22 MS. KAREN MELNYCHUK: Approximately seven
23 (7).

24 MR. BOB PETERS: And of those seven (7)
25 how many service the industrial market?

1 MS. KAREN MELNYCHUK: Those are not
2 included in those seven (7); we have one (1).

3 MR. BOB PETERS: And the seven (7) that
4 you did refer to would service the small consumer --
5 small commercial market, as well as the residential
6 market?

7 MS. KAREN MELNYCHUK: That's correct. We
8 consider that mass markets, so residential and small
9 commercial.

10 MR. BOB PETERS: And does Direct Energy
11 segregate with whom those employees work or do they
12 service -- each employee services each of those markets;
13 that is, the residential as well as the small commercial?

14 MS. KAREN MELNYCHUK: The -- the office
15 here in Winnipeg administers or does the back-end
16 administration for both mass markets and what we call our
17 business services, so it's a joint effort.

18 MR. BOB PETERS: In addition to that, Ms.
19 Melnychuk, you also have independent sales agents in
20 Manitoba?

21 MS. KAREN MELNYCHUK: That's correct.

22 MR. BOB PETERS: Approximately how many
23 in number?

24 MS. KAREN MELNYCHUK: On average, about
25 thirty (30).

1 MR. BOB PETERS: And when you say "on
2 average," it's thirty (30) when you go to market with a
3 new offering?

4 MS. KAREN MELNYCHUK: You know what, it
5 depends on the weather, more than anything. Winters here
6 are extremely cold, as we all know, and so sometimes we
7 have a downflux in agents on the street for us, due to
8 weather conditions.

9 MR. BOB PETERS: In terms of other
10 jurisdictions in Canada, I didn't catch from the direct
11 evidence what other jurisdictions Direct Energy is active
12 in, in terms of the residential market. Do I take it,
13 it's BC, Alberta, Manitoba, Ontario?

14 MS. KAREN MELNYCHUK: Yes, unless Mr.
15 Roeder has more? No?

16 MR. CLINTON ROEDER: We also have a few
17 customers in Quebec as well.

18 MR. BOB PETERS: Those are residential
19 customers --

20 MR. CLINTON ROEDER: Yes.

21 MR. BOB PETERS: -- Mr. Roeder?

22 MR. CLINTON ROEDER: Residential and
23 commercial.

24 MS. NOLA RUZYCKI: Sorry, perhaps I could
25 just jump in. In Quebec, I think I had said -- I wasn't

1 sure if you mentioned residential, but in Quebec we
2 service the -- not the residential market but the small
3 commercial market.

4 MR. BOB PETERS: So only the small
5 commercial market in --

6 MS. NOLA RUZYCKI: In Quebec --

7 MR. BOB PETERS: -- Quebec you do as
8 well?

9 MS. NOLA RUZYCKI: -- yes.

10 MR. BOB PETERS: It's -- is it Mr.
11 Roeder? Am I saying that right?

12 MR. CLINTON ROEDER: Yes, that's right.

13 MR. BOB PETERS: As in the Oakland
14 Raider?

15 MR. CLINTON ROEDER: That's correct.

16 MR. BOB PETERS: All right. Thank you
17 for that.

18 Now in terms of other US jurisdictions and
19 we -- we did get Centrica -- Centrica's origin, but can
20 you tell me which -- US jurisdictions Direct Energy is
21 active in?

22 MR. CLINTON ROEDER: Just before I answer
23 that question, just are you asking active in terms in an
24 energy market or in all related services?

25 MR. BOB PETERS: I'm -- I'm, thank you

1 for that. I'm specifically interested in retail
2 marketing to residential customers, natural gas only.

3 MR. CLINTON ROEDER: Okay. The -- and
4 Gary keep me honest here. Texas, Michigan, Ohio,
5 Illinois, Indiana, recently Connecticut, Maryland; and
6 Gary did I miss anything?

7

8 (BRIEF PAUSE)

9

10 MR. CLINTON ROEDER: Oh -- oh yeah, I
11 forgot New York, That's a big one to miss.

12 MR. BOB PETERS: And those are all
13 jurisdictions in which you retail natural gas to
14 residential customers?

15 MR. CLINTON ROEDER: In the Texas market
16 -- the Texas market is only open competitively on the
17 power market.

18 MR. BOB PETERS: For elec -- that's
19 electricity, is what you're --

20 MR. CLINTON ROEDER: Electricity, that's
21 correct.

22 MR. BOB PETERS: And the other ones are -
23 - are all natural gas and some of those are also
24 electricity?

25 MR. CLINTON ROEDER: In the case of New

1 York it's also power.

2 MR. BOB PETERS: That's the only other
3 one which electricity is -- is marketed as well as gas.

4 MR. CLINTON ROEDER: That's to my -- my
5 knowledge and we'll confirm that, but --

6 MR. BOB PETERS: That's -- that's fair
7 enough. All right. In terms of market penetration in
8 other jurisdictions, I'm not sure if the panel has
9 caucused on this, but we do have some evidence on the
10 record that I want to just find out if -- how accurate it
11 is. And I -- I believe it's found in an Information
12 Request that was posed of Centra PUB/CENTRA-2.

13 But in terms of the Ontario market there's
14 a suggestion that there's 37 percent of the residential
15 market on direct purchase.

16 Does the panel agree with that number?

17 MR. CLINTON ROEDER: I can't speak
18 exactly what it is today. It's approximately 40 percent.
19 I have seen at one point in time 37 percent as figure, so
20 that's close.

21 MR. BOB PETERS: All right, that's close
22 enough. And then in terms of Manitoba, the suggestion is
23 approximately 20 percent?

24 MR. CLINTON ROEDER: That's correct.

25 MR. BOB PETERS: And then when we move

1 over to Alberta is that -- there's also evidence in the
2 proceedings that suggests it's approximately 20 percent
3 in Alberta?

4 MR. GARY NEWCOMBE: That's, you know, a -
5 - a fair, I guess, representation of the overall market.
6 It does vary in Alberta quite a bit by specific service
7 territory and by market, either electricity or natural
8 gas.

9 For instance the City of Lethbridge, I
10 believe the percentage of electricity customers who
11 selected a competitive marketer is in the order of 58
12 percent which was some recent information that came out
13 from the Department of Energy; City of Calgary it's 28
14 percent of customers who have selected a competitive
15 electricity supplier.

16 So it does vary by specific service
17 territory, but I think in totality a number around the 20
18 percent mark is pretty accurate for both fuels; natural
19 gas and electricity.

