

**NATIONAL ENERGY BOARD  
OFFICE NATIONAL DE L'ÉNERGIE**



**Hearing Order RH-001-2016  
Ordonnance d'audience RH-001-2016**

**TransCanada PipeLines Limited  
Application for Approval of Storage Transportation Service  
Modernization and Standardization**

**TransCanada PipeLines Limited  
Demande visant à faire approuver la modernisation et la normalisation  
du service de transport assorti de stockage**

**VOLUME 2**

**Hearing held at  
L'audience tenue à**

**National Energy Board  
517 Tenth Avenue SW  
Calgary, Alberta**

**September 20, 2016  
Le 20 septembre 2016**

**International Reporting Inc.  
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**HEARING ORDER/ORDONNANCE D'AUDIENCE**  
**RH-001-2016**

**IN THE MATTER OF TransCanada PipeLines Limited**  
**Application for Approval of Storage Transportation Service Modernization**  
**and Standardization**

**EN MATIÈRE DE TransCanada PipeLines Limited**  
**Demande visant à faire approuver la modernisation et la normalisation du**  
**service de transport assorti du stockage**

**HEARING LOCATION/LIEU DE L'AUDIENCE**

Hearing held in Calgary, Alberta, Tuesday, September 20, 2016  
Audience tenue à Calgary (Alberta), mardi, le 20 septembre 2016

**BOARD PANEL/COMITÉ D'AUDIENCE DE L'OFFICE**

R. George	Chairman/Président
L. Mercier	Member/Membre
J. Gauthier	Member/Membre

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(i)

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- Mr. Matthew Ducharme

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- Mr. Brent Czarnecki

Enbridge Gas Distribution Inc.

- Mr. Dennis P. Langen
- Ms. Caitlin M. Graham

St. Lawrence Gas Company, Inc.

- Mr. Dennis P. Langen

Tenaska Marketing Canada, a division of TMV Corp.

- Mr. Tomasz Lange

Union Gas Limited

- Mr. Lawrence E. Smith

**National Energy Board/Office national de l'énergie**

- Ms. Diana Audino

## ERRATA

(i)

### Monday, September 19, 2016 - Volume 1

#### Paragraph No.:

#### Should read:

65:

**ALEX HARRIS: Sworn**

**ALEX HARRIS: Affirmed**

218:

“...three-quarters is 11...”

“...three-quarters of 11...”

268:

“...we have the Union NDA...”

“...we have the GMIT NDA...”

456:

“...you use STS objection...”

“...you use STS Injection...”

487:

“...you have a firm rate...”

“...you have a firm right...”

490:

“...allowed an injection known to occur...”

“...allowed an injection nomination to occur...”

494:

“...from the market to storage...”

“...from the supply to storage...”

694:

“...you could view out application...”

“...you could view our application...”

741:

**MR. KUNTZ: ...**

**MR. HARRIS: ...**

915:

**MR. LANGEN: ...**

**MR. HARRIS: ...**

919:

**MR. LANGEN: ...**

**MR. HARRIS: ...**

## ERRATA

(ii)

### Monday, September 19, 2016 - Volume 1

#### Paragraph No.:

#### Should read:

1038:

“The parties to the Settlement...”

“From that, the parties to the Settlement...”

1124:

“...with not many days on addition...”

“...with not many days in addition...”

1140:

“...I think as the records evolved...”

“...I think as the Record has evolved...”

1153:

“...to get all of the longhaul FT...”

“...to get all of the FT...”

1285:

“...Order TG-2011-2015 and will...”

“...Order TG-011-2015 will...”

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**TransCanada PipeLines Limited**  
**Examination by Ms. Audino**

--- Upon commencing at 9:03 a.m./L'audience débute à 9h03

1469.           **THE CHAIRMAN:** Welcome back everyone.

1470.           Before we start, are there any preliminary matters?

1471.           **MR. SMITH:** Mr. Chairman, I have one. Yesterday at the completion of my cross-examination, I neglected to mark the aid to cross that I had used with the witnesses.

1472.           And I would ask if we might have an exhibit number for a document which is described as the TransCanada PipeLines' application for approval of Mainline 2013, the 2030 Settlement, December 2013. There were three excerpts. Part 1, pages 1 to 6; part 3, pages 13 to 14; and section 8, pages 85 to 88. And I certainly accept the traditional approach which is you can only refer an argument to the excerpts that were put to the witnesses.

1473.           **THE CHAIRMAN:** I don't see anybody standing up, so ---

1474.           **MR. SMITH:** I am standing, sir.

1475.           **THE CHAIRMAN:** I apologize for -- no, I'm not going to say what I was going to say.

--- (Laughter/Rires)

1476.           **MR. SMITH:** I'm a little confused candidly by the new exhibit numbering and I just wonder if someone could help me with what the right number is?

1477.           **THE CHAIRMAN:** Madame Comte?

1478.           **THE REGULATORY OFFICER:** It will be C9-9 and the repository exhibit number is A79453.

--- **EXHIBIT NO./PIÈCE No. C9-9:**

*Excerpts from the TransCanada PipeLines' application for approval of Mainline 2013, the 2030 Settlement, December 2013; part 1, pages 1 to 6; part 3, pages 13 to 14; section 8, pages 85 to 88*

1479.           **MR. SMITH:** A79453. Thank you very much.

1480.           **THE CHAIRMAN:** Ms. Audino?

**MATTHEW WHARTON:** Resumed, Sous le même serment

**GRANT KUNTZ:** Resumed, Sous le même serment

**JOHN J. REED:** Resumed, Sous le même serment

**ALEX HARRIS:** Resumed, Sous le même serment

**DAVE SCHULTZ:** Resumed, Sous le même serment

**--- EXAMINATION BY/ INTERROGATOIRE PAR MS. AUDINO:**

1481.           **MS. AUDINO:** Thank you, Mr. Chairman.

1482.           Mr. Smith, we can have an off-the-record discussion about the exhibit list if you'd like.

1483.           So just to begin, good morning. I would like to begin by clarifying the relationship between the STS balances and the implementation date. In TransCanada's response to NEB IR 1.4, TransCanada stated that any existing STS balance quantities at the time of implementation that are at or under the STS balance limits at each applicable STS market will remain.

1484.           Do you recall that, Mr. Harris?

1485.           **MR. HARRIS:** I do.

1486.           **MS. AUDINO:** Okay. So yesterday in transcript Volume 1 at paragraph 1092 -- and we can bring it up if you'd like -- you were having a discussion, Mr. Harris, with Mr. Smith about the implementation of the application if the Board were to approve it

1487.           And there you stated that the beginning of the summer season or the winter season are most logical. However, starting at the beginning of the summer season allows for an opportunity to build up the balance before the winter season.

1488.           So I'd just like for you to confirm that on the implementation date, assuming the Board were to approve the application, shippers' STS balances will be adjusted and at a minimum a shipper's STS balance will be capped at

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TransCanada's proposed limit of withdrawal quantity multiplied by 151 days, which is the number of winter days in the standard gas year; can you confirm that?

1489.           **MR. HARRIS:** Yeah, I think this is a -- I'll confirm that. I do confirm that.

1490.           I think this might be an opportunity for us to clarify our thinking on this as we've had a chance to review the transcript and think about it a little bit more.

1491.           Starting at the beginning of summer to me made logical sense because then you could build up your balance before the winter season, but there's actually a bit of a flaw in that logic in that you can build up your balance before winter and implement at any point in time. And if your balance is below the cap you will have just built up to that level and you'll implement on that date, you'll still be below the cap. Or if you were above the cap you can implement on that date and we'd still cap you at the cap.

1492.           And so I hope I'm clarifying and not confusing things, but the actual -- the idea that you needed to start at the beginning of summer I think is flawed. That you could start at any point in time and implement. And I think that then leads us to natural dates being the beginning of a season, beginning of summer season or the beginning of winter season. I hope that clarified.

1493.           **MR. REED:** Let me add just one point to that. Because of the implementation of the storage balance cap and the fact that most of the shippers are already at the cap, then whether you implement the STS change in the spring, summer, or any other time really doesn't make much difference in terms of the STS balance.

1494.           The STS balance at the beginning of the conversion to the requested changes here is going to be at the cap for most of the shippers anyway. They're at the cap now or above the cap so implementing the cap doesn't really any effect in terms of their ability to inject.

1495.           And it's important to distinguish operational activities from STS accounting activities. They're going to fill storage operationally no matter what because they need it operationally to serve their peak needs. The issue is changing the accounting mechanism for storage balances with an STS, and

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because they're going to be at the cap anyway when you do that doesn't really make much difference in terms of it having any impact on the operation of STS or storage.

1496. **MS. AUDINO:** Thank you.

1497. I'd also like to refer to something you said again yesterday, Mr. Harris, in the transcript. And of course that's TransCanada's preference to implement the changes to STS for April 1<sup>st</sup>, 2017.

1498. Can you discuss any issues or consideration for TransCanada if the Board were to implement STS changes for 2021?

1499. **MR. HARRIS:** There would be no practical, you know, sort of procedural or administrative implication. The implication we believe would be continuing with an unfair service for a longer period of time.

1500. So when we come to the Board with our 2018 to 2020 toll review, we'd like to be able to present our tolls as tolls that we feel are just and reasonable. And so to do so we'll need to address the concerns that we have with STS today.

1501. **MS. AUDINO:** So just to talk about fairness for a second. With respect to the RH-001-2014 decision, shippers were expecting that tolls would be relatively stable and certain for the six-year period from 2015 to 2020, of course except for the adjustment period of 2018 to 2020.

1502. Now, some shippers, including STS shippers, were required to term-up their contracts to 2022 in accordance with the term-up provisions in the tariff. So TransCanada is now proposing changes to the STS service that alter some of the provisions of STS, which we've heard some intervenors, their positions on that.

1503. Can you comment on how this is fair to these STS shippers?

1504. **MR. HARRIS:** Yeah, I think there are two elements of your question. One relates to the RH-001-2014 decision and the other relates to term-ups. So I'll try and answer your question and then I'll invite the others on the panel to add to my response.

1505. With respect to the RH-001-2014 decision, toll certainty and stability

was no doubt a selling feature of that application and something that you'll see throughout our evidence. The context of that is very important. The context, as I've sort of tried to fit in through my conversation with Mr. Smith yesterday, was a period of significant turmoil where we were not willing to expand our system in the east; there was bypass applications; there were questions of who and how we would recover costs on the system.

1506. We had a new model set by the Board, the RH-003-2011 model, which had hit an off-ramp in less than a year, nothing there to replace it. There was significant turmoil. And that's the context in which we say that the settlement and RH-001-2014 model brought certainty and stability.

1507. Although if you were to read just the executive summary and conclusion pieces of that application, you might conclude that nothing was going to change, there's other things on that record that point to quite the opposite. The main one is that the Settlement Agreement itself has a clause in it -- the Settlement Agreement was attached to the application and it has a clause in it, section 4.2, called "Future Matters". And that section addresses how there can be other matters addressed before the Board that may need to be resolved. And those are in no way in violation of the Settlement. So that was on the record.

1508. Also, in several places -- we quoted this in our reply evidence, sort of footnoted maybe 10 or so of them -- we spoke of providing greater toll certainty and stability. We talked about promoting toll certainty and stability or greater -- sorry, I said greater already, but we used a number of these types of adjectives. And that's because the world was going to continue to turn. We were creating a framework that provided a model that resolved all those concerns that we had. But there was room left open for further evolution and matters that the parties disagreed to.

1509. So I think it wouldn't be reasonable, I think, for somebody who read the entire record of that proceeding to assume that there had been a change in the longstanding practice of bringing forward matters to the Board that needed to be resolved through a tariff change.

1510. With respect to -- I need a drink of water, sorry. With respect to term-up, the NEB approved the term-up provision in its RH-001-2014 decision and that decision came out late 2014. And we issued the term-up notices shortly after that decision. So we issued them in, I think, early March of 2015 and they were due back late May 2015.

1511. Now, in that case we were essentially following through with our tariff provisions that said if you had an expansion of over \$20 million that you would seek to have parties whose contracts were contributing to the need to that expansion to term-up the contracts. So we were following our tariff provisions.
1512. If by following those tariff provisions you would then conclude that you can no longer make service amendments to contracts along that path, then we'll be unable to change our tariff, any time we have an expansion on our system, for at least five years. We'll essentially freeze our tariff.
1513. And I think tariffs are -- they're living documents; they need to change from time to time to catch up with the world that evolves around them. And so I think that that's something that just needs to continue despite those two things. And maybe I'll leave it at that.
1514. **MR. REED:** I'll add just sort of an external perspective.
1515. One of the things that changed in RH-001-2014 from the application to the final decision was that the Board chose to implement a tolls review in 2018, a formal filing for '18, '19, and '20. And part of that specifically was designed to update the billing determinants as they changed from the original terms of the Settlement.
1516. So I have a fair amount of sympathy for the position TransCanada will be in as it prepares that filing because it's to update the billing determinants and other changes, and then to develop or derive new tolls that it thinks are just and reasonable.
1517. So the question is, with the view it has on STS service and the fact that it thinks that billing determinants should change very significantly on STS service, what is it to do in that filing? If this application were not to be approved on a timely basis before 2018's review were to occur, is TransCanada to put forward tolls and say, "Here is the new updated derived tolls and they're all just and reasonable except for STS"? Because that is its view and I understand that view.
1518. So given that that update, that new filing is to occur and it is specifically to reflect the variation in billing determinants, to me the STS filing here is timely and appropriate.

1519.           **MS. AUDINO:** Thank you. One moment.
1520.           **MR. SCHULTZ:** Ms. Audino, I would like to add to that as well if that's okay?
1521.           **MS. AUDINO:** Of course.
1522.           **MR. SCHULTZ:** It just had to go to the term-up aspect.
1523.           So I think we've heard repeatedly from all of the shippers that the STS is a service they value. They value the flexibility and the features of it. They also need it to meet their peak winter requirements.
1524.           So the paths that were affected by the term-up are basically the short-haul contracts that are originating in the Parkway or Dawn area and allowing them to serve the markets. So on those paths I don't think any of the shippers would be relinquishing capacity; they would be retaining it. And it was really, you know, "Do we retain it as STS or do we choose one of our other service offerings?"
1525.           And so through the implementation process, we were providing shippers with an opportunity to switch. So they can switch from STS to EMB or they can elect to try and switch to short-haul.
1526.           While Mr. Harris yesterday indicated that is absolutely every holder of STS wanted to go to FT, we wouldn't have sufficient capacity to do that. Given the weight or the value that many of those same STS shippers have said they attached to the features of STS, the only comparable service that has those features is the EMB. And that would be a service that we could replace one-for-one with STS with no capacity constraints.
1527.           So I think ultimately the term-up during the term really -- if you think of the choices that they would have had otherwise, it really would have been to not serve the market, which I don't think any of the LDCs would have considered to be a real option. So they would have had no choice but to elect something like FT or EMB anyway. And so really I think the term-up is not really all that meaningful in that regard.
1528.           **MS. AUDINO:** Thank you. One moment. Sorry, thank you. I just



have another question about implementation.

1529. In TransCanada's response to NEB IR 1.5 -- and here we're talking about:

*"...[smoothing] the impact, [the cost impacts] for markets previously deemed to be upstream of storage..."*

1530. TransCanada there said that a factor could be applied to the respective STS invoice amounts for a year or two. Do you recall that?

1531. **MR. HARRIS:** Yes, I do.

1532. **MS. AUDINO:** Okay. And so I believe you gave an example that:

*"[I]n a transition year, the invoice to a shipper currently deemed upstream of storage could have their STS toll, quantity or the product of the two adjusted by a factor between zero and one to result in a transition between the current state and the proposed state [as per this application]."*

1533. So if the Board were to implement a transition period of two years, what smoothing factor between zero and one does TransCanada think is reasonable?

1534. **MR. HARRIS:** I think that's a good math question. I think the intent would be first you would, I think, go through the election process so that you had new contract quantities. So that's not changing. And then I think you would apply the old method to reach a new benchmark, and then you would apply a factor so that you would take one step, then a second step to the proposed model.

1535. Does that help? Well, I see that Mr. Schultz was saying it's a point five, but it's a point five applied to the difference between the current and proposed models.

1536. **MS. AUDINO:** Thank you.

1537. **MR. REED:** And Ms. Audino, could I make an additional point here, because this is an answer that my thinking actually has evolved a little bit since this answer was prepared.

1538. I'm going to use the term "rate shock", which is, of course, a non-technical term, but really, what some people would use to describe this. Typically, rate shock is mostly a concern of regulators at the retail level, at the level of the ultimate ratepayer, in this case, the customers of Centra or anybody else who's affected like this. The alternative is actually for Centra to deal with the rate shock at its end as opposed to TransCanada.
1539. And when I have seen this come up before between a wholesale relationship with a pipeline and a distributor, and then that distributor's relationship with the customers, it may be more effective to actually have a smoothing mechanism or a deferral mechanism occur at the distribution level rather than at the pipeline level, because it is the distribution level and its impact on its customers that really, most people think is the greatest concern with regard to rate shock. And it also would allow the pipeline to provide still a more efficient price signal to its customer right away.
1540. So we shouldn't assume that the only way to deal with mitigation of what someone would describe as rate shock to be at the pipeline level. It can also occur at the distribution level, and in fact, it may be more effective at that level than at the pipeline level.
1541. **MS. AUDINO:** I'm glad you actually went to the topic of rate shock, because I had a couple of lines of questioning on that. And my first question was just based on your utility experience over 40 years.
1542. Is there a commonly used definition of rate shock?
1543. **MR. REED:** There's not. I've seen regulators, I would say, begin to get concerns when the increases are into double digits, so more than 10 percent, but there's no commonly accepted definition of it.
1544. **MS. AUDINO:** So would you say that more than 10 percent would be a sort of minimum threshold if ---
1545. **MR. REED:** Yes.
1546. **MS. AUDINO:** --- or not necessarily?
1547. **MR. REED:** There's no magic number.

1548. **MS. AUDINO:** Okay.

1549. **MR. REED:** There's lots of rate cases that are ongoing rate cases of distribution companies that have increases of 10 percent or more. It's typically when you have a very large, you know, new piece of plant put into service that you have rate shock, a nuclear plant coming onto an electric system or things like that. But again, there's no magic threshold of 10 percent or any other number.

1550. **MS. AUDINO:** Okay. And you mention that there were some cases. Can you think of any specific cases that support that position, that maybe 10 percent is kind of a number that's relevant when considering rate shock?

1551. **MR. REED:** I would say the 10 percent's based more on my experience.

1552. **MS. AUDINO:** Okay.

1553. **MR. REED:** I can tell you about cases where I have seen commissions introduce mitigation measures, and again, they tend to be more on the electric side where they're -- and in jurisdictions where you cannot put construction work in progress on rate base, but you have to wait til a major new asset becomes operational, and then it goes into rate base all at once.

1554. And the best examples have been nuclear plants, which are multi-billion dollar investments and you see increases of 20, 30 percent being proposed when that comes into service. So if you go back to the 1980s and look at the cases involving Wolf Creek and Calloway and Susquehanna and Limerick and -- I'm trying to think of others -- Seabrook -- those were all cases where the commission engaged in some form of mitigation of rate shock.

1555. **MS. AUDINO:** And if the Board were looking at a rate shock, because we've seen the evidence that TransCanada has provided a table that illustrates the estimated annual cost impacts -- this is Table 3-1 that I'm referring to -- where you've identified the impact based on the LDC's revenue requirement, and then we've heard from the LDCs that the increase in STS costs are -- they're looking at them on an annual basis or as per their Mainline transportation costs.

1556. And so my question, Mr. Reed, is if we were assessing potential rate shock associated with the application, should the Board be looking at cost

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increases relative to revenue requirement as TransCanada indicated, or relative to total Mainline transportation costs as we've seen the LDCs submit?

1557.           **MR. REED:** In my view, it should be looking at the increase borne by the ultimate customer, and that case would be the customer of the LDCs, and in its entirety. Remember, the LDCs, for them, these costs are a pass through, through purchase gas adjustment clauses and other forms of rate tracking mechanisms. The person who doesn't have the ability to pass it through is the ultimate consumer, the residential, industrial, and commercial consumers.

1558.           So that's typically where we have the greatest concern about rate shock, and that's based upon total bill impact. So that's where I would look to ascertain whether some form of mitigation is necessary.

1559.           **MS. AUDINO:** Thank you.

1560.           And Mr. Reed, I'd just like to continue with your evidence, and you indicate that TransCanada's proposal to align an STS shipper's maximum daily injection quantity and maximum daily withdrawal quantity would eliminate the existing inconsistency with cost causation, in which certain STS shippers benefit from enhanced flexibility but do not bear the costs of that flexibility.

1561.           Do you recall that in your evidence?

1562.           **MR. REED:** I do.

1563.           **MS. AUDINO:** Okay. And can you explain what enhanced flexibility certain STS shippers are benefiting from?

1564.           **MR. REED:** Yes. In this case, it's pooling and the ability to combine its STS operations and balances across delivery points and across contracts. So there's two changes here, as you know.

1565.           One is to implement a charge for withdrawal pooling and the second is to require separate contracts for the different markets. That prevents a shipper from being able to contract to the shortest path into that market and then use its flexibility to actually to deliver on a longer path, and thereby avoid paying the full cost of the actual path that it's using.

1566.           So that's how one could avoid -- could use flexibility to avoid paying

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the full cost-based user pay amount that could be allocated to that service.

1567. **MS. AUDINO:** Okay. One moment.

