



MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
TRANSPORTATION AND PORTFOLIO APPLICATION

Before Board Panel:

Regis Gosselin	- Board Chairman
Monica Girouard	- Board Member
Raymond Lafond	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue

Winnipeg, Manitoba

June 26, 2012

Pages 241 to 480

1	APPEARANCES	
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20		
21		
22		
23		
24		
25		

1	TABLE OF CONTENTS	
2		Page No.
3	List of Exhibits	244
4	List of Undertakings	245
5		
6	CENTRA GAS PANEL:	
7	GREG BARNLUND, Resumed	
8	NEIL KOSTICK, Resumed	
9	LORI STEWART, Resumed	
10	BRENT SANDERSON, Resumed	
11	VINCE WARDEN, Resumed	
12		
13	Continued Cross-examination by Mr. Bob Peters	249
14	Cross-examination by Mr. Brian Meronek	431
15		
16	Certificate of Transcript	480
17		
18		
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS		
2	Exhibit No.	Description	Page No.
3	PUB-8	Pre-hearing conference transcript	249
4	CENTRA-4	Response to Undertaking 2	479
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1	LIST OF UNDERTAKINGS		
2	No.	Description	Page No.
3	4	Centra to indicate if, in the event	
4		that the minimum FERC rate is	
5		increased to a level that exceeds	
6		the negotiated rate in the proposed	
7		portfolio, it would pay the	
8		additional costs it's asking the	
9		Board to approve in this rate	
10		filing	358
11	5	Centra to inquire of ANR and Great	
12		Lakes Gas Transmission if it's can	
13		quantify global figure for these	
14		eight (8) separate contracts as to	
15		how much of a price advantage it is	
16		to Manitoba consumers by having a	
17		seven (7) year term rather than a	
18		five (5) year term	379
19			
20			
21			
22			
23			
24			
25			

1	LIST OF UNDERTAKINGS (Con't)		
2	No.	Description	Page No.
3	6	Centra to indicate if the division	
4		of storage into seasonal and annual	
5		volumes only came about with the	
6		change to seven (7) year from five	
7		(5) year; and whether the low	
8		tolling rate to go from Chicago to	
9		ANR storage was also only made	
10		available as a result of going	
11		from five (5) years to seven (7)	
12		years	391
13	7	Centra to indicate the annual supply	
14		and where it should come from under	
15		an optimal portfolio for	
16		transportation portion, and break it	
17		down into ANR summer and winter, and	
18		Great Lakes summer and winter	401
19	8	Centra to indicate the derivation of	
20		the \$6.9 million five (5) year	
21		average capacity release results of	
22		Centra, as set out in Tab 4,	
23		Attachment 1, page 61	442
24			
25			

1	LIST OF UNDERTAKINGS (Con't)		
2	No.	Description	Page No.
3	9	Centra to indicate how three	
4		dollars and forty cents (\$3.40)	
5		per GJ compares to Schedule 1 that	
6		was taken from January 9, 2012	469
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:32 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. Back to you, Mr. Peters.

5 MR. BOB PETERS: Thank you, Mr.
6 Chairman, Board members, witness panel, good morning.
7 Mr. Chairman, there's a few matters from yesterday that
8 I should just backtrack on and make sure that the
9 record is -- is up to speed on.

10 First of all, Mr. Warden's absence this
11 morning is not unexpected. He -- he's indicated that
12 he has conflicting commitments. And he's going to, I
13 understand, be back here as quickly as he can.

14 The second matter is that in review of
15 the exhibits and while perhaps a couple of them were
16 marked as PUB exhibits that are traditionally marked as
17 the Utility's exhibits, I -- I hope my friend opposite
18 can live with that. And there is one (1) omission from
19 the exhibit list that is noted, and that is the pre-
20 hearing conference transcript.

21 I would suggest that we mark the pre-
22 hearing conference transcript as PUB Exhibit 8. And we
23 can make a note on our exhibit list to that effect if
24 that's satisfactory.

25

1 --- EXHIBIT NO. PUB-8: Pre-hearing conference
2 transcript
3

4 CENTRA GAS PANEL:

5 GREG BARNLUND, Resumed

6 NEIL KOSTICK, Resumed

7 LORI STEWART, Resumed

8 BRENT SANDERSON, Resumed
9

10 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

11 MR. BOB PETERS: And then moving to the
12 witness panel, from my questions yesterday, Mr.
13 Kostick, you've had an opportunity to reflect on my
14 questions and your answers?

15 MR. NEIL KOSTICK: Yes. And --

16 MR. BOB PETERS: There's --

17 MR. NEIL KOSTICK: -- thank you for --

18 MR. BOB PETERS: There's a matter that
19 you want to provide additional information to the Board
20 on?

21 MR. NEIL KOSTICK: Yes, that is
22 correct.

23 MR. BOB PETERS: Thank you.

24 MR. NEIL KOSTICK: First of all, good
25 morning, Mr. Chairman, members of the Board, ladies and

1 gentlemen. There was one (1) question posed yesterday
 2 that -- it had to do with the ROFR rights, or right of
 3 first refusal. And it was suggested yesterday that
 4 there was the potential that Centra could have possibly
 5 gotten lower rates than it negotiated, had it gone
 6 through the ROFR process.

7 And in double-checking the ROFR
 8 provisions of -- of ANR and Great Lakes, ANR and Great
 9 Lakes are not obligated to accept any bids below the
 10 maximum rate through the ROFR process. It's entirely
 11 at their discretion.

12 So if the ROFR pro -- process were
 13 invoked and potentially low rates were bid by another
 14 party for Centra's capacity, ANR and Great Lakes don't
 15 have to accept it. And, in fact, they would most
 16 likely reject such an offer, in particular, for the
 17 case of storage, where ANR has sold storage at the
 18 maximum tariff rate both before and after Centra has
 19 signed its term sheet for significantly discounted
 20 storage.

21 There's no reason why ANR would accept a
 22 ROFR bid at a discounted rate when it tends to sell
 23 storage at its maximum rate. However, if an offer
 24 through the ROFR process is made for Centra's capacity
 25 at the maximum tariff rate, Centra would have no choice

1 but to the match the maximum tariff rate or it would
2 lose its capacity.

3 So what this means is that the ROFR
4 process has asymmetrical risk for Centra. So it's very
5 unlikely to get the discounts through the ROFR process
6 that it got through negotiation, as ANR can simply
7 reject such offers through the ROFR process. And
8 Centra ve -- would be exposed to having paid the
9 maximum tariff rate or lose the capacity. And also
10 through the ROFR process, Centra would not likely be
11 able to negotiate non-standard features, such as
12 discounted secondary receipt and delivery points. And,
13 in fact, ROFR itself has to be negotiated if it's for a
14 rate that's at a discount to the tariff rate.

15 So this essentially supports the
16 position stated by us -- by Centra yesterday that ROFR
17 is primarily a tool to ensure that Centra can maintain
18 its capacity at contract expiry rather than to be used
19 as a tool to extract a better price than what was
20 negotiated. We feel with a lot of certainty that we
21 got the best deal possible through the negotiation of
22 the -- of the suite of services that we've put forward
23 in this application and that it's a better value than
24 we could have gotten through the ROFR process.

25 MR. BOB PETERS: Thank you, Mr.

1 Kostick, but while we're still on that topic, if ANR
2 has excess storage capacity other than what it has for
3 -- being held for Centra, does it accept bids on that
4 storage or does it accept bids on Centra's storage
5 suite?

6 MR. NEIL KOSTICK: If ANR is not sold
7 out then there's no need to go through ROFR process to
8 sell capacity to other parties. And ANR in every case
9 will make the determination of whether it wants to sell
10 the capacity at its -- at its maximum rate or at a
11 lower rate. And I emphasize again, that ANR and Great
12 Lakes have no obligation whatsoever to sell capacity
13 below its maximum tariff rates.

14 MR. BOB PETERS: And ANR and Great
15 Lakes have no obligation to sell its storage under a
16 ROFR agreement to Centra in seven (7) years at anything
17 less than its maximum rate at that time?

18 MR. NEIL KOSTICK: If the ROFR process
19 is invoked seven (7) years from now, Centra would
20 always be assured of being able to maintain the
21 capacity at no greater than the maximum tariff rate.
22 However, if it could -- if Centra can negotiate a
23 better package of services, as it has in this case,
24 then Centra would obviously pursue that avenue.

25 MR. BOB PETERS: Does Centra have to

1 make a choice between exercising its right of first
2 refusal option versus a renegotiation of a brand new
3 suite of services?

4 MR. NEIL KOSTICK: What happens, and
5 what happened in this case, is we negotiated what is,
6 of course in our view, an attractive suite of services
7 with ANR and Great Lakes. We submitted service
8 requests to essentially get that capacity reserved for
9 us so that it is not subject to the ROFR process, which
10 doesn't expose us to having to keep that capacity at
11 maximum rate should another party bid the maximum rate
12 for that capacity. As could very well be the case for
13 ANR storage, as ANR storage is typically sold out. And
14 our understanding is ANR storage is still sold out
15 today.

16 MR. BOB PETERS: So to summarize it,
17 the right of first refusal is just a method being used
18 to assure Centra of the capacity but the price of that
19 capacity is not assured?

20 MR. NEIL KOSTICK: Correct. But the --
21 there is -- the one assurance on the price of the
22 capacity is that it would not be higher than ANR's or
23 Great Lakes' tariff maximum rate.

24 MR. BOB PETERS: But that's not -- Mr.
25 Kostick, that's not something that ANR could even do

1 because they are restricted by the FERC maximum, are
2 they not?

3 MR. NEIL KOSTICK: That is correct and
4 that's why we could not get the capacity to the ROFR
5 process higher than the maximum tariff rate.

6 MR. BOB PETERS: Yeah.

7 MR. NEIL KOSTICK: Yes.

8 MR. BOB PETERS: So it's not by the
9 largesse of Great Lakes or ANR, it's because FERC has -
10 - has put the hammer down and said this is your maximum
11 rate and you can't charge Centra or anybody else any
12 more than the maximum rate that we've fixed?

13 MR. NEIL KOSTICK: That's correct. And
14 that's a distinction between ANR and several other
15 storage operators in that region, which are generally
16 not -- generally do not have FERC-regulated maximum
17 tariff rates. They can charge market-base rates, which
18 means they could charge conceivably two (2) or three
19 (3) times what ANR could charge under its maximum rate
20 if the -- if the market value of storage has escalated
21 to that degree. And in past years the value of storage
22 has been significantly higher than what it is today.

23 MR. BOB PETERS: Can you explain to the
24 Board, Mr. Kostick, what ANR does that makes it a
25 requirement that they have FERC-regulated rates whereas

1 some of their competitors may not have that same
2 responsibility?

3 MR. NEIL KOSTICK: I don't know the
4 exact details of the history of all the storage
5 operators. It may be a function of when ANR put its
6 services into place and that could have been
7 conceivably before market-based rates were allowed in
8 the US. And the other storage operators could be more
9 recently implemented facilities where FERC had allowed
10 there to be market-based storage rates. I'm not
11 entirely certain but that's just a bit of a speculation
12 on my part as far as why there is that difference. But
13 there is definitely a mix in the US of both storage
14 operators that are subject to FERC-regulated tariff
15 rates and storage operators that offer market-based
16 rates.

17 And in fact I believe, if I'm not
18 mistaken, that ANR could, if they were expanding their
19 facilities, they could likely make application to FERC
20 to have those new facilities be offered under market-
21 based rates as opposed to FERC regulated -- FERC-
22 regulated tariff rates.

23 But I believe FERC has to accept that
24 that's acceptable under whatever criteria they would
25 use to determine whether market-based rates would be

1 appropriate or -- or allowable.

2 And having said all that, I'm not a -- a
3 expert by any means on FERC matters. And this would
4 just be my -- my general understanding.

5 MR. BOB PETERS: Thank you, Mr.
6 Kostick. And be careful answering this question so as
7 not to put anything confidential on the record that you
8 -- that Centra ought not to, but can you tell the Board
9 whether proponents B, 'C', and 'D' are subject to FERC
10 maximum rates?

11 Or are they able to set their rates
12 based only on the market?

13

14 (BRIEF PAUSE)

15

16 MR. NEIL KOSTICK: I think it's fair to
17 say that the majority of other storage operators in
18 that region offer rates at market-based rates. And we
19 can say that parties B, 'C', and 'D' all offer storage
20 rates based on market rates that are not subject to any
21 regulated maximum rate.

22 MR. BOB PETERS: And -- but what the
23 Board does know is that even if storage operator B is
24 not subject to FERC-regulated tar -- tariff storage
25 rates, its prices were within 1 percent of ANR's rates.

1 MR. NEIL KOSTICK: I think on a total-
2 portfolio basis, the comparison of costs between the
3 ANR/Great Lakes portfolio and the option B portfolio
4 were within 1 percent. That doesn't necessarily speak
5 to the difference in storage rates.

6 But ultimately, I -- I think it's fair
7 to say that the storage rates were quite close between
8 ANR and the option B storage proponent.

9 MR. BOB PETERS: Thank you, Mr.
10 Kostick. Perhaps still staying with you, sir -- and,
11 Board members, turning to Tab 18 of the book of
12 documents; that is PUB Exhibit 7 -- there is a chart
13 that we talked about yesterday. And there's a couple
14 of points I'd like to -- to just deal with.

15 I hope you didn't lose your book of
16 documents, Mr. Kostick.

17 MR. NEIL KOSTICK: I'm there.

18 MR. BOB PETERS: They're selling at a
19 premium. Mr. Kostick, you have ta -- book of
20 documents, Tab 19, page 61, the chart? Tab 18, I'm
21 sorry. Tab 18.

22 MR. NEIL KOSTICK: Yes, Tab 18, chart.
23 Yes.

24 MR. BOB PETERS: I'm sorry, I misspoke.
25 Tab 18 is a numerical representation of Centra's

1 conclusions with the SENDOUT model, correct?

2 MR. NEIL KOSTICK: Yes, that's correct.

3 MR. BOB PETERS: And when the Board
4 looks down under average annual costs in Canadian
5 dollars, down to total, is that "Total" line the line
6 that SENDOUT seeks to optimize?

7 MR. NEIL KOSTICK: That's correct. It
8 seeks to minimize the total portfolio costs.

9 MR. BOB PETERS: So it doesn't seek to
10 minimize or maximize storage capacity or storage
11 deliverability; it seeks to minimize the "Total Overall
12 Cost" line?

13 MR. NEIL KOSTICK: That's correct.

14 MR. BOB PETERS: And you've told the
15 Board yesterday that you ran -- and here you see case 1
16 for ANR -- year 1 and year 5.

17 Those are the price curves that you ran,
18 that Centra ran?

19 MR. NEIL KOSTICK: Yes.

20 MR. BOB PETERS: And you ran them for
21 twenty (20) different weather scenarios?

22 MR. NEIL KOSTICK: That's correct.

23 MR. BOB PETERS: Does that mean the
24 computer spit out twenty (20) pieces of paper for each
25 of the individual weather scenarios, based on the price

1 curve?

2 MR. NEIL KOSTICK: It produced a -- a
3 portfolio that was sized for the twenty (20) years of
4 weather. So the 15.6 petajoules in case 1, year 1, it
5 gave 15.6 petajoules as the optimal capacity for twenty
6 (20) years of weather.

7 So if you had the capacity for twenty
8 (20) years, and those are the twenty (20) weather
9 patterns you are going to face, it would say take 15.6
10 petajoules, because combined with everything else in
11 the portfolio, that would minimize the total portfolio
12 costs.

13 MR. BOB PETERS: Okay. Maybe my
14 question wasn't asked that well, but are you looking
15 for twenty (20) different output answers for each?
16 That is, one (1) output for each weather scenario and
17 then Centra takes an average?

18 MR. NEIL KOSTICK: No, not at all.
19 There's one (1) summary of the -- of the twenty (20)
20 years, if you will, where SENDOUT produces a best fit
21 portfolio for twenty (20) years of weather, not twenty
22 (20) different portfolios, but one (1) single portfolio
23 that is the lowest cost portfolio, taking in account
24 twenty (20) different years of weather. So it takes
25 into account both warm winters and very cold winters,

1 and it says over all the types of weather that are in
2 the model, in this case the most recent twenty (20)
3 years, it selects a single best-fit portfolio.

4 MR. BOB PETERS: Thank you for that
5 clarification. And the Board can see by crunching
6 those numbers that a large driver of the difference
7 between case 1 for ANR year 1 and year five 5 relates
8 to the supply cost of the molecules, correct?

9 MR. NEIL KOSTICK: That is correct.

10 MR. BOB PETERS: And that's because the
11 year five 5 futures price curve that was fed into the
12 model as a -- as a constraint, or as a parameter, it
13 contained higher costs of the molecules of natural gas?

14 MR. NEIL KOSTICK: Yes. Futures
15 curves, as well as most forecasts, or at least the ICF
16 forecast of prices shows a general trend of rising
17 prices over time.

18 MR. BOB PETERS: Right.

19 MR. NEIL KOSTICK: So the use of the
20 year five 5 -- commodity prices for natural gas are
21 higher than in year 1 of the curves.

22 MR. BOB PETERS: And the Board will see
23 that if it looks to the right-hand side of that chart,
24 under the ICF curve scenarios that you talked about?

25 MR. NEIL KOSTICK: That's right.

1 You'll see higher costs for year 5 than you will for
2 year 1 under the ICF curves.

3 MR. BOB PETERS: Now is -- am I correct
4 -- or would the Board be correct in understanding, Mr.
5 Kostick, that when Centra ran it's year 1 and its year
6 5 price curves and tried to get an optimized portfolio,
7 it wasn't Centra's intention to average those two (2)
8 numbers?

9 MR. NEIL KOSTICK: That's correct.

10 MR. BOB PETERS: But Centra essentially
11 did average them, or at least uses the average to
12 support the number that Centra chooses?

13 MR. NEIL KOSTICK: We looked at all of
14 the model results you see on this page to inform our
15 decision on storage capacity, if we just look at
16 storage capacity in particular. What we see is that
17 indeed using the futures curves, the average does turn
18 out to be 15 1/2 petajoules. In looking at the ICF
19 curves you see a very similar result for ANR in year 1,
20 where it was 15.2 petajoules -- and we've talked about
21 how model results are -- should be taken directionally.
22 So we see the 15.2 petajoule result as being quite
23 similar to the 15.6 and 15.4 petajoule results.

24 And then we also see in year 5 of the
25 ICF curves a storage capacity of 19.9 petajoules, which

1 of course is significantly higher than the other
 2 results. And, ultimately, in evaluating the type of
 3 portfolio that the SENDOUT model put together, and the
 4 storage capacities that it selected, it informed our
 5 decision that there was no compelling reason to reduce
 6 storage capacity from what we have today, particularly
 7 in light of other factors such as what can be, I think,
 8 fairly described as an uncertain and perhaps further
 9 just deterior -- deteriorating situation with respect
 10 to the TransCanada mainline.

11 MR. BOB PETERS: Well, yesterday I
 12 thought I heard Mr. Warden, and I guess I'll speak
 13 about him because he's not here, but I thought he said
 14 that Centra puts all of its faith in the forecasts from
 15 independent consultants that it pays for rather than
 16 coming up with its own future price estimates? And
 17 have I -- have I said that essentially correct?

18 MR. NEIL KOSTICK: I -- I wouldn't say
 19 -- I -- I couldn't say if it was 100 percent correct
 20 without referring to the record, but what I will say is
 21 we have not made any price curves of our own. We are
 22 using futures curves and we are using the curves that
 23 ICF produced. So we haven't made any judgment
 24 whatsoever with respect to the different price curves.
 25 They are what they are and they're in the model. And

1 the different price curves product different optimal
2 portfolios.

3 There are four (4) different results
4 here for ANR: two (2) under future's curves and two (2)
5 under the ICF curves. So we haven't chosen any of
6 those, literally, because there is no result of 15.5
7 petajoules in any of those results. So obviously some
8 judgment is required. We can't choose four (4)
9 different portfolios with four (4) different storage
10 capacities. We have to choose one (1). And based on
11 all the information that we have, and the model
12 results, we determined that there was no compelling
13 reason to reduce the storage capacity from what we
14 currently hold today, of 15 1/2 petajoules.

15 MR. BOB PETERS: Mr. Kostick, if I look
16 at the ICF curves for case 3 for ANR, under year 1
17 scenario it's 15.2 petajoules and under year 5 it's
18 19.9 petajoules, correct?

19 MR. NEIL KOSTICK: Yes, that's correct.

20 MR. BOB PETERS: And if we take a
21 simple average we're about 17 petajoules?

22 MR. NEIL KOSTICK: Roughly, yes.

23 MR. BOB PETERS: And so why didn't
24 Centra suggest that 17 petajoules is the optimal based
25 on the independent price information from ICF?

1 MR. NEIL KOSTICK: Seventeen petajoules
2 is an average between 15.2 and 19.9. It's probably
3 closer to about 17 1/2 would -- would really be I think
4 closer to the average. The 19.9 result is -- I guess
5 you could view it as somewhat of an outlier compared to
6 15.6, 15.4, and 15.2.

7 I think it would be unusual to place a
8 lot of weight on one (1) result that is different than
9 the rest. And the third or -- and the result in -- in
10 year 5 under ANR I believe -- I believe as we've
11 discussed in the IR responses, assumes a somewhat
12 greater summer-winter price differential which largely
13 accounts for -- I would imagine largely accounts for
14 the difference in the model results between those that
15 were in roughly the 15 petajoule range versus that
16 higher 19.9 petajoule range.

17 So in an effort to be conservative and
18 to be consistent with what Mr. Sanderson talked about
19 yesterday, with not assuming any or -- or like -- or
20 should -- I should say Mr. Sanderson indicated that the
21 -- the futures curves used in this modelling exercise
22 are basically reflective of historical futures or
23 historical summer-winter differentials in terms of
24 being roughly 10 percent higher prices in winter rather
25 than summer.

1 So those are more reflective of the
2 results in -- in the 15 petajoule portfolio results as
3 opposed to the 19.9. So we didn't want to place too
4 much weight on an assumption of greater summer-winter
5 price differentials in selecting an opt -- in selecting
6 a storage capacity for our portfolio.

7 MR. BOB PETERS: If -- if Centra's
8 choice or parameter was a 10 percent winter-summer
9 price differential that we discussed yesterday, what
10 did you understand to be the percentage by ICF in that
11 same calculation?

12 MR. NEIL KOSTICK: I -- I don't have a
13 specific calculation.

14 MR. BOB PETERS: Theirs was just
15 higher?

16 MR. NEIL KOSTICK: Yes, the summer-
17 winter differential I believe in year 5 of their curve
18 was generally higher than the other price curve
19 scenarios.

20 MR. BOB PETERS: Would you agree with
21 me, Mr. Kostick, and would Centra agree with me, that
22 what you've told the Board in the sense of not choosing
23 the 19.9 petajoules as the optimum storage size is but
24 another example of Centra exercising its judgment based
25 on perhaps subjective considerations?

1 MR. NEIL KOSTICK: I would say it's
2 based on our overall knowledge of the gas industry, and
3 various factors that play in the market, as well as
4 considering the model results. So all of those factors
5 are combined. So I don't know if I'd characterize it
6 as being subjective in terms of, you know, whether you
7 prefer chocolate ice cream versus vanilla ice cream is
8 kind of subjective.

9 This is based on, I would say, informed
10 individuals making a choice who work in the industry
11 and -- and who evaluated model results along with all
12 the other knowledge that we have as a participant in
13 the natural gas industry.

14 MR. BOB PETERS: I -- I take your
15 point. I wasn't suggesting arbitrary. But there's
16 some judgment included in -- in the decision to -- to
17 stay with 15.5 petajoules.

18 MR. NEIL KOSTICK: Yes. And I think
19 Mr. Warden advised yesterday that judgment is always a
20 part of dec -- of the decision-making process.

21 MR. BOB PETERS: Now, in addition to
22 the ICF price curves that the Board has seen in -- the
23 Board saw what the curves looked like at Tab 16 of the
24 book of documents for ICF. And that was just a series
25 of stepped lines. In addition to that, Centra had

1 three (3) additional or alternative sets of price
2 curves coincidentally also from ICF. Isn't that
3 correct?

4 MR. NEIL KOSTICK: Perhaps you could
5 clarify.

6 MR. BOB PETERS: Included in --
7 included in the two hundred and sixty thousand dollar
8 (\$260,000) report from ICF were a set of three (3)
9 alternative price curves?

10 MR. NEIL KOSTICK: If you're referring
11 to the market scenario analysis that was performed by
12 ICF, then, yes, there were three (3) other scenarios.
13 Is that what you're referring to, Mr. Peters?

14 MR. BOB PETERS: Yes, it is, and I -- I
15 call them price curves; you don't call them price
16 curves?

17 MR. NEIL KOSTICK: I believe price
18 curves are -- are derived from those scenarios, so it's
19 maybe just a matter of semantics.

20 MR. BOB PETERS: Okay. Then one (1) of
21 those -- one (1) of those price curves or market
22 scenarios dealt with a situation called "tight gas."
23 Do you recall that?

24 MR. NEIL KOSTICK: I think it was a
25 tight-market scenario, probably reflective of higher

1 natural-gas demand in general and lower supply than
2 what is in the market today.

3 MR. BOB PETERS: Right. And we don't
4 have to go back to -- it's at Tab 4 of the filing by
5 Centra in your -- in your original application. But
6 under that tight gas scenario, as I've called it, there
7 was slower growth of shale gas and there was faster
8 economic recovery.

9 Do you recall that?

10 MR. NEIL KOSTICK: That sounds correct,
11 yes.

12 MR. BOB PETERS: A second price
13 scenario, or I call it a price curve, that ICF
14 developed in their report was one that was considered a
15 pessimistic TCPL outcome?

16 MR. NEIL KOSTICK: Yes, that's correct.

17 MR. BOB PETERS: And -- and what I'm
18 referring to is ICF took a -- developed a situation
19 where they took a pessimistic view of the TCPL outcome,
20 meaning that there would be more shale along the East
21 Coast, more shale gas; the Western Canada sedimentary
22 basin supply would be reduced; and natural gas would
23 end up being exported for LNG.

24 Do you recall that?

25 MR. NEIL KOSTICK: Yes, I do.

1 MR. BOB PETERS: And that -- that
2 exporting of the natural gas for LNG purposes would
3 have gone out of one (1) of the plants in British
4 Columbia?

5 MR. NEIL KOSTICK: Yes, one (1) of the
6 proposed LNG export facilities.

7 MR. BOB PETERS: Okay. And then the
8 third price curve that ICF also included in -- as an
9 alternative in their report is what I'll call the
10 optimistic TCPL scenario.

11 Do you recall that?

12 MR. NEIL KOSTICK: Yes, I do.

13 MR. BOB PETERS: And it's essentially
14 the inverse of the pessimistic view where, in the
15 optimistic view they're taking -- there'll be less
16 shale gas, there'll be more needed from Western Canada,
17 and natural gas will not be exported from BC for LNG
18 purposes?

19 MR. NEIL KOSTICK: Yes, that's my
20 recollection.

21 MR. BOB PETERS: Now, even though ICF
22 gave that information to Centra, Centra did not use it
23 in terms of parameters in running SENDOUT. Would that
24 be correct?

25 MR. NEIL KOSTICK: That's correct.

1 MR. BOB PETERS: But during the
2 Information Request process, Centra was asked to run
3 those alternative price views through the SENDOUT
4 model, and Centra obliged and did that, correct?

5 MR. NEIL KOSTICK: Yes, that's correct.

6 MR. BOB PETERS: At least Centra did it
7 for two (2) of the three (3). Centra ran the
8 optimistic TCPL versus the pessimistic TCPL, correct?

9 MR. NEIL KOSTICK: Yes.

10 MR. BOB PETERS: And the results of
11 that, Mr. Chairman and Board members, are at Tab 19 of
12 the book of documents. And Tab 19 contains a
13 reproduction of PUB/CENTRA Information Request 10
14 together with the answer. And there are some charts.
15 I want to turn to the chart at PUB/CENTRA-10-C; it is
16 found on page 73, Mr. Kostick.

17 If you could just let me know when
18 you've located that.

19 MR. NEIL KOSTICK: I've located it.

20 MR. BOB PETERS: And as we look at the
21 chart on page 73 of the book of documents, found under
22 Tab 19, this contains Centra's modelled results through
23 SENDOUT using the alternate ICF market scenarios that
24 were provided?

25 MR. NEIL KOSTICK: Yes, that's correct.

1 MR. BOB PETERS: And when the Board
2 sees at the top -- the top half of the page deals with
3 the proponent A, which Centra has identified as ANR,
4 and the bottom is proponent or option B, the company
5 which remains unidentified?

6 MR. NEIL KOSTICK: Yes.

7 MR. BOB PETERS: And when Centra ran
8 the information from ICF on an optimistic TCPL
9 scenario, this optimistic scenario would have the tolls
10 to Eastern Canada closer to the one dollar (\$1) range
11 than -- than higher than that, correct?

12 MR. NEIL KOSTICK: Yes, it would have
13 tolls in the one dollar (\$1) range, which is about a 55
14 percent reduction from the current tolls.

15 MR. BOB PETERS: And, Mr. Kostick,
16 you're telling the Board, back on Tab 12 of Board
17 counsel's book of documents, Ms. Stewart explained the
18 TCPL tolls.

19 And the optimistic view taken by ICF in
20 developing a pricing scenario was to suggest that the
21 tolls would come back more in line with what TCPL
22 thought they might be back in 2007?

23 MR. NEIL KOSTICK: Well, that would be
24 TCPL's view in 2007, up to 2011, whereas this model
25 exercise that we undertook was looking at 2013 and

1 beyond. So they're not quite comparable.

2 MR. BOB PETERS: Right. And Ms.
3 Stewart still has an undertaking, I think, to us once
4 we hear further from the TCPL as to what their refiled
5 numbers look like under their restructuring.

6 But in any event, ICF uses a one dollar
7 (\$1) toll as an optimistic view, and then on the other
8 part of the chart, it uses a three dollar (\$3) toll as
9 a pessimistic view?

10 MR. NEIL KOSTICK: That's correct.

11 MR. BOB PETERS: And sitting where I
12 am, Mr. Kostick, and listening to Ms. Stewart
13 yesterday, I'm getting the sense that the three dollar
14 (\$3) pessimistic view is looking more and more like the
15 reality than the one dollar (\$1) optimistic view.

16 MR. NEIL KOSTICK: I would tend to
17 agree.

18 MR. BOB PETERS: So if we take the
19 information from ICF and we look at the -- let's just
20 go down to the "Storage" line, line 12, and look at the
21 capacities.

22 Under this optimistic price scenario,
23 capacities would be 11 petajoules and 10.8 petajoules
24 on year 5, compared to year 1?

25 MR. NEIL KOSTICK: That's correct.

1 MR. BOB PETERS: And then under the
2 pessimistic view, they would jump up to fourteen point
3 six (14.6) and seventeen point six (17.6)?

4 MR. NEIL KOSTICK: Yes, that is
5 correct.

6 MR. BOB PETERS: Now, again, if we take
7 a look at the pessimistic side, the average there could
8 be just over 16 petajoules. You'd agree with me on
9 that?

10 MR. NEIL KOSTICK: Yes.

11 MR. BOB PETERS: And Centra never ran
12 this, or had this information when it made its, in my
13 words, subjective judgment decision, as to fifteen
14 point five (15.5) being the correct number?

15 MR. NEIL KOSTICK: This model exercise
16 that we're talking about here, PUB-10-C, was run after
17 we had made our portfolio decision.

18 MR. BOB PETERS: Does this information,
19 in Centra's view, support Centra's position or not
20 support Centra's position, after the fact?

21 MR. NEIL KOSTICK: After the fact, I
22 think it definitely supports the position that we've
23 taken, given that the Tran -- the TransCanada situation
24 is closer to the pessimistic view as opposed to the
25 optimistic view.

1 I think another modelling caveat here
2 that needs to be clearly understood is that these
3 alternative model runs that we did in response to all
4 of the IRs, we assumed that the rates that we
5 negotiated with ANR and Great Lakes for the specific
6 package that we brought before this Board is embedded
7 in this model.

8 So that would -- those were rates that
9 were negotiated for a specific package of services.
10 These model results are assuming that those rates would
11 still apply, which certainly cannot be assumed. But
12 there's no better way that we can do it, other than to
13 assume that we used the rates that we negotiated.

14 And I think we -- we indicated in our IR
15 response to PUB-10 that these additional model runs are
16 for discussion purposes, recognizing that the rates
17 that we've assumed for ANR and Great Lakes services
18 would not necessarily apply to this scenario.

19 But in response to your question,
20 generally it does tend to support what we've chosen,
21 given that the TransCanada situation is much closer to
22 the pessimistic scenario than it is to the optimistic
23 scenario.

24 MR. BOB PETERS: Mr. Kostick, when you
25 -- when -- when Centra ran SENDOUT to come up with its

1 optimal portfolio that's before the Board today, Centra
2 initially didn't know what the final tolls would be for
3 all of the specific services, did it?

4 MR. NEIL KOSTICK: No, we didn't.

5 MR. BOB PETERS: It was a subject of
6 negotiation or ongoing negotiations?

7 MR. NEIL KOSTICK: Sorry, I thought you
8 were referring to TransCanada tolls, because we don't
9 know what those are going to be in the future. But you
10 are referring to ANR and Great Lakes rates?

11 MR. BOB PETERS: I was.

12 MR. NEIL KOSTICK: Well, then I -- I
13 have to perhaps make sure I understood the question.
14 The question -- perhaps you could just rephrase it?

15 MR. BOB PETERS: Certainly.

16 MR. NEIL KOSTICK: I just want to make
17 sure I'm on the right the page with you.

18 MR. BOB PETERS: Is one (1) of Centra's
19 criticisms of the chart at PUB/CENTRA-10-C the fact
20 that Centra used rates that were already negotiated for
21 a different package in developing the answer for
22 PUB/CENTRA-10-C?

23 MR. NEIL KOSTICK: Yes, it's a caveat
24 that we identified with respect to PUB-10-C.

25 MR. BOB PETERS: When Centra negotiated

1 the rates for the optimum portfoli -- optimal portfolio
2 that's before the Board, Centra didn't know what the
3 final rates were when it started running it's SENDOUT
4 model, did it?

5 MR. NEIL KOSTICK: Actually, we did.
6 And I think we discussed in some detail the iterative
7 process that we used for modelling and negotiation,
8 that we would negotiate, get some rates to work with
9 with ANR and Great Lakes, and go and run the modelling
10 on the basis of those rates. Then we would go back to
11 ANR and Great Lakes and say -- you know, we'd continue
12 the nego -- negotiation, essentially, and be back and
13 forth. So we'd get new rates from ANR and Great Lakes,
14 further modelling, new rates, further modelling.

15 So what we have in the final model
16 results that we showed in Tab 7 that we were referring
17 to earlier, those used the precise rates that we
18 ultimately agreed to.

19 MR. BOB PETERS: All right.

20 MR. NEIL KOSTICK: So we -- we did know
21 what the ANR and Great Lakes were in our final model
22 results that we provided in the application in Tab 7.

23 MR. BOB PETERS: Okay. Thank you for
24 the clarification of the answer. When -- your final
25 portfolio before this Board, it certainly contains

1 specific final rates. And those you know, and those
2 are on the table, that can be embedded in the contracts
3 that Centra wants to write up and sign?

4 MR. NEIL KOSTICK: Yes, that's correct.

5 MR. BOB PETERS: But before you got to
6 those final rates you were running your model, coming
7 up with some -- some hurdles or some issues, presumably
8 picking up the phone and asking ANR and Great Lakes if
9 they couldn't tweak a rate here or tweak a service
10 there to help the model optimize better?

11 MR. NEIL KOSTICK: Through the process
12 of negotiation you attempt to get better and better
13 rates and services, and that's what happens wh -- or
14 what happened in our process of negotiation. And so
15 slightly somewhat different rates, lower rates would
16 ultimately impact the model results.

17 MR. BOB PETERS: Right. But does
18 Centra have any view as to those final rates that they
19 are now before the Board, would not have been available
20 if Centra was running the pessimistic view from ICF?

21 MR. NEIL KOSTICK: We can't say. It's
22 a different portfolio, different stor -- different
23 capacities. And we can't say what rates could
24 ultimately be agreed to if we chose 14.6 petajoules or
25 17.6 petajoules. There's no way that we can say that.

1 MR. BOB PETERS: You can't say whether
2 it would be higher or lower, in all fairness?

3 MR. NEIL KOSTICK: We can't. We -- we
4 can't essentially get into the minds of ANR and Great
5 Lakes and all the factors that they take into account
6 when they propose to make a rate available to Centra.

7 MR. BOB PETERS: When you look at
8 Option B at the bottom half of the page found at Tab 19
9 of Board counsel's book of documents, those were the
10 model runs from SENDOUT using the ICF optimistic and
11 pessimistic view as well?

12 MR. NEIL KOSTICK: Yes, that's correct.

13 MR. BOB PETERS: And embedded in that
14 again are the rates that were ultimately used by Centra
15 in proposing it's optimal portfolio to this Board?

16 MR. NEIL KOSTICK: The rates used for
17 Option B were the best rates that we negotiated with
18 the Option B party. So they're not the same rates as -
19 - as the ANR rates, but they are the same rates that
20 were shown in Tab 7 of the application for Option B.

21 MR. BOB PETERS: And when we -- when
22 the Board looks at the results, Mr. Kostick, would it
23 be a conclusion that Option B requires, under the
24 pessimistic view, less storage capacity than does the
25 ANR option?

1 MR. NEIL KOSTICK: Under Option B the
2 model selects generally a lower capacity, but
3 ultimately total portfolio costs are higher than the
4 ANR option.

5 MR. BOB PETERS: And you're comparing
6 under -- under the line item number 9, for example,
7 you're comparing the \$402 million to the \$404 million
8 found at line 32?

9 MR. NEIL KOSTICK: In year 5 of the
10 pessimistic scenario, yes, that's correct.

11 MR. BOB PETERS: So even though the
12 storage volumes may be less, the price is -- is
13 marginally more?

14 MR. NEIL KOSTICK: The price for Option
15 B is more on a total portfolio basis.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: And, Mr. Kostick, when
20 we look at the -- whether we look at the optimistic, or
21 the pessimistic view, the storage costs are, again,
22 almost the same, but just a little bit more for more --
23 for most of the options?

24

25 (BRIEF PAUSE)

1 MR. NEIL KOSTICK: I don't know that
2 the storage costs are almost the same. I think that's
3 subjective as far as what "almost" means, but the
4 storage costs are different in -- in every scenario.
5 That's all that I can say.

6 MR. BOB PETERS: Okay. We'll let the
7 numbers -- the numbers speak. At Tab 17 of the book of
8 documents is a -- a further Information Request asked
9 of Centra in this proceedings. And when Centra ran its
10 model, Mr. Kostick, Centra, in essence, built in
11 constraints on the model. Is that correct?

12 MR. NEIL KOSTICK: Yes, that's correct.

13 MR. BOB PETERS: And Centra lists the
14 five (5) constraints that Centra built into the model.
15 And these constraints will have an impact on the
16 optimal portfolio. Would you agree with that?

17 MR. NEIL KOSTICK: Yes, I would agree.

18 MR. BOB PETERS: And while there's some
19 detail provided, can you just briefly explain to the
20 Board why Centra put in a constraint, the first one,
21 the 21,101 gigajoules a day of Emerson ANR injection
22 point or Farwell capacity?

23 MR. NEIL KOSTICK: Yes. In the natural
24 gas marketplace there are what are considered major
25 hubs that have a lot of pipelines either leading to

1 them or from them, and a lot of market participants in
 2 terms of marketers and buyers and sellers. Those would
 3 be major hubs such as AECO, Henry Hub, or Chicago, are
 4 three (3) of the largest in North America.

5 You also have points on pipelines which
 6 are relatively small, but they are identified as points
 7 where gas can be traded such as Emerson at the US-
 8 Manitoba border. In that case you only have one (1)
 9 pipeline feeding Emerson, that being TransCanada, and
 10 two (2) pipelines taking gas away from that point into
 11 the US. So it's -- there's -- there are not a lot of
 12 pipelines. There are not a lot of transactions taking
 13 place at that point.

14 It's what considered -- it is what is
 15 considered to be a far less liquid supply hub then say
 16 AECO, Chicago, or Henry Hub. Less liquid supply points
 17 are subject to more volatility in terms of if one (1)
 18 market participant who is buying and selling at that
 19 point pulls out of the market, or if one (1) pipeline
 20 that is interconnected at that point has major changes
 21 in tolls or other circumstances, it could have a major
 22 impact on pricing for that hub.

23 Whereas a point like Chicago would be
 24 far less impacted by one (1) market participant leaving
 25 the market, or one (1) pipeline, for example, being

1 shut down for operational reasons, because there are
2 many pipelines leading into Chicago and many buyers and
3 sellers at Chicago.

4 So Emerson is a far less liquid point
5 than Chicago, or AECO, or Henry Hub. As such, we want
6 to place less reliance on buying natural gas at
7 Emerson. As such, we limited purchases at Emerson to
8 no more than 21,000 gigajoules per day.

9 In the case of Farwell and the ANR
10 injection point, those are -- may -- maybe just to back
11 up one (1) step, Emerson, even though it's not very
12 liquid as a hub, there is electronic trading data. You
13 can buy gas off the screen. So there's essentially an
14 electronic pat -- platform that is the market, and you
15 can buy gas off the screen even though it may not trade
16 heavily -- or, in fact, trades fairly lightly most of
17 the time.

18 The ANR injection point and Farwell do
19 not have live electronic trading -- or live electronic
20 trading and -- I'm not sure what kind of slip that was,
21 but -- I am a married man, by the way, so. The -- the
22 -- the ANR injection point and Farwell do not have live
23 electronic trading. They also do not have published
24 indexes. So price discovery is more difficult at those
25 points, and there's really no way to measure how much

1 gas is being traded at Farwell or the ANR injection
2 point.

3 So similarly, we limited purchases at
4 those points to normal -- no more than 21,000
5 gigajoules per day. However, we still felt we should
6 be able to obtain gas at those points even though price
7 discovery could be difficult, because there is gas
8 moving in that vicinity, because those points are close
9 to ANR storage in Michigan where gas tends to be --
10 tends to be moving on a regular basis.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: What you've told the
15 Board is that that first constraint was really designed
16 so that the model doesn't prescribe Centra buying a lot
17 of gas at Emerson or the ANR injection point or at
18 Farwell because Centra has concerns over what that gas
19 may ultimately cost?

20 MR. NEIL KOSTICK: That's correct. We
21 felt it was reasonable to include those at a limited
22 level, that we wouldn't be overly exposed if we bought
23 gas at those points on a somewhat limited basis. But
24 we certainly wouldn't want the model arriving at a
25 conclusion that 50 percent of all the gas we buy should

1 be at any of those points, as that would be too risky
2 in our regard with respect to how pricing at those
3 points could vary from expectations.

4 MR. BOB PETERS: If there's no
5 electronic trading for Farwell and ANR, how does Centra
6 know the price of gas to buy at those hubs?

7 MR. NEIL KOSTICK: In the case of ANR
8 injection point and Farwell, those are points that are
9 within Michigan. Gas that is bought or sold in
10 Michigan can generally be indexed to the major hub in
11 Michigan, which is the MichCon Hub. Those points are
12 not on the MichCon system and they're not MichCon Hub
13 points, but you should be able to buy gas indexed to
14 the MichCon -- to the MichCon hub, and the MichCon Hub
15 does have a published index. What you have to assume
16 through market intelligence is that there would be some
17 likely premium above the MichCon Hub price in order to
18 get gas -- in order to be able to acquire gas at those
19 alternate points.

20 MR. BOB PETERS: Likewise, a constraint
21 was put on the model not to have more than 42,202
22 gigajoules a day of capacity from Joliet into storage,
23 correct?

24 MR. NEIL KOSTICK: Yes, that's correct.

25 MR. BOB PETERS: That's -- that's a new

1 feature?

2 MR. NEIL KOSTICK: That is a new
3 feature of the proposed portfolio, yes.

4 MR. BOB PETERS: And, in fact, the new
5 portfolio proposes exactly to the gigajoule per day
6 that amount, forty-two thousand two hundred and two
7 (42,202)?

8 MR. NEIL KOSTICK: Yes, that's correct.

9 MR. BOB PETERS: Was the constraint
10 applied before the model did its work or was the
11 constraint selected based on previous runs of the
12 model?

13 MR. NEIL KOSTICK: The constraint was
14 derived from our negotiations with ANR. The capacity
15 for that transportation path from the Chicago market to
16 storage I believe ANR priced for us at 93 percent below
17 its tariff rate. And ANR had limits on how much it
18 wanted to sell at that price. And that's how that
19 constraint was derived. That -- that was the limit
20 they were willing to offer.

21 MR. BOB PETERS: The limit they were
22 willing to offer at that reduced tariff?

23 MR. NEIL KOSTICK: Yes, that's correct.

24 MR. BOB PETERS: Likewise, the
25 constraint of 52,753 gigajoules a day of MichCon supply

1 -- and this doesn't relate just to MichCon index supply
2 but it relates to MichCon -- the MichCon Hub?

3 MR. NEIL KOSTICK: Yes, that would be
4 gas that would effectively be acquired at the MichCon
5 Hub.

6 MR. BOB PETERS: How did Centra come up
7 with this number as a constraint?

8 MR. NEIL KOSTICK: That was also the
9 product of negotiation with -- with the Option B
10 portfolio.

11 MR. BOB PETERS: And it was a
12 constraint applied to both Option A and Option B?

13 MR. NEIL KOSTICK: No, this was just
14 applied to the Option B portfolio.

15 MR. BOB PETERS: The TCPL capacity, the
16 storage transportation service or the STS service was
17 also a constraint that was built in, correct?

18 MR. NEIL KOSTICK: Yes, that's correct.

19 MR. BOB PETERS: And the constraint is
20 exactly the same as the current winter operation
21 constraint or contract?

22 MR. NEIL KOSTICK: Yes, that's correct.

23 MR. BOB PETERS: Why was that built in
24 as a constraint at that number?

25 MR. NEIL KOSTICK: That contract is a

1 long-term contract and renegotiating that contract is,
2 I guess you could say, difficult. So the provisions of
3 that contract were embedded in the model. And it's
4 also very difficult to -- it's a -- it's a fairly
5 unique contract that assumes bidirectional flows
6 depending on the season. And the rate structure is
7 very unique. And it's essentially not possible to
8 model that contract in SENDOUT or, I presume, any other
9 model.

10 MR. BOB PETERS: The Board saw
11 yesterday a communication from Ms. Foulkes to TCPL
12 where Centra changed its quantity of firm
13 transportation. Correct? Remember that?

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

15 MR. BOB PETERS: And that's an annual
16 election, Ms. Stewart?

17 MS. LORI STEWART: Yes, it is.

18 MR. BOB PETERS: And doesn't Centra
19 renew its STS service also on an annual basis?

20 MS. LORI STEWART: Yes, it does. At a
21 different time in the year, but yes, annually as well.

22 MR. BOB PETERS: But I -- I thought Mr.
23 Kostick was just telling the Board that it was subject
24 to a long-term contract.

25 MS. LORI STEWART: Centra's storage and

1 transportation service contract is a -- a long-term
 2 contract as -- as Mr. Kostick referred to it. And it
 3 was originally negotiated prior to the commencement of
 4 -- of our current twenty (20) year arrangement with ANR
 5 and Great Lakes.

6 The -- the amounts of that contract, or
 7 the contract demand, is subject to an annual renewal
 8 process. And I -- I think it's important for the Board
 9 to understand that we do have information from
 10 TransCanada that, given the terms embedded in that
 11 contract, it would not be prepared to provide
 12 additional capacity under the terms of our current
 13 storage and transportation service contract. Those
 14 terms are -- are favourable for Centra. And at this
 15 time, given TransCanada's situation, it would not be
 16 prepared to allow us to increase those contract amounts
 17 under the same parameters as we enjoy today.

18 MR. BOB PETERS: So Centra instructed
 19 its model to use the maximum STS capacity of
 20 TransCanada that it currently had under contract by
 21 which it considers the terms favourable?

22 MR. NEIL KOSTICK: The model was
 23 allowed to use up to those capacities at the known
 24 rates that we currently have under -- for that
 25 contract.

1 MR. BOB PETERS: Ms. Stewart, it's
2 perhaps my lack of understanding of TCPL's matters, but
3 that STS contract, you indicated that's -- that's been
4 something Centra has had for a long -- long period of
5 time?

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

7 MR. BOB PETERS: And did I understand
8 correctly that it was longer than twenty (20) years?

9 MS. LORI STEWART: My understanding is
10 that that contract was implemented in conjunction with
11 the current suite of Great Lakes and ANR assets.

12 MR. BOB PETERS: And under that
13 contract, are you telling the Board that Centra gets to
14 -- to keep those terms for the full twenty (20) years,
15 plus into the future?

16 MS. LORI STEWART: What I'm describing
17 to the Board is that as long as TransCanada's tariff
18 for the storage and transportation service does not
19 change going forward, that we have the right to
20 continue to renew at these contract demand levels.
21 However, I can't provide the Board with any assurance
22 as to TransCanada's intention with regard to its tariff
23 going forward.

24 MR. BOB PETERS: All right. So that's
25 a risk Centra faces in its storage and transportation

1 portfolio, is that the major back-haul route may be
2 subject to a higher tariff than it currently enjoys?

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

4 MR. BOB PETERS: And has Centra -- I'm
5 sorry, has TCPL asked to increase the STS tariff rate
6 in its proceeding before the National Energy Board?

7 MS. LORI STEWART: No, it has not.

8 MR. BOB PETERS: And Centra has no
9 assurance that the existing STS rates will be in place
10 for the full seven (7) years of the proposed portfolio?

11 MS. LORI STEWART: Yes, in the same
12 manner as we have no assurance today, nor did we back
13 in 1993 as it relates to the rates associated with
14 storage and transportation service in TransCanada's
15 tariff.

16 MR. BOB PETERS: And, Ms. Stewart,
17 while Centra has no assurance of what the price of the
18 STS service will be going forward, can the Board
19 understand that Centra has assurance that it will have
20 that capacity available?

21

22 (BRIEF PAUSE)

23

24 MS. LORI STEWART: To be clear, Mr.
25 Peters, the -- the rates for the service are tied to

1 TransCanada's firm transportation rates. So I was
2 speaking about how we don't have assurance of the rate.
3 And we also don't have assurance of the terms under
4 which storage and transportation services provided.

5 Our understanding is that that capacity
6 should be available to Centra. However, I cannot speak
7 to the future rate for the service, nor to the future
8 terms and conditions of the service embedded in the
9 tariff.

10 MR. BOB PETERS: Because Centra
11 currently holds the STS service, Ms. Stewart, under NEB
12 regulation Centra can maintain that service although
13 the toll and the terms of that service may change?

14 MS. LORI STEWART: We would have the
15 right to do that. And, of course, we would make that
16 decision based primarily on the economics of -- of
17 doing so based on the information we had at that time.

18 MR. BOB PETERS: And can you tell the
19 Board, what's the alternative to that STS service that
20 we saw way back at Tab 6 of the book of documents, when
21 we looked at the winter transportation? And I believe
22 your -- your back haul capacity was exactly the same as
23 the constraint put into the SENDOUT model?