20 MR. BOB PETERS: Okay, well, thank --
21 thank you for that information. Is the -- is it your
22 understanding Mr. Newcombe that the degree of variability
23 has anything to do with barriers to entry into the
24 market, or is it simply cust -- customer preference?

25 MR. GARY NEWCOMBE: The rules for each

1 energy source, electricity or natural gas, while the two
2 (2) of them are not the same, they are the same for
3 electricity across all jurisdictions, with the exception
4 of -- of a few minor exceptions in Alberta. So it's not
5 any difference with respect to barriers per se, or market
6 rules.

7 I think for the most part it's got more to
8 do with the promotion or acceptance of competitive
9 markets by specific municipalities. I know the Mayor of
10 Lethbridge -- and I'm not sure if it was the entire
11 endorsement from the entire council or just the Mayor of
12 Lethbridge -- came out about a year ago and said that,
13 from his perspective and that of the City of Lethbridge,
14 they were fully supportive of competitive markets and all
15 customers should sign up. So I think it's got more to do
16 with that than any variation in market rules.

17 MR. BOB PETERS: But there's nothing that
18 the -- other than the endorsement that the Mayor of
19 Lethbridge could -- could offer so it's...

20 MR. GARY NEWCOMBE: No, that's correct.

21 MR. BOB PETERS: All right. In these
22 proceedings, and I guess Mr. Newcombe and Mr. Roeder, you
23 may not be aware but, there's -- there's approximately
24 one hundred and fifty (150) of the largest volume
25 industrial and commercial customers in Manitoba who were

1 -- who operate under different rate classes, are you
2 aware of that?

3 MR. CLINTON ROEDER: Yes.

4 MR. BOB PETERS: Is there any
5 disagreement amongst the panel members that there is a
6 competitive marketplace already in existence in Manitoba
7 for those one hundred and fifty (150) largest volume
8 commercial customers?

9 MS. KAREN MELNYCHUK: I would say in
10 regards to those hundred and fifty (150), there is
11 competition and I would go further to say that in regards
12 to the LGS class as well, and a majority of the small
13 commercial, there is competition readily available.

14 If you look at the PUB website, there are
15 several registered brokers who market within the SGS
16 commercial, the LGS, and those hundred and fifty (150).

17 MR. BOB PETERS: What you're telling the
18 Board then, Ms. Melnychuk, is that there are
19 approximately, is it seven (7) brokers who -- who market
20 to those larger volume commercial customers, as well as
21 the small volume commercial customers?

22 MS. KAREN MELNYCHUK: Yes.

23 MR. BOB PETERS: You don't draw a
24 distinction between the small volume commercial and the
25 medium commercial customers and the large volume?

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

2 MR. BOB PETERS: And that's a -- that's a
3 market in which Direct Energy is seeking market share?

4 MS. KAREN MELNYCHUK: That's correct.
5 And I believe our competitor, Energy Savings, is as well.

6 MR. BOB PETERS: In only portion of that,
7 though, Ms. Melnychuk, because they're -- they're not
8 involved in the hundred and fifty (150) largest customer
9 groupings.

10 MS. KAREN MELNYCHUK: That's my
11 understanding, yes.

12 MR. BOB PETERS: Now, lets just talk
13 about that, then, in terms of the -- well, are there any
14 -- are there any efforts made to change the market rules
15 as it pertains to those largest one hundred and fifty
16 (150) volume commercial customers?

17 MS. KAREN MELNYCHUK: No, currently those
18 customers are allowed monthly price changes and so a lot
19 of the barriers that we've spoken of earlier are only
20 specific to residential small commercial and -- and the
21 LGS, the hundred and fifty (150) customers that you've
22 segmented out -- or the Utility's segmented out, those
23 are there already for those customers.

24 MR. BOB PETERS: When you say "it allows
25 monthly changes," does that mean monthly enrollments?

1 MS. KAREN MELNYCHUK: I -- I would need
2 to verify on the monthly enrollments, but I know it is
3 for price changes in regards to -- to billing and the
4 ability to -- we have the ability to -- to do a self bill
5 on the residential, but those hundred and fifty (150)
6 have had it all along, but we can change the price on
7 them on a monthly basis, whereas on a residential, we can
8 only do it quarterly.

9 MR. BOB PETERS: All right, I'm not sure
10 if I've heard that yet, Ms. Melnychuk, in these
11 proceedings.

12 So what you're telling the Board is that
13 for the -- for the largest of the commercial and
14 industrial customers, the retailers have an opportunity
15 to change their supply on a monthly basis -- change the
16 price of their supply on a monthly basis?

17 MS. KAREN MELNYCHUK: That's correct,
18 yes.

19 MR. BOB PETERS: Does that mean the
20 retailers are offering a one (1) month variable priced
21 product to those customers?

22 MS. KAREN MELNYCHUK: I cannot speak to
23 what marketers are offering to those customers.

24 MR. BOB PETERS: And in terms of your
25 ability to change prices for residential customers,

1 you're telling the Board that the -- presently, the only
2 way you can change them is to -- to go in on a quarterly
3 basis and do that?

4 MS. KAREN MELNYCHUK: That is correct.
5 We are only allowed to make any changes on a quarterly
6 basis; we can enroll in a quarterly basis, we can change
7 a price on a quarterly basis; that's with the current,
8 come November 1st, we'll have monthly, but under the
9 quarterly, we also had to provide thirty (30) days notice
10 for that change to occur. With the new change to monthly
11 for November 1st, we now have to provide forty-five (45)
12 days notice.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: In terms of what
17 information is on the public record, I take it from the
18 witness panel that if you have placed information on the
19 public record in any jurisdiction, you would be prepared
20 to also share that with this Board; would that be a fair
21 assumption?

22 MR. CLINTON ROEDER: Yes.

23 MR. ERIC HOAKEN: I take it, in terms of
24 the commercial offerings made in Manitoba, if we look to
25 the Direct Energy Marketing Limited website, my

1 recollection is that there were two (2) commercial
2 offerings.

3 Can you confirm that or tell me otherwise?

4 MS. KAREN MELNYCHUK: Yes, that's
5 correct, to the small commercial.

6 MR. BOB PETERS: And those offerings, Ms.
7 Melnychuk, one (1) was a five (5) year flat rate,
8 correct?

9 MS. KAREN MELNYCHUK: That's correct.

10 MR. BOB PETERS: And one (1) was a five
11 (5) year declining rate? Do I have that right?

12 MS. KAREN MELNYCHUK: I don't believe
13 it's a declining anymore. I'd have to check.

14 MR. BOB PETERS: All right. If you could
15 and let us know through your counsel. If it's not a
16 declining rate, what -- what is the other option that you
17 were thinking existed out there for the small commercial
18 customers?