1568. Thank you. I'd like to talk about injection rights for a moment. TransCanada, in its application, proposes to limit a shipper's injection rights or quantity to 71 percent of the withdrawal quantity, and this 71 percent ratio is premised on the idea that a shipper can inject the same amount of gas into storage on a firm basis in the summer as they can withdraw from storage on a firm basis in the winter; correct so far?

1569. **MR. REED:** Correct.

1570. **MS. AUDINO:** Okay, but I also understand that STS doesn't only provide in-season firm service. One attribute of STS is that shippers can make off-season injections and withdrawals at a priority next to firm.

1571. For instance, Enbridge Gas indicated in its evidence that it regularly makes the use of off-season flexibility. And so I'm wondering why injection quantities are being limited based only on one component of the STS, and so that's the firm in-season service.

1572. **MR. REED:** Before I answer your question, I just want to clarify something that I think adds to some of the confusion relating to STS, and that's that some of our shippers -- well, we've mentioned several times how the contracts differ amongst each other.

1573. **MS. AUDINO:** Right.

1574. **MR. REED:** Some of our shippers currently have firm injection rights on an annual basis. Some of our shippers currently have firm injection rights only in summer. Enbridge -- you'd mentioned Enbridge -- they currently have firm injection rights over the whole year, and that could be something that's leading to the question; I'm not sure.

1575. But we propose that this 71 percent cap on the injection because -- as you said, because it will provide a balance, or an equation, between how much they can inject and how much they can withdraw. It will be an equal amount in terms of a service entitlement. And that provides them seasonal rights that aligns with sort of the storage-usage basis of the service.

1576. **MS. AUDINO:** Thank you.
1577. **MR. KUNTZ:** If I could just add ---
1578. **MS. AUDINO:** Of course, yeah.
1579. **MR. KUNTZ:** I think a part of your question was also whether or not the 71 percent would apply to the out-of-season portion for the injection and yes, that would be a part of the proposal also.
1580. In terms of how we think of the injection and the withdrawal quantity relationship that's been proposed, in terms of how at least I think about it, it would start with applying the toll to the withdrawal quantity and then once a contribution has been made for the firm requirement that the STS shipper has in the wintertime to meet their STS market, it's what's the appropriate amount of injection that they should get with that.
1581. And so the 71 percent is firm for the summer season and that same 71 would apply for the out-of-season periods also. It's just that it's non-firm in the out-of-season period.
1582. **MS. AUDINO:** Okay. And that's where it's a priority next to firm; is that correct or ---
1583. **MR. KUNTZ:** That is correct.
1584. **MS. AUDINO:** Yeah.
1585. **MR. KUNTZ:** It's just below firm, yeah.
1586. **MS. AUDINO:** Below firm, okay.
1587. Mr. Harris, yesterday in the transcript, Volume 1 at paragraph 511 when you were being questioned by Mr. Langen, you referred to STS as a seasonal service. And I when I think of a seasonal service I think of a service that's only offered for a particular season like the winter or firm service that TransCanada provides.
1588. In your view, is it an accurate characterization to call STS a seasonal

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- service or would you say it's more accurate to refer to STS as a firm service that has some seasonal attributes?
1589.           **MR. HARRIS:** I think the latter is a better ---
1590.           **MS. AUDINO:** Okay.
1591.           **MR. HARRIS:** --- more clear definition. It is firm all year but it's firm on one path in one season and another path in another season.
1592.           **MS. AUDINO:** Thank you.
1593.           In this application, TransCanada's proposing to standardize firm priority periods for STS such that they will match the traditional gas-year definitions of summer and winter. And specifically, STS injections will be firm in the summer for all STS contracts from April 1<sup>st</sup> to October 31<sup>st</sup> and STS withdrawals will be firm in the winter from November 1<sup>st</sup> to March 31<sup>st</sup>. And in the off-season periods they'll have a priority, so just basically what we were talking about, below-firm services but above non-firm diversions and alternate receipt points.
1594.           That's correct so far?
1595.           **MR. HARRIS:** That's correct.
1596.           **MS. AUDINO:** Thank you. And so TransCanada's evidence is that this change will have a minimal impact on STS shippers and any injection quantities nominated to storage in the winter would continue to be highly reliable since they'd be treated at a service priority below firm; that's correct?
1597.           **MR. KUNTZ:** Yes, that is correct. And also, a shipper with their long-haul FT contract to their STS market also has the ability to divert that contract into storage as well, and those diversions contribute to filling their STS balance. So there are other options as well as IT and STFT from their STS market that they can also nom into storage as well.
1598.           **MS. AUDINO:** So to your knowledge has anything changed on the system in recent years to suggest that winter injections in the future would continue -- would not be highly reliable as they have been in the past?

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1599.           **MR. KUNTZ:** No, I think it's actually probably quite the contrary. So with the facility expansions that are expected in the Eastern Triangle going forward with the growth in short haul, the nominations that we see from Parkway out, specifically in the Triangle, the expectation would be that those nominations into storage in the off-season, if you will, would be counter to the predominant direction of nominations on the system. So the expectation going forward is that they'd be reliable.
1600.           **MS. AUDINO:** And so you mentioned, too, that some shippers have firm injections year-round, correct?
1601.           **MR. KUNTZ:** That's correct. That's for Enbridge and Gaz Metro.
1602.           **MS. AUDINO:** Right. And St. Lawrence and Vermont as well?
1603.           **MR. KUNTZ:** That's correct.
1604.           **MS. AUDINO:** And did TransCanada consider the option of giving all STS shippers firm injections year-round so that all seven shippers could be treated equally?
1605.           **MR. KUNTZ:** I'm not sure to what extent it was considered. It was probably, you know, something I would say that's fair to say came up in our deliberations in terms of the review of the service.
1606.           You know, I think where we would start in looking at STS -- it's a seasonal balancing service; that's what the primary intent of the service is. So to have firm injection on a year-round basis when typically the storage injection season is for the 214 days from April until the end of October, it just sort of seems like a reasonable inconsistency to have approved injections on a year-round basis.
1607.           **MS. AUDINO:** Would there be any downsides, though, with that scenario if you did offer the firm injections on a year-round basis to all shippers?
1608.           **MR. KUNTZ:** It's a bit more of a capacity related question as well so I'd maybe look to Mr. Harris and Mr. Schultz.
1609.           **MR. HARRIS:** I'd say that our proposal does treat all shippers the same, as well, although your suggestion would, too. One of the concerns I'd have with having injections firm all year, that's 12 months of firm transport service; in



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addition, you have another five months so now you have 17 months of firm transport service and you're paying 12 months of toll. So I would have a concern with it on that basis.

1610. **MS. AUDINO:** Thank you for that clarification.

1611. I'd like to discuss STS pooling. In Exhibit B1-1, which is TransCanada's application, at Adobe page 41 -- and we can bring it up if you'd like -- but there you -- TransCanada states that it considered two alternatives to the proposed withdrawal-pooling surcharges. Do you recall that?

1612. **MR. KUNTZ:** Yes, that's in our evidence, yeah.

1613. **MS. AUDINO:** Okay. And we have the exhibit up for reference. So the first alternative would be to simply eliminate withdrawal pooling and the second alternative was to implement a withdrawal-pooling surcharge but the to establish the surcharge on a different basis than the proposed surcharge methodology; is that correct?

1614. **MR. KUNTZ:** Those were the two alternatives, yeah.

1615. **MS. AUDINO:** And TransCanada also states on Adobe page 42 of its application, at lines 13 to 15, that it accepts that there may be another approach that reasonably reflects the non-standard optionality available to Union and Gaz Metro?

1616. **MR. KUNTZ:** I see that.

1617. **MS. AUDINO:** Okay. Did TransCanada consider other toll methodologies for withdrawal-pooling surcharges other than ---

1618. **MR. KUNTZ:** I think the answer to that is no.

1619. **MS. AUDINO:** Just those?

1620. **MR. KUNTZ:** I think it's just more of a statement to recognize that there's a range of approaches and, you know, I think that we recognize that -- you know, although our view is that our approach is reasonable, that there could likely be some other approaches as well that could be viewed as logical or reasonable.

1621. **MS. AUDINO:** Okay.

1622. In your response to NEB IR 1.7c -- this is Exhibit B8-2 -- TransCanada explains how the higher firm obligations to specific markets due to pooling correspondingly reduces the amount of other firm services such as FT STS or ENB that could have otherwise been contracted to meet the demands at these markets from receipt with available capacity.

1623. Now, TransCanada refers to this situation as an opportunity cost in terms of potential lost revenue since there's currently no charge for pooling. Do you recall that?

1624. **MR. KUNTZ:** Yeah. Yeah, I do.

1625. **MS. AUDINO:** Would a toll methodology based on the opportunity cost of potential lost revenue be appropriate?

1626. **MR. KUNTZ:** That would be potentially one way that it could be viewed. You know, however, you know, I think the approach that we've taken -- you know, our view is that pooling is in essence transport. It's the same as on the primary path for withdrawal; you're moving your quantity from a receipt point to your STS market. On the pooled quantity on the pooled path, you're just moving it from your primary path to a pooled path. But it is in effect still transport.

1627. So the same way that all other types of transport are priced on the Mainline with system average costs and our distance methodology, it was that kind of an approach that we used in our proposed surcharge for withdrawal pooling.

1628. **MR. REED:** If I could add to that from a practical perspective? I've developed opportunity cost-based tariffs before. The challenge is twofold.

1629. Number one, it's difficult to quantify and number two, it's not stable. I've developed wholesale electric sales tariffs that are opportunity costs where they sell to an industrial customer and whatever they could have sold to that same power into the wholesale market. And the problem is that rate might differ by 10 to 1 one month to the next based upon what that opportunity cost is and the changes in the market. So difficult to measure, difficult to implement, and certainly not stable.

1630. **MS. AUDINO:** Thank you.

1631. Mr. Chairman, if we could just take a brief break for a moment, would you mind?

1632. **THE CHAIRMAN:** I don't mind.

--- (A short pause/Courte pause)

1633. **THE CHAIRMAN:** Ms. Audino, before you've completed your questions, the Panel wants to take a short break.

1634. **MS. AUDINO:** Thank you, Mr. Chairman.

--- Upon recessing at 9:44 a.m./L'audience est suspendue à 9h44

--- Upon resuming at 10:04 p.m./L'audience est reprise à 10h04

**MATTHEW WHARTON: Resumed/Sous le même serment**

**GRANT KUNTZ: Resumed/Sous le même serment**

**JOHN J. REED: Resumed/Sous le même serment**

**ALEX HARRIS: Resumed/Sous le même serment**

**DAVE SCHULTZ: Resumed/Sous le même serment**

1635. **MS. AUDINO:** Mr. Chairman, I have no further questions. Thank you to the witnesses for their time.

**--- EXAMINATION BY/INTERROGATOIRE PAR MEMBER MERCIER:**

1636. **MEMBER MERCIER:** Good morning, panel. I have one overarching question and it's in different steps so it's going to be quite simple. And I count on Mr. Harris to direct whoever.

1637. So first of all, I heard that STS is a service to manage, you know, seasons.

1638. **MR. HARRIS:** That's correct.

1639. **MEMBER MERCIER:** I also understand that you mentioned that it helps LDC to manage daily variation as well?

1640. **MR. HARRIS:** That's correct.

1641. **MEMBER MERCIER:** Okay. I also understand that you're introducing a maximum balance for STS so that would do away with this accumulation of balance? And every year you would have a maximum balance? That's right?

1642. **MR. HARRIS:** That's correct.

1643. **MEMBER MERCIER:** Okay. Now I recall also that you want to limit the injection to the lower of the FT or 71 percent of the -- I will call it the DCQ. So is my recollection correct?

1644. **MR. HARRIS:** That's correct if by DCQ you mean the withdrawal quantity ---

1645. **MEMBER MERCIER:** Yes.

1646. **MR. HARRIS:** --- that comes with the service, yes.

1647. **MEMBER MERCIER:** Yeah. So as a preamble, when I was first looking at that 71 percent maximum allowed during the summer compared to the winter, I was thinking, "Well, that looks like a virtual storage, you know, like a winter/summer exchange." So that was my first thought.

1648. So my question to you is that given the fact that you are introducing a maximum balance, why should we limit it to the lower of the 71 percent and the FT? Why couldn't somebody just be able to inject all of the FT on a given day because in the end they're going to be limited to the maximum balance?

1649. **MR. HARRIS:** Let me try and answer that the way I think of it. We currently have a very fundamental problem with the service that we don't have any relationship between injection and withdrawal. So as our pro forma contract sits in our tariff, there is no defined relationship so it becomes subject to discussion as to what the injection is that comes with the withdrawal.

1650. So the primary point we'd like to make is that we need a relationship, right? As well, as another example of needing a relationship is when a contract quantity is decreased. Well, how does that affect the other contract quantity? So

clearly we need a relationship.

1651. We came up with the 71 percent, as you noted, because it sort of balanced what was available on a firm basis in the summer and the winter. And to us, with that in combination with charging the toll on the withdrawal quantity, it felt like to us a reasonable balance for the service that you receive and the service that you pay for.
1652. We did also consider the one-to-one ratio where you could have, you know, as much injection as you had withdrawal. And to be honest, we debated that quite extensively internally and landed with the 71 percent because it felt more in keeping with, sort of, the storage seasonal nature of the service.
1653. So you know, one-to-one has its merits too. It's not something we feel it's probably a hill to die on in terms of the application. Whereas having a relationship is probably the most critical element with respect to the ratio.
1654. **MEMBER MERCIER:** So it's a question of -- but there is no physical impediment to allow the full FT, for example, to be injected? Because I've heard that there is quite a lot of room for injection and even though they could become not firm, you know, they're kind of almost firm, so it's not a physical impediment?
1655. **MR. HARRIS:** I don't think so. But I think it does become sort of an equity concern. So suppose a shipper were to have a very small amount of STS withdrawal quantity and then they had a very large amount of FT service to that same market and because they held that small quantity of STS withdrawal they were permitted a very large amount, say, you know, 1,000 to 1 in relation to the withdrawal quantity that they could inject; that begins to look like an imbalance between the service you're paying for and the service you're receiving.
1656. **MEMBER MERCIER:** But the maximum STS balance would kind of limit that. So they could do that in one day but then, you know, after two days, you know, they'd be maxed out.
1657. **MR. KUNTZ:** If I could just add?
1658. Yes, so the balance would have them maxed out in terms of their balance within a day or two in that previous example. But the issue is, if that firm injection right was granted, it would be in place for the entire firm-injection

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season. And its -- basically, the nature of that not being in keeping with the seasonal purpose of the STS service as a balancing service, if an STS shipper was to have a firm injection right of a certain amount that was even, let's just say, equal to their withdrawal quantity, there's just more days in the summer season that they could inject.

1659.               So although they hit the balance, they can't contribute further to their balance they can still, on a firm basis, inject; it just doesn't count towards their balance. So they're still injecting.

1660.               **MEMBER MERCIER:** Thank you. Those are all my questions.

1661.               **THE CHAIRMAN:** So those were all of the Board's questions.

1662.               Mr. Yates, do you have re-examination, or redirect for our American friends?

1663.               **MR. YATES:** I have no re-examination, Mr. Chairman. I should say that TransCanada expects to have the response to the one outstanding undertaking for filing later today.

1664.               **THE CHAIRMAN:** Thank you, Mr. Yates.

1665.               I guess with that I'll thank the Panel for your contribution here today and yesterday. And you're excused.

--- (Witnesses are excused/Les témoins sont libérés)

1666.               **THE CHAIRMAN:** And hopefully I'll pronounce Ms. Van Iderstine's name properly this time.

1667.               **MR. YATES:** If we could have a few minutes, Mr. Chairman, to make the physical rearrangements, that would be appreciated.

1668.               **THE CHAIRMAN:** Certainly. We'll take a short 10-minute break at this time.

--- Upon recessing at 10:11 a.m./L'audience est suspendue à 10h11

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--- Upon resuming at 10:26 a.m./L'audience est reprise à 10h26

1669. **THE CHAIRMAN:** Ms. Van Iderstine?

1670. **MS. VAN IDERSTINE:** That's correct; thank you for that.

1671. I think Mr. Yates wants to bring something to your attention.

1672. **MR. YATES:** Yes, Mr. Chairman, I now have the undertaking response for filing. So it's the Response to Undertaking U-1; it's a response to an undertaking given by TransCanada to Mr. Smith, transcript reference Volume 1, paragraph 1225, and it's with respect to cost allocation studies.

1673. **THE CHAIRMAN:** Mme Comte?

1674. **MS. COMTE:** Exhibit No. B17 and the Repository No. is A79454.

**--- EXHIBIT NO./PIÈCE No. B17:**

*TransCanada PipeLines Limited - Response to Undertaking No. U-1*

1675. **MS. VAN IDERSTINE:** Thank you, Mr. Chair.

1676. Panel members, I'd like to introduce the Centra Gas Panel at this point. Closest to you is Mr. Neil Kostick, Project Leader at Centra Gas. Beside him is Ms. Lori Stewart, Manager of Gas Supply at Centra Gas.

1677. Next to her is Mr. Mark Drazen, Principal at Drazen Energy Consultants. And beside him is Mr. Ron Mikkelsen, also at Drazen Consultants. And with that, if they could be affirmed, please.

**NEIL KOSTICK:** Affirmed/Sous affirmation solennelle

**LORI STEWART:** Affirmed/Sous affirmation solennelle

**MARK DRAZEN:** Affirmed/Sous affirmation solennelle

**RON MIKKELSEN:** Affirmed/Sous affirmation solennelle

**--- EXAMINATION BY/INTERROGATOIRE PAR MS. VAN IDERSTINE:**

1678. **MS. VAN IDERSTINE:** Ms. Stewart, I'll first turn to the formal adoption of the evidence. You are the Manager of Gas Supply, Transportation,

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and Storage at Centra Gas Manitoba; is that right?

1679. **MS. STEWART:** Yes.

1680. **MS. VAN IDERSTINE:** And I understand you've reviewed a copy of section C of the exhibit list to this hearing?

1681. **MS. STEWART:** That's correct.

1682. **MS. VAN IDERSTINE:** And that you were responsible for the preparation of the written evidence of Centra filed as Exhibit C3-4-2 of this proceeding?

1683. **MS. STEWART:** Yes.

1684. **MS. VAN IDERSTINE:** Including the opening statement recently filed as -- and I don't think I had the full exhibit number but it's Repository No. A78462-2?

1685. **MS. STEWART:** That's correct.

1686. **MS. VAN IDERSTINE:** You were also responsible for the preparation of responses to information requests posed to Centra by the Board, TransCanada and filed as Exhibits C3-5-2 and C3-5-3; is that right?

1687. **MS. STEWART:** Yes.

1688. **MS. VAN IDERSTINE:** Ms. Stewart, were you also responsible for the preparation of the written direct evidence of Lori Stewart filed as Exhibit C3-6-2 in this proceeding?

1689. **MS. STEWART:** Yes.

1690. **MS. VAN IDERSTINE:** And having reviewed these documents and the exhibit list, can you confirm that the exhibits listed there, and other than the testimony of the experts, Mr. Drazen and Mr. Mikkelsen, and other than information request responses relating to that testimony, were prepared under your direction and control?

1691. **MS. STEWART:** Yes.



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1692.           **MS. VAN IDERSTINE:** And you were also personally involved in the preparation of various aspects of the evidence of Centra's evidence that's being spoken to by this witness panel?
1693.           **MS. STEWART:** That's correct.
1694.           **MS. VAN IDERSTINE:** And can you confirm to the Board that you will speak to all of these documents in accordance with the general areas of responsibilities that were set out in Exhibit C3-5-4, which was entitled "The Witness Panels and Responsibilities"?
1695.           **MS. STEWART:** Yes.
1696.           **MS. VAN IDERSTINE:** And do you accept and adopt the information that's been filed in Exhibit C as part of your testimony this morning?
1697.           **MS. STEWART:** I do.
1698.           **MS. VAN IDERSTINE:** And it's true to the best of your knowledge and belief?
1699.           **MS. STEWART:** That's correct.
1700.           **MS. VAN IDERSTINE:** Mr. Kostick, I understand you're the Project Leader at Centra Gas?
1701.           **MR. KOSTICK:** That's correct.
1702.           **MS. VAN IDERSTINE:** And I understand you were involved in the preparation of various aspects of the evidence of Centra?
1703.           **MR. KOSTICK:** Yes, I was.
1704.           **MS. VAN IDERSTINE:** And is that evidence accurate to the best of your knowledge and belief?
1705.           **MR. KOSTICK:** Yes, it is.
1706.           **MS. VAN IDERSTINE:** And you also reviewed the document

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entitled "Direct Evidence of Neil Kostick" included as Exhibit C3-6-2?

1707. **MR. KOSTICK:** Yes.

1708. **MS. VAN IDERSTINE:** And was that prepared under your direction and control?

1709. **MR. KOSTICK:** Yes, it was.

1710. **MS. VAN IDERSTINE:** And it's accurate to the best of your knowledge and belief?

1711. **MR. KOSTICK:** Yes.

1712. **MS. VAN IDERSTINE:** And do you accept and adopt it as part of your testimony in these proceedings?

1713. **MR. KOSTICK:** Yes, I do.

1714. **MS. VAN IDERSTINE:** Now I'll turn to the experts retained by Centra, Mr. Drazen and Mr. Mikkelsen.

1715. Mr. Drazen, you are here today as an expert witness on behalf of Centra Gas Manitoba; isn't that right?

1716. **MR. DRAZEN:** Yes.

1717. **MS. VAN IDERSTINE:** And can you confirm that you were retained by Centra Gas to provide your expert independent advice with respect to the matters addressed in your written pre-filed evidence in this proceeding?

1718. **MR. DRAZEN:** Yes, I was.