24

25 (BRIEF PAUSE)

1 MS. LORI STEWART: Mr. Peters, that --
2 that's difficult for me to respond to. It would depend
3 on the pricing of alternative TransCanada services at
4 that time. And -- and I would prefer not to speculate
5 on -- on what the options we would have might be in
6 that theoretical situation.

7 MR. BOB PETERS: It may result in
8 Centra needing an entirely newly designed portfolio?

9

10 (BRIEF PAUSE)

11

12 MS. LORI STEWART: Mr. Peters, it
13 certainly would be possible for Trans -- for Centra to
14 contract on TransCanada for capacity from Emerson,
15 which is the point at which our Great Lakes back haul
16 camma -- capacity terminates during the winter, and to
17 connect that Great Lakes capacity at Emerson with the
18 load by contracting on TransCanada, whether it would be
19 under a storage and transportation service arrangement
20 or some other type of service.

21 MR. BOB PETERS: Is this one (1) of the
22 toll -- is the STS toll, Ms. Stewart, one (1) of the
23 tolls that Centra expects some clarification and some
24 certainty on as a result of the curre -- current
25 National Energy Board proceedings?

1 (BRIEF PAUSE)

2

3 MS. LORI STEWART: Yes, given the --
4 the fact that the toll for the storage and
5 transportation service is a function of the firm
6 transportation toll. Yes, if -- if tolls are
7 increasing on the system, storage and transportation
8 tolls are also increasing.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Mr. Kostick, the last
13 constraint, before I leave it, at Tab 17 of the book of
14 documents, was Centra leaves some of its supply stack
15 uncommitted.

16 Is that correct?

17 MR. NEIL KOSTICK: In actual terms, no.
18 Everything is pre-contracted. Within the model we
19 just, for convenience and expedience, we simply told
20 the model it didn't have to serve 50,000 gigajoules per
21 day under the coldest day of weather in the model. And
22 that simply made it easier to not have to embed peaking
23 services, which can, you know, vary year to year, in
24 terms of their -- their price and structure.

25 So instead of trying to envision what

1 peaking services would be in the future, we simply told
2 the model not to worry about the top 50,000 gigajoules
3 of firm load that would need to be served on a peak
4 day, because we would simply put in peaking services as
5 we do today.

6 So it was a -- a matter of -- of
7 convenience, from a modelling perspective, and it
8 achieved what we needed to achieve with respect to the
9 model results.

10 MR. BOB PETERS: Back to those supply
11 stacks on Tab 8, I think, of the book of documents on
12 page 36, what you told the model was the peaking
13 delivered service is not a concern for the model; that
14 will be something Centra's gas supply department will
15 find?

16 MR. NEIL KOSTICK: Essentially, yes.

17 MR. BOB PETERS: Okay. When the model
18 ran the -- when -- when the SENDOUT model was rerun to
19 remove the constraints, the results were provided in
20 PUB/CENTRA-11-B, found at page 59 of Tab 17 of the book
21 of documents, Mr. Kostick?

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: You haven't lost your

1 book of documents, have you?

2 MR. NEIL KOSTICK: I have misplaced my
3 reference to that -- to that. So if you can just give
4 me a moment, I'll just get that back.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: And you're referring
9 to PUB/CENTRA-11, I believe, Mr. Kostick?

10 MR. NEIL KOSTICK: Yes, I'm with you
11 now.

12 MR. BOB PETERS: The numbers on this
13 page, on page 59 of Tab 17 of Board counsel's book of
14 documents, PUB Exhibit 7, represent Centra running the
15 SENDOUT model, but in essence taking the constraints
16 away.

17 Would that be fair?

18 MR. NEIL KOSTICK: Yes, that's correct.

19 MR. BOB PETERS: And perhaps you can
20 explain to the Board, down on line 12, when we look at
21 capacities and we see under futures curves the case 1,
22 ANR has a year 1 and year 5, the same as it did under
23 the preferred portfolio, correct?

24 MR. NEIL KOSTICK: Yes, that's correct.

25 MR. BOB PETERS: But the capacities for

1 storage appear markedly different. Can you explain
2 why, under year 5, the model would be suggesting that
3 an optimum portfolio would have 22.9 petajoules of
4 storage?

5 MR. NEIL KOSTICK: It looks like under
6 this particular price curve, year 5 under case 1 for
7 ANR, with the constraint removed for ANR injection
8 point supply, it heavily uses that supply to fill
9 storage. I think it is virtually filling all of the
10 storage with that supply.

11 And so based on that price curve, I
12 guess it likes that supply and it needs to serve an
13 additional 50,000 gigajoules per day. And when the
14 model balances all of the various inputs and all the
15 various tradeoffs, so taking more of this and less than
16 that and less of that, it determines that a much higher
17 storage capacity is desirable. And it wants to use a
18 lot of ANR injection point supply, and it also appears
19 to want to use more Farwell supply, which also had a
20 constraint removed. So it does produce something
21 different than what our -- if you want to call them our
22 base-case assumptions produced for that particular
23 price curve.

24 MR. BOB PETERS: Mr. Kostick, are you -
25 - are you certain that the reason for that is because

1 of -- of what you've indicated now on the record, or is
2 that just your conclusion based on removing the
3 constraint and seeing the result? Did the model tell
4 you exactly where that additional cost came from?

5 MR. NEIL KOSTICK: Which additional
6 cost are you referring to?

7 MR. BOB PETERS: I meant the additional
8 capacity for -- for storage. Did it tell you as a
9 result of being able to inject from ANR into storage
10 more than the 21,000 gigajoules a day?

11 MR. NEIL KOSTICK: I'm looking at line
12 20. So at line 20, on average annually it's buying
13 almost 23 petajoules of ANR injection point supply. So
14 in some years that could be half of our -- like in a
15 very warm year that could be almost half of our
16 requirements -- not -- not quite half, but -- yeah. So
17 there's essentially a lot of ANR injection point supply
18 being purchased. And that supply in the model can only
19 flow into storage. So it's filling up a lot of storage
20 with a lot of ANR injection point supply. So that's
21 how I came to that conclusion.

22 MR. BOB PETERS: The model is -- is
23 telling Centra that it is assuming that the ANR gas
24 that you can purchase an unlimited amount of is cheaper
25 than getting it from Western Canada?

1 MR. NEIL KOSTICK: For the purposes of
2 filling storage, the model determined that it liked a
3 lot of storage capacity and that it liked to use the
4 ANR injection point supply to fill the storage.

5 MR. BOB PETERS: When the constraints
6 are removed from -- and let's pick the case 1-ANR Year
7 1, the total costs of storage are about \$251.1 million,
8 correct?

9 MR. NEIL KOSTICK: That would be the
10 total portfolio cost, so all costs.

11 MR. BOB PETERS: Yes, sir. That
12 includes the supply?

13 MR. NEIL KOSTICK: Yes, supply, storage
14 and transportation. Total portfolio costs in case 1
15 for ANR, year 1 of the curves is \$251.1 million.

16 MR. BOB PETERS: Can you explain to the
17 Board why, if we flip ahead to Tab 18 and we look under
18 the same -- for the same number under the -- under the
19 optimized proposed portfolio the price -- the total
20 price is \$246.9 million. Why does removing the
21 constraints increase the price?

22 MR. NEIL KOSTICK: That should be
23 largely related to the fact that the model has to serve
24 that additional 50,000 gigajoules per day. So it puts
25 assets in place to cover off our firm peak day, whereas

1 in practice we would be using some form of peaking
 2 service. And our physical portfolio of transportation
 3 and storage contracts do not have to directly serve
 4 that 50,000 gigajoules per day as per our current
 5 practice.

6 So it has -- in any gas supply
 7 portfolio, the -- your peak requirements are going to
 8 be relatively expensive to serve because they happen
 9 relatively infrequently. Your design firm peak day is
 10 based on a day in history, and there's no telling when
 11 it's going to be repeated. But if you tell your model
 12 or your tell your portfolio in practice that has to
 13 serve that design peak day, it's going to be expensive
 14 because you're going to have put in assets to serve
 15 that.

16 Our approach is to use peaking services,
 17 which are a much more cost-effective way of addressing
 18 our coldest -- coldest assumed weather scenario on a --
 19 on a cost-effective basis.

20 MR. BOB PETERS: Mr. Kostick, since
 21 we're on a roll with looking at these numbers, can we
 22 turn to Tab 19 of the book of documents and look at an
 23 answer to an Information Request that Centra provided
 24 to the Board, and charted in PUB/CENTRA-10(b), as found
 25 on page 72 of the book of documents again located under

1 Tab 19. Can you let me know when you've located that?

2 MR. NEIL KOSTICK: I'm there.

3 MR. BOB PETERS: Now for the Board's
4 background on this questioning, Mr. Kostick, this was
5 where the price curves were changed from what was
6 provided in the proposed portfolio, correct?

7 MR. NEIL KOSTICK: Yes, that's correct.

8 MR. BOB PETERS: And there was a 35
9 percent increase and a 35 percent decrease in the
10 TransCanada tolling price that was built into the
11 model?

12 MR. NEIL KOSTICK: Yes, that's correct.

13 MR. BOB PETERS: And when the Board
14 looks at the results for this, and assuming under the
15 ANR arrangement at the top of the page, for the plus 35
16 percent on tolls, the capacity goes up to 18.2
17 petajoules under the one (1) year price curve, and up
18 to 20 petajoules under the five (5) year price curve,
19 correct?

20 MR. NEIL KOSTICK: Yes, that's correct.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Can you explain to the
25 Board why the storage capacity would be increased even

1 with the tolls going up 35 percent?

2 MR. NEIL KOSTICK: The model is
3 assessing on a total portfolio basis how to minimize
4 the costs of the portfolio. And when it looks at
5 rising TransCanada tolls it determines that more
6 storage is a way to reduce reliance on TransCanada and,
7 therefore, avoid paying more of those high tolls. So
8 it is responding to the high TransCanada tolls by
9 reducing -- reducing TransCanada capacity and changing
10 other parts of the portfolio that -- that it can rely
11 on more heavily, such as storage.

12 MR. BOB PETERS: Is it reducing
13 TransCanada's STS service needs and finding alternate
14 ways to -- to put gas into storage?

15 MR. NEIL KOSTICK: It appears from the
16 numbers that we have here that -- actually, I'll just
17 cross-reference this with the -- with the Tab 7 results
18 if I could, if you could hold on for a moment.

19 MR. BOB PETERS: When you say "Tab 7,"
20 you're referring to Centra's application Tab 7?

21 MR. NEIL KOSTICK: Yes, that's correct.

22 MR. BOB PETERS: And that would be the
23 same chart found at Tab 18 of Board council's book of
24 documents?

25 MR. NEIL KOSTICK: Yes, that's correct.

1 MR. BOB PETERS: Okay. Just -- thank
2 you for that. Please cross-reference them as you
3 indicated.

4 MR. NEIL KOSTICK: It generally appears
5 in comparing the -- the ANR results that you're
6 referring to in PUB-10(b) versus what we filed in Tab
7 7, that there isn't a dramatic difference.

8 Sorry, hold on one (1) moment.

9

10 (BRIEF PAUSE)

11

12 MR. NEIL KOSTICK: This is a -- a
13 little bit of analysis on the fly here, and I guess as
14 everybody can appreciate there are a lot of different
15 model results contained within the book of documents in
16 that -- we ultimately performed.

17 But I believe it's still using, to a
18 certain degree, western Canadian supply to fill
19 storage. I couldn't tell you if it was using exactly
20 the same amount that it would be using under the Tab 7
21 results, but I believe it's still using a certain
22 amount of Canadian supply to fill storage along with
23 likely increasing amounts of other US supplies to help
24 fill storage, as it does have to fill quite a bit more
25 storage. So that's what I can, at a high level, pull

1 out from the numbers in front of us here right now.

2 MR. BOB PETERS: In addition, Mr.
3 Kostick, would the model, in changing the TCPL tolls,
4 also change the basis differentials as between the mi -
5 - the various hubs that we looked at yesterday, in
6 terms of the gas supply options?

7 MR. NEIL KOSTICK: In these model
8 results the only change made was the tolls, either plus
9 or minus 35 percent. There is no corresponding effect
10 on -- on any other gas hub pricing embedded in the
11 model --

12 MR. BOB PETERS: Would Ce -- would --
13 would Centra expect other gas hubs' prices to change
14 relative to each other if the TCPL tolls changed by 35
15 percent?

16 MR. BRENT SANDERSON: If I might weigh
17 in on this, Mr. Peters. It's very, very difficult to
18 say, in that there's innumerable variables that affect
19 the market price of gas at and between different hubs.

20 One could, on the face of it, make an
21 assumption that increasing tolls would continue to
22 drive down the market price of gas in Alberta to
23 counterbalance the effect of the tolls and continue to
24 maintain somewhat econo -- economic attractiveness of
25 eastern shippers purchasing Western Canadian gas.

1 But you can just as easily envision a
2 circumstance where TransCanada tolls were to rise to
3 such a level that it would become completely uneconomic
4 for any eastern shippers to purchase gas in Western
5 Canada.

6 And you might see a wholesale movement
7 of the development of a number of outlets to export
8 Western Canadian gas in the form of LNG to Eastern
9 Pacific markets, which could have the case of
10 simultaneously, at the same time, the TransCanada tolls
11 are increasing dramatically, which could increase the
12 call on Western Canadian gas and drive up the market
13 price of Western Canadian gas at the same time.

14 So it's very difficult to make an
15 assumption for the purpose of a SENDOUT model run, what
16 the effect would be of a change in TransCanada tolls,
17 because there will be other puts and takes and
18 reactions going on in the marketplace coincident with
19 that, should that happen.

20 So it's -- it's simply impossible for
21 Centra to be able to determine what the effect on the
22 commodity -- price of the commodity would be at any one
23 (1) point as a result of a change in that one (1)
24 factor.

25 MR. BOB PETERS: Mr. Chairman, I'm

1 going to review my notes but move on, I think, to a
2 different topic that'll take a few minutes to cover.
3 And I wondered if this would be an opportune time for
4 the morning recess.

5 THE CHAIRPERSON: Do you mind if I ask
6 some question rela -- regarding what we've been talking
7 about before we take a break? I just want to make sure
8 I understand what's going on with respect to the
9 modelling.

10 It seems to me that what I've been
11 reading is that TCPL tolls are more likely to go up
12 than go down, given the fact that there's more and more
13 capacity becoming available and there are a lot of
14 costs that have to be recouped from a declining number
15 of shippers.

16 It seems to me that while we may get a
17 drop in TCPL tolls short term, the likelihood is that
18 TCPL tolls over time will go up.

19 Am I wrong there or am I misjudging the
20 situation?

21 MS. LORI STEWART: I think you've
22 assessed the situation accurately.

23 THE CHAIRPERSON: Okay. So in the
24 context where TCPL tolls are more likely to go up than
25 go down, then there would be -- it seems to me the

1 models are telling us that storage needs to be
2 increased to avoid higher TCPL tolls. Am I -- am I
3 wrong there? In other words, it would put a -- it
4 would put pressure on the extent of storage.

5 It -- the storage would be higher than
6 otherwise based on the modelling that we've looked at?

7 MS. LORI STEWART: Directionally, your
8 understanding is correct.

9 THE CHAIRPERSON: Okay. So as prices
10 go up, you want to increase storage. So the other
11 question I have is in respect to the -- to the time
12 horizon that's been selected on the modelling. It's
13 five (5) years. And the contract terms are now --
14 we're looking at are seven (7) years.

15 Now, could you have used the model to go
16 to seven (7) years out?

17 MR. BRENT SANDERSON: The reason for
18 bookending, so to speak, the model analyses with --
19 with a near-year set of market prices and a year of
20 prices five (5) years out is more a function of the
21 difficulties in obtaining market prices beyond five (5)
22 years.

23 The markets, in terms of futures
24 contracts, become much mi -- much less liquid beyond
25 five (5) years.

1 For example, there is no futures price
2 beyond five (5) years that we can obtain in the
3 marketplace. There's no financial instruments or
4 futures contracts that trade beyond that. And the
5 market becomes much less liquid beyond that.

6 And these other less predominant points
7 -- for example, Farwell and so forth -- it is virtually
8 impossible to -- to get any forward price discovery out
9 that far.

10 So it's just more a function of -- it's
11 not so much a function of correlating the annual -- the
12 prices we looked at with the contract term; it's just
13 to develop some reasonable bookends to look at two (2)
14 different price scenarios. And beyond that, it's very
15 difficult to obtain market price views, the consensus
16 opinion of the market as future prices at all of these
17 various points.

18 THE CHAIRPERSON: It seems clear to me
19 that as you go out in -- in terms of years, prices are
20 predicted as going up, you know, because of cost of
21 money and so on. And so it cl -- clearly we're seeing
22 higher prices as the years increase.

23 And as the years increase, we're getting
24 -- the modelling is telling us we need more storage.

25 So I guess the question is: By picking

1 -- picking fifteen point five (15.5), it seems to me
2 that you have, sort of, opted to go towards a shorter-
3 term horizon despite the fact that you're looking at a
4 seven (7) year contract.

5 In other words, what -- what I'm
6 suggesting is that if you look at the results you're
7 getting and you decide to go fifteen point five (15.5),
8 it -- it seems to me that you opted then for a shorter-
9 term horizon as the point at which you will establish
10 the kind of optimal storage capacity.

11

12 (BRIEF PAUSE)

13

14 MR. BRENT SANDERSON: In terms of our
15 base case analysis in Tab 7 of the book of documents,
16 at page 61, if you see with our futures curves in the
17 ANR portfolio, actually the reverse of what you
18 described is just -- is actually true in that, in the
19 year 5 analysis, if you -- if you go down to the
20 "Storage" line and look at capacity in petajoules under
21 the first two (2) columns to the right of that, the
22 model actually indicates a marginally lesser
23 requirement for storage in year five 5, with the higher
24 market prices than in year 1.

25 I would say, from a modelling

1 practitioner's perspective, the numbers are essentially
2 identical in terms of statistical significance.

3 In any cases where the model would have
4 called for higher amounts of storage in the farther-out
5 years, it wouldn't be so much a function of the fact
6 that prices are higher as opposed to the fact that the
7 market price curves in the fifth year show increasing
8 summer/winter price differentials.

9 And the perfect foresight of the model
10 then endeavours to exploit or arbitrage those seasonal
11 price spreads by driving you to contract more storage
12 to play the seasonal price spread. And as we've seen,
13 those price spreads, while they -- there is an
14 averaging -- an average phenomena whereby winter prices
15 are approximately 10 percent on average higher than
16 summer prices, it's very, very uncertain as to what
17 each year's outcome will be. And Centra does not
18 engage in the holding of assets to speculate on
19 seasonal price spreads in the commodities market.

20 And -- and in terms of just responding
21 to the upward-sloping nature of the futures price
22 curve, most of the time, futures prices will indicate a
23 upward-sloping tendency in prices due to general price
24 inflation and so forth, the increasing cost to hold
25 assets and so forth. But that's not always the case.

1 There has been numerous times over the
2 past decade where futures prices actually indicate an
3 expectation for declining prices over the future period
4 that one is looking at.

5 So that is the tendency, but there has
6 been numerous occasions -- for example, in the summer
7 of 2008 -- where if you looked out five (5) years at
8 that time, there would have been a pronounced downward
9 sloping in the price curve, indicating a market
10 expectation that prices would be declining over the
11 foreseeable future.

12 THE CHAIRPERSON: Looking at the -- at
13 the same table in respect of the storage costs, I mean,
14 they represent a relatively small portion of the total
15 costs that are incurred or could be incurred by Centra.
16 Yeah. I mean, it's a relatively small percentage of --
17 of the total costs that, you know, might be incurred in
18 total.

19 Now, I guess the question is: Given
20 that it's a relatively small cost, why not increase the
21 storage if it gives you more flexibility with respect
22 to longer-term prices?

23

24 (BRIEF PAUSE)

25

1 MR. NEIL KOSTICK: You're -- you're
2 actually making a very good point that the storage
3 costs in total are a very small portion of the total
4 portfolio costs. Ultimately, our decision was driven
5 or took into account the model results in our base
6 case, if you will, which suggested storage in that
7 roughly 15 1/2 petajoule range.

8 What we're also happy about, as far as
9 what we've been able to negotiate, is the component of
10 the annual storage for very little -- virtually no
11 premium over the -- the regular seasonal storage rate.
12 And that essentially gives us the ability to cycle an
13 additional 3.1 petajoules through the storage on an
14 annual basis.

15 So the 15.5 petajoules can, in effect,
16 become 18.6 petajoules with the ability to cycle. And
17 that came with a very, very small premium as far, as
18 the total storage costs go.

19 THE CHAIRPERSON: Since -- since the --
20 since the models have been run, what's happened with
21 respect to the market? My sense is that the market --
22 the gas prices are in a decline mode or have been in a
23 decline mode, generally speaking.

24 So am I -- am I wrong there or -- in
25 other words, have you -- have the markets proven your

1 decisions to be right in the intervening months since
2 we've been -- since you've run the models?

3 MR. BRENT SANDERSON: The prices that
4 we reflected in the model, in terms of what the futures
5 markets were telling us, were taken in January of 2012.
6 So prices did continue to fall thereafter. It's a bit
7 of a moving target and, you know, it moves every day.
8 And it's on -- your prices are only as good as
9 yesterday's market close.

10 They have increased somewhat in the past
11 couple of weeks, but I would say the fundamental
12 expectation of the market is, for all intents and
13 purposes, very similar to what it was in January.

14 MR. RAYMOND LAFOND: We are now looking
15 strictly at the transportation and storage portfolio.
16 What is the link with the gas supply? I mean, we have
17 different timelines, in terms of contracts.

18 Is that relevant or not relevant?

19 MS. LORI STEWART: We have different
20 timelines for supply contracting, as opposed to
21 transportation and storage contracting, in -- in large
22 part because the premium that we would pay to agree to
23 a formula, an index-base formula, for supply that far
24 out in the future would come with a fairly hefty
25 premium.

1 So transportation and storage assets are
2 long-term, enduring assets and the service provider is
3 generally looking for longer-term contracts to match
4 with that investment horizon.

5 Supply is -- is different. And as soon
6 as you start pushing out past a year or two (2), then -
7 - and you're looking to, in essence, fix your price
8 formula out in time, then we would pay -- or -- or we -
9 - we believe that we would incur a risk premium
10 associated with that.

11 That's compounded currently by two (2)
12 major applications that have been made to the National
13 Energy Board by TransCanada. The first one (1) we've
14 discussed already a wee bit in this -- in this
15 proceeding, and that's its mainline business services
16 and restructuring proposal. And that's associated with
17 the setting of mainline tolls for 2012 and 2013.

18 There is another major application that
19 is related to extraction rights for natural gas liquids
20 from the natural gas. And that proposal is viewed --
21 it's another component of significant uncertainty about
22 supply pricing out of the Western Canadian Sedimentary
23 Basin right now.

24 That application is ref -- commonly
25 referred to as the NEXT application, N-E-X-T. It's

1 associated with extraction rights. And, basically, the
2 market right now would have no appetite to price supply
3 out any further than two (2) years.

4 MR. BRENT SANDERSON: But if I may, if
5 I just might help in terms of industry terminology for
6 the assistance of the Board, natural gas liquids to
7 which Ms. Stewart referred to are with reference to the
8 heavier end of the gaseous hydrocarbon spectrum,
9 propane, butane, isobutane ethanes, which in comparison
10 to the market price of natural gas has much higher
11 value because they're used in plastics and chemical
12 manufacturing and other value-added products.

13 And those prices -- the market prices
14 for those heavier ends are more determined relative to
15 oil and liquid petroleum prices than the price of
16 methane or natural gas. And so there's a lot of
17 discussion going on in the marketplace as to who gets
18 to keep the value of those liquids stripped off the
19 natural gas stream before it leaves the producing
20 region to the transportation pipeline systems, because
21 that gas has to be processed to what's called "pipeline
22 specifications." And all of those liquids have to be
23 removed from the gas stream because it causes numerous
24 problems in the transportation pipeline system in terms
25 of how they behave physically.

1 MR. RAYMOND LAFOND: We've alluded to
2 this yesterday very briefly. And I -- and I know it
3 does not apply within the current time constraints.
4 However, the whole issue of the possibility of
5 developing Manitoba storage over the se -- se -- next
6 seven (7) years, is Centra going to be or intending on
7 looking at it? And if so, itself or with a third
8 party?

9 MR. NEIL KOSTICK: With respect to the
10 timing of local storage developed within Manitoba, we
11 think that it would take a number of years to develop.
12 It would probably take you to 2020 to develop if it
13 were deemed to be economic and technically feasible.

14 So our intention is to continue to
15 examine the issue. We've had some work done on it at a
16 very high level to determine what next steps could be
17 taken to further investigate. So we'll be engaged in
18 that on an ongoing basis to determine next steps to
19 further examine the matter and to try to be as well
20 positioned as possible looking forward to 2020 to
21 potentially be able to put such a facility in place,
22 recognizing that, as we talked about yesterday, it is
23 still a high-cost option in comparison to the types of
24 rates that we're getting today for storage that we
25 essentially lease in Michigan.

1 MR. RAYMOND LAFOND: Also, TransCanada
 2 Pipelines was considering converting a portion of its
 3 infrastructure to oil. Is that still being looked at?
 4 I read that in the materials. Is that still being
 5 looked at? Is it a serious consideration? And could
 6 it affect the tolls currently charged in the future?

7 MS. LORI STEWART: Yes, my
 8 understanding is that that is being evaluated by
 9 TransCanada at -- at present. Mr. Girling, who is the
 10 president and CEO of TransCanada Corporation, made
 11 reference to that possibility in a recent annual update
 12 to shareholders. The vice-president of pipelines for
 13 TransCanada, Mr. Lohnes, also made reference to that in
 14 his opening remarks on day 1 of TransCanada's mainline
 15 restructuring proceeding.

16 So I do believe that that is under
 17 serious consideration by TransCanada. It would -- such
 18 a proposal, depending on the extent of the capacity
 19 that was targeted for repurposing, to move -- to move
 20 oil, it would have a positive effect on the pipeline
 21 from the perspective that currently everyone is aware
 22 of the significant excess capacity on that pipeline.
 23 And that causes some challenging -- challenges from a -
 24 - a pricing of services perspective, because the entire
 25 market is aware that the pipe is half empty, or more

1 than half empty, at this point.

2 In recent experience TransCanada did
3 convert one (1) of its lines to move oil. And that's
4 the original Keystone project; not Keystone XL, but --
5 but the original Keystone conversion.

6 And I would have to go and review those
7 materials in depth, but generally speaking, there was
8 not a material change to the rate structure, because,
9 you know, that asset was transferred at book value.
10 That asset was fairly depreciated at that point.

11 And so we didn't really see any material
12 reduction in tolls as a result of that conversion, but
13 moving up and flying at an even higher level, I do
14 think that that -- that such a proposal would help to
15 address the excess capacity situation that -- that
16 currently exists on the mainline.

17 MR. RAYMOND LAFOND: So in other words,
18 what I'm hearing is using book value certainly would be
19 a lot less than if they would use a val -- a
20 replacement value of building a new pipeline to
21 transport oil.

22 So that makes a big difference, and --
23 and I can understand how it would really influence the
24 current tolls.

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

1 And I expect that there would be a very healthy debate
2 about which value is being assigned to any asset that
3 is being suggested -- suggested to be repurposed.

4 MR. RAYMOND LAFOND: Thank you.

5 THE CHAIRPERSON: Let's take ten (10)
6 minutes, so back in -- back here at twenty (20) after
7 11:00.

8

9 --- Upon recessing at 11:08 a.m.

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

11

12 THE CHAIRPERSON: Back to you, Mr.
13 Peters.

14 MR. BOB PETERS: Yes, thank you.

15

16 VINCE WARDEN, Resumed

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Good morning, and just
20 for the record we should note that Mr. Warden has
21 rejoined the panel. Welcome back, Mr. Warden.

22 MR. VINCE WARDEN: Thank you.

23 MR. BOB PETERS: Mr. Warden, I guess I
24 have to confess, I did use your name a couple of times
25 this morning. And if during a review of the transcript

1 there's any comments attributed to you or information
2 that you'd like to revise or provide information to the
3 Board on, please do so through your counsel.

4 MR. VINCE WARDEN: Yes, thank you, Mr.
5 Peters, I'll do that.

6 MR. BOB PETERS: All right. I'd like
7 to move on, Mr. Chairman and Board members, with the
8 book of documents and Tab 20. Tab 20 is a brief report
9 -- or, briefer than the other report -- from ICF
10 International.

11 Mr. Kostick, is this one (1) that your
12 familiar with?

13 MR. NEIL KOSTICK: Yes, I am.

14 MR. BOB PETERS: Well, let's continue
15 our discussion then. This follows the -- the Feb --
16 sorry, the June 2011 report that was filed under Tab 4
17 of Centra's application?

18 MR. NEIL KOSTICK: Yes, that's correct.

19 MR. BOB PETERS: And ICF was retained
20 by Centra for, I think we've said, approximately a
21 quarter of a million dollars.

22 And it reviewed, amongst other things,
23 portfolio options?

24 MR. NEIL KOSTICK: Yes, part of the
25 overall engagement was to help assess portfolio

1 options.

2 MR. BOB PETERS: And part of the
3 overall engagement was to provide an update to Centra
4 as to the natural gas market in North America?

5 MR. NEIL KOSTICK: Yes, that's correct.

6 MR. BOB PETERS: ICF did not get its
7 hands on Centra's SENDOUT model, did it?

8 MR. NEIL KOSTICK: No. As we discussed
9 yesterday, ICF has its own proprietary models that it
10 would have used.

11 MR. BOB PETERS: And Centra didn't get
12 its hands on ICF's models, did they?

13 MR. NEIL KOSTICK: No, it did not.

14 MR. BOB PETERS: And let's cut to the
15 chase. On page 3 of the report from ICF, found on page
16 80 of the book of documents for those who are
17 following, ICF, Mr. Kostick, comes up with four (4)
18 conclusions.

19 Is that correct?

20 MR. NEIL KOSTICK: I just want to make
21 sure I'm in the right place. I might have a --

22 MR. BOB PETERS: Yes, the --

23 MR. NEIL KOSTICK: -- different version
24 of the book of documents.

25 MR. BOB PETERS: -- the analysis --

1 it's Tab 20.

2 MR. NEIL KOSTICK: It's page 3, I
3 guess?

4 MR. BOB PETERS: Yes, page 3 of the --

5 MR. NEIL KOSTICK: Okay.

6 MR. BOB PETERS: -- actual ICF report,
7 or page 80 of the book of documents, and there's the
8 analysis results from ICF.

9 MR. NEIL KOSTICK: Yes, I see them,
10 starting at the bottom of the page?

11 MR. BOB PETERS: Yes.

12 MR. NEIL KOSTICK: Yep.

13 MR. BOB PETERS: Thank you, sir. And
14 before we deal specifically with all four (4) -- and
15 we'll give Centra an opportunity to speak to them,
16 Centra made a decision not to put all of its eggs in
17 the ICF basket when it was assessing it's portfolio.
18 Would that be fair?

19 MR. NEIL KOSTICK: Yes, we conducted
20 our own analysis as well.

21 MR. BOB PETERS: And Centra knew it was
22 going to conduct its own analysis even before it
23 engaged ICF?

24 MR. NEIL KOSTICK: As we talked about
25 yesterday, we had anticipated using the SENDOUT model,

1 yes.

2 MR. BOB PETERS: Did you tell ICF you
3 were going to use the SENDOUT model?

4 MR. NEIL KOSTICK: Yes.

5 MR. BOB PETERS: And the reason for
6 having ICF do its work and Centra doing its work was to
7 just gain a higher level of comfort?

8 MR. NEIL KOSTICK: I -- I think it
9 provided the opportunity to see two (2) different sets
10 of model results in order to determine whether there
11 would be any significant difference between one (1)
12 model result versus the other. In which case, you'd
13 want to -- to get into it a little more and determine
14 what are the factors that are driving out different
15 results.

16 As we did talk about yesterday, the
17 results are directionally similar between the modelling
18 conducted by Centra and the modelling conducted by ICF.

19 MR. BOB PETERS: Well, we'll come to
20 the specifics on that, Mr. Kostick. But where Centra
21 sees any difference between the model results from ICF
22 and the model results from SENDOUT, Centra has
23 preferred and has recommended the -- the SENDOUT model
24 results. Would that be fair?

25 MR. NEIL KOSTICK: I think the

1 portfolio that we've put together and is before this
2 Board was based on information derived from all
3 sources. That includes Centra's model results, the ICF
4 model results, and all the information that we have as
5 participants in the natural gas marketplace in North
6 America. All the information was used to help inform
7 our decision on the portfolio that we have brought
8 before this Board.

9 MR. BOB PETERS: All of those things
10 you mentioned, Mr. Kostick, were factors considered in
11 the formulation of Centra's judgment. Would that be
12 correct?

13 MR. NEIL KOSTICK: Yes. And we've
14 taken into account a number of factors that are not
15 specifically evaluated in a modelling process, such as
16 reliability and security of supply, and access to
17 liquid supply, and renewal rights, things of that
18 nature.

19 MR. BOB PETERS: Some of those that
20 I've called "subjective determinations" had to go into
21 Centra's ultimate recommendation?

22 MR. NEIL KOSTICK: A number of factors
23 were considered that went beyond simply the model
24 results or the numerical results found in the model.

25 MR. BOB PETERS: All right. Dealing

1 with the first analysis result from ICF found on page
2 80 of the ICF -- sorry, page 80 of the book of
3 documents, ICF has concurred with Centra that Option A,
4 which they disclose as ANR storage, is a slightly
5 better value than Option B, correct?

6 MR. NEIL KOSTICK: Yes, that's correct.

7 MR. BOB PETERS: And it's 1 percent --
8 the difference between the two (2) is a 1 percent
9 difference in the average supply portfolio costs?

10 MR. NEIL KOSTICK: Yes, that's what the
11 results indicate.

12 MR. BOB PETERS: And would it be fair
13 to say that IC -- did ICF see Centra's results before
14 it gave you these, or did Centra see ICF's results
15 before it did its SENDOUT modelling?

16 MR. NEIL KOSTICK: I believe the
17 modelling was conduc -- was conducted simultaneously.
18 But we would have gotten our model results and then
19 ultimately seen the ICF results. I honestly can't
20 remember whe -- whether we saw one (1) versus the other
21 first, or whether ICF saw our results or Centra saw
22 ICF's results first. I -- I can't specifically
23 remember.

24 MR. BOB PETERS: Would you co -- does
25 Centra interpret ICF's analysis results to essentially

1 boil down to Option A is similar to Option B for
2 reliability and security of supply, so pick Option A as
3 it's slightly less expensive?

4 MR. NEIL KOSTICK: The ICF analysis
5 didn't comment on matters related to reliability and
6 security of supply. It was an analysis conducted
7 similar to our SENDOUT model analysis, which was an
8 analysis based on minimization of total portfolio
9 costs.

10 MR. BOB PETERS: But ICF didn't raise
11 any red flags as to any of your other proponents, 'B',
12 'C', or 'D', as being unreliable or having insecure
13 supply?

14 MR. NEIL KOSTICK: No, they didn't.

15 MR. BOB PETERS: One (1) of the
16 analysis results found on the next page from ICF, their
17 second one, was that it dealt with higher
18 deliverability of storage. Do you recall that?

19 MR. NEIL KOSTICK: Yes, I do.

20 MR. BOB PETERS: And ICF suggests to
21 Centra that there's an economic benefit for higher
22 deliverability. Correct?

23 MR. NEIL KOSTICK: That's what they
24 have indicated in their report.

25 MR. BOB PETERS: And what they're

1 saying to Centra is, Design your deliverability so you
 2 can withdraw everything from storage in fifty (50)
 3 days, and that will be of a better economic value for
 4 you than if you took sixty (60), or seventy (70), or
 5 seventy-one (71) days.

6 MR. NEIL KOSTICK: I don't think that's
 7 exactly what they're saying. I think that they've
 8 indicated that if you assume you would operate your
 9 storage in such a manner that you would want to take
 10 advantage of daily price volatility with respect to
 11 buying and selling natural gas on the day. Then you
 12 might want to consider higher deliverability storage
 13 that could allow you to, relative to your storage
 14 capacity, draw down your storage quickly and re-inject
 15 quickly.

16 I -- I believe they noted that that
 17 benefit would apply, particularly in the manner that
 18 they conducted the modelling, in which their modelling
 19 assumes perfect foresight of daily gas prices. So
 20 their modelling included daily -- variability and
 21 volatility in daily gas prices, and the model has
 22 perfect foresight of those daily price differences in
 23 order to take advantage of the higher deliverability
 24 storage.

25 Their report acknowledges that if you

1 don't have perfect foresight, then you might not be
 2 able to take quite as much advantage of that as the
 3 model does. And as such, they qualify the very small
 4 economic benefit associated with fifty (50) day
 5 storage, in comparison to sixty (60) or seventy (70)
 6 day storage.

7 MR. BOB PETERS: And perfect foresight
 8 is a flaw in the ICF model because Centra, in doing
 9 SENDOUT, removed por -- perfect foresight as best it
 10 could?

11 MR. NEIL KOSTICK: I would not
 12 characterize it as a flaw in their report. It is
 13 simply -- or in the analysis, it's simply a different
 14 approach that was taken. And, quite frankly, with the
 15 approach being slightly different than the approach
 16 that Centra took to the modelling, it's actually
 17 beneficial in that it shows that even under slightly
 18 different assumptions and slightly different modelling
 19 approaches that the results that we achieved in our
 20 model, and that ICF achieved in their model, are
 21 directionally similar on the key factors.

22 MR. BOB PETERS: But ICF, as Mr.
 23 Sanderson had told the Board -- and using his words, it
 24 could take advantage of arbitrage opportunities as to
 25 knowing that -- when to buy and where to buy, because

1 it had those parameters built into the model in advance
2 of the date it would need to purchase them.

3 MR. NEIL KOSTICK: I don't recall the
4 specific testimony of Mr. Sanderson in that regard, but
5 I'll accept that.

6 MR. BOB PETERS: Well, what you're
7 telling the Board is, in terms of the deliverability,
8 ICF's model had perfect foresight, and that is
9 something that Centra was not able to duplicate.

10 MR. NEIL KOSTICK: No local
11 distribution company can replicate the perfect
12 foresight of a model, either with respect to the price
13 inputs in the model, or with respect to daily weather
14 and corresponding load requirements that need to be
15 served.

16 MR. BOB PETERS: And in the SENDOUT
17 model that Centra used, Centra took the seasonal
18 average prices to avoid an issue with perfect
19 foresight?

20 MR. NEIL KOSTICK: That's correct. In
21 order to avoid having the model make discreet decisions
22 on short-term bases, such as daily or monthly changes
23 in prices, we used seasonal average prices to minimize
24 the effect of perfect foresight, although we could not
25 eliminate the fact that the model has perfect foresight

1 of weather and the exact load that it needs to serve
2 every single day.

3 MR. BOB PETERS: When ICF gave its
4 third conclusion, it was simply indicating to Centra
5 that the optimum storage capacity is dependent on the
6 weather as well as the deliverability requirements.
7 Would that be fair?

8 MR. NEIL KOSTICK: I believe that's
9 fair.

10 MR. BOB PETERS: Those are two (2)
11 parameters that Centra knew going into its portfolio
12 analysis that would be very large factors in coming up
13 with what would be an optimum portfolio?

14 MR. NEIL KOSTICK: I'm sorry, just to -
15 - to step back for a second. The two (2) factors, just
16 to clarify, are --

17 MR. BOB PETERS: We're dealing with
18 weather as well as the deliverability requirements.

19 MR. NEIL KOSTICK: Sure, absolutely.

20 MR. BOB PETERS: And the weather is an
21 unknown, and so Centra, you've told the Board, used
22 twenty (20) years of weather data. Correct? In its
23 SENDOUT model?

24 MR. NEIL KOSTICK: Yes, that's correct.

25 MR. BOB PETERS: And ICF, I think, used

1 even longer. Didn't they use thirty-four (34) years of
2 weather data?

3 MR. NEIL KOSTICK: I believe they used
4 thirty-four (34) years of weather, yes.

5 MR. BOB PETERS: Did that data come
6 from Centra?

7 MR. NEIL KOSTICK: Subject to check, I
8 believe ICF has its own weather data for regions across
9 North America. So I believe they use their own weather
10 data, although I would have to check to verify that.

11 MR. BOB PETERS: No, that's fine. And
12 so if Centra can tell ICF what percent of all weather
13 scenarios are to be met by the portfolio as well as
14 what is Centra's desired deliverability, then the ICF
15 model can provide a recommendation as to the storage
16 volume?

17 MR. NEIL KOSTICK: Given certain
18 assumptions or requests that could potentially be
19 provided to ICF, they could come up with a
20 recommendation based on model results that would
21 indicate what the lowest-cost portfolio would be,
22 subject to whatever you're asking the portfolio to
23 include, in terms of deliverability and so forth.

24 MR. BOB PETERS: In ICF's model they
25 would get thirty-four (34) separate optimized

1 portfolios for each deliverability level that was
2 selected?

3 MR. NEIL KOSTICK: Subject to check, I
4 believe they would get at least that number. I believe
5 they factored in some other matters as well, as far as
6 different price volatility. So you may have even had
7 more results than that, but that would be subject to
8 check.

9 MR. BOB PETERS: When we turn to Tab
10 20, page 82 of the book of documents, we see a couple
11 of charts that come from ICF. And then in particular,
12 Table 2 is the one I wanted to look at.

13 It provides a range of optimized storage
14 capacity based on weather and price variations,
15 correct?

16 MR. NEIL KOSTICK: Yes, that's correct.

17 MR. BOB PETERS: And just so the Board
18 has an understanding as to the interpretation of this
19 chart, Mr. Kostick, the table breaks down different
20 storage day deliverabilities for both option A and
21 option B?

22 MR. NEIL KOSTICK: Yes, that's correct.

23 MR. BOB PETERS: And then it -- it
24 provides an optimum storage capacity, in petajoules, in
25 the chart based on the -- on the deliverability that is

1 sought by Centra?

2 MR. NEIL KOSTICK: It does not actually
3 provide -- I guess they've labelled the table as
4 "Optimum Working Gas Storage Capacity," but what
5 they've really done here is provided averages,
6 maximums, minimums, a median, and a 75th percentile
7 storage capacity. So I guess it depends on how you
8 define "optimal".

9 But the reality is they, as we discussed
10 yesterday, they determined a discrete portfolio for
11 every single weather and price scenario. So in effect,
12 there were multiple -- in effect, there were multiple
13 optimum storage capacities.

14 And in this case in order to, I guess,
15 try to wrap your hands around it, they provided what
16 the average was, what the maximum, median, and 75th
17 percentile storage capacities would be. So it doesn't
18 actually -- despite the labelling of the table --
19 indicate a single optimum storage capacity.

20 MR. BOB PETERS: If Centra wanted ICF
21 to give a recommendation as to a seventy (70) day
22 storage capacity, and that storage capacity was to be
23 an optimum capacity in size, 75 percent of the weather
24 that was incurred, then ICF is recommending 18.09
25 petajoules, Mr. Kostick?

1 MR. NEIL KOSTICK: I believe the 18.09
2 petajoules represents the storage capacity selected in
3 -- or, the storage capacity would be 18.09 petajoules
4 or less in 75 percent of the cases that they ran.

5 MR. BOB PETERS: And the 75 percent of
6 the cases were weather-related cases?

7 MR. NEIL KOSTICK: Weather and price
8 cases.

9 MR. BOB PETERS: And from this data
10 that ICF has provided to Centra, where on this table
11 does Centra gain comfort that the portfolio that it
12 suggests is optimal coincides with ICF's recommendation
13 of optimal portfolio?

14 MR. NEIL KOSTICK: What ICF has
15 presented is a range of results. And we can see,
16 generally speaking, for the ANR storage results, if
17 it's -- whether it's a fifty (50) day service or a
18 seventy (70) day service, the average of the storage
19 capacity results were in the 15.6 to 17 petajoule
20 range. From our perspective, that's not a dramatic
21 difference from the 15.5 petajoules that we've
22 selected.

23 The median could also be looked at. It
24 ranges anywhere from 13 to 15 petajoules. Again, not
25 dramatically different than what we've selected. And

1 in terms of if you want to cover off 75 percent of the
2 weather scenarios that could be faced, the results are
3 saying in the 18 to 19 petajoule range you would want
4 to have as your storage capacity.

5 So there isn't a single answer in the
6 ICF results. But in total, it's not suggesting 5
7 petajoules and it's not suggesting 30 petajoules. It's
8 somewhere within a couple of petajoules of what we've
9 selected, the 15 1/2 petajoules. So we take some
10 comfort in that regard.

11 MR. BOB PETERS: Does Centra interpret
12 the ICF results in Table 2, Mr. Kostick, to mean that
13 the -- to -- to cover off for the extremes of weather
14 as well as the price, the portfolio should be 29.28
15 petajoules for the seventy (70) day storage?

16 MR. NEIL KOSTICK: No, we don't. We
17 don't take that interpretation at all. As we've talked
18 about, the ICF analysis for the coldest weather
19 scenario, we'll select a portfolio for just that one
20 (1) coldest annual weather scenario. In which case, it
21 shows a very high storage capacity in the range of
22 almost 30 petajoules.

23 In Centra's case, the model selected a
24 single best fit portfolio across twenty (20) years of
25 weather. And that would include cold years and warm

1 years. And if it only -- if our modelling only
 2 selected storage capacity based on the coldest year, it
 3 would probably tell us to take more storage. But we
 4 don't necessarily design the portfolio on the
 5 assumption that every year is going to be an extreme
 6 cold year. Our modelling exercise was intended to
 7 determine a best fit portfolio across the -- the range
 8 of weather that we would likely face in Manitoba.

9 MR. BOB PETERS: Recognizing that what
 10 your portfolio -- what Centra's portfolio doesn't
 11 cover, you'll have to scramble or find other solutions
 12 for?

13 MR. NEIL KOSTICK: No, that's not the
 14 case. The portfolio that we've put forward to this
 15 Board covers off all weather scenarios. Even though it
 16 doesn't select a portfolio to be the perfect portfolio
 17 for the coldest weather, it's still a portfolio that
 18 has to serve all weather scenarios.

19 So in the coldest weather the portfolio
 20 will serve our market and in the warmest weather our
 21 portfolio will serve the market. And it's a portfolio
 22 that is designed to minimize total portfolio costs over
 23 twenty (20) different weather scenarios. It's the
 24 best-fit portfolio.

25 MR. BOB PETERS: Didn't Mr. Sanderson

1 tell the Board that under the 15.5 petajoules, that
 2 would not have been the -- or that was not sufficient
 3 capacity in the coldest year on record, so the company
 4 had to make alternate arrangements for what the -- for
 5 what the actual portfolio didn't accommodate?

6 MR. BRENT SANDERSON: I don't know if
 7 that's an accurate characterization of what I -- what I
 8 stated yesterday, Mr. Peters. I didn't state that our
 9 storage -- our portfolio of storage assets was
 10 inadequate in 1996. At all times, our storage assets
 11 are just one (1) element of a broader portfolio, and
 12 they work in concert with one another.

13 And as I stated in that -- that day in
 14 1996, where temperatures averaged minus 38 degrees
 15 Celsius throughout the day, the load was met with our
 16 portfolio of assets. So it's a matter of tradeoffs
 17 between incurring fixed demand costs each and every
 18 year and pla -- and using a planning assumption that
 19 you'll achieve your design year each and every year,
 20 versus shedding some of those ongoing fixed demand
 21 costs each and every year with the knowledge that some
 22 variable costs may be higher in those unusual years
 23 versus extraordinarily cold.

24 But as Mr. Kostick stated, over multiple
 25 weather scenarios, on average, your net costs will be

1 less on the whole -- the whole portfolio taken together
2 as a sum total whole.

3 MR. BOB PETERS: Thank you, Mr.
4 Sanderson. And I was not wanting to put words in your
5 mouth, but I understood from your evidence of yesterday
6 that the -- the 15.5 petajoules of storage was
7 completely emptied back in 1996. Was that correct?

8 MR. BRENT SANDERSON: For all intents
9 and purposes, yes.

10 MR. BOB PETERS: And I thought you
11 indicated that Centra could have used more storage in
12 that year?

13 MR. BRENT SANDERSON: If cost wasn't a
14 consideration.

15 MR. BOB PETERS: And instead of --
16 instead of cost being a -- if cost wasn't a limiting
17 factor, your -- your answer was meant then that Centra
18 would be wise to have additional storage for those
19 types of extreme weathers?

20 MR. BRENT SANDERSON: No, I don't think
21 that's what I said. I just said in that particular
22 circumstance, if cost wasn't a consideration to Centra,
23 sure -- if I had no other qualifying considerations,
24 I'm sure I would -- we would have loved to have had
25 more storage. But, as I said, we manage on a total

1 portfolio basis all of the assets in concert with one
2 another.

3 And our portfolio has served us well.

4 And we have had adequate storage, in our opinion, over
5 the twenty (20) years of the existing portfolio. And
6 it's our position that the proposed portfolio will
7 feature adequate storage to serve our market's
8 requirements over the coming proposed term of that
9 portfolio.

10 MR. BOB PETERS: So in 1996, when there
11 wasn't additional gas in storage for that cold day, Mr.
12 Sanderson, Centra had to make alternate arrangements to
13 provide that gas, would that be correct?

14 MS. LORI STEWART: Mr. Peters, I -- I
15 think we should clarify a couple of issues right now.
16 I -- I don't think we would want this Board to be
17 comparing 15.5 petajoules of storage with one (1) set
18 of attendant transportation and other arrangements,
19 with what we're proposing today. The capacities happen
20 to be the same, but they are different portfolios and
21 they are not readily comparable.

22 The other thing that it's important to
23 distinguish between is serving a peak day and serving a
24 peak season. So on the firm peak design day that we
25 were discussing with Mr. Peters, during any day of the

1 winter we have a daily deliverability constraint. It
 2 doesn't matter whether the temperature in Winnipeg is
 3 minus 20 or minus 38, we have a contractual
 4 deliverability constraint.

5 And what we do in those circumstances is
 6 for those five (5), ten (10), fifteen (15) days out of
 7 the winter where we have the potential to range beyond
 8 our contractual deliverability constraint, we put in
 9 place and we pre-contract, such that we are assured
 10 that we have firm peaking delivered services arranged
 11 for the market. And I described yesterday how they
 12 typically take the form of a call option, such that we
 13 don't incur demand charges associated with them.
 14 Rather, we pay as we go in the event that we have the
 15 need to call on them.

16 So I think we need to ensure that the
 17 record is clear as it relates to are we discussing a
 18 peak seasonal requirement or a peak daily requirement.
 19 And Mr. Sanderson's comments were associated with the
 20 seasonal requirement in '95/'96. And that seasonal
 21 requirement in -- in effect ended us with a -- a
 22 storage ending inventory balance of zero.

23 MR. BRENT SANDERSON: Just to add one
 24 (1) further item of clarification. There's no direct
 25 correlation between our experience on February 1st,

1 '96, necessarily, and the end of season complete draw-
2 down of storage. We could have just as easily had a
3 year where we had February 1, 1996, and ended that same
4 year, depending on what the subsequent weather was
5 after February 1st, and ended with a material carry
6 over in the storage balance as well.