19 MS. KAREN MELNYCHUK: A three (3) year
20 fixed.

21 MR. BOB PETERS: So you're telling me
22 that it's possible the five (5) year declining, if there
23 ever was one, it may have expired?

24 MS. KAREN MELNYCHUK: That's correct.

25 MR. BOB PETERS: All right. Well, better

1 check on it because it -- it -- I -- I'm not certain
2 that's accurate. I want the Board to have accurate
3 information.

4 MS. KAREN MELNYCHUK: We will.

5
6

7 --- UNDERTAKING NO. 15: DEML/ESMLP to advise Board if
8 there was a five (5) year
9 declining rate and if so, has
10 it expired

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Are there any other
14 offerings that are on the public record as to what you
15 offer to the small commercial customers?

16 MS. KAREN MELNYCHUK: No, I do -- there
17 is now historical information in regards to those
18 customers due to Exhibit 12 -- Centra's Exhibit 12.

19 MR. BOB PETERS: That -- that was the
20 list of approximately twenty-nine (29) expired contracts?

21 MS. KAREN MELNYCHUK: Yes, sir.

22 MR. BOB PETERS: And some of those were
23 for commercial customers?

24 MS. KAREN MELNYCHUK: Yes, sir.

25 MR. BOB PETERS: And all of those, to my

1 recollection, again subject to your check, is that they
2 were either three (3) year or five (5) year?

3 MS. KAREN MELNYCHUK: Yes.

4 MR. BOB PETERS: And none of them were
5 variable price contracts?

6 MS. KAREN MELNYCHUK: No, sir.

7 MR. BOB PETERS: Were any of them
8 variable price contracts?

9 MS. KAREN MELNYCHUK: No, sir, they were
10 not.

11 MR. BOB PETERS: All right. I wasn't
12 sure which question you were answering.

13 In terms of the hundred and fifty (150)
14 largest commercial and industrial customers in this
15 province, Ms. Melnychuk, is there anything on the public
16 record to indicate what rate offerings are available to
17 them from Direct Energy?

18 MS. KAREN MELNYCHUK: I don't believe so.

19 MR. BOB PETERS: Can you tell the Board
20 whether that's something that's structured one-on-one or
21 whether there are mass offerings to that, albeit limited,
22 hundred and fifty (150) customer base?

23 MS. KAREN MELNYCHUK: In regards to those
24 hundred and fifty (150), it would be one-on-one. In
25 regards to LGS and SGS commercial because of --

1 especially on the SGS commercial because we have to --
2 have to aggregate to the minimum volume requirements,
3 they're not -- they're one-on- one, but then aggregated.

4 MR. BOB PETERS: Was that answer dealing
5 with the SGS commercial customers?

6 MS. KAREN MELNYCHUK: That last part,
7 yes.

8 MR. BOB PETERS: All right. And you've
9 also told us that the SGS customers have some options
10 that are posted on your website?

11 MS. KAREN MELNYCHUK: That's correct.

12 MR. BOB PETERS: Now, does the website
13 posting also apply to the LGS customer class in Manitoba?

14 MS. KAREN MELNYCHUK: If a customer so
15 chooses, yes.

16 MR. BOB PETERS: Are there any additional
17 offerings to LGS customers that are not also offered to
18 small commercial customers?

19 MS. KAREN MELNYCHUK: Yes.

20 MR. BOB PETERS: And those aren't posted
21 on the website?

22 MS. KAREN MELNYCHUK: That's correct.

23 MR. BOB PETERS: And are those structured
24 one-on-one or are those dealt with in some other fashion?

25 MS. KAREN MELNYCHUK: Normally, one-on-

1 one.

2 MR. BOB PETERS: All right. Ms.
3 Melnychuk, for those commercial customers either in the
4 LGS class or the classes that have higher volume
5 requirements, are there any service offerings that Direct
6 Energy would be interested in making but finds itself
7 unable to make in Manitoba?

8 MS. KAREN MELNYCHUK: I believe a
9 variable rate -- a monthly variable rate, we cannot offer
10 at this point in time due to the quarterly price
11 adjustments. There are probably many other pricing
12 mechanisms that we cannot offer to the smaller individual
13 SGS customers because of having to aggregate them.

14 MR. BOB PETERS: Thank you for that
15 answer. In terms of the first part of your answer, I
16 understood you to be saying that for the LGS customers
17 and the -- and the hundred and fifty (150) largest
18 industrial commercial customers, you're not able to go to
19 them with a variable rate at this time?

20 MS. KAREN MELNYCHUK: Regard -- in
21 regards to the LGS and the hundred and fifty (150), yes
22 we can.

23 MR. BOB PETERS: Oh, I'm sorry, then
24 maybe I misunderstood or maybe I -- I didn't ask the
25 question clearly.

1 Let me -- let me re -- re-ask the
2 question. Are there any restrictions that Direct Energy
3 has identified that prevent it from making primary gas
4 retail options available to the hundred and fifty (150)
5 largest commercial and industrial customers, together
6 with those in the LGS class?

7 MS. KAREN MELNYCHUK: In regards to the
8 hundred and fifty (150), no. In regards to the LGS --
9 and I'd have to go back and confirm whether we can change
10 their prices on a monthly basis. I believe because they
11 fall into the classification of 680,000 cubic metres or
12 more, we can change their price on a monthly basis.

13 MR. BOB PETERS: If the LGS class was
14 680,000 cubic metres a year or less, you're saying you
15 wouldn't be able to offer them a variable price?

16 MS. KAREN MELNYCHUK: That's correct.

17 MR. BOB PETERS: All right. And is that
18 in a -- where does that restriction come from, Ms.
19 Melnychuk?

20 MS. KAREN MELNYCHUK: That is written
21 into the terms and conditions of service that Centra Gas
22 has.

23 MR. BOB PETERS: In -- in earlier answer
24 to my question, and I'm not sure if now has been subsumed
25 -- subsumed in the subsequent questions, but I thought I

1 understood you to be saying that you also had a problem
2 with a variable rate offering due to the -- due to the
3 quarterly pricing by the Utility.

4 MS. KAREN MELNYCHUK: In regards to the
5 lower volume customers, the SGS commercial and the SGS
6 residential.

7 MR. BOB PETERS: All right. I'm -- I'm
8 not understanding as to why a retailer would not be able
9 to go to a variable rate because of the Utility offering
10 a quarterly change.

11 MS. KAREN MELNYCHUK: Yeah, my
12 understanding is in regards to the LGS, six hundred and
13 eighty-thousand (680,000) and more, they are billed on a
14 monthly basis; they're not cyclical billing.