1719. **MS. VAN IDERSTINE:** And you're the Principal of Drazen Consulting Group, a consulting company focussing on energy and regulatory economics?

1720. **MR. DRAZEN:** Yes.

1721. **MS. VAN IDERSTINE:** I understand you have a Bachelor of

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Science and Mathematics, and a Master of Science and Electrical Engineering and Electrical Engineering all from the Massachusetts Institute of Technology?

1722. **MR. DRAZEN:** Yes.

1723. **MS. VAN IDERSTINE:** Mr. Drazen, you've appeared before -- I understand you've appeared before regulatory boards and tribunals in various jurisdictions in Canada and the United States and you've been accepted in the past as an expert in rate design and matters related to regulatory energy utilities including frequently giving evidence on revenue requirements, cost of capital, pricing, valuation, cost analysis, rate design, and regulatory principles associated with rate making?

1724. **MR. DRAZEN:** Yes, I have.

1725. **MS. VAN IDERSTINE:** In fact you've appeared before the National Energy Board on a number of occasions and have been accepted previously as an expert before this Board?

1726. **MR. DRAZEN:** Yes.

1727. **MS. VAN IDERSTINE:** Do you have before you the written evidence of Drazen Consulting Group which is Centra Exhibit C3-4-3 and the IRs of Centra's ---

1728. **MR. DRAZEN:** Yes.

1729. **MS. VAN IDERSTINE:** --- Exhibits C3-5-2 and C3-5-3? To the extent that those documents were prepared by you or done under your direction and control, are they true to the best of your knowledge and belief?

1730. **MR. DRAZEN:** Yes.

1731. **MS. VAN IDERSTINE:** And do you have any corrections or additions you want to make at this time?

1732. **MR. DRAZEN:** I do not.

1733. **MS. VAN IDERSTINE:** And do you accept and adopt them as your evidence?

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1734. **MR. DRAZEN:** I do.

1735. **MS. VAN IDERSTINE:** Mr. Chairman, Mr. Drazen's outline of experience is attached as Exhibit A to his filed evidence.

1736. And can you confirm, Mr. Drazen, that this document accurately reflects your education, training, and experience?

1737. **MR. DRAZEN:** Yes.

1738. **MS. VAN IDERSTINE:** Before I ask the Board to accept him as an expert I'm going to turn to Mr. Mikkelsen if that's okay, and then I'll ask that they both be accepted as experts before the Board.

1739. Mr. Mikkelsen, I understand you're a professional engineer and hold an MBA from the University of Calgary and a BSE in Mechanical Engineering.

1740. **MR. MIKKELSEN:** Yes.

1741. **MS. VAN IDERSTINE:** And you're a consultant in the field of public utility, economics and regulation with Drazen Consulting Group?

1742. **MR. MIKKELSEN:** I am.

1743. **MS. VAN IDERSTINE:** Mr. Mikkelsen, and you're here today as an expert witness on behalf of Centra Gas Manitoba?

1744. **MR. MIKKELSEN:** Yes.

1745. **MS. VAN IDERSTINE:** And can you confirm that you were retained by Centra to provide your expert independent advice with respect to the matters addressed in your written pre-filed evidence filed in this proceeding?

1746. **MR. MIKKELSEN:** Yes.

1747. **MS. VAN IDERSTINE:** And, Mr. Mikkelsen, you also have appeared before regulatory boards and tribunals in Canada and understand have been accepted in the past an expert in rate design and matters related to regulatory utility infrastructure cost analysis?

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1748.           **MR. MIKKELSEN:** That's correct.
1749.           **MS. VAN IDERSTINE:** And in fact, you've appeared as an expert witness before the National Energy Board?
1750.           **MR. MIKKELSEN:** That's correct.
1751.           **MS. VAN IDERSTINE:** Including on behalf of the Canadian Association of Petroleum Producers in the RH-003-2011 and RH-001-2014 hearings?
1752.           **MR. MIKKELSEN:** That's correct.
1753.           **MS. VAN IDERSTINE:** And again in those hearings you were accepted as an expert witness before the National Energy Board?
1754.           **MR. MIKKELSEN:** Yes.
1755.           **MS. VAN IDERSTINE:** And do you have before you the written evidence of Drazen Consulting Group?
1756.           **MR. MIKKELSEN:** I do.
1757.           **MS. VAN IDERSTINE:** And to the extent those documents were prepared by you, they were done so together with Mr. Drazen?
1758.           **MR. MIKKELSEN:** That's correct.
1759.           **MS. VAN IDERSTINE:** And they're true to the best of your knowledge and belief?
1760.           **MR. MIKKELSEN:** Yes.
1761.           **MS. VAN IDERSTINE:** Do you have any additions or corrections at this time?
1762.           **MR. MIKKELSEN:** I do not.
1763.           **MS. VAN IDERSTINE:** And you adopt them as your written evidence in this proceeding?

1764. **MR. MIKKELSEN:** Yes.

1765. **MS. VAN IDERSTINE:** And, Mr. Chairman, Board Panel, Mr. Mikkelsen's CV is attached as Exhibit 8 of the evidence of Drazen Consulting Group, which has been pre-filed.

1766. And at this point, I would request that Mr. Mikkelsen and Drazen be accepted as experts qualified to provide opinion evidence to the Board in the matters relating to this application.

1767. **MS. AUDINO:** Sorry, Ms. Van Iderstine, I don't mean to interrupt.

1768. **MS. VAN IDERSTINE:** I'm sorry, no, no.

1769. **MS. AUDINO:** I just understand that our translators are having a difficult time interpreting so if we can -- and I recognize you're already almost done or pretty much done but I just want to make that point that we do have the simultaneous interpretation right now. So if we can try to speak at a reasonable pace for the translators, that would be ideal.

1770. **MS. VAN IDERSTINE:** No problem, I'll do that. And if it will help the translator, I'll give them my little script notes and they can correct along with that if that's helpful.

1771. So I had just asked if the experts would be accepted by the Board as experts to provide the opinion evidence they've provided.

1772. **THE CHAIRMAN:** We accept them both as experts.

1773. **MS. VAN IDERSTINE:** Thank you. With that I will turn them over to cross-examination.

1774. **THE CHAIRMAN:** Mr. Yates?

**--- EXAMINATION BY/ INTERROGATOIRE PAR MR. YATES:**

1775. **MR. YATES:** Thank you, Mr. Chairman.

1776. My first line of questions will deal with the Drazen Consulting Group evidence. And I'm wondering if you, Mr. Drazen and Mr. Mikkelsen, have a preference as to whom I should address the questions?
1777. **MR. DRAZEN:** No.
1778. **MR. YATES:** Is this a joint effort on the part of each of you, or both of you?
1779. **MR. DRAZEN:** Yes.
1780. **MR. YATES:** I know you're involved in it, Mr. Drazen, because it contains the word "specious" and I know that's one of your favourite words.
1781. **MR. DRAZEN:** Pardon, what was the word?
1782. **MR. YATES:** Specious.
1783. **MR. DRAZEN:** Specious?
1784. **MR. YATES:** Yes. So I take it from that that you wrote at least part of it?
1785. **MR. DRAZEN:** Yes.
1786. **MR. YATES:** Did you write part of it, Mr. Mikkelsen?
1787. **MR. MIKKELSEN:** Yes.
1788. **MR. YATES:** Okay.
1789. **MR. MIKKELSEN:** Excuse me. Yes.
1790. **MR. YATES:** When were you retained by Centra for this proceeding? The questions will get harder.
1791. **MR. DRAZEN:** Give me a moment, Mr. Yates.
1792. **MR. YATES:** Fine.

1793.           **MR. DRAZEN:** The consulting agreement that we have with Centra is dated August 2015.
1794.           **MR. YATES:** And was the consulting agreement entered into at the start of your retainer?
1795.           **MR. DRAZEN:** Well, we had discussed it with Centra beforehand obviously in order to arrive at a consulting agreement so in that sense the consulting agreement was the beginning of the formal engagement. Prior to that there was an informal discussion.
1796.           **MR. YATES:** Okay. When did you start talking to Centra about this case?
1797.           **MR. DRAZEN:** I'm just checking our emails to see what the first correspondence was. I don't know; my email doesn't go back that far. But we had done some work for Centra on an unrelated matter beforehand so in the course of that I'm sure I had some discussions with probably Ms. Stangherlin about this being an issue but before we were retained.
1798.           **MR. YATES:** Okay. Well, I'm trying to get an understanding, Mr. Drazen and Mr. Mikkelsen, about when you started firing synapses or neurons about the STS issue; was that in August of 2015 or sometime before that?
1799.           **MR. DRAZEN:** That implies I have any synapses firing at all.
1800.           **MR. YATES:** Surely you're not contesting the implication.
1801.           **MR. MIKKELSEN:** Mr. Yates, maybe I can just clarify one point on your question. When you say synapses triggering on the STS issue do you mean in relation to the changes proposed by TransCanada or do you mean just generally, more generically of the service?
1802.           **MR. YATES:** Well, you're anticipating where I'm going, Mr. Mikkelsen. What I wanted to start with was when you were retained by Centra in the context of this case ---
1803.           **MR. MIKKELSEN:** That clarifies it, thank you.
1804.           **MR. YATES:** --- and when you started dealing with this case. Was



- that in August of 2015 or sometime before it?
1805. **MR. DRAZEN:** Ms. Stewart informs me that we probably started talking about it in February of 2015.
1806. **MR. YATES:** Okay. Thank you. And was it in February of -- well, let me ask it this way. Before February of 2015 had you had any occasion to consider storage transportation service on the TransCanada Mainline for Centra or any other client?
1807. **MR. DRAZEN:** Not that I recall.
1808. **MR. YATES:** So in February 2015 that was your first encounter with STS, yes?
1809. **MR. DRAZEN:** Well, not totally. STS came up as an issue in RH-001-2011. It wasn't a matter of particular interest to our clients; clients at that time were capped. But it was in the filing and in the order so we were aware of it.
1810. **MR. YATES:** Sorry, you mean RH-003-2011?
1811. **MR. DRAZEN:** I'm sorry, yes.
1812. **MR. YATES:** Sorry, and are you saying that you had occasion to analyze STS for a client, Centra or someone, in the RH-003-2011 case?
1813. **MR. DRAZEN:** No occasion to analyze it, just acknowledge that it was one of the offerings that was being changed at the time.
1814. **MR. YATES:** Sorry, were you involved in the RH-003-2011 case yourself?
1815. **MR. DRAZEN:** Yes.
1816. **MR. YATES:** Okay. Were you a witness in the RH-003-2011 case?
1817. **MR. DRAZEN:** Painfully so, yes.
1818. **MR. YATES:** Okay. And who was your client in that case?

1819. **MR. DRAZEN:** Canadian Association of Petroleum Producers.
1820. **MR. YATES:** And it was in that context that you looked at STS or you were just aware that it was talked about in that case?
1821. **MR. DRAZEN:** Just aware.
1822. **MR. MIKKELSEN:** And Mr. Yates, in the RH-001-2014 I did have occasion to examine how it was but because we did -- on behalf of the client cap did recreate all the toll calculations so necessarily examining the path and billing determinants that were utilized within STS. So certainly that was examined, not the specific operation by individual parties though.
1823. **MR. YATES:** Okay. When did you first see an STS contract?
1824. **MR. DRAZEN:** Probably no later than February of 2016.
1825. **MR. YATES:** And no earlier than February of 2015?
1826. **MR. DRAZEN:** Correct.
1827. **MR. YATES:** Now, did you first see an STS contract by having it provided to you by Centra?
1828. **MR. DRAZEN:** Yes.
1829. **MR. YATES:** Okay. Do you remember when that was, Ms. Stewart?
1830. **MS. STEWART:** Not the month, Mr. Yates. But in the timeframe of April to August of 2015 I expect that we shared our STS contract with Mr. Drazen.
1831. **MR. YATES:** Thank you. Now, Ms. Stewart has said that Centra shared their STS contracts with you. Have you looked at the STS contracts of other parties?
1832. **MR. DRAZEN:** We have not.
1833. **MR. YATES:** What other information were you provided about STS by Centra prior to drafting your evidence?

1834.           **MR. DRAZEN:** We were made aware of the discussions at the TTF. We had other information on Centra's usage. We looked at the background of the issues. I can't tell you the dates of those.
1835.           **MR. YATES:** No, I'm trying to understand what information you had from which you formed -- or which formed the basis for your opinion. So you had -- they handed you an STS contract. Did they talk to you about their operations?
1836.           **MR. DRAZEN:** Yes, we had information about their operations. We had information about TransCanada's tolling, its cost analysis. We went through some of the history of the tolling and STS.
1837.           **MR. YATES:** But you had some knowledge about TransCanada's tolling from other retainers, yes?
1838.           **MR. DRAZEN:** Yes.
1839.           **MR. YATES:** Okay. Well, what specifically were you retained by Centra to do in this proceeding?
1840.           **MR. DRAZEN:** Help Centra analyze the issues, advise Centra on potential positions, and prepare evidence.
1841.           **MR. YATES:** So you mentioned you have a retainer agreement. Does that retainer agreement contain the specific topic of the retainer?
1842.           **MR. DRAZEN:** Sure, let me check. The retainer agreement says that we are to support Centra in the analysis of solutions and/or proposals by TCPL and the STS Working Group in the context of cost of service, tolling issues, and associated strategy. Provide input into Centra's response to solutions and/or proposals and arguments.
1843.           Collaborate and provide analysis of cost of service, toll methodology, and relevant advice on the proposed STS settlements prior to any vote on the solution. Be knowledgeable about the RH-001-2014 decision with a particular focus on new services, revenue requirements, toll design, and the 2018 to 2020 toll review.

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1844. Have a general knowledge of the RH-003-2011 and RH-001-2013 decisions, including any specific areas that Centra may request be analyzed in relation to STS.
1845. And then in the STS litigation stage, in the event that STS issue was hard opposed at the TTF and TCPL files, a contested SCS application, the scope of service expands to assessing the application providing input into intervention strategy.
1846. Collaborate with and assist Centra in crafting potential alternatives. Provide written evidence. Respond to associated information requests as required. Provide support analysis before and during the hearing process. Participate on Centra's witness panel, and provide support and strategic input to final arguments.
1847. **MR. YATES:** Could you just read the first sentence of that again? I didn't hear it when you started, please.
1848. **MR. DRAZEN:** The very first sentence was, support Centra in the analysis of solutions and/or proposals by TCPL and the STS working group, more specifically, in the context of cost of service, tolling issues, and associated strategy.
1849. **MR. YATES:** And in the middle of that, I think I heard you say that -- words to the effect of to respond to requests from Centra as to what would be analyzed in relation to STS? I was trying to write that down on the way by, but ---
1850. **MR. DRAZEN:** Sorry, what's the quote you're looking for again?
1851. **MR. YATES:** It was a clause in there about responding to requests as to something to be analyzed in relation to STS.
1852. **MR. DRAZEN:** It was in the event there's a hearing, respond to associated information requests as required.
1853. **MR. YATES:** No, it was earlier than that. It was requests from your client in relation to STS.
1854. **MR. DRAZEN:** I don't see a respond -- the term "respond" in that,

but there was collaborate and provide analysis of cost of service, toll methodology, and relevant advice for the proposed STS settlement. Is that what you're thinking of?

1855. **MR. YATES:** And was there -- were you specifically -- were there specific requests for analysis of the TransCanada STS application?

1856. **MR. DRAZEN:** That was certainly part of it.

1857. **MR. YATES:** And were you asked to respond -- were you asked to analyze and assess the reasonableness of the service proposal, the proposals of TransCanada in this application?

1858. **MR. DRAZEN:** That was part of it too. That would always be part of one of our engagements.

1859. **MR. YATES:** Were you asked to examine the reasonableness of the current STS situation?

1860. **MR. DRAZEN:** Analyzing the current would be part of it. When you say "analyze the reasonableness", it is what it is.

1861. **MR. YATES:** So your answer is no?

1862. **MR. DRAZEN:** The answer is -- I would say it's analyze the reasonableness of what is as compared to what TransCanada or somebody else might propose it would be.

1863. **MR. YATES:** Sorry, say that again please.

1864. **MR. DRAZEN:** Analyze the reasonableness of the STS toll as it is, relative to what TransCanada or somebody else might propose it to be.

1865. **MR. YATES:** You did that?

1866. **MR. DRAZEN:** And the way we look at it is that the toll has been in effect for years. It's been considered reasonable, so to say "analyze the reasonableness" now, it's deemed to be reasonable unless it's shown to be otherwise.

1867.           **MR. YATES:** Did you analyze, Mr. Drazen, the existing STS service and tolls for their compliance with the existing NEB toll principles, such as cost-based user pay, economic efficiency, and all those other good things?
1868.           **MR. DRAZEN:** Insofar as any of those toll principles would require a change, yes. As I said, the toll has been approved. That, I would say, ipso facto, is the fact that it was considered reasonable at some previous time.
1869.           **MR. YATES:** But there's no ---
1870.           **MR. DRAZEN:** The question would be ---
1871.           **MR. YATES:** There's nothing in your evidence.
1872.           **MS. VAN IDERSTINE:** He hadn't finished answering the question, so I think it would be appropriate to let him completely answer.
1873.           **MR. DRAZEN:** Oh, Mr. Yates and I go back a ways. I'm willing to put up with his interruptions. He's willing to put up with my speechiness.
1874.           **MR. YATES:** There isn't any analysis of the existing toll in your evidence, right?
1875.           **MR. DRAZEN:** That is correct.
1876.           **MR. YATES:** Thank you. Were you -- well, I think you were -- you said that you were -- part of your retainer -- I'll phrase it this way -- was to consider potential alternatives to the STS proposal of TransCanada, right?
1877.           **MR. DRAZEN:** Yes.
1878.           **MR. YATES:** And am I right that your evidence doesn't suggest any alternatives?
1879.           **MR. DRAZEN:** Right, the evidence suggests that what is in place right now remain in place, that alternatives can be considered, but they should be considered at a future date in conjunction with the overall review of what the Mainline will look like post-2020.
1880.           **MR. YATES:** Your evidence doesn't include any suggested

alternatives, yes?

1881. **MR. DRAZEN:** That's correct.

1882. **MR. YATES:** What your evidence does include is a dissertation -- and I don't use that word in a pejorative sense -- a dissertation on single-issue ratemaking, yes?

1883. **MR. DRAZEN:** It includes a discussion of that, yes.

1884. **MR. YATES:** We'll come back to that. You do discuss in your evidence that the impact of the proposed changes on Centra would be approximately \$11 million, right?

1885. **MR. DRAZEN:** Yes.

1886. **MR. YATES:** And that's on page 5, paper page 5, line 3. And your conclusion is that that impact is significant, or I think the word you use is "material", right?

1887. **MR. DRAZEN:** Certainly \$11 million is a significant amount.

1888. **MR. YATES:** No, but your conclusion is that it is material. If you look at page 7, Mr. Drazen, of your evidence, you're talking about the -- well, lines 7 through 11, you're talking about the -- well, I'll quote it.

*"The proposed changes in this case have major effects on revenue. By TCPL's reckoning, the changes would increase revenues by up to \$50 million a year. This amount of revenue would have had a material impact on tolls in RH-003-2011 or RH-001-2014 and would have been factored into determining the balance of risks between TCPL and its shippers."*

1889. So that's where I got the word "material" from. So you're saying this amount is a material impact on tolls? Yes?

1890. **MR. DRAZEN:** Yeah, that's the aggregate amount for all the shippers.

1891. **MR. YATES:** Right. So you say the impacts of the proposed changes

are large to STS shippers. Am I right that you're not concerned about cross-subsidization in this proceeding?

1892.           **MR. DRAZEN:** Actually I am because I found it out that TransCanada and Mr. Reed both talk about the current STS grading cross-subsidization among the STS shippers. Well, if that were the case, one would expect that changes would result in increases to some STS shippers and decreases to others to reduce the cross-subsidization. Instead, all we see are increases.

1893.           So I would say that proposal isn't consistent with the idea that there's cross-subsidization among the shippers.

1894.           **MR. YATES:** Okay. So you became concerned about cross-subsidization when you focused on the assertion by Mr. Reed that there is cross-subsidization as between STS shippers?

1895.           **MR. DRAZEN:** Well, it's that plus the fact that the application talks about differences among the STS contracts in various conditions and attributes. So you could say, well, in some respects maybe Centra is being subsidized by another shipper, but in other respects other shippers are being subsidized too.

1896.           So perhaps some aspects of the differences, let's say -- some aspects of the differences are to the benefit of any particular STS shipper and some are to the detriment. So overall there's no evidence that there is a significant cross-subsidization and there's no evidence in TransCanada's application of what the amount of the cross-subsidization might be.

1897.           **MR. YATES:** Well, that will be a matter of argument, Mr. Drazen.

1898.           But let me take you to an aid to cross-examination which I provided to Ms. Van Iderstine yesterday.

1899.           Firstly, you were a witness in the RH-1-2007 case, yes?

1900.           **MR. DRAZEN:** The Gros Cacouna proceeding?

1901.           **MR. YATES:** Yes.

1902.           **MR. DRAZEN:** Yes.