7 MR. BOB PETERS: Yes, thank you both
8 for the -- for your clarifications. The fourth
9 conclusion reached by ICF was amounting to the
10 conclusion that Centra's best value for gas purchases
11 is still from Western Canada. Is that correct, Mr.
12 Kostick?

13 MR. NEIL KOSTICK: Yes, that's correct.

14 MR. BOB PETERS: And -- and then ship
15 it to Manitoba?

16 MR. NEIL KOSTICK: Yes.

17 MR. BOB PETERS: And just before the
18 morning recess there was discussions with the Board
19 that even with TCPL's tolls, and the tolling issues,
20 that Western Canada gas still appears to be the
21 preferred or the best option for Manitoba?

22 MR. NEIL KOSTICK: I believe the ICF
23 report indicates that for the majority of natural gas
24 that serves the Manitoba market, that Western Canadian
25 supply is still economic, relative to other options.

1 MR. BOB PETERS: Centra agrees with
2 that conclusion?

3 MR. NEIL KOSTICK: Yes. And as our
4 model -- model results indicate, that were filed in Tab
5 7 of the application, we ex -- at least based on the
6 model results, our model results suggest that about 90
7 percent of annual purchases would be Western Canadian
8 versus 10 percent from other sources.

9 MR. BOB PETERS: Mr. Kostick and Ms.
10 Stewart, in the time maybe left before the lunch hour
11 if you could turn back to Tab 5 of the book of
12 documents and let's look at the proposed portfolio on
13 the -- on the map. And at Tab 5 we're looking at the
14 summer operations. On page 24 of the book of documents
15 is the current one, and on page 25 is what is proposed.
16 Have I got that correct?

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

18 MR. BOB PETERS: And, Ms. Stewart, the
19 proposed summer operations in terms of Empress to
20 Manitoba on TCPL, and the surplus going to Emerson, and
21 then along Great Lakes Gas Transmission to Crystal
22 Falls, around Lake Michigan, to storage on the proposed
23 route, that's the same as it was -- in terms of routing
24 as it was on the existing situation?

25 MS. LORI STEWART: For storage refill

1 purposes, yes.

2 MR. BOB PETERS: And what is new on the
3 summer operations is that the southeast leg -- the
4 Louisiana leg and the southwest Oklahoma leg are
5 removed?

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

7 MR. BOB PETERS: And one (1) of the
8 additions that has been mentioned is that the Joliet to
9 storage capacity is a -- is a new addition to the
10 portfolio?

11 MS. LORI STEWART: That's correct.

12 MR. BOB PETERS: And would I be correct
13 in recalling Mr. Stauff as indicating that it raises a
14 question as to whether or not this ANR -- sorry, this
15 Joliet to ANR storage is needed? That was one (1) of
16 his issues?

17 MR. NEIL KOSTICK: I believe that's
18 correct that Mr. Stauff did raise that issue, and I
19 believe it was primarily on the basis of an assumption
20 that on a normal year basis that Centra would typically
21 withdraw approximately 10 petajoules of gas from
22 storage. Whereas in our -- I believe in our IRs and
23 rebuttal evidence we clarified that we anticipate
24 pulling harder on storage essentially. In which case,
25 on a normal expected year basis for normal weather,

1 that that transportation would be utilized on a -- on a
2 forecast basis under normal weather.

3 MR. BOB PETERS: And the cost that --
4 just while we have it there, the AN -- sorry, the
5 Joliet Hub to ANR storage, that was quantified I
6 believe on Tab 13 of the book of documents, that
7 particular leg, if we looked it up, was about a hundred
8 and ninety-two thousand dollars (\$192,000) a year?

9 MR. NEIL KOSTICK: Yes, that's correct.

10 MR. BOB PETERS: And one of the changes
11 as well, although perhaps best seen in the winter, Ms.
12 Stewart, is that the storage has been divided into
13 seasonal storage, 8.1 petajoules, and there's also 7.4
14 petajoules of annual storage?

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

16 MR. BOB PETERS: And the distinction of
17 note is that the annual storage of 7.4 petajoules can
18 be utilized for infill during the heating season or
19 during the winter season?

20

21 (BRIEF PAUSE)

22

23 MS. LORI STEWART: As described in my
24 direct evidence, Mr. Peters, what the portion of annual
25 storage allows us to do is to, in essence, empty that

1 portion of storage to the tune of 3.1 petajoules, and
2 then permits us to refill within that same winter
3 heating season if indeed storage is being drawn down.

4 MR. BOB PETERS: The reason you
5 mentioned the -- the draw down to 3.1 petajoules, is
6 that a contractual limitation, or is that when the
7 ratchets kick in?

8 MS. LORI STEWART: That is the
9 contractual limitation driven by the cycling ratio of
10 one point four two (1.42).

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: In addition, Ms.
15 Stewart, to -- well, let's turn to the -- let's turn to
16 the winter page at Tab 6 of the book of documents, page
17 27 and 28 particularly. The -- the maps are the same
18 in terms of being they're supply provided direct to
19 load from western Canada, as well as the back-haul from
20 storage, Ms. Stewart?

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

22 MR. BOB PETERS: And when we look down
23 to the re-injection in winter on the annual storage
24 component that you were just talking about, that annual
25 injection into storage in winter, that can be

1 accommodated from the Joliet storage component?

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

3 MR. BOB PETERS: Could it also be
4 accommodated by a direct purchase at the ANR storage
5 site?

6 MS. LORI STEWART: Yes, potentially,
7 recognizing the discussion that we've had earlier today
8 on the record about the liquidity concerns at the ANR
9 injection point.

10 MR. BOB PETERS: Centra would simply
11 index any purchases at ANR to the MichCon Hub and
12 compare them to what it would be buying at the Joliet
13 Hub, would it not?

14 MS. LORI STEWART: Yes, recognizing
15 that at the ANR injection point we are not able to view
16 the pricing on an electronic data platform, so we would
17 need to go to the market to assess what value would be
18 associated with the gas at that point.

19 MR. BOB PETERS: I'm not asking
20 necessarily how you practically do it, Ms. Stewart, but
21 you could have the ANR -- sorry, you could have the --
22 the Joliet Hub data on your screen while you're on the
23 phone to some supplier looking for gas at the -- at the
24 ANR site. Is that how it'd work?

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

1 MR. BOB PETERS: A bit more cumbersome
2 than electronically, but still an option?

3 MS. LORI STEWART: An -- an option,
4 yes, with the proviso that we typically would not seek
5 to source just one (1) price quote. We're much more
6 comfortable in a situation where we have at least three
7 (3) quotes on the table from counter-parties. And that
8 speaks to the challenges in terms of the price
9 transparency or price discovery at that point.

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Ms. Stewart, in terms
14 of the TransCanada pipeline firm transportation, Centra
15 has over the last five (5) years been reducing its firm
16 transportation commitment on that pipeline. Is that
17 correct?

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

19 MR. BOB PETERS: And do you recall back
20 in '06/'07, Centra was contracted for about 200,000
21 gigajoules a day?

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

23 MR. BOB PETERS: And then Centra
24 reduced that, I think the following year, down to 160
25 gigajoules a day?

1 MS. LORI STEWART: That's correct.

2 MR. BOB PETERS: And then a further
3 reduction the following year down to 135 gigajoules a
4 day?

5 MS. LORI STEWART: That's correct.

6 MR. BOB PETERS: And there was also, I
7 guess, some -- in '11 and '12 we've seen the numbers,
8 and they were, I think, 110 gigajoules a day, if I have
9 that right?

10 MS. LORI STEWART: That's correct.

11 MR. BOB PETERS: And for next year, or
12 the -- the upcoming gas year, a further 20 percent
13 decline down to approximately 90,000 gigajoules a day?

14 MS. LORI STEWART: That would be a
15 20,000 GJ decline as opposed to a 20 percent decline.
16 However, I -- I really would like the Board to consider
17 that to be an interim planning step that we took. We
18 are in that planning cycle at present. And we have not
19 concluded what our ultimate contract demand levels will
20 be effective November the 1st.

21 MR. BOB PETERS: And should the Board
22 take from your answer, Ms. Stewart, that, as we maybe
23 discussed yesterday, Centra can still acquire
24 additional transportation, firm transportation from
25 TCPL, simply because you know they have excess

1 capacity?

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

3 MR. BOB PETERS: Does the indication of
4 reducing the firm transportation on TCPL suggest that
5 Centra is planning to make up that reduced capacity by
6 taking more gas from storage arrangements than from
7 Western Canada?

8 MS. LORI STEWART: Yes. Mr. Kostick
9 has described how with the proposed portfolio we would
10 be pulling harder on storage in the proposed scenario
11 relative to what we do today.

12 MR. BOB PETERS: But by pulling harder
13 on storage and reducing, at least on an interim basis,
14 the TransCanada firm transportation capability, does
15 that impact Centra's ability to fill storage with what
16 ICF says is the cheaper Western Canadian supplied gas?

17

18 (BRIEF PAUSE)

19

20 MS. LORI STEWART: I'm sorry, Mr.
21 Peters, could you repeat your question.

22 MR. BOB PETERS: I was trying to tie
23 together some of your last answers, Ms. Stewart, for
24 the Board. And with the apparent planned reduction on
25 firm transportation on TransCanada pipeline I think you

1 agreed with me that that signals that Centra can make
2 up some of that reduced capacity by I believe your
3 words were "drawing harder on storage"?

4 MS. LORI STEWART: That's correct.

5 MR. BOB PETERS: And does the re --
6 does reduced contracting capacity on TransCanada
7 pipeline also impact Centra's ability to fill storage
8 with Western Canadian-sourced gas?

9 MS. LORI STEWART: No, it -- it
10 doesn't. Our storage and transportation service
11 contractual limit for storage fill is 54,000 GJs per
12 day, and that is not proposed to change from today. So
13 we -- we can flow fifty-four thousand (54,000) a day
14 into storage for the duration of the summer season for
15 storage refill purposes.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Maybe you've done the
20 math, Ms. Stewart, in answering that question. But out
21 of the ninety thousand (90,000) that's coming from
22 Western Canada on the firm transportation you still
23 have to meet the Manitoba delivery area's load even in
24 the summertime?

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

1 MR. BOB PETERS: Even in the shoulder
2 months?

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

4 MR. BOB PETERS: And is there still
5 sufficient volumes flowing past Winnipeg then to allow
6 the Western Canadian component of storage to still be
7 approximately what it has in the past, the 10
8 petajoules?

9

10 (BRIEF PAUSE)

11

12 MS. LORI STEWART: I think we have to
13 recognize that how we're serving the load is made up of
14 not just our TransCanada firm transportation capacity.
15 So that is one (1) means by which we're bringing
16 natural gas to our load. But, in addition, we also are
17 relying on primary gas transported by others. Or in
18 various places in the application, at one (1) point it
19 was referred to as "delivered services" as distinct
20 from "peaking delivered services."

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Ms. Stewart, does that
25 answer confirm that Centra can still flow 10 petajoules

1 of Western Canadian-sourced gas into storage under the
2 proposed new arrangements with TransCanada pipeline, as
3 well as the existing portfol -- or the proposed
4 portfolio?

5 MS. LORI STEWART: Yes, it does.

6 MR. BOB PETERS: Can it flow more than
7 10 petajoules into storage from Western Canadian gas,
8 Ms. Stewart?

9 MS. LORI STEWART: The -- the
10 constraint in terms of how much Western Canadian supply
11 we can -- we can flow into storage, is the contractual
12 limit associated with our storage and transportation
13 service.

14 And then as that gas starts to move down
15 the pipeline on Great Lakes and onto ANR, those are the
16 contractual limits in -- that will define how much
17 western Canadian gas can move into storage. And I've
18 described that our contractual limit on our storage and
19 transportation service contract is 54,000 GJs a day
20 today. And it is proposed to remain at 54,000 GJs a
21 day for our storage refill season.

22 MR. BOB PETERS: Mr. Chairman, in light
23 of the hour, I'll just review my notes during the lunch
24 break if I could, but I think that concludes that
25 topic. And I'll move on and cover a few more topics

1 after lunch this afternoon.

2 THE CHAIRPERSON: Mr. Lafond has a
3 question.

4 MR. RAYMOND LAFOND: Simply Tab 8, page
5 36, versus Tab 22, page 88 of the book of documents
6 there. My question is, we've got in the blue section
7 in the bottom, TCPL a hundred and thirty-seven (137)
8 units versus contract demand renewed of 90,000
9 gigajoules per day.

10 What's the relationship there? Or can
11 you explain to me what -- what the issue is here?

12 MS. LORI STEWART: I -- I don't think
13 there is an issue. I'm not sure if meter -- Mr. Peters
14 thinks there is one (1), but I -- I can explain the
15 difference.

16 MR. RAYMOND LAFOND: Please.

17 MS. LORI STEWART: The 137.2 swath in
18 the blue on page 36 represents our TransCanada firm
19 contract demand, associated with the winter of
20 2010/2011. And typically, we're always referring to
21 the swath of capacity that brings gas to the Manitoba
22 delivery area. We have a small swath of capacity also
23 contracted to the southern Saskatchewan delivery area
24 that fill -- feeds the parkland area of the province.
25 But, generally speaking, for simplification purposes, I

1 confirmed for Mr. Peters that out of that 137.2, a
 2 hundred and thirty-five thousand (135,000) a day of gas
 3 was trans -- was contracted for TransCanada for firm
 4 service in the winter of 2010/'11.

5 Now let's move forward a year and we're
 6 in the winter -- the current gas year, and our contract
 7 demand on TransCanada mainline currently today to the
 8 MDA, is 110,000 GJs per day. So we dropped an
 9 additional twenty-five thousand (25,000) a day of firm
 10 service on the Trans Canada mainline.

11 Now going forward to the upcoming winter
 12 of 2012/'13, which commences on November the 1st, we
 13 have a contracting deadline of April the 30th, for that
 14 particular firm contract. And we renewed at the level
 15 of 90,000 GJs per day, so we dropped an additional
 16 twenty thousand (20,000) of firm service on the
 17 TransCanada mainline. And I'm simply advising the
 18 Board that that was a preliminary step that we took,
 19 but we are currently in the planning cycle for the gas
 20 year that commences November the 1st.

21 So I'm saying please don't hold -- hold
 22 me to that. I may go and recontract 20,000 a day.
 23 We're in that planning cycle right now.

24 And what I'm assuring the Board of is
 25 that if indeed we believe that it's in the best

1 interest of ratepayers to resecure some firm capacity
2 on the TransCanada mainline, we have no -- there is no
3 doubt then that I can obtain that in advance of
4 November the 1st.

5 There is -- there is oodles of empty
6 capacity on that pipeline right now.

7 MR. RAYMOND LAFOND: Thank you.

8 THE CHAIRPERSON: Let's recess now and
9 resume proceedings at 1:30.

10

11 --- Upon recessing at 12:10 p.m.

12 --- Upon resuming at 1:31 p.m.

13

14 THE CHAIRPERSON: Welcome back,
15 everyone. Mr. Peters...?

16 MR. BOB PETERS: Yes, thank you, Mr.
17 Chairman.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: Witness panel, I'd
21 like you to please turn with me to Tab 13 of the book
22 of documents that has been distributed as PUB Exhibit
23 7, specifically page 48 for those following on the PDF
24 copy. Oh, I'm sorry, Mr. Kostick -- oh, he is here.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Kostick, I
4 appreciate you have a better filing system than I may.
5 I was drawing the witness panel's attention to Tab 13
6 of the Board counsel book of documents, looking at a
7 document that is from Tab 8, attachment 5 of Centra's
8 initial application.

9 Please let me know when you have that at
10 hand.

11 MR. NEIL KOSTICK: Yes, I see that.
12 Thank you.

13 MR. BOB PETERS: Mr. Kostick and
14 others, this chart at Tab 13 of Board counsel's book of
15 documents is the numerical representation of the
16 financial impacts of the current US storage and
17 transportation portfolio compared to the proposed US
18 storage and transportation portfolio.

19 Is that correct?

20 MR. NEIL KOSTICK: Yes, it is.

21 MR. BOB PETERS: And when the Board
22 looks at this information, there will be on the
23 predominantly -- well, the ver -- the -- the first
24 column, called "Tariff Rate," is the tariff rate that
25 is in effect as approved by the Federal Energy

1 Regulatory Commission in the United States for the
2 service offering?

3 MR. NEIL KOSTICK: Yes, that's correct.

4 MR. BOB PETERS: And that tariff rate,
5 Mr. Kostick, applies not only to the current portfolio,
6 but the same rate applies going forward to the proposed
7 portfolio?

8 MR. NEIL KOSTICK: Yes, that's unless
9 ANR has a FERC -- or ANR and/or Great Lakes have a rate
10 case before FERC, at which time the FERC-regulated
11 tariff rates could change.

12 MR. BOB PETERS: Are there any cases
13 before FERC from ANR and Great Lakes on these tolls?

14 MR. NEIL KOSTICK: I believe Great
15 Lakes is scheduled to have a rate case in 2013. And I
16 am not aware of any pending rate case for ANR.

17 MR. BOB PETERS: Just on that point,
18 Mr. Kostick, if FERC was to approve an increased rate
19 on any of the ANR or Great Lakes gas transmission, that
20 would have no impact on Centra's rates for the next
21 seven (7) years?

22 MR. NEIL KOSTICK: That's correct.

23 MR. BOB PETERS: If FERC was to reduce
24 an ANR or a Great Lakes rate below the level that's
25 been negotiated in the proposed portfolio, then Centra

1 would get the benefit of paying the reduced new rate
2 set by FERC?

3 MR. NEIL KOSTICK: Yes, that's correct.

4 MR. BOB PETERS: If FERC approved a
5 minimum tariff rate that is above the negotiated rate
6 in the proposed portfolio, does Centra face risk or
7 exposure to increase the costs and the amounts payable
8 to ANR or Great Lakes gas transmission if the minimum
9 tariff rate exceeds the negotiated rate?

10 MR. NEIL KOSTICK: I think I would have
11 to verify that. I -- I couldn't say with certainty
12 what would happen if a minium rate were increased. We
13 could -- we could check on that. We could inquire with
14 ANR and Great Lakes, but I'm not certain as to that
15 answer.

16 MR. BOB PETERS: Well, then I'd ask you
17 through your counsel if you could undertake to advise
18 the Board as to whether or not, in the event that the
19 minimum FERC rate is increased to a level that exceeds
20 the negotiated rate in the proposed portfolio, whether
21 Centra would have to pay additional costs to what it's
22 asking the Board to approve in this rate filing.

23 Is that acceptable, sir?

24 MR. NEIL KOSTICK: Yes, it is.

25 MR. BOB PETERS: All right. Thank you

1 for that.

2

3 --- UNDERTAKING NO. 4: Centra to indicate if, in
4 the event that the minimum
5 FERC rate is increased to a
6 level that exceeds the
7 negotiated rate in the
8 proposed portfolio, it
9 would pay the additional
10 costs it's asking the Board
11 to approve in this rate
12 filing

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: So subject to that --
16 Mr. Kostick, subject to that undertaking and the
17 response that comes back, the number, \$14,049,344, US
18 dollars, represents still the request from the company
19 in terms of approval of the cost consequences of the
20 portfolio?

21 MR. NEIL KOSTICK: Yes, that is
22 correct.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Kostick, the --
2 the tariff rate shown in the far left-hand column on
3 this document found on page 48 of Board counsel's book
4 of documents, the tariff rate is the maximum FERC
5 tariff rate.

6 Have I got that right?

7 MR. NEIL KOSTICK: Yes, it is.

8 MR. BOB PETERS: You haven't listed the
9 minimum rate anywhere?

10 MR. NEIL KOSTICK: That's correct.

11 MR. BOB PETERS: And under the current
12 portfolio, the Board can compare the tariff rate to the
13 rate in the next column, and that'll tell the Board
14 whether or not Centra is enjoying a discount or whether
15 Centra is paying the full tariff rate to ANR or Great
16 Lakes.

17 MR. NEIL KOSTICK: Yes, that's correct.

18 MR. BOB PETERS: And in some cases --
19 for example, perhaps line 6 is a good example -- on the
20 storage capacity Centra is currently paying maximum
21 tariff?

22 MR. NEIL KOSTICK: Yes, for the storage
23 capacity.

24 MR. BOB PETERS: And likewise, line 23
25 for ANR Southeast summer, looks like you're paying

1 maximum, and likewise, line 26 for Emerson to Crystal
2 Falls on the summer forward haul transportation?

3 MR. NEIL KOSTICK: Yes, that's correct.

4 MR. BOB PETERS: All the rest of them
5 are discounted?

6 MR. NEIL KOSTICK: Yes.

7 MR. BOB PETERS: Do you agree with the
8 suggestion that whether -- whether these rates are
9 discounted is a function of the market competitive --
10 combatib -- competitiveness?

11 MR. NEIL KOSTICK: I would largely
12 agree with that.

13 MR. BOB PETERS: So it's supply and
14 demand, as somebody said earlier. It depends what
15 everybody wants and was capacity is left as to how high
16 the tolls will go?

17 MR. NEIL KOSTICK: To a large extent,
18 yes.

19 MR. BOB PETERS: And on the right side
20 of the schedule, at Tab 13 of Board counsel's book of
21 documents, that contains the proposed portfolio that
22 Centra is putting before the Board, correct?

23 MR. NEIL KOSTICK: Yes.

24 MR. BOB PETERS: Is it also correct
25 that the Board will find that each and every rate that

1 is being charged is discounted from the maximum tariff,
2 at least to some extent?

3 MR. NEIL KOSTICK: Yes, that's correct.

4 MR. BOB PETERS: And is it therefore
5 correct that the discount reflects, again, the market
6 in terms of the supply and demand that ANR and Great
7 Lakes had for their services in their storage capacity?

8 MR. NEIL KOSTICK: That's certainly
9 part of it. I think one also has to take into account
10 the package of services that was negotiated in
11 aggregate. So in terms of what -- what I would call
12 good discounts on ANR services, ANR would take into
13 account the package of services that is being
14 negotiated, where I would expect that, given the number
15 of contracts involved in this portfolio, that over and
16 above market forces, Centra may be able to negotiate
17 rates that are somewhat even more attractive than the
18 typical rates in the market.

19 That would just be my -- my general
20 sense as far as some of the factors that are at play.

21 MR. BOB PETERS: It's Centra's general
22 sense that an understanding that ANR and Great Lakes
23 may give a discount of a certain level on some service
24 and maybe make some of that back on a different
25 service?

1 MR. NEIL KOSTICK: Ultimately, we can't
2 say exactly what the puts and takes were for ANR and
3 Great Lakes. I think they would be looking at a
4 package of services and looking at a total, not of
5 revenue. And I couldn't say exactly whether there were
6 -- whether they were making tradeoffs in terms of what
7 they wanted to charge for certain services.

8 MR. BOB PETERS: And while you don't
9 know with certainty, you certainly assume in your
10 negotiations that ANR and Great Lakes are making money
11 off of this transaction.

12 MR. NEIL KOSTICK: I would assume so.

13 MR. BOB PETERS: And does Centra also
14 assume there is a -- a friends and family discount
15 included, because you've been twenty (20) years in the
16 relationship, or is there any -- any consideration of
17 that involved from your assumptions?

18 MR. NEIL KOSTICK: I think that we're a
19 highly-valued customer of ANR and Great Lakes. And
20 that would undoubtedly factor into their consideration
21 of rates that could be charged to Centra.

22 MR. BOB PETERS: But other than that --
23 and you have no idea if that's going to buy you a cup
24 of coffee or give you a deep discount on any of these
25 services?

1 MR. NEIL KOSTICK: I can't say for
2 certain -- with certainty.

3 MR. BOB PETERS: If I understood Mr.
4 Staauft's evidence correctly, I think he suggested that
5 compared to the FERC maximum rates, Centra was getting
6 an approximate \$2 million discount on its storage
7 costs. Do you recall reading that?

8 MR. NEIL KOSTICK: I don't recall the
9 exact reference. We are getting, I guess, in total,
10 the storage would be, in total, compared to what we
11 have today about \$2 million less expensive. So if
12 that's a similar reference or if that's the nature of
13 the reference, then I would agree with that.

14 MR. BOB PETERS: All right. I'll --

15 MR. NEIL KOSTICK: Maybe just to
16 clarify, it would be a \$2 million discount relative to
17 the current storage costs. It would actually be a \$3
18 million discount relative to tariff rates.

19 MR. BOB PETERS: Thank you. I think
20 you've answered my question, Mr. Kostick. And the
21 reference I had, should it become important for you, is
22 his pre-filed evidence page 16 of 24, I think line 16.

23 But -- but you've said that relative to
24 the tariff rates, a \$3 million discount is what Centra
25 calculates approximately, has been the -- the reduction

1 in the -- in the portfolio going forward?

2 MR. NEIL KOSTICK: That is strictly on
3 the storage costs. Centra's total discount relative to
4 the maximum rate for the entire portfolio is about \$17
5 million. So these services, at maximum tariff rate,
6 would be about \$31 million. Centra's rate will equate
7 to \$14 million.

8 MR. BOB PETERS: Mr. Kostick, would
9 Centra agree that comparing what you have in hand today
10 with ANR and Great Lakes, in terms of costs, to what
11 you are prospectively looking for in the future, is not
12 the valid comparison that this Board should consider?
13 But rather, the Board should consider not what you
14 currently have, but what were the options available
15 going forward, and which option Centra selected?

16 MR. NEIL KOSTICK: I think it all has
17 to be considered. At the end of the day, we compared
18 the proposed ANR and Great Lakes portfolio to all of
19 the other options. And it wasn't simply a comparison
20 to what we're -- what we currently have with ANR and
21 Great Lakes. So what we're putting forward is, in our
22 view, the most reliable portfolio option. And it's
23 also the lowest cost.

24 MR. BOB PETERS: Let me ask it this
25 way, Mr. Kostick, and my question may have been too

1 long-winded. But the fact that the proposal before the
2 Board is on storage, as an example, is \$2 million less
3 expensive than what you currently have. Isn't that an
4 irrelevant consideration going forward from Centra's
5 perspective, because Centra has to look at the options
6 that are available going forward, not what they already
7 have or what was available in the past?

8 MR. GREG BARNLUND: Mr. Peters, if I
9 might, I think that that's an accurate -- or inaccurate
10 statement. I think that the relevant point of
11 reference is what was available to Centra at the time
12 the decision had to be entered into. And -- and given
13 that circumstances have produced an outcome that is
14 less expensive than the existing assets is -- is good,
15 but it's important that we're comparing it really with
16 the options we had available to us at the time that we
17 had to make the decision.

18 If other circumstances existed that if
19 we evaluated all of the options, and if the most
20 appropriate choice of all those options at the time was
21 \$2 million more expensive than what we had in the past,
22 it still should be evaluated based on the options we
23 had available to us at that time.

24 MR. BOB PETERS: Thank you. You
25 actually asked and answered the question I had, and

1 that was simply if it was \$2 million more than what you
2 currently have, that would not remove it as the optimum
3 portfolio before the Board.

4 MR. GREG BARNLUND: If that was the
5 best solution, then -- then that would be the case,
6 right.

7 MR. BOB PETERS: Yeah. And -- and
8 let's suppose that you -- if the cost was \$2 million
9 more than the current portfolio as shown at Tab 13 of
10 the book of documents, and Centra did all the due
11 diligence that we've talked about for a day and a half,
12 Centra would still be putting forth before this Board
13 the proposed portfolio at \$14 million.

14 MR. GREG BARNLUND: Yes, we would.

15 MR. BOB PETERS: All right. Thank you
16 for that, Mr. Barnlund. Also, Mr. Kostick and Mr.
17 Barnlund, when the Board sits back and considers all
18 the evidence that it has heard, how is Centra able to
19 explain or tell the Board that Centra knows that the
20 SENDOUT model has provided the optimum portfolio? How
21 -- how does Centra know for certain the inner workings
22 of the SENDOUT, and that its -- its results are to be
23 taken as -- as accurate?

24 MR. NEIL KOSTICK: SENDOUT is used by
25 approximately seventy (70) natural gas utilities across

1 North America, so it is widely used. Its been in the
2 market for a number of years. We have no reason to
3 doubt its functionality.

4 I would also suggest that in using the
5 model and running different scenarios, and inputting
6 different variables, one (1) can generally understand
7 the results that flow through from those different
8 model runs. At -- I think with any modelling exercise
9 you can run a scenario and kind of predict what it's
10 going to do, and it sort of does what you thought. In
11 other cases, it might do something slightly different
12 than you thought. But when you think about it you
13 realize what tradeoffs the model likely made. And so
14 at the end of the day it all makes sense to you. So I
15 think that's the experience that we had.

16 We've already talked about how the
17 vendor of the -- of the SENDOUT program worked with us
18 to ensure the functionality of the model. And this
19 further speaks to the additional analysis that we had
20 conducted by ICF, which was with a different model and
21 a slightly different modelling approach, and
22 fundamentally the results are similar.

23 Again, they're not suggesting -- one (1)
24 -- one (1) model result didn't suggest 5 petajoules of
25 storage versus 40 petajoules of storage. They were

1 within the ballpark of that 15 petajoules, give or take
2 a petajoule here or there. So they're directionally
3 similar.

4 And the other results were similar as
5 well, as far as identifying a small cost-benefit to the
6 ANR Great Lakes portfolio over the Option B portfolio.
7 So that was consistent. As well as the consistent
8 finding that western Canadian supply injected into
9 storage in the summer would continue to be economic, as
10 well.

11 So I think we have those number of
12 checks and balances in the whole process that give us
13 full confidence that the SENDOUT model operated
14 accurately, and provided sound results, functional
15 results, and they ultimately were considered in making
16 our portfolio decision that we have brought before this
17 Board.

18 MR. BOB PETERS: Would you agree with
19 me, Mr. Kostick, that Centra's portfolio is absolutely
20 unique amongst any other gas portfolio in North America
21 -- any -- any other gas LDC in North America?

22 MR. NEIL KOSTICK: I don't think there
23 are any two (2) LDC portfolios that are alike, so
24 they're all unique. I would suggest that the vast
25 majority of them use storage, provided it's economic.

1 Certainly it is in our case. It actually provides for
2 the lowest cost portfolio. So I don't see anything
3 particularly unusual about our portfolio.

4 MR. BOB PETERS: Did Centra do any
5 quality assurance tests on the SENDOUT model other than
6 what you've indicated so far?

7 MR. NEIL KOSTICK: No, we did not.

8 MR. BOB PETERS: Did Centra run any
9 retrospective modelling where Centra knew the outcome
10 in advance with some precision to see if the model
11 would give that precise answer?

12

13 (BRIEF PAUSE)

14

15 MR. BRENT SANDERSON: Just from a
16 modelling perspective, Mr. Peters, it's impossible, or
17 not possible to use a model with perfect foresight to
18 replicate an actual historical market outcome or market
19 result, given that the participants in that actual
20 market outcome didn't have perfect foresight.

21 So you can -- if you torture the data
22 long and hard enough, it'll confess to anything is a
23 saying that they use, but it would be an exercise of
24 little value.

25 MR. BOB PETERS: Speaking of torturing

1 the data, Mr. Sanderson, Centra could have taken away
2 the perfect foresight by putting in, as it did,
3 seasonal average prices in terms of prior years, one
4 (1) and five (5) year features contracts.

5 Could it not have done that to -- to
6 test it for an actual result?

7 MR. BRENT SANDERSON: That's just one
8 (1) of many parameters in the model though, Mr. Peters.
9 Weather is far and away a bigger influence on the
10 circumstances on the load that we have to deal with.

11 And the further and further along the
12 continuum that you go in taking the degrees of freedom
13 out of the model, well, then the result, if it does
14 agree with a historical result, would be accused of
15 being concocted in that the parameters of the model
16 were so constrained that they could yield no other
17 result than the actual outcome that you're seeking to
18 replicate.

19 MR. BOB PETERS: In summary then, Mr.
20 Sanderson, the Corporation didn't do any of that back-
21 testing, as I'll call it, partly for the reasons you've
22 indicated?

23 MR. BRENT SANDERSON: Yes, I'd agree
24 with that.

25 MR. BOB PETERS: Mr. Kostick, one (1)

1 of the terms of the proposal before the Board is that
2 these fixed costs be approved for each of the seven (7)
3 years, commencing on April 1 of 2013, correct?

4 MR. GREG BARNLUND: That's correct.

5 MR. BOB PETERS: And, Mr. Barnlund, the
6 seven (7) year number is a number that again was
7 arrived at based on the judgment of Centra. Would that
8 be correct?

9 MR. GREG BARNLUND: Yes.

10 MR. BOB PETERS: And one (1) of the
11 concerns Centra had in the near term was much of the
12 TCPL uncertainty that Ms. Stewart has testified about
13 before the Board. That's also correct?

14 MR. GREG BARNLUND: That was one (1)
15 consideration.

16 MR. BOB PETERS: And does Centra have a
17 view on how long it's going to take for that
18 uncertainty to shake down with the National Energy
19 Board such that the future of TransCanada Pipeline is
20 more definitive?

21 MR. GREG BARNLUND: I'm not sure that
22 anybody can predict any kind of a timeline for that at
23 all.

24 MR. BOB PETERS: Is Centra making an
25 assumption as to what that timeline would be, Mr.

1 Barnlund, in coming to the seven (7) years?

2 MR. GREG BARNLUND: We're not making an
3 assumption in terms of a timeline for a resolution to
4 the TransCanada situation because it is of a serious
5 enough nature that -- that it's possible it may not be
6 resolved for several years.

7 And so we did not forecast a timeline
8 for some potential resolution with regards to
9 TransCanada and take that into consideration in our --
10 explicitly in our planning.

11 MR. BOB PETERS: Centra expects the
12 TCPL uncertainty to be resolved within seven (7) years.
13 Would that be fair?

14 MR. GREG BARNLUND: I would say we
15 would hope for it to be resolved as soon as possible.
16 But I'm not sure that we have any basis for -- for
17 placing any particular expectation on a time frame.

18 MR. BOB PETERS: And if in the
19 resolution of the TransCanada situation there becomes
20 something that's favourable to Centra, Centra will have
21 to reevaluate its portfolio at that time to see if its
22 portfolio is nimble enough to capitalize on whatever
23 favourable TransCanada pipeline situation may -- may
24 occur?

25 MR. GREG BARNLUND: Well, I think it's

1 fair to say, Mr. Peters, that our staff -- Mrs. Stewart
 2 -- Ms. Stewart's staff, they do that on an ongoing
 3 basis. And she's testified to the fact that they are
 4 always evaluating options. And they would, through the
 5 regular course of their short-term and medium-term
 6 planning, would be doing that type of evaluation, and
 7 that they would take into consideration the options
 8 that were available to them, and the tolls and the
 9 costs associated with those options. And -- and they
 10 would take those into consideration in doing any form
 11 of adjustments to the gas supply portfolio throughout
 12 the course of the seven (7) years.

13 MR. BOB PETERS: And whether or not
 14 Centra could make changes to the portfolio within that
 15 seven (7) years will depend largely on what the -- what
 16 the specific issue is, or resolution of a TCPL issue.
 17 You -- you don't know in advance that you can take
 18 advantage of it, but you hope to be able to.

19 MR. GREG BARNLUND: I think generally,
 20 yes, we don't know. We would be open to assessing all
 21 the information in the market and taking all that into
 22 consideration in our planning.

23 MR. BOB PETERS: And in the negotiation
 24 stage, is it correct that the iterative -- iterative
 25 discussions on rates and prices was initially centred

1 around a five (5) year term, Mr. Kostick?

2 MR. NEIL KOSTICK: A five (5) year term
3 was discussed at some point. A five (5) year term was
4 a reasonable starting point for -- for starting
5 negotiations, recognizing that the ultimate term could
6 ultimately be something different.

7 MR. BOB PETERS: When five (5) years --
8 I'm taking from your answer, sir, that five (5) years
9 was the starting point from Centra's perspective.
10 Would that be fair?

11 MR. NEIL KOSTICK: Yes, it was the
12 starting point between ourselves and other parties that
13 we may have been talking to.

14 MR. BOB PETERS: And so you -- you were
15 comparing, as they say, apples to apples. You told all
16 of your counter-parties, 'A', 'B', 'C', and 'D', that
17 you wanted to talk five (5) year numbers. Would that
18 be fair?

19 MR. NEIL KOSTICK: That would have been
20 one (1) area that would have been discussed in opening
21 up negotiations, or discussions, with a number of
22 parties.

23 MR. BOB PETERS: Do I take -- or will
24 the Board take from your answer, Mr. Kostick, that some
25 of your counter-parties were looking for a shorter-term

1 arrangement?

2 MR. NEIL KOSTICK: Different storage
3 operators have different perspectives on whether -- on
4 how they want to deal with the term of the contract.
5 In some cases, a storage operator may feel that the --
6 the market is soft and don't want to commit to rates
7 over a particularly long term, particularly those
8 storage operators that can charge market-based rates.
9 So if they feel that the market is going to rebound and
10 they can charge three (3) or four (4) times what the
11 current value of storage is, then they might not want
12 to commit to something particularly long-term.

13 In the case of ANR, their rates are of
14 course capped at a fir -- regulated maximum rate. So
15 they might have a somewhat different view on agreeing
16 on a particular term. So it really varies by storage
17 operator that you talk to.

18 MR. BOB PETERS: Would it be a correct
19 assumption for the Board to conclude that Centra could
20 have entered into a portfolio arrangement for anywhere
21 between one (1) and seven (7) years, just leaving aside
22 the cost right now?

23 MR. NEIL KOSTICK: Yes.

24 MR. BOB PETERS: And it could have
25 entered into a storage arrangement even longer than

1 seven (7) years, again not considering the cost concern
2 at this point in time.

3 MR. NEIL KOSTICK: Yes, we believe so.

4 MR. BOB PETERS: And from -- from the
5 reading of the evidence, Mr. Kostick, would it be
6 correct for the Board to conclude that while five (5)
7 years was the -- was a strong part of the discussion
8 for a term of this agreement, it was Centra that wanted
9 to increase the term to up to seven (7) years -- up to
10 seven (7) years?

11 MR. NEIL KOSTICK: Yes, that's correct.

12 MR. BOB PETERS: And would it also be
13 correct for the Board to conclude that by Centra
14 increasing it from five (5) years to seven (7) years,
15 there was a price adva -- advantage to Centra's
16 consumers by so doing?

17 MR. NEIL KOSTICK: The rates that were
18 ultimately agreed to for the seven (7) year term were
19 the best rates that we negotiated. So the rates that
20 we negotiated, which are the best rates we feel that we
21 could get, are associated with a seven (7) year term.

22 MR. BOB PETERS: That's a very
23 political answer, because it doesn't answer my
24 question, because the best rates could still be the
25 rates that are before the Board on this piece of paper,

1 for -- and I'm looking at Tab 13. That could be the
2 best rates, Mr. Kostick, that you were able to
3 negotiate. And these same rates may apply to three
4 (3), five (5), or some other year.

5 Do you understand my point?

6 MR. NEIL KOSTICK: Yes, but that's not
7 my understanding of the rates that were proposed by ANR
8 and Great Lakes. When five (5) -- when a five (5) year
9 term was discussed, the rates were higher.

10 MR. BOB PETERS: Okay. And that --
11 that's what I'm trying to get at is -- and I -- I see
12 in one (1) of your Information Responses, I think it's
13 the first one (1) from the PUB, ANR agreed to improve
14 pricing in conjunction with a seven (7) year term.

15 Do you recall that answer?

16 MR. NEIL KOSTICK: Yes.

17 MR. BOB PETERS: And by improving the
18 pricing, the conclusion is that the prices were lower
19 by going to seven (7) years rather than five (5) years.

20 MR. NEIL KOSTICK: Yes, that's correct.

21 MR. BOB PETERS: And are you able, Mr.
22 Kostick, to advise the Board how much lower were they
23 by going to a seven (7) year term rather than a five
24 (5) year term?

25 MR. NEIL KOSTICK: I believe that would

1 essentially require discussion of intermediate
2 negotiating positions, which of course the -- through
3 the course of negotiations, those discussions are
4 intended to be confidential.

5 The expectation, of course, is that once
6 rates are agreed to and a portfolio is agreed to, that
7 those will be brought forward in a public forum for
8 discussion. However, intermediate negotiating
9 positions, we don't feel, are commercially -- that it's
10 commercially appropriate to share those intermediate
11 negotiating positions on the public record, in -- in
12 fairness and in consideration of the parties that
13 you've negotiated with.

14 MR. BOB PETERS: Thank you for that,
15 Mr. Kostick. Your indication to the Board is that
16 Centra doesn't feel that it's at liberty to put that
17 forward, because it was part of negotiations with one
18 (1) of the counter-parties, or maybe more than one (1)
19 of the counter-parties?

20 MR. NEIL KOSTICK: That's correct.

21 MR. BOB PETERS: Is Centra -- if the
22 counter-party was to permit Centra to answer my
23 question as to what the improved pricing was to go from
24 five (5) year to seven (7) year -- if the counter-party
25 agreed to put that forward, is Centra prepared to put

1 that forward?

2 MR. NEIL KOSTICK: In that event, I
3 believe that could be shared.

4 MR. BOB PETERS: Well, then I'll ask if
5 I could, through your counsel, Mr. Kostick, if an
6 undertaking could be -- could provided by Centra to
7 inquire of ANR and Great Lakes Gas Transmission as to
8 whether Centra is at liberty to quantify -- and I'll --
9 I'll ask for a global figure, not broken down by
10 service, but a global figure for these eight (8)
11 separate contracts as to how much of a price advantage
12 it is to Manitoba consumers by having a seven (7) year
13 term rather than a five (5) year term.

14 Is that something you'll make the
15 inquiry on?

16 MR. NEIL KOSTICK: We will.

17 MR. BOB PETERS: Thank you very much,
18 sir.

19

20 --- UNDERTAKING NO. 5: Centra to inquire of ANR
21 and Great Lakes Gas
22 Transmission if it's can
23 quantify global figure for
24 these eight (8) separate
25 contracts as to how much of

1 a price advantage it is to
2 Manitoba consumers by
3 having a seven (7) year
4 term rather than a five (5)
5 year term

6
7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Is it fair to say, Mr.
9 Kostick, regardless of that number -- and let's leave
10 it off the public record -- Centra had to make a value
11 judgment as to whether or not it was worth it to go
12 from five (5) years to seven (7) years?

13 MR. NEIL KOSTICK: In our view, a seven
14 (7) year term is the preferred term. It's an
15 intermediate term. We had always targeted an
16 intermediate term, and we would consider a seven (7)
17 year term to be an intermediate term.

18 Part of the consideration of the seven
19 (7) year term was, of course, the rates that were
20 negotiated. If all the rates negotiated were for the
21 maximum tariff rate, we -- I don't believe we would
22 have necessarily have gone for a seven (7) year term.

23 But if you can get rates that are quite
24 attractive -- that's our opinion, that these rates are
25 very attractive -- to go for a slightly longer term, if

1 you will, within the intermediate range, seemed to make
2 sense to us.

3 And it really wasn't related to --
4 necessarily to consideration of the TransCanada
5 situation, as we've described throughout in IRs and
6 rebuttal evidence. We feel that the portfolio that
7 we've discussed and have brought before the Board is
8 quite flexible in being able to either emphasize or de-
9 emphasize Western Canadian supply and transport on
10 TransCanada to a greater or lesser extent, depending on
11 -- on what happens on TransCanada.

12 And I think it needs to be reemphasized
13 that the -- the notion that a certain order regarding
14 the current TransCanada situation, that that's going to
15 necessarily result in stability in the market
16 thereafter, I think is -- is not accurate.

17 TransCanada tolls move annually -- or,
18 generally they move annually. There's generally no
19 real stability. In fact, if we recall that earlier
20 exhibit that showed the TransCanada settlement that was
21 -- where they forecasted tolls from 2007 to 2011, that
22 portrayed a picture of a lot of stability.

23 So if that situation -- situation
24 presented itself again in the future, would you
25 necessarily conclude that rates are going to be stable

1 on TransCanada going forward? I don't think you can,
2 because history has shown that even when there is an ex
3 -- expectation of stability, tolls actually wound up,
4 on TransCanada, being more than double what the
5 anticipated tolls were.

6 So we have a lot of comfort in the seven
7 (7) year term that it's the appropriate term, that we
8 have flexibility to adapt. In the event that the
9 TransCanada situation gets worse, we've talked about
10 how we can essentially make full use of that annual
11 storage component to turn the 15 1/2 petajoules
12 effectively into 18.6 petajoules and make more use of -
13 - of gas sourced in the US through the -- the storage
14 and related transportation portfolio.

15 MR. BOB PETERS: A couple of comments -
16 - or, sorry, questions from that answer, Mr. Kostick.
17 The document you referred the Board to was found at Tab
18 12, and that was from Ms. Stewart's presentation about
19 the extent of the problem on TCPL, showing the toll
20 structure and the toll levels?

21 MR. NEIL KOSTICK: Yes, that's the
22 right one (1).

23 MR. BOB PETERS: Your point was the
24 first column that showed rates about a dollar (\$1) to a
25 dollar six (\$1.06), if that was thought to be stability

1 back in '07, we see in 2011 that they're out by 100
2 percent or more?

3 MR. NEIL KOSTICK: Yes, that's correct.

4 MR. BOB PETERS: And you're saying that
5 going forward, you're going to have to take with a
6 grain of salt, anything that TransCanada puts forward
7 in terms of what they see as their long-term tolling
8 view?

9 MR. NEIL KOSTICK: I -- I believe so,
10 as long as -- you know, there are -- there's -- there
11 are fluctuations in supply and demand and different
12 factors impacting the fortune of TransCanada.

13 Their tolls would be expected to move
14 around. And that's one (1) of the things that we
15 actually see as kind of a nice blending of a balanced
16 portfolio, is we have our TransCanada capacity, which
17 we can renew annually and we can adjust annually.

18 And those tolls for TransCanada capacity
19 move pretty much on an annual basis. So that's one (1)
20 part of our portfolio. It's actually the more
21 expensive part of our portfolio in comparison to the
22 ANR and Great Lakes piece of it, where on -- on the
23 other hand you have ANR and Great Lakes rates, which
24 are proposed to be fixed for seven (7) years and
25 they're in place for seven (7) years.

1 So you have a couple of different
2 elements in your portfolio. Actually, you have three
3 (3) elements in portfolio. You have the storage and
4 related transportation with ANR and Great Lakes. We're
5 -- we're proposing seven (7) years at fixed rates. You
6 have the TransCanada transportation component, which
7 has varying and moving tolls and we can adjust those
8 annually.

9 And then of course the lion's share of
10 all the costs in the portfolio is the commodity cost of
11 natural gas, which can be purchased through the
12 proposed portfolio to a greater or less -- lesser
13 extent from the WCSB, from Western Canada, or from
14 markets like Chicago and Michigan.

15 So in our view it's overall a fairly --
16 a fairly balanced portfolio with different elements of
17 different terms.

18 MR. BOB PETERS: Mr. Kostick, would you
19 agree that some of the reasons you've cited for a seven
20 (7) year contract -- and I'll just look at the ones I
21 noted -- was you talked about flexibility, you talked
22 about the ability to adapt the portfolio by increasing
23 the storage through they cyclability portion on part of
24 the storage load, and the ability to use US-sourced
25 gas.

1 That same flexibility would exist if the
2 proposal before this Board was for less than seven (7)
3 years, would it not?

4 MR. NEIL KOSTICK: Assuming the same
5 features of the portfolio were in place for a five (5)
6 year term as we propose for a seven (7) term, then,
7 yes, the same flexibility would exist.

8 MR. BOB PETERS: And if the same
9 portfolio was put before the Board for a three (3) year
10 term and contained all the same elements -- again,
11 we'll leave the price out of the consideration at this
12 point -- it would still have all of those attributes
13 that Centra found attractive for going to a seven (7)
14 year term?

15 MR. NEIL KOSTICK: Yes, and just
16 bearing in mind, I think, as we've talked about in IRs
17 and rebuttal evidence, we would be introducing
18 recontracting risks at an earlier date, whether it's
19 three (3) years or five (5) years.

20 We don't know what the market
21 circumstances will be for storage and related
22 transportation on ANR and Great Lakes in three (3)
23 years or five (5) years. So there is certainly the
24 risk of having to re-contract for similar assets,
25 similar contracts, at potentially higher rates up the

1 FERC-regulated maximum rate.

2 MR. BOB PETERS: And the question that
3 follows, Mr. Kostick, is that when you re-contract, the
4 rate could in fact be lower. You don't know that
5 sitting here today?

6 MR. NEIL KOSTICK: That's correct.
7 Although the one (1) thing I would note is that a few
8 of the contracts are extremely low and cannot go much
9 lower. For example, two (2) of the ANR transportation
10 contracts are 93 percent below the tariff rate, and the
11 Great Lakes winter capacity is about seventy-six (76)
12 below the tariff rate -- or 76 percent below the tariff
13 rate. So the balance of risk would appear to be if the
14 market value of those assets increase in later years,
15 that your portfolio cost could change dramatically on
16 the high side more so than on the low side.

17 MR. BOB PETERS: Would the Board be
18 correct in concluding, Mr. Kostick, that it still came
19 down to a judgment primarily dealing with dollars and
20 cents than as to whether to go from five (5) to seven
21 (7)?

22

23 (BRIEF PAUSE)

24

25 MR. NEIL KOSTICK: My apologies. Can

1 you repeat the question.

2 MR. BOB PETERS: I can if I could
3 remember. Mr. Kostick, you've told the Board that
4 what's before them at Tab 13 of the book of documents,
5 in terms of the proposed ANR and Great Lakes portfolio
6 on the right side of the chart, that same portfolio
7 could have been available to Centra on, let's say, a
8 five (5) year term, correct?

9 MR. NEIL KOSTICK: That's actually a
10 bit of a difficult question.

11 MR. BOB PETERS: Let me rephrase it.

12 MR. NEIL KOSTICK: I -- I can't try to
13 answer it. One (1) thing that -- I think one (1) point
14 that needs to be clarified that perhaps hasn't been put on
15 the record is that certain features of the portfolio,
16 such as the -- the annual storage and the -- and the
17 very low-cost transportation from the Chicago market to
18 ANR storage in the winter, were introduced later in the
19 negotiation.

20 I can't say with absolute certainty that
21 even at -- at different rates that this portfolio would
22 be identical under a five (5) year term. But for -- I
23 guess for the sake of discussion we can as -- perhaps
24 assume that we could get the same portfolio for five
25 (5) years, but --

1 MR. BOB PETERS: All right.

2 MR. NEIL KOSTICK: -- I really
3 shouldn't say that. I should say that we -- we
4 actually don't know for sure.

5 MR. BOB PETERS: All right, then I'll
6 say it. Let's make the assumption the same portfolio
7 is available for five (5) years as compared to seven
8 (7) years. And you've indicated a qualification. The
9 only reason you would from five (5) to seven (7) would
10 be a price consideration?

11 MR. NEIL KOSTICK: Yes, to get --

12 MR. BOB PETERS: All right.

13 MR. NEIL KOSTICK: -- the -- the best
14 rates, and also with our view that the attractive rates
15 we would want to have essentially locked in for those
16 seven (7) years.

17 MR. BOB PETERS: All right. And that
18 just brings me back to the undertaking where you're
19 going to make the inquiry because it seems that from an
20 outsider's perspective, if -- if the -- if the
21 portfolio is available for five (5) years and the
22 Corporation opts to extend it to seven (7) years with
23 some reduced pricing by the counter-parties, then it's
24 the reduced pricing that was the motivation for Centra
25 to go to the -- to a longer period of time?