15 In regards to the smaller volume; they are
16 cyclical. So, because it's all tied in to the quarterly
17 enrolments that we currently have, we can only change it
18 on a quarterly basis.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Ms. Melnychuk, I -- I
23 hope I'm not -- let's start with the premise -- it's my
24 understanding that the LGS customers have a volume limit
25 of 680,000 cubic metres a year.

1 MS. KAREN MELNYCHUK: Correct.

2 MR. BOB PETERS: And, in addition to
3 that, a customer consuming less than 680,000 cubic metres
4 a year could elect to be an SGS customer or an LGS
5 customer in this jurisdiction?

6 MS. KAREN MELNYCHUK: Correct. That's my
7 understanding as well.

8 MR. BOB PETERS: All right. And so, I
9 appreciate you gave me an answer about the terms and
10 conditions. It is the terms and conditions for volume-
11 supplied customers of less than six hundred and eighty
12 (680) where the terms and conditions do not provide the
13 flexibility for retailers to change the price more than
14 quarterly?

15 MS. KAREN MELNYCHUK: At the moment, yes.

16 MR. BOB PETERS: All right. In terms of
17 changing the price more than quarterly, does any of that
18 restriction have to do with how regularly the Utility
19 changes its price?

20 MS. KAREN MELNYCHUK: I don't believe so.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Now let's turn to the
25 subject matter of this Hearing, which is the competitive

1 model and marketplace for the small general service
2 class, which includes the residential customers in
3 Manitoba.

4 And I think we've agreed there's
5 approximately a 20 percent market penetration rate by the
6 existing retailers into that market, correct?

7 MS. KAREN MELNYCHUK: Correct.

8 MR. BOB PETERS: I'm not sure if you've
9 had an opportunity, Ms. Ruzycki and Ms. Melnychuk, to
10 look at the updated Exhibit CENTRA-15. And you don't
11 need to turn to it at this time, but this was where the
12 company, Centra, filed some -- some revised information
13 to what is found at Tab 2 of the book of documents.

14 Do you recall that filing?

15 MS. NOLA RUZYCKI: Yes.

16 MS. KAREN MELNYCHUK: Yes.

17 MR. BOB PETERS: Do either of you have
18 any reason to believe the information provided there is,
19 at least in terms of what is -- what is actual, not what
20 is forecast but what is actual, is incorrect?

21 MS. KAREN MELNYCHUK: Mr. Peters, not
22 knowing what Ms. Ruzycki has for a customer base makes it
23 hard for me to determine that.

24 MR. BOB PETERS: I thought about that
25 when I was asking the question.

1 MS. NOLA RUZYCKI: Likewise for me.

2 MR. BOB PETERS: All right. So I'll take
3 it, there's no inform -- there's nothing that leads you
4 to believe that information is incorrect, but you could,
5 for example, if -- if you felt your customer numbers
6 exceeded what was shown on the new Exhibit Number 15, you
7 would know that the information from the Utility was
8 incorrect?

9 MS. KAREN MELNYCHUK: Yes, if it --

10 MR. BOB PETERS: All right.

11 MS. KAREN MELNYCHUK: -- fell below a
12 number, yes.

13 MR. BOB PETERS: All right. But because
14 you don't know each other's market penetration
15 specifically, you're not -- unable to conclude whether
16 the number is factually accurate?

17 MS. KAREN MELNYCHUK: That's correct.

18 MR. BOB PETERS: And when we come down to
19 competition in the SGS customer class, there's a question
20 of whether or not there is meaningful customer choice of
21 suppliers. You'll recall that as being one (1) of the --
22 the tests from Board Order 15 of '98?

23 MS. KAREN MELNYCHUK: Yes.

24 MR. BOB PETERS: And in Manitoba there
25 would now be three (3) suppliers of primary gas: one

1 being the utility Centra; second, Direct Energy; and
2 third, Energy Savings, correct?

3 MS. KAREN MELNYCHUK: Correct.

4 MR. BOB PETERS: Is it the panel's
5 position that there is now meaningful customer choice of
6 supplier in Manitoba?

7 MS. KAREN MELNYCHUK: In my opinion, yes.

8 MS. NOLA RUZYCKI: Sorry, in my opinion,
9 as well, yes.

10 MR. BOB PETERS: Why aren't there more
11 retailers in Manitoba than two (2)?

12 MS. NOLA RUZYCKI: I think we've already
13 addressed a number of the issues: barriers to entry; a
14 number of the nominations that are done currently
15 quarterly for enrollments; the volatility and the
16 frequency of the nominations; the fact that effortless
17 renewals aren't allowed; the fact that seamless moves are
18 not a factor; and a number of the issue that we've
19 already touched on, as well.

20 MR. CLINTON ROEDER: If -- If I can
21 comment, just in addition to that. Just if you look at
22 some of what was referenced earlier in terms of the
23 ability, whether it's different sales channels, whether
24 it's telemarketing, the ability through e-signatures,
25 voice recording; if you look at a lot of the competitors

1 that have come into the respective retail markets over
2 the past few years, they focus either on internet, they
3 focus on telesales channels.

4 And if you -- you can look at BC as an
5 example, as well as Ontario over the past year. A number
6 of new players are very focussed on those specific
7 channels.

8 So at this point, in terms of those
9 barriers to entry are eliminating the practises of some
10 of our competitors.

11 MR. BOB PETERS: You say that to the
12 Board, Mr. Roeder, but how do you know that for -- to be
13 factual?

14 MR. CLINTON ROEDER: I know that to be
15 factual based on what offer they have in Ontario, in
16 these other markets. They're limited to respective
17 channels. For example, you take certain competitors in
18 Ontario, they only offer a rate over the internet, they
19 do not participate in any of the other channels,
20 including door-to-door.

21 MR. BOB PETERS: And you suspect that's
22 because of price concerns?

23 MR. CLINTON ROEDER: I -- I can't comment
24 on why. I think that -- that is a practice they have
25 shown and they're successful at it. A number of these

1 players also are active in the US markets.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: You're telling the
6 Board, Mr. Roeder, that from -- from what you observe in
7 other jurisdictions, most notably Ontario, if the sales
8 channel opportunities were increased, the Board would see
9 in Manitoba an increased number of brokers or retailers
10 coming to Manitoba to market primary gas to residential
11 customers?

12 MR. CLINTON ROEDER: If the market rules
13 were addressed to make it -- to offer more options in the
14 part of retailers in terms of how they can approach the
15 market, to where they can be more competitive, I would
16 anticipate that you would see an increase in the number
17 of retailers in the market.