1903. **MR. YATES:** And what was your role in that proceeding?
1904. **MR. DRAZEN:** I was consultant to the Rabaska Partnership which was proposing an alternate LNG line to the line proposed by Cacouna Energy.
1905. **MR. YATES:** Okay. And what was your position in respect of that?
1906. **MR. DRAZEN:** During the hearing? It was seated. Sorry.
1907. **MR. YATES:** That's okay. I was smiling.
1908. **MR. DRAZEN:** The issue that was ---
1909. **MR. YATES:** What was the position that you took in your evidence in respect to the application by TransCanada for toll methodology and the approval of Gros Cacouna as a receipt point?
1910. **MR. DRAZEN:** Okay. Neither I nor the Rabaska Partnership took any exception to the designation of Gros Cacouna as a receipt point. The issue there was that Cacouna Energy was proposing to build or have built a supply line from Gros Cacouna to Saint-Nicolas, I believe it was, at a cost of some \$500 million.
1911. Rabaska, the Rabaska Partnership, was proposing that it would itself build and pay for a shorter line costing some \$200 million. And the position of the Rabaska Partnership and my evidence was that it made more sense for TransCanada's toll payers to have a \$200 million -- or to have -- basically to save customers \$500 million by having a toll design that would motivate or that would favour the Rabaska line over the Cacouna line.
1912. So it had to do with the effect of toll design on a competitive situation.
1913. **MR. YATES:** Your evidence took the position that it was okay to add Gros Cacouna as a receipt point but only if stand-alone tolling were used for the line between Gros Cacouna and Saint-Nicolas, yes?
1914. **MR. DRAZEN:** Yes, I think what we -- well, what we said is that designating Gros Cacouna as the receipt point did not determine what the tolling should be for the LNG supply line.

1915.           **MR. YATES:** Sorry, what I asked you was whether your position was to not oppose Gros Cacouna as a receipt point, but only on the basis that the toll on the Gros Cacouna extension would be a stand-alone toll? That was your position, yes?
1916.           **MR. DRAZEN:** Frankly, I don't recall how it was phrased. I mean, our position was that the LNG supply line should be tolled on a stand-alone basis.
1917.           **MR. YATES:** Well, maybe you should look at another aid to cross-examination which I provided to Ms. Van Iderstine, which is the RH-1-2007 decision. Do you have that at hand? Paper page 17?
1918.           **MR. DRAZEN:** Yes, I have it now.
1919.           **MR. YATES:** You see there's a heading on that page; it says "Rabaska"?
1920.           **MR. DRAZEN:** I'm sorry, which page was that?
1921.           **MR. YATES:** Paper page 17.
1922.           **MR. DRAZEN:** Okay, I have that now.
1923.           **MR. YATES:** Okay. You see in the third paragraph under the hearing "Rabaska" it says:
- "Rabaska's concern in this application was with regard to the tolling methodology that is to be applied to services from the Gros Cacouna receipt point."*
1924.           **MS. AUDINO:** Mr. Yates, sorry to interrupt. We just want to make sure we have the right aid before us. And the copy I have just goes up to paper page 16. So if you can just wait one moment.
1925.           **MR. YATES:** Sorry. I don't have paper copies of the decision to distribute. And that's what I'm talking about ---
1926.           **MS. AUDINO:** You're referring to the decision right now, sorry.
1927.           **MR. YATES:** Yeah.

1928. **MS. AUDINO:** Okay.

1929. **MR. YATES:** What I'm referring to is on the screen.

1930. **MS. AUDINO:** Okay, sorry about that. We just had a different aid before us and just wanted to make sure we were all following along. Thanks.

1931. **MR. YATES:** So looking at the paragraph -- third paragraph under "Rabaska" it says, and I quote:

*"Rabaska's concern in this application was with regard to the tolling methodology that is to be applied to services from the Gros Cacouna receipt point. Rabaska did not oppose adding Gros Cacouna as a receipt point, but only on the basis that the toll on the Gros Cacouna extension would be a stand-alone toll."*

1932. Does that jog your memory as to the position you took in that case?

1933. **MR. DRAZEN:** I don't know. I'd have to review my evidence. I mean, this is Rabaska's position. Whether I stated it the same way I don't recall.

1934. **MR. YATES:** Well, I provided you with your evidence last night. Did you review it?

1935. **MR. DRAZEN:** No, (inaudible) bring it up.

1936. **MR. YATES:** Did you review it when I provided it to you?

1937. **MR. DRAZEN:** I did review it.

1938. **MR. YATES:** You did not?

1939. **MR. DRAZEN:** I did review it. Unfortunately, I didn't review the question that you were going to ask me.

1940. **MR. YATES:** Okay. But having reviewed your evidence, do you remember that you took the position that this should be -- there was no opposition to the receipt point on the basis that the pipeline would be a stand-alone toll?

1941. **MS. VAN IDERSTINE:** I would suggest that since Mr. Yates is saying it's directly in that evidence and he's given it to him, that he take him to that point in the evidence that he wants Mr. Drazen to address.
1942. **MR. YATES:** Is the nuance here, Mr. Drazen, that you're not prepared to accept that it was your position that the receipt point -- there was no objection to the receipt point; you're saying that was your client's position? It was your position that the pipeline should be subject to a stand-alone toll; can you agree with that?
1943. **MR. DRAZEN:** Yes.
1944. **MR. YATES:** Okay. And that position was not accepted by the NEB?
1945. **MR. DRAZEN:** Correct.
1946. **MR. YATES:** The NEB accepted the proposed TCPL toll methodology which was rolled in?
1947. **MR. DRAZEN:** Yes.
1948. **MR. YATES:** All right. And in your evidence in that proceeding you agreed with the economic-related principles that had been put forward by Mr. Reed who was the consultant and the expert witness for TransCanada, right?
1949. **MR. DRAZEN:** Could you repeat that, please?
1950. **MR. YATES:** In your evidence in RH-1-2007 you agreed with Mr. Reed, who was the witness for TransCanada, in respect of the economic-related principles that should be applied?
1951. **MR. DRAZEN:** Yes. I also just discussed why those economic principles were important in that case. And I assume at some point we'll get to why this case is different.
1952. **MR. YATES:** And what you agreed with was three principles. This is at page 5 of your evidence if you want to look at it.

1953. Maybe we could have that evidence on the screen, Ms. Comte. Thank you. There we are.

1954. “Tolling Principles”, question at line 14. “*What are the relevant tolling principles?*” And you say:

*TCPL’s witness, Mr. Reed, summarizes the economic-related principles thus:*

*Cost responsibility should follow cost causation;*

*Tolls should not be unduly discriminatory; and*

*Tolls should promote economic efficiency.”*

1955. And you say, “*I agree with all these.*”

1956. **MR. DRAZEN:** Yes.

1957. **MR. YATES:** All right. Okay. And in the Gros Cocouna case, you argue that even though the size of the tolling increase associated with rolling in the proposed facilities was small on a percentage basis that that provided no rationale for Mainline shippers to bear those increased costs, correct?

1958. **MR. DRAZEN:** Yes.

1959. **MR. YATES:** And that’s at page 11 starting at line 9 saying:

*“Thus, about \$43 million per year would be borne by other customers of TCPL. Since TCPL’s total cost of service (for 2010) is roughly \$1,925 million, it is true that the residual to be paid by all their customers will be a small percentage increase – about 2%. However, this is not a rationale for requiring those other customers to pay this increase.”*

1960. Right?

1961. **MR. DRAZEN:** Yes.

1962. **MR. YATES:** And you based your conclusion on the view that rolling in the cost of those facilities was inconsistent with cost causation and economic efficiency, right?

1963.           **MR. DRAZEN:** Yes, although it went beyond that because it was in the context of a situation where the toll design would likely have a major impact on the total cost to TransCanada, that the difference between the Rabaska and the Cacouna proposals was the \$500 million investments that would have to be borne by TransCanada that could be avoided.
1964.           **MR. YATES:** Would you look, Mr. Drazen, at another aid to cross-examination that I provided to Ms. Van Iderstine, which is an excerpt from Volume 4 of the RH-1-2007 transcript for April 19<sup>th</sup>, 2007? Do you have it?
1965.           **MR. DRAZEN:** I do.
1966.           **MR. YATES:** And did you review this?
1967.           **MR. DRAZEN:** I did.
1968.           **MR. YATES:** Okay. So what happens there at paragraph 5324 -- well, actually, the relevant question is higher up the page. It's a question by Mr. Cameron who you may recall was counsel for Petro-Canada in that case. Yes?
1969.           **MR. DRAZEN:** Yes.
1970.           **MR. YATES:** Okay. And he was questioning you and the other Rabaska witnesses as to why you were there?
1971.           **MR. DRAZEN:** Yes.
1972.           **MR. YATES:** And what he asked you at paragraph 5321 is:
- "So you're here to protect TransCanada shippers from the toll increase associated with either of the facilities or the greater toll increase associated with the Gros Cacouna facility?*
- Let me put it this way gentlemen, are you here on their behalf because none of them are complaining?"*
1973.           And your response in paragraph 5324 is to say:
- The issue in toll design, more generally rate design is usually, how do you design them, how do you design the tolls to*

*promote sensible economic decisions by the customers?*

*And in the long run that benefits the customers because it keeps the costs down. If the tolls involve or deviate from costs in an important way or if they inhibit the development of competition, then the effect over time is that the total costs of the system are higher than they would be otherwise.*

*So, in that sense, it's protecting the customers from unnecessary costs but the goal is not to protect any particular group of customers. In fact, it may cost some customers more than others but to come up with the most efficient system that you can -- utility system that you can.*

*And that's the goal here,..."*

1974.                So that was your position then. That's kind of a philosophical position, I think. Is that a view that you continue to hold?

1975.                **MR. DRAZEN:** It is.

1976.                **MR. YATES:** All right.

1977.                **MR. DRAZEN:** But it has to be interpreted or applied and then proceeding in terms of what the impact is.

1978.                **MR. YATES:** Okay. So -- and in the current proceeding you now state -- and this is at page 32 -- paper page 32:

*"Aligning the STS toll with other Mainline services sounds appealing as an abstract principle, but has no practical benefit to either STS shippers or others."*

1979.                Right? That's what you say now?

1980.                **MR. DRAZEN:** That's right.

1981.                **MR. YATES:** So in RH-1-2007, you had a small toll impact to the system, a larger toll impact to the shipper, and in your view, cross-subsidization was a problem because it provided a poor price signal, right?

1982.           **MR. DRAZEN:** Right. And the problem in this case ---
1983.           **MR. YATES:** Sorry?
1984.           **MR. DRAZEN:** I'm saying the problem here is that the benefit of price signals -- well, let me back up. I mean the Board's tolling principles are important. But the question is, why are they important; why cost-base user pay? It's not that it's important in and of itself but it's deemed to be important because the price signals that result from that motivate customers to make more rational decisions.
1985.           The problem is that price signal today for STS has no or almost no signalling function for two reasons. One is that the customers can't do a whole lot about -- can make a whole lot of changes and the other, which I think is even more significant, is that the system's going to look totally different post-2020. So to ask customers to make a decision based on a price signal today when price signal can change doesn't make sense.
1986.           **MR. YATES:** But what you have here is a small toll impact to the system, a larger toll impact to the STS shippers, if the application is approved. And cross-subsidization is not a problem in your view except as between STS shippers, not as between STS shippers and the rest of the system. But you have no discussion of price signals of the current situation is retained, right?
1987.           **MR. DRAZEN:** Well, there's no discussion of price signals except insofar as to say that they have limited or no application here given the anticipated change in the system. The impact on the rest of the system is not -- doesn't bear on that.
1988.           **MR. YATES:** Did you consider marketers when you were considering whether price signals made a difference?
1989.           **MR. DRAZEN:** I don't understand; are you saying that marketers paying STS; consider that?
1990.           **MR. YATES:** Marketers who are using the Mainline.
1991.           **MR. DRAZEN:** I still don't follow.



1992.           **MR. YATES:** Marketers have alternatives, right?
1993.           **MR. DRAZEN:** They do, but they're not using STS.
1994.           **MR. YATES:** Okay. So can you just help me? I think you've answered this somewhat but how do you reconcile that in RH-1-2007 you argued for stand-alone tolling because of unreasonable cross-subsidization and improper price signals but now in what I suggest to you are similar circumstances from a tolling perspective the existing cross-subsidization is okay?
1995.           **MR. DRAZEN:** Well, in RH -- was it 001-2007? It wasn't so much the cross-subsidization as the not giving -- or giving price signals that would wind up or would favour the less economical decision.
1996.           I mean, my working principle is that the Board always knows what it meant in a particular decision but I think had the issue in Gros Cacouna been should the Board choose Cacouna Energy or choose Rabaska it ought to have been an easy decision given the difference was \$500 million. But that wasn't the issue before the Board, it was the tolling and the designation of the receipt points.
1997.           So the Board in that case -- and you provided me with the order -- said in effect, or as I read it, said we have this principle of integrated rolled-in-tolling. We've pretty much always done that. We're going to apply that here. And we also worry about deviating from that providing a -- or given pause to other potential future LNG suppliers.
1998.           Here you don't have that issue. We don't have any STS shippers waiting in the -- potential STS shippers waiting in the wings to see how this comes out. The shippers we have are the shippers that we're going to have. The price signals here don't have any imports. And although Mr. Reed talks a lot about cost-based user pay tolls, TransCanada hasn't provided any cost of service data regarding the STS tolls.
1999.           **MR. YATES:** I'm not sure that was responsive to the question, Mr. Drazen. What I had asked you was to reconcile your argument in RH-1-2007 where the \$43 million a year would be borne by other customers and that was cause for you to say that's unreasonable cross-subsidization; and here you're saying that the existing cross-subsidization of 50 million is okay.
2000.           **MR. DRAZEN:** Well, first of all I don't agree that there's cross-

- subsidization of \$50 million right now. I mean, TransCanada has said, “We want to increase the tolls by \$50 million.” And the fact that they aren’t increased shows that there’s \$50 million of cross-subsidization; that’s circular.
2001. But the issue in Gros Cacouna was the impact of the toll design on a competitive choice. That isn’t an issue here.
2002. **MR. YATES:** Can I take you to page 27 of your evidence, paper page 27?
2003. **MR. DRAZEN:** I’m there.
2004. **MR. YATES:** You say at line 5:
- “One final point regarding the claim that there is an inequity between the STS shippers as a group and the other Mainline shippers: almost half of the service to the ‘other’ Mainline FT shippers is to LDCs who are also STS shippers.”*
2005. Right?
2006. **MR. DRAZEN:** Right.
2007. **MR. YATES:** Are you telling the Board that since half of the STS shippers are also FT shippers that the existing degree of cross-subsidization, whatever it may be, is reasonable?
2008. **MR. DRAZEN:** What I’m saying is that what TransCanada is saying if there’s cross-subsidization between STS and the other shippers. And as I think Mr. Reed pointed out in his evidence too, the majority of the other shippers are also the STS users. So to that extent they’re subsidizing themselves.
2009. **MR. YATES:** Yeah. And I asked you whether you were saying that telling the Board that since half of the STS shippers are also FT shippers that the existing degree of cross-subsidization is reasonable?
2010. **MR. DRAZEN:** Well, I haven’t agreed that there’s an existing degree of cross-subsidization; that’s TransCanada’s claim.
2011. **MR. YATES:** Yes, which may well be accepted by the Board.

2012.                   **MR. DRAZEN:** It may be.
2013.                   **MR. YATES:** Yeah. So is it your view that -- or what you're saying is that the existing degree of cross-subsidization as it may be accepted by the Board is reasonable?
2014.                   **MR. DRAZEN:** I'm saying since none of the customers have complained about it, since there's no database evidence that there is cross-subsidization that the allegation of cross-subsidization doesn't seem to be very important.
2015.                   **MR. YATES:** And what about the half of the FT shippers that are not also STS shippers; should they be considered?
2016.                   **MR. DRAZEN:** They should be. Maybe they are being subsidized by others. I mean, if you look at -- in Centra's case there's an argument that the STS rate that it's paying is above cost if you compare that to the FT rate.
2017.                   **MR. YATES:** Can we go back to your Gros Cacouna evidence, Mr. Drazen? There you agreed that tolls should not be unjustly discriminatory, right? You actually use the American word, Mr. Drazen, you say "unduly"; not unduly discriminatory. We've already talked about this passage from your evidence, page 5.
2018.                   **MR. DRAZEN:** Yes.
2019.                   **MR. YATES:** And you're aware that the term in the NEB Act is "unjustly discriminatory", right?
2020.                   **MR. DRAZEN:** I'll accept that. I haven't read the NEB Act lately.
2021.                   **MR. YATES:** And then going to page 14 of your evidence in the Gros Cacouna case, you there say:
- "'Discriminatory' can have two meanings in rulemaking. The usual one is 'different charges for the same service'."*
2022.                   Then you make a comment on the facts of that case. And then you say:

*“In fact, the other meaning of ‘discriminatory’ that applies in ratemaking is ‘the same charge for different services’. More to the point, it would be applying the same charge for services which have different costs. In this latter sense, it is discriminatory to charge the same toll for service on the LNG Supply Line as on the Mainline.”*

2023. Right?

2024. **MR. DRAZEN:** Yes.

2025. **MR. YATES:** Maybe you can’t answer this question because you told me you haven’t looked at the other STS contracts, but I’ll ask it anyway.

2026. Isn’t the discrimination that you were concerned about in Gros Cacouna, which is applying the same charge for services which have different costs, the same thing that TransCanada is trying to amend in this proceeding?

2027. **MR. DRAZEN:** It’s the same thing that TransCanada is trying to claim. If I’m reading the application and the IR responses, I’m aware that the different STS contracts have different provisions. Those provisions are very much specific to each shipper and yes, they’re different. Does that mean that there’s cross-subsidization? Not necessarily.

2028. As I said before, it could be that Centra is being subsidized by some other shipper and Centra is also subsidizing yet a different shipper so that on balance, the differences amongst the contracts don’t mean that there’s any cross-subsidization among them all; it just means that they’re different.

2029. **MR. YATES:** I don’t think I asked you about cross-subsidization, Mr. Drazen. I asked you whether the discrimination that you talk about in your Gros Cacouna evidence, being the application of the same charge for services which have different costs, is the same thing that TransCanada is trying to amend in this proceeding?

2030. **MR. DRAZEN:** Yes, you did ask me about cross-subsidization because that’s what the discrimination implies, that some are being charged differently for the same service. Well, they’re all getting a slightly different service so that the fact that the charges are different doesn’t mean that there’s

discrimination or cross-subsidization.

2031. **MR. YATES:** Can you answer the question?

2032. **MR. DRAZEN:** I just did.

2033. **MR. YATES:** The question is, isn't the discrimination that you were concerned about in Gros Cacouna, applying the same charge for services which have different costs, the same thing that TransCanada is trying to amend in this proceeding?

2034. **MR. DRAZEN:** Right now TransCanada has what amounts to overall different charges for the different STS contracts. But the services are also different because they're tailored to each LDC.

2035. **MS. STEWART:** And in fact, each of the LDC STS shippers is situated differently. They rely on different facilities for provision of STS service and there's been no cost information filed to suggest that STS is not tolled appropriately. We're being asked to accept the premise that the STS tolling is inappropriate. However, there is no evidence to the contrary.

2036. **MR. YATES:** That is part of the decision that the Board has to make. And your view is ---

2037. **MR. DRAZEN:** I can give you an example, Mr. Yates, if you like?

2038. **MR. YATES:** You don't need to give me an example.

2039. **MR. DRAZEN:** I don't think so.

2040. **MR. YATES:** Can we talk about economic efficiency for a moment?

2041. **MR. DRAZEN:** Yes.

2042. **MR. YATES:** You would agree that the promotion of economic efficiency is important in tolling?

2043. **MR. DRAZEN:** It is insofar as it can actually be realized.

2044. **MR. YATES:** Okay. Would you agree that the natural gas market is

very dynamic?

2045. **MR. DRAZEN:** Yes.

2046. **MR. YATES:** Would you agree that the natural gas market is uncertain?

2047. **MR. DRAZEN:** Pretty much every market is uncertain.

2048. **MR. YATES:** I'll take that as a "yes".

2049. **MR. DRAZEN:** I mean, it's not just the natural gas market that's uncertain here; it's also the -- the TransCanada toll market is uncertain given the changes that are coming down the pipe.

2050. **MR. YATES:** Yeah, well, you conclude that there's no need for or practical benefit of the proposed STS amendments at the current time, that it would be more appropriate in 2021, right?

2051. **MR. DRAZEN:** Yes.

2052. **MR. YATES:** So is it your position that when there is significant uncertainty regarding future tolling, the Board should care less or give less weight to the promotion of economic efficiency and proper price signals because of that uncertainty?

2053. **MR. DRAZEN:** Well, let me give you an example of where exactly that issue came up. Actually, let me book that to Mr. Mikkelsen because he was involved in that.

2054. **MR. YATES:** Well, can you answer the question and then give me the example? The question is, is it your position that the Board should give less weight to the promotion of economic efficiency and proper price signals when there is uncertainty about future tolling, yes or no?

2055. **MR. DRAZEN:** Yes, because the degree of uncertainty in TransCanada tolling is quite significant now, much more than it is for most utilities at most times. So that it's not that the Board should give less weight to it; it's that the price signals themselves have less meaning because you don't know what the future is going to be.

2056. Now, is it okay if I turn it over to Mr. Mikkelsen?
2057. **MR. YATES:** Sure.
2058. **MR. MIKKELSEN:** So we did have a case in Alberta. It was a rate case for the Alberta System Operator. And they had a cost study which separated which costs would be collected ---
2059. **MR. YATES:** Sorry, they had a what?
2060. **MR. MIKKELSEN:** A rate case. And their rate design is very cost-based. They segment the system into bulk and local components. And they were proposing a significant shift in how those two pieces were going to be split, suggesting a very large increase to one component of the toll. That was based on a cost study that was a snapshot at the present time.
2061. Our evidence was they were building in the order of \$10 billion of transmission in Alberta and we could see in a very short period of time, a couple of years, that the nature of additions was going to basically reverse the change in the cost study. And the Alberta Utilities Commission accepted, in terms of providing a price signal, it made no sense to put in place a change in the toll that they could see by looking forward that was going to be totally reversed in a short period of time.
2062. So there was a cost study; there was cost basis for making the change, but it wasn't -- it was deemed to be not an appropriate price signal because they could look forward and see they would eventually have to reverse that signal in a very short time.
2063. **MR. YATES:** What case was ---
2064. **MR. KOSTICK:** I would also add on the issue of price signals and TransCanada's evidence on price signals in relation to STS ---
2065. **MR. YATES:** Could you just hang onto that?
2066. **MR. KOSTICK:** Sure.
2067. **MR. YATES:** Hold that thought, Mr. Kostick.