1 MR. NEIL KOSTICK: Yeah, the -- the
2 pricing was a factor as well as the risk mitigation of
3 having that -- having those rates locked in for the
4 seven (7) year term. And as I've discussed, the
5 balance of risk in -- in some of these contracts is
6 definitely that they could be a lot more expensive in
7 future years as opposed to much less expensive.

8 MR. BOB PETERS: All right. You've --
9 you've made that point. I do want to go back. And I
10 want to -- you to be careful as to what you're able to
11 indicate to the Board. But somewhere along the way the
12 Board ha -- may have the impression that these
13 negotiations are iterative in that you run some
14 numbers, you go back looking to win something on the
15 swings, maybe you're going to give it up on the merry-
16 go-round, if I can use those terms of art. And
17 eventually you -- you come down to where you think
18 you've got the best deal. Would that be -- that be
19 true?

20 MR. NEIL KOSTICK: In a general sense,
21 yes.

22 MR. BOB PETERS: And you have to expect
23 that your counter-parties are doing the same thing.

24 MR. NEIL KOSTICK: Yes.

25 MR. BOB PETERS: And you've met at what

1 you've put before the Board as the proposed portfolio.

2 MR. NEIL KOSTICK: Yes.

3 MR. BOB PETERS: Now consider this, are
4 you able to tell the Board whether by going from five
5 (5) years to seven (7) years there's been additional
6 functionality, flexibility, or optionality included in
7 moving from a five (5) to a seven (7) year? Are you
8 able to answer that or not?

9

10 (BRIEF PAUSE)

11

12 MR. NEIL KOSTICK: As I alluded to in
13 an answer a few moments ago, some of the features of
14 the portfolio were introduced at a later stage. In
15 particular I'm thinking of, as I believe I alluded to,
16 the annual storage component and the related
17 transportation from Chicago to storage in winter. To
18 the best of my recollection, I believe those were only
19 discussed on a seven (7) year term.

20 MR. BOB PETERS: Could you undertake to
21 verify that last answer of yours, Mr. Kostick, with
22 some certainty, by way of undertaking, as to whether
23 the -- the division of storage into seasonal and annual
24 volumes only came about with the change to seven (7)
25 year from five (5) year, and likewise whether the low

1 tolling rate to go from -- you said Chicago to ANR
2 storage, I'm not sure if you mean Joliet or Chicago but
3 --

4 MR. NEIL KOSTICK: Well, it's Joliet --
5 the Joliet point allows access to Chicago.

6 MR. BOB PETERS: All right.

7 MR. NEIL KOSTICK: So it's the same
8 thing.

9 MR. BOB PETERS: And find out whether
10 that -- that feature was also only made available as a
11 result of going from five (5) years to seven (7) years?

12 MR. NEIL KOSTICK: Yes, we can do that.

13 MR. BOB PETERS: Thank you for that,
14 sir.

15

16 --- UNDERTAKING NO. 6: Centra to indicate if the
17 division of storage into
18 seasonal and annual volumes
19 only came about with the
20 change to seven (7) year
21 from five (5) year; and
22 whether the low tolling
23 rate to go from Chicago to
24 ANR storage was also only
25 made available as a result

1 of going from five (5)
2 years to seven (7) years
3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Mr. Kostick, would the
6 Board be of the correct understanding that while these
7 negotiations have come down to a proposal from ANR and
8 Great Lakes, there was a very comparable proposal also
9 available to the Utility from party 'B'?

10 MR. NEIL KOSTICK: It was comparable on
11 a total cost basis.

12 MR. BOB PETERS: Not only on total
13 cost, but in terms of optimizing the portfolio through
14 the -- through perhaps different services.

15 MR. NEIL KOSTICK: I think our
16 application and various other IRs discuss some of the
17 differences between the ANR Great Lakes option and
18 Option B. It wasn't strictly a matter of cost but
19 there were also considerations of flex -- port --
20 portfolio flexibility and access to different sources
21 of supply, as well as reliability. And the ANR
22 portfolio was judged to be superior to the Option B
23 portfolio on those other factors.

24 MR. BOB PETERS: Are you able to say
25 whether Option A, which is ANR and Great Lakes, was

1 still a preferred option at a five (5) year level of
2 services that were being negotiated? Or was Option B
3 more financially advan -- advantageous at that point in
4 the negotiations?

5 MR. NEIL KOSTICK: In terms of costs, I
6 don't think there would have ever have been a point
7 where they would have been significantly far apart
8 where there would have been a clear winner, so to
9 speak, on a -- on a cost basis alone.

10 MR. BOB PETERS: Just a note I made to
11 myself and, Ms. Stewart, I apologize for going
12 backwards on this, but going backwards is the -- is the
13 theme. If the TransCanada pipeline becomes has
14 bidirectional valves, if I've got that right, installed
15 at Emerson, such that gas can travel into Canada on the
16 TransCanada line at Emerson, does it matter to Centra
17 in its ability to get storage gas to Manitoba?

18

19 (BRIEF PAUSE)

20

21 MS. LORI STEWART: No. At present,
22 we're indifferent to that.

23 MR. BOB PETERS: Are there contractual
24 agreements, or agreements as between governments, that
25 have to be taken into account for TransCanada and

1 perhaps even Great Lakes to alter the flows of its gas,
2 or the volumes of the flows of its gas, that have to be
3 considered?

4 MS. LORI STEWART: Typically its
5 facilities upgrades are reviewed by the regulator.

6 MR. BOB PETERS: Cen -- Centra's not
7 aware of any agreements as between Canada and, say,
8 TransCanada pipeline as to what it has to flow in terms
9 of volumes, either south through Emerson or north over
10 northern Ontario?

11

12 (BRIEF PAUSE)

13

14 MS. LORI STEWART: There -- there is a
15 historical agreement, Mr. Peters, as to the -- the
16 relative percentage of mainline flows that must move
17 over the northern Ontario line. I'm not -- I couldn't
18 speak to those details of that agreement in this venue
19 today.

20 MR. BOB PETERS: And are you -- is
21 Centra aware of any agreements as between Canada and
22 the United States concerning transit pipelines?

23 MS. LORI STEWART: No. Typically the
24 North American pipeline grid operates as one (1)
25 integrated facility, practically speaking.

1 MR. BOB PETERS: Ms. Stewart, I hope
2 this isn't too far off base. And certainly to the
3 Board I apologize if it is. But from what you've told
4 the Board earlier about Great Lakes being able to
5 physically reverse the flow of gas on its line, and
6 with TCPL putting in bidirectional valves, does that
7 imply that at some point in the future physical
8 molecules can come to Manitoba through the Great Lakes
9 pipeline up into the Manitoba delivery zone through
10 TransCanada at Emerson?

11 MS. LORI STEWART: Yes, it does.

12 MR. BOB PETERS: And as far as Centra's
13 portfolio that's now before the Board, Centra is
14 indifferent if that ever happens?

15 MS. LORI STEWART: That's not what I
16 said. I believe your former question was in terms of
17 the flows outlined under the contracts associated with
18 this proposed portfolio. At present we're indifferent,
19 because the pipeline is only physically moving gas in a
20 counter-flow direction very few days out of the year.
21 So the pipeline manages that.

22 And at present there is -- is no
23 proposed change on the table to the tariff. But, of
24 course, we need to pay attention to that in the event
25 that TransCanada were to propose a change to the tariff

1 going forward associated with flows. Because, quite
 2 frankly, the tariff was designed in a different world.
 3 And we've -- Mr. Sanderson and -- and myself have both
 4 spoke about how the North American natural gas market
 5 is changing. And it is having an impact on pipelines.
 6 And so, of course, we will remain attentive to any such
 7 change that would impact our future contracting -- I'm
 8 sorry, and operation.

9 MR. BOB PETERS: Under the proposed
 10 portfolio you have before the Board, does Centra see it
 11 as being flexible enough to take physical delivery of
 12 gas through the Great Lakes transmission line, up
 13 through TCPL at Emerson?

14

15 (BRIEF PAUSE)

16

17 MS. LORI STEWART: Mr. Peters, I would
 18 appreciate if you could repeat the question.

19 MR. BOB PETERS: Oh, yeah, you've
 20 cottoned on. Ms. Stewart, I was asking that the
 21 proposed portfolio which is shown, coincidentally, at
 22 Tab 6 on the winter operations map. Tab -- page 28 of
 23 the book of documents, just to have the -- the map in
 24 front of us. The question was whether the portfolio
 25 that Centra is proposing before this Board today can

1 accommodate the flexibility, where molecules will
2 physically flow on Great Lakes into Manitoba through
3 the bidirectional metering at TCPL's facilities in
4 Emerson.

5 MS. LORI STEWART: Yes. Yes, it can.

6 MR. BOB PETERS: So in that instance,
7 Centra would be able to have a competitive option to
8 Western Canadian sourced gas, in terms of bringing gas
9 from the east. Would that be true?

10 MS. LORI STEWART: I think for me to go
11 down this path we have to be very careful about
12 characterizing our contractual commitments and what is
13 happening physically on the pipeline because, as you
14 know, they -- they are significantly disconnected.

15 MR. BOB PETERS: I was trying to get
16 at, Ms. Stewart, recognizing the contractual
17 arrangements that Centra has, whether its portfolio
18 that it's pro -- proposing would be flexible enough to
19 allow it to actually bring molecules from the south and
20 the east.

21 MS. LORI STEWART: And contractually,
22 yes, we have that ability whether or not those
23 molecules are actually coming from the WCSB and
24 arriving at Manitoba and then displacing volumes
25 further -- further down the line. There's a different

1 answer to your question in terms of what's happening
2 physically on a day-by-day basis.

3 MR. BOB PETERS: All right, now, I -- I
4 have your clarification on that. But you're saying
5 that theoretically it can be accommodated, and it's
6 just a question of whether it's -- is it actual
7 physical forward haul or is it -- is it the notional
8 back haul that we're talking?

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

10 MR. BOB PETERS: Okay, I have your
11 points. Thank you for that.

12 MR. RAYMOND LAFOND: Can I ask a
13 supplant -- supplementary question to this?
14 Essentially, would you have the capacity to -- to
15 essentially supply all your gas through Great Lakes
16 from ANR storage and the other points of supply?

17

18 (BRIEF PAUSE)

19

20 MS. LORI STEWART: The proposed
21 portfolio is designed to provide us with the
22 flexibility to take as much as 100 percent of our gas
23 from the WCSB or as little as 60 percent of our gas
24 from the WCSB. So this proposed portfolio is providing
25 us with that range.

1 It does not go as far as providing us
2 with the ability to -- to bring 100 percent US-sourced
3 supplies to Manitoba.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. Kostick, I just
7 wanted to move forward. But again I find myself -- I
8 think I missed an area with you on Tab 18 of the book
9 of documents. Tab 18, page 61, contains the numerical
10 output from the SENDOUT model using the price curves
11 that Centra ran.

12 And we've talked about that at some
13 length?

14 MR. NEIL KOSTICK: Yes, we have.

15 MR. BOB PETERS: One (1) of the things
16 we didn't talk about and we see on that chart is that
17 the supply is -- is broken down as to where the supply
18 should come from.

19 Do you see that at the bottom third of
20 the chart?

21 MR. NEIL KOSTICK: Yes, I do.

22 MR. BOB PETERS: Can Centra provide the
23 transportation capabilities that SENDOUT recommended as
24 optional for both the recommend -- yeah, as -- as
25 optimal for both the -- the futures curves that were

1 used by Centra as well as the ICF curves that are shown
2 on this chart?

3

4 (BRIEF PAUSE)

5

6 MR. NEIL KOSTICK: So just to confirm,
7 you're asking for the -- the transportation capacities
8 or...

9 MR. BOB PETERS: Yes, the
10 transportation capacities that SENDOUT has recommended
11 be engaged for different legs of transportation for --
12 for the SENDOUT results that are shown on this page.

13

14 (BRIEF PAUSE)

15

16 MR. BRIAN MERONEK: Mr. Peters, we're -
17 - what's the reference?

18 MR. BOB PETERS: Mr. Meronek, yes, if
19 one looks to Tab 18 of the book of documents, page 61,
20 there's a chart of the SENDOUT results. And I was
21 putting to the witness that while the bottom third of
22 the page shows the annual supply and where it should
23 come from under an optimal portfolio, we don't see the
24 same for the transportation portion.

25 And I'm asking Mr. Kostick if he and his

1 colleagues can undertake to provide that in relation to
2 this chart.

3 MR. NEIL KOSTICK: My apologies. Yes,
4 that information can be made available.

5 MR. BOB PETERS: Can it be presented --
6 and I'll let you think about this one (1) as well as
7 part of the undertaking, Mr. Kostick -- can it be
8 presented in a way similar to what you've broken down
9 on Tab 13 of the book of documents on page 48, where
10 you've broken it down into seasonal -- or, ANR
11 transportation summer and winter, as well as Great
12 Lakes summer and winter?

13 MR. NEIL KOSTICK: Yes, we can do that.

14 MR. BOB PETERS: Thank you for -- for
15 that, sir.

16

17 --- UNDERTAKING NO. 7: Centra to indicate the
18 annual supply and where it
19 should come from under an
20 optimal portfolio for
21 transportation portion, and
22 break it down into ANR
23 summer and winter, and
24 Great Lakes summer and
25 winter

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Kostick, and Ms.
3 Stewart, I want to spend as little time as possible,
4 because I think we've talked about the non-storage
5 option and reliance solely on TransCanada pipelines in
6 lieu of storage, although there are a few points that I
7 didn't get to.

8 If I asked the question, Ms. Stewart and
9 Mr. Kostick, if -- if storage wasn't an option for the
10 Utility, what TCPL services would Centra expect to rely
11 on to meet the load?

12

13 (BRIEF PAUSE)

14

15 MS. LORI STEWART: If storage was not
16 available in any marketplace, or...

17 MR. BOB PETERS: Yeah, let's go with --
18 it's not available at all, Ms. Stewart, and you have to
19 have a -- have a non-storage option, as I've called it.
20 Let me help you, you -- you'd use the firm
21 transportation to the extent that you needed it for
22 base load.

23 Would that be a fair consu --
24 assumption?

25 MS. LORI STEWART: Yes, we would likely

1 use a combination of TransCanada services relying
2 predominantly on both firm transportation as well as
3 short-term firm transportation.

4 And for the benefit of the Board, short-
5 term firm transportation is available for as little as
6 a seven (7) day period, or as long as a seasonal block,
7 so a five (5) month block in the winter, or a seven (7)
8 month block during the -- the summer season of the gas
9 year.

10 MR. BOB PETERS: In addition to that
11 you might use some delivered service. Was that also a
12 thought?

13 MS. LORI STEWART: Yes. Typically our
14 use of delivered service, or primary gas transported by
15 others, is driven by the economics of the arrangement
16 on a case-by-case basis.

17 So if we see value for ratepayers in
18 contracting for a delivered service in lieu of mainline
19 firm transportation and a combination of our supply
20 contract, then we will evaluate those options.

21 MR. BOB PETERS: Would -- would it be
22 prudent from Centra's perspective to use the STFT that
23 you've talked about, Ms. Stewart, to meet the entire
24 load?

25 MS. LORI STEWART: Well, one (1) of --

1 there are -- at present there are a couple of
2 significant pitfalls associated with short-term firm
3 transportation. One (1) of them is the fact that we do
4 not earn ram credits on STFT.

5 So I would have limited ability -- not
6 no ability, but more limited ability -- to mitigate the
7 fixed costs of our short-term firm contract. And the
8 other consideration is that at present, short-term firm
9 transportation contracts do not come with renewal
10 rights.

11 And so that's something that in today's
12 environment doesn't necessarily overly concern us, but
13 typically a utility is looking for renewal rights
14 associated with its service such that it can assure
15 itself and assure, for the benefit of ratepayers, that
16 there will be continuity of service.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Ms. Stewart, if Centra
21 did avail itself of the STFT and recognizing those
22 pitfalls, would it also incur additional balancing
23 fees?

24 MS. LORI STEWART: In a no-storage
25 portfolio, definitely.

1 MR. BOB PETERS: And Mr. Staft
2 quantified them at about \$2 million a year. Is that
3 something you're prepared to accept as a reasonable
4 amount in that scenario?

5 MS. LORI STEWART: Well, balancing fees
6 are calculated as a function of the firm transportation
7 toll, so as firm transport tolls increase, thus would
8 balancing fees. So the -- again, the balance of risk
9 is perhaps to a number greater than that.

10 MR. GREG BARNLUND: And if I might add,
11 I believe Mr. Staft had referred to some level of
12 balancing fees we had paid in the past, probably in the
13 late 1990s, in the neighbourhood of \$2 million. But
14 bearing in mind, that was when we, as we do today,
15 operate with storage on our system.

16 And so if we were completely absent
17 storage, I'd question whether the \$2 million estimate
18 is valid. I would think it would be significantly low.

19 MR. BOB PETERS: One (1) of the
20 benefits, though, would be -- with the no-storage
21 option, would be the ability to source more gas --
22 sorry, you -- you'd have the ability to source only
23 your gas from -- from Western Canada, correct?

24 MS. LORI STEWART: Yes.

25 MR. BOB PETERS: And that may bring

1 with it additional costs when we talk about -- and I
2 think it was Mr. Sanderson who showed us the
3 summer/winter price differential.

4 And Centra wouldn't be able to take
5 advantage of that, if that exists in any particular
6 year, by putting cheaper summer gas into storage.

7 MS. LORI STEWART: Yes, that's correct.
8 And there are also the cost implications associated
9 with our swing service. So our primary gas supply
10 contract has both a base load component and a swing
11 component.

12 And I think it's generally accepted that
13 our swing pricing is favourably impacted by the
14 inclusion of those base load volumes. The base load
15 volumes are easy to serve up, same day, same amount
16 every day within the month.

17 It's the swing volumes that represent
18 the challenge for a service provider if we're ranging,
19 you know, 50,000 GJs on the day, and we're doing that
20 as late in the day as intra-day 2. So they're in the
21 gas day, the market has closed, and we adjust our
22 nomination.

23 And the supplier wears the risk that the
24 price has changed and that we're putting gas back to
25 them, and it's at a lower price than what they had

1 originally factored in.

2 So at present, that swing component of
3 our supply contract is another of our tools, in terms
4 of meeting the variable requirements of the Manitoba
5 marketplace. We rely most heavily on storage. We also
6 rely on the swing component of our contract. And
7 lastly, we're -- we rely on our peaking delivered
8 services.

9 If we were in a no-storage environment,
10 my -- in my professional judgment, the cost of the
11 swing component of our supply contract would increase.
12 I -- I can't at this point suggest to you the extent
13 which that could happen, but I think we could be
14 looking at some materially higher costs for swing
15 service.

16 MR. BOB PETERS: Ms. Stewart, or fellow
17 witness colleagues, do you have any opinion on whether
18 the summer/winter price differential that Mr. Stauff
19 quantified at \$4 million is reasonable?

20 MR. BRENT SANDERSON: Without going
21 away and deconstructing his numbers, I wouldn't be
22 willing to venture an opinion on it, with the exception
23 of saying that to the extent that buyers and sellers in
24 the marketplace today are exchanging prices for future
25 delivery out as far as five (5) years, at a level that

1 reflects an expectation that, on average, winter prices
2 will be approximately 10 percent higher on average than
3 the prior summer's prices, and that that agrees so
4 consistently with the historical experience, with the
5 caveat that what happens in each and every individual
6 year is anyone's guess.

7 I would say I would agree with the
8 markets expectation as being very reasonable and
9 consistent with the historical experience.

10 MR. BOB PETERS: Lastly on this point,
11 the total costs of the US storage and transportation
12 that you have before the Board, you've told the Board
13 do not include any TCPL costs.

14 But it is also accurate to say that if
15 the prop -- portfolio is approved as filed, there would
16 be the TCPL storage transportation service cost that
17 would also have to be added into the annual costs that
18 Centra's ratepayers would have to pay because of the
19 storage and transportation portfolio?

20 MS. LORI STEWART: Yes, those two (2)
21 parts of our arrangements are -- are linked.

22 MR. BOB PETERS: And what's the
23 approximate annual STS costs, Ms. Stewart?

24 MS. LORI STEWART: Just under \$3
25 million, Mr. Peters.

1 MR. BOB PETERS: And Mr. Staufft also
2 raised the variable costs of being about \$1 million,
3 and you'd accept that as being reasonable for the
4 running of the US storage and transportation portfolio?

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

6 MR. BOB PETERS: Thank you. If we turn
7 to the term sheet. It's back at Tab 3 of the book of
8 documents, and don't take that as a directional
9 indication of where we are.

10 But the term sheets on page 20, Mr.
11 Kostick, these are the eight (8) contracts that Centra
12 has referred to, correct?

13 MR. NEIL KOSTICK: Yes, that's right.

14 MR. BOB PETERS: And this contains the
15 numerical representation of what the Board has already
16 seen on the maps at Tabs 5 and 6 of the book of
17 documents, as well as the chart on Tab 13 of the book
18 of documents?

19 MR. NEIL KOSTICK: Yes.

20 MR. BOB PETERS: And so let's look at
21 the notes related to the term sheet, because that's
22 usually where the -- the issues could arise.

23 The first note reminds Centra and all
24 others that this is packaged deal, and it's a take it
25 or leave it type of arrangement. Would that be

1 correct?

2 MR. NEIL KOSTICK: Yes.

3 MR. BOB PETERS: And if one (1) aspect
4 of this was problematic, Centra would be back at the
5 drawing table -- negotiating table, trying to address
6 any deficiencies that were identified by this Board, as
7 well as construct the portfolio as optimally as it can
8 under new negotiations?

9 MR. NEIL KOSTICK: Yes.

10 MR. BOB PETERS: We've talked about the
11 tolls. Secondary delivery is a point that we should
12 mention. And Centra is getting some ability to deliver
13 at secondary points included in their -- in their
14 services offerings from the counter-parties.

15 Have I got that right?

16 MR. NEIL KOSTICK: Yes, on ANR and
17 Great Lakes, one (1) can receive and deliver gas at
18 different points that aren't on the contract. But if
19 you have a discounted contract, using those alternate
20 points that are not on the contract would cause the
21 rates to go to the maximum rate for any volumes that
22 are used at those alternate points unless you have
23 specifically negotiated other discounted receipt and
24 delivery points.

25 MR. BOB PETERS: And Centra has

1 negotiated some other secondary receipt points at a
2 discount, correct?

3 MR. NEIL KOSTICK: Yes, that's correct.

4 MR. BOB PETERS: And the ones that are
5 not expressly negotiated, those revert back to the
6 entire, full FERC toll if Centra wants to take
7 advantage of them.

8 MR. NEIL KOSTICK: That's right.

9 MR. BOB PETERS: If Centra did want to
10 go to a secondary receipt point or delivery point that
11 was not included in this agreement, Centra would have
12 to calculate the economics of the full FERC rate to the
13 profitability of the transaction it was trying to
14 construct.

15 MR. NEIL KOSTICK: That's right.

16 MR. BOB PETERS: We've talked about Tab
17 8 in terms of the right of first refusal. Tab -- point
18 9 -- note 9, the contracts will be pro forma. Lawyers
19 hate these because they're too boilerplate. But this
20 just means that these pro forma contracts have already
21 been approved, certain of them, by FERC already.

22 Would that be correct?

23 MR. NEIL KOSTICK: Yes.

24 MR. BOB PETERS: However, one (1) of
25 these FERC has never approved before. Would that also

1 be correct?

2 MR. NEIL KOSTICK: One (1) of the
3 contracts will have what's termed nonconforming
4 language, because it's not part of the pro forma
5 contract, but an existing -- the same exists on our
6 existing contract. So FERC has essentially approved
7 that in the past. And it does need to be, once again,
8 though brought before FERC for approval of that
9 particular contract.

10 MR. BOB PETERS: As shown on the maps
11 that we've seen already, the non-conforming portion is
12 the part that allows ANR to take the gas and deliver it
13 into storage, either at a place called Deward or at a
14 place called Farwell?

15 MR. NEIL KOSTICK: It's the contract
16 that moves the storage gas from ANR storage facilities
17 to Great Lakes, and that could be at either Deward or
18 Farwell.

19 MR. BOB PETERS: And if it can be at
20 either Deward or Farwell, whose choice is that in terms
21 of the delivery?

22 MR. NEIL KOSTICK: On a day-to-day
23 basis, it's Centra's choice. However, if for
24 operational reasons ANR wants to change it to a point
25 that Centra didn't select it can do that. It would be

1 transparent to Centra and all billing would assume that
2 the gas moved as Centra nominated.

3 MR. BOB PETERS: If this Board approves
4 what's before them in terms of the portfolio package,
5 ANR and Centra plan to operate as per the agreement,
6 while ANR and -- gets FERC approval for this non-
7 conforming portion?

8 MR. NEIL KOSTICK: It's expected that
9 this will be brought before FERC as soon as possible
10 once this Board provides any required approvals or the
11 required approvals. And so that would be known well in
12 advance of the contracts taking effect.

13 MR. BOB PETERS: But if FERC hasn't
14 given its approval, Centra and ANR continue -- intend
15 to operate as per these contracts on the assumption
16 that FERC will approve it?

17 MR. NEIL KOSTICK: We're operating on
18 the assumption that -- that FERC will approve it.

19 MR. BOB PETERS: I'm not sure if you
20 got my point. And I apologize if you didn't, Mr.
21 Kostick. Assuming this Board does approve the
22 portfolio and the cost consequences of the eight (8)
23 contracts and we find ourselves on April the 2nd, 2013,
24 without FERC having approved the non-conforming portion
25 of this one (1) contract, what happens to Centra's

1 portfolio?

2 MR. NEIL KOSTICK: That depends on what
3 FERC would ultimately order. And the response from ANR
4 would be based on whatever FERC orders in that regard.
5 And I believe ANR provided a response on that in one
6 (1) of the information requests, that it could be a
7 regulatory response with respect to either further
8 discussions with FERC or making a change in their
9 tariff.

10 MR. BOB PETERS: Mr. Barnlund, Mr.
11 Stauff also raised concerns about the consultation
12 process. You're aware of that?

13 MR. GREG BARNLUND: Yes.

14 MR. BOB PETERS: Do you agree that
15 there was a gap between the stakeholder consultation
16 that took place in 2011, where Centra had not yet
17 undertaken any detailed analysis to the point where
18 Centra prepare -- presented its final proposed
19 portfolio as -- as essentially a take-it-or-leave-it
20 prospect, in my words?

21 MR. GREG BARNLUND: Well, there was
22 certainly an elapsed period of time from the end of the
23 stakeholder process, the receipt of the written
24 submissions, which would have been early September, and
25 then when we actually made application here in 2012.

1 MR. BOB PETERS: Right. But Centra
2 also didn't go back and look to the stakeholders for
3 any input when it got into the negotiations with
4 parties 'A', 'B', 'C', and 'D'?

5 MR. GREG BARNLUND: No, we did not.

6 MR. BOB PETERS: Centra took the view
7 that that was -- was -- it had to be too nimble, it had
8 to be very responsive and, therefore, didn't have time
9 to involve other stakeholders?

10 MR. GREG BARNLUND: I -- I think that,
11 you know, of course, events transpire very quickly
12 through the course of a negotiation process. But I
13 think it was also the view of the -- of the Company
14 that -- that we really were in a position where we
15 wanted to be able to obtain information from the
16 proponents and begin evaluating this so that we could
17 begin narrowing down our choices. And -- and so that's
18 really the path that we chose to take through September
19 and October of this year.

20 MR. BOB PETERS: Mr. Barnlund, could
21 stakeholders have been involved in the modelling and
22 optimization process?

23 MR. GREG BARNLUND: I think it really -
24 - it's probably very difficult and awkward in that when
25 we enter into the process of -- of being able to do

1 this modelling we obviously have to have some
2 information from the different storage proponents
3 themselves to be able to begin this.

4 To the extent that those parties are
5 providing us with that information on a confidential
6 basis, because they are competitors with each other in
7 the storage market, they are providing us with that
8 information with the understanding and assurance that
9 we are going to protect that information, use it for
10 our analytical purposes, but not be sharing it with
11 others.

12 And so the difficulty in -- in embarking
13 on a public process in the midst of that is that it
14 would inevitably result in disclosure of the details of
15 the -- of those contracts or -- or proposed rates,
16 which would, you know, obviously place the storage
17 proponents at some risk, because they're providing
18 their quotations essentially into the public domain at
19 that point in time.

20 MR. BOB PETERS: Even if there was
21 additional consultation, does Centra acknowledge that
22 it would still need to make application to this Board
23 for approval of the cost consequences?

24 MR. GREG BARNLUND: Yes, very much.
25 And I think that we've followed the -- certainly the

1 directions that were given by this Board in planning
2 our entire process to deal with these contract
3 renewals. And certainly an application to this Board
4 was one (1) of those commitments, and that the approach
5 that we took was in complete compliance and adherence
6 with the provisions that were set out by the Public
7 Utilities Board in the spring of 2011. And -- and
8 we're confident that we -- we pursued this in that
9 regard.

10 MR. BOB PETERS: Over the next seven
11 (7) years, Mr. Kostick and Mr. Barnlund, does Centra
12 expect to learn from their portfolio as to what was --
13 what is in fact optimal? Is there an opportunity to
14 learn here?

15 MR. GREG BARNLUND: I'm not sure, Mr.
16 Peters -- could you ask me that one (1) again?

17 MR. BOB PETERS: I'll ask it
18 differently. Going forward, Mr. Barnlund, Centra will
19 have actual data based on actual prices, actual
20 weather, and whatever is happening in the marketplace,
21 correct?

22 MR. GREG BARNLUND: We would know the
23 actual results of -- of the operation of the portfolio,
24 given the weather we had experienced and the customer
25 load.

1 MR. BOB PETERS: Are you able to use
2 that information going forward, so that in -- if your
3 application is approved seven (7) years from now, you
4 can explain to the Board what you've learned from this
5 -- this process?

6

7 (BRIEF PAUSE)

8

9 MR. GREG BARNLUND: I -- I think that
10 I'm not exactly sure of the usefulness of that exercise
11 in that we -- we are designing a portfolio to take into
12 consideration a wide range of weather conditions. And
13 as we go through each of the seven (7) years operating
14 the portfolio, we will experience weather conditions
15 that -- that may be, you know, may not range in the
16 same way that we had -- of the -- as the weather that
17 we had examined when we did our evaluation or our
18 analysis. So it's difficult to say whether that would
19 actually be useful to us or not.

20 MR. BOB PETERS: Then how will Centra
21 know it's been successful in the operation of its
22 portfolio going forward?

23 MR. GREG BARNLUND: Well, I think very
24 much the -- the metrics we would have is to ensure
25 that, you know, that we are obtaining supplies for the

1 Manitoba market without interruption, without any type
2 of reliability issue. And that we would be, obviously,
3 filing on an annual basis approval of gas costs that we
4 had incurred. And we would bring forth, you know, on a
5 total portfolio basis, all of our gas costs, commodity
6 costs and transportation and storage costs at that
7 point in time. And we would be providing that
8 information to the Public Utilities Board in the
9 process of setting rates on an annual basis.

10 MR. BOB PETERS: That would include,
11 Mr. Barnlund, the unused demand charges that Centra has
12 to pay because its capacity exceeded its requirements
13 in any particular year?

14 MR. GREG BARNLUND: Well, I think, Mr.
15 Peters, we more or less do that now because we report
16 on our capacity release -- capacity management results.
17 And capacity management is a component of our -- of our
18 rate setting process.

19 MR. BOB PETERS: If I understood the
20 previous evidence, Centra intends to keep its hands on
21 the senput -- the SENDOUT model. Is that correct?

22 MR. GREG BARNLUND: Yes.

23 MR. BOB PETERS: There's an annual cost
24 to that, probably cost to what you've paid already on
25 an annual basis?

1 MR. GREG BARNLUND: Yeah, I'm not sure
2 what it'll be going forward but there's certainly an
3 annual cost associated with that.

4 MR. BOB PETERS: And could Centra run
5 SENDOUT with actual weather and actual prices to
6 provide guidance for whether the portfolio -- what
7 would have been the portfolio with perfect hindsight at
8 that point in time?

9 MR. GREG BARNLUND: No, that wouldn't
10 be possible because the SENDOUT model will know -- you
11 input the actual weather, and it will know every day of
12 the year what it -- what you would have to dispatch to
13 be able to serve that load. And that clearly isn't
14 available to us as operators of the system. We have
15 to, again, look at -- at the outset of the winter try
16 and look at, on a -- you know, on a day-by-day, month-
17 by-month, basis, as we go through the winter, how we
18 manage the amount of gas we have in storage to be able
19 to make sure that we've got storage available to us by
20 the time we get to the end of the winter season.

21 So SENDOUT is a model that -- that knows
22 what weather is going to occur every day of the -- of
23 the winter. And so it can plan exactly how you would
24 use the system. Unfortunately, in real life any
25 utility does not have access to that information. And

1 so every utility would operate the system to the best
2 of their ability, but it would not produce -- or
3 SENDOUT could not be modelled to produce a result that
4 could be used to effectively back-check that.

5 MR. BOB PETERS: The primary gas
6 contract was a question raised by Board Member Lafond,
7 and the company currently has its supply contract with
8 ConocoPhillips that terminates October 31 of 2012?

9 MR. GREG BARNLUND: That's correct.

10 MR. BOB PETERS: The request for
11 proposal has gone out, and Centra has requested a two
12 (2) year contract from various proponents?

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

14 MR. BOB PETERS: And as I understood
15 the information, forty-three (43) parties received the
16 request for proposal from Centra, Ms. Stewart?

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

18 MR. BOB PETERS: And eight (8) of them
19 responded?

20 MS. LORI STEWART: That's correct.

21 MR. BOB PETERS: And Centra is now
22 going through the due diligence on the eight (8) that
23 responded, have I got that right?

24 MS. LORI STEWART: That's correct.

25 MR. BOB PETERS: Are there any

1 constraints on the storage and transportation portfolio
2 that will be imposed by the new primary gas contract?

3 MS. LORI STEWART: No.

4 MR. BOB PETERS: Does the new primary
5 gas contract that's being contemplated, Ms. Stewart,
6 have any implications for Centra's TCPL commitments?

7 MS. LORI STEWART: No.

8 MR. BOB PETERS: One (1) of the other
9 topics that was canvassed in the Information Requests
10 from Just Energy, as well as the Public Utilities
11 Board, had to do with western transportation service,
12 correct?

13 MR. GREG BARNLUND: Yes, that's
14 correct.

15 MR. BOB PETERS: And, Mr. Barnlund,
16 some consumers in Manitoba purchase their primary
17 natural gas from Centra and some pur -- purchase it
18 from registered natural gas brokers, is that correct?

19 MR. GREG BARNLUND: yes.

20 MR. BOB PETERS: And when consumers buy
21 primary gas from the marketers, the primary gas they're
22 purchasing is a percent of their total annual
23 consumption as ultimately determined by Centra.

24 MR. GREG BARNLUND: Yes, and I would
25 add that all customers will experience that separation

1 of primary gas and supplemental gas on their bill. We
2 bill all customers primary gas separately from
3 supplemental gas, and so the primary gas may be
4 supplied by a marketer or it may be supplied by Centra.

5 MR. BOB PETERS: But the supplemental
6 gas is provided 100 percent by Centra.

7 MR. GREG BARNLUND: Yes.

8 MR. BOB PETERS: And in terms of
9 percentages, the primary gas that a consumer sees on an
10 annual basis is approximately, for a residential
11 customer, 97 percent?

12 MR. GREG BARNLUND: I believe there's
13 an IR that has that information. I think it's
14 PUB/CENTRA-18. Mr. Peters, PUB/CENTRA-19, I think,
15 would turn up the actual -- the actual percentages.

16 MR. BOB PETERS: So it's 97 percent for
17 -- for the firm customer?

18 MR. GREG BARNLUND: Yes.

19 MR. BOB PETERS: Under the definition
20 of supplemental gas, there has been, over time, a
21 change in the definition of what is supplemental gas
22 provided by Centra.

23 Would that be true?

24 MR. GREG BARNLUND: I think there has
25 been a change in terms of that definition of

1 supplemental gas and primary gas in conjunction.

2 MR. BOB PETERS: And the definition of
3 supplemental gas used to be gas that was the winter
4 peaking gas. And then that evolved to US-sourced gas.
5 And I think it's not evolved to all gas not purchased
6 under the primary gas contract by Centra?

7 MR. GREG BARNLUND: I think that's...

8 MR. BOB PETERS: Plus the delivered
9 service?

10 MS. LORI STEWART: With that
11 clarification, yes.

12 MR. BOB PETERS: Ms. Stewart, the --
13 the peaking delivered service is still supplemental
14 gas?

15 MS. LORI STEWART: That's correct.

16 MR. BOB PETERS: But I don't want to go
17 back to the supply stacks, but the -- just the
18 delivered service is still -- is now called primary ga
19 -- is still called -- considered primary gas?

20 MS. LORI STEWART: Yes. We refer to it
21 as primary gas transported by others.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: And, Mr. Barnlund, if

1 the portfolio before the Board is as flexible as Centra
2 maintains, it is possible that Centra could increase
3 the percentage of gas it purchases in the United
4 States?

5 MR. GREG BARNLUND: Yes.

6 MR. BOB PETERS: If it did that, that
7 could alter the ratio of what customer receives as
8 primary gas and what a customer receives as
9 supplemental gas?

10 MR. GREG BARNLUND: Yes, that's
11 correct.

12 MR. BOB PETERS: And that could have a
13 financial implication on the gas brokers who are
14 providing only the primary gas?

15 MR. GREG BARNLUND: It could have an
16 impact, yes.

17 MR. BOB PETERS: And so this issue is
18 one (1) that Centra is now certainly attuned to,
19 correct?

20 MR. GREG BARNLUND: Yes, that's
21 correct.

22 MR. BOB PETERS: And is Centra
23 proposing any change in the percentage of primary and
24 supplemental gas at least in the short term?

25 MR. GREG BARNLUND: I -- I would say

1 not as a result of the portfolio in the short term. We
2 would, on an annual basis, as a usual matter of course,
3 reforecast those percentages to be adjusted and reset
4 for November 1 of each year. And that's based on just
5 overall operational considerations that we would be
6 dealing with on a -- on a routine basis.

7 MR. BOB PETERS: Does that answer, Mr.
8 Barnlund, imply that the ratio could change somewhat
9 dramatically?

10 MR. GREG BARNLUND: Well, I don't think
11 so, in that I think we really wouldn't see the effects
12 of -- of the new portfolio until probably November 1 of
13 2013 at the earliest.

14 MR. BOB PETERS: And before that time
15 there will be, as I heard from perhaps you or Mr.
16 Warden earlier, that Centra will be filing its general
17 rate application, which would include its cost of gas
18 proposal?

19 MR. GREG BARNLUND: Yes, sir.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Mr. Chairman, I'd like
24 to thank the witness panel -- Mr. Warden, Mr. Barnlund,
25 Mr. Kostick, Ms. Stewart, and Mr. Sanderson -- for

1 their answers to my questions. Those do complete my
2 questions. Although if I might, I -- I have in my
3 notes here that Mr. Willie Derksen is noticeably absent
4 from the Centra wis -- witness panel and support team.

5 And it's my understanding that after a
6 distinguished career with Centra Gas and Manitoba
7 Hydro, Mr. Derksen has retired exactly one and two
8 thirds (1 2/3) business days ago. So I'll take this
9 opportunity on the public record to congratulate Mr.
10 Derksen on his retirement.

11 I do want to thank him, I believe on
12 behalf of all, for his exceptional years of service in
13 the public utility regulation. And I can indicate when
14 Mr. Derksen was involved in proceedings before this
15 Board and the dozens of times I cross-examined him, I
16 quickly learned that his work was accurate and
17 complete. But more so, he could explain with such
18 eloquence and ease that those -- those concepts that I
19 couldn't understand were suddenly fully understandable,
20 and thanks to him.

21 So I take the liberty on behalf of all
22 of us to wish Mr. Derksen the very best as he authors
23 his next adventure. So thank you for that.

24 THE CHAIRPERSON: Before we recess, do
25 we have any more questions? I have a question, and it

1 relates to the term that we've been debating, a der --
 2 term of the contract, the five (5) years versus seven
 3 (7) years.

4 And I guess the first question that
 5 popped in my mind is what if -- you know, you explained
 6 the reasons why you decided to go with seven (7) years,
 7 risk mitigation and so on. I guess for me a natural
 8 question was, why not go to ten (10)? If you're -- if
 9 you're going to get these kind of advantages from
 10 extending a term beyond the five (5) years, why not be
 11 a true Canadian and go ten (10) years?

12 MR. NEIL KOSTICK: Well, there is
 13 certainly an amount of judgment involved. As we've
 14 talked about, we were targeting an intermediate term.
 15 Ten (10) years might start to fall into the long-term
 16 range, not that that would necessarily disqualify it.

17 We do want to keep options open for
 18 bigger things that could potentially unfold. And we've
 19 talked a little bit about local storage development and
 20 the potential for that. While the portfolio --
 21 portfolio we have is quite flexible, and we've
 22 certainly tried to make that case before you, that the
 23 portfolio we are proposing to implement is flexible,
 24 there could still be, through the investigation of
 25 local storage, and depending on other things happening

1 in the marketplace, you could potentially -- that could
2 potentially -- potentially be an option. And it would
3 take a number of years to -- to put in place if it were
4 economic. A seven (7) year term doesn't preclude that
5 as a possibility.

6 So that's, in part, some of the -- some
7 of the rationale for not going even longer in the event
8 that that did prove to be an economic and -- and
9 technically viable option. But to us it -- it
10 basically boiled down to taking a balanced approach to
11 the -- to the whole matter. Short-term, given the
12 attractive rates and services that we got, for us
13 didn't make sense. An intermediate term made sense,
14 which is what we -- what we're -- what we're applying
15 for. And -- and we didn't see necessarily the need to
16 go for something longer than that. But it does boil
17 down to judgment, I -- I would agree.

18 THE CHAIRPERSON: And -- and this goes
19 to the discussions you had with the -- the providers, I
20 guess, they -- I got the impression from reading the
21 documentation that they gave you more favourable tolls
22 by extending the term another couple of years. At
23 least that, I think, is what I understood.

24 Would that have been the case as well if
25 you had extended beyond seven (7) years to ten (10)?

1 In other words, would you have received more of a
2 discount if you had extended the terms of that
3 contract?

4 MR. NEIL KOSTICK: I can't really say
5 for sure. I think any storage operator has to take
6 into account factors that, you know, we're not privy to
7 in terms of -- I think that they value a customer like
8 Centra. We were able to secure some proposed very
9 attractive rates. I think the storage operator would
10 have to evaluate tradeoffs between securing a valued
11 customer at a, if we can call it, low rates, versus,
12 you know, perhaps they don't want to lock in really
13 attractive rates for any longer than seven (7) years.
14 So I -- I really can't say whether we would have gotten
15 better rates for going longer than seven (7) years.

16 THE CHAIRPERSON: That concludes my
17 questions. I propose that we take ten (10) minutes and
18 be back here at -- on my watch it says ten (10) after -
19 - ten (10) after 3:00, so twenty (20) after 3:00 back
20 in this room, please.

21

22 --- Upon recessing at 3:09 a.m.

23 --- Upon resuming at 3:21 p.m.

24

25 THE CHAIRPERSON: I believe we're in a

1 position to resume the proceedings. Are we waiting for
2 Mr. Warden or can we proceed -- why don't we proceed.
3 Over to you, Mr. Meronek.

4 MR. BRIAN MERONEK: Thank you, Mr.
5 Chairman. I'll ask all my questions of Mr. Warden
6 right now.

7

8 CROSS-EXAMINATION BY MR. BRIAN MERONEK:

9 MR. BRIAN MERONEK: And I might just
10 say that given the complete job that Mr. Peters has
11 done in the erudite questions of the Board, there's not
12 much meat on the bone left but let me nibble at the
13 marrow here. And my questions, as my kids are wont to
14 say, will be random because I -- I want to just go over
15 some ground that has been covered already.

16 Starting with you, Mr. Kostick, just for
17 clarification. The \$14 million US plus change that's
18 sought by Centra in this application is in US dollars,
19 correct?

20 MR. NEIL KOSTICK: Yes.

21 MR. BRIAN MERONEK: And as I understand
22 it, the consumer will not be receiving a bill for the -
23 - a firm amount because there'll be some Canadian-US
24 exchange rates involved.

25 MR. NEIL KOSTICK: Yes, that's correct.

1 MR. BRIAN MERONEK: And -- and
2 obviously there's been no exchange factor involved in -
3 - in this process in terms of determining what
4 ultimately the customer is going to pay.

5 MR. NEIL KOSTICK: That's correct.

6 MR. BRIAN MERONEK: The -- in terms of
7 FERC and the maximum rates, it's my understanding that
8 -- that the system in the States is somewhat different
9 than in Canada in that with respect to TransCanada
10 pipelines there are annual toll applications, or
11 regular toll applications, and whatever is ordained by
12 the NEB is what is required to be charged, correct?

13 MR. NEIL KOSTICK: Yes.

14 MR. BRIAN MERONEK: In terms of FERC,
15 however, FERC sets maximum rates, and the -- as long as
16 the -- the rates ultimately determined between the
17 parties is between the minimum and maximum rates, it's
18 -- it's really as you've indicated to Mr. Peters, a
19 market-driven consideration.

20 MR. NEIL KOSTICK: Largely, yes.

21 MR. BRIAN MERONEK: And as I understand
22 it, with respect to FERC as it relates to ANR, those
23 rates -- those maximum rates were set many years ago.

24 MR. NEIL KOSTICK: With respect to ANR,
25 I believe that's the case, yes.

1 MR. BRIAN MERONEK: And it's only if
2 someone complains about the rates that there is a
3 potential for an application before FERC, is that
4 correct?

5 MS. LORI STEWART: A customer concern
6 about the fairness of the rates might be one (1)
7 driver, but another could be the utility's cost
8 structure changing and, as a result, it needing to go
9 before the FERC to request higher rates to cover its
10 costs.

11 MR. BRIAN MERONEK: That's fair enough.
12 I -- I was really trying to get confirmed that FERC
13 doesn't initiate these applications.

14

15 (BRIEF PAUSE)

16

17 MS. LORI STEWART: There have been
18 situations of late where -- where the FERC has
19 initiated actions against pipelines.

20 MR. BRIAN MERONEK: But not with
21 respect to ANR.

22

23 (BRIEF PAUSE)

24

25 MS. LORI STEWART: To the best of my

1 knowledge, Mr. Meronek, not -- not as it relates to ANR
2 Pipeline Company.

3 MR. BRIAN MERONEK: With respect to the
4 issue of right of first refusal, or ROFR as it's -- the
5 acronym is pronounced -- it sounds like a dog. But
6 just to clarify the -- the ROFR under the present
7 contract is not on the table, correct?

8 MR. NEIL KOSTICK: The -- we're not
9 pursuing a ROFR process.

10 MR. BRIAN MERONEK: I'm just harkening
11 back to the term sheet, which seems to dictate -- and I
12 -- I don't want to ask a legal question -- dictate the
13 terms between the parties.

14 MR. NEIL KOSTICK: The term sheet does
15 outline the terms between the parties that will
16 ultimately be reflected in the contracts.

17 MR. BRIAN MERONEK: Now if, for some
18 reason, the Board doesn't approve the application as
19 presented, am I correct in -- in suggesting that --
20 that the term sheet is -- is off the table as well?

21 MR. NEIL KOSTICK: Given that the term
22 sheet reflects the specific portfolio that we've
23 brought forward, then -- then, yes, I believe that
24 would be the case.

25 MR. BRIAN MERONEK: So does that put

1 Centra at risk of -- of the -- another party coming
2 along and matching the -- the price or exceeding the
3 price that Centra has negotiated?

4

5 (BRIEF PAUSE)

6

7 MR. NEIL KOSTICK: With respect to the
8 rights of first refusal that Centra currently has on
9 its current contracts, the ROFR period has elapsed on
10 the Great Lakes summer capacity. And we do not have --
11 currently have ROFR on the Great Lakes winter capacity.
12 But the Great Lakes summer capacity would essentially
13 become available to the market. And with respect to
14 ANR, the ROFR period would commence sometime in August.

15 MR. BRIAN MERONEK: So what you're
16 saying from that, to the extent that ROFR is -- has not
17 expired, it would automatically -- it could be --
18 automatically be invoked for those contracts where ROFR
19 is still involved?

20 MR. NEIL KOSTICK: Yes, if -- if ANR
21 and Centra were not able to reach agreement on
22 something else, then the ROFR period would
23 automatically kick in, essentially.

24 MR. BRIAN MERONEK: So in that case, if
25 someone came along and offered a greater price than

1 what was negotiated, Centra would have to match it,
2 correct?

3 MR. NEIL KOSTICK: Through the ROFR
4 process, yes. Or, the capacity would be lost if we
5 didn't match.

6 MR. BRIAN MERONEK: And where ROFR is
7 expired, then it -- it's just a matter of the best deal
8 that -- that ANR can get from any potential competitors
9 of Centra for that storage or transportation?

10 MR. NEIL KOSTICK: Yes.

11

12 (BRIEF PAUSE)

13

14 MR. BRIAN MERONEK: Now, Ms. -- Ms.
15 Stewart, you were talking to Mr. Peters about the
16 portfolio as being robust, flexible, and diverse.
17 Those were adjectives that -- that we've seen
18 throughout the application and certainly repeated in
19 evidence?

20 MS. LORI STEWART: Yes, Centra has used
21 those words in its evidence.

22 MR. BRIAN MERONEK: And just for my
23 plebian mind here, what does "robust" mean in terms of
24 Centra's portfolio?

25

1 (BRIEF PAUSE)

2

3 MS. LORI STEWART: What comes to mind
4 first, Mr. Meronek, is the portfolio's ability to
5 accommodate a wide range of weather scenarios.

6 MR. BRIAN MERONEK: And "flexibility"
7 relates to what?

8 MS. LORI STEWART: Flexibility from the
9 perspective of having annual storage incorporated as a
10 part of our portfolio now, the flexibility that that
11 affords as well as the fle -- flexibility to adjust our
12 purchase strategy and to access a number of liquid
13 supply hubs.

14 MR. BRIAN MERONEK: And "diversity"
15 relates to what?

16

17 (BRIEF PAUSE)

18

19 MS. LORI STEWART: I think the
20 distinction is, in our mind, Mr. Meronek, flexibility
21 is the opportunity to adjust those -- those supply
22 purchases. And "diversity" means the access to those
23 different supply hubs.

24 MR. BRIAN MERONEK: Thank you for that.
25 Now, Centra has taken the position -- and there's no

1 reason to doubt it, that under the present contract and
2 suite of services and assets in Centra's portfolio, it
3 is a robust, flexible, and diverse portfolio, correct?

4 MS. LORI STEWART: You're speaking
5 about our current portfolio?

6 MR. BRIAN MERONEK: Yes.

7

8 (BRIEF PAUSE)

9

10 MS. LORI STEWART: Yes, I believe
11 that's the case, although to a lesser degree than the
12 portfolio that we're proposing.

13 MR. BRIAN MERONEK: And I'll get into
14 that. And the problem is that with respect to the
15 geographical situation where Centra finds itself, and
16 given the weather-driven component, excuse me, of the
17 load, it's a complex mix of -- of assets that need to
18 be incorporated into the portfolio to optimize that
19 portfolio for the customers of Centra. Would you agree
20 with that?