18 MR. BOB PETERS: All right. And I'll --
19 I'll come to those and we'll go through those in, I
20 think, some detail, but probably not now till tomorrow.
21 Is the fact that Centra Gas Manitoba Inc. is part of a
22 Crown Corporation, in and of itself, a barrier to
23 retailers coming to Manitoba?

24 MR. GARY NEWCOMBE: No, I -- I don't
25 believe that, in and of itself, the existence of a Crown

1 Corporation is a barrier. You know, in other
2 jurisdictions, for instance, in Alberta we face the
3 existence of a number of municipally-owned distribution
4 companies and municipally- owned regulated retailers as
5 well, but that's not seen as a barrier.

6 It just depends on the totality of the
7 market rules and how those entities conduct themselves.

8 MR. BOB PETERS: Is the size of the
9 Manitoba market a reason for why there wouldn't be more
10 competition in Manitoba than presently exists?

11 MR. CLINTON ROEDER: I don't believe so.
12 I mean, I -- I think -- you know, I can speak for Direct
13 Energy as an example. You know, the opportunity here,
14 under the right market rules, we can be competitive and
15 we can have a sustainable business.

16 MR. BOB PETERS: That answer suggests,
17 Mr. Roeder, that you don't believe the Manitoba market
18 has -- has reached a maximum saturation point yet for
19 direct purchase to the residential customers?

20 MR. CLINTON ROEDER: That's correct.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Should the Board assume
25 that Direct Energy and Energy Savings are in the Manitoba

1 marketplace because it is profitable for them to be here?

2 MR. CLINTON ROEDER: If -- and I guess
3 the best way for me to respond to that is if we had not
4 previously been in the marketplace at the time that it
5 opened under the assumed market rules, at this point, we
6 would have to seriously question whether or not we would
7 enter the market.

8 So I guess the -- what I'm getting at
9 there, is that this is a reflection we've made a previous
10 investment in the -- in the marketplace, carrying common
11 on (sic) for Direct Energy. We've also invested in terms
12 of home services, in terms of building that out, with the
13 assumption that we can offer Energy and related services.
14 And so we've made that on the assumption that the market
15 would develop and we could be competitive.

16 MS. NOLA RUZYCKI: I would just also like
17 to echo that; that we have made an investment in the
18 community, we have an office here, we have employees in
19 Manitoba and we would hope that we would be able to
20 continue, provided that everybody's working on a level
21 playing field.

22 MR. BOB PETERS: All right. I -- I
23 appreciate that and maybe to use a line from My Friend,
24 Mr. Hoaken, I want to now get an answer to the question
25 that I asked. And -- and specifically, though, should

1 the Board assume that whatever the faults are of the
2 existing marketplace, the retailers who are here are here
3 because they're making a profit.

4 And if they weren't making a profit,
5 they'd -- they'd close down their offices, they'd
6 transfer or lay off employees, and they'd go to some
7 other jurisdiction?

8 MR. CLINTON ROEDER: I can speak for DE
9 and that is, we are not -- we have not been profitable
10 every year in this market. We are still in the market
11 because we are committed in terms of -- as we go back to
12 our original conversation that we had, which was about,
13 you know, Direct Energy and what our interest is -- and
14 it is about offering consumers choice, and that's what
15 we're committed to.

16 So if -- if it was strictly based on a
17 profit, we would have already exited the market.

18 MS. NOLA RUZYCKI: For Energy Savings, we
19 also would -- our profit margin is definitely not as
20 significant in Manitoba. We have a number of additional
21 costs, and those costs -- we can end up on the wrong side
22 of the market when we have to dispose or purchase gas.
23 So we have a significantly increased risk in Manitoba and
24 we could find ourself in the same situation where we do
25 not have a profit.

1 MR. BOB PETERS: Can the Board take from
2 both of your answers that your operations in Manitoba are
3 being subsidized by your operations in other
4 jurisdictions?

5 MR. CLINTON ROEDER: No.

6 MS. NOLA RUZYCKI: That would be, no,
7 also for us.

8 MR. BOB PETERS: From your direct
9 evidence to Mr. Hoaken, why is it that Direct Energy
10 wants more competition in Manitoba?

11 MR. CLINTON ROEDER: Can you clarify your
12 question in terms of, when you say "more competition"?

13 MR. BOB PETERS: All right. I -- I just
14 refer back to some questions and answers that you were
15 exchanging with your counsel, and I was of the
16 understanding that from Direct Energy's point of view,
17 you would welcome more competition in Manitoba; did I
18 understand that correctly?

19 MR. CLINTON ROEDER: That's correct.

20 MR. BOB PETERS: And more competition
21 would include more retailers in the market?

22 MR. CLINTON ROEDER: That's correct.

23 MR. BOB PETERS: Why would you want more
24 retailers in the Manitoba market?

25 MR. CLINTON ROEDER: I'll go back to the

1 comment I made here at the beginning, which is, you know,
2 for Direct Energy, it's about offering consumers choice,
3 and the more choice in the market will ensure a
4 successful market and it's -- for Direct Energy, I would
5 assume for all competitors.

6 You know, we're all willing to stand by,
7 you know, our strengths and -- and our capabilities in
8 the respect to market. And the other comment I would
9 have is that if more players in the market, it probably
10 means that the market rules have been adjusted to where
11 the barriers to entry have been eliminated; thus ensuring
12 a long-term successful market.

13 MR. BOB PETERS: Did Energy Savings come
14 to the Manitoba market after the existing market rules
15 were in place, Ms. Ruzycki?

16 MS. NOLA RUZYCKI: Yes, we did come to
17 the marketplace after the existing rules, but we came
18 with the expectation that those rules would be looked at
19 and -- and modified in order to provide, I guess, more
20 standardisation with other jurisdictions in Canada.

21 MR. BOB PETERS: And how did you expect
22 those market rules would change over time of your entry
23 into the market?

24 MS. NOLA RUZYCKI: For example, for the
25 quarterly enrolls, we anticipated that customers wouldn't

1 have to wait as long. We -- we had been in discussions
2 early on with -- with Manitoba Hydro once we entered the
3 market. And on en -- on rectifying or improving the
4 nominations, the quarterly enrolls, the minimum
5 requirements and a number of the -- I guess, the rules
6 that we found to be constraints in the market.

7 And we had hoped with working with
8 Manitoba Hydro, that we would come to an agreement, as we
9 have in a number of other jurisdictions, where we would
10 move to something that would allow for competition for --
11 for competition and for the default supply to both be in
12 the same market.