2068. **MR. KOSTICK:** Sure.

2069. **MR. YATES:** I just wanted to ask Mr. Mikkelsen what the case was. Have you got a number?

2070. **MR. MIKKELSEN:** Not off the top of my head. I could undertake to provide that if that would be ---

2071. **MR. YATES:** What year was it?

2072. **MR. MIKKELSEN:** It would have been, I'm guessing, four years ago. But we certainly could provide a reference to that if that would be useful.

2073. **MR. YATES:** I can probably find it so I don't think you need to do that.

2074. You were going to say something, Mr. Kostick?

2075. **MR. KOSTICK:** Yes, thank you.

2076. On the issue of price signals in TransCanada's evidence, TransCanada stated that a proper price signal for STS would be to toll STS on the direction of flow that has a higher demand.

2077. In the case of the Emerson extension, which Centra uses for STS, the higher demand is on the injection path. That is the flow south from Manitoba down to Emerson as higher demand compared to the withdrawal quantity or withdrawal path, which is the north flow from Emerson.

2078. So based on TransCanada's own evidence based on tolling -- price signal based on higher demand for direction of flow, it suggests that tolling on injections would be the proper price signal because there's higher demand for the injection path relative to the withdrawal path for Centra's STS.

2079. I'd also like to just comment on the issue of cross-subsidization or discrimination when it comes to STS versus FT. The fact is that STS is a dramatically different service than FT. It has unique constraints and restrictions in the form of STS balances.



2080. We're not aware of any other service that has anything like STS balances where TransCanada can actually charge a penalty for using the maximum daily quantity too much so there's that restriction. There's the absence of diversions and alternate receipts. There's the fact that the withdrawal path is only provided on a firm basis to the market in five out of 12 months.
2081. So there's some dramatic differences, and to suggest that STS should be tolled as though it's FT would seem discriminatory since it is a different service. And even Mr. Reed's own statement yesterday was that the notion that a haul is a haul and that gas should be tolled the same if it's using the same path -- it doesn't apply when you're talking about a different service. That a haul is not necessarily a haul because services differ and different tolling considerations should be considered.
2082. **MR. YATES:** Did I ask you about the differences between FT and STS? I mean, I've heard all that; I've read all that stuff in your evidence but that's got nothing to do with any question I've asked you, right?
2083. **MR. KOSTICK:** I believe you've made references to cross-subsidization between STS and FT. So there's no evidence that STS is not tolled appropriately given that STS is dramatically different than FT, so I believe you made that allusion or that explicit reference to cross-subsidization between FT and STS.
2084. So it was interesting from the discussions yesterday and today that some shippers do view STS as a very flexible service. Centra on the other hand, we view it as a fairly restrictive service. We're actually okay with that because we're using it in the matter that we need and we don't need the extra layers of service that some of the other STS shippers have.
2085. One example is between west-of-storage STS and east-of-storage STS, is that east-of-storage STS has firm annual injections and has always had firm annual injections. Centra has never had firm annual injections on its STS service. It doesn't need it, it doesn't require it, and it's not asking for it but is a different level of service that we are getting west-of-storage. It is a lower level of service.
2086. **MR. YATES:** Are there other speeches you want to make, Mr. Kostick, because if so why don't you make them now?
2087. **MS. STEWART:** Mr. Yates, your question was about whether the

Board should care about price signals and economic efficiency, and the more germane issue is the fact that we're within a fixed tolls period. So there may be other anomalous circumstances as cited in Centra's evidence such as the cost allocation of almost 500,000 GJs per day of capacity ---

2088. **MR. YATES:** Excuse me.

2089. **MS. STEWART:** --- to the Western Mainline ---

2090. **MR. YATES:** Excuse me, Ms. Stewart, that has nothing to do with what I asked. I asked a question about whether the Board should -- whether it was Mr. Drazen's view that the Board should give less weight to economic efficiency when there's future uncertainty.

2091. Now your response to that is to say, "That's not the question that you should have asked. You should have asked me a different question. And if you ask me that question I will now give you the answer." So I haven't asked you that question so I would ask you to not give me that speech.

2092. **MS. STEWART:** It's not a speech; it's in response to your question about whether the Board should care about economic efficiency and price signals.

2093. **MR. YATES:** And your position is that there are other issues that you care about more. That's how you started this, right?

2094. **MS. STEWART:** Not that I care about more. That I'm saying exist today, and if the Board is going to address issues and attempt to perfect the Mainline as it relates to economic efficiency and the most pure price signals that should exist then we also would have to look at other anomalous circumstances on the Mainline which exist today.

2095. Centra's position is we are prepared to sit tight with those other anomalous circumstances which have a detrimental effect on Centra and its ratepayers. And why are we prepared to sit tight? Because we were all in this room two years ago and the decision made by this Board was that we were fixing tolls.

2096. And from Centra's perspective, when you fix tolls it would be meaningless to fix them unless it also meant that you were fixing the cost impacts of the tolls. We were all in this room and the outcome of that proceeding -- a

contested tolls application, not a settlement -- was to fix tolls for the period of 2015 through 2020 other than a relook, or a toll reset for the 2018 through 2020 period.

2097.                So I am being responsive to your question, Mr. Yates. It was about price signals, economic efficiency, and TransCanada is attempting to suggest that STS is the only problem that exists on the Mainline. That's false.
2098.                **MR. YATES:** Are you finished? Are you finished?
2099.                **MS. STEWART:** Yes, I am.
2100.                **MR. YATES:** Thank you.
2101.                Mr. Drazen, I'm interested in your views on some tolling concepts. Would you agree that if there are differences in service there should be differences in tolls?
2102.                **MR. DRAZEN:** Do you want the short answer? It's yes and no. No speech. Now would you like the explanation?
2103.                **MR. YATES:** Well, let me ---
2104.                **MR. DRAZEN:** A perfect example of that ---
2105.                **MR. YATES:** Let me ask you a specific question.
2106.                **MR. DRAZEN:** Let me finish my answer.
2107.                The perfect example of that is the pressure surcharge on the Mainline. For years it was calculated specific to each location where higher pressure was provided. In the 2011 case TransCanada said, "Because there's been a drop in volume in one location if we calculate the unit costs it's going to be very high and we may not have any service there. So what we'll do is have the -- we'll put all the locations together and have a single charge that applies at each one."
2108.                So there although the costs were different, in order to achieve the goal of a useful system the toll was allowed to vary from the cost. So that's where the goal was considered to be -- override the usual tolling principle.

2109.           **MR. YATES:** Okay. If you have a contractual right -- well, let me ask you a question that's specific to this case. If you have a contractual right to pooling should you pay the same toll as someone who doesn't?
2110.           **MR. DRAZEN:** The charge for pooling is just one of the components of the overall service so you can't pick out one issue or one aspect and say, "This differs from somebody else and therefore the toll should be different." You have to look at STS as a suite of services and are the results overall acceptable and reasonable.
2111.           **MR. YATES:** So I think your answer is that conceptually contractual rights to a service aspect should not impact tolls?
2112.           **MR. DRAZEN:** No, that wasn't my answer. It was that contractual rights to a certain aspect have to be looked at in the context of the overall service being provided.
2113.           **MR. YATES:** Okay. Looked at in the context of STS should those who have a contractual right to pooling pay the same toll as someone who doesn't?
2114.           **MR. DRAZEN:** Well, first of all they're not paying the same toll. The STS toll differs amongst all the shippers. The fact that some are using pooling and others aren't is a difference but you have to look at that difference and say in the context of all the differences among all the STS contracts.
2115.           **MR. YATES:** But ---
2116.           **MR. DRAZEN:** The fact that one is getting a service and another one isn't getting it or isn't using it doesn't mean that you have to change the rates for either or both of them.
2117.           **MR. YATES:** All right. So you would say that the fact that pooling is an extra feature that Union and Enbridge have but others don't should not mean that Union and Enbridge should pay anything for that?
2118.           **MR. DRAZEN:** I'm saying it doesn't mean that you have to change the tolls in the manner that TransCanada has proposed.
2119.           **MR. YATES:** Now could you answer the question I asked?

2120. **MR. DRAZEN:** Perhaps if you ask it again I'll give you a better answer.
2121. **MR. YATES:** The fact that Union and Enbridge have pooling and others don't doesn't mean, in your view, that they should pay for that, pay more for that?
2122. **MR. DRAZEN:** It doesn't mean that they should pay more for that than they're paying right now.
2123. **MR. YATES:** So that's yes?
2124. **MR. DRAZEN:** It's the answer I gave you.
2125. **MR. YATES:** Well, if like Enbridge you have an agreement that allows you to transfer STS balances between GDAs, should you pay more for that when others don't have that?
2126. **MR. DRAZEN:** It goes back to what I said before. If you look at each of those attributes or services individually you can say, "Oh, here, Enbridge is getting a benefit that Centra is not." If you look at some other aspect you can say, "Oh, look, here Centra is getting a benefit and Enbridge or Union is not." You put those all together and you say, "Well, is each one" -- you know, if you want to look at it in terms of subsidy, perhaps each STS shipper is both being subsidized and subsidizing others.
2127. **MR. YATES:** I think your message here is you're saying you can't look at individual service attributes without considering all the aspects of the service as it may be provided to various shippers?
2128. **MR. DRAZEN:** I'm saying that in terms of proposing to change the tolling arrangement and methodology right now, don't look at the attributes individually. You may at some point want to but you need more cost information than we have right now.
2129. **MR. YATES:** Mr. Chairman, this would be a good time for me if you were planning to break at noon.
2130. **THE CHAIRMAN:** It would be. I just want to ask one question.

I'm assuming you're not finished with your cross?

2131. **MR. YATES:** I'm not finished.

2132. **THE CHAIRMAN:** Okay. So we will come back at one o'clock.

2133. **MR. YATES:** By that clock?

2134. **THE CHAIRMAN:** Yes.

--- Upon recessing at 11:55 a.m./L'audience est suspendue à 11h55

--- Upon resuming at 1:02 p.m./L'audience est reprise à 13h02

**MATTHEW WHARTON: Resumed/Sous le même serment**

**GRANT KUNTZ: Resumed/Sous le même serment**

**JOHN J. REED: Resumed/Sous le même serment**

**ALEX HARRIS: Resumed/Sous le même serment**

**DAVE SCHULTZ: Resumed/Sous le même serment**

2135. **THE CHAIRMAN:** Mr. Yates?

**--- EXAMINATION BY/INTERROGATOIRE PAR MR. YATES:  
(Continued/Suite)**

2136. **MR. YATES:** Thank you, Mr. Chairman.

2137. Who should I talk to about STS balances?

2138. **MR. KOSTICK:** You can direct that to me, Mr. Yates.

2139. **MR. YATES:** Thank you, Mr. Kostick.

2140. Can you just tell me how an STS balance gets created?

2141. **MR. KOSTICK:** Through STS injections and other means which were described by Mr. Wharton yesterday, diversions, certain STFT and IT nominations. TransCanada detailed those in a footnote, I believe, in its application.

2142. **MR. YATES:** Sorry, I missed your last sentence. What was it?

TransCanada did what?

2143.           **MR. KOSTICK:** TransCanada identified those in a footnote, I believe, in its application.
2144.           **MR. YATES:** Yeah. So what happens is you ship to a point where the gas is “injected” which in STS parlance means delivered?
2145.           **MR. KOSTICK:** Yes.
2146.           **MR. YATES:** And the injection point for Centra is at Emerson?
2147.           **MR. KOSTICK:** That’s correct.
2148.           **MR. YATES:** But when the gas is delivered it’s not necessarily injected into storage; is that right?
2149.           **MR. KOSTICK:** Given the fact that includes many other transactions that make up the STS injection, as it’s called, it may not go to storage; that’s correct.
2150.           **MR. YATES:** And what else can happen to it? It can get sold? Yes?
2151.           **MR. KOSTICK:** It can be delivered to another party.
2152.           **MR. YATES:** To another party, did you say?
2153.           **MR. KOSTICK:** Another party, correct.
2154.           **MR. YATES:** Yes, okay. Sorry, are you being nuanced about that in the sense of delivered to another party as opposed to sold?
2155.           **MR. KOSTICK:** Transactions can take many different forms. They can take the form of the sale of natural gas. They can take the form of transportation of natural gas. I don’t think it’s too important to get into the various distinctions, but there are different transactions that parties may enter into.
2156.           **MR. YATES:** And you’re using the phrase “delivered to another party” to mean to encompass all of those sorts of transactions; is that right?

2157. **MR. KOSTICK:** I think that's fair.
2158. **MR. YATES:** Okay. Now, I understand that Centra testified before the Manitoba Public Utilities Board that it exhausted its physical storage inventory as of March 31<sup>st</sup>, 2014, right?
2159. **MR. KOSTICK:** Yes.
2160. **MR. YATES:** Okay. And that -- excuse me for a moment.
2161. And that testimony was quoted by TransCanada in its application at paper page 20. And the testimony was that you actually withdrew your last molecule of gas out of storage on March 31<sup>st</sup>, right?
2162. **MR. KOSTICK:** Yes, I believe that was in the application.
2163. **MR. YATES:** Right. Now can I ask you to go to the TransCanada Response to Enbridge 1.14(a)? That's Exhibit B7-3, A77195-3. Do you have it?
2164. **MR. KOSTICK:** Yes, thank you.
2165. **MR. YATES:** Is this a response you've looked at before?
2166. **MR. KOSTICK:** I would have looked at it previously, yes.
2167. **MR. YATES:** So you know that what is happening here is that Enbridge is asking for information in respect of Figure 3-1 in the TransCanada application, which is titled "Aggregate STS Balance - All STS Shippers", right?
2168. **MR. KOSTICK:** Yes.
2169. **MR. YATES:** And am I correct that Centra's STS balance is shown on page 2 of 3 of the attachment?
2170. **MR. KOSTICK:** I'm not there yet. I can try to pull up a paper copy.
2171. **MS. STEWART:** Could we view that?
2172. **MR. YATES:** Sorry, it's page 2 of 3 of the attachment EGDI 1.14 (a). So it's two pages behind where you are now -- or three pages behind where you



- are now. That's it.
2173.           **MR. KOSTICK:** That's it?
2174.           **MR. YATES:** Yeah. So my question, Mr. Kostick, was whether Centra's STS balance was shown on page 2 of 3 of the attachment?
2175.           **MR. KOSTICK:** Yes.
2176.           **MR. YATES:** And that's in column "Centram MDA"?
2177.           **MR. KOSTICK:** Correct.
2178.           **MR. YATES:** Okay. And if you go down that column on "Centram MDA" you see for the date of April 1<sup>st</sup> in 2014, there's an STS balance of 71,102,807.
2179.           **MR. KOSTICK:** Correct.
2180.           **MR. YATES:** That balance is showing on the day after you removed the last molecule from storage, right?
2181.           **MR. KOSTICK:** Yes. I think we're all in agreement that STS balances do not reflect physical storage balances necessarily.
2182.           **MR. YATES:** Well, I'm glad you and I are in agreement of that but -- but that's the point here is that the STS balance does not reflect what is physically in storage.
2183.           **MR. KOSTICK:** It may not.
2184.           **MR. YATES:** Well, in your case it would have been zero on April 1<sup>st</sup>, 2014 if it actually reflected what was physically in storage.
2185.           **MR. KOSTICK:** In our specific case in that instance, correct.
2186.           **MR. YATES:** Okay. So can you tell me, please, why Centra would have an STS balance of 71 million when it has no gas physically in storage?
2187.           **MR. KOSTICK:** Well, those are the rules of STS, which Centra did

- not create. They involve, as we talked about, STS injections that are actually an injection nomination using the STS contract. There are also diversions to the storage point and other Mainline services, if nominated to the storage point, that make up the storage injection and ultimate balance.
2188.               So I believe that came about as a TTF resolution in 2005. But I can't speak to the rationale at that time.
2189.               **MR. YATES:** Yeah. Could I ask you to look for a moment, please, at another aid to cross-examination which I provided yesterday, which is a letter dated October 26, 2012 from Centra to the National Energy Board. It's a letter of yours, Ms. Stewart.
2190.               **MS. STEWART:** I have the reference.
2191.               **MR. YATES:** Okay. And this is a letter in which you were trying to get the Board to change the reporting process in respect of gas that is exported, from requiring shippers to report it to requiring pipelines to report it, correct?
2192.               **MS. STEWART:** I was providing input or feedback in response to the Board's request for comments, yes.
2193.               **MR. YATES:** Well, what I was focusing on was the last paragraph on page 2 of the letter where you're making a recommendation that the NEB require reporting by pipelines that have interconnections at international borders and that the current reporting requirements for shippers such as Centra, which is not a true exporter of natural gas, be dispensed with. So that was your position in the letter?
2194.               **MS. STEWART:** That's correct.
2195.               **MR. YATES:** Okay. Now, in -- earlier in the letter, on the first page, you have a paragraph that starts by way of background and it describes what Centra does with its gas, right?
2196.               **MS. STEWART:** That's correct.
2197.               **MR. YATES:** And what you say is, and I quote:

*"During the months of April through October of each year,  
Centra transports natural gas from Alberta to Manitoba on*

**Centra Gas Manitoba Inc.**  
**Examination by Mr. Yates**

*TCPL's Mainline. Some of this natural gas is consumed in Manitoba while the remaining energy is moved to Emerson, Manitoba on TCPL and onto the GLGT and ANR Pipelines to its ultimate destination in natural gas storage facilities in the State of Michigan." (As read)*

2198.               Firstly, can I ask you why used the term "energy" in that sentence as opposed to "gas"?
2199.               **MS. STEWART:** No particular reason, Mr. Yates.
2200.               **MR. YATES:** You meant ---
2201.               **MS. STEWART:** I do mean natural gas.
2202.               **MR. YATES:** Okay. So does the fact that your STS balance on April 1<sup>st</sup>, 2014 being 71 million when there's no gas in physical storage mean that something has happened to that 71 million other than being consumed in Manitoba or being moved to storage?
2203.               **MS. STEWART:** The focus of this correspondence with the Board is related to export reporting and so yes, in this context this letter is not referencing any other transactions that were occurring which may have resulted in gas being dropped off at Emerson; for example, diversions or exchanges.
2204.               **MR. YATES:** Okay, or delivering gas there to somebody else, yes?
2205.               **MS. STEWART:** That's what I mean by diversions or exchanges.
2206.               **MR. YATES:** Okay. I was just trying to relate it to the answer that Mr. Kostick had given me a few moments ago.
2207.               Mr. Chairman, I think I should mark this as an exhibit. This is the letter of October 26<sup>th</sup>, 2012 with an attachment.
2208.               **THE CHAIRMAN:** Mme. Comte.
2209.               **MS. COMTE:** It'll be B18 and the repository number will be A79455.

**--- EXHIBIT NO./PIÈCE No. B18:**

*Letter dated October 26, 2012 from Centra to the National Energy Board,  
with attachment*

2210. **MR. YATES:** An while I'm at it, Mr. Chairman, I should ask for an exhibit number for Mr. Drazen's evidence in the RH-1-2007 case, which I neglected to ask for this morning.
2211. **THE CHAIRMAN:** That's the one dated March 2007? The one I'm looking at is "Gros Cocouna Receipt Point Application, Evidence by Mark Drazen, March 2007."
2212. **MR. YATES:** We seem to have a photocopying issue here, Mr. Chairman, in that the attachment is -- the attachment to Exhibit B18 is the document that's referred in the letter and it's the -- it's a response to an undertaking in the RH-003-2011 case. So I will undertake to make -- have the photocopies made properly and then have them circulated.
2213. **THE CHAIRMAN:** Thank you.
2214. **MR. YATES:** Mr. Drazen, back to you for a few moments. I wanted to just get a ---
2215. **MS. AUDINO:** Sorry, Mr. Yates, I don't know if we -- did we mark the Drazen evidence still as an exhibit? Did you still want that marked?
2216. **MR. YATES:** Oh, yes.
2217. **MS. AUDINO:** Okay.
2218. **MR. YATES:** Yes, please. I thought that happened while I was looking at the other one.
2219. **MS. AUDINO:** Not yet.
2220. **MS. COMTE:** So Exhibit B19 and repository number is A79456.

**--- EXHIBIT NO./PIÈCE No. B19:**

*Mr. Drazen's evidence in the RH-1-2007 case entitled "Gros Cocouna Receipt Point Application, Evidence by Mark Drazen, March 2007"*

2221.           **MR. YATES:** Mr. Drazen, I wanted to ask you a couple of questions about single-issue ratemaking. One of themes of your evidence being that the Board should refuse to consider the TransCanada Application because it is single-issue ratemaking, right?
2222.           **MR. DRAZEN:** Yes, I think it's bad regulatory procedure ---
2223.           **MR. YATES:** Okay.
2224.           **MR. DRAZEN:** --- which the Board can -- the Board can decide to do what it want to do.
2225.           **MR. YATES:** Well, your client finds your evidence compelling, to use their word, so ---
2226.           **MR. DRAZEN:** That's good, nice work.
2227.           **MR. YATES:** But is it your position that anything that affects revenue can't be a single issue?
2228.           **MR. DRAZEN:** Sorry, anything that affects revenue can be a single issue?
2229.           **MR. YATES:** Cannot be a single issue. You cannot deal as a single issue with any proposal that would affect revenue.
2230.           **MR. DRAZEN:** You're saying nothing that affects revenues should be heard because it's a single issue or should be heard in isolation? I'm not sure I understand your question.
2231.           **MR. YATES:** Is it your position that the single issue rate making ban means that no proposal that affects revenue can be considered by a regulator as a single issue?
2232.           **MR. DRAZEN:** No, I wouldn't go that far because there are regulators that have said they disfavour single issue rate making, but there are some occasions when it could be considered.