21 MS. LORI STEWART: I -- in my opinion,
22 other LDC's portfolios are as complex. They're buying
23 at multiple hubs and have various transportation
24 components in their -- in their portfolio.

25 MR. BRIAN MERONEK: I'm not worried

1 about other LDCs right now, Ms. Stewart, just Centra.

2 Would you agree with that statement?

3 MS. LORI STEWART: Yes, I would.

4 MR. BRIAN MERONEK: And to the ex -- to
5 the extent that it's complex, Centra has to make
6 certain that it has enough gas flowing to its customers
7 under certain extreme conditions, correct?

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

9 MR. BRIAN MERONEK: And the problem
10 that Centra faces is that the -- the arrangements that
11 it makes with respect to transportation and storage
12 don't always get used in -- in a year or a season,
13 correct?

14 MS. LORI STEWART: Yes, that's --
15 that's the case.

16 MR. BRIAN MERONEK: And in that case --
17 I don't want to use the word "stranded," but there is a
18 cost whether the storage is used, or the transportation
19 is used, or not, correct?

20 MS. LORI STEWART: That's correct.

21 MR. BRIAN MERONEK: And what Centra
22 tries to do is ameliorate that by engaging in its
23 capacity management release program, correct?

24 MS. LORI STEWART: Yes, its capacity
25 management program and one (1) set of transactions

1 under that program are its releases.

2 MR. BRIAN MERONEK: And one (1) of the
3 ways that Centra is able to mitigate unused capacity is
4 by way of selling these assets on the secondary market,
5 correct?

6 MS. LORI STEWART: Yes, releasing those
7 assets.

8 MR. BRIAN MERONEK: And another way is
9 by way of exchanges or swaps of -- of gas?

10 MS. LORI STEWART: Yes, I would
11 characterize an exchange as the sale of virtual trans -
12 - transportation, but, in essence, yes.

13 MR. BRIAN MERONEK: And with respect to
14 that exchange, is that becoming less and less viable
15 given the basis differential between summer and winter
16 gas?

17 MS. LORI STEWART: Yes. In the past
18 couple of years our exchange revenues are down as a
19 result of the spreads shrinking.

20 MR. BRIAN MERONEK: So the -- the
21 propitiousness of your capacity release program will be
22 predicated to a larger degree now on your ability to be
23 able to sell in the secondary market. Would that be
24 fair?

25 MS. LORI STEWART: There's so many

1 factors that feed into spreads. So as long as we
2 recognize that, that there are market conditions,
3 including weather, that can dramatically change the
4 value of exchanges during the winter season on a year-
5 by-year basis. But, yes, generally I would agree with
6 you.

7 MR. BRIAN MERONEK: And I believe you
8 were asked by Mr. Peters if you could determine what
9 the capacity release revenue results were over the last
10 five (5) year average. And I believe you indicated
11 it's on the record, correct? Past records.

12 MS. LORI STEWART: Yes, that's correct.
13 We report our capacity management revenues on an annual
14 basis.

15 MR. BRIAN MERONEK: In Tab 4,
16 Attachment 1, on page 61. And that's the ICF report,
17 if you could turn to that for a moment. Tab 4,
18 Attachment 1 of the application, yeah, page 61.

19

20 (BRIEF PAUSE)

21

22 MR. BRIAN MERONEK: Sorry, it's the --
23 page 61 at the top, not the bottom, page 41 at the
24 bottom. There's a reference that -- that over the five
25 (5) year period ending October 31, 2010, Centra

1 generated an annual average of \$6.9 million in revenues
2 from the capacity release program?

3 MS. LORI STEWART: I see the reference.
4 Sorry, was there a question?

5 MR. BRIAN MERONEK: Yes, is that -- is
6 that your understanding?

7 MS. LORI STEWART: Subject to check,
8 yes.

9 MR. BRIAN MERONEK: Would you mind
10 checking as to the source of that information and --
11 and providing it to us by way of an undertaking?

12 MS. LORI STEWART: I can do that, yes.

13 MR. BRIAN MERONEK: For the purposes of
14 the court reporter, the undertaking is to provide the
15 derivation of the \$6.9 million, five (5) year average
16 capacity release results of Centra as set out in Tab 4,
17 Attachment 1, page 61, at the top.

18

19 --- UNDERTAKING NO. 8: Centra to indicate the
20 derivation of the \$6.9
21 million five (5) year
22 average capacity release
23 results of Centra, as set
24 out in Tab 4, Attachment 1,
25 page 61

1 CONTINUED BY MR. BRIAN MERONEK:

2 MR. BRIAN MERONEK: Now, not that
3 anything really turns on -- on this question at this
4 point in time, but -- but it may have some bearing on -
5 - on Centra going forward.

6 But is there any way that Centra tracks
7 its results on an annual basis in percentage terms of
8 recapturing storage or transportation costs that
9 weren't utilized by Centra?

10

11 (BRIEF PAUSE)

12

13 MS. LORI STEWART: At present we track
14 and report the revenues generated as a result of those
15 activities; but, no, we do not measure it in -- in the
16 manner that you just described.

17 MR. BRIAN MERONEK: Is that something
18 that could be done?

19 MS. LORI STEWART: It could be done.
20 In my opinion, there -- there would be little value in
21 that.

22 MR. BRIAN MERONEK: As it presently
23 stands, but on a go-forward basis in trying to measure
24 the proficiency of your -- of Centra's capital release
25 program under a new portfolio, would that not be a use

1 -- a useful measure?

2 MS. LORI STEWART: If we start from the
3 premise that we're putting a suite of assets in place
4 to serve a wide range of weather scenarios, then in any
5 given year the percentage of assets that we use is
6 driven primarily by the weather and thus customers'
7 requirements for natural gas in the marketplace.

8 So in a year where it's cold and I
9 theoretically use 100 percent of the assets in that
10 year, relative to a warm year where my utilization of
11 the assets will be less than that, and then I turn
12 around and -- and move into the market to release those
13 assets to make whatever money we can from them to
14 offset those fixed costs, I -- I'm -- I'm not sure what
15 the value of reporting that percentage to this Board
16 would be.

17 MR. BRIAN MERONEK: Well, the value --
18 and I -- I don't want to argue the point with you. But
19 in the -- in your scenario if Centra was able to
20 utilize 100 percent because it was a cold year, that's
21 something obviously -- that's an explanation it could
22 give to the Board, correct?

23 MS. LORI STEWART: Well, we do report
24 on an annual basis our load factor, recognizing the
25 activities of our capacity management program. So we

1 already report that on a regular basis.

2 MR. BRIAN MERONEK: I -- I realize
3 that, but on -- following along on your example, in a
4 warm year if it's, say, 60 percent, presumably you'd
5 have an explanation to the Board that would indicate in
6 part that it was because of warm weather, correct?

7 MS. LORI STEWART: Yes. Typically we
8 would provide that type of rationale in our annual cost
9 of gas proceeding.

10 MR. BRIAN MERONEK: But it -- it may
11 also bear on the issue of the extent to which Centra
12 was able to effect its capacity release program, would
13 it not?

14

15 (BRIEF PAUSE)

16

17 MS. LORI STEWART: I can assure the
18 Board that when we are in a situation where we have
19 excess assets, we, on a very regular basis, take those
20 assets to market to -- to secure dollars to offset the
21 fixed costs of those arrangements.

22 MR. BRIAN MERONEK: But --

23 MS. LORI STEWART: And -- I -- I'm --
24 I'm looking -- I'm seeking to understand your
25 perspective, Mr. Meronek, but I think that there are --

1 there -- there is such a multitude of factors that
2 drive the value that we derive from the release of our
3 assets that I -- I am questioning whether or not that
4 would be of value to the Board.

5 MR. BRIAN MERONEK: That may be for
6 others to determine. But are you saying then that
7 there's no way to measure the performance of the
8 capacity release program, such that the Board could
9 take comfort that Centra is doing the best job
10 possible?

11 MS. LORI STEWART: At present the
12 measure that is used is the five (5) year rolling
13 average of the revenues earned by virtue of the
14 capacity management program. And I -- we've been
15 around -- we've been around this issue for some time.
16 And to date, that is the only measure that has been
17 agreed to.

18 MR. BRIAN MERONEK: So in the future,
19 you're saying that any performance measure that Centra
20 might want to use to determine how well it's doing in
21 its por -- new portfolio arrangement is going to be
22 predicated simply -- not simply, but exclusively on how
23 much capacity release revenue is generated in any given
24 year?

25 MR. VINCE WARDEN: Mr. Meronek, this

1 has been an issue we've struggled with for a number of
2 years, as to -- to measure whether or not we're getting
3 the maximum revenues out of our capacity management
4 program.

5 I think, after discussing about it --
6 this issue for a number of years, we've concluded that
7 really the five (5) year average is -- is as good a
8 benchmark as we're going to get.

9 It gives the Board some comfort that
10 we're -- the revenues we get in any one (1) year is
11 aligned with what we've been getting in the past. As
12 Ms. Stewart indicated, the -- the amount of those
13 revenues in any given year is so dependent on weather,
14 not only in -- in the market we serve, but in the
15 markets that we're selling into.

16 So, you know, it wouldn't be a simple
17 matter of saying, Okay, we're -- we're going to match
18 it up with degree days in the Centra service
19 jurisdiction and -- and make some kind of a benchmark
20 comparison based on degree days, because, you know, the
21 weather could be totally different in the market that
22 we're selling into.

23 So it is a difficult one (1). We -- we
24 have the portfolio of assets that we think are optimum
25 to serve the Manitoba market. And when conditions

1 present themselves, we'll -- we'll dispose of some of
2 those assets to the extent that we can to recover some
3 of those costs that we incur.

4 MR. BRIAN MERONEK: And -- and without
5 being pejorative, I'm just trying to get a handle on
6 this. The Board and the Inter -- and the Intervenors
7 will have to accept that, that you've -- that Centra
8 has done the best job it can under the circumstances to
9 recover un -- unutilized capacity.

10 MR. BRENT SANDERSON: I think I'd just
11 like to clarify. I don't believe it's Centra would be
12 in agreement that the five (5) year average of capacity
13 management revenues was ever viewed as a performance
14 benchmark.

15 It is simply an amount, a credit, that
16 is given to customers in their rates prior to the
17 realization of any of those capacity management
18 activities. And throughout history, we have been very
19 cautious about doing that for the reason that those
20 revenues are so uncertain, given the fact that they're
21 determined largely as a result of the market demand
22 that our customers have that determines the amount of
23 excess assets available for remarketing.

24 And the revenues, or the portion of
25 those unutilized assets whose costs you can recover,

1 you can only recover what the market will bear. So we
2 wouldn't characterize it as a benchmark. It's a credit
3 that is included in the customers' rates before the
4 fact.

5 And we've always cautioned that there is
6 no necessary linkage between the historical five (5)
7 year average of those capacity management revenues and
8 what we may realize in the year relating to which that
9 credit has been applied before the fact to customers'
10 rates.

11 MR. BRIAN MERONEK: Thank you for that.
12 Going forward then, if -- and this bears on the
13 question of -- of whether or not Centra is going to go
14 out to the marketplace in an RFP to have a third-party
15 asset manager manage some or all of Centra's assets.

16 I believe that you -- you indicated, Ms.
17 Stewart, that you -- you'd need a year or two (2) to
18 determine Centra's performance level under the new
19 portfolio to -- to have some kind of measure, correct?

20 MS. LORI STEWART: It's as much related
21 to operating experience, so it would be difficult for
22 me to assess someone else's performance in managing
23 those assets if I don't have any operating experience,
24 for example, at a new point like Joliet.

25 MR. BRIAN MERONEK: No, I appreciate

1 that. It's -- it's a good point. So you'll want to
2 get some history to be able to determine whether, if an
3 RFP goes out, a potential counter-party can do better
4 than what Centra in its nascent history can achieve on
5 its own, correct?

6 MS. LORI STEWART: Yes, that's correct,
7 recognizing that in the past when we have evaluated the
8 potential merits of such an arrangement, Centra has
9 concluded that the risks that it would take in turning
10 over its assets, including the commodity in storage, to
11 another entity to manage, that those risks outweigh the
12 benefits of such an arrangement.

13 MR. BRIAN MERONEK: I -- I understand
14 that. And I'm not even going down that path yet.
15 That'll be one (1) my last series of questions. But
16 I'm just trying to get you to confirm that in order to
17 measure your own performance, in order to even go the
18 market to determine whether the market can do better,
19 you'd want a couple of years of history based upon the
20 capacity release revenues that Centra potentially will
21 achieve in a couple of years under the new portfolio?

22 MS. LORI STEWART: That -- that
23 information, it will provide more information than we
24 have today. However, we have to be very cautious in
25 evaluating that information. So in a situation where,

1 for example, it's been cold the first two (2) years
 2 that we've deployed the proposed portfolio and, as a
 3 result, we're, to a large extent, fully utilizing the
 4 assets that we put in place as a result of cold weather
 5 in Manitoba, the capacity management program earnings
 6 in those two (2) years would appear to be very low.

7 That makes sense. It's intuitive. And
 8 so, in that case, if an asset manager was to come in
 9 and propose that it could earn a million dollars
 10 greater than that, then we just have to understand the
 11 assumptions that we're making. So are we going to
 12 weather-normalize and on what basis? And that's a very
 13 difficult -- a very difficult thing to do given the
 14 number of variables that are at play in the marketplace
 15 as well as the variability of weather.

16 MR. BRIAN MERONEK: I accept that. I'm
 17 just trying to follow up on your -- your answers to Mr.
 18 Peters about wanting to have some history and that
 19 before you even entertain the thought of going out to
 20 the marketplace. And that -- that history will be
 21 largely predicated upon your capacity to release
 22 results under the new portfolio over time.

23 MS. LORI STEWART: Yes, I'm -- I'm not
 24 meaning to be picky, but it's actually the capacity
 25 management program. And one (1) set of transactions

1 that we execute under it are releases.

2 MR. BRIAN MERONEK: Now, switching
3 gears for a moment, and -- and while you have the mic,
4 Ms. Stewart, you -- we've talked about the physical
5 molecules coming from east to west. And that's a
6 relatively new phenomena?

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

8 MR. BRIAN MERONEK: I think your
9 evidence was that Great Lakes has done it for the last
10 couple of years and TCPL has recently or is about to do
11 the same thing?

12 MS. LORI STEWART: Yes, my
13 understanding is that TCPL has recently moved the vol -
14 - moved the molecules from east to west and around the
15 horn via the northern Ontario line.

16 MR. BRIAN MERONEK: Now, in that
17 regard, can you opine on what potential implications
18 there are down the road if that becomes a viable and
19 significant use of the pipelines by Great Lakes and
20 TCPL to Centra's portfolio and -- including cost
21 implications?

22

23 (BRIEF PAUSE)

24

25 MS. LORI STEWART: The critical path in

1 question for Centra is from Emerson back to the load.
2 And at present, we're not aware of any other entity who
3 has interest in that path other than TransCanada
4 itself. And it's interested in that path to preserve
5 its operating flexibility. And then, of course, Centra
6 has an interest in that path, as well.

7 MR. BRIAN MERONEK: And more than
8 interest, what -- define or describe in more detail
9 what that interest would be and what benefits or
10 detriments may arise out of -- as a result of that
11 switch in flow.

12 MS. LORI STEWART: Well, I think it --
13 it depends on the preponderance of that reversal of
14 flow. So that's one (1) factor that we would need to
15 be aware of and considering going forward, keeping an
16 eye on, so to speak. And our interest in that path is
17 related to our storage and transportation service
18 arrangements, and as well may relate to a firm
19 transportation path from Emerson back to the load, as
20 it relates to bringing in US supplies.

21 MR. BRIAN MERONEK: And -- and right
22 now this is just -- this is a recent unfolding event
23 that has yet to play out in terms that are financially
24 and operationally identifiable by Centra.

25 MS. LORI STEWART: Yes. It's -- it's a

1 fairly recent occurrence and Centra takes some comfort
2 in the immediate term, at least, in that TransCanada
3 did not contain proposed tariff changes related to its
4 storage and transportation service in its current
5 restructuring application. However, I certainly cannot
6 speak to TransCanada's intentions after that.

7 MR. BRIAN MERONEK: So it's uncertain
8 at this point in time as to how that bidirectional
9 development will unfold and -- and what the financial
10 implications, or operational impli -- implications, are
11 for Centra, won't be known for some time.

12

13 (BRIEF PAUSE)

14

15 MS. LORI STEWART: Yes, I'm -- I'm
16 realizing now that it may be helpful to the Board to
17 understand some of the flow dynamics that are resulting
18 in this reversal of flow. So at present, in -- at
19 Parkway, which is a point on the TransCanada system
20 where it intersects with the Union Gas system, there is
21 a constraint there. And that's one (1) of the reasons
22 why TransCanada has been contracting for capacity on
23 Great Lakes. And it's one (1) of the reasons that
24 TransCanada finds itself accompanied with the reduction
25 in throughput on the mainline that TransCanada finds

1 itself moving gas on a physical basis thousands of
2 kilometres further than what one (1) would intuitively
3 imagine to be the most economic path.

4 So there has been a gradual disconnect
5 on the TransCanada system between physical flows and
6 what is happening contractually. And that is now being
7 exacerbated by the reduction in throughput on the
8 mainline, because for so long -- and our historical
9 experience has been that flows will -- or transactions
10 can be effected through displacement. But if that
11 assumption was predicated on 5 Bcf moving through the
12 mainline, today there's only 2 Bcf moving through the
13 mainline, all of a sudden we have a problem. And there
14 have been some creative solutions to try and move
15 around that. So as that bottleneck at Parkway is -- is
16 eliminated in gradual stages, then again that will have
17 an impact.

18 So there are a number of things that are
19 impacting this non-traditional -- or non-traditional
20 flows. And we will continue to keep -- keep our eye on
21 all of those factors.

22 MR. BRIAN MERONEK: Thank you for that.
23 Did I hear you right, or correctly, when you indicated
24 that -- that the west, sorry the east to west flow on
25 Great Lakes is of no moment to Centra?

1 MS. LORI STEWART: Is of -- sorry,
2 what?

3 MR. BRIAN MERONEK: No moment? Im --
4 no impact?

5 MS. LORI STEWART: I think I was
6 careful to qualify that on a daily basis the pipelines
7 are going to optimize their systems. And on a daily
8 basis, my team doesn't need to be concerned about
9 whether or not the flows are moving east to west. But
10 at a more macro level, I -- I absolutely need to be in
11 the know about that situation.

12 MR. BRIAN MERONEK: And the extent to
13 which Great West (sic) is utilizing an east-west flow,
14 again it -- it's -- it's an evolutionary process that
15 has yet to be played out in -- in absolute terms as to
16 what's going to happen down the road?

17 MS. LORI STEWART: Yes, it's a source
18 of uncertainty, and our -- our proposed Great Lakes
19 contracts remove that uncertainty in that regardless of
20 which direction flows are physically moving on that
21 pipeline, we are paying the rates that are included in
22 this proposal. So that's an element of certainty that
23 -- that is provided to us as it relates to the Great
24 Lakes contracts.

25 MR. BRIAN MERONEK: Just moving on to

1 you, Mr. Barnlund. And I -- I thank you for your
2 answer to Mr. Peters about the important comparison is
3 not the price that Centra currently pays for its US
4 transportation and storage arrangement, but what was --
5 what is available when you are renegotiating, correct?

6 MR. GREG BARNLUND: Yes, that's
7 correct.

8 MR. BRIAN MERONEK: And you're probably
9 concerned now that I thank you for that answer.

10 MR. GREG BARNLUND: Yes.

11 MR. BRIAN MERONEK: The -- and -- and,
12 for example, if you look at PUB Exhibit Tab 13.

13 MR. GREG BARNLUND: That would be the
14 rates and capacities comparison?

15 MR. BRIAN MERONEK: Yes, Tab 8,
16 Attachment 5 of the application.

17 MR. GREG BARNLUND: Yes, I have that.

18 MR. BRIAN MERONEK: And just looking at
19 lines 22 and 23, that's the ANR southwest, I guess it's
20 Oklahoma, and the ANR southeast transportation at
21 Louisiana, that is -- has been deleted from the
22 portfolio.

23 MR. GREG BARNLUND: Yes, sir.

24 MR. BRIAN MERONEK: And those were --
25 those were by and large at maximum tariff rates,

1 correct? At least with respect to the southeast?

2 MR. GREG BARNLUND: I would say that
3 the southeast was, but the southwest was not.

4 MR. BRIAN MERONEK: And it's -- it's my
5 recollection that over time that these assets were
6 either not utilized or not utilized fully, such that
7 Centra had to -- and did, in fact, engage in capacity
8 release in order to recoup un -- unutilized capacity?

9 MR. GREG BARNLUND: I believe that to
10 be the case, but Ms. Stewart may want to weigh in on
11 that.

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

13 MR. BRIAN MERONEK: So that in any
14 event of what -- what transpires, there are -- there
15 are better options currently available to Centra than -
16 - than renewing those contracts?

17 MR. GREG BARNLUND: I would say that
18 overall, the portfolio that has been established
19 replaces the existing portfolio in that regard.

20 MR. BRIAN MERONEK: Point being that it
21 -- it's of no real consequence to -- to say that the
22 cost is now \$14 million versus \$17 million as
23 indicative of a -- of a benefit ultimately to the
24 consumer, in part because of ANR Southwest and
25 Southeast was probably not going to be renegotiated

1 anyways.

2 Would that be fair?

3

4 (BRIEF PAUSE)

5

6 MS. LORI STEWART: I would suggest that
7 similar to our annual ri -- results related to capacity
8 management, it's of interest, but you have to be very
9 careful in placing weight on those two (2) different
10 numbers.

11 MR. BRIAN MERONEK: Thank you for that.

12

13 (BRIEF PAUSE)

14

15 MR. BRIAN MERONEK: Well, I -- I want
16 to get into a talk -- topic with you, Mr. Sanderson,
17 where angels fear to tread, not that I'm an angel. But
18 I -- I want to talk and understand about the future
19 price curve.

20 And as I under -- if you could turn to
21 the application, Tab 7, Schedule 1(a).

22

23 (BRIEF PAUSE)

24

25 MR. BRENT SANDERSON: You're referring

1 to the table of values covering the April 2013 to March
2 of 2014 period?

3 MR. BRIAN MERONEK: That's correct.

4 MR. BRENT SANDERSON: I'm there.

5 MR. BRIAN MERONEK: As I understand
6 that series of schedules, they represent the Centra
7 price curves as adjusted by -- Centra price curves and
8 Centra's seasonal price curve adjustments for a five
9 (5) year period that was utilized in the modelling --
10 the SENDOUT modelling.

11 Is that correct?

12 MR. BRENT SANDERSON: Just taking
13 special pains to note that there's five (5) schedules
14 that depict annual periods individual; but, yes,
15 generally I would agree with that.

16 And when I say -- when we say, Centra's
17 price curves, they're derived from the marketplace.

18 MR. BRIAN MERONEK: I was just reading
19 the -- the heading. It said, "Centra Price Curves,"
20 but we know they're from the marketplace. And -- and a
21 I understand the application, Centra took these price
22 curves and then made some seasonal price curve
23 adjustments on a monthly basis to -- to more replicate
24 reality?

25 MR. BRENT SANDERSON: No. I -- I don't

1 know if I would describe it that way. We simply took,
 2 for the summer period, being the months April through
 3 October, and the winter period, the months of November
 4 through March, we simply in each case took the
 5 arithmetic average of the individual monthly prices
 6 that you see in the unadjusted price series for the
 7 express purpose of overcoming the misleading
 8 conclusions that a model like SENDOUT would direct you
 9 towards, by virtue of its perfect foresight before the
 10 fact, by arbitraging rapidly buying and selling gas to
 11 exploit monthly price differentials by virtue of its
 12 perfect foresight of the forthcoming series of prices
 13 on a month-to-month basis as well as the perfect
 14 foresight of the load that it needs to serve each and
 15 every day, which is not a realistic assumption that any
 16 utility could pursue in actual practice.

17 MR. BRIAN MERONEK: And -- and the
 18 Centra seasonally adjusted price curves are the ones
 19 that were inputted into SENDOUT, correct?

20 MR. BRENT SANDERSON: Yes, that's
 21 correct.

22 MR. BRIAN MERONEK: And as I read the
 23 evidence, these price curves were, as at January 9,
 24 2012?

25 MR. BRENT SANDERSON: That's sounds

1 correct, subject to check.

2

3 (BRIEF PAUSE)

4

5 MR. BRIAN MERONEK: I'll save you
6 checking. It's page 9 of Tab 7.

7

8 (BRIEF PAUSE)

9

10 MR. BRENT SANDERSON: A hundred percent
11 in agreement, Mr. Meronek.

12 MR. BRIAN MERONEK: I'm going to take
13 that one to the bank. I'm going to go buy a lottery
14 ticket, as a matter of fact. Now, just to -- just to
15 follow the thread here, what Centra did was take these
16 seasonally adjusted price curves.

17 And did it put every schedule into the
18 SENDOUT model to obtain a result?

19 MR. NEIL KOSTICK: Centra used years 1
20 and year 5 of those price groups in the SENDOUT model.

21 MR. BRIAN MERONEK: So that would be on
22 this schedule, schedule -- Tab 7, schedule 1(a), would
23 have been lines 12 to 19, for year 1, correct?

24 MR. NEIL KOSTICK: Yes, that's correct.

25 MR. BRIAN MERONEK: And schedule 1(e),

1 page 5 of 6, for year 5, lines 12 to 19?

2 MR. NEIL KOSTICK: Yes, that's correct.

3 MR. BRIAN MERONEK: Is there any reason
4 that Centra wouldn't have used all of the schedules as
5 opposed to just year 1 and year 5?

6 MR. NEIL KOSTICK: Years 1 and 5 appear
7 to represent reasonable bookends of that series of
8 prices, so we felt that was sufficient.

9 MR. BRIAN MERONEK: Reasonable
10 bookends. Wouldn't you want to determine an average in
11 order to be more -- replicate more of what's happening
12 over the next five (5) years?

13 MR. NEIL KOSTICK: Given that we view
14 years 1 and 5 as bookends, the years in between would
15 produce similar or slightly variable results. But if
16 we look at the model results using years 1 and year 5,
17 that should essentially capture the range of that price
18 variability.

19 MR. BRIAN MERONEK: I -- I believe in
20 answer to a question from Member Lafond, Mr. Sanderson,
21 you indicated that are no seven (7) year price curves.
22 If there were, they wouldn't be very reliable.

23 Is that correct?

24 MR. BRENT SANDERSON: That's not quite
25 what I said. There is price discovery or financial

1 instruments or futures contracts traded at certain
 2 large benchmark hubs, Henry Hub in Louisiana being the
 3 basis of the New York mercantile exchange. Natural gas
 4 futures contract is a rare example of a futures market
 5 that trades discreet monthly contracts out as far as
 6 ten (10) years, so they do exist. But with the
 7 exception of the Henry Hub contract for the major hubs,
 8 there is nothing, as a rule, beyond five (5) years.

9 AECO is a -- is a perfect example of
 10 what I'm talking about where there's nothing traded
 11 beyond the near five (5) -- five (5) year period. So
 12 we would encounter difficulties in trying to flesh out
 13 a series of futures price curves for anything but the
 14 Henry Hub point beyond the five (5) year period.

15 MR. BRIAN MERONEK: Not to make too
 16 fine a point of it, Mr. Sanderson, but unless I was
 17 asleep, you -- you never mentioned anything about the
 18 Henry Hub as being available, but...

19 MR. BRENT SANDERSON: Subject to
 20 checking the transcript, I think my -- the words I used
 21 were it becomes very difficult to assemble these series
 22 of prices for terms out beyond five (5) years.
 23 Implicit in my statement was the details that I just
 24 described to the Board.

25 MR. BRIAN MERONEK: And -- and the

1 lexicon that's been used as -- for year 5 is -- is a
2 bookend or an outlier. I think Mr. Kostick said
3 bookend for year 5, and I think you said outlier for
4 year 5, correct?

5 MR. BRENT SANDERSON: I never used that
6 term, to my knowledge.

7 MR. BRIAN MERONEK: Must have been a
8 different person, a different hearing. In any event,
9 year 5 is -- the -- the further you go out, the less
10 reliable these price curves are, correct?

11 MR. BRENT SANDERSON: The way I would
12 characterize it is based on the information that was
13 available to the market at the time these prices were
14 taken, it in theory represents the distillation of all
15 of that collective knowledge in the market in the form
16 of the prices that buyers and sellers are willing to
17 exchange on January 9th for delivery in that future
18 period.

19 Inevitably the actual index prices in
20 those further-out periods as we -- as they become
21 nearby or spot prices are more likely to be different
22 than the prices we see taken five (5) years prior by
23 virtue of the fact that more new information become
24 available to the market, there's more time for market
25 circumstances to change.

1 So I wouldn't characterize them as less
2 accurate, but there's -- it's just a fundamental truism
3 that there's more time over a five (5) year period for
4 the underlying fundamentals of the market to change and
5 have their result and effect on price than over a one
6 (1) year period.

7 So prices will be more stable futures
8 relative to spot over a one (1) year period on average
9 than over a longer-term horizon - five (5) years, for
10 example.

11 MR. BRIAN MERONEK: Again I don't want
12 to put words in your mouth because I -- obviously I'm -
13 - I'm zero for two (2) here. But I think you said that
14 as of last Friday the forecast of future price curve
15 five (5) year averages was three dollars and forty
16 cents (\$3.40) per GJ?

17 MR. BRENT SANDERSON: The arithmetic
18 average of the five (5) year strip of futures prices at
19 the AECO Hub in Alberta as of the Friday close was
20 approximately three dollars and forty cents (\$3.40) a
21 gigajoule Canadian, yes.

22 MR. BRIAN MERONEK: Do you want to --
23 can you compare that to what's on Tab 7 in the Schedule
24 1, or not?

25 MR. BRENT SANDERSON: Yes, I'd be glad

1 to compare it.

2 MR. BRIAN MERONEK: Could you do that?

3 How does the three-four (34) --

4

5 (BRIEF PAUSE)

6

7 MR. BRIAN MERONEK: Is -- is that

8 something you can do now on the record?

9 MR. BRENT SANDERSON: Absolutely. What

10 -- what -- how -- what would you -- like what

11 observations would you like me to make, one (1)

12 relative to the other?

13 MR. BRIAN MERONEK: Well, you're --

14 you're saying three dollars and forty cents (\$3.40) per

15 GJ. I just want to know how that compares to schedule

16 1 that was taken from January 9 of 2012.

17 MR. BRENT SANDERSON: I think we had an

18 exchange with the panel members yesterday regarding

19 current price levels relative to January, and I had

20 described in general terms that prices had continued to

21 fall thereafter the taking of these prices --

22 settlement prices from the futures market, but that in

23 recent weeks they had been on the rise somewhat.

24 I gave a blanket characterization, not -

25 - I guess, not significantly different today from --

1 or, the general -- the general view of the market was
2 not fundamentally different from January. I think it's
3 clear that prices are somewhat lower today than they
4 were in January.

5 I guess how you determine the
6 significance of that difference, I guess, is in the eye
7 of the beholder. So they are somewhat lower today.
8 The futures markets are currently trading a forward
9 price view that is somewhat lower than in January.

10 MR. BRIAN MERONEK: But as I -- as I
11 understand it the three dollars and forty cents (\$3.40)
12 per GJ that you indicated was a five (5) year average.
13 And what would that compare to on -- on January 9, in
14 terms of schedule 1?

15 MR. BRENT SANDERSON: I'm fairly decent
16 at doing mathematical calculations on the fly, but if
17 you'd like that figure, I'll have to take that as an
18 undertaking and make sure that it's accurate.

19 MR. BRIAN MERONEK: There's nothing you
20 can point out on the schedule. You have to do some
21 calculations, correct?

22 MR. BRENT SANDERSON: I would have to
23 go work through the math.

24 MR. BRIAN MERONEK: Could you do that,
25 please?

1 MR. BRENT SANDERSON: I can.

2

3 --- UNDERTAKING NO. 9: Centra to indicate how
4 three dollars and forty
5 cents (\$3.40) per GJ
6 compares to Schedule 1 that
7 was taken from January 9,
8 2012

9

10 CONTINUED BY MR. BRIAN MERONEK:

11 MR. BRIAN MERONEK: But what you can
12 say is that, as we know, the market changes every day,
13 and depending upon the day that is chosen for the price
14 curve, a different result will be -- will result from
15 different price curves put into the -- to whatever
16 optimization model is utilized.

17 Would that be fair?

18 MR. BRENT SANDERSON: I think the
19 relevant point is not the minute details of the output
20 or the result of the model, depending on whatever day's
21 prices you input in the model. I think what is
22 important is the general direction or guidance that
23 that model result gives you.

24 And I think, as Mr. Kostick has covered
25 in great depth, there were significant differences

1 between the level of forward prices assumed in ICF's
2 model runs versus the futures market prices that Centra
3 employed.

4 And in spite of those fairly sizeable
5 differences, which are much greater than the difference
6 in futures prices today versus when we took them on
7 January 9th, the general direction of the guidance
8 given in both cases was very, very similar.

9 MR. BRIAN MERONEK: Again, that's
10 another qualitative term. "Directional" means what?
11 When -- when you -- when you're saying the model
12 directionally demonstrates something, what -- what is
13 it that you're referring to exactly?

14 MR. BRENT SANDERSON: By way of
15 analogy, I might describe it as, I don't think any
16 member of the panel or Centra would purport that a tool
17 such as SENDOUT can give us such refined guidance as to
18 allow us to be confident to contract for storage
19 capacity of 14.625 petajoules per year.

20 I would characterize it more as Mr.
21 Kostick has said, if it comes in around fifteen and a
22 half (15 1/2) and you get a petajoule either way,
23 depending on who is doing the analysis and the
24 methodologies that were employed, it's -- that would be
25 the level of specificity that we would impart to the

1 guidance provided with those models, rather than
2 something as refined as the first example that I gave
3 you.

4 MR. BRIAN MERONEK: Okay, but the -- I
5 -- I thank you for that. But depending upon the price
6 curve dollar amount inputted, there could be a
7 significant difference in the resulting requirement for
8 st -- storage capacity.

9 Would you agree with that?

10 MR. BRENT SANDERSON: As I said, a
11 comparison of the independent modelling and analysis
12 conducted by both Centra and ICF using completely
13 different tools and a complete different set of a price
14 assum -- price assumptions, the conclusions that we
15 would draw from that is the portfolio that is indicated
16 and is reflected in the one (1) that's before the Board
17 now is not highly sensitive to changes in forward price
18 assumptions.

19 MR. BRIAN MERONEK: If I could just end
20 the day on pursuing that at PUB Exhibit 7, Tab 18. Do
21 you have that, sir?

22 MR. BRENT SANDERSON: Yes, I do.

23 MR. BRIAN MERONEK: Okay. If you look
24 at that particular schedule and under "Storage
25 Capacity," and you look over to the ICF curve for year

1 5 for ANR, you will note nineteen point nine (19.9) in
2 storage capacity?

3 MR. BRENT SANDERSON: Yes, I see that.

4 MR. BRIAN MERONEK: And the five (5)
5 year price curve that ICF used was in the eight dollar
6 (\$8) range, is that not correct?

7 MR. BRENT SANDERSON: For the sake of
8 our discussion, why don't we agree for that subject to
9 check? It sounds reasonable, in that neighbourhood.

10 MR. BRIAN MERONEK: Yeah, I would just
11 -- sorry, yes, I was just looking at Tab 16.

12

13 (BRIEF PAUSE)

14

15 MR. BRIAN MERONEK: Sorry, I misspoke.
16 It was anywhere from -- it was certainly above six
17 dollars (\$6), up to approximately eight dollars (\$8).

18 MR. BRENT SANDERSON: Depending on the
19 delivery hub, anywhere from six dollars and fifty cents
20 (\$6.50) to -- or approximately eight dollars (\$8), just
21 shy of eight dollars (\$8).

22 MR. BRIAN MERONEK: Would that not, in
23 part, reflect on the output in the ICF model in
24 relation to storage capacity need for year 5?

25 MR. BRENT SANDERSON: Mr. Kostick has

1 covered this in his previous testimony. And what
 2 you're seeing there in terms of the model driving the
 3 optimizer to hold a greater amount of storage in year 5
 4 is not a function of the absolute price levels. It's
 5 more a function of ICF's assumption of very, very large
 6 winter-summer price spreads, which, with the perfect
 7 foresight of the model in terms of the load it has to
 8 meet and knowing with full certainty the flexibility it
 9 has to pursue arbitrage in exploiting seasonal price
 10 spreads, would drive the portfolio model or -- to hold
 11 an increased amount of storage to speculatively exploit
 12 seasonal market price spreads.

13 And as we had said, not wanting to take
 14 anything away from ICF, but we do feel that the winter
 15 seas -- winter-summer price spreads reflected in the
 16 futures markets are far more consistent with that
 17 that's been experienced historically on average.

18 MR. BRIAN MERONEK: Did you ask ICF why
 19 it used a forecast other than what you perceived to be
 20 the most prudent forecast, that being the five (5) year
 21 price curve?

22 MR. BRENT SANDERSON: ICF was employed
 23 on Centra's behalf to take an independent approach to
 24 this modelling effort. We left it to ICF in their
 25 professional judgment as to what was most appropriate

1 to employ in terms of their modelling techniques and
2 tools, and the prices into which -- that were input
3 into their models.

4 MR. BRIAN MERONEK: With respect, that
5 wasn't my question. My question was did anyone at
6 Centra ask ICF as to why it felt that it -- the -- it's
7 price curve -- price curve was more prudent than the -- a
8 five (5) year average price curve.

9 MR. BRENT SANDERSON: I don't think
10 that there was ever any claim on ICF's behalf that
11 their price curve would -- they would characterize it
12 as more prudent. It was a -- another view, another set
13 of data. And I don't, to my recollection, remember ICF
14 ever claiming it was more prudent, as you would
15 characterize it. And nor did Centra challenge them to
16 defend their proprietary product.

17 MR. BRIAN MERONEK: But clearly, you're
18 of the view that a -- a -- the forward price curve is -
19 - is the best available market intelligence to utilize
20 in this particular exercise?

21

22 (BRIEF PAUSE)

23

24 MR. BRENT SANDERSON: If I was forced
25 to put money down, in terms of picking amongst the

1 various options that I thought were the most sound in
 2 terms of making a bet on forward prices, which I am not
 3 prepared to do, I will always go with the market. I
 4 will -- I will trust in the market.

5 But I think it's clear the value that
 6 was delivered by not forcing our views on ICF and
 7 allowing them to choose their own path in their
 8 independent modelling effort in order to assure the
 9 independence of that effort. And I think it gives
 10 Centra an additional level of confidence, as we said,
 11 as to the robustness of the portfolio before the Board
 12 in that in spite of us not endeavouring to influence
 13 ICF's approach, it was a strong validation of the
 14 portfolio that is now before the Board and that we feel
 15 is a very good value for customers.

16 MR. BRIAN MERONEK: Well, I won't ask
 17 you to undertake to bet any of your wages on -- on any
 18 particular price curve. But just maybe be -- before we
 19 end the day, Mr. Peters asked -- or -- or got
 20 confirmation that TCPL doesn't use in its forecasting a
 21 forward price curve.

22 Did I get that correct?

23 MS. LORI STEWART: My understanding is
 24 that TransCanada does its own forecasting, its own in-
 25 house forecasting. And so one (1) of the factors I'm

1 sure that it does consider is the futures curve.

2 MR. BRIAN MERONEK: Was -- did -- did I
3 get the impression -- and if I got a wrong impression
4 please correct me, that you, Mr. Sanderson, were --
5 were not impressed with TCPL -- or you, Ms. Stewart,
6 were not impressed with TCPL's forecasting because
7 they've been so far out?

8 MR. BRENT SANDERSON: All I did, to the
9 best of my recollection, in an exchange with the Board
10 near the end of the day yesterday was make an
11 observation that TransCanada's proprietary forecast has
12 clearly been wrong.

13 MR. BRIAN MERONEK: It's 4:30, Mr.
14 Chairman. It's been a long day and I've run out of
15 forward price curve questions. Maybe we could adjourn?

16 THE CHAIRPERSON: Thank you, Mr.
17 Meronek. We'll adjourn now and resume the
18 deliberations tomorrow morning at 9:30. So have a good
19 evening, everyone.

20 MR. DOUG BEDFORD: Mr. Chairman, with
21 your permission, we have the answer to one (1)
22 undertaking that was given yesterday. I think it will
23 only take us a minute or two (2). And I'll ask Ms.
24 Stewart, with your permission, to enter it into the
25 record.

1 THE CHAIRPERSON: Yes, please do.

2 MS. LORI STEWART: This is in response
3 to Undertaking number 2, which was to reconcile the
4 numbers in the graph in pre-ask PUB/CENTRA-1 and the
5 information in the table associated with Information
6 Request CAC/CENTRA-17.

7 The storage inventory withdrawal
8 represented on the graph in pre-ask PUB/CENTRA-1 is 4.6
9 petajoules. The difference between the storage
10 withdrawal figures reported in pre-ask PUB/CENTRA-1 and
11 Information Request CAC/CENTRA-17-E is 2.8 petajoules.
12 This 2.8 petajoules is associated with an out-of-sink
13 storage exchange with a counter-party in the winter of
14 2005/'06 as part of Centra's capacity management
15 program.

16 Storage exchanges are routinely
17 conducted with counter-parties as part of our capacity
18 management program. Storage exchanges involve a
19 counter-party delivering gas to the Manitoba delivery
20 area and Centra delivering gas out of its storage
21 facility to that counter-party, thus effecting virtual
22 transportation.

23 The storage exchanges are typically
24 conducted on a next-day basis but can also be conducted
25 on a same-day basis. Out-of-sink storage exchanges are

1 typically arranged for a longer term and represent
 2 deferred repayment of the gas delivered to the Manitoba
 3 delivery area. In this circumstance, the counter-party
 4 delivered 2.8 PJs to Centra in the winter of 2005/'06.
 5 And Centra repaid out of its storage inventory 2.8
 6 petajoules to the counter-party the following summer.

7 Centra realized incremental capacity
 8 management revenues as result of this exchange. Given
 9 that Centra had a requirement for, and used, the 2.8
 10 petajoule -- petajoules just discussed during the
 11 winter of 2005/'06, the table represented in Centra's
 12 response to Information Request CAC/CENTRA-17-E is the
 13 correct depiction of storage withdrawals. That is,
 14 Centra used a total of 7.4 petajoules of storage gas
 15 during the winter of 2005/'06.

16 We have with us an updated pre-ask
 17 PUB/CENTRA-1, which now accurately reflects this
 18 information. And with your leave, Mr. Chair, Ms.
 19 Bercier will distribute the updated graph.

20 MR. BOB PETERS: Mr. Chairman, it would
 21 be customary, with the permission and concurrence of
 22 counsel, all -- that these undertakings be given an
 23 exhibit number. And I'll actively search for my list
 24 here. And I believe this would now become Exhibit
 25 Centra number 4. I'll look to Mr. Bedford for the

1 nodding of his head, but we'll mark it as Centra
2 Exhibit 4.

3

4 --- EXHIBIT NO. CENTRA-4: Response to Undertaking 2

5

6 MR. BOB PETERS: Mr. Chairman and Board
7 members, it's also customary during the course of the
8 proceedings that when -- when a witness undertakes, or
9 a witness panel undertakes, to provide an answer, if --
10 if the hearing is still ongoing an opportunity is
11 generally afforded the party that initially asked the
12 question if there's anything further that flows from
13 it.

14 At this point in time, I'm just going to
15 have to re-read Ms. Stewart's answer on the transcript
16 later this evening, but I have no questions at this
17 time. If I do, I will seek permission of the Board to
18 ask further questions at that time. But as I
19 understood Ms. Stewart explained the -- the difference
20 that was noted in the materials. And the new chart
21 that was provided would replace the chart that I drew
22 the Board's attention to primarily at Tab 7 of the book
23 of documents on page 31. And just have Ms. Stewart
24 confirm at this time that the intention of the Utility
25 is to have Centra Exhibit 4 replace the chart that was

1 on page 31 of Board counsel's book of documents.

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

3 MR. BRIAN MERONEK: With this caveat,
4 Mr. Chairman, Mr. Peters yesterday suggested that this
5 represented my EKG. I'd just like to have an addendum
6 filed. After his cross-examination you can show a flat
7 line.

8

9 (PANEL RETIRES)

10

11 THE CHAIRPERSON: Is there any other
12 business? If not, let's adjourn and we'll see each
13 other again tomorrow morning at 9:30.

14

15 --- Upon adjourning at 4:38 p.m.