13 MR. BOB PETERS: Is the number of
14 retailers in the marketplace a factor in determining
15 whether or not there is competition in the marketplace?

16 MR. GARY NEWCOMBE: I guess for me, Mr.
17 Peters, just looking at one (1) measure; the number of
18 retailers. While it's a contributing factor to your
19 assessment of whether the market is competitive, it's
20 certainly not any sort of a defining factor.

21 I -- I think, you know, as -- as we've
22 talked about, there's a whole number of things. It's,
23 you know, how many products and services are there, how
24 many retailers are there, what are the barriers of entry
25 -- which is, I think, just as critical to how many

1 retailers there are; is what are the barriers? What are
2 the market rules that you're operating under?

3 So, you know, it's part of the holistic
4 package of -- of assessing a market, but I don't think
5 it's by any means a defining measure.

6 MR. BOB PETERS: Direct Energy is active
7 in Pennsylvania, is that right, Mr. Roeder?

8 MR. CLINTON ROEDER: My hesitation, I --
9 we were at one (1) time. I -- I will confirm whether or
10 not we are still active in there.

11

12 (BRIEF PAUSE)

13

14 MR. CLINTON ROEDER: Yeah, we'll confirm.
15 I can -- I can say with certainty that when I was in
16 Stanford, we were active in the market.

17 MR. BOB PETERS: As you sit here and
18 testify today, you don't have any firsthand information
19 about your involvement in -- in Pennsylvania?

20 MR. CLINTON ROEDER: About my first hand
21 -- what --

22 MR. BOB PETERS: I'm sorry.

23 MR. CLINTON ROEDER: If you can clarify.

24 MR. BOB PETERS: As you sit here and
25 testify today, you don't have any firsthand knowledge

1 about Direct Energy's participation in the Pennsylvania
2 market?

3 MR. CLINTON ROEDER: We were active in
4 the Pennsylvania market when I was in Stanford, in my
5 previous role.

6 MR. BOB PETERS: And in that market,
7 there was a market review to consider whether the market,
8 itself, was competitive, is that correct?

9 MR. CLINTON ROEDER: And that occurred
10 after I had transferred down to Texas. I was not
11 actively involved in that review.

12 MR. BOB PETERS: All right. And so
13 you're not aware of what information was filed on behalf
14 of the company and what any decisions of the Pennsylvania
15 Public Utilities Commission were -- was compare -- in
16 respect to that?

17 MR. CLINTON ROEDER: No, I'm not.

18 MR. BOB PETERS: All right. In the time
19 that's left today, I'd like to turn to the second of the
20 threefold test that was enunciated in Board Order 15/98,
21 and that was whether there were improved service
22 offerings as a result of competition.

23 And so far, I think it would be fair to
24 say, Mr. Roeder, that Direct's position is that there
25 would be more service offerings if the market rules in

1 Manitoba were revised, as you've indicated in your direct
2 evidence through to Mr. Hoaken?

3 MR. CLINTON ROEDER: That's correct.

4 MR. BOB PETERS: And -- I'm sorry?

5 MS. KAREN MELNYCHUK: Sorry, if my -- if
6 I may add. Since 15/98, under the old buy/sell regime,
7 there was only one (1) product offering. Since that
8 time, since the implementation of the WTS, Direct Energy
9 has had five (5) different product offerings, I belie --
10 five (5) or six (6).

11 MR. BOB PETERS: Ah, you're reading my
12 notes again, Mr. Melnychuk, 'cause I wanted to go there,
13 and let's -- let's tell the Board what those product
14 offerings are and when they were -- when they were
15 available.

16 And I know there as an exhibit that listed
17 some expired ones, but do you agree with me, first of
18 all, that presently, Direct Energy has no offerings of
19 one (1) year or two (2) year duration?

20 MS. KAREN MELNYCHUK: In regards to
21 residential, yes.

22 MR. BOB PETERS: All right. Good
23 clarification. And, again, Ms. -- Ms. Ruzycki, in terms
24 of residential, Energy Savings is likewise, not in the
25 one (1) or the two (2) year market?

1 MS. NOLA RUZYCKI: That's correct.

2 MR. BOB PETERS: But both retailers are
3 in the three (3) year and the five (5) year market?

4 MS. NOLA RUZYCKI: No, Energy Savings
5 actually is in the four (4) and five (5) year market
6 only; not the three (3) year market.

7 MR. BOB PETERS: All right. As somebody
8 once indicated in this Hearing, that information, Ms.
9 Ruzycki, is not contained on the Company web site, is it?

10 MS. NOLA RUZYCKI: I believe the
11 information that we offer four (4) and five (5) year
12 fixed-price offerings is available on the web site;
13 however, the price associated with them is not.

14 MR. BOB PETERS: And why is the price not
15 available?

16 MS. NOLA RUZYCKI: The price currently is
17 not available on our web site for a number of reasons.
18 The first one being that our lawyers are investigating a
19 class action suit that was filed against a computer
20 company because of incorrect pricing. And just want to
21 make sure that if we inadvertently put incorrect pricing
22 on our web site, that we would be subject to a class
23 action suit.

24 And the second reason being that we are
25 currently redesigning our web site. So we're going

1 through a significant web site redesign, right now.

2 MR. BOB PETERS: All right. I won't ask
3 you if Direct Energy's aware of that class action case,
4 because their -- their information appears to be on the
5 web site, correct -- correct, Ms. Melnychuk?

6 MS. KAREN MELNYCHUK: Yes, it is.

7 MR. BOB PETERS: All right. We can --
8 maybe we'll see what Mr. Hoaken's opinion was relative to
9 that, but let's -- let's move past that. We heard --

10 MR. ERIC HOAKEN: I was just mentioning
11 to Mr. Roeder that that class action involves Dell
12 Computer, his former employer.

13 MR. BOB PETERS: Ms. Ruzycki, the -- the
14 offerings to the residential customers in Manitoba from
15 Energy Savings, as we sit here today, are two (2); one
16 (1) is four (4) years fixed-price and one (1) is a five
17 (5) year fixed-price?

18 MS. NOLA RUZYCKI: That's correct.

19 MR. BOB PETERS: And are there -- is
20 there any other offering out on the public domain in
21 Manitoba from Energy Savings for residential customers?

22 MS. NOLA RUZYCKI: No, there isn't.

23 MR. BOB PETERS: And those prices that
24 you've -- you -- sorry, those offerings that you have out
25 there, is the price of those offerings in the public

1 domain?