2233. You know, for example, Mr. Reed had a reference to a Massachusetts Department of Public Utilities case where the issue was the utility had to file what they called -- what was it? Gas System Enhancement Program to reduce leakage. This was for ENSTAR in the Boston area which had a very old system. And ENSTAR proposed this gas system expansion or enhancement program which had a cost, and the cost would be recovered through a surcharge. So this was one that Mr. Reed brought to our attention.

2234. The thing about that was that the Department of Public Utilities said that a) this took place under special legislation Section 145 and that legislation -- and I'll quote:

*"The Department is not permitted nor required under Section 145 to conduct a full base rate proceeding [...]"*

2235. So that was a situation where it was a single issue but it was more or less mandated by legislation.

2236. **MR. YATES:** And a number of ---

2237. **MR. DRAZEN:** Another one was New York. There was -- again, one of Mr. Reed's cites proceeding to examine the safety of electric transmission distribution systems. He quoted that, or he cited that. He didn't mention anything from that.

2238. And there the New York Public Service Commission it's called said they would consider a special surcharge to recover that but it had to meet three criteria. It had to be incremental to the current rates, it had to be material to the utility's earnings, and the utility could not be overearning. So they said, "Okay, we can do it but it has to be very stringent criteria."

2239. So the answer is, yes, it can be done. Some other regulators have said, "We'll allow a cost tracker, a gas cost tracker because the amount is so material and so unpredictable." But those are exceptions to the general principle.

2240. **MR. YATES:** And some of these cases that you provided in response to the Board's IR are cases where the legislation prohibits single issue rate making, right?

2241.           **MR. DRAZEN:** Yes, I said in the evidence it's not -- some jurisdictions it's prohibited, in others the regulator just considers it to be bad policy.
2242.           **MR. YATES:** And in Canada there is no precedent for single issue rate making; you acknowledge that, right?
2243.           **MR. DRAZEN:** I did not find any cases where that issue was identified as part of the case.
2244.           **MR. YATES:** And you've never given evidence on this issue before, right?
2245.           **MR. DRAZEN:** Not that I recall.
2246.           **MR. YATES:** But you're now aware of several instances in Canada of single issue rate making at the NEB?
2247.           **MR. DRAZEN:** You say I am now aware or not aware?
2248.           **MR. YATES:** You are now aware because you've read TransCanada's evidence and footnote 13 on page 5.
2249.           **MR. DRAZEN:** TransCanada's original evidence or their reply?
2250.           **MR. YATES:** Evidence.
2251.           **MR. DRAZEN:** Help me out, please.
2252.           **MR. YATES:** Page 5, paper page 5. And I'm sorry, Mr. Drazen, I did say it's the evidence and it is in fact the reply. So it's Exhibit B-14 page 5, footnote 13.
2253.           **MR. DRAZEN:** Yeah. Well, there are cases where an issue has been considered because it's in addition to service. It doesn't affect the existing customers. I haven't checked all of these but that's what these appear to be covering.
2254.           **MR. YATES:** Well, I think those will speak for themselves.

2255.           **MR. DRAZEN:** And in fact, I think I had cited a case in Missouri where the utility wanted to add a new service. It might have been LED streetlights or something like that. And there, although the Missouri Commission routinely rejects any single issue proposals here they said, “No existing customer is affected.” It’s incremental revenue so the same concerns did not apply.
2256.           **MR. YATES:** Okay. And RH-1-2007 was a single issue case with where your concern was the effect on existing customers, right?
2257.           **MR. DRAZEN:** That was a case to consider the designation of a new receipt point.
2258.           **MR. YATES:** And the toll methodology to be applied?
2259.           **MR. DRAZEN:** And the toll methodology.
2260.           **MR. YATES:** Yes. So that’s a single issue case?
2261.           **MR. DRAZEN:** I guess you could consider it that if you want.
2262.           **MR. YATES:** Okay. Now, were you part of the RH-003-2011 marathon?
2263.           **MR. DRAZEN:** Yes, I was seated there too.
2264.           **MR. YATES:** And you’re aware that part of that was a consideration by the National Energy Board to -- consideration of the regulatory process, the Mainline’s regulatory process?
2265.           **MR. DRAZEN:** You say a consideration of a regulatory process. It was an application; the case itself was the process. Or are you talking about something else?
2266.           **MR. YATES:** What I’m referring you to, Mr. Drazen, is another aid to cross-examination that I provided last night as an excerpt from the RH-003-2011 decision, Chapter 13 entitled “Mainline Regulatory Process”. Did you read that?
2267.           **MR. DRAZEN:** I can’t see it yet. Can we have it posted?



2268. **MR. YATES:** Sorry, did you read it when I sent it over last night?
2269. **MR. DRAZEN:** Right, but I'd prefer to see it again before you ask any questions or before I answer any, yes.
2270. **MR. YATES:** That's the one, thank you.
2271. **MR. DRAZEN:** Okay.
2272. **MR. YATES:** So "Okay" is not an answer to a question that is did you read it? Did you read it?
2273. **MR. DRAZEN:** Yes.
2274. **MR. YATES:** Okay. And you understand that the Board established from this chapter a streamline regulatory process?
2275. **MR. DRAZEN:** Yes.
2276. **MR. YATES:** And this regulatory process is for implementing new service and pricing proposals? Yes?
2277. That's what it says on the last page of the excerpt, paper page 247 of the decision, third paragraph from the bottom.
2278. **MR. DRAZEN:** Yes.
2279. **MR. YATES:** And it is also the Board's opinion that:
- "...the streamlined procedure [could] apply to more than service and pricing proposals."*
2280. That's in the last paragraph.
2281. **MR. DRAZEN:** Yes.
2282. **MR. YATES:** So is it your position that the Board erred in doing this because the streamlined regulatory process would violate the single issue rate making prohibition?

2283.           **MR. DRAZEN:** The Board has leeway to do what it considers to be appropriate.
2284.           **MR. KOSTICK:** I think one big distinction that I'd like to just add given that you sent this out to us last night and we didn't know who was supposed to read it so I think we all read it. One distinction between what's being outlined in this Board decision and what's happening here is that this application is proposing to change the tolling methodology or change -- to adjust the tolling for an annual firm service.
2285.           TransCanada includes STS in its category of firm service along with firm transport, firm transport short notice, so on and so forth. So it's an annual firm service and we're in the middle of a six-year fixed-tolls periods and the cost impacts are utterly dramatic as we've talked and debated already.
2286.           So this may not be talking about -- and again, the Board can determine what it meant -- that this streamlined process is for major changes to the tolling of annual firm services.
2287.           **MR. YATES:** I'm not sure what to do with that, Mr. Kostick, because this application isn't being made in the streamlined process. But thank you for that and thank you ---
2288.           **MR. DRAZEN:** Mr. Yates, I think the essence is the last sentence the party may request the streamlined process and the Board will determine whether it's appropriate.
2289.           Our suggestion is that it's not ---
2290.           **MR. YATES:** That sentence relates to procedures other than service and pricing proposals. That's the paragraph where the Board says:
- "...the streamlined procedure can apply to more than service and pricing proposals."*
2291.           **MR. DRAZEN:** Right. But it's still the Board's discretion to decide what is appropriate.
2292.           **MR. YATES:** Thank you, Mr. Drazen. Thank you, everybody else. Those are my questions.

2293.           **THE CHAIRMAN:** Thank you, Mr. Yates.

2294.           Ms. Audino?

**--- EXAMINATION BY/INTERROGATOIRE PAR MS. AUDINO:**

2295.           **MS. AUDINO:** Good afternoon.

2296.           Mr. Mikkelsen, I'd like to begin just to follow up on something you spoke to Mr. Yates about with respect to -- you were talking about an Alberta case that dealt with electric utility rate design. Do you recall that?

2297.           **MR. MIKKELSEN:** Yes, I do.

2298.           **MS. AUDINO:** And you mentioned that you could undertake to find the name of that case and Mr. Yates said it wasn't necessary. I would like to know if you would undertake to provide the name of that case for clarity of the record.

2299.           **MR. MIKKELSEN:** I can do that right now and maybe ---

2300.           **MS. AUDINO:** Oh.

2301.           **MR. MIKKELSEN:** Just to make it more accurate ---

2302.           **MS. AUDINO:** Okay.

2303.           **MR. MIKKELSEN:** --- I will provide you the reference. If I could just give you the summary of the Board's conclusion it might of assistance.

2304.           **MS. AUDINO:** Okay.

2305.           **MR. MIKKELSEN:** So as I was speaking about, there was a cost study that split costs between two components of a tariff. And it's materially different of the nature of the customer and what they finally pay because not all customers are alike in their load characteristics.

2306.           And so we had suggested in our evidence that it wasn't appropriate to implement the study because it was based on -- it was actually a little bit dated

data because it was based on actuals. And we said, "You ought not to incorporate this study because this will cause prices to shift in one way and we can foresee that in a couple of years' time when you update the study that the shift will reverse."

2307. And so the conclusion -- and this is the AESO Alberta Electric System Operator 2010 Tariff Application. The decision is AUC Decision 2010-606. And what I'm going to cite to you is in paragraph 68 and 69 on PDF page 20. So the Commission said:

*"The Commission is thus in agreement with IPCAA..."*

2308. That was our client in the proceeding.

*"...that incorporating the Transmission O&M Cost Study moves rates in a direction at odds with both the expected reduction in the weighting of O&M costs relative to total wires costs and with [the] expected future increases in bulk transmission charges."*

2309. They went on to add in terms of their rationalization:

*"The Commission finds that incorporating the results of the Transmission O&M Cost Study at this time would not provide a useful or effective economic signal to AESO rate payers during the multi-year effective term of the AESO 2010 tariff."*

2310. And that's the end of the quote. And the tariffs were generally in place for two to three years. That was generally the -- like, I think in this case they actually were in place until 2014.

2311. **MS. AUDINO:** Okay, thanks.

2312. **MR. MIKKELSEN:** And sorry, and when I said Alberta Electric System Operator, the acronym is AESO, A-E-S-O.

2313. **MS. AUDINO:** Right. Thank you. So an undertaking won't be necessary.

2314. Ms. Stewart, earlier in the day in the context of price signals, you had

- a short exchange with Mr. Yates about other anomalous circumstances on the Mainline. Do you recall that?
2315.           **MS. STEWART:** Yes, I do.
2316.           **MS. AUDINO:** Do you mind elaborating on what these other anomalous circumstances are that you had referenced?
2317.           **MR. STEWART:** Yes. If we can turn up Centra's evidence in chief? It's Exhibit C3-4-2. And it's hard copy page 21 of 26. And it's question and answer 47, which is at the bottom of that page.
2318.           The inconsistency or anomaly that I was citing when I was responding to Mr. Yates' question about economic efficiency and price signals on the Mainline is the second example in our evidence, which is the allocation of costs to the Western Mainline of almost 500,000 GJs per day of receipt capacity on the path from Emerson to Station 41 and across the northern Ontario line to the North Bay Junction, distance of 1,720 kilometres.
2319.           And that capacity, receipt capacity from Emerson is reserved by TransCanada for the purpose of meeting its obligations in the Eastern Triangle for serving short-haul contracts. So it's part of the around-the-horn path that is fairly commonly referred to in these proceedings. And that capacity is currently allocated -- the costs of it are currently allocated to the Western Mainline despite the fact that the capacity is used for the purpose of serving Eastern Triangle shippers and Eastern Triangle short-haul contracts.
2320.           **MS. AUDINO:** Thank you.
2321.           **MR. KOSTICK:** And if I could just add to put that in context, the other part of that path to facilitate that around-the -horn movement of gas is the Great Lakes TBO, the back-haul TBO. That is entirely allocated to Eastern Triangle because it's used to serve the Eastern Triangle with the exception of I think about 2 percent of is allocated to SSMDA because it's along that path.
2322.           So the TBO is entirely allocated to Eastern Triangle, but the extension of that north from Emerson on the Mainline, even though it's used expressly to serve Eastern Triangle short-haul, is still allocated to the Western Mainline. And that is inconsistent with the intention, as far as we understand, of the RH-001-2014 decision in which Eastern Triangle tolls are supposed to recover all Eastern

Triangle costs. But Western Mainline shippers are paying for part of that capacity in their tolls.

2323.           **MS. AUDINO:** Thank you.

2324.           **MS. STEWART:** Question and answer 48 of our evidence on the next page goes on to describe that despite this anomaly and the overall negative impact of TransCanada's use of Emerson receipt capacity on Centra and other Western Mainline shippers, it's logical and efficient to review this matter as part of the hearing related to the post-2020 timeframe.

2325.           **MS. AUDINO:** Thank you. TransCanada proposes to apply the STS toll for all STS contracts to the withdrawal quantity as opposed to the injection quantity which is currently the case for Centra; correct?

2326.           **MS. STEWART:** That's correct.

2327.           **MS. AUDINO:** And TransCanada stated in its reply evidence that applying the STS toll to the withdrawal quantity will better recognize the relationship between winter peak needs on the Mainline and cost causation; do you recall that?

2328.           **MS. STEWART:** Yes.

2329.           **MS. AUDINO:** Can you confirm Centra's position on TransCanada's proposal to apply the STS toll to withdrawal quantity for all contracts?

2330.           **MR. KOSTICK:** Our position on that matter is STS differs not only between west-of-storage and east-of-storage as we alluded to earlier. East-of-storage gets a higher level of service in the form of firm annual injections, west-of-storage contracts do not.

2331.           But STS also differs significantly from FT, and we talked about that a little bit earlier as well. There are many restrictions associated with STS that are not part of FT. So what we don't know is what's the appropriate way to toll STS west-of-storage.

2332.           It seems like the suggestion in the TransCanada evidence is that let's just make west-of-storage tolled like east-of-storage, and then everything will be good, but there's really not much evidence that east-of-storage is even tolled

appropriately to begin with.

2333. And we're not suggesting that east-of-storage needs to be tolled differently or anything like that or that west-of-storage needs to be tolled differently, but the fact is west-of-storage STS is different than east-of-storage STS and it's different than FT.
2334. So how do you toll it? Hard to say. There has been virtually no evidence how a toll should be applied when you have a service that differs so significantly from FT.
2335. So if you look at how Centra is currently tolled, we're tolled on the injections, that results in a different overall cost than if it were tolled as annual FT. And there's no quantifiable evidence on the record that suggests that what Centra is paying is appropriate or not appropriate. It's just different than east-of-storage and it's different than FT.
2336. So I can confirm our position though that we agree with the current tolling of STS certainly through to the end of the 2020 period. And at that time, leading up to the segmentation hearing for the post-2020 period that would be the time to do a full study of appropriate costs, a cost allocation study because it's a big question hanging out there as far as we're concerned that there is no real analysis of how STS differs from FT and what the appropriate tolling should be.
2337. And if talk about also the concept that if you get five months -- for an annual service like STS if you get a firm winter quantity for five months only that you should pay on that quantity for all 12 months. So I understand that's one position that individuals may take.
2338. The extension of that logic is TransCanada could modify STS to provide one day of firm withdrawal quantity in the winter. The rest of the year it's not firm, and they should still be entitled to a firm or a 12-month charge on the withdrawal quantity if you take it to its logical conclusion. So we have concerns about that.
2339. And we also think that it's also ignoring the significant benefit that TransCanada gets from STS through the incenting of long haul. So I was a little bit surprised yesterday in hearing Mr. Harris say that STS is not intended to incent long haul when it's actually stated directly in TransCanada's evidence that it does incent long haul, which is a significant benefit to TransCanada and all Mainline

shippers.

2340. And the excerpt for TransCanada's evidence that STS incents long-haul FT is found at the top of page 20 in TransCanada's reply evidence. And I could just read out the sentence. I'm not sure if we have to bring it up or not, but at the top of page 20, the hard copy page 20 it states:

*"The intent of STS Balances and Excess Withdrawal Charges is to provide an incentive for STS shippers to contract for a sufficient amount of Long-haul Contract quantity for STS injection purposes in order to meet their winter withdrawal requirements at their markets."*

2341. So very clearly, STS is intended to incent long-haul FT. So that's a significant benefit that TransCanada is getting. We agree with STS balances. They are absolutely unique relative to any other service that we're familiar with, but it does provide incentive for long-haul FT.

2342. **MS. AUDINO:** Thank you.

2343. So we heard you discuss today that Centra's costs -- that the proposed changes would increase Centra's costs by \$11 million annually. And you also indicate in your evidence this is -- or 308 percent I think is how you put it as well. And also in your evidence you state that these costs are in addition to the 8.5 percent toll increase resulting from the RH-001-2014 decision which became effective 1<sup>st</sup> of January 2015.

2344. Do you recall that?

2345. **MS. STEWART:** Yes.

2346. **MS. AUDINO:** And in response to Board I.R 1.4, and I can pull it up if you need, but Centra states that if the STS tariff amendments are approved Centra's total FT costs will increase by 27 percent; is that correct?

2347. **MS. STEWART:** Yes, that's correct.

2348. **MS. AUDINO:** And so Centra is regulated by the Manitoba Public Utilities Board, correct?



2349.           **MS. STEWART:** That's correct.
2350.           **MS. AUDINO:** And you'll recall I had a discussion this morning with Mr. Reed about rate shock; do you recall that?
2351.           **MS. STEWART:** Yes, I do.
2352.           **MS. AUDINO:** And so I would like to know if you're aware whether the Manitoba Public Utilities Board has a generally accepted definition of rate shock?
2353.           **MS. STEWART:** Mr. Reed mentioned that, you know, a general rule of thumb is if it's double digits. And I would say that I'm not aware of our Manitoba Public Utilities Board having any defined benchmark, but based on my experience before that Board that that benchmark of rate shock being something that's in the double digits aligns with my experience within that jurisdiction.
2354.           **MS. AUDINO:** Okay. So if that's the case then was the 8.5 percent -- or I take it from your evidence then that the 8.5 percent increase in Centra's total Mainline costs resulting from the RH-001-2014 decision were not considered rate shock; is that correct?
2355.           **MS. STEWART:** It's approaching that 10 percent threshold but, yes, based on what I just relayed to you then that would be under that threshold.
2356.           **MS. AUDINO:** Right.
2357.           **MS. STEWART:** And I can't recall having a conversation about that rate increase in using those terms, yeah.
2358.           **MS. AUDINO:** Okay, thank you.
2359.           **MR. MIKKELSEN:** If I might just add to that though. There is an important dimension there is how often? So I mean, rate shock of 10 percent each and every year would certainly be considered much more significant than 10 percent.
2360.           So in the TransCanada toll, the eight and a half percent was expected that it would be eight and a half percent but it wouldn't change again until after the reset and then it's open argument whether you would expect another increase

or decrease. So you have to remember that eight and a half was expected to last at least -- or be the only increase in at least a three-year period.

2361.           **MS. AUDINO:** Okay.

2362.           **MS. STEWART:** That's correct.

2363.           And Mr. Reed also suggested today that the appropriate measure of rate shock is the bill impact for end users. And the bill impact for end users includes commodity costs, includes distribution charges of Centra's and other LDC's, neither of which are relevant to this proceeding.

2364.           The matter before this Board is to assess whether the pipeline's tolling methodology and tariff amendments are just and reasonable, are appropriate. It's not within the context of what commodity costs Centra paid or will pay or is forecast to pay over the term of April 1<sup>st</sup>, 2017 to the end of 2020 nor is it in the context of what distribution rates may be applied within our jurisdiction. The suggestion results in the conclusion that this Board would effectively have no role to play if the appropriate measure of rate shock is as Mr. Reed suggests.

2365.           And additionally, I'd like to bring up Mr. Harris's testimony at paragraph 734 of yesterday's transcript. His statement was,

*"When you measure them in terms of impacts to the end-users that it sounds less like rate shock to us, and that's the point we wanted to make."*

2366.           And the point that I'd like to make is going out and finding a bigger denominator to which to compare the cost impacts of this application is inappropriate; it's not an appropriate measure to go and find a bigger number so that you can relay that the impacts of the application are only two percent or three percent.

2367.           Centra's STS costs or proposed increase by 308 percent and our total mainline transportation costs will increase if this application is approved by 27 percent. Those are the appropriate benchmarks.