16

17 Certified correct,

18

19

20

21

22 _____

23 Ms. Cheryl Lavigne

24

25

546				
<u>\$</u>	0	340:3	475:25	12 271:16
\$1 271:10,13	\$8	342:7,15	476:21	272:20
272:7,15	472:6,17,2	346:5	1(a) 459:21	295:20
382:24	0,21	350:15,18	462:22	347:7
409:2		352:14	1(e) 462:25	382:18
\$1.06 382:25	<u>0</u>	367:6,23,2	1.42 344:10	462:23
\$14 364:7	06/'07	4	1/2 261:18	463:1
366:13	346:20	370:4,8,25	263:14	12:10 354:11
431:17	07 383:1	371:3,10,1	264:3	13 333:24
458:22		4 374:20	311:7	343:6
\$14,049,344	<u>1</u>	375:21	334:9	354:21
358:17	1 246:23	377:12,13	382:11	355:5,14
\$17 364:4	247:5	378:18	470:22	360:20
458:22	248:18	382:22	1:30 354:9	366:9
\$192,000	250:1	383:14,19	1:31 354:12	377:1
343:8	256:25	386:7	10 264:24	387:4
\$2	257:4	387:13	265:8	401:9
363:6,11,1	258:15,16	394:24	270:13	409:17
6 365:2,21	259:4,16,1	399:15	309:15	457:12
366:1,8	9,22	401:6	318:5	135 347:3
405:2,13,1	260:7,21	403:25	339:6	135,000
7	261:2,5,19	404:3	341:8	353:2
\$246.9	263:10,16	405:19	342:21	137 352:7
298:20	264:8	410:3,17	350:7,25	137.2 352:17
\$251.1	267:20,21	411:24	351:7	353:1
298:7,15	269:3,5	412:2	408:2	14.6 273:3
\$260,000	272:24	413:25	428:8,11,1	277:24
267:8	275:18	414:6	5 429:25	14.625
\$3 272:8,14	281:8,17,1	417:4,16	430:17,18,	470:19
363:17,24	9,24,25	422:8	19 464:6	15 261:18
408:24	282:11	425:18	10.8 272:23	263:14
\$3.40 247:4	292:21,22	426:4,12	100 262:19	264:15
466:16,20	295:21,22	427:8	383:1	265:2
467:14	296:6	433:6	398:22	311:7
468:11	298:7,14,1	439:25	399:2	333:24
469:5	5 300:17	440:2	423:6	334:9
\$31 364:6	302:8	441:16,18	444:9,20	339:6
\$4 407:19	304:23	442:17,24	11 272:23	368:1
\$402 279:7	308:24	447:10,23	347:7	382:11
\$404 279:7	313:13	450:15	11:00 318:7	470:22
\$6 472:17	316:14	451:25	11:08 318:9	15.2
\$6.50 472:20	317:3	453:14	11:22 318:10	261:20,22
\$6.9 246:20	319:11	454:21,23	110 347:8	263:17
442:1,15,2	322:11	455:2	110,000	264:2,6
	324:7,8,20	462:19,23	353:8	15.4 261:23
	325:15	463:5,6,14		264:6
	334:20	,16		15.5 263:6
	336:11	466:6,8,24		
	338:17	467:11,16		
	339:24	468:14		
		469:6		
		471:16		

546				
266:17	463:1	2.8	417:7	27 344:17
273:14		477:11,12	2012 241:23	28 344:17
308:1,7	19.9 261:25	478:4,5,9	247:6	396:22
311:15	263:18	2/3 427:8	312:5	29.28 334:14
333:21	264:2,4,16	20 258:21,24	313:17	2nd 413:23
336:1	265:3,23	259:3,6,8,	414:25	
337:6	472:1	15,19,21,2	421:8	
338:17	1990s 405:13	2,24 260:2	461:24	
15.6	1993 290:13	288:4	467:16	<hr/> 3 <hr/>
259:4,5,9	1996	289:8,14	469:8	3 254:19
261:23	336:10,14	297:12	2012/'13	263:16
264:6	337:7	300:18	353:12	267:1,8,12
333:19	338:10	318:6	2013 271:25	270:7
16 266:23	340:3	319:8	313:17	281:4
273:8	1-ANR 298:6	321:1	356:15	320:15
363:22	1st 339:25	329:22	371:3	321:2,4
472:11	340:5	331:10	413:23	346:7
160 346:24	347:20	334:24	426:13	375:10
17 263:21,24	353:12,20	335:23	460:1	377:4
264:3	354:4	338:5	2014 460:2	384:3
280:7		339:3	2020	385:9,19,2
293:13	<hr/> 2 <hr/>	347:12,15	315:12,20	2 409:7
294:20	2 244:4	362:15	21,000 282:8	3.1 311:13
295:13	254:18	409:10	283:4	344:1,5
333:19	261:7	430:19	297:10	3:00 430:19
17.6 273:3	263:4	20,000	21,101	3:09 430:22
277:25	270:7	347:15	280:21	3:21 430:23
18	281:10	353:16,22	22 352:5	30 334:7,22
257:11,20,	307:13	200,000	457:19	30th 353:13
21,22,25	308:21	346:20	22.9 296:3	31 421:8
298:17	313:6,11	2005/'06	23 297:13	441:25
301:23	314:3	477:14	359:24	479:23
334:3	322:9	478:4,11,1	457:19	480:1
399:8,9	324:8	5	24 341:14	32 279:8
400:19	329:10,15	2007	363:22	330 241:21
471:20	331:12	271:22,24	241 241:24	34
18.09 332:24	334:12	381:21	244 243:3	330:1,4,25
333:1,3	368:23	2008 310:7	245 243:4	467:3
18.2 300:16	386:9	2010 441:25	249 243:13	35
18.6 311:16	406:20	2010/'11	244:3	300:8,9,15
382:12	408:20	353:4	25 341:15	301:1
19 257:20	421:12	2010/2011	25,000 353:9	303:9,14
270:11,12,	449:17	352:20	26 241:23	358 245:10
22 278:8	451:1,6	2011 271:24	360:1	36 294:12
299:22	455:12	319:16		352:5,18
300:1	459:9	381:21		379 245:18
334:3	466:13	383:1		
462:23	476:23	414:16		
	477:3			
	479:4			

546				
38 336:14	0	462:20	399:9	429:4,25
339:3	261:1,6,24	463:1,5,6,	400:19	430:13,15
391 246:12	263:17	12,14,16	441:16,18,	459:21
	264:10	464:8,11,1	23	462:6,22
	265:17	4,22	442:17,25	463:21
<hr/>	272:24	465:1,3,4,		466:23
4	279:9	9,22	<hr/>	471:20
4 245:3	280:14	466:3,9,15	7	479:22
246:22	295:22	,18 468:12	7 245:17	
263:3,8,9	296:2,6	472:1,4,24	246:6,11,1	7.4
268:4	300:18	473:3,20	3	343:13,17
319:16	306:13,20,	474:8	252:16,19	478:14
320:17	21,25	50 283:25	257:12	70 326:4
321:14	307:2	326:2	276:16,22	327:5
358:3	308:19,23	327:4	278:20	332:21
375:10	310:7	333:17	290:10	333:18
441:15,17	334:6	50,000	295:14	334:15
442:16,24	339:6	293:20	301:17,19,	366:25
478:25	341:11,13	294:2	20	71 326:5
479:2,25	346:15	296:13	302:7,20	72 299:25
4.6 477:8	355:7	298:24	306:14,16	73 270:16,21
4:30 476:13	367:24	299:4	308:4,15	75 332:23
4:38 480:15	370:4	406:19	315:6	333:4,5
40 367:25	374:1,2,3,	52,753	341:5	334:1
400 241:21	7,8,17	285:25	354:23	75th
401 246:18	376:6,14	54,000	356:21	332:6,16
41 441:23	377:4,8,19	349:11,13	371:2,6	76 386:11,12
42,202	,24 378:24	351:19,20	372:1,12	
284:21	379:13,20	55 271:13	373:12,15	<hr/>
285:7	380:4,12	59 294:20	375:21	8
43 421:15	385:5,19,2	295:13	376:1,9,10	8 245:14
431 243:14	3 386:20		,14,18,21	246:19
442 246:23	387:8,22,2	<hr/>	377:14,19,	248:22
469 247:6	5	6	23 378:24	294:11
479 244:4	388:7,9,21	6 246:3	379:12	352:4
48 354:23	390:5,7,25	291:20	380:3,12,1	355:7
359:3	391:11,21	344:16	4,16,19,22	379:10,24
401:9	392:1	359:19	382:7	409:11
480 241:24	393:1	391:16	383:24,25	411:17
243:16	403:7	396:22	384:5,20	413:22
	407:25	409:16	385:2,6,13	421:18,22
	409:16	428:2,10	386:21	442:19
	441:10,25	441:10,25	388:8,9,16	457:15
	442:15,21	463:1	,22 389:4	8.1 343:13
	446:12	60 326:4	390:5,7,19	80 320:16
	447:7	327:5	,24	321:7
	448:12	398:23	391:11,20	324:2
	449:6	445:4	392:2	82 331:10
	455:11	61 246:23	401:17	
	457:16	257:20	403:6,7	
	460:9,13	308:16	417:11	
			418:3,13	
			428:3,6	

546				
88 352:5	able 251:11	255:23	478:17	276:5
	252:20	328:5		301:16
	256:11	405:3	accused	308:17,18,
<u>9</u>	283:6	409:3	370:14	22 310:2
9 247:3,6	284:13,18	448:7	achieve	311:2
279:6	297:9	451:16	294:8	327:16
411:18	304:21	acceptable	336:19	332:2,18
461:23	311:9	255:24	450:4,21	363:17
462:6	315:21	357:23	achieved	365:25
467:16	327:2	accepted	294:8	369:1
468:13	328:9	406:12	327:19,20	382:3
469:3,7	345:15	access	acknowledge	383:15,20
9:30 476:18	361:16	323:16	416:21	384:2
480:13	366:18	391:5	acknowledges	387:9
9:32 248:1	373:18	392:20	326:25	388:4
90 341:6	377:2,21	420:25	acquire	397:19,23
90,000	381:8	437:12,22	284:18	414:25
347:13	389:10	accommodate	347:23	418:19
349:21	390:4,8	336:5	acquired	451:24
352:8	392:24	397:1	286:4	adapt 382:8
353:15	395:4	437:5	acronym	384:22
93 285:16	406:4	accommodated	434:5	add 339:23
386:10	415:15,25	345:1,4	across 330:8	405:10
95/'96	416:3	398:5	334:24	422:25
339:20	418:1	accompanied	335:7	added 408:17
96 340:1	420:13,18	454:24	366:25	addendum
97 423:11,16	430:8	account	actions	480:5
9th 465:17	435:21	259:23,25	433:19	addition
470:7	440:3,23	278:5	actively	266:21,25
	444:19	311:5	478:23	303:2
	445:12	323:14	activities	342:9
	450:2	361:9,13	443:15	344:14
	absence	393:25	444:25	350:16
	248:10	430:6	448:18	403:10
<u>A</u>	absent	accounts	actual	additional
a.m 248:1	405:16	264:13	293:17	245:8
318:9,10	427:3	accurate	321:6	249:19
430:22	absolute	336:7	336:5	267:1
ability	387:20	365:9	369:18,19	274:15
311:12,16	456:15	366:23	370:6,17	288:12
348:15	473:4	381:16	398:6	296:13
349:7	absolutely	408:14	417:19,23	297:4,5,7
384:22,24	329:19	427:16	420:5,11	298:24
393:17	368:19	466:2	423:15	311:13
397:22	456:10	468:18	461:16	337:18
399:2	467:9	accurately	465:19	338:11
404:5,6	accept	305:22	actually	347:24
405:21,22	250:9,15,2	368:14		353:9,15
410:12	1 252:3,4			357:21
421:2				358:9
437:4				
440:22				

546				
367:19	245:15	349:1	already	396:4
390:5	326:10,23	376:18	275:20	amongst
404:22	327:2,24	377:13	313:14	319:22
406:1	373:18	378:6,25	365:6	368:20
416:21	376:15	446:17	367:16	474:25
475:10	379:11	agreeing	409:15	amount 285:6
additions	380:1	375:15	411:20,21	297:24
342:8	406:5	agreement	412:11	302:20,22
address	411:7	252:16	419:24	405:4
317:15	advantageous	376:8	431:15	406:15
410:5	393:3	394:15,18	445:1	420:18
addressing	advantages	411:11	alter 394:1	428:13
299:17	428:9	413:5	425:7	431:23
adequate	adventure	435:21	alternate	447:12
338:4,7	427:23	448:12	270:23	448:15,22
adherence	advise	462:11	284:19	471:6
417:5	357:17	agreements	301:13	473:3,11
adjectives	377:22	393:24	336:4	amounting
436:17	advised	394:7,21	338:12	340:9
adjourn	266:19	ahead 298:17	410:19,22	amounts
476:15,17	advising	Alberta	alternative	288:6,16
480:12	353:17	303:22	267:1,9	302:23
adjourning	AECO	466:19	269:9	309:4
480:15	281:3,16	aligned	270:3	357:7
adjust	282:5	447:11	274:3	analogy
383:17	464:9	alike 368:23	291:19	470:15
384:7	466:19	allow 288:16	292:3	analyses
406:21	affect	326:13	am 261:3	306:18
437:11,21	303:18	350:5	272:12	analysis
adjusted	316:6	397:19	282:21	267:11
426:3	afforded	470:18	305:19	302:13
460:7	479:11	allowable	306:2	308:15,19
461:18	affords	256:1	311:24	320:25
462:16	437:11	allowed	319:13	321:8,20,2
adjustments	afternoon	255:7,9	356:16	2 324:1,25
373:11	352:1	288:23	434:19	325:4,6,7,
460:8,23	against	allowing	446:3	8,16
adva 376:15	433:19	475:7	475:2	327:13
advan 393:3	aggregate	allows	ameliorate	329:12
advance	361:11	343:25	439:22	334:18
328:1	ago 390:13	391:5	America	367:19
354:3	427:8	412:12	281:4	414:17
369:10	432:23	alluded	320:4	418:18
373:17	agreed	315:1	323:6	470:23
413:12	276:18	390:12,15	330:9	471:11
advantage	277:24	alone 393:9	367:1	analytical
			368:20,21	416:10
			American	and/or 356:9
			394:24	

546				
angel 459:17	4,25	379:7,20	479:9,15	395:3
angels	254:9,14,1	383:22,23	answered	413:20
459:17	9,24	384:4	363:20	apparent
annual	255:5,18	385:22	365:25	348:24
246:4,13	257:8	386:9	answering	appear 296:1
258:4	258:16	387:5,18	256:6	386:13
287:15,19	260:7	391:1,24	349:20	451:6
288:7	261:19	392:7,17,2	answers	463:6
307:11	263:4,16	1,25	249:14	APPEARANCES
311:10,14	264:10	398:16	259:15	242:1
316:11	271:3	401:10,22	348:23	appears
334:20	274:5,17	410:16	427:1	296:18
341:7	275:10	412:12,16,	451:17	301:15
343:14,17,	276:9,11,1	24	anticipate	302:4
24	3,21 277:8	413:5,6,14	342:23	340:20
344:23,24	278:4,19,2	414:3,5	anticipated	appetite
382:10	5 279:4	432:22,24	321:25	314:2
383:19	280:21	433:21	382:5	apples
387:16	282:9,18,2	434:1	anybody	374:15
390:16,23	2	435:14,20	254:11	application
391:18	283:1,9,17	436:8	371:22	241:7
400:22	284:5,7	457:19,20	anyone 474:5	251:23
401:18	285:14,16,	458:24	anyone's	255:19
408:17,23	17 288:4	472:1	408:6	268:5
419:3,9,23	289:11	ANR/Great	anything	276:22
,25 420:3	295:22	257:3	252:16	278:20
422:22	296:7,18	ANR's 253:22	256:7	301:20
423:10	297:9,13,1	256:25	369:2,22	313:18,24,
426:2	7,20,23	answer	383:6	25 319:17
432:10	298:4,15	270:14	443:3	341:5
437:9	300:15	275:21	464:13,17	350:18
441:13	302:5	276:24	473:14	355:8
442:1	308:17	299:23	479:12	392:16
443:7	324:4	334:5	anyways	414:25
444:24	333:16	337:17	459:1	416:22
445:8	342:14,15	347:22	anywhere	417:3
459:7	343:5	350:25	333:24	418:3
460:14	345:4,8,11	357:15	359:9	426:17
annually	,15,21,24	369:11	375:20	431:18
287:21	351:15	374:8,24	472:16,19	433:3
297:12	356:9,13,1	376:23	apart 393:7	434:18
381:17,18	6,19,24	377:15	apologies	436:18
383:17	357:8,14	378:22	386:25	441:18
384:8	359:15,25	382:16	401:3	454:5
ANR 245:11	361:6,12,2	387:13	apologize	457:16
246:9,17	2	390:8,13,2	393:11	459:21
250:8,14,1	362:2,10,1	1 398:1		460:21
7,21 251:6	9	426:7		applications
252:1,6,8,	364:10,18,	457:2,9		313:12
11,14	20 368:6	463:20		
253:7,13,1	375:13	476:21		
	377:7,13			

546				
432:10,11	358:11	area's	319:25	351:12
433:13	413:16,18,	349:23	345:17	352:19
applied	21 434:18	aren't	449:22	373:9
285:10	approved	410:18	assessed	376:21
286:12,14	355:25	argue 444:18	305:22	395:17
449:9	357:4	arise 409:22	assessing	396:1
applies	371:2	453:10	301:3	404:2,14
356:5,6	408:15	arithmetic	321:17	406:8
apply	411:21,25	461:5	373:20	420:3
274:11,18	412:6	466:17	asset	477:5,12
315:3	413:24	arranged	317:9,10	assum 471:14
326:17	418:3	339:10	318:2	assume
377:3	approves	478:1	449:15	274:13
applying	413:3	arrangement	451:8	284:15
429:14	approximate	288:4	assets	326:8
appreciate	363:6	292:19	289:11	362:9,12,1
302:14	408:23	300:15	298:25	4 387:24
355:4	approximatel	375:1,20,2	299:14	413:1
396:18	y 309:15	5 403:15	309:18,25	assumed
449:25	319:20	409:25	313:1,2	274:4,11,1
approach	342:21	446:21	336:9,10,1	7 299:18
299:16	347:13	450:8,12	6 338:1	470:1
327:14,15	350:7	457:4	365:14	assumes
367:21	363:25	arrangements	385:24	264:11
417:4	366:25	336:4	386:14	287:5
429:10	408:2	338:12,18	438:2,17	326:19
473:23	423:10	348:6	440:4,7	assuming
475:13	466:20	351:2	444:3,5,9,	264:19
approaches	472:17,20	397:17	11,13	274:10
327:19	April 353:13	408:21	445:19,20	297:23
appropriate	371:3	439:10	446:3	300:14
256:1	413:23	445:21	447:24	385:4
365:20	460:1	453:18	448:2,23,2	413:21
378:10	461:2	arrived	5	assumption
382:7	arbitrage	371:7	449:15,23	265:4
473:25	309:10	arriving	450:10	303:21
approval	327:24	283:24	451:4	304:15
358:19	473:9	397:24	458:5	335:5
412:8	arbitraging	art 389:16	assigned	336:18
413:6,14	461:10	aside 375:21	318:2	342:19
416:23	arbitrary	asleep	assistance	371:25
419:3	266:15	464:17	314:6	372:3
approvals	area	aspect 410:3	associated	375:19
413:10,11	352:22,23,	assemble	290:13	388:6
approve	24 374:20	464:21	313:10,16	402:24
245:9	399:8	assess	314:1	413:15,18
356:18	477:20		327:4	455:11
357:22	478:3		339:13,19	461:15
			345:18	473:5

546				
assumptions	385:13	241:21	370:1,9	405:10
296:22	388:14	252:24	407:21	414:10,13,
327:18	429:12	average	473:14	21
330:18	430:9,13	246:21	awkward	415:5,10,2
362:17	attractivene	258:4	415:24	0,23
451:11	ss 303:24	259:17		416:24
471:14,18	attributed	261:7,11,1	<hr/>	417:11,15,
assurance	319:1	7 263:21	B	18,22
253:21	attributes	264:2,4	back-check	418:9,23
289:21	385:12	273:7	421:4	419:11,14,
290:9,12,1	attuned	297:12	background	22 420:1,9
7,19	425:18	309:14,15	300:4	421:9
291:2,3	August	324:9	back-haul	422:13,15,
369:5	435:14	328:18,23	290:1	19,24
416:8	authors	332:16	344:19	423:7,12,1
assure	427:22	333:18	backtrack	8,24
253:18	automaticall	336:25	248:8	424:7,25
404:14,15	y	370:3	backwards	425:5,10,1
445:17	435:17,18,	408:1,2	393:12	5,20,25
475:8	23	441:10	balance	426:8,10,1
assured	avail 404:21	442:1,15,2	339:22	9,24
252:20	available	2 446:13	340:6	457:1,6,10
253:19	246:10	447:7	386:13	,13,17,23
339:9	277:19	448:12	389:5	458:2,9,17
assuring	278:6	449:7	405:8	base 308:15
353:24	290:20	461:5	balanced	311:5
asymmetrical	291:6	463:10	383:15	395:2
251:4	305:13	466:8,18	384:16	402:22
attachment	364:14	468:12	429:10	406:10,14
246:23	365:6,7,11	473:17	balances	base-case
355:7	,16,23	474:8	296:14	296:22
441:16,18	373:8	averaged	368:12	based 255:21
442:17,24	387:7	336:14	balancing	256:12,20
457:16	388:7,21	averages	404:22	258:25
attempt	391:10,25	332:5	405:5,8,12	263:10,24
277:12	392:9	466:15	ballpark	265:24
attendant	401:4	averaging	368:1	266:2,9
338:18	402:16,18	309:14	bank 462:13	285:11
attention	403:5	avoid 301:7	Barnlund	291:16,17
355:5	420:14,19	306:2	243:7	296:11
395:24	435:13	328:18,21	249:5	297:2
479:22	448:23	aware	365:8	299:10
attentive	457:5	316:21,25	366:4,14,1	306:6
396:6	458:15	356:16	6,17	323:2
attractive	464:18	394:7,21	371:4,5,9,	325:8
253:6	465:13,24	414:12	14,21	330:20
361:17	474:19	453:2,15	372:1,2,14	331:14,25
380:24,25	avenue	away 281:10	,25 373:19	335:2
		295:16		341:5
				365:22
				371:7

546				
414:4	477:24,25	264:10	326:17	458:15
417:19	basket	265:17	327:4	beyond 272:1
426:4	321:17	267:17	357:1	306:21,24
447:20	BC 269:17	285:16	403:4	307:2,4,5,
450:19	Bcf	291:21	404:15	14 323:23
465:12	455:11,12	295:9	458:23	339:7
bases 328:22	bear 445:11	302:17,21	benefits	428:10
basically	449:1	313:9	405:20	429:25
264:22	bearing	316:16	450:12	464:8,11,1
314:1	385:16	324:16	453:9	4,22
429:10	405:14	326:16	Bercier	bid
basin 268:22	443:4	329:8	478:19	250:13,22
313:23	bears 449:12	330:3,8,9	best 251:21	253:11
basis 257:2	become 304:3	331:4	259:20	bidirectional
276:10	306:24	333:1	278:17	1 287:5
279:15	311:16	340:22	327:9	393:14
283:10,23	363:21	342:17,19,	334:24	395:6
287:19	435:13	22 343:6	335:7	397:3
299:19	465:20,23	349:2	340:10,21	454:8
301:3	478:24	353:25	343:11	bids 250:9
303:4	becomes	356:14	353:25	252:3,4
311:14	307:5	376:3	366:5	bigger 370:9
315:18	372:19	377:25	376:19,20,	428:18
338:1	393:13	379:3	24 377:2	bill 423:1,2
342:19,20,	452:18	380:21	388:13	431:22
25 343:2	464:21	383:9	389:18	billing
348:13	becoming	390:15,18	390:18	413:1
372:16	305:13	395:16	421:1	bit 255:11
373:3	440:14	405:11	427:22	279:22
383:19	Bedford	414:5	433:25	302:13,24
392:11	242:4	423:12	436:7	312:6
393:9	476:20	427:11	446:9	313:14
398:2	478:25	430:25	448:8	346:1
403:16	begin	432:25	474:19	387:10
412:23	415:16,17	434:23	476:9	428:19
416:6	416:3	438:10	best-fit	blanket
419:3,5,9,	behalf	441:7,10	260:3	467:24
25 420:17	427:12,21	448:11	335:24	blending
423:10	473:23	449:16	bet 475:2,17	383:15
426:2,6	474:10	458:9	better	block
440:15	behave	463:19	251:19,23	403:6,7,8
441:5,14	314:25	478:24	252:23	blue
443:7,23	beholder	benchmark	274:12	352:6,18
444:24	468:7	447:8,19	277:10,12	Board
445:1,19	believe	448:14	324:5	241:3,12,1
451:12	255:17,23	449:2	326:3	3,14,15,20
455:1		464:2	355:4	242:2
456:6,8		beneficial	430:15	
460:23		327:17	450:3,18	
461:13		benefit		
464:3		325:21		

546				
245:9	3	300:3	,24	337:3,10,1
248:6	360:20,22,	479:22	286:6,11,1	5 338:10
249:19,25	25	Bob 242:2	5,19,23	340:7,14,1
254:24	364:12,13	243:13	287:10,15,	7
256:8,23	365:2	248:5	18,22	341:1,9,18
257:11	366:3,12,1	249:10,11,	288:18	342:2,7,12
258:3,15	7,19	16,18,23	289:1,7,12	343:3,10,1
260:5,22	368:17	251:25	,24	6
261:4	371:1,13,1	252:14,25	290:4,8,16	344:4,14,2
265:22	9 374:24	253:16,24	291:10,18	2
266:22,23	375:19	254:6,8,23	292:7,21	345:3,10,1
270:11	376:6,13,2	256:5,22	293:12	9
271:1,16	5 377:22	257:9,18,2	294:10,17,	346:1,13,1
274:6	378:15	4	25	9,23
275:1	381:7	258:3,9,14	295:8,12,1	347:2,6,11
276:2,25	382:17	,20,23	9,25	,21
277:19	385:2,9	259:13	296:24	348:3,12,2
278:9,15,2	386:17	260:4,10,1	297:7,22	2 349:5,19
2 280:20	387:3	8,22	298:5,11,1	350:1,4,24
283:15	389:11,12	261:3,10	6 299:20	351:6,22
287:10,23	390:1,4	262:11	300:3,8,13	354:16,19,
288:8	392:6	263:15,20,	,24	20
289:13,17,	395:3,4,13	23	301:12,19,	355:3,13,2
21	396:10,25	265:7,14,2	22 302:1	1
290:6,18	403:4	0	303:2,12	356:4,12,1
291:19	408:12	266:14,21	304:25	7,23
292:25	409:15	267:6,14,2	318:14,18,	357:4,16,2
295:13,20	410:6	0	19,23	5
298:17	413:3,10,2	268:3,12,1	319:6,14,1	358:14,15
299:24	1 416:22	7	9	359:1,8,11
300:13,25	417:1,3,7	269:1,7,13	320:2,6,11	,18,24
301:23	418:4	,21	,14,22,25	360:4,7,13
313:13	419:8	270:1,6,10	321:4,6,11	,19,24
314:6	421:6	,20	,13,21	361:4,21
319:3,7	422:11	271:1,7,15	322:2,5,19	362:8,13,2
323:2,8	425:1	272:2,11,1	323:9,19,2	2
327:23	427:15	8	5	363:3,14,1
328:7	431:11	273:1,6,11	324:7,12,2	9 364:8,24
329:21	434:18	,18 274:24	4	365:24
331:17	444:15,22	275:5,11,1	325:10,15,	366:7,15
335:15	445:5,18	5,18,25	20,25	368:18
336:1	446:4,8	276:19,23	327:7,22	369:4,8,25
338:16	447:9	277:5,17	328:6,16	370:19,25
340:18	448:6	278:1,7,13	329:3,10,1	371:5,10,1
347:16,21	454:16	,21	7,20,25	6,24
348:24	464:24	279:5,11,1	330:5,11,2	372:11,18
353:18,24	471:16	9	4	373:13,23
355:6,14,2	475:11,14	280:6,13,1	331:9,17,2	374:7,14,2
1	476:9	8 283:14	3 332:20	3
357:18,22	479:6,17	284:4,20,2	333:5,9	375:18,24
358:10	480:1	5	334:11	376:4,12,2
359:3,12,1	Board's	285:4,9,21	335:9,25	2

546				
377:10,17, 21	422:4,8,15 ,20	399:8	407:20	451:16
378:14,21	423:5,8,16	400:19	448:10	452:2,8,16
379:4,17	,19	401:9	459:25	453:7,21
380:7,8	424:2,8,12	409:7,16,1	460:4,12,2	454:7
382:15,23	,16,25	7 479:22	5	455:22
383:4	425:6,12,1	480:1	461:20,25	456:3,12,2
384:18	7,22	bookend	462:10	5
385:8	426:7,14,2	465:2,3	463:24	457:8,11,1
386:2,17	3 478:20	bookending	464:19	5,18,24
387:2,11	479:6	306:18	465:5,11	458:4,13,2
388:1,5,12	boil 325:1	bookends	466:17,25	0
,17	429:16	307:13	467:9,17	459:11,15
389:8,22,2	boiled	463:7,10,1	468:15,22	460:3,5,18
5 390:3,20	429:10	4	469:1,18	461:17,22
391:6,9,13	boilerplate	border 281:8	470:14	462:5,12,2
392:4,5,12	411:19	bottleneck	471:10,22	1,25
,24	bone 431:12	455:15	472:3,7,18	463:3,9,19
393:10,23	book	bottom 271:4	,25 473:22	464:15,25
394:6,20	257:11,15,	278:8	474:9,24	465:7
395:1,12	19 266:24	321:10	476:8	466:11,22
396:9,19	270:12,21	352:7	Brian 242:6	467:2,7,13
397:6,15	271:17	399:19	243:14	468:10,19,
398:3,10	278:9	400:21	400:16	24
399:5,6,15	280:7	441:23,24	431:4,8,9,	469:10,11
,22	291:20	bought	21	470:9
400:9,18	293:13	283:22	432:1,6,14	471:4,19,2
401:5,14	294:11,20	284:9	,21	3
402:1,2,17	295:1,13	BP 242:13	433:1,11,2	472:4,10,1
403:10,21	299:22,25	brand 253:2	0	5,22
404:20	301:23	break 246:16	434:3,10,1	473:18
405:1,19,2	302:15	305:7	7,25	474:4,17
5 407:16	308:15	351:24	435:15,24	475:16
408:10,22	317:9,18	401:22	436:6,14,2	476:2,13
409:1,6,14	319:8	breaks	2	480:3
,20	320:16,24	331:19	437:6,14,2	brief 256:14
410:3,10,2	321:7	BRENT 243:10	4	279:17,25
5	324:2	249:8	438:6,13,2	283:12
411:4,9,16	331:10	303:16	5	290:22
,24	341:11,14	306:17	439:4,9,16	291:25
412:10,19	343:6	308:14	,21	292:10
413:3,13,1	344:16	312:3	440:2,8,13	293:1,10
9	352:5	314:4	,20	294:23
414:10,14	354:21	336:6	441:7,15,2	295:6
415:1,6,20	355:6,14	337:8,13,2	2	300:22
416:20	359:3	0 339:23	442:5,9,13	302:10
417:10,17	360:20	369:15	443:1,2,17	308:12
418:1,20	366:10	370:7,23	,22 444:17	310:24
419:10,19,	387:4		445:2,10,2	319:8
23 420:4	396:23		2 446:5,18	343:21
421:5,10,1			448:4	344:12
4,18,21,25			449:11,25	346:11
			450:13	348:18

546				
349:17	269:3	345:12	302:18,22	25 262:6
350:10,22	broader	438:22	303:25	263:13
355:1	336:11	461:10	304:8,12,1	265:6
358:24	broken 379:9	by-month	3 313:22	278:24
369:13	399:17	420:17	340:24	279:2
386:23	401:8,10	by-year	341:7	280:22
390:10	brokers	441:5	348:16	284:22
393:19	422:18		350:6	285:14
394:12	425:13		351:7,10,1	286:15
396:15	brought	<hr/> C <hr/>	7 368:8	288:12,19
398:18	274:6	CAC 242:6	381:9	290:20
400:4,14	323:7	CAC/	397:8	291:5,22
402:13	368:16	CENTRA-17	428:11	292:14,16,
404:18	378:7	477:6	466:21	17 296:17
418:7	381:7	CAC/	Canadian-	297:8
424:23	412:8	CENTRA-17-	sourced	298:3
426:21	413:9	E 477:11	349:8	300:16,25
433:15,23	434:23	478:12	351:1	301:9
435:5	building	calculate	Canadian-US	305:13
436:12	317:20	411:12	431:23	308:10,20
437:1,17	built	calculated	canvassed	316:18,22
438:8	280:10,14	405:6	422:9	317:15
441:20	286:17,23	calculates	capabilities	326:14
443:11	300:10	363:25	399:23	329:5
445:15	328:1	calculation	capability	331:14,24
452:23	business	265:11,13	348:14	332:4,7,19
454:13	313:15	calculations	capacities	,22,23
459:4,13,2	427:8	468:16,21	262:4	333:2,3,19
3 462:3,8	480:12	camma 292:16	263:10	334:4,21
467:5	butane 314:9	Canada	272:21,23	335:2
472:13	buy	268:21	277:23	336:3
474:22	282:13,15	269:16	288:23	342:9
briefefer	283:25	271:10	295:21,25	348:1,5
319:9	284:6,13	297:25	332:13,17	349:2,6
briefly	327:25	304:5	338:19	350:14
280:19	362:23	340:11,20	400:7,10	352:21,22
315:2	422:20	344:19	457:14	354:1,6
bring 397:19	462:13	348:7	capacity	359:20,23
399:2	buyers 281:2	349:22	246:21	360:15
405:25	282:2	353:10	250:14,24	361:7
419:4	407:23	384:13	251:2,9,18	383:16,18
bringing	465:16	393:15	252:2,8,10	386:11
350:15	buying	394:7,21	,12,21	398:14
397:8	281:18	405:23	253:8,10,1	419:12,16,
453:20	282:6	432:9	2,18,19,22	17
brings	283:16	Canadian	254:4	435:10,11,
352:21	297:12	258:4	258:10	12 436:4
388:18	326:11		259:5,7	439:23,24
British			261:15,16,	440:3,21
				441:9,13
				442:2,16,2
				2 444:25

546				
445:12	332:14	9,22 247:3	320:3,11	388:24
446:8,14,2	334:20,23	249:4	321:15,16,	391:16
3 447:3	335:14	250:4,18,2	21	393:16
448:9,12,1	342:24	5	322:6,18,2	394:21
7 449:7	356:10,15,	251:4,8,10	0,22	395:13
450:20	16 366:5	,16,17	324:3,14,2	396:10,25
451:5,21,2	369:1	252:3,16,1	1,25	397:7,17
4 454:22	375:13	9,22,24,25	325:21	399:11,22
458:7,8	428:22	253:18	326:1	400:1
459:7	429:24	254:11	327:8,16	401:17
470:19	432:25	256:8	328:9,17	402:10
471:8,25	434:24	258:18	329:4,11,2	404:20
472:2,24	435:24	259:17	1 330:6,12	406:4
477:14,17	438:11	261:5,10,1	332:1,20	409:11,23
478:7	439:15,16	2 262:14	333:10,11	410:4,12,2
capital	451:8	263:24	334:11	5
443:24	458:10	265:21,24	337:11,17,	411:6,9,11
capitalize	461:4	266:25	22 338:12	412:25
372:22	case-by-case	268:5	341:1	413:1,2,5,
capped	403:16	269:22	342:20	14
375:14	cases 309:3	270:2,4,6,	345:10	414:16,18
capture	333:4,6,8	7 271:3,7	346:14,20,	415:1,6
463:17	356:12	273:11	23 347:23	416:21
career 427:6	359:18	274:25	348:5	417:11,18
careful	367:11	275:1,20,2	349:1	418:20
256:6	375:5	5 276:2	350:25	419:11,20
389:10	470:8	277:3,18,2	356:25	420:4
397:11	cause 410:20	0 278:6,14	357:6,21	421:11,16,
456:6	causes	280:9,10,1	358:3	21
459:9	314:23	3,14,20	359:14,15,	422:17,23
carry 340:5	316:23	283:16,18	20 360:22	423:4,6,22
case 250:17	cautioned	284:5	361:16	424:6
252:8,23	449:5	286:6	362:13,21	425:1,2,18
253:5,12	cautious	287:12,18	363:5,24	,22 426:16
258:15	448:19	288:14,18	364:9,15	427:4,6
259:4	450:24	289:4,13,2	365:5,11	430:8
260:2,7	caveat 274:1	5	366:10,12,	431:18
263:16	275:23	290:4,8,17	18,19,21	435:1,3,8,
281:8	408:5	,19	369:4,8,9	21
282:9	480:3	291:6,10,1	370:1	436:1,9,20
284:7	Ce 303:12	2	371:7,11,1	437:25
295:21	Celsius	292:8,13,2	6,24	438:15,19
296:6	336:15	3 293:14	372:11,20	439:1,5,10
298:6,14	Cen 394:6	295:14	373:14	,21 440:3
304:9	Centra 241:6	297:23	375:19	441:25
308:15	243:6	299:23	376:8,13	442:16,19,
309:25	245:3,11	303:13	378:16,21,	23
311:6	246:3,13,1	304:21	22,25	443:5,6,9
322:12		309:17	379:6,8,20	444:19
		310:15	380:10	445:11
		315:6	385:13	446:9,19
		319:20	387:7	447:18

546				
448:7,11	374:9	361:8	311:19	454:3
449:13	376:15	362:9	318:5,12	469:12
450:4,8,20	394:6	369:1	352:2	471:17
453:1,5,24	395:12	385:23	354:8,14	changing
454:1,11	403:22	395:2	427:24	301:9
455:25	408:18	414:22	429:18	303:3
457:3	412:23	416:25	430:16,25	396:5
458:7,15	413:25	417:3	476:16	433:8
460:6,7,19	422:6	420:2	477:1	
,21 461:18	436:24	425:18	480:11	characteriza
462:15,19	438:2	428:13,22	challenge	tion 336:7
463:4	443:24	436:18	406:18	467:24
469:3	449:15,18	454:5	474:15	characterize
470:2,16	452:20	472:16		266:5
471:12	460:8,16	certainty	challenges	327:12
474:6,15	473:23	251:20	316:23	440:11
475:10	477:14	292:24	346:8	449:2
477:20	478:11	357:11	challenging	465:12
478:4,5,7,	centred	362:9	316:23	466:1
9,14,25	373:25	363:2	change 246:6	470:20
479:1,25	cents 247:4	387:20	289:19	474:11,15
CENTRA-4	386:20	390:22	291:13	characterizi
244:4	466:16,20	456:22	303:4,8,13	ng 397:12
479:4	467:14	473:8	304:16,23	charge
Centra's	468:11	Certificate	317:8	254:11,17,
250:14,24	469:5	243:16	349:12	18,19
252:4	472:19	Certified	356:11	362:7
257:25	CEO 316:10	480:17	386:15	375:8,10
261:7	certain	Chair 478:18	390:24	charged
265:7	255:11	Chairman	391:20	316:6
270:22	296:25	241:13	395:23,25	361:1
273:19,20	302:18,21	248:6,7	396:7	362:21
275:18	330:17	249:25	412:24	432:12
287:25	357:14	270:11	414:8	
294:14	361:23	304:25	423:21,25	charges
301:20	362:7	319:7	425:23	339:13
319:17	363:2	351:22	426:8	419:11
320:7	366:21	354:17	431:17	
323:3,11,2	381:13	426:23	441:3	chart
1 324:13	387:15	431:5	465:25	257:12,20,
330:14	411:21	476:14,20	466:4	22 260:23
334:23	439:6,7	478:20	changed	270:15,21
335:10	464:1	479:6	287:12	272:8
340:10	certainly	480:4	300:5	275:19
348:15	274:11	CHAIRPERSON	303:14	301:23
349:7	275:15	248:3	406:24	331:19,25
355:7	276:25	305:5,23	changes	355:14
356:20	283:24	306:9	281:20	387:6
361:21	292:13	307:18	328:22	399:16,20
364:3,6	317:18	310:12	343:10	400:2,20
365:4			373:14	401:2
368:19				409:17

546				
479:20,21, 25	365:20 412:20,23	387:14	444:8,20 451:1,4	349:21 372:1
charted 299:24	choices 415:17	clarify 267:5	coldest 293:21	397:23 435:1
charts 270:14 331:11	choose 263:8,10 475:7	329:16 338:15 363:16 434:6 448:11	299:18 334:18,20 335:2,17,1 9 336:3	452:5 commence 435:14
chase 320:15	chooses 261:12	clear 290:24	colleagues 401:1	commencement 288:3
cheaper 297:24 348:16 406:6	choosing 265:22	307:18 339:17 393:8 468:3 475:5	407:17 collective 465:15	commences 353:12,20
check 330:7,10 331:3,8 357:13 442:7 462:1 472:9	chose 277:24 415:18	474:17 476:12	Columbia 269:4	commencing 248:1 371:3
checking 442:10 462:6 464:20	chosen 263:5 274:20 469:13	clearly 274:2 307:21 420:13	column 355:24 359:2,13 382:24	comment 325:5
	circumstance 304:2 337:22 478:3	close 257:7 283:8 312:9 466:19	columns 308:21	comments 319:1 339:19 382:15
	circumstance s 281:21 339:5 365:13,18 370:10	closed 406:21	combatib 360:10	commercially 378:9,10
checks 368:12	385:21 448:8 465:25	closer 264:3,4 271:10 273:24 274:21	combination 403:1,19	Commission 356:1
chemical 314:11	cited 384:19	co 324:24	combined 259:10 266:5	commit 375:6,12
Cheryl 480:23	cl 307:21	Coast 268:21	comes 320:17 358:17 437:3 470:21	commitment 346:16
Chicago 246:8 281:3,16,2 3 282:2,3,5 285:15 384:14 387:17 390:17 391:1,2,5, 23	claim 474:10	coffee 362:24	comfort 322:7 333:11 334:10 382:6 446:9 447:9 454:1	commitments 248:12 397:12 417:4 422:6
chocolate 266:7	claiming 474:14	coincident 304:18	comfortable 346:6	commodities 309:19
choice 250:25 253:1 265:8 266:10	clarificatio n 260:5 276:24 292:23 339:24 398:4 424:11 431:17	coincidental ly 267:2 396:21	coming 262:16 277:6 329:12 338:8	commodity 260:20 304:22 384:10 419:5 450:10
	clarificatio ns 340:8	coincides 333:12		commonly 313:24
	clarified 342:23	cold 259:25 334:25 335:6 336:23 338:11		communicatio n 287:11

546				
company	competitive	254:18	471:14	479:24
271:4	360:9	255:7	concocted	confirmation
328:11	397:7	concepts	370:15	475:20
336:3	competitiven	427:18	concurred	confirmed
358:18	ess 360:10	concern	324:3	353:1
415:13	competitors	294:13	concurrence	433:12
421:7	255:1	376:1	478:21	conflicting
434:2	416:6	404:12	conditions	248:12
comparable	436:8	433:5	291:8	conforming
272:1	complains	concerned	418:12,14	413:7
338:21	433:2	456:8	439:7	congratulate
392:8,10	complete	457:9	441:2	427:9
compare	340:1	concerning	447:25	conjunction
345:12	417:5	394:22	conduc	289:10
359:12	427:1,17	concerns	324:17	377:14
466:23	431:10	283:18	conduct	424:1
467:1	471:13	345:8	321:22	connect
468:13	completely	371:11	conducted	292:17
compared	304:3	414:11	321:19	ConocoPhillips 421:8
264:5	337:7	concert	322:18	consensus
272:24	405:16	336:12	324:17	307:15
355:17	471:12	338:1	325:6	consequence
363:5,10	complex	conclude	326:18	458:21
364:17	438:17,22	375:19	367:20	consequences
388:7	439:5	376:6,13	471:12	358:19
compares	compliance	381:25	477:17,24	413:22
247:5	417:5	concluded	conference	416:23
467:15	component	347:19	244:3	conservative
469:6	311:9	447:6	248:20,22	264:17
comparing	313:21	450:9	249:1	consider
279:5,7	344:24	concludes	confess	326:12
302:5	345:1	351:24	318:24	347:16
338:17	350:6	430:16	369:22	364:12,13
364:9	382:11	concluding	confidence	380:16
365:15	384:6	386:18	368:13	390:3
374:15	390:16	conclusion	475:10	476:1
comparison	406:10,11	278:23	confident	consideratio
257:2	407:2,6,11	283:25	417:8	n 316:5,17
314:9	419:17	297:2,21	470:18	337:14,22
315:23	438:16	329:4	confidential	362:16,20
327:5	components	340:9,10	256:7	365:4
364:12,19	438:24	341:2	378:4	371:15
383:21	compounded	377:18	416:5	372:9
447:20	313:11	conclusions	confirm	373:7,10,2
457:2,14	computer	258:1	350:25	2 378:12
471:11	258:24	320:18	400:6	
compelling	conceivably	461:8	450:16	
262:5				
263:12				

546				
380:18	296:7,20	contemplated	351:19	409:11
381:4	297:3	422:5	352:8,19	411:18,20
385:11	339:1,4,8	CONTENTS	353:6,14	412:3
388:10	351:10	243:1	375:4	413:12,15,
404:8	454:21	context	384:20	23 416:15
418:12	constraints	305:24	403:20	434:16
432:19	280:11,14,	continue	404:7	435:9,18
consideratio	15 294:19	276:11	406:10	456:19,24
ns 265:25	295:15	289:20	407:3,6,11	458:16
337:23	298:5,21	303:21,23	410:18,19,	464:1,5
392:19	315:3	312:6	20	contractual
426:5	422:1	315:14	412:5,6,9,	339:3,8
considered	construct	319:14	15 413:25	344:6,9
268:14	410:7	368:9	417:2	349:11
280:24	411:14	413:14	421:6,7,12	351:11,16,
281:14,15	consu 402:23	455:20	422:2,5	18 393:23
323:10,23	consultants	continued	424:6	397:12,16
364:17	262:15	243:13	428:2	contractuall
368:15	consultation	249:10	430:3	y 397:21
394:3	414:11,15	318:18	434:7	455:6
424:19	416:21	354:19	438:1	convenience
considering	consumer	358:14	464:4,7	293:19
266:4	423:9	380:7	470:18	294:7
316:2	431:22	392:4	contracted	conversion
376:1	458:24	399:5	346:20	317:5,12
453:15	consumers	402:1	352:23	convert
considers	245:16	443:1	353:3	317:3
288:21	376:16	467:20	contracting	converting
366:17	379:12	469:10	292:18	316:2
consistent	380:2	continuity	312:20,21	copy 354:24
264:18	422:16,20	404:16	349:6	Corporation
368:7	consumption	continuum	353:13	316:10
408:9	422:23	370:12	396:7	370:20
473:16	Con't 246:1	contract	403:18	388:22
consistently	247:1	251:18	454:22	correct
408:4	contain	286:21,25	contracts	249:22
constrained	454:3	287:1,3,5,	245:14	253:20
370:16	contained	8,24	277:2	254:3,13
constraint	260:13	288:1,2,6,	299:3	258:1,2,7,
260:12	302:15	7,11,13,16	306:24	13,22
280:20	385:10	,20,25	307:4	260:8,9
283:15	contains	289:3,10,1	312:17	261:3,4,9
284:20	270:12,22	3,20	313:3	262:17,19
285:9,11,1	276:25	292:14	361:15	263:18,19
3,19,25	360:21	306:13	370:4	267:3
286:7,12,1	399:9	307:12	379:11,25	268:10,16
7,19,21,24	409:14	308:4	385:25	269:24,25
291:23		309:11	386:8,10	270:4,5,8,
293:13		347:19	389:5	
			395:17	
			404:9	

546				
25 271:11	4 361:3,5	478:13	cost-	379:5
272:10,25	371:3,4,8,	480:2,17	effective	478:22
273:5,14	13 373:24	correctly	299:17,19	counsel's
277:4	375:18	289:8	costs 245:8	271:17
278:12	376:6,11,1	363:4	257:2	278:9
279:10	3 377:20	455:23	258:4,8	295:13
280:11,12	378:20	correlating	259:12	355:14
283:20	383:3	307:11	260:13	359:3
284:23,24	386:6,18	correlation	261:1	360:20
285:8,23	387:8	339:25	279:3,21	480:1
286:17,18,	392:6	correspondin	280:2,4	counterbalan
22	398:9	g 303:9	298:7,10,1	ce 303:23
287:13,14	405:23	328:14	4 301:4	counter-flow
289:6	406:7	cost 258:12	305:14	395:20
290:3	409:5,12	259:23	310:13,15,	counter-
293:16	410:1	260:8	17	parties
295:18,23,	411:2,3,22	283:19	311:3,4,18	346:7
24 298:8	412:1	297:4,6	324:9	374:16,25
300:6,7,12	417:21	298:10	325:9	378:18,19
,19,20	419:21	307:20	335:22	388:23
301:21,25	421:9,13,1	309:24	336:17,21,	389:23
306:8	7,20,24	310:20	22,25	410:14
317:25	422:12,14,	337:13,16,	357:7,21	477:17
319:18	18 424:15	22 343:3	358:10	counter-
320:5,19	425:11,19,	358:19	363:7,17	party
323:12	21	364:23	364:3,10	378:22,24
324:5,6	431:19,25	366:8	371:2	450:3
325:22	432:5,12	369:2	373:9	477:13,19,
328:20	433:4	375:22	384:10	21 478:3,6
329:22,24	434:7,19	376:1	393:5	couple
331:15,16,	436:2	384:10	404:7	248:15
22 337:7	438:3	386:15	406:1	257:13
338:13	439:7,8,13	392:11,13,	407:14	312:11
340:11,13	,19,20,23	18 393:9	408:11,13,	318:24
341:16,17	440:5	406:8	17,23	331:10
342:6,11,1	441:11,12	407:10	409:2	334:8
2,18	444:22	408:16	419:3,5,6	338:15
343:9,15	445:6	413:22	433:10	382:15
344:21	449:19	416:23	443:8	384:1
345:2,25	450:5,6	419:23,24	444:14	404:1
346:17,18,	452:7	420:3	445:21	429:22
22	457:5,7	426:17	448:3,25	440:18
347:1,5,10	458:1,12	433:7	cottoned	450:19,21
348:2	460:3,11	439:18	396:20	452:10
349:4,25	461:19,21	445:8	council's	course 253:6
350:3	462:1,23,2	452:20	301:23	262:1
355:19	4 463:2,23	458:22	counsel	291:15
356:3,22	465:4,10	cost-benefit	242:2	373:5,12
357:3	468:21	368:5	319:3	375:14
358:22	472:6		355:6	
359:10,17	475:22		357:17	
360:3,22,2	476:4			

546				
378:2,3,5	examined	364:14,20	463:21	417:19
380:19	427:15	365:3	464:13	474:13
384:9	cross-	366:2	465:10	date 328:2
395:24	reference	421:7	469:15	385:18
396:6	301:17	435:8,11	customary	446:16
415:11,12	302:2	457:3	478:21	dating
426:2	crunching	458:15	479:7	282:19
453:5	260:5	468:8	customer	day 280:21
479:7	Crystal	curve 259:1	362:19	282:8
court 442:14	341:21	260:11,24	417:24	283:5
cover 298:25	360:1	265:17,18	423:11,17	284:22
305:2	cumbersome	268:13	425:7,8	285:5,25
334:1,13	346:1	269:8	430:7,11	293:21
335:11	cup 362:23	296:6,11,2	432:4	294:4
351:25	cur 474:7	3	433:5	296:13
433:9	curre 292:24	300:17,18	customers	297:10
covered	current	309:22	422:25	298:24,25
431:15	271:14	310:9	423:2	299:4,9,10
469:24	286:20	459:19	438:19	,13 312:7
473:1	288:4,12	460:8,22	439:6	316:14
covering	289:11	466:14	444:6	326:11
460:1	292:24	469:14	448:16,22	327:4,6
covers	299:4	471:6,25	449:3,9	329:2
335:15	315:3	472:5	475:15	331:20
cream 266:7	317:24	473:21	cut 320:14	332:21
creative	341:15	474:7,8,11	cyclability	333:17,18
455:14	353:6	,18	384:23	334:15
credit	355:16	475:18,21	cycle	336:13,15
448:15	356:5	476:1,15	311:12,16	338:11,23,
449:2,9	359:11	curves	347:18	24,25
credits	363:17	258:17	353:19,23	346:21,25
404:4	366:9	260:15,21	cycling	347:4,8,13
criteria	375:11	261:2,6,17	344:9	349:12,13
255:24	381:14	,19,25		351:19,21
critical	435:9	262:21,22,		352:9
452:25	438:5	24		353:2,8,9,
criticisms	454:4	263:1,4,5,		15,22
275:19	467:19	16 264:21	daily	364:17
cross-	currently	266:22,23	326:10,19,	366:11
examinatio	263:14	267:2,9,15	20,21,22	367:14
n	288:20,24	,16,18,21	328:13,22	403:6
243:13,14	290:2	295:21	339:1,18	406:15,16,
249:10	291:11	298:15	456:6,7	19,20,21
431:8	313:11	300:5	data 282:12	420:11,22
480:6	316:6,21	308:16	329:22	461:15
cross-	317:16	309:7	330:2,5,8,	469:12,13
	353:7,19	399:10,25	10 333:9	471:20
	359:20	400:1	345:16,22	475:19
		460:7,17,1	369:21	476:10,14
		9,22	370:1	day-by-day
		461:18,23		398:2
		462:16		

546				
420:16	311:4	302:18	472:19	317:10
days 326:3,5	321:16	438:11	477:19	depth 317:7
339:6	323:7	440:22	478:3	469:25
395:20	365:12,17	447:18,20	demand 268:1	der 428:1
427:8	368:16	degrees	288:7	derivation
447:18,20	decision-	336:14	289:20	246:19
day's 469:20	making	370:12	336:17,20	442:15,20
day-to-day	266:20	deleted	339:13	derive 446:2
412:22	decisions	457:21	347:19	derived
de 381:8	312:1	deliberation	352:8,19	267:18
deadline	328:21	s 476:18	353:7	285:14,19
353:13	decline	deliver	360:14	323:2
deal 251:21	311:22,23	410:12,17	361:6	460:17
257:14	347:13,15	412:12	383:11	Derksen
321:14	declining	deliverabili	419:11	427:3,7,10
370:10	305:14	ties	448:21	,14,22
375:4	310:3,10	ties	demonstrates	describe
389:18	deconstructi	ty 258:11	470:12	453:8
409:24	ng 407:21	deliverabili	department	461:1
417:2	decrease	325:18,22	294:14	470:15
436:7	300:9	326:1,12,2	depend 292:2	described
dealing	deemed	3 328:7	373:15	262:8
323:25	315:13	329:6,18	dependent	308:18
329:17	deep 362:24	330:14,23	329:5	339:11
386:19	defend	331:1,25	447:13	343:23
426:6	474:16	339:1,4,8	depending	348:9
deals 271:2	deferred	delivered	287:6	351:18
dealt 267:22	478:2	294:13	316:18	381:5
325:17	deficiencies	339:10	340:4	443:16
debate 318:1	410:6	350:19,20	381:10	464:24
debating	define 332:8	403:11,14,	428:25	467:20
428:1	351:16	18 407:7	469:13,20	describing
dec 266:20	453:8	424:8,13,1	470:23	289:16
decade 310:2	definitely	8 475:6	471:5	Description
decent	255:13	478:2,4	472:18	244:2
468:15	273:22	delivering	depends	245:2
decide 308:7	389:6	477:19,20	332:7	246:2
decided	404:25	delivery	360:14	247:2
428:6	definition	251:12	414:2	design
decision	423:19,21,	349:23	453:13	299:9,13
261:15	25 424:2	352:22,23	depict	326:1
262:5	definitive	395:9	460:14	335:4
266:16	371:20	396:11	depiction	336:19
273:13,17	degree	407:25	478:13	338:24
291:16	254:21	410:11,24	deployed	designed
		411:10	451:2	283:15
		412:21	depreciated	292:8
		465:17		

546				
335:22	332:10	326:22	differential	directional
396:2	422:23	392:17	264:12	409:8
398:21	432:16	469:25	265:9,17	470:10
designing	448:21	470:5	406:3	directionall
418:11	determines	different	407:18	y 261:21
desirable	296:16	258:21	440:15	306:7
296:17	301:5	259:15,22,	differential	322:17
desired	448:22	24 262:24	s 264:23	327:21
330:14	determining	263:1,3,9	265:5	368:2
despite	432:3	264:8	303:4	470:12
308:3	detriments	275:21	309:8	directions
332:18	453:10	277:15,22	461:11	417:1
detail 276:6	develop	280:4	differently	directly
280:19	307:13	287:21	417:18	299:3
453:8	315:11,12	296:1,21	difficult	disclose
detailed	developed	302:14	282:24	324:4
414:17	268:14,18	303:19	283:7	disclosure
details	315:10	305:2	287:2,4	416:14
255:4	developing	307:14	292:2	disconnect
394:18	271:20	312:17,19	303:17	455:4
416:14	275:21	313:5	304:14	disconnected
464:23	315:5	320:23	307:15	397:14
469:19	development	322:9,14	387:10	discount
deterior	327:13,15,	18	415:24	251:14
262:9	331:6,19	333:25	418:18	359:14
deterioratin	335:23	338:20	447:23	361:5,23
g 262:9	342:19	361:24	449:21	362:14,24
determinatio	454:9	367:5,6,7,	451:13	363:6,16,1
n 252:9	Deward	11,20,21	464:21	8,24 364:3
determinatio	412:13,17,	374:6	difficulties	411:2
ns 323:20	20	375:2,3,15	464:12	430:2
determine	dictate	383:11	difficulty	discounted
255:25	434:11,12	384:1,16,1	416:12	250:19,22
304:21	difference	7 387:21	diligence	251:12
315:16,18	255:12	392:14,20	366:11	360:5,9
322:10,13	257:5	396:2	421:22	361:1
335:7	260:6	397:25	direct	410:19,23
441:8	264:14	400:11	339:24	discounts
446:6,20	302:7	410:18	343:24	251:5
449:18	317:22	416:2	344:18	361:12
450:2,18	322:11,21	432:8	345:4	discovery
463:10	324:8,9	437:23	461:8	282:24
468:5	333:21	447:21	direction	283:7
determined	352:15	459:9	395:20	307:8
263:12	468:6	465:8,21	456:20	346:9
298:2	470:5	467:25	469:22	463:25
314:14	471:7	468:2	470:7	discreet
	477:9	469:14,15		
	479:19	471:13		
	differences			