2 MS. NOLA RUZYCKI: Yes, I believe it is
3 available on Energy Shop.

4 MR. BOB PETERS: Well, my computer skills
5 and my Dell computer might not work that way, but could
6 you tell the Board what those offerings are, if you're
7 aware of them at this time?

8 MS. NOLA RUZYCKI: Sorry, if you just
9 give me one (1) second here.

10 MR. BOB PETERS: Yes, certainly.

11

12 (BRIEF PAUSE)

13

14 MS. NOLA RUZYCKI: Yes, under Manitoba it
15 shows -- were you -- were you looking for the pricing?
16 Is that --

17 MR. BOB PETERS: Yes, I am.

18 MS. NOLA RUZYCKI: Okay. So, for both
19 prices, it is the same for the four (4) and five (5) year
20 and it's at thirty-nine point eight nine (39.89) cents
21 per cubic metre.

22 MR. BOB PETERS: And, Ms. Ruzycki, when
23 you say "Energy Shop," you're referring to a website
24 energysshop.com?

25 MS. NOLA RUZYCKI: That's correct.

1 MR. BOB PETERS: And is that web site
2 linked to your Energy Savings website in any way?

3 MS. NOLA RUZYCKI: No, it is not.

4 MR. BOB PETERS: And can you explain how
5 Energy -- or who uses Energy Shop or what -- what its
6 primary purpose is, to your understanding?

7 MS. NOLA RUZYCKI: My understand is that
8 Energy Shops is a provider of information for offerings
9 in different jurisdictions, for different suppliers which
10 consumers could go to and reference, or anyone interested
11 could go to and reference.

12 MR. BOB PETERS: When it comes time for
13 revising your service offerings, Ms. Ruzycki, is it the
14 responsibility of Energy Savings to go in and make those
15 revisions, or is that something that's left to -- to
16 Energy Shop?

17 MS. NOLA RUZYCKI: I'm actually not
18 certain of the arrangement. I -- I believe they may
19 phone us to confirm what our pricing is. We have been
20 reluctant in the past to provide that pricing because of
21 the fact that if it inadvertently remains up at an
22 inaccurate price, we may not be able to honour that
23 commitment for that price.

24 MR. BOB PETERS: Ms. Ruzycki, are you
25 aware of the August 1st, 2007 primary gas price from

1 Centra being twenty-nine point three one (29.31) cents?

2 MS. NOLA RUZYCKI: I'm -- I'm -- I did
3 see the filing; I don't recall the exact amount, but that
4 is in the range that I remember.

5 MR. BOB PETERS: All right, turning to
6 Direct Energy Marketing Limited's products that are
7 currently in the public domain, Ms. Melnychuk, are there
8 three (3)?

9 MS. KAREN MELNYCHUK: In -- for
10 residential, yes; we have a five (5) year fixed, we have
11 a three (3) year fixed, and then we have our seasonal.

12 MR. BOB PETERS: And your seasonal is a
13 five (5) year seasonal?

14 MS. KAREN MELNYCHUK: Yes, it is.

15 MR. BOB PETERS: And let's just deal with
16 those one (1) at a time. Let's start with your three (3)
17 year fixed-price; I understand that's in the public
18 domain at thirty-eight point nine (38.9) cents?

19 MS. KAREN MELNYCHUK: I don't, at the top
20 of my mind, know what the price is at the moment. I'd
21 have to back and check.

22 MR. BOB PETERS: All right --

23 MS. KAREN MELNYCHUK: I apologise for
24 that.

25 MR. BOB PETERS: And you'll take that

1 subject to check, though.

2 MS. KAREN MELNYCHUK: Yes.

3 MR. BOB PETERS: And -- and there's no
4 suggestion that these prices aren't publically available
5 from some source, correct?

6 MS. KAREN MELNYCHUK: That's correct.

7 MR. BOB PETERS: And in fact, somebody
8 could phone your office if they were inquiring, and your
9 office would give them what the current offering would
10 be?

11 MS. KAREN MELNYCHUK: That's correct.

12 MR. BOB PETERS: And when you say "the
13 current offering," Ms. Melnychuk, you don't go to the
14 market at various times in the year.

15 You're open to the market in every day of
16 the year, have I got that right?

17 MR. CLINTON ROEDER: To just clarify, are
18 -- are you asking the question in terms of do we have a
19 product ev -- every day of the year or...?

20 MR. BOB PETERS: That -- that is my
21 question, then, Mr. Roeder, is that at any point in time
22 during the year, if a consumer wants to purchase a fixed-
23 price offering, let's say, from Direct Energy, one (1)
24 would be available to that consumer?

25 MR. CLINTON ROEDER: That's correct.

1 MR. BOB PETERS: But that would be
2 available subject to sufficient aggregation of volumes
3 that you could get them enrolled in your program and off
4 of system supply?

5 MS. KAREN MELNYCHUK: That's correct.

6 MR. BOB PETERS: Are customers told that;
7 that it's subject to volume restrictions, and you have
8 volume concerns to -- to sign them up?

9 MS. KAREN MELNYCHUK: It does -- not
10 specific language in the Ts and Cs of our contracts, but
11 it does note that it may take up to -- to ninety (90)
12 days to enroll.

13 MR. BOB PETERS: All right, so we dealt
14 with the third -- the three (3) year fixed-price product,
15 and I think in your evidence to Mr. Hoaken you told that
16 Board that was -- also had the carbon neutral phrase
17 attached to it, is that right?

18 MS. KAREN MELNYCHUK: I'd have to confirm
19 if the carbon neutral's applied to the third -- the three
20 (3) year, but I believe it is.

21 MR. BOB PETERS: All right, and you'll
22 check that and tell me if it's not, correct?

23 MS. KAREN MELNYCHUK: Yes, I will.

24 MR. BOB PETERS: All right, let's turn to
25 the five (5) year fixed-price, and that offering is

1 thirty-four point nine (34.9) cents, subject to check?

2 MS. KAREN MELNYCHUK: Correct.

3 MR. BOB PETERS: And that also is a
4 carbon neutral offering?

5 MS. KAREN MELNYCHUK: That one (1)
6 definitely is.

7 MR. BOB PETERS: All right, and then
8 before we come back to that, the five (5) year seasonal
9 product that you have out there has a different rate in
10 the summer compared to the winter, is that correct?

11 MS. KAREN MELNYCHUK: That's correct.

12 MR. BOB PETERS: And the summer rate is
13 thirty point nine (30.9) cents and the winter rate is
14 thirty-seven point nine (37.9) cents?

15 MS. KAREN MELNYCHUK: That sounds about
16 right.

17 MR. BOB PETERS: And that rate -- those
18 summer and winter rates will remain the same for the
19 entire five (5) year contract?