2368.           **MS. AUDINO:** So the figure that TransCanada presents in its reply evidence where it looked at the impact, the cost increase for Centra as per its revenue requirement, that was a 2.8 percent increase in Centra's \$386.3 million

- revenue requirement.
2369. Do you dispute that figure; have you had an opportunity to confirm whether it's accurate in your view?
2370. **MS. STEWART:** I don't dispute the figure; I dispute the relevance of comparing the cost impacts of this application to Centra's revenue requirement.
2371. **MR. DRAZEN:** Ms. Audino, can I give you a side and perspective on this. If somebody were to propose in a TransCanada hearing that the Board knock off \$100 million of TransCanada's revenue requirements and the explanation is, "Well, TransCanada, corporation total, has revenues of \$11.5 billion. A hundred million dollars (\$100 million) is less than one percent. Why not do it?" So the question is not the percentage impact but whether something's appropriate.
2372. Or to put it in more homely terms, you go to the grocery store; you check out; you get -- your bill's \$100. You get home and you find out that one item for two dollars was double charged. You're going to be upset because the two percent -- two dollars isn't a lot of money but it was just inappropriate.
2373. So the question of whether to increase Centra's bill by -- was it \$40 million over the three and a year period or so? It's not how big is the impact but how appropriate is the proposal?
2374. **MS. AUDINO:** But if we're talking about rate shock don't you have to look at the impact, like, the cost impact as opposed to -- so you look at whether it's appropriate is one thing, whether the application is appropriate, but then take into account whether it could result in rate shock. And in reaching that conclusion, one would look at a figure of some sort.
2375. **MR. DRAZEN:** The rate shock question is secondary. The primary question is, is the cost increase appropriate? And I'm familiar with rate shock issues that came about from utilities, electric utilities adding a nuclear plant. And the nuclear plant was so expensive that rates would have to go up 30 percent. And everybody said, "Okay, we don't like it but that's what the cost is. The 30 percent is appropriate but you can't put that on customers all at once." That's where the rate shock issue comes into effect; you spread it out over time.
2376. But you don't say increases are okay without first checking what's the driving factor for the increase. And here I'd say the questions I asked -- the first

question is captured in the Latin phrase *cui bono*, C-U-I B-O-N-O; who benefits? Who benefits from increasing the cost for all these STS shippers?

2377. And the other question, I mean, what's the need? What benefit is going to come from doing this operationally? You know, TransCanada will get more money. And even if it flows back most of that money to the customers eventually there is no benefit in terms of the operation or the design of the system.
2378. So I say first look at whether the increase is appropriate and then talk about rate shock. I was kind of surprised to hear the rate shock issue come up.
2379. **MS. AUDINO:** I'd just like to get Centra's view on an appropriate transition period if the Board were to approve the application. We understand that you would prefer the application be -- or the service be considered post-2020. But assuming the Board does approve the application, what is your view on an appropriate transition period?
2380. **MS. STEWART:** Transition period for what?
2381. **MS. AUDINO:** Like an implantation date. If the Board were to implement the application does it matter from Centra's perspective whether the Board implements it April 1<sup>st</sup> as requested by the -- or as proposed by the Applicant?
2382. Would there be an implication on comparing the gas year and the implementation date because we heard TransCanada's evidence that it wouldn't have any impact from their perspective on the gas year. Like, if the Board picked a different implementation date but that's not post-2020 does Centra have a view on when it would be most appropriate?
2383. **MS. STEWART:** Centra can't mitigate the cost impacts of this proposal. We're in long-term transportation and storage contracts that don't expire until March 31<sup>st</sup> of 2020 so we're not in a position to adapt to this proposal as a result of that.
2384. So our concern is about the impacts of the proposal not about the implementation of it. If you're following me, the implementation date is somewhat moot for us because there's nothing we can do.

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2385.           **MS. AUDINO:** I think what I'm trying to get at is there -- and I take it from your evidence then that you'd prefer obviously no implementation date of this proposal. But if the Board were to approve it, I just want to get your position on an implementation date that may impact Centra in a better way.

2386.           **MS. STEWART:** Given that we can't act in response to this ---

2387.           **MS. AUDINO:** Right.

2388.           **MS. STEWART:** --- proposal then the implementation date -- we don't have a position on it.

2389.           **MS. AUDINO:** Okay. Do you have a position on the election process, the number of days that TransCanada has indicated? Is a 60-day election period too short from Centra's perspective?

2390.           **MS. STEWART:** Given that Centra's decision-making process around elections is fairly simple in this context, we would defer to the perspectives of the other utilities in this application because I am aware of the complexities associated with their portfolios and it does make sense to me that 60 days is too short a timeframe.

2391.           **MS. AUDINO:** Thank you.

2392.           Mr. Chairman, those are all my questions for this panel. Thank you very much.

2393.           **THE CHAIRMAN:** Thank you, Ms. Audino.

**--- EXAMINATION BY/INTERROGATOIRE PAR THE CHAIRMAN:**

2394.           **THE CHAIRMAN:** We do have one question and I'm not quite sure how to formulate it yet. I thought we had a few more questions from Ms. Audino.

2395.           So it has to do with cost allocation studies. Ms. Stewart discussed inconstant or anomalous aspects of Mainline service and of cost allocation. And Mr. Kostick, you mentioned that there was a need for a cost allocation study. And Mr. Drazen, you talked about there's no evidentiary basis of cross-subsidization on the record here.

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2396. So I'm going to ask you as an expert, Mr. Drazen, would a cost allocation study be useful? Oh, and the last little bit that kind of twiggled me onto this question was TransCanada's response to undertaking U-1 to Mr. Smith -- that transcript reference, Volume 1, paragraph 1225 -- and where they say:

*"TransCanada indicated that it has generally..."*

2397. Talking about the RH-003-2011 proceeding:

*"...indicated that it generally did not rely on formal Mainline cost application studies to support current or historical cost allocation methodology. The reason for that is that in general cost studies do not provide a material benefit for the time, effort, and expense required." (As read)*

2398. And then they go on and cite cases where the Board did not find it useful in certain cases.

2399. I was curious as to what your perspective is on the usefulness of a cost allocation study and if you could bring it back to what's in front of us now?

2400. **MR. DRAZEN:** Okay. I suggest that the first step before doing a cost allocation study is determining what the costs are. And the question there is how much cost -- what's the total cost that's appropriate to allocate if we have a pipeline at a substantial excess uneconomic capacity? Is it fair to impose that costs on all the toll payers, especially a captive one like Centra?

2401. So as I said, one could define the cost of the Western Mainline, if that's what it's going to be post-2020, as the costs excluding the uneconomic portion.

2402. Then the way TransCanada has done its own cost allocation studies or their toll design studies is they divide the costs into non-distance sensitive and distance sensitive components and assume that all services are the same. We assume that STS was the same as FT in terms of incorporating those non-distance and distance sensitive portions. So Centra's STS charge from its MDA to Emerson is 17 cents, which is based on 9 cents of fixed costs and 8 cents of distance sensitive costs.

2403. That has an odd effect in that the FT cost from Empress to Emerson is

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- something like 66 cents. But if Centra goes Empress to MDA and then MDA to Emerson it's 75 cents. So they're paying an extra 9 cents by using STS. The odd thing is that TransCanada says STS is just like a diversion. Well, if you do a diversion from MDA to Emerson it's going to cost 66 cents; if you use STS it's going to cost 75 cents.
2404.                So there's a definition there of how the cost is allocated to STS that results in a higher-than FT cost to Centra. So if we take the -- I'll step back and say, well, what are the aspects of STS that differ from FT? We should find a way to assign a cost to those and say, "If FT is getting an attribute that STS is not, that cost should not be included in the STS charge."
2405.                But without having more information about what individual costs TransCanada incurs, we can't do that definition of the pieces of costs. I don't know if I'm getting too technical for you. No.
2406.                **THE CHAIRMAN:** That's my area of expertise.
2407.                **MR. DRAZEN:** Thank you. Anyway, so I say and just to recap without being too tedious, first to find the total cost and decide how much, if any, uneconomic cost that should include, and then divide that total economic cost, if you will, into the parts that represent the different aspects of FT versus STS. I hope that it helps.
2408.                When people ask me what I do for a living I say it's a lot easier to explain that I just distribute cocaine in six Midwest States than talk about toll design.
2409.                **THE CHAIRMAN:** Yeah. I don't think the orange jumpsuit would go with the complexion of your skin.
2410.                We've heard from Centra that -- or I think I've heard from Centra; you can confirm of not -- that it's better, when there's going to be these massive changes in a few years' time, let's say post 2020, to push it out to that point in time. Coming back to this cost allocation thing, do you need a baseline for that or do you do an entirely new study? Or would you do a comparative study of the current system versus the system that will exist after 2020?
2411.                **MR. DRAZEN:** I think the useful thing would be for TransCanada to start discussing with the customers what the system is going to look like post-

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2020. Without know that it's kind of hard to talk about what a cost study might look like. And I get the impression that TransCanada would rather wait a while longer before providing the details of what the alternatives are.
2412.               So I say wait until we have at least some data on what the system is going to look like, what the costs of that system are going to be, what the economic portion of that cost is going to be, and that helps us decide what -- how to go forward with a costing procedure.
2413.               If I can backtrack on one thing, it's -- I'm going outside the ambit of your question, but we heard from TransCanada that this proposed new long-term long-haul rate, 85 cents or whatever, is a market-driven rate, what they can sell to the customers. I'd say if you think about a captive customer like Centra, what's the value of that service?
2414.               Well, the value of that service is what it would be in a competitive situation which is why I say in a competitive market a utility couldn't charge -- or a provider can't charge for uneconomic capacity. So providing Centra the same market-based approach would require a different procedure than TransCanada is pulling 85 cents out of some marketing study. But it's a compatible way of thinking about things.
2415.               **THE CHAIRMAN:** As much as I like all these tolling things, I have to focus on the application we have in front of us. So I think I'll stop there. Thank you very much.
2416.               Mr. Yates, I forgot what your time estimate was for Enbridge.
2417.               **MR. YATES:** I think it now may be an hour, Mr. Chairman. That isn't what it was when we responded to the process question. I think it was two to three hours then but is less than that now.
2418.               **THE CHAIRMAN:** Okay, it sounds like we have to discuss our next procedural step here amongst ourselves. So we will take a 10-minute break. I will thank the panel for your contribution and -- I hate using that term.
2419.               **MR. DRAZEN:** Thanks for listening to the rambling.
2420.               **THE CHAIRMAN:** You're excused.



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--- (Witnesses are excused/Les témoins sont libérés)

--- Upon recessing at 2:10 p.m./L'audience est suspendue à 14h10

--- Upon resuming at 2:24 p.m./L'audience est reprise à 14h24

2421.           **THE CHAIRMAN:** Mr. Langen? Or should I say Ms. Graham?

2422.           **MS. GRAHAM:** Thanks for recognizing the distinction.

2423.           Good afternoon, Mr. Chairman and Panel members. For the record, my name is Caitlin Graham, co-counsel to Mr. Langen and I am pleased to introduce you to the witnesses now seated for Enbridge Gas Distribution Inc.

2424.           I propose to introduce the witnesses first and then have them sworn.

2425.           **MEMBER GAUTHIER:** Excuse me, miss, could you speak a bit louder, please?

2426.           **MS. GRAHAM:** Yeah. So I propose to introduce the witnesses first and then have them sworn. Finally, I intend to have them adopt the evidence as applicable.

2427.           For ease and for the record I intend to refer to Enbridge Gas Distribution Inc. as EGDI.

2428.           So first I'll introduce you to Ms. Lawler; she's seated furthest from the Board. Ms. Lawler is the Director of Upstream Regulation for EGDI.

2429.           Sitting next to Ms. Lawler is Mr. Andrew Welburn. Mr. Welburn is the Manager of Gas Supply and Strategy for EGDI.

2430.           Both Ms. Lawler and Mr. Welburn will speak to the evidence of EGDI filed in this proceeding.

2431.           Mr. Chairman, may I please have the witnesses sworn?

2432.           **THE CHAIRMAN:** Please. Mme Comte?

**ANDREW WELBURN: Sworn**

**LISA LAWLER: Sworn**

**--- EXAMINATION BY/INTERROGATOIRE PAR MS. GRAHAM:**

2433. **MS. GRAHAM:** Thank you.

2434. Ms. Lawler, do you have before you a copy of EGDI's written evidence, filed as repository references A78344-2 through A78344-4; EGDI's responses to the National Energy Board IR, and TransCanada PipeLines Limited IR, filed as repository references A78909-2 and A78909-3 respectively; the errata to EGDI's written evidence, filed as a repository reference A79420-2; and EGDI's opening statement, filed as repository reference A79469-2 in this proceeding?

2435. **MS. LAWLER:** Yes, I do.

2436. **MS. GRAHAM:** Was that evidence prepared by you or under your direction and control?

2437. **MS. LAWLER:** Yes.

2438. **MS. GRAHAM:** Do you have any corrections or additions to make to that evidence?

2439. **MS. LAWLER:** Yes, I have four errata to EGDI's written evidence, filed as Exhibit A78344-2.

2440. First, at Adobe page 12, line 28. we state:

*"Multiple STS injection locations per market."*

2441. And this should read:

*"Multiple STS injection and withdrawal locations per market."*

2442. Second, at Adobe page 13, line 25, we state:

*"One STS injection location per market, instead of multiple injection points..."*

2443. This should read:

*“One STS injection and withdrawal location per market,  
instead of multiple injection and withdrawal points...”*

2444. Third, at Adobe page 14, lines 12 and 13, we state:

*“STS injections will be further restricted, since only 71% of the  
Withdrawal Quantity will be capable of firm injection...”*

2445. This should read:

*“STS injections will be further restricted, since only the lesser  
of the aggregate daily long-haul quantity held by the shipper to  
the particular market or 71% of the Withdrawal Quantity will  
be capable of firm injection...”*

2446. Fourth and finally, at Adobe page 15, lines 4 and 5, we state that the  
Balance Transfer Agreement:

*“...is a one-time per year ability to transfer EGDI EDA  
Cumulative Storage Balance to the CDA Cumulative Storage  
Balance.”*

2447. In reviewing the evidence and that Agreement, we note that although  
the Agreement is not express that only a single annual transfer is permitted, it has  
been EGDI's practice to conduct only a one-time yearly transfer as required.

2448. **MS. GRAHAM:** Thank you. Ms. Lawler, with that update is EGDI's  
evidence accurate to the best of your knowledge and belief?

2449. **MS. LAWLER:** Yes.

2450. **MS. GRAHAM:** Do you adopt that evidence as part of the evidence  
of EGDI in this proceeding?

2451. **MS. LAWLER:** Yes.

2452. **MS. GRAHAM:** Ms. Lawler, do you have before you a copy of your

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- personal written direct evidence, filed as Exhibit A79420-3 in this proceeding?
2453.           **MS. LAWLER:** Yes.
2454.           **MS. GRAHAM:** Was that evidence prepared by you or under your specific direction and control?
2455.           **MS. LAWLER:** Yes.
2456.           **MS. GRAHAM:** Is it accurate to the best of your knowledge and belief?
2457.           **MS. LAWLER:** Yes.
2458.           **MS. GRAHAM:** And do you adopt that evidence as your evidence in this proceeding?
2459.           **MS. LAWLER:** Yes.
2460.           **MS. GRAHAM:** Mr. Welburn, do you have before you a copy of EGDI's written evidence, filed as repository reference numbers A78344-2 through A78344-4; EGDI's responses to the National Energy Board IR, and TransCanada PipeLines Limited IR, filed as repository references A78909-2 and A78909-3 respectively; the errata to EGDI's written evidence, filed as repository number A79420-2; and EGDI's opening statement, filed as repository reference A79469-2 in this proceeding?
2461.           **MR. WELBURN:** Yes.
2462.           **MS. GRAHAM:** Have you reviewed this evidence?
2463.           **MR. WELBURN:** Yes.
2464.           **MS. GRAHAM:** Subject to the errata presented by Ms. Lawler, is it accurate to the best of your knowledge and belief?
2465.           **MR. WELBURN:** Yes.
2466.           **MS. GRAHAM:** Mr. Welburn, do you have before you a copy of

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your personal written direct evidence, which is filed as repository reference A79420-4 in this proceeding?

2467. **MR. WELBURN:** Yes.

2468. **MS. GRAHAM:** Was that evidence prepared by you or under your specific direction and control?

2469. **MR. WELBURN:** Yes.

2470. **MS. GRAHAM:** Is it accurate to the best of your knowledge and belief?

2471. **MR. WELBURN:** Yes.

2472. **MS. GRAHAM:** And do you adopt that evidence as your evidence in this proceeding?

2473. **MR. WELBURN:** Yes.

2474. **MS. GRAHAM:** Thank you, Mr. Chairman. That concludes EGDI's oral direct evidence. The witnesses are available for cross-examination.

2475. **THE CHAIRMAN:** Thank you, Ms. Graham.

2476. Mr. Yates?

**--- EXAMINATION BY/INTERROGATOIRE PAR MR. YATES:**

2477. **MR. YATES:** Thank you, Mr. Chairman.

2478. Would you agree that STS is a companion service to long-haul FT?

2479. **MS. LAWLER:** Yes.

2480. **MR. YATES:** STS balances were introduced when?

2481. **MS. LAWLER:** They were introduced in 2005, is my understanding.

2482. **MR. YATES:** By a TTF resolution?

2483. **MS. LAWLER:** Yes.

2484. **MR. YATES:** And can you just bring up that resolution for a moment? It's Exhibit B7-2. It's in the response of TransCanada to Centra TCPL 1.18. It's A77195-2.

2485. **MS. LAWLER:** I have it.

2486. **MR. YATES:** Now, you've read this response before?

2487. **MS. LAWLER:** Yes.

2488. **MR. YATES:** And you've read, I assume, the TTF resolution, which is attached?

2489. **MS. LAWLER:** Yes.

2490. **MR. YATES:** And under the -- on the first page of the resolution, page 1 of 4, it says that the changes are summarized below. Number 1: *"Clarification that FT service linked to STS must be long haul."* Right?

2491. **MS. LAWLER:** Yes.

2492. **MR. YATES:** I guess I should ask you if EGDI was involved with the task force when this resolution was undertaken.

2493. **MS. LAWLER:** Neither Mr. Welburn nor I were involved at that point in time, so I can't speak definitively, but I would think that yes, EGDI would have been involved.

2494. **MR. YATES:** This just pre-dated your involvement in this area?

2495. **MS. LAWLER:** Yes.

2496. **MR. YATES:** Okay. In the background section on page 2 of 4 it says, and I quote,

*"Storage Transportation Service was originally designed to work in combination with LDC held long-haul FT service on*

*TransCanada and with market area storage."*

2497. Right?

2498. **MS. LAWLER:** Yes.

2499. **MR. YATES:** And just bear with me for a moment. And the concept is that the volumes would be injected into storage; is that correct?

2500. **MS. LAWLER:** In order to build a storage balance, yes.

2501. **MR. YATES:** No, I was referring to page 3 of 4 of the TTF resolution, in the paragraph at the top.

2502. **MS. LAWLER:** Okay.

2503. **MR. YATES:** It says -- well, perhaps we should go back to the beginning of paragraph 2 or number 2:

*"An excess withdrawal fee for quantities withdrawn but not previously injected via STS has been introduced."*

2504. Do you see that?

2505. **MS. LAWLER:** Yes.

2506. **MR. YATES:** And it says,

*"The availability of alternative means of transportation into markets served by TransCanada has created the risk that STS could be used in conjunction with gas delivered by a competing pipeline system. This is inconsistent with the intent of STS. STS and FT are companion services. A shipper must have FT service to obtain STS. The basic premise of the service is that gas is to be transported on long-haul FT on TransCanada, is injected into storage via STS service, and is subsequently withdrawn using STS. As noted above, the STS toll is based on this premise."*

2507. So that's why I asked the question that the intent -- whether you would

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agree that the intent of this was that the gas would be injected into storage. That is what it says, right?

2508. **MS. LAWLER:** Yes.

2509. **MR. YATES:** Okay.

2510. **MR. WELBURN:** Sorry, Mr. Yates. Just to add to that, when there is no dispute that's the intent of the story -- of the service, but we do have an integrated suite of transportation services that we use, so the gas that we do transport to the injection location may or may not necessarily be directly injected into storage.

2511. **MR. YATES:** And you're charging ahead of me, Mr. Welburn. I'll get there shortly.

2512. **MR. WELBURN:** Certainly.

2513. **MR. YATES:** Okay. So the FT service linked to STS must be long haul and must be associated with -- the STS must be associated with long-haul FT service, correct?

2514. **MS. LAWLER:** Yes.

2515. **MR. YATES:** Now, I wanted to talk for a few moments about your STS balances. You probably heard me ask the Centra witnesses how an STS balance gets created. Can you give me your take on that?

2516. **MS. LAWLER:** Well, as Centra responded, it was described by Mr. Wharton yesterday and by themselves on their panel. And so the storage balance is accumulated through injections from the long-haul FT contract or other transportation services, such as diversions, interrupted -- IT, and ---

2517. **MR. WELBURN:** Yeah, and the other service would be the short-term firm transportation.

2518. **MR. YATES:** So you ship to a point where the gas is "injected", which in STS language means it's been -- it's delivered there, right?

2519. **MS. LAWLER:** Yes.



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2520.           **MR. YATES:** It's not necessarily injected into storage. That's the point you were making a moment ago, Mr. Welburn?
2521.           **MR. WELBURN:** That's correct.
2522.           **MR. YATES:** So what can you do with it at the injection point other than inject it into storage? Right, and I guess I should ask, what do you do with it?
2523.           **MR. WELBURN:** Certainly. We do not have any storage at the injection point, so when the gas is delivered, in our case to Parkway, there's a number of options. One could be that we would transport that gas down to Dawn, where we would then inject it into storage.
2524.           It could also be used to fill short-haul transportation contracts that we have that have a receipt point at Parkway. I would say those are probably the two most predominant uses of the gas that would be injected at that point.
2525.           If it is used to fill the short-haul transportation that we have from Parkway, the main reason for doing that is it would offset gas that we would have taken out of storage, so it's really offsetting of our supplies at Parkway.
2526.           We don't really colour code the molecules per se to say that this particular molecule is going to be used for one service or another. It's all collected in a pool, if you will, at Parkway and then we figure out what our Parkway requirements are, and then the gas available at Parkway would be used to facilitate that.
2527.           **MR. YATES:** So your actual physical storage is 97,800,000 GJs, right?
2528.           **MR. WELBURN:** Yes.
2529.           **MR. YATES:** Could I ask you to look at EGDI 1.14, so this is Exhibit B7-3, A77195-3. Do you have it, Mr. Welburn? You look like ---
2530.           **MS. LAWLER:** We do.
2531.           **MR. YATES:** --- you're getting ready to answer.