546				
328:21	dispose	280:8	468:11	drive 303:22
464:5	448:1	291:20	469:4	304:12
discrete	disqualify	293:14	472:17,19,	446:2
332:10	428:16	294:11,21	20,21	473:10
discretion	distillation	295:1,14	domain	driven 311:4
250:11	465:14	299:22,25	416:18	344:9
discuss	distinct	301:24	done 315:15	403:15
392:16	350:19	302:15	332:5	444:6
discussed	distinction	308:15	349:19	driver 260:6
264:11	254:14	319:8	370:5	433:7
265:9	343:16	320:16,24	431:11	driving
276:6	437:20	321:7	443:18,19	309:11
313:14	distinguish	324:3	448:8	322:14
320:8	338:23	331:10	452:9	473:2
332:9	distinguishe	341:12,14	double 382:4	drop 305:17
347:23	d 427:6	343:6	double-	dropped
374:3,20	distribute	344:16	checking	353:8,15
377:9	478:19	352:5	250:7	due 309:23
381:7	distributed	354:22	doubt 354:3	366:10
389:4	354:22	355:6,15	367:3	421:22
390:19	distribution	359:4	438:1	duplicate
478:10	328:11	360:21	Doug 242:4	328:9
discussing	diverse	366:10	476:20	duration
338:25	436:16	387:4	downward	349:14
339:17	438:3	396:23	310:8	during 270:1
447:5	diversity	399:9	dozens	292:16
discussion	437:14,22	400:19	427:15	318:25
274:16	divided	401:9	dramatic	338:25
314:17	343:12	409:8,17,1	302:7	343:18,19
319:15	division	8 479:23	333:20	351:23
345:7	246:3	480:1	dramatically	403:8
376:7	390:23	dog 434:5	304:11	441:4
378:1,8	391:17	dollar 267:7	333:25	478:10,15
387:23	document	271:10,13	386:15	479:7
472:8	355:7	272:6,8,13	426:9	dynamics
discussions	359:3	,15	441:3	454:17
340:18	382:17	382:24,25	draw 326:14	
373:25	documentatio	471:6	340:1	<hr/>
374:21	n 429:21	472:5	344:5	earlier
378:3	documents	dollars	471:15	276:17
414:8	257:12,16,	247:4	drawing	345:7
429:19	20 266:24	258:5	349:3	360:14
dispatch	270:12,21	319:21	355:5	381:19
420:12	271:17	343:8	410:5	385:18
displacement	278:9	358:18	drawn 344:3	395:4
455:10		386:19	drew 479:21	426:16
displacing		431:18		earliest
397:24		445:20		
		451:9		
		466:15,20		
		467:14		

546				
426:13	316:20	287:16	396:13	439:22
early 414:24	328:24	electronic	397:4	enjoy 288:17
earn 404:4	332:11,12	282:12,14,	453:1,19	enjoying
451:9	339:21	19,23	emphasize	359:14
earned	355:25	284:5	252:11	enjoys 290:2
446:13	413:12	345:16	381:8,9	ensure
earnings	445:12	electronical	employ 474:1	251:17
451:5	466:5	ly 346:2	employed	339:16
ease 427:18	effected	element	470:3,24	367:18
easier	455:10	336:11	473:22	418:24
293:22	effecting	456:22	Empress	enter 415:25
easily 304:1	477:21	elements	341:19	476:24
340:2	effective	384:2,3,16	emptied	entered
east 268:20	347:20	385:10	337:7	365:12
397:9,20	effectively	eliminate	empty 316:25	375:20,25
452:5,14	286:4	328:25	317:1	entertain
455:24	382:12	eliminated	343:25	451:19
456:9	421:4	455:16	354:5	entire
eastern	effects	eloquence	encounter	316:24
271:10	426:11	427:18	464:12	364:4
303:25	effort	else 254:11	endeavouring	403:23
304:4,8	264:17	259:10	475:12	411:6
east-west	473:24	435:22	endeavours	417:2
456:13	475:8,9	else's	309:10	entirely
easy 406:15	eggs 321:16	449:22	enduring	250:10
econo 303:24	eight 245:14	embarking	313:2	255:11
economic	379:10,24	416:12	Energy	292:8
268:8	409:11	embed 293:22	242:9,11,1	entity
303:24	413:22	embedded	3 290:6	450:11
315:13	421:18,22	274:6	292:25	453:2
325:21	472:5,17,2	277:2	313:13	environment
326:3	0,21	278:13	355:25	404:12
327:4	either	287:3	371:18	407:9
340:25	280:25	288:10	422:10	envision
368:9,25	303:8	291:8	engage	293:25
429:4,8	328:12	303:10	309:18	304:1
455:3	381:8	Emerson	458:7	equate 364:6
economics	394:9	280:21	engaged	erudite
291:16	412:13,17,	281:7,9	315:17	431:11
403:15	20 414:7	282:4,7,11	321:23	escalated
411:12	458:6	283:17	400:11	254:20
effect	470:22	292:14,17	engagement	essence
248:23	EKG 480:5	341:20	319:25	280:10
303:9,23	elapsed	360:1	320:3	295:15
304:16,21	414:22	393:15,16	engaging	313:7
311:15	435:9	394:9		
	election	395:10		

546				
343:25	373:4	461:23	435:2	474:20
440:12	415:16	evolutionary	exceeds	exercising
essentially	450:25	456:14	245:5	253:1
251:15	evaluation	evolved	357:9,19	265:24
253:8	373:6	424:4,5	358:6	exhibit
261:10	418:17	ex 341:5	exception	244:2
262:17	evening	382:2	407:22	248:19,22,
269:13	476:19	439:4	464:7	23 249:1
276:12	479:16	exacerbated	exceptional	257:12
278:4	event 245:3	455:7	427:12	295:14
282:13	272:6	exact 255:4	excess 252:2	354:22
287:7	339:14	329:1	316:22	381:20
294:16	357:18	363:9	317:15	457:12
297:17	358:4	exactly	347:25	471:20
309:1	379:2	285:5	445:19	478:23,24
311:12	382:8	286:20	448:23	479:2,4,25
315:25	395:24	291:22	exchange	exhibits
324:25	429:7	297:4	431:24	243:3
342:24	453:22	302:19	432:2	244:1
378:1	458:14	326:7	440:11,14,	248:15,16,
382:10	465:8	362:2,5	18 464:3	17
388:15	events	418:10	465:17	exist
398:14,15	415:11	420:23	467:18	385:1,7
412:6	eventually	427:7	476:9	464:6
414:19	389:17	470:13	477:13	existed
416:18	everybody	examine	478:8	365:18
435:12,23	302:14	315:15,19	exchanges	existing
463:17	360:15	examined	440:9	290:9
establish	everyone	418:17	441:4	338:5
308:9	248:4	example	477:16,18,	341:24
established	316:21	265:24	23,25	351:3
458:18	354:15	279:6	exchanging	365:14
estimate	476:19	281:25	407:24	412:5,6
405:17	everything	307:1,7	exclusively	458:19
estimates	259:10	310:6	446:22	exists
262:16	293:18	359:19	excuse	317:16
ethanes	326:2	365:2	438:16	406:5
314:9	evidence	386:9	execute	412:5
evaluate	337:5	445:3	452:1	expanding
403:20	342:23	449:24	exercise	255:18
430:10	343:24	451:1	264:21	expect
evaluated	363:4,22	457:12	271:25	303:13
266:11	366:18	464:4,9	273:15	318:1
316:8	376:5	466:10	335:6	361:14
323:15	381:6	471:2	367:8	389:22
365:19,22	385:17	exceeded	369:23	402:10
450:7	419:20	419:12	418:10	417:12
evaluating	436:19,21	exceeding		expectation
262:2	452:9			

546				
310:3,10	300:24	429:22	394:5	329:12,15
312:12	352:11,14	extent 306:4	397:3	361:20
372:17	366:19	316:18	412:16	383:12
378:5	418:4	360:17	facility	392:23
382:3	427:17	361:2	315:21	430:6
408:1,8	explained	381:10	394:25	441:1
expectations	271:17	382:19	477:21	446:1
284:3	428:5	384:13	fact 250:15	455:21
expected	479:19	402:21	251:13	475:25
342:25	explanation	407:12,23	255:17	fair 256:16
383:13	444:21	416:4	273:20,21	257:6
413:8	445:5	435:16	275:19	295:17
expects	explicitly	439:5	282:16	321:18
292:23	372:10	445:11	285:4	322:24
372:11	exploit	448:2	293:4	324:12
expedience	309:10	451:3	298:23	329:7,9
293:19	461:11	456:12	305:12	372:13
expensive	473:11	extract	308:3	373:1
299:8,13	exploiting	251:19	309:5,6	374:10,18
325:3	473:9	extraction	328:25	380:8
363:11	export 269:6	313:19	365:1	402:23
365:3,14,2	304:7	314:1	373:3	433:11
1 383:21	exported	extraordinar	381:19	440:24
389:6,7	268:23	ily 336:23	386:4	459:2
experience	269:17	extreme	404:3	469:17
317:2	exporting	335:5	417:13	fairly 262:8
339:25	269:2	337:19	448:20	282:16
367:15	expose	439:7	449:4,9	287:4
408:4,9	253:10	extremely	458:7	312:24
418:14	exposed	386:8	461:10	317:10
422:25	251:8	extremes	462:14	384:15,16
449:21,23	283:22	334:13	465:23	454:1
455:9	exposure	eye 453:16	factor	468:15
experienced	357:7	455:20	304:24	470:4
473:17	express	468:6	337:17	fairness
expert 256:3	461:7	<hr/>	362:20	278:2
expired	expressly	face 259:9	389:2	378:12
435:17	411:5	303:20	432:2	433:6
436:7	extend	335:8	444:24	faith 262:14
expiry	388:22	357:6	453:14	fall 312:6
251:18	extended	faced 334:2	factored	428:15
explain	429:25	faces 289:25	331:5	467:21
254:23	430:2	439:10	407:1	Falls 341:22
280:19	extending	facilities	262:7	360:2
295:20	428:10	255:9,19,2	266:3,4	familiar
296:1		0 269:6	278:5	319:12
298:16			322:14	family
			323:10,14,	362:14
			22 327:21	farther-out

546				
309:4	381:6	fifty-four	finds 438:15	334:24
Farwell	473:14	349:13	454:24,25	335:7
280:22	475:14	figure	fine 330:11	five 245:18
282:9,18,2	fees 404:23	245:13	464:16	246:6,11,2
2 283:1,18	405:5,8,12	379:9,10,2	fir 375:14	0
284:5,8	fellow	3 468:17	firm 287:12	260:7,11,2
296:19	407:16	figures	291:1	0 273:14
307:7	felt	477:10	293:5	280:14
412:14,18,	283:5,21	filed 302:6	294:3	300:18
20	463:8	319:16	298:25	306:13,20,
faster 268:7	474:6	341:4	299:9	21,25
favourable	FERC 245:4	408:15	338:24	307:2
288:14,21	254:1,9	480:6	339:10	308:1,7,23
372:20,23	255:9,19,2	filing	346:14,15	310:7
429:21	1,23	245:10	347:24	339:6
favourably	256:3,9	268:4	348:4,14,2	346:15
406:13	356:9,10,1	355:4	5 349:22	370:4
fear 459:17	3,18,23	357:22	350:14	374:1,2,3,
feasible	357:2,4,19	358:12	352:18	7,8,17
315:13	358:5	419:3	353:3,9,14	376:6,14
feature	359:4	426:16	,16 354:1	377:4,8,19
285:1,3	363:5	fill 296:8	402:20	,23 378:24
338:7	411:6,12,2	298:4	403:2,3,5,	379:13
391:10	1,25	302:18,22,	19	380:4,12
features	412:6,8	24 348:15	404:2,7,8	385:5,19,2
251:11	413:6,9,13	349:7,11	405:6,7	3 386:20
370:4	,16,18,24	352:24	423:17	387:8,22,2
385:5	414:3,4,8	filling	431:23	4
387:15	432:7,14,1	296:9	453:18	388:7,9,21
390:13	5,22	297:19	first 248:10	390:4,7,25
Feb 319:15	433:3,9,12	298:2	249:24	391:11,21
February	,18	final 275:2	250:3	392:1
339:25	FERC-	276:3,15,2	253:1,17	393:1
340:3,5	regulated	1,24	280:20	403:7
fed 260:11	254:16,25	277:1,6,18	283:15	407:25
Federal	255:14	414:18	308:21	428:2,10
355:25	256:24	financial	313:13	441:10,24
feed 441:1	356:10	307:3	324:1,21,2	442:15,21
feeding	386:1	355:16	2 355:23	446:12
281:9	fifteen	425:13	377:13	447:7
feeds 352:24	273:13	454:9	382:24	448:12
feel 251:20	308:1,7	463:25	409:23	449:6
375:5,9	339:6	financially	411:17	460:8,13
376:20	470:21	393:3	428:4	463:12
378:9,16	fifth 309:7	453:23	434:4	464:8,11,1
	fifty 326:2	finding	435:8	4,22
	327:4	301:13	437:4	465:22
	333:17	368:8	451:1	466:3,9,15
	472:19		471:2	,18 468:12
			fit 259:20	472:4
				473:20
				474:8

546				
fix 313:7	455:24	9,24,25	335:14	368:13
fixed 254:12	456:13	369:17,20	353:5,11	382:10
336:17,20	flowing	370:2	356:6	411:6,12
371:2	350:5	461:9,12,1	360:2	473:8
383:24	439:6	4 473:7	364:1,15,2	fully 427:19
384:5	flows 287:5	form 299:1	1 365:4,6	451:3
404:7	394:1,2,16	304:8	378:7,17,2	458:6
444:14	395:17	339:12	5 379:1	function
445:21	396:1	373:10	382:1	255:5
flags 325:11	455:5,9,20	427:4	383:5,6	293:5
flat 480:6	456:9,20	465:15	396:1	306:20
flaw	479:12	forma	398:7	307:10,11
327:8,12	fluctuations	411:18,20	399:7	309:5
file 437:11	383:11	412:4	417:18	360:9
flesh 464:12	fly 302:13	former	418:2,22	405:6
flex 392:19	468:16	395:16	420:2	473:4,5
flexibility	flying	formula	434:23	functional
310:21	317:13	312:23	443:5	368:14
382:8	forced	313:8	449:12	functionalit
384:21	474:24	formulation	453:15	y 367:3,18
385:1,7	forces	323:11	468:8	390:6
390:6	361:16	forth 276:13	470:1	fundamental
392:20	forcing	307:7	471:17	312:11
397:1	475:6	309:24,25	474:18	466:2
398:22	forecast	330:23	475:2,21	fundamentall
437:6,8,10	260:16	366:12	476:15	y 367:22
,11,20	343:2	419:4	Foulkes	468:2
453:5	372:7	forthcoming	287:11	fundamentals
473:8	466:14	461:12	fourteen	466:4
flexible	473:19,20	fortune	273:2	further-out
381:8	476:11	383:12	fourth 340:8	465:20
396:11	forecasted	forty 247:4	frame 372:17	future
397:18	381:21	466:15,20	frankly	262:16
425:1	forecasting	467:14	327:14	275:9
428:21,23	475:20,24,	468:11	396:2	289:15
436:16	25 476:6	469:4	freedom	291:7
438:3	forecasts	forty-three	370:12	294:1
flip 298:17	260:15	421:15	Friday	307:16
flow 297:19	262:14	forty-two	466:14,19	310:3,11
349:13	foreseeable	285:6	friend	312:24
350:25	310:11	forum 378:7	248:17	316:6
351:6,11	foresight	forward	friends	364:11
367:7	309:9	251:22	362:14	371:19
394:8	326:19,22	289:19,23	front 303:1	381:24
395:5	327:1,7,9	290:18	396:24	389:7
397:2	328:8,12,1	307:8	full 289:14	395:7
453:11,14		315:20	290:10	396:7
454:17,18			359:15	407:24

546				
446:18	9,17,18,23	413:2	352:25	Girouard
459:18	,25	419:3,5	367:6	241:14
465:17	284:6,9,13	420:18	373:19	given 273:23
466:14	,18 286:4	421:5	381:18	274:21
futures	294:14	422:2,5,17	406:12	288:10,15
260:11	297:23	,18,21	441:5	293:3
261:17	299:6	423:1,2,3,	460:15	305:12
262:22	301:14	6,9,20,21	479:11	310:19
264:21,22	303:6,10,1	424:1,3,4,	generated	330:17
295:21	3,19,22,25	5,6,14,19,	442:1	361:14
306:23	304:4,8,12	21	443:14	365:12
307:1,4	,13 311:22	425:3,8,9,	446:23	369:19
308:16	312:16	13,14,24	gentlemen	413:14
309:21,22	313:19,20	426:17	250:1	417:1,24
310:2	314:6,10,1	427:6	geographical	429:11
312:4	6,19,21,23	439:6	438:15	431:10
399:25	320:4	440:9,16	gets 289:13	434:21
464:1,4,13	323:5	444:7	314:17	438:16
466:7,18	326:11,19,	445:9	382:9	440:15
467:22	21 332:4	454:20	413:6	444:5
468:8	338:11,13	455:1	getting	446:23
470:2,6	340:10,20,	461:10	272:13	447:13
473:16	23 341:21	464:3	297:25	448:16,20
476:1	342:21	477:19,20	307:23	451:13
future's	345:18,23	478:2,14	308:7	463:13
263:4	347:12	gaseous	315:24	470:8
Futures	348:6,16	314:8	363:5,9	476:22
260:14	349:8	gears 452:3	410:12	478:8,22
	350:16,17	general	447:2,11	gives 310:21
	351:1,7,14	256:4	gigajoule	311:12
	,17 352:21	260:16	285:5	447:9
	353:2,6,19	268:1	466:21	469:23
ga 424:18	356:19	309:23	gigajoules	475:9
gain 322:7	357:8	361:19,21	280:21	GJ 247:5
333:11	366:25	389:20	282:8	347:15
gap 414:15	368:20,21	426:16	283:5	466:16
gas 241:6	373:11	467:20	284:22	467:15
243:6	379:7,21	468:1	285:25	468:12
245:12	382:13	469:22	293:20	469:5
249:4	384:11,25	470:7	294:2	GJs 349:11
260:13,20	393:15,17	generally	296:13	351:19,20
266:2,13	394:1,2	254:15,16	297:10	353:8,15
267:22	395:5,19	265:18	298:24	406:19
268:6,7,21	396:4,12	274:20	299:4	glad 466:25
,22	397:8	279:2	346:21,25	global
269:2,16,1	398:15,22,	284:10	347:3,8,13	245:13
7 280:24	23	302:4	352:9	379:9,10,2
281:7,10	403:8,14	311:23	Girling	3
282:6,13,1	405:21,23	313:3	316:9	go-forward
5	406:6,9,21	317:7		
283:1,6,7,	,24 410:17	333:16		
	412:12,16			

546				
443:23	384:4	425:5,10,1	254:10	251:8
gone 250:5	385:22	5,20,25	hand 355:10	253:10
269:3	386:11	426:10,19	364:9	256:2
380:22	387:5	457:6,10,1	383:23	322:6
421:11	392:8,17,2	3,17,23	handle 448:5	325:12
go-round	5 394:1	458:2,9,17	hands	328:21
389:16	395:4,8	grid 394:24	320:7,12	379:12
Gosselin	396:12	ground	332:15	380:3
241:13	397:2	431:15	419:20	385:24
gotten 250:5	398:15	Group 242:13	happen 299:8	389:3
251:24	401:11,24	groups	304:19	396:5
324:18	410:17	462:20	338:19	413:24
430:14	412:17	growth 268:7	357:12	437:9
governments	435:10,11,	guess 262:12	407:13	head 479:1
393:24	12	264:4	456:16	heading
gradual	452:9,19	287:2	happened	460:19
455:4,16	454:23	296:12	253:5	healthy
grain 383:6	455:25	302:13	277:14	318:1
graph	456:13,18,	307:25	311:20	hear 272:4
477:4,8	23 469:25	310:19	happens	455:23
478:19	greater	318:23	253:4	heard 262:12
great 245:11	252:21	321:3	277:13	366:18
246:18	264:12	332:3,7,14	381:11	426:15
250:8,14	265:4	347:7	395:14	hearing
252:11,14	381:10	363:9	408:5	248:20,22
253:7,23	384:12	387:23	413:25	317:18
254:9	405:9	408:6	happy 311:8	465:8
274:5,17	435:25	428:4,7	hard 369:22	479:10
275:10	451:10	429:20	harder	heating
276:9,11,1	470:5	457:19	342:24	343:18
3,21 277:8	473:3	467:25	348:10,12	344:3
278:4	GREG 243:7	468:5,6	349:3	heavier
288:5	249:5	guidance	harkening	314:8,14
289:11	365:8	420:6	434:10	heavily
292:15,17	366:4,14	469:22	hate 411:19	282:16
341:21	371:4,9,14	470:7,17	haul 291:22	296:8
351:15	,21	471:1	292:15	301:11
356:9,13,1	372:2,14,2		360:2	407:5
4,19,24	5 373:19		398:7,8	hefty 312:24
357:8,14	405:10		haven't	held 241:19
359:15	414:13,21		262:23	252:3
361:6,22	415:5,10,2		263:5	help 277:10
362:3,10,1	3 416:24		294:25	302:23
9	417:15,22		359:8	314:5
364:10,18,	418:9,23		having	317:14
21 368:6	419:14,22		245:16	319:25
377:8	420:1,9			323:6
379:7,21	421:9			
383:22,23	422:13,19,			
	24			
	423:7,12,1			
	8,24 424:7			
		hammer		

546				
402:20	471:17	351:23	267:2,8,12	370:23
helpful	highly-	house 475:25	268:13,18	405:17
454:16	valued	hub	269:8,21	426:23
Henry	362:19	281:3,15,1	270:23	448:10
281:3,16	hindsight	6,22	271:8,19	466:25
282:5	420:7	282:5,12	272:6,19	480:5
464:2,7,14	historical	284:10,11,	277:20	idea 362:23
,18	264:22,23	12,14,17	278:10	identical
he's	369:18	286:2,5	319:9,19	309:2
248:11,12	370:14	303:10	320:6,9,15	387:22
262:13	394:15	343:5	,17	identifiable
high 301:7,8	408:4,9	345:11,13,	321:6,8,17	453:24
302:25	449:6	22	,23	identified
315:16	455:8	464:2,7,14	322:2,6,18	271:3
334:21	historically	,18 466:19	,21 323:3	275:24
360:15	473:17	472:19	324:1,2,3,	281:6
386:16	history	hubs 280:25	13,19,21	410:6
high-cost	255:4	281:3	325:4,10,1	identifying
315:23	299:10	284:6	6,20	368:5
higher	382:2	303:5,13,1	327:8,20,2	I'll 262:12
253:22	448:18	9	2 329:3,25	269:9
254:5,22	450:2,4,19	437:13,23	330:8,12,1	295:4
260:13,21	451:18,20	438:23	4,19	301:16
261:1	hold 263:14	464:2,7	331:11	319:5
262:1	301:18	hundred	332:20,24	328:5
264:16,24	302:8	267:7	333:10,14	351:23,25
265:15,18	309:24	285:6	334:6,12,1	363:14
267:25	353:21	343:7	8 340:9,22	370:21
271:11	473:3,10	352:7	348:16	379:4,8,9
278:2	holding	353:2	367:20	384:20
279:3	309:18	462:10	400:1	388:5
290:2	holds 291:11	hurdles	441:16	401:6
296:16	honestly	277:7	471:12,25	417:17
306:2,5	324:19	Hydro 242:4	472:5,23	427:8
307:22	hope 248:17	427:7	473:14,18,	431:5
308:23	257:15	hydrocarbon	22,24	438:13
309:4,6,15	372:15	314:8	474:6,13	462:5
314:10	373:18		475:6	468:17
317:13	395:1	<hr/>	ICF's 320:12	476:23
322:7	horizon	I	324:14,22,	478:23,25
325:17,21	306:12	IC 324:13	25 328:8	Im 456:3
326:12,23	308:3,9	ice 266:7	330:24	I'm
336:22	313:4	ICF	333:12	255:10,17
377:9	466:9	260:15,24	470:1	256:2
385:25	horn 452:15	261:2,18,2	473:5	257:17,20,
407:14	hour 341:10	5 262:23	474:10	24 268:17
408:2		263:5,16,2	475:13	272:13
433:9		5 265:10	I'd 257:14	275:17
highly		266:22,24	266:5	282:20
			319:6	
			354:20	
			357:16	

546				
289:16	impact	422:2	452:20	336:17
290:4	277:16	impossible	inclusion	indeed
295:10	280:15	304:20	406:14	261:17
297:11	281:22	307:8	incorporated	344:3
300:2	348:15	369:16	437:9	353:25
304:25	349:7	impressed	438:18	independence
308:5	356:20	476:5,6	increase	475:9
317:18	396:5,7	impression	288:16	independent
320:21	425:16	389:12	290:5	262:15
329:14	455:17	429:20	298:21	263:25
337:24	456:4	476:3	300:9	471:11
345:19	impacted	improve	304:11	473:23
348:20	281:24	377:13	306:10	475:8
352:13	406:13	improved	307:22,23	index 284:15
353:17,21,	impacting	378:23	310:20	286:1
24 354:24	383:12	improving	357:7	345:11
357:14	455:19	377:17	376:9	465:19
371:21	impacts	inaccurate	386:14	index-base
372:16	355:16	365:9	405:7	312:23
374:8	impart	inadequate	407:11	indexed
377:1,11	470:25	336:10	425:2	284:10,13
390:15	implement	INC 241:6	increased	indexes
391:2	428:23	include	245:5	282:24
394:17	implemented	283:21	300:25	indicate
396:7	255:9	330:23	306:2	245:3
400:25	289:10	334:25	312:10	246:3,13,1
413:19	impli 454:10	408:13	356:18	9 247:3
417:15	implication	419:10	357:12,19	309:22
418:10	425:13	426:17	358:5	310:2
420:1	implications	included	473:11	324:11
434:10	406:8	266:16	increasing	330:21
438:25	422:6	267:6,7	293:7,8	332:19
444:14	452:17,21	269:8	302:23	341:4
445:23,24	454:10	326:20	303:21	358:3
448:5	Implicit	362:15	304:11	389:11
450:14,16	464:23	390:6	309:7,24	391:16
451:16,23	imply 395:7	410:13	376:14	401:17
454:15	426:8	411:11	384:22	427:13
459:17	important	449:3	incremental	442:19
460:4	288:8	456:21	478:7	445:5
462:12,13	338:22	includes	incur 313:9	469:3
464:10	363:21	298:12	339:13	indicated
466:12,13	365:15	323:3	404:22	248:11
468:15	457:2	including	448:3	264:20
475:25	469:22	441:3	incurred	274:14
479:14	imposed	450:10	310:15,17	289:3
imagine			332:24	297:1
264:13			419:4	302:3
455:3			incurring	325:24
immediate				
454:2				

546				
326:8	317:23	373:25	393:14	347:17
337:11	370:9	479:11	instance	348:13
369:6	475:12	initiate	397:6	intermediate
370:22	inform	433:13	instead	378:1,8,10
388:8	261:14	initiated	293:25	380:15,16,
432:18	323:6	433:19	337:15,16	17 381:1
441:10	information	inject 297:9	instructed	428:14
447:12	249:19	injected	288:18	429:13
449:16	263:11,25	368:8	instruments	International
455:23	269:22	injection	307:3	1 319:10
463:21	270:2,13	280:21	464:1	interpret
468:12	271:8	282:10,18,	integrated	324:25
471:15	272:19	22	394:25	334:11
indicates	273:12,18	283:1,17	intelligence	interpretati
308:22	280:8	284:8	284:16	on 331:18
340:23	288:9	296:7,18	474:19	334:17
indicating	291:17	297:13,17,	intend	interruption
310:9	299:23	20 298:4	413:14	419:1
329:4	319:1,2	344:25	intended	intersects
342:13	323:2,4,6	345:9,15	335:6	454:20
indication	355:22	inner 366:21	378:4	intervening
348:3	373:21	innumerable	intending	312:1
378:15	377:12	303:18	315:6	Intervenors
409:9	401:4	input 415:3	intends	448:6
indicative	414:6	420:11	419:20	intra-day
458:23	415:15	469:21	intention	406:20
indifferent	416:2,5,8,	474:2	261:7	introduced
393:22	9 418:2	inputs	289:22	387:18
395:14,18	419:8	296:14	315:14	390:14
individual	420:25	328:13	479:24	introducing
258:25	421:15	inputted	intentions	385:17
408:5	422:9	461:19	454:6	intuitive
460:14	423:13	471:6	intents	451:7
461:5	442:10	inputting	312:12	intuitively
individuals	450:23,25	367:5	337:8	455:2
266:10	465:12,23	inquire	Inter 448:6	inventory
industry	477:5,11	245:11	interconnect	339:22
266:2,10,1	478:12,18	357:13	ed 281:20	477:7
3 314:5	informed	379:7,20	interest	478:5
inevitably	262:4	inquiry	354:1	inverse
416:14	266:9	379:15	453:3,6,8,	269:14
465:19	infrastructu	388:19	9,16 459:8	investigate
infill	re 316:3	insecure	interested	315:17
343:18	infrequently	325:12	453:4	investigatio
inflation	299:9	installed	interim	
309:24	initial			
influence	355:8			
	initially			
	275:2			

546				
n 428:24	447:1,6	324:7	446:20	2
investment	issues 277:7	325:3	448:11	391:2,4,5
313:4	338:15	327:13,16	449:2,20	449:24
invoked	340:19	333:17	450:1	judged
250:13	342:16	334:6,7	451:1,7,24	392:22
252:19	409:22	335:17,21,	453:4,25	judgment
435:18	it'd 345:24	23 336:16	454:7,23	262:23
involve	item 279:6	338:6,22	456:14,17	263:8
415:9	339:24	353:25	457:19	265:24
477:18	iterative	357:21	458:4,21	266:16,19
involved	276:6	358:10	459:8	273:13
361:15	373:24	360:13	462:6	323:11
362:17	389:13	361:21	466:2	371:7
415:21	it'll 369:22	364:22	468:2,18	380:11
427:14	420:2	365:15	470:24	386:19
428:13	it's	367:9	473:4	407:10
431:24	245:8,12	368:25	474:6	428:13
432:2	250:10	369:16	475:5	429:17
435:19	251:4,13,2	371:17	476:13,14	473:25
IR 264:11	3 254:8,9	372:5,25	I've 268:6	jump 273:2
274:14	256:16	377:12	270:19	June 241:23
423:13	257:6	378:9,16	305:10	319:16
irrelevant	261:5	379:22	323:20	jurisdiction
365:4	263:17	380:14	351:17	447:19
IRs 274:4	264:2	382:7	389:4	
342:22	266:1	383:20	393:14	<hr/>
381:5	267:18	384:15	402:19	K
385:16	268:4	385:18	476:14	Kerr 242:11
392:16	269:13	388:23		key 327:21
isn't 267:2	275:23	391:4,7	<hr/>	Keystone
302:7	276:3	397:18	January	317:4,5
334:5	277:21	398:5,6	247:6	kick 344:7
365:3	278:15	402:18	312:5,13	435:23
395:2	281:11,14	406:12,17,	461:23	kids 431:13
420:13	282:11	25	465:17	kilometres
isobutane	287:3,4,7	409:7,24	467:16,19	455:2
314:9	288:8	412:4,15,2	468:2,4,9,	Kim 242:13
issue	289:1	415:24	13 469:7	knew 321:21
315:4,15	297:12,19	418:18,21	470:7	329:11
328:18	299:11,13	423:13,16	job 431:10	369:9
342:18	302:17,21	424:5	446:9	knowledge
352:11,13	303:17	427:5	448:8	266:2,12
373:16	304:14,20	432:7,17,1	Johnston	336:21
419:2	306:12	8 433:1	242:13	434:1
425:17	307:10,12,	434:4	Joliet	465:6,15
434:4	14 309:16	436:7	284:22	known 288:23
445:11	310:16,20	438:17	342:8,15	413:11
446:15	312:6,8	439:5	343:5	
	313:21,25	441:11,22	345:1,12,2	
	321:1,2,17	444:8		
		445:4		

546				
454:11	284:7,24	341:3,9	5 393:5	421:6
Kostick	285:2,8,13	342:17	399:6,14,2	463:20
243:8	,23	343:9	1 400:6,25	Lake 341:22
249:6,13,1	286:3,8,13	348:8	401:3,7,13	Lakes 245:12
5,17,21,24	,18,22,25	354:24	402:2,9	246:18
252:1,6,18	287:23	355:3,11,1	409:11,13,	250:8,9,14
253:4,20,2	288:2,22	3,20	19	252:12,15
5	293:12,17	356:3,5,8,	410:2,9,16	253:7,23
254:3,7,13	294:16,21	14,18,22	411:3,8,15	254:9
,24 255:3	295:2,9,10	357:3,10,2	,23	257:3
256:6,16	,18,24	4	412:2,15,2	274:5,17
257:1,10,1	296:5,24	358:16,21	2	275:10
6,17,19,22	297:5,11	359:1,7,10	413:8,17,2	276:9,11,1
258:2,7,13	298:1,9,13	,17,22	1 414:2	3,21 277:8
,19,22	,22 299:20	360:3,6,11	417:11	278:5
259:2,18	300:2,4,7,	,17,23	426:25	288:5
260:9,14,1	12,20	361:3,8	428:12	289:11
9,25	301:2,15,2	362:1,12,1	430:4	292:15,17
261:5,9,13	1,25	8	431:16,20,	341:21
262:18	302:4,12	363:1,8,15	25	351:15
263:15,19,	303:3,7	,20	432:5,13,2	356:9,13,1
22 264:1	311:1	364:2,8,16	0,24	5,19,24
265:12,16,	315:9	,25	434:8,14,2	357:8,14
21	319:11,13,	366:16,24	1 435:7,20	359:16
266:1,18	18,24	368:19,22	436:3,10	361:7,22
267:4,10,1	320:5,8,13	369:7	462:19,24	362:3,10,1
7,24	,17,20,23	370:25	463:2,6,13	9
268:10,16,	321:2,5,9,	374:1,2,11	465:2	364:10,18,
25	12,19,24	,19,24	469:24	21 368:6
269:5,12,1	322:4,8,20	375:2,23	470:21	377:8
9,25	,25	376:3,5,11	472:25	379:7,21
270:5,9,16	323:10,13,	,17		383:22,23
,19,25	22	377:2,6,16	<hr/>	384:4
271:6,12,1	324:6,10,1	,20,22,25	L	385:22
5,23	6	378:15,20	labelled	386:11
272:10,12,	325:4,14,1	379:2,5,16	332:3	387:5
16,25	9,23 326:6	380:9,13	labelling	392:8,17,2
273:4,10,1	327:11	382:16,21	332:18	5 394:1
5,21	328:3,10,2	383:3,9	lack 289:2	395:4,8
274:24	0	384:18	ladies	396:12
275:4,7,12	329:8,14,1	385:4,15	249:25	397:2
,16,23	9,24	386:3,6,18	Lafond	398:15
276:5,20	330:3,7,17	,25	241:15	401:12,24
277:4,11,2	331:3,16,1	387:3,9,12	312:14	410:17
1	9,22	388:2,11,1	315:1	412:17
278:3,12,1	332:2,25	3	316:1	435:10,11,
6,22	333:1,7,14	389:1,20,2	317:17	12
279:1,9,14	334:12,16	4	318:4	452:9,19
,19	335:13	390:2,12,2	352:2,4,16	454:23
280:1,10,1	336:24	1	354:7	455:25
2,17,23	340:12,13,	391:4,7,12	398:12	456:18,24
283:20	16,22	392:5,10,1		

546				
language	LDCs 439:1	281:15,16,	358:6	285:19,21
412:4		24 282:4,6	361:23	349:11
large 260:6	LDC's 438:22	296:15,16	393:1	351:12,18
312:21	leading	306:24	405:11	limitation
329:12	280:25	307:5,6	407:25	344:6,9
360:17	282:2	317:19	449:18	limited
451:3	learn	325:3	456:10	282:7
457:25	417:12,14	333:4	470:1,25	283:3,21,2
464:2	learned	337:1	475:10	3 404:5,6
473:5	418:4	363:11	levels	limiting
largely	427:16	365:2,14	289:20	337:16
264:12,13	lease 315:25	384:12	347:19	limits
298:23	least 260:15	385:2	382:20	285:17
360:11	261:11	389:7	467:19	351:16
373:15	270:6	419:15	473:4	line
432:20	331:4	440:14	lexicon	258:5,12
448:21	341:5	444:11	465:1	271:21
451:21	346:6	465:9	liberty	272:20
larger	348:13	466:1	378:16	279:6,8
440:22	361:2	lesser	379:8	295:20
largesse	425:24	308:22	427:21	297:11,12
254:9	429:23	381:10	lieu 402:6	308:20
largest	454:2	384:12	403:18	359:19,24
281:4	458:1	438:11	life 420:24	360:1
last 293:12	leave 293:13	let's 272:19	light 262:7	363:22
346:15	380:9	298:6	351:22	393:16
348:23	385:11	318:5	lightly	394:17
390:21	409:25	319:14	282:16	395:5
441:9	478:18	320:14	likelihood	396:12
450:15	leaves	341:12	305:17	397:25
452:9	293:14	344:15	likely	452:15
466:14	314:19	353:5	250:16	480:7
lastly 407:7	leaving	354:8	251:10	lines 266:25
408:10	281:24	366:8	255:19	317:3
late 405:13	375:21	380:9	284:17	457:19
406:20	left-hand	387:7	302:23	462:23
433:18	359:2	388:6	305:11,24	463:1
later 386:14	leg 342:3,4	402:17	335:8	link 312:16
387:18	343:7	409:20	367:13	linkage
390:14	legal 434:12	480:12	402:25	449:6
479:16	legs 400:11	level 245:5	465:21	linked
Lavigne	length	283:22	likewise	408:21
480:23	399:13	302:25	284:20	lion's 384:9
Lawyers	less 252:17	304:3	285:24	liquid
411:18	269:15	315:16	359:24	281:15,16
LDC	278:24	317:13	360:1	282:4,12
368:21,23	279:12	322:7	390:25	306:24
		331:1	limit	307:5
		353:14		
		356:24		
		357:19		

546				
314:15	402:11,22	313:2	422:3,7	462:13
323:17	403:24	375:12	424:10,15,	Louisiana
437:12	406:10,14	383:7	20	342:4
liquidity	417:25	428:15	433:5,17,2	457:21
345:8	420:13	long-winded	5 436:20	464:2
liquids	438:17	365:1	437:3,8,19	loved 337:24
313:19	444:24	LORI 243:9	438:4,10,2	low 246:7
314:6,18,2	453:1,19	249:7	1	250:13
2	461:14	287:14,17,	439:3,8,14	386:8,16
list 243:3,4	local 315:10	20,25	,20,24	390:25
244:1	328:10	289:6,9,16	440:6,10,1	391:22
245:1	428:19,25	290:3,7,11	7,25	405:18
246:1	located	,24 291:14	441:12	430:11
247:1	270:18,19	292:1,12	442:3,7,12	451:6
248:19,23	299:25	293:3	443:13,19	low-cost
478:23	300:1	305:21	444:2,23	387:17
listed 359:8	lock 430:12	306:7	445:7,17,2	lower 250:5
listening	locked	312:19	3 446:11	252:11
272:12	388:15	316:7	449:20	268:1
lists 280:13	389:3	317:25	450:6,22	277:15
literally	Lohnes	338:14	451:23	278:2
263:6	316:13	341:17,25	452:7,12,2	279:2
little	long	342:6,11	5	377:18,22
279:22	289:4,17	343:15,23	453:12,25	386:4,9
302:13	369:22	344:8,21	454:15	406:25
311:10	371:17	345:2,6,14	456:1,5,17	468:3,7,9
322:13	375:7	,25	458:12	lowest
369:24	383:10	346:3,18,2	459:6	259:23
398:23	403:6	2	475:23	364:23
402:3	432:15	347:1,5,10	477:2	369:2
403:5	441:1	,14	480:2	lowest-cost
428:19	455:8	348:2,8,20	lose 251:2,9	330:21
443:20	476:14	349:4,9,25	257:15	lunch 341:10
live 248:18	longer 289:8	350:3,12	lost 294:25	351:23
282:19,22	330:1	351:5,9	436:4	352:1
LNG 268:23	375:25	352:12,17	lot 251:20	<hr/>
269:2,6,17	380:25	393:21	264:8	M
304:8	388:25	394:4,14,2	280:25	macro 456:10
load 292:18	429:7,16	3	281:1,11,1	mainline
294:3	430:13,15	395:11,15	2 283:16	262:10
328:14	478:1	396:17	296:18	313:15,17
329:1	longer-term	397:5,10,2	297:17,19,	316:14
336:15	310:22	1 398:9,20	20 298:3	317:16
344:19	313:3	402:15,25	302:14	353:7,10,1
349:23	466:9	403:13,25	305:13	7 354:2
350:13,16	long-term	404:24	314:16	394:16
370:10	287:1,24	405:5,24	317:19	403:18
384:24	288:1	406:7	381:22	454:25
		408:20,24	382:6	
		409:5	389:6	
		421:13,17,	lottery	
		20,24		

546				
455:8,12,1 3	245:16 281:8	266:3 267:11,21	468:1 469:12	282:21
maintain	315:5,10	268:2	470:2	marrow
251:17	335:8	270:23	473:12	431:13
252:20	340:15,21,	281:1,18,1	474:19	Masi 242:7
291:12	24 341:20	9,24,25	475:3,4	match 251:1
303:24	349:23	282:14	market-base	313:3
maintains	352:21	284:16	254:17	436:1,5
425:2	379:12	285:15	market-based	447:17
major 280:24	380:2	303:19,22	255:7,10,1	matching
281:3,20,2	393:17	304:12	5,25	435:2
1 284:10	395:8,9	306:19,21	256:18	material
290:1	397:2,24	307:5,15,1	375:8	317:8,11
313:12,18	399:3	6 308:24	market-	340:5
464:7	407:4	309:7,19	driven	materially
majority	419:1	310:9	432:19	407:14
256:17	422:16	311:21	marketer	materials
340:23	427:6	312:9,12	423:4	316:4
368:25	447:25	314:2,10,1	marketers	317:7
man 282:21	451:5	3 316:25	281:2	479:20
manage	477:19	320:4	422:21	math 349:20
337:25	478:2	335:20,21	marketplace	468:23
420:18	manner	339:11	280:24	mathematical
449:15	290:12	340:24	304:18	468:16
450:11	326:9,17	345:17	307:3	matter
management	443:16	361:5,16,1	314:17	248:14
419:16,17	manufacturin	8 367:2	323:5	249:18
439:23,25	g 314:12	369:18,20	402:16	267:19
441:13	map 341:13	373:21	407:5,24	294:6
444:25	396:22,23	375:6,9	417:20	315:19
446:14	maps 344:17	381:15	429:1	336:16
447:3	409:16	385:20	444:7	339:2
448:13,17	412:10	386:14	449:14	392:18
449:7	March 460:1	387:17	451:14,20	393:16
451:5,25	461:4	396:4	460:17,20	426:2
459:8	marginally	406:21	markets	429:11
477:14,18	279:13	416:7	304:9	436:7
478:8	308:22	419:1	306:23	447:17
manager	mark 248:21	435:13	311:25	462:14
449:15	479:1	440:4,23	312:5	matters
451:8	marked	441:2	384:14	248:7
manages	248:16	444:12	408:8	256:3
395:21	markedly	445:20	447:15	289:2
managing	296:1	447:14,21,	468:8	325:5
449:22	market	25 448:21	473:16	331:5
Manitoba	254:20	449:1	market's	maximize
241:3,6,22	255:20	450:18	338:7	258:10
242:4,9	256:12,20	464:4	married	maximum
		465:13,15,		
		24 466:4		
		467:22		

546				
250:10,18, 23,25 251:1,9 252:10,13, 17,21 253:11,23 254:1,5,10 ,12,16,19 256:10,21 288:19 332:16 359:4,20 360:1 361:1 363:5 364:4,5 375:14 380:21 386:1 410:21 432:7,15,1 7,23 447:3 457:25	453:10,18 454:16 458:10 maybe 259:13 267:19 282:10 341:10 347:22 349:19 361:24 363:15 378:18 389:15 475:18 476:15 MDA 353:8 mean 258:23 310:13,16 312:16 334:12 391:2 436:23 meaning 268:20 451:24 means 251:3 254:18 256:3 280:3 350:15 411:20 437:22 470:10 meant 297:7 337:17 measure 282:25 443:15,23 444:1 446:7,12,1 6,19 447:2 449:19 450:17 meat 431:12 median 332:6,16 333:23 medium-term	373:5 meet 349:23 402:11 403:23 473:8 meeting 407:4 member 241:14,15 421:6 463:20 470:16 members 248:6 249:25 257:11 270:11 319:7 467:18 479:7 mention 410:12 mentioned 323:10 342:8 344:5 464:17 mercantile 464:3 merits 450:8 Meronek 242:6 243:14 400:16,18 431:3,4,8, 9,21 432:1,6,14 ,21 433:1,11,2 0 434:1,3,10 ,17,25 435:15,24 436:6,14,2 2 437:4,6,14 ,20,24 438:6,13,2 5	439:4,9,16 ,21 440:2,8,13 ,20 441:7,15,2 2 442:5,9,13 443:1,2,17 ,22 444:17 445:2,10,2 2,25 446:5,18,2 5 448:4 449:11,25 450:13 451:16 452:2,8,16 453:7,21 454:7 455:22 456:3,12,2 5 457:8,11,1 5,18,24 458:4,13,2 0 459:11,15 460:3,5,18 461:17,22 462:5,11,1 2,21,25 463:3,9,19 464:15,25 465:7 466:11,22 467:2,7,13 468:10,19, 24 469:10,11 470:9 471:4,19,2 3 472:4,10,1 5,22 473:18 474:4,17 475:16 476:2,13,1 7 480:3 merry 389:15 met 330:13 336:15	389:25 meter 352:13 metering 397:3 methane 314:16 method 253:17 methodologie s 470:24 metrics 418:24 mi 303:4 306:24 mic 452:3 MichCon 284:11,12, 14,17 285:25 286:1,2,4 345:11 Michigan 283:9 284:9,10,1 1 315:25 341:22 384:14 midst 416:13 million 246:20 279:7 298:7,15,2 0 319:21 363:6,11,1 6,18,24 364:5,6,7 365:2,21 366:1,8,13 405:2,13,1 7 407:19 408:25 409:2 431:17 442:1,15,2 1 451:9 458:22 mind 305:5

546				
385:16	255:18	306:15,18	324:15,17	350:2
405:14	mitigate	308:22	326:18,20	461:2,3
428:5	404:6	309:3,9	327:16,18	month-to-month
436:23	440:3	311:5	335:1,6	461:13
437:3,20	mitigation	312:4	367:8,21	morning
442:9	389:2	320:7	369:9,16	248:3,6,11
minds 278:4	428:7	321:25	415:21	249:25
minimization	mix 255:13	322:3,10,1	416:1	305:4
325:8	438:17	2,21,22,23	460:9,10	318:19,25
minimize	mode	323:3,4,23	471:11	340:18
258:8,10,1	311:22,23	,24 324:18	473:24	476:18
1 259:11	model 258:1	325:7	474:1	480:13
301:3	260:2,12	326:21	475:8	motivation
328:23	261:14,21	327:3,8,20	models 306:1	388:24
335:22	262:3,25	328:1,8,12	311:20	mouth 337:5
minimum	263:11	,13,17,21,	312:2	466:12
245:4	264:14	25 329:23	320:9,12	move 305:1
357:5,8,19	266:4,11	330:15,20,	471:1	316:19
358:4	270:4	24 334:23	474:3	317:3
359:9	271:24	341:4,6	molecules	319:7
432:17	273:15	366:20	260:8,13	351:14,17,
minimums	274:3,7,10	367:5,8,13	395:8	25 353:5
332:6	,15	,18,20,24	397:1,19,2	381:17,18
minium	276:4,15,2	368:13	3 452:5,14	383:13,19
357:12	1	369:5,10,1	moment 295:4	394:16
minus 303:9	277:6,10,1	7	301:18	399:7
336:14	6 278:10	370:8,13,1	302:8	444:12
339:3	279:2	5 399:10	441:17	455:14
minute	280:10,11,	419:21	452:3	moved 413:2
469:19	14	420:10,21	455:25	452:13,14
476:23	283:16,24	461:8	456:3	movement
minutes	284:21	462:18,20	moments	304:6
305:2	285:10,12	463:16	390:13	moves 312:7
318:6	287:3,8,9	469:16,20,	money 307:21	412:16
430:17	288:19,22	21,23	362:10	moving
misjudging	291:23	470:2,11	444:13	249:11
305:19	293:18,20,	472:23	474:25	283:8,10
misleading	21	473:2,7,10	Monica	312:7
461:7	294:2,9,12	modelled	241:14	317:13
misplaced	,13,17,18	270:22	month	384:7
295:2	295:15	421:3	403:7,8	390:7
missed 399:8	296:2,14	modelling	420:16	395:19
misspoke	297:3,18,2	264:21	monthly	455:1,11,1
257:24	2 298:2,23	274:1	328:22	2
472:15	299:11	276:7,9,14	460:23	456:9,20,2
mistaken	300:11	294:7	461:5,11	5
	301:2	305:9	464:5	multiple
	302:15	306:6,12	months 312:1	
	303:3,7,11	307:24		
	304:15	308:25		
		322:17,18		
		323:15		