20 MS. KAREN MELNYCHUK: That's correct,
21 there's two (2) prices per year.

22 MR. BOB PETERS: And when does summer
23 become winter in Manitoba?

24 MS. KAREN MELNYCHUK: Oh, sorry.

25 MR. BOB PETERS: What -- what's the --

1 MS. KAREN MELNYCHUK: Midnight, October
2 31st. We have to follow the gas quarters because we can
3 only change prices quarterly, so summer becomes winter
4 October 31st at midnight.

5 MR. BOB PETERS: And we wonder why those
6 folks in Toronto make fun of us when we start moving up
7 the dates of winter like that, Ms. Melnychuk, but -- and
8 that five (5) year seasonal product is also carbon
9 neutral, correct?

10 MS. KAREN MELNYCHUK: I believe so, yes.

11 MR. BOB PETERS: All right. I didn't
12 understand for one (1) minutes what you meant when you
13 told Mr. Hoaken you have a carbon neutral product.

14 What does it mean?

15 MS. KAREN MELNYCHUK: I'll start and Mr.
16 Roeder will -- will jump in if I'm miss. Our carbon
17 neutral product -- the typical customer in Manitoba
18 produces approximately eight (8) tons -- eight (8) tons
19 of carbon dioxide per year.

20 What this does is it offsets the carbon
21 dioxide that is produced by natural gas furnaces or the
22 heating of their homes. And so we've gone and purchased
23 carbon emission through the carbon emission trading to
24 offset those carbon emissions that are done -- or -- or --
25 - see, I'm using all the wrong language -- carbon

1 emission trading and we only purchase or invest in new
2 additional carbon -- I'm losing it here --

3 MR. CLINTON ROEDER: Yeah, and just the
4 specifics. I mean, we can get your further detail on it,
5 but essentially what we're purchasing on behalf of the
6 consumers is equivalent to estimated uses -- usage, a
7 carbon offset for the emissions.

8 And these carbon offsets, you know, we
9 have worked with the various entities in terms of its
10 verifiable and it's certified in the respective
11 marketplaces. We can get you further details, can't
12 speak toward it here.

13 But I think one (1) of the things it
14 differentiates this product from what a number of
15 competitors have -- in some markets you'll go and you'll
16 take a look and they'll plant a tree in Montana, but
17 they'll plant that tree on a, you know, a paper form, as
18 an example. It's not really helping the environment.

19 In this case, it is certifiable, it's aud
20 -- you can audit it in terms of do the review. In
21 addition to that though, what I would comment on, is this
22 just isn't about offsetting the emissions. In this case,
23 that's something to offer the consumers for the emissions
24 that they do emit.

25 But as I mentioned earlier, we also offer

1 -- we have the home services business, and part of that
2 business is to offer consumers, on their behalf, to
3 actually go into the home, take a look and do a review of
4 their -- their efficiencies and their appliance in the
5 home to reduce the emissions that they actually emit.

6

7 (BRIEF PAUSE)

8

9 MR. CLINTON ROEDER: I -- I can actually
10 -- I was just handed the document that actually details
11 out from Energy Group, it -- specifically what takes
12 place, if you'd like me to -- to read through that, I
13 can.

14 MR. BOB PETERS: Well, perhaps you could
15 review it, and I would ask you to undertake through your
16 counsel to file a copy for the benefit of the Board.

17 MR. CLINTON ROEDER: Okay. We can do
18 that.

19

20 --- UNDERTAKING NO. 16: DEML/ESMLP to provide Board
21 with a copy of the document
22 regarding carbon emissions

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: And just, Mr. Roeder, if

1 there's proprietary information, I'm sure your counsel, I
2 think, is now the leader in redacting information before
3 this Board, so we'll -- we'll expect that from you.

4 But just so that I'm understanding, with
5 the monies that Manitobans pay Direct Energy will
6 purchase a carbon offset, is that, so far, correct?

7 MR. CLINTON ROEDER: That's correct.

8 MR. BOB PETERS: And will that carbon
9 offset be in the Province of Manitoba, or will it be in
10 some other jurisdiction?

11 MR. CLINTON ROEDER: It could be in
12 another jurisdiction.

13 MR. BOB PETERS: And it could be in
14 Manitoba?

15 MR. CLINTON ROEDER: Yes.

16 MR. BOB PETERS: And do you know with
17 certainty how much of the carbon offset, percentage wise,
18 is here as opposed to other jurisdictions?

19 MR. CLINTON ROEDER: No, I can't speak
20 toward that and -- and part of the reason, I would point
21 out, is this is fairly new in terms of the whole carbon
22 emissions trading. And so part of this, as we go along
23 and develop that next, in terms of where the carbon
24 offsets are, will change quite a bit over time.

25 MR. BOB PETERS: Do I take it that Direct

1 Energy will purchase these offsets from a third party
2 company?

3 MR. CLINTON ROEDER: Direct Energy will -
4 - in terms of the alternatives that we'll explore,
5 include purchasing from a third party. It's also --
6 these carbon emissions are traded.

7 MR. BOB PETERS: So you're telling the
8 Board you will buy them in -- on your own behalf?

9 MR. CLINTON ROEDER: Yeah, I mean I -- I
10 think the easiest way to answer that would just be -- let
11 me just respond to what -- what's written here, rather
12 than me -- me a...

13

14 (BRIEF PAUSE)

15

16 MR. CLINTON ROEDER: Because I -- I --
17 well, I'm just -- if you don't mind --

18 MR. BOB PETERS: Certainly.

19 MR. CLINTON ROEDER: "To make a customer
20 carbon neutral, Direct Energy engages
21 in mar -- engages in markets or
22 bilateral agreements for projects that
23 offset this release of carbon dioxide
24 into the atmosphere. These projects
25 could either remove CO2 from the

1 atmosphere or reduce the amount of
2 emissions by using an alternative and a
3 lower madene (phonetic) technology; for
4 example, wind power electricity
5 generation."

6 MR. BOB PETERS: Thank you, I'll look
7 forward to receipt of that.

8 Mr. Chairman, in light of the hour,
9 perhaps this would be an appropriate time for the
10 afternoon adjournment, and I'll pick it up at nine
11 o'clock tomorrow morning.

12 THE CHAIRMAN: We will look forward to
13 it, Mr. Peters. We stand adjourned.

14

15 (PANEL RETIRES)

16

17 MR. BOB PETERS: Thank you.

18

19 --- Upon adjourning at 4:07 p.m.

20

21 Certified correct,

22

23

24

25 _____
Wendy Warnock, Ms.