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2532. **MR. WELBURN:** Yes, we do.

2533. **MR. YATES:** Okay. Now, what happened here was that EGDI asked for data underlying Figure 3-1 in the TransCanada evidence, that figure being titled "Aggregate STS Balance - All STS Shippers," right?

2534. **MS. LAWLER:** Yes.

2535. **MR. YATES:** And Enbridge has balances in the Enbridge CDA and the Enbridge EDA, right?

2536. **MS. LAWLER:** Yes.

2537. **MR. YATES:** If we go to page 3 of 3 of attachment EGDI 1.14(a), on that page you're shown the balances in the Enbridge CDA and Enbridge EDA, right?

2538. **MS. LAWLER:** Yes.

2539. **MR. YATES:** And on November 1<sup>st</sup>, 2015, which is the last entry there, the balance in the Enbridge CDA was 112,373,058?

2540. **MS. LAWLER:** Yes.

2541. **MR. YATES:** And the balance in the Enbridge EDA is 185,591,481?

2542. **MS. LAWLER:** Yes.

2543. **MR. YATES:** And the total of those two is 297,964,549?

2544. **MS. LAWLER:** I'll take that subject to check.

2545. **MR. YATES:** Thank you.

2546. Which, and I'll ask you to take subject to check as well, was more than three times the physical capacity of storage?

2547. **MS. LAWLER:** Yes.

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2548.           **MR. YATES:** So what that tells us is that EGDI has not been injecting into storage of the difference between 297 million and 98 million at least?
2549.           **MS. LAWLER:** Sorry, can you ask the question again?
2550.           **MR. YATES:** What that tells us is that EGDI has not been injecting into storage at least the amount of the difference between the 297 and the physical capacity of the storage which is 98, right?
2551.           **MS. LAWLER:** So the 98 figure is EGDI's storage.
2552.           **MR. YATES:** Yes.
2553.           **MS. LAWLER:** So there's other storage facilities. But I take your point that the balance is high.
2554.           **MR. YATES:** But what has been happening is that there's a very significant volume of gas that has not been injected into storage; is that right?
2555.           What's been happening is what you described earlier, Mr. Welburn. That gas has been going other places.
2556.           **MR. WELBURN:** Yes, according to the numbers that you were just going through there the amount of gas that we injected into Parkway would not be the same as what was injected into our physical storage facilities.
2557.           **MR. YATES:** Okay. But it's physical storage that defines your withdrawals, right?
2558.           **MR. WELBURN:** I suppose that would depend on which withdrawals you're talking about because we do have withdrawals from our storage facility and then there are also withdrawals that are associated with our STS contract and they wouldn't necessarily be the same thing.
2559.           **MR. YATES:** Okay, but the concept of storage transportation service as expressed in the TTF resolution is that the gas will be injected into storage in one season and withdrawn from storage in another, right?
2560.           **MR. WELBURN:** Sorry, I would have to go back and look at that

again just to make sure we have the wording.

2561. **MS. LAWLER:** If we go back to the TTF resolution ---

2562. **MR. YATES:** Yes, I'm looking at page 3 of 4, the paragraph that we talked about a few minutes ago.

2563. **MS. LAWLER:** But backing up to page 2 of 4.

2564. **MR. YATES:** Okay.

2565. **MS. LAWLER:** If the STS is designed to allow an LDC to meet seasonal and daily fluctuations and market demand will maintain their long-haul FT at a high-load factor.

2566. So there's more than one purpose for the STS contract, and I think that through the EGDI evidence we've demonstrated that we use it substantially for daily balancing as well as to keep our load factor high, which is a daily function of the service.

2567. **MR. YATES:** I'm sorry, Ms. Lawler, what were you reading from?

2568. **MS. LAWLER:** The first paragraph, second sentence:

*"...was designed to allow LDCs to meet seasonal and daily fluctuations in market demand while maintaining long-haul FT service at a high-load factor."* (As read)

2569. **MR. YATES:** And the next paragraph says:

*"The service has different characteristics depending on the location of the market in relation to the location of storage. In the event that a market is located upstream of storage, the contract demand of the STS contract is based on the amount of transportation capacity reserved to inject gas from market to storage. And for markets located downstream of storage, the STS contract demand is based on the amount of transportation capacity reserved to withdraw gas from storage to market."*  
(As read)

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2570. Right?

2571. **MS. LAWLER:** Yes.

2572. **MR. YATES:** So the concept is it goes into storage and it comes out of storage but that has not been how EGDI has been using it, yes?

2573. **MS. LAWLER:** And our significant balances are associated with our significant long-haul contract quantities.

2574. **MR. YATES:** So was there a “yes” in front of the “and”, Ms. Lawler?

2575. **MS. LAWLER:** Yes.

2576. **MR. YATES:** Thank you.

2577. So your opening statement says that Enbridge “has paid to accumulate STS balances” and “should be able to use STS contracts as designed”. So from that do I take it that you think that the storage transportation contract was designed to allow you to transport volumes to an injection point, not inject them into storage -- sell them to somebody else, for example -- and still get the right to ship other volumes out of storage; is that your position?

2578. **MS. LAWLER:** So our position is that we can’t have a storage balance without a long-haul contract, storage transportation service balance without a long-haul contract. That we build our balances as described earlier, and that we pay contract demand 365 days a year to withdraw quantities from storage on our STS service, and that the ability to withdraw those amounts is based on our storage balance and our STS storage balance -- our STS balance, sorry.

2579. And if we had no balance, we would pay an excess withdrawal fee if needed. And if we wanted to withdraw more than our contract demand, we would pay an overrun. And that’s the way the service is designed.

2580. **MR. YATES:** Sorry, you think that notwithstanding the wording of the TTF resolution the STS contract was designed to allow you to transport volumes to an injection point, not inject them into storage but still get the right to ship other volumes out of storage; that’s your position?

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2581.           **MR. WELBURN:** I think we'd have to go back to what we had just talked about a few moments ago.
2582.           **MS. LAWLER:** Could you just say "yes" or "no" before you give me the explanation?
2583.           **MR. WELBURN:** Sure. No, that's not the express use of the STS service.
2584.           If we go back to the first paragraph of the resolution it says it was designed to allow the LDCs to meet seasonal and daily fluctuations in market demand while maintaining their long-haul FT service at a high-load factor.
2585.           So what we take from that is that the STS service wasn't really intended for one sole purpose. We're using it also to assist us in managing our daily fluctuations and also assisting us to maintain a high load factor.
2586.           So as we had contracted for a significant amount of incremental long-haul FT following the RH-003-2011 decision, you will notice that's when our storage balances -- STS balances, sorry, had increased significantly more. So the two are directly related.
2587.           **MR. YATES:** I take it you would agree that the STS balance is not a physical number then, right?
2588.           **MS. LAWLER:** I agree with that.
2589.           **MR. YATES:** Can I ask you to look at your Balance Transfer Agreement, please? It is in Appendix 1 to the Enbridge evidence -- to the EGDI evidence. Do you have it?
2590.           **MS. LAWLER:** Yes.
2591.           **MR. YATES:** Mr. Langen was in high dungeon yesterday about the Balance Transfer Agreement. Were you here for that when he was cross-examining the TransCanada witnesses?
2592.           **MS. LAWLER:** Yes.
2593.           **MR. YATES:** He was focusing on the words "equitable" and

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“transparent”. Do you remember that?

2594. **MS. LAWLER:** Yes.

2595. **MR. YATES:** So let’s talk about the Agreement. Can you just tell me what it is?

2596. **MS. LAWLER:** It’s a Balance Transfer Agreement that allows in certain circumstances for EGDI to transfer STS storage balances from the further distant market to the nearer market of the EDA to the CDA. And we haven’t had to use it recently because our storage balances have been sufficient that we’ve had no need and could not effect this Agreement.

2597. **MR. YATES:** Okay. The Agreement says that it’s dated as of the date of the last signature below but there isn’t a date below. Can you tell me when the Agreement came into effect?

2598. **MS. LAWLER:** Again, this predates me and so I couldn’t give you an exact date. But I take it it’s from ---

2599. **MR. YATES:** How does 2011 sound?

2600. **MS. LAWLER:** It sounds good, subject to check.

2601. **MR. YATES:** Okay. And at the time you entered into this Agreement you, EGDI, had an STS contract?

2602. **MS. LAWLER:** Yes.

2603. **MR. YATES:** Or you had more than one STS contract?

2604. **MS. LAWLER:** Multiple STS contracts.

2605. **MR. YATES:** I know you said this predates you, but do you know how this Agreement came about?

2606. **MR. WELBURN:** Well, neither Ms. Lawler or myself were involved in the actual negotiations themselves.

2607. **MR. YATES:** I’m sorry; I couldn’t hear the start of your answer.

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Could you start again, please?

2608.           **MR. WELBURN:** No, I couldn't say for certain. Neither of us were involved in the actual negotiations so I couldn't say for certain.

2609.           **MR. YATES:** Do you use that phrase to imply that you have some understanding of how it came about but that understanding is uncertain?

2610.           **MR. WELBURN:** All I could speak to is what the actual Agreement says it can do. And so what it does allow us to do is to manage the larger amount of long-haul firm transportation that we have going to the Enbridge EDA versus our Enbridge CDA.

2611.           So it provided us with a mechanism to manage those balances and yet still facilitate the storage transportation service contracted quantities that we had.

2612.           **MR. YATES:** Did Enbridge ---

2613.           **MS. LAWLER:** And my understanding is it was required to meet the winter market requirements of the CDA.

2614.           **MR. YATES:** Did Enbridge ask TransCanada for this Agreement?

2615.           **MS. LAWLER:** I'm sorry; I don't know.

2616.           **MR. YATES:** Do you know, Mr. Welburn?

2617.           **MR. WELBURN:** I couldn't say for certainty, but I think that would probably be logical under the circumstance.

2618.           **MR. YATES:** Okay. And are you familiar with the concept of consideration in the context of agreements?

2619.           **MS. LAWLER:** The idea that you have to pay something in order for a contract to be valid? Is that ---

2620.           **MR. YATES:** You give something and you get something, yes.

2621.           **MS. LAWLER:** Okay.



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2622.           **MR. YATES:** So what you got here was an ability to transfer balances that you didn't have before, right? Yes?
2623.           **MS. LAWLER:** Yes.
2624.           **MR. YATES:** And would you categorize that as a service attribute?
2625.           **MS. LAWLER:** Yes, I would.
2626.           **MR. YATES:** And what did Enbridge give in order to get that service attribute?
2627.           **MS. LAWLER:** I would be speculating, but again, we are transporting our gas to the long-haul contract quantity to the EDA, the further market, rather than the CDA, a near market, so the toll is higher.
2628.           **MR. YATES:** Sorry, the toll was higher because it was going to the farther market?
2629.           **MS. LAWLER:** Yes.
2630.           **MR. YATES:** But that was in accordance with the contract that you already had at the time?
2631.           **MR. WELBURN:** Just to add a little context to that. I think what this Agreement does do is it really only has any value to Enbridge if it maintains a significant amount of contracted long-haul FT to the EDA versus the CDA. So as far as the quid pro quo, if you will, is that this contract really only has value if we were to maintain a higher amount of contract capacity to the Enbridge EDA.
2632.           The transfer doesn't go both ways; it really only goes one way, from the EDA to the CDA. So the value to TransCanada would be that we would have to maintain contracting capacity to a more expensive -- on a more expensive transportation path, which being the EDA versus the CDA.
2633.           **MR. YATES:** Okay. But you don't pay any toll or other charge for the service attribute that you get from this Balance Transfer Agreement, right?
2634.           **MR. WELBURN:** No, we aren't paying any extra toll or surcharge. But the Mainline is benefitting from the billing determinants going to the

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Enbridge EDA.

2635.           **MR. YATES:** This contract is terminable on six months' notice, right?
2636.           **MS. LAWLER:** Yes.
2637.           **MR. YATES:** And that has been so from the outset? That's clause 4?
2638.           **MS. LAWLER:** Yes.
2639.           **MR. YATES:** And so that provision is one that EGDI agreed to at the time that the contract was entered into?
2640.           **MS. LAWLER:** Yes.
2641.           **MR. YATES:** Do you know why?
2642.           **MS. LAWLER:** No, again, I couldn't speculate; I was not involved.
2643.           **MR. YATES:** Do you know, Mr. Welburn?
2644.           **MR. WELBURN:** Unfortunately, I wasn't involved directly in those negotiations either so I couldn't say definitively.
2645.           **MR. YATES:** Okay. So has the fact that this is terminable on six months' notice from 2011 prevented you from doing your annual plans?
2646.           **MR. WELBURN:** No, it has not.
2647.           **MR. YATES:** Has it prevented you from buying gas to meet peak needs?
2648.           **MR. WELBURN:** No, it has not.
2649.           **MR. YATES:** And your -- well, let me ask it in a more general way. How have you factored this Agreement into the annual plans and into your gas acquisition strategy given it's terminability on six months' notice?
2650.           **MS. LAWLER:** As I mentioned a few minutes ago, we haven't

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needed to use this Agreement recently because our long-haul contract quantities increased substantially for each of the CDA and EDA following the RH-003-2011 decision. And so we've accumulated substantial balances in each of the markets and haven't had to effect this Balance Transfer Agreement in the recent past.

2651. **MR. YATES:** Sorry, what is the recent past here? Since when?

2652. **MR. WELBURN:** Yeah, I can confirm that if you wanted me to look through, but it was just following the RH-003-2011 decision that we had stopped using this service predominantly because of the fact that we had to replace a significant amount of short-haul firm transportation that we had previously contracted for with annual firm transportation. And the only transportation that was available at that time was long-haul transportation from Empress.

2653. So as a result of that, we had a significant amount of long-haul transportation that we had to manage. And that resulted in our STS balances increasing significantly to the point where this service agreement was not necessary at least through that period of time.

2654. But at some point, should the transportation portfolio change, this service agreement that we have would become very useful again should we go back to a portfolio similar to what we had prior to the RH-003-2011 decision.

2655. **MR. YATES:** So what you're saying to me is that the terminability feature of this contract has not affected your annual plans or your gas-buying plans for the last call it three years and will not unless things change in the future? Is that fair?

2656. **MS. LAWLER:** Well, in fact, with the changes that TransCanada is proposing, this being a standardization/modernization application, we have assumed that this contract would be terminated. And we factored that into the analysis that we provided in our IR responses.

2657. **MR. YATES:** But back to my question, though.

2658. **MS. LAWLER:** Sorry.

2659. **MR. YATES:** Can you answer the question?

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2660. **MS. LAWLER:** I'm sorry; could you repeat it?

2661. **MR. YATES:** Probably not but I'll try to convey the same type of question, which is the fact is that the terminability feature of this contract has not impacted your gas acquisition strategy or your annual plans for the last three years or so, since RH-003-2011, and will not so long as there isn't a change in the future?

2662. **MS. LAWLER:** That's accurate so long as ---

2663. **MR. YATES:** Sorry?

2664. **MS. LAWLER:** That's accurate so long as there's no change to the STS service as it exists today.

2665. **MR. YATES:** Okay.

2666. Mr. Chairman, I think I'll stop there. Probably the first time I've been under an estimate in I won't say how long.

2667. **THE CHAIRMAN:** Thank you, Mr. Yates.

2668. **MR. YATES:** Thank you, witnesses. Those are my questions.

**--- EXAMINATION BY/INTERROGATOIRE PAR MS. AUDINO:**

2669. **MS. AUDINO:** Good afternoon.

2670. I have a question. If you could provide an undertaking, actually, of EGDI's total annual TransCanada Mainline firm transportation costs as of the 1<sup>st</sup> of November, 2016; is that something you can undertake to provide the Board?

2671. **MR. WELBURN:** Yes, I think that's something we can do.

2672. **MS. AUDINO:** Okay. Can we get an undertaking number, please?

2673. **THE REGULATORY OFFICER:** It will be U-2.

**--- UNDERTAKING NO./ENGAGEMENT No. U-2:**

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*By Enbridge Gas Distribution Inc. to provide EGDI's total annual TransCanada Mainline firm transportation costs as of the 1<sup>st</sup> of November, 2016.*

2674. **MS. AUDINO:** Thank you.

2675. **MR. WELBURN:** Just to be clear, it was just for the one year?

2676. **MS. AUDINO:** It's as of the 1<sup>st</sup> of November, 2016 and yes, that's correct.

2677. **MR. WELBURN:** Thank you.

2678. **MS. AUDINO:** Thank you.

2679. Now, I believe you were in the room earlier when I was asking some questions of Centra that had to do with the implementation date of this application. And that's assuming the Board were to approve this application, I'd like to give you an opportunity to provide your views on first of all, if there's an implementation date that would have an impact one way or another on Centra.

2680. Is there some preference that it be obviously later in 2017, for example? Or would the implementation date, in your view, have an impact on the gas year or is the gas year irrelevant to the implementation date?

2681. **MS. LAWLER:** And I guess what we provided in our opening statement is that we think that there should be an appropriate transition period if this were to be approved. And because of the significant commitments that we have made in the Mainline Settlement Agreement for long-haul transportation that do not expire until the end of 2020, we think that implementing this such that there's a transition to that point in time would allow us to mitigate the impacts of this proposal.

2682. And we note that the other significant Mainline shippers that hold STS are also either part of that Settlement Agreement with significant long-haul contract quantities or captive to the Mainline.

2683. **MS. AUDINO:** And for your business purposes, is a total 60-day election process as proposed by TransCanada too short?

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2684.           **MR. WELBURN:** I'm not really certain from our perspective if the notification -- or the transition period would really make a big difference from that perspective because of the fact that we don't have the pooling elections that have to be made. So we probably wouldn't be making any elections that way.
2685.           The only elections we potentially would make -- and we outlined this in our response to NEB 1.3 I believe it is -- is that we could potentially elect to change some of our STS to EMB service. But as we had examined that, it didn't look like that would be the most economical option for us to pursue. So I don't think we would be making any elections per se.
2686.           Extending the changes out to 2020 -- what that would allow is to do, though, is to make other portfolio changes in conjunction with something like potentially making other changes to our portfolio so that we can make a more holistic adjustment rather than more of a piecemeal adjustment or no adjustment at all in order to account for the change to the STS service that's being proposed.
2687.           **MS. AUDINO:** Thank you. In your written evidence, EGDI states that:
- "Should the Board substantially approve the application, including the implementation date of April 1<sup>st</sup>, 2017, existing STS attributes should be grandfathered to mitigate anticipatory transitional costs related to its STS balances."* (As read)
2688.           Do you recall that?
2689.           **MS. LAWLER:** Yes.
2690.           **MS. AUDINO:** Can you provide your perspective about how grandfathering of the STS balances would work?
2691.           **MS. LAWLER:** As has been part of the discussion, we have significant balances which we feel that we've paid for and earned. And if they were maintained on a grandfathered basis for a period of time, we would not need to use our Balance Transfer Agreement and we would have sufficient balances to meet our market requirements through 2020, which was how we were anticipating managing our portfolio prior to this application.
2692.           **MR. WELBURN:** And if I can just add to that? What the

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grandfathering would do, at least for the STS balance, it would allow us to mitigate some of the costs that we had indicated in regards to incurring excess withdrawal charges of what we had forecasted to be \$0.7 million.

2693.               What the grandfathering wouldn't do, though, is address the concerns that we had in regards to the reliability and flexibility changes that are associated with the application as filed. So we would still be subject to those regardless.

2694.               **MS. AUDINO:** And so if a later implementation date in 2017 were imposed, I take it then you're still of the view the STS balances should be grandfathered in?

2695.               **MS. LAWLER:** Yes.

2696.               **MS. AUDINO:** Okay.

2697.               **MS. LAWLER:** And to build on what Mr. Welburn is saying, we want to make sure that the Board is aware of our perspective on the reliability and flexibility issues that the proposal -- the implications of that with respect to this proposal.

2698.               So for instance, you were questioning others on the idea that we have firm injections annually and you heard Mr. Kostick say that that was not an important attribute to Centra. But it is an important attribute to us and we use it extensively as we demonstrated through our bar charts.

2699.               And so that would be something that we believe is appropriate in a standardization of an STS service in that the majority of shippers that hold STS have that today and should be -- and the vast majority of the volumes and contracts have that today so that should form part of the consideration.

2700.               **MS. AUDINO:** Thank you.

2701.               Mr. Chairman, those concludes my questions. Thank you very much for your time.

2702.               **THE CHAIRMAN:** Thank you, Ms. Audino.

2703.               We're going to take a short 10-minute break at this time.

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--- Upon recessing at 3:14 p.m./L'audience est suspendue à 15h14

--- Upon resuming at 3:23 p.m./L'audience est reprise à 15h23

2704.           **THE CHAIRMAN:** Thank you, panel. I guess you were very, very clear with everybody here so you are excused.

--- (Witnesses are excused/Les témoins sont libérés)

2705.           **THE CHAIRMAN:** Oh, yes. This time I'll try not to forget. Is there any redirect?

2706.           **MR. LANGEN:** No, Mr. Chairman. Thank you.

2707.           **THE CHAIRMAN:** Thank you.

2708.           Currently our planning assumptions is to finish with cross by tomorrow, take Thursday off to give participants time to prepare for argument and reply argument on Friday. Also, tomorrow the Board will advise of the deadline for those parties wishing to file written argument.

2709.           So we will now adjourn until 9:00 a.m. tomorrow morning and continue with the Union witness panel.

--- Upon adjourning at 3:24 p.m./L'audience est ajournée à 15h24