546				
332:12	nearby	378:2,8,11	9,25	9,23 326:6
336:24	465:21	410:5	270:5,9,19	327:11
438:23	near-year	negotiation	,25	328:3,10,2
multitude	306:19	251:6,21	271:6,12,2	0
446:1	NEB 291:11	275:6	3	329:8,14,1
myself	432:12	276:7,12	272:10,16,	9,24
393:11	necessarily	277:12,14	25	330:3,7,17
396:3	257:4	286:9	273:4,10,1	331:3,16,2
399:7	274:18	373:23	5,21	2 332:2
	335:4	387:19	275:4,7,12	333:1,7,14
	340:1	415:12	,16,23	334:16
<hr/>	345:20	negotiations	276:5,20	335:13
N	380:22	275:6	277:4,11,2	340:13,16,
narrowing	381:4,15,2	285:14	1	22 341:3
415:17	5 404:12	362:10	278:3,12,1	342:17
nascent	428:16	374:5,21	6	343:9
450:4	429:15	378:3,17	279:1,9,14	355:11,20
National	necessary	389:13	280:1,12,1	356:3,8,14
290:6	449:6	392:7	7,23	,22
292:25	nego 276:12	393:4	283:20	357:3,10,2
313:12	negotiate	410:8	284:7,24	4 358:21
371:18	251:11	415:3	285:2,8,13	359:7,10,1
natural	252:22	neighbourhoo	,23	7,22
260:13,20	276:8	d 405:13	286:3,8,13	360:3,6,11
266:13	311:9	472:9	,18,22,25	,17,23
268:22	361:16	NEIL 243:8	288:22	361:3,8
269:2,17	377:3	249:6,15,1	293:17	362:1,12,1
280:23	negotiated	7,21,24	294:16	8
282:6	245:6	252:6,18	295:2,10,1	363:1,8,15
313:19,20	250:5	253:4,20	8,24 296:5	364:2,16
314:6,10,1	251:13,20	254:3,7,13	297:5,11	366:24
6,19 320:4	253:5	255:3	298:1,9,13	368:22
323:5	274:5,9,13	256:16	,22	369:7
326:11	275:20,25	257:1,17,2	300:2,7,12	374:2,11,1
340:23	278:17	2	,20	9 375:2,23
350:16	288:3	258:2,7,13	301:2,15,2	376:3,11,1
366:25	356:25	,19,22	1,25	7
384:11	357:5,9,20	259:2,18	302:4,12	377:6,16,2
396:4	358:7	260:9,14,1	303:7	0,25
422:17,18	361:10,14	9,25	311:1	378:20
428:7	376:19,20	261:9,13	315:9	379:2,16
444:7	378:13	262:18	319:13,18,	380:13
464:3	380:20	263:19,22	24	382:21
natural-gas	393:2	264:1	320:5,8,13	383:3,9
268:1	410:23	265:12,16	,20,23	385:4,15
nature	411:1,5	266:1,18	321:2,5,9,	386:6,25
309:21	435:3	267:4,10,1	12,19,24	387:9,12
323:18	436:1	7,24	322:4,8,25	388:2,11,1
363:12	negotiating	268:10,16,	323:13,22	3
372:5		25	324:6,10,1	389:1,20,2
		269:5,12,1	6	4 390:2,12
			325:4,14,1	391:4,7,12

546				
392:10,15	nomination	326:16	obtain 283:6	316:3,20
393:5	406:22	384:21	307:2,15	317:3,21
399:14,21	non 413:6	479:20	354:3	Okay 259:13
400:6	nonconformin	notes 305:1	415:15	267:20
401:3,13	g 412:3	351:23	462:18	269:7
409:13,19	non-	409:21	obtaining	276:23
410:2,9,16	conforming	427:3	306:21	280:6
411:3,8,15	412:11	nothing	418:25	294:17
,23	413:24	464:8,10	obviously	302:1
412:2,15,2	non-standard	468:19	252:24	305:23
2 413:8,17	251:11	noticeably	263:7	306:9
414:2	non-storage	427:3	416:1,16	321:5
428:12	402:4,19	notion	419:2	377:10
430:4	non-	381:13	432:2	398:10
431:20,25	traditiona	notional	444:21	447:17
432:5,13,2	l 455:19	398:7	466:12	471:4,23
0,24	nor 290:12	November	occasions	Oklahoma
434:8,14,2	291:7	347:20	310:6	342:4
1 435:7,20	474:15	353:12,20	occur 372:24	457:20
436:3,10	normal 283:4	354:4	420:22	omission
462:19,24	342:20,25	426:4,12	occurrence	248:18
463:2,6,13	343:2	461:3	454:1	ones 384:20
net 336:25	north 281:4	np	October	411:4
newly 292:8	320:4	242:9,11,1	415:19	461:18
N-E-X-T	323:5	3	421:8	ongoing
313:25	330:9	numerical	441:25	275:6
next-day	367:1	257:25	461:3	315:18
477:24	368:20,21	323:24	offer	336:20
nibble	394:9,24	355:15	250:16,23	373:2
431:12	396:4	399:9	255:15	479:10
nice 383:15	northern	409:15	256:18,19	Ontario
nimble	394:10,17	numerous	285:20,22	394:10,17
372:22	452:15	310:1,6	offered	452:15
415:7	no-storage	314:23	255:20	onto 351:15
nine 472:1	404:24	<hr/>	435:25	oodles 354:5
nineteen	405:20	O	offering	open 373:20
472:1	407:9	obligated	356:2	428:17
ninety	note 248:23	250:9	offerings	opening
349:21	318:20	obligation	410:14	316:14
ninety-two	343:17	252:12,15	offers 251:7	374:20
343:8	386:7	obliged	offset	operate
nodding	393:10	270:4	444:14	326:8
479:1	409:23	observation	445:20	405:15
Nola 242:9	411:18	476:11	oh 354:24	413:5,15
nominated	460:13	observations	396:19	421:1
413:2	472:1	467:11	oil 314:15	operated
	noted 248:19			368:13

546				
operates	321:15	optimize	optionality	306:6
394:24	322:9	258:6	390:6	ought 256:8
operating	417:13	277:10	options	ourselves
413:17	427:9	438:18	279:23	374:12
418:13	437:21	456:7	292:5	413:23
449:21,23	479:10	optimized	303:6	outcome
453:5	opposed	261:6	319:23	268:15,19
operation	255:21	298:19	320:1	309:17
286:20	265:3	330:25	340:25	365:13
396:8	273:24	331:13	364:14,19	369:9,18,2
417:23	309:6	optimizer	365:5,16,1	0 370:17
418:21	312:20	473:3	9,20,22	outlets
operational	347:15	optimizing	373:4,7,9	304:7
282:1	389:7	392:13	403:20	outlier
412:24	463:5	optimum	428:17	264:5
426:5	opposite	265:23	458:15	465:2,3
454:10	248:17	276:1	475:1	outline
operationall	opt 265:5	296:3	opts 388:22	434:15
y 453:24	opted	329:5,13	ordained	outlined
operations	308:2,8	331:24	432:11	395:17
341:14,19	optimal	332:4,13,1	order	out-of-sink
342:3	246:15	9,23	284:17,18	477:12,25
396:22	259:5	366:2,20	322:10	output
operator	263:1,24	447:24	326:23	259:15,16
256:23	275:1	option 253:2	328:21	399:10
375:5,17	276:1	257:3,8	332:14	469:19
430:5,9	278:15	271:4	381:13	472:23
operators	280:16	278:8,17,1	414:3	outset
254:15	308:10	8,20,23,25	450:16,17	420:15
255:5,8,14	332:8	279:1,4,14	458:8	outsider's
,15 256:17	333:12,13	286:9,12,1	463:11	388:20
375:3,8	399:25	4 315:23	475:8	outweigh
420:14	400:23	324:3,5	orders 414:4	450:11
opine 452:17	401:20	325:1,2	original	overall
opinion	417:13	331:20,21	268:5	258:11
307:16	optimally	339:12	317:4,5	266:2
338:4	410:7	340:21	originally	319:25
380:24	optimistic	346:2,3	288:3	320:3
407:17,22	269:10,15	364:15,22	407:1	384:15
438:21	270:8	368:6	others	426:5
443:20	271:8,9,19	392:17,18,	350:17	458:18
opportune	272:7,15,2	22,25	355:14	overcoming
305:3	2 273:25	393:1,2	403:15	461:7
opportunitie	274:22	397:7	409:24	overly
s 327:24	278:10	402:5,9,19	416:11	283:22
opportunity	279:20	405:21	424:21	
249:13	optimization	429:2,9	446:6	
	415:22	optional	otherwise	
	469:16	399:24		

546				
404:12	441:16,18, 23	323:5	405:12	418:7
	442:17,25	369:19	412:7	424:23
<u>P</u>	462:6	particular	440:17	426:21
p.m	463:1	250:16	441:11	433:15,23
354:11,12	479:23	261:16	447:11	435:5
430:23	480:1	296:6,22	450:7	436:12
480:15		331:11	pat 282:14	437:1,17
Pacific	Pages 241:24	337:21	path 285:15	438:8
304:9	paid 251:8	343:7	397:11	441:20
package	405:12	353:14	415:18	443:11
252:23	419:24	372:17	450:14	445:15
274:6,9	pains 460:13	375:16	452:25	452:23
275:21	panel 241:12	390:15	453:3,4,6,	454:13
361:10,13	243:6	406:5	16,19	459:4,13,2
362:4	248:6	412:9	455:3	3 462:3,8
413:4	249:4,12	419:13	475:7	467:5
packaged	318:21	471:24	patterns	472:13
409:24	354:20	474:20	259:9	474:22
page 243:2	426:24	475:18	Paul 242:11	pay 245:7
244:2	427:4	particularly	PAUSE 256:14	312:22
245:2	467:18	262:6	279:17,25	313:8
246:2,23	470:16	326:17	283:12	339:14
247:2	479:9	344:17	290:22	357:21
257:20	480:9	369:3	291:25	358:9
261:14	panel's	375:7,12	292:10	395:24
270:16,21	355:5	parties	293:1,10	408:18
271:2	paper 258:24	252:8	294:23	419:12
275:17	376:25	256:19	295:6	432:4
278:8	parameter	374:12,22	300:22	payable
294:12,20	260:12	378:12	302:10	357:7
295:13	265:8	415:4	308:12	paying 301:7
299:25	parameters	416:4	310:24	357:1
300:15	269:23	421:15	343:21	359:15,20,
308:16	288:17	432:17	344:12	25 456:21
320:15	328:1	434:13,15	346:11	pays 262:15
321:2,4,7,	329:11	partly	348:18	457:3
10 324:1,2	370:8,15	370:21	349:17	PDF 354:23
325:16	parkland	party 250:14	350:10,22	peak 294:3
331:10	352:24	253:11	355:1	298:25
341:14,15	Parkway	278:18	358:24	299:7,9,13
344:16	454:19	315:8	369:13	338:23,24
352:4,5,18	455:15	392:9	386:23	339:18
354:23	participant	435:1	390:10	peaking
359:3	266:12	479:11	393:19	293:22
363:22	281:18,24	past 254:21	394:12	294:1,4,12
396:22	participants	310:2	396:15	299:1,16
399:9	281:1	312:10	398:18	339:10
400:12,19,		313:6	400:4,14	350:20
22 401:9		350:5,7	402:13	407:7
409:10		365:7,21	404:18	

546				
424:4,13	423:6,11,1	392:14	274:22	4
pejorative	6 444:9,20	394:1	277:20	Peters 242:2
448:5	445:4	405:9	278:11,24	243:13
pending	462:10	426:15	279:10,21	248:4,5
356:16	percentage	430:12	petajoule	249:10,11,
per 247:5	265:10	period 289:4	261:22,23	16,18,23
282:8	310:16	310:3	264:15,16	251:25
283:5	394:16	388:25	265:2	252:14,25
285:5	425:3,23	403:6	311:7	253:16,24
293:20	443:7	414:22	333:19	254:6,8,23
296:13	444:5,15	435:9,14,2	334:3	256:5,22
298:24	percentages	2 441:25	368:2	257:9,18,2
299:4	423:9,15	460:2,9	470:22	4
349:11	426:3	461:2,3	478:10	258:3,9,14
352:9	percentile	464:11,14	petajoules	,20,23
353:8,15	332:6,17	465:18	259:4,5,10	259:13
413:5,15	perfect	466:3,6,8	261:18,20,	260:4,10,1
466:16	309:9	periods	25	8,22
467:14	326:19,22	460:14	263:7,14,1	261:3,10
468:12	327:1,7,9	465:20	7,18,21,24	262:11
469:5	328:8,11,1	permission	264:1	263:15,20,
470:19	8,24,25	476:21,24	265:23	23
perceived	335:16	478:21	266:17	265:7,14,2
473:19	369:17,20	479:17	272:23	0
percent	370:2	permit	273:8	266:14,21
256:25	420:7	378:22	277:24,25	267:6,13,1
257:4	461:9,12,1	permits	296:3	4,20
262:19	3 464:9	344:2	297:13	268:3,12,1
264:24	473:6	person 465:8	300:17,18	7
265:8	performance	perspective	308:20	269:1,7,13
271:14	446:7,19	294:7	311:13,15,	,21
283:25	448:13	309:1	16 331:24	270:1,6,10
285:16	449:18,22	316:21,24	332:25	,20
300:9,16	450:17	333:20	333:2,3,21	271:1,7,15
301:1	performed	365:5	,24	272:2,11,1
303:9,15	267:11	369:16	334:7,8,9,	8
309:15	302:16	374:9	15,22	273:1,6,11
324:7,8	perhaps	388:20	336:1	,18 274:24
330:12	248:15	403:22	337:6	275:5,11,1
332:23	257:10	437:9	338:17	5,18,25
333:4,5	262:8	445:25	342:21	276:19,23
334:1	265:25	perspectives	343:13,14,	277:5,17
341:7,8	267:4	375:3	17 344:1,5	278:1,7,13
347:12,15	275:13,14	pessimistic	350:8,25	,21
383:2	289:2	268:15,19	351:7	279:5,11,1
386:10,12	295:19	269:14	367:24,25	9
398:22,23	343:11	270:8	368:1	280:6,13,1
399:2	359:19	272:9,14	382:11,12	8 283:14
408:2	387:14,23	273:2,7,24	470:19	284:4,20,2
422:22			477:9,11,1	5
			2	285:4,9,21
			478:6,10,1	,24

546				
286:6,11,1	336:8	6,24	9	456:20
5,19,23	337:3,10,1	372:11,18	414:10,14	pick 298:6
287:10,15,	5	373:1,13,2	415:1,6,20	325:2
18,22	338:10,14,	3	416:20	picking
288:18	25	374:7,14,2	417:10,16,	277:8
289:1,7,12	340:7,14,1	3	17	307:25
,24	7	375:18,24	418:1,20	308:1
290:4,8,16	341:1,9,18	376:4,12,2	419:10,15,	474:25
,25	342:2,7,12	2	19,23	picky 451:24
291:10,18	343:3,10,1	377:10,17,	420:4	picture
292:1,7,12	6,24	21	421:5,10,1	381:22
,21 293:12	344:4,14,2	378:14,21	4,18,21,25	piece 376:25
294:10,17,	2	379:4,17	422:4,8,15	383:22
25	345:3,10,1	380:7,8	,20	pieces
295:8,12,1	9	382:15,23	423:5,8,14	258:24
9,25	346:1,13,1	383:4	,16,19	pipe 316:25
296:24	9,23	384:18	424:2,8,12	pipeline
297:7,22	347:2,6,11	385:8	,16,25	281:9,19,2
298:5,11,1	,21	386:2,17	425:6,12,1	5
6 299:20	348:3,12,2	387:2,11	7,22	314:20,21,
300:3,8,13	1,22	388:1,5,12	426:7,14,2	24
,24	349:5,19	,17	3 431:10	316:20,22
301:12,19,	350:1,4,24	389:8,22,2	432:18	317:20
22 302:1	351:6,22	5 390:3,20	436:15	346:14,16
303:2,12,1	352:13	391:6,9,13	441:8	348:25
7 304:25	353:1	392:4,5,12	451:18	349:7
318:13,14,	354:15,16,	,24	457:2	351:2,15
18,19,23	19,20	393:10,23	475:19	354:6
319:5,6,14	355:3,13,2	394:6,15,2	478:20	371:19
,19	1	0 395:1,12	479:6	372:23
320:2,6,11	356:4,12,1	396:9,17,1	480:4	393:13
,14,22,25	7,23	9 397:6,15	petroleum	394:8,24
321:4,6,11	357:4,16,2	398:3,10	314:15	395:9,19,2
,13,21	5	399:5,6,15	phenomena	1 397:13
322:2,5,19	358:14,15	,22	309:14	434:2
323:9,19,2	359:1,8,11	400:9,16,1	452:6	456:21
5	,18,24	8 401:5,14	phone 277:8	pipelines
324:7,12,2	360:4,7,13	402:1,2,17	345:23	280:25
4	,19,24	403:10,21	physical	281:5,10,1
325:10,15,	361:4,21	404:20	299:2	2 282:2
20,25	362:8,13,2	405:1,19,2	395:7	316:2,12
327:7,22	2	5 407:16	396:11	394:22
328:6,16	363:3,14,1	408:10,22,	398:7	396:5
329:3,10,1	9 364:8,24	25	452:4	402:5
7,20,25	365:8,24	409:1,6,14	455:1,5	432:10
330:5,11,2	366:7,15	,20	physically	433:19
4	368:18	410:3,10,2	314:25	452:19
331:9,17,2	369:4,8,16	5	395:5,19	456:6
3 332:20	,25	411:4,9,16	397:2,13	
333:5,9	370:8,19,2	,24	398:2	
334:11	5	412:10,19		
335:9,25	371:5,10,1	413:3,13,1		

546				
pitfalls	plus 289:15	454:8,19	277:22	9,20
404:2,22	300:15	458:20	278:15	369:2,3
PJs 478:4	303:8	464:14,16	279:3,15	372:21,22
pla 336:18	424:8	468:20	280:16	373:11,14
	431:17	469:19	285:3,5	375:20
places	point 266:15	472:1	286:10,14	378:6
350:18	273:2,3,14	479:14	290:1,10	381:6
placing	280:22	points	292:8	382:14
372:17	281:10,13,	251:12	295:23	383:16,20,
459:9	19,20,23	257:14	296:3	21
plan 413:5	282:4,10,1	281:5,6,16	298:10,14,	384:2,3,10
420:23	8,22	282:25	19	,12,16,22
planned	283:2,17	283:4,6,8,	299:2,7,12	385:5,9
348:24	284:8	23	300:6	386:15
planning	292:15	284:1,3,8,	301:3,4,10	387:5,6,15
336:18	296:8,18	11,13,19	308:17	,21,24
347:17,18	297:13,17,	307:6,17	311:4	388:6,21
348:5	20 298:4	398:11,16	312:15	390:1,14
353:19,23	304:23	402:6	319:23,25	392:13,20,
372:10	308:1,7,9	410:13,18,	321:17	22,23
373:6,22	311:2	20,22,24	323:1,7	395:13,18
417:1	317:1,10	411:1	324:9	396:10,21,
plants 269:3	344:10	political	325:8	24 397:17
	345:9,15,1	376:23	329:11,13	398:21,24
plastics	8 346:9	popped 428:5	330:13,21,	400:23
314:11	350:18	por 327:9	22 332:10	401:20
platform	356:17	446:21	333:11,13	404:25
282:14	365:10	port 392:19	334:14,19,	408:15,19
345:16	374:3,4,9,		24	409:4
play 266:3	12 376:2	Portage	335:4,7,10	410:7
309:12	377:5	241:21	,14,16,17,	413:4,22
361:20	382:23	portfol	19,21,22,2	414:1,19
451:14	385:12	351:3	4	417:12,23
453:23	387:13	portfoli	336:5,9,11	418:11,14,
played	389:9	276:1	,16 337:1	22 419:5
456:15	391:5	portfolio	338:1,3,5,	420:6,7
please 302:2	393:3,6	241:7	6,9 341:12	422:1
319:3	395:7	245:7	342:10	425:1
352:16	407:12	246:15	348:9	426:1,12
353:21	408:10	257:2,3	351:4	428:20,21,
354:21	410:11	258:8	355:17,18	23 434:22
355:9	411:10,17	259:3,11,2	356:5,7,25	436:16,24
430:20	412:24	1,22,23	357:6,20	437:10
468:25	413:20	260:3	358:8,20	438:2,3,5,
476:4	414:17	261:6	359:12	12,18,19,2
477:1	416:19	262:3	360:21	4 443:25
plebian	419:7	265:2,6	361:15	446:21
436:23	420:8	273:17	364:1,4,18	447:24
	443:4	275:1	,22	449:19
	444:18	276:1,25	366:3,9,13	450:21
	449:24		,20	451:2,22
	450:1		368:6,16,1	452:20

546				
457:22	251:21	369:10	313:9	287:8
458:18,19	287:7	preclude	prepare	pretty
471:15	292:13	429:4	414:18	383:19
473:10	315:20	pre-contract	prepared	previous
475:11,14	369:17	339:9	288:11,16	285:11
portfolios	372:5,15	pre-	378:25	419:20
259:22	402:3	contracted	405:3	473:1
263:2,9	413:9	293:18	475:3	price 245:15
331:1	420:10	predicated	preponderanc	251:19
338:20	425:2	440:22	e 453:13	253:18,21
368:23	446:10	446:22	prescribe	258:17,25
438:22	possibly	451:21	283:16	260:11
portfolio's	250:4	455:11	present	261:6
437:4	potential	predict	316:9	262:16,21,24
portion	250:4	367:9	347:18	263:1,25
246:16	339:7	371:22	393:21	264:12
310:14	372:8	predicted	395:18,22	265:5,9,18
311:3	428:20	307:20	404:1,8	266:22
316:2	433:3	predominant	407:2	267:1,9,15
343:24	436:8	307:6	434:6	,17,21
344:1	450:3,8	predominantl	438:1	268:12,13
384:23	452:17	y 355:23	443:13	269:8
400:24	potentially	403:2	446:11	270:3
401:21	250:13	prefer 266:7	448:1	272:22
412:11	315:21	292:4	453:2	279:12,14
413:7,24	330:18	preferred	454:18	282:24
448:24	345:6	295:23	presentation	283:6
portrayed	385:25	322:23	382:18	284:6,17
381:22	428:18	340:21	presented	285:18
posed 250:1	429:1,2	380:14	333:15	290:17
position	450:20	393:1	381:24	293:24
251:16	practically	pre-filed	401:5,8	296:6,11,23
273:19,20,	345:20	363:22	414:18	298:19,20,21
22 338:6	394:25	Pre-hearing	434:19	300:5,10,17,18
415:14	practice	244:3	presently	303:19,22
431:1	299:1,5,12	249:1	preserve	304:13,22
437:25	461:16	preliminary	453:4	307:1,8,14,15
positioned	practitioner	353:18	president	309:7,8,11,12,13,19,21,23
315:20	's 309:1	premise	316:10	310:9
positions	pre	444:3	pressure	313:7
378:2,9,11	248:19,21	premium	306:4	314:2,10,15
positive	pre-ask	257:19	presumably	326:10,22
316:20	477:4,8,10	284:17	277:7	328:12
possibility	478:16	311:11,17	445:4	
315:4	precise	312:22,25	presume	
316:11	276:17			
429:5	369:11			
possible	precision			

546				
331:6,14	312:3,6,8	,21	427:14	professional
332:11	314:13,15	423:1,2,3,	431:1	407:10
333:7	326:19,21	9	479:8	473:25
334:14	328:18,23	424:1,6,18	process	proficiency
346:5,8,9	370:3	,19,21	250:6,10,1	443:24
376:15	373:25	425:8,14,2	2,24	profitabilit
379:11	377:18	3	251:4,5,7,	y 411:13
380:1	407:24	prior 288:3	10,24	program
385:11	408:1,3	370:3	252:7,18	367:17
388:10	417:19	408:3	253:9	439:23,25
399:10	420:5	448:16	254:5	440:1,21
406:3,24,2	461:5,12	465:22	266:20	442:2
5 407:18	463:8	privy 430:6	270:2	443:25
435:2,3,25	464:22	pro 250:12	276:7	444:25
457:3	465:13,16,	397:18	277:11,14	445:12
459:19	19,21,22	411:18,20	288:8	446:8,14
460:7,8,17	466:7,18	412:4	323:15	447:4
,19,21,22	467:20,21,	probably	368:12	451:5,25
461:6,11,1	22 468:3	264:2	414:12,23	477:15,18
8,23	469:21	267:25	415:12,22,	project
462:16,20	470:1,2,6	315:12	25 416:13	317:4
463:17,21,	474:2	335:3	417:2	pronounced
25 464:13	475:2	405:12	418:5	310:8
465:10	pricing	415:24	419:9,18	434:5
466:5,14	271:20	419:24	432:3	prop 408:15
467:19	281:22	426:12	434:9	propane
468:9	284:2	457:8	436:4	314:9
469:13,15	292:3	458:25	456:14	propititiousne
471:5,13,1	303:10	problem	processed	ss 440:21
4,17 472:5	313:22	382:19	314:21	proponent
473:4,6,9,	316:24	438:14	produce	257:8
12,15,21	345:16	439:9	296:20	271:3,4
474:7,8,11	377:14,18	455:13	421:2,3	proponents
,18	378:23	problematic	463:15	256:9
475:18,21	388:23,24	410:4	produced	325:11
476:15	389:2	problems	259:2	415:16
priced	406:13	314:24	262:23	416:2,17
285:16	prife 474:7	proceed	296:22	421:12
prices	primarily	431:2	365:13	proposal
256:25	251:17	proceeding	produces	313:16,20
260:16,17,	291:16	290:6	259:20	316:18
20 264:24	342:19	313:15	producing	317:14
303:13	386:19	316:15	314:19	365:1
306:9,19,2	444:6	445:9	product	371:1
0,21	479:22	proceedings	263:1	385:2
307:12,16,	primary	280:9	286:9	392:7,8
19,22	350:17	292:25	474:16	421:11,16
308:24	403:14	354:9	products	
309:6,14,1	406:9		314:12	
6,22,23	421:5			
310:2,3,10	422:2,4,16			
,22 311:22				

546				
426:18	428:23	423:6,22	CENTRA-10	purchase
456:22	438:12	456:23	(b 299:24	297:24
propose	proprietary	471:1	PUB/	304:4
278:6	320:9	479:21	CENTRA-10-	328:2
385:6	474:16	provider	C 270:15	345:4
395:25	476:11	313:2	275:19,22	422:16,17
430:17	prospect	406:18	PUB/	437:12
451:9	414:20	providers	CENTRA-11	purchased
proposed	prospectivel	429:19	295:9	297:18
245:6	y 364:11	provides	PUB/	384:11
269:6	protect	331:13,24	CENTRA-11-	424:5
285:3	416:9	369:1	B 294:20	purchases
290:10	prove 429:8	413:10	PUB/	282:7
298:19	proven	providing	CENTRA-18	283:3
300:6	311:25	398:24	423:14	340:10
338:6,8	provide	399:1	PUB/	341:7
341:12,15,	249:19	416:5,7,17	CENTRA-19	345:11
19,22	288:11	419:7	423:14	425:3
348:9,10	289:21	442:11	PUB-10	437:22
349:12	319:2	province	274:15	purchasing
351:2,3,20	320:3	352:24	PUB-10 (b	303:25
355:17	330:15	provisions	302:6	422:22
356:6,25	332:3	250:8	PUB-10-C	purport
357:6,20	338:13	287:2	273:16	470:16
358:8	398:21	417:6	275:24	purpose
360:21	399:22	proviso	PUB-8 244:3	304:15
364:18	401:1	346:4	249:1	461:7
366:13	420:6	prudent	public	purposes
377:7	442:14	403:22	241:3,20	269:2,18
383:24	445:8	473:20	378:7,11	274:16
384:12	450:23	474:7,12,1	380:10	298:1
387:5	479:9	4	416:13,18	312:13
390:1	provided	PUB	417:6	337:9
395:18,23	270:24	248:16,22	419:8	342:1
396:9,21	276:22	257:12	422:10	349:15
398:20,24	280:19	295:14	427:9,13	352:25
414:18	291:4	354:22	published	416:10
416:15	294:19	377:13	282:23	442:13
430:8	299:23	457:12	284:15	pursue
451:2	300:6	471:20	pull 302:25	252:24
454:3	322:9	PUB/CENTRA	pulling	461:16
456:18	330:19	270:13	342:24	473:9
proposes	332:5,15	PUB/CENTRA-1	348:10,12	pursued
285:5	333:10	477:4,8,10	pulls 281:19	417:8
proposing	344:18	478:17	pur 422:17	pursuing
278:15	366:20	PUB/		434:9
338:19	368:14,25			471:20
384:5	379:6			pushing
396:25	414:5			
397:18				
425:23				

546				
313:6	306:11	302:24	437:5	410:21
puts 262:14	307:25	327:2,14	444:4	411:12
298:24	310:19	380:23	463:17	419:18
304:17	342:14	381:8	472:6	426:17
362:2	348:21	396:1	ranges	ratepayers
383:6	349:20	428:21	333:24	354:1
putting	352:3,6	463:24	ranging	403:17
360:22	363:20	quotations	406:18	404:15
364:21	364:25	416:18	rapidly	408:18
366:12	365:25	quote 346:5	461:10	rates
370:2	376:24	quotes 346:7	rare 464:4	250:5,13
395:6	378:23		ratchets	252:13
400:21	386:2		344:7	254:17,25
406:6,24	387:1,10	<u>R</u>	rate	255:7,10,1
444:3	395:16	raise 325:10	245:4,6,9	5,16,21,22
	396:18,24	342:18	246:8	,25
	398:1,6,13	raised 409:2	250:10,18,	256:10,11,
<u>Q</u>	402:8	414:11	22,23,25	18,20,25
Q.C 242:6	405:17	421:6	251:1,9,14	257:5,7
qualificatio	427:25	raises	252:10,11,	274:4,8,10
n 388:8	428:4,8	342:13	17,21	,13,16
qualify	434:12	ram 404:4	253:11,23	275:10,20
327:3	442:4	ran	254:5,11,1	276:1,3,8,
456:6	443:3	258:15,17,	2,19	10,13,14,1
qualifying	449:13	18,20	256:21	7
337:23	453:1	261:5	277:9	277:1,6,13
qualitative	463:20	270:7	278:6	,15,18,23
470:10	474:5	271:7	285:17	278:14,16,
quality	479:12	273:11	287:6	17,18,19
369:5	questioning	274:25	290:5	288:24
quantified	300:4	280:9	291:2,7	290:9,13,2
343:5	446:3	294:18	311:11	5 291:1
405:2	questions	333:4	317:8	315:24
407:19	249:12,14	399:11	355:24	356:11,20
quantify	382:16	random	356:4,6,9,	360:8
245:13	427:1,2,25	431:14	15,16,18,2	361:17,18
379:8,23	430:17	range	4	362:21
quantity	431:5,11,1	264:15,16	357:1,5,9,	363:5,18,2
287:12	3 450:15	271:10,13	12,19,20,2	4 373:25
quarter	476:15	311:7	2	375:6,8,13
319:21	479:16,18	331:13	358:5,7,11	376:17,19,
question	quickly	333:15,20	359:2,4,5,	20,24,25
250:1	248:13	334:3,21	9,12,13,15	377:2,3,7,
256:6	326:14,15	335:7	360:25	9 378:6
259:14	415:11	339:7	364:4,5,6	380:19,20,
274:19	427:16	381:1	375:14	23,24
275:13,14	quite 257:7	398:25	380:21	381:25
305:6	261:22	418:12,15	386:1,4,10	382:24
	272:1	428:16	,12,13	383:23
	297:16		391:1,23	384:5
				385:25
				387:21

546				
388:14	304:18	263:13	251:12	476:9
389:3	readily	296:25	410:23	recommend
410:21	338:21	306:17	411:1,10	399:24
416:15		322:5	414:23	recommendati
419:9	reading	344:4	receive	on 323:21
429:12	305:11	367:2	410:17	330:15,20
430:9,11,1	363:7	388:9	received	332:21
3,15	376:5	434:18	421:15	333:12
431:24	429:20	438:1	430:1	recommended
432:7,15,1	460:18	448:19	receives	322:23
6,17,23	real 381:19	463:3	425:7,8	399:23
433:2,6,9	420:24	reasonable	receiving	400:10
448:16	458:21	283:21	431:22	recommending
449:3,10	realistic	307:13	recent 260:2	332:24
456:21	461:15	374:4	316:11	reconcile
457:14,25	reality	405:3	317:2	477:3
rather	272:15	407:19	453:22	recontract
245:17	332:9	408:8	454:1	353:22
251:18	460:24	409:3	467:23	re-contract
262:15	realization	463:7,9	recently	385:24
264:24	448:17	472:9	255:9	386:3
339:14	realize	reasons	452:10,13	recontractin
364:13	367:13	282:1	recess 305:4	g 385:18
377:19,23	445:2	370:21	340:18	record 248:9
379:13	449:8	384:19	354:8	256:7
380:4	realized	412:24	427:24	262:20
471:1	478:7	428:6	recessing	297:1
ratio 344:9	realizing	454:21,23	318:9	318:20
425:7	454:16	rebound	354:11	336:3
426:8	really 264:3	375:9	430:22	339:17
rationale	282:25	rebuttal	recognize	345:8
429:7	283:15	342:23	350:13	378:11
445:8	317:11,23	381:6	441:2	380:10
Raymond	332:5	385:17	recognizing	387:15
241:15	347:16	recall	274:16	427:9
312:14	365:15	267:23	315:22	441:11
315:1	375:16	268:9,24	335:9	467:8
316:1	381:3	269:11	345:7,14	476:25
317:17	388:2	325:18	374:5	records
318:4	415:14,18,	328:3	397:16	441:11
352:4,16	23 426:11	346:19	404:21	recoup 458:8
354:7	430:4,12,1	363:7,8	444:24	recouped
398:12	4 432:18	377:15	450:7	305:14
re 241:6	433:12	381:19	recollection	recover
349:5	443:3	recalling	269:20	448:2,9,25
reach 435:21	447:7	342:13	390:18	449:1
reached	reason	recapturing	458:5	
340:9	250:21	443:8	474:13	
reactions	262:5	receipt		

546				
recovery	382:17	411:17	414:7	303:14
268:8	405:11	434:4	re-inject	314:14
red 325:11	409:12	435:8	326:14	326:13
reduce 262:5	referring	regard 284:2	re-injection	340:25
263:13	262:20	289:22	344:23	348:11
301:6	267:10,13	328:4	reject	363:16,18,
356:23	268:18	334:10	250:16	23 364:3
reduced	275:8,10	414:4	251:7	394:16
268:22	276:16	417:9	rejoined	444:10
285:22	295:8	452:17	318:21	466:8
346:24	297:6	458:19	rela 305:6	467:12,19
348:5	301:20	regarding	relate 286:1	relatively
349:2,6	302:6	305:6	453:18	281:6
357:1	352:20	381:13	related	299:8,9
388:23,24	459:25	467:18	298:23	310:14,16,
reducing	470:13	regardless	313:19	20 452:6
301:9,12	refiled	380:9	325:5	release
346:15	272:4	456:19	381:3	246:21
348:4,13	refill	regards	382:14	419:16
reduction	341:25	372:8	384:4	439:23
271:14	344:2	region	385:21	440:21
317:12	349:15	254:15	390:16	441:9
347:3	351:21	256:18	409:21	442:2,16,2
348:24	refined	314:20	449:20	2 443:24
363:25	470:17	regions	453:17	444:12
454:24	471:2	330:8	454:3	445:12
455:7	reflect	Regis 241:13	459:7	446:2,8,23
reemphasized	249:13	registered	relates	450:20
381:12	472:23	422:18	260:7	451:21
reevaluate	reflected	regular	286:2	458:8
372:21	312:4	283:10	290:13	releases
ref 313:24	434:16	311:11	339:17	440:1
refer 424:20	471:16	373:5	428:1	452:1
reference	473:15	432:11	432:22	releasing
295:3	reflective	445:1,19	434:1	440:6
314:7	264:22	regulated	437:7,15	relevant
316:11,13	265:1	255:21,22	453:20	312:18
363:9,12,1	267:25	256:21	456:23	365:10
3,21	reflects	375:14	relating	469:19
365:11	361:5	regulation	449:8	reliability
400:17	408:1	291:12	relation	323:16
441:24	434:22	427:13	401:1	325:2,5
442:3	478:17	regulator	472:24	392:21
referred	reforecast	394:5	relationship	419:2
288:2	426:3	regulatory	352:10	reliable
313:25	refusal	356:1	362:16	364:22
314:7	250:3	relative	reliance	463:22
350:19	253:2,17			465:10

546				
282:6	289:20	327:12	478:12	5
301:6	383:17	340:23	requested	respect
402:5	renewal	419:15	421:11	262:9,24
rely 301:10	288:7	441:13,16	requests	275:24
402:10	323:17	443:14	253:8	284:2
407:5,6,7	404:9,13	444:23	330:18	294:8
relying	renewals	445:1	414:6	305:8
350:17	417:3	reported	422:9	306:11
403:1	renewed	477:10	require	310:13,21
remain	352:8	reporter	378:1	311:21
351:20	353:14	442:14	required	315:9
396:6	renewing	reporting	263:8	326:10
remains	458:16	444:15	413:10,11	328:12,13
271:5	repaid 478:5	represent	432:12	414:7
remarketing	repayment	295:14	requirement	432:9,22,24
448:23	478:2	310:14	254:25	4 433:21
remarks	repeat	406:17	308:23	434:3
316:14	348:21	460:6	339:18,20,	435:7,13
remember	387:1	463:7	21 471:7	438:14
287:13	396:18	478:1	478:9	439:11
324:20,23	repeated	representati	requirements	440:13
387:3	299:11	on 257:25	297:16	458:1
474:13	436:18	355:15	299:7	474:4
reminds	rephrase	409:15	328:14	respond
409:23	275:14	represented	329:6,18	292:2
remove	387:11	477:8	338:8	responded
294:19	replace	478:11	407:4	421:19,23
366:2	479:21,25	480:5	419:12	responding
456:19	replacement	represents	444:7	301:8
removed	317:20	333:2	requires	309:20
296:7,20	replaces	352:18	278:23	response
298:6	458:19	358:18	re-read	244:4
314:23	replicate	465:14	479:15	274:3,15,19
327:9	328:11	reproduction	rerun 294:18	9 358:17
342:5	369:18	270:13	resecure	414:3,5,7
removing	370:18	repurposed	354:1	477:2
297:2	460:23	318:3	reserved	478:12
298:20	463:11	repurposing	253:8	479:4
renegotiated	report 267:8	316:19	reset 426:3	responses
458:25	268:14	request	residential	264:11
renegotiatin	269:9	270:2,13	423:10	377:12
g 287:1	319:8,9,16	280:8	resolution	responsibili
457:5	320:15	299:23	372:3,8,19	ty 255:2
renegotiatio	321:6	358:18	373:16	responsive
n 253:2	325:24	421:10,16	resolved	415:8
renew 287:19	326:25	433:9	372:6,12,1	rest 264:9
		477:6,11		360:4
				restricted

546				
254:1	278:22	319:19	260:23	roll 299:21
restructurin	294:9,19	retired	rights 250:2	rolling
g 272:5	300:14	427:7	313:19	446:12
313:16	301:17	retirement	314:1	room 430:20
316:15	302:5,15,2	427:10	323:17	roughly
454:5	1 303:8	RETIRES	404:10,13	263:22
result	308:6	480:9	435:8	264:15,24
246:10	311:5	retrospectiv	rise 304:2	311:7
261:19,22	321:8	e 369:9	467:23	route 290:1
263:6	322:10,15,	revenue	rising	341:23
264:4,8,9	17,21,22,2	362:5	260:16	routine
292:7,24	4	441:9	301:5	426:6
297:3,9	323:3,4,24	446:23	risk 251:4	regularly
304:23	324:11,13,	revenues	289:25	477:16
317:12	14,18,19,2	440:18	313:9	routing
322:12	1,22,25	441:13	357:6	341:23
324:1	325:16	442:1	385:24	rule 464:8
367:24	327:19	443:14	386:13	run 270:2
369:19	330:20	446:13	389:2,5	273:16
370:6,13,1	331:7	447:3,10,1	405:8	276:9
4,17	333:15,16,	3	406:23	304:15
381:15	19	448:13,20,	416:17	311:20
391:11,25	341:4,6	24 449:7	428:7	312:2
416:14	366:22	450:20	435:1	367:9
421:3	367:7,22	478:8	risks 385:18	369:8
426:1	368:4,14,1	reversal	450:9,11	389:13
433:8	5	453:13	risky 284:1	420:4
440:19	400:12,20	454:18	road 452:18	476:14
443:14	417:23	reverse	456:16	running
448:21	419:16	308:17	robust	269:23
451:3,4	441:9	395:5	436:16,23	276:3
453:10	442:16,23	revert 411:5	438:3	277:6,20
462:18	443:7	review	robustness	295:14
466:5	451:22	248:14	475:11	367:5
469:14,20,	459:7	305:1	ROFR	409:4
23 478:8	463:15,16	317:6	250:2,6,7,	runs
resulting	resume 354:9	318:25	10,12,22,2	274:3,15
454:17	431:1	351:23	4	278:10
471:7	476:17	reviewed	251:3,5,7,	285:11
results	Resumed	319:22	10,13,16,2	367:8
246:21	243:7,8,9,	394:5	4	470:2
261:14,21,	10,11	revise 319:2	252:7,16,1	Ruzyscki
23 262:2	249:5,6,7,	RFP 449:14	8 253:9	242:9
263:3,7,12	8 318:16	450:3	254:4	<hr/>
264:14	resuming	ri 459:7	434:4,6,9	<hr/>
265:2	318:10	right-hand	435:9,11,1	<hr/>
266:4,11	354:12		4,16,18,22	sake 387:23
270:10,22	430:23		436:3,6	
274:10	retained			
276:16,22				
277:16				

546				
472:7	352:23	471:24	329:15	423:9
sale 440:11	satisfactory	scheduled	secondary	select
salt 383:6	248:24	356:15	251:12	334:19
same-day	save 462:5	schedules	410:11,13	335:16
477:25	saw 266:23	460:6,13	411:1,10	412:25
Sanderson	287:10	463:4	440:4,23	selected
243:10	291:20	scramble	section	262:4
249:8	324:20,21	335:11	352:6	285:11
264:18,20	scenario	screen	secure 430:8	306:12
303:16	259:16	282:13,15	445:20	331:2
306:17	263:17	345:22	securing	333:2,22,2
308:14	267:11,25	se 315:5	430:10	5 334:9,23
312:3	268:6,13	search	security	335:2
314:4	269:10	478:23	323:16	364:15
327:23	271:9,20	seas 473:15	325:2,6	selecting
328:4	272:22	season 287:6	sedimentary	265:5
335:25	274:18,22,	338:24	268:21	selects
336:6	23 279:10	340:1	313:22	260:3
337:4,8,13	280:4	343:18,19	seeing 297:3	279:2
,20 338:12	299:18	344:3	307:21	sell 250:22
339:23	332:11	349:14	473:2	252:8,9,12
369:15	334:19,20	351:21	seek 258:9	,15 285:18
370:1,7,20	348:10	403:8	346:4	440:23
,23 396:3	367:9	420:20	479:17	sellers
406:2	405:4	439:12	seeking	281:2
407:20	444:19	441:4	370:17	282:3
426:25	scenarios	seasonal	445:24	407:23
448:10	258:21,25	246:4	seeks	465:16
459:16,25	260:24	309:10,12,	258:6,8,11	selling
460:4,12,2	265:19	19 311:11	seemed 381:1	257:18
5	267:12,18,	328:17,23	seems	281:18
461:20,25	22 270:23	339:18,20	305:10,16,	326:11
462:10	307:14	343:13	25 307:18	440:4
463:20,24	330:13	370:3	308:1,8	447:15,22
464:16,19	334:2	390:23	388:19	461:10
465:5,11	335:15,18,	391:18	434:11	semantics
466:17,25	23 336:25	401:10	seen 266:22	267:19
467:9,17	367:5	403:6	309:12	SENDOUT
468:15,22	437:5	460:8,22	324:19	258:1,6
469:1,18	444:4	473:9,12	343:11	259:20
470:14	schedule	seasonally	347:7	262:3
471:10,22	247:5	461:18	409:16	269:23
472:3,7,18	360:20	462:16	412:11	270:3,23
,25 473:22	459:21	second	436:17	274:25
474:9,24	462:17,22,	248:14	sees 271:2	276:3
476:4,8	25 466:23	268:12	322:21	278:10
Sanderson's	467:15	325:17		287:8
339:19	468:14,20			291:23
Saskatchewan	469:6			294:18

546				
295:15	450:15	18	381:20	326:5
304:15	460:6	404:14,16	467:22	seventy-six
320:7	461:6,12	406:9,18	seven 245:17	386:11
321:25	463:7	407:15	246:6,11	several
322:3,22,2	464:13,21	408:16	252:16,19	254:14
3 324:15	serious	422:11	290:10	372:6
325:7	316:5,17	424:9,13,1	306:14,16	shake 371:18
327:9	372:4	8 427:12	308:4	shale
328:16	serve 293:20	447:18	315:6	268:7,20,2
329:23	296:12	453:17	356:21	1 269:16
366:20,22,	298:23	454:4	371:2,6	share 378:10
24 367:17	299:3,8,13	services	372:1,12	384:9
368:13	,14 329:1	251:22	373:12,15	shared 379:3
369:5	335:18,20,	252:23	375:21	shareholders
399:10,23	21 338:7	253:3,6	376:1,9,10	316:12
400:10,12,	406:15	255:6	,14,18,21	sharing
20 419:21	420:13	274:9,17	377:14,19,	416:10
420:5,10,2	444:4	275:3	23 378:24	shedding
1 421:3	447:14,25	277:13	379:12	336:20
460:10	461:14	291:4	380:3,12,1	sheet 250:19
461:8,19	served 294:3	292:3	3,16,18,22	409:7,21
462:18,20	328:15	293:23	382:6	434:11,14,
470:17	338:3	294:1,4	383:24,25	20,22
senput	serves	299:16	384:5,19	sheets
419:21	340:24	313:15	385:2,6,13	409:10
sense 265:22	service	316:24	386:20	Shell 242:11
272:13	253:7	339:10	388:7,9,16	she's 373:3
311:21	277:9	350:19,20	,22 389:4	ship 340:14
361:20,22	286:16	361:7,10,1	390:5,7,19	shippers
367:14	287:19	2,13	,24	303:25
381:2	288:1,13	362:4,7,25	391:11,20	304:4
389:20	289:18	364:5	392:2	305:15
429:13	290:14,18,	392:14	403:6,7	short 305:17
451:7	25	393:2	417:10	403:4
sensitive	291:7,8,11	402:10	418:3,13	425:24
471:17	,12,13,19	403:1	428:2,6	426:1
separate	292:19,20	407:8	429:4,25	shorter
245:14	293:5	410:14	430:13,15	shorter-term
330:25	294:13	429:12	463:21	374:25
379:11,24	299:2	438:2	seventeen	short-term
separately	301:13	serving	264:1	328:22
423:2	313:2	338:23	273:3	373:5
separation	333:17,18	350:13	seventy	403:3
422:25	349:10	sets 267:1	326:4	
September	351:13,19	322:9	327:5	
414:24	353:4,10,1	432:15	332:21	
415:18	6 356:2	setting	333:18	
series	361:23,25	313:17	334:15	
266:24	379:10	419:9,18	366:25	
	403:11,14,	settlement	seventy-one	

546				
404:2,7,8	262:1	332:11,19	332:23	277:15
429:11	393:7	334:5,24	sizeable	283:23
shoulder	397:14	sir 257:10	470:4	303:24
350:1	405:18	298:11	sized 259:3	312:10
showed	467:25	321:13	slightly	361:17
276:16	similar	357:23	277:15	375:15
381:20	261:19,23	374:8	324:4	426:8
382:24	312:13	379:18	325:3	432:8
406:2	322:17	391:14	327:15,17,	467:23
showing	325:1,7	401:15	18	468:3,7,9
382:19	327:21	426:19	367:11,21	somewhere
shown 278:20	363:12	457:23	380:25	334:8
359:2	367:22	471:21	463:15	389:11
366:9	368:3,4	site	slip 282:20	sorry
382:2	385:24,25	345:5,24	sloping	257:21,24
396:21	401:8	sits 366:17	310:9	275:7
400:1,12	459:7	sitting	slower 268:7	290:5
412:10	463:15	272:11	small 281:6	302:8
shows 260:16	470:8	386:5	310:14,16,	319:16
327:17	similarly	situation	20	324:2
334:21	283:3	262:9	311:3,17	329:14
400:22	simple	267:22	327:3	342:14
shrinking	263:21	268:18	352:22	343:4
440:19	447:16	273:23	368:5	345:21
shut 282:1	simplificati	274:21	soft 375:6	348:20
shy 472:21	on 352:25	288:15	sold 250:17	354:24
sic 456:13	simply 251:6	292:6	252:6	382:16
sign 277:3	293:19,22	305:20,22	253:13,14	396:8
signals	294:1,4	317:15	284:9	405:22
349:1	304:20	346:6	solely 402:5	441:22
signed	323:23	372:4,19,2	solution	442:4
250:19	327:13	3	366:5	455:24
significance	329:4	381:5,14,2	solutions	456:1
309:2	345:10	3 382:9	335:11	472:11,15
468:6	347:25	438:15	455:14	sort 308:2
significant	352:4	445:18	somebody	367:10
313:21	353:17	450:25	360:14	sought 332:1
316:22	364:19	456:11	someone	431:18
322:11	366:1	situations	433:2	sound 368:14
404:2	446:22	433:18	435:25	475:1
452:19	448:15	six 273:3	449:22	sounds
469:25	461:1,4	382:25	sometime	268:10
471:7	simultaneous	472:16,19	435:14	434:5
significantl	ly 304:10	sixty 267:7	somewhat	461:25
y 250:19	324:17	326:4	264:5,11	472:9
254:22	single	327:5		source 346:5
	259:22	size 265:23		405:21,22
	260:3			442:10
	329:2			456:17

546				
sourced	328:4	22	statistical	345:2,6,14
382:13	373:16	382:3,25	309:2	,20,25
397:8	434:22	stable	Staught	346:3,13,1
sources	specifically	381:25	342:13,18	8,22
323:3	321:14	466:7	405:1,11	347:1,5,10
341:8	323:15	stack 293:14	407:18	,14,22
392:20	324:22	stacks	409:1	348:2,8,20
south 394:9	354:23	294:11	414:11	,23
397:19	410:23	424:17	Staught's	349:4,9,20
southeast	specificatio	staff	363:4	,25
342:3	ns 314:22	373:1,2	stay 266:17	350:3,12,2
359:25	specificity	stage 373:24	staying	4
457:20	470:25	390:14	257:10	351:5,8,9
458:1,3,25	specifics	stages	step 282:11	352:12,17
southern	322:20	455:16	329:15	371:12
352:23	spectrum	stakeholder	347:17	373:1
southwest	314:8	414:15,23	353:18	393:11,21
342:4	speculate	stakeholders	stepped	394:4,14,2
457:19	292:4	415:2,9,21	266:25	3
458:3,24	309:18	stands	steps	395:1,11,1
speak 257:4	speculation	443:23	315:16,18	5
262:12	255:11	start 313:6	Stewart	396:17,20
280:7	speculativel	428:15	243:9	397:5,10,1
291:6	y 473:11	444:2	249:7	6,21
306:18	speed 248:9	started	271:17	398:9,20
321:15	spend 402:3	276:3	272:3,12	402:3,8,15
393:9	spit 258:24	starting	287:14,16,	,18,25
394:18	spite 470:4	321:10	17,20,25	403:13,23,
453:16	475:12	374:4,9,12	289:1,6,9,	25
454:6	spoke 396:4	431:16	16	404:20,24
speaking	spot 465:21	starts	290:3,7,11	405:5,24
291:2	466:8	351:14	,16,24	406:7
311:23	spread	state 336:8	291:11,14	407:16
317:7	309:12	stated	292:1,12,2	408:20,23,
333:16	spreads	251:16	2 293:3	24 409:5
352:25	309:11,13,	336:8,13,2	305:21	421:13,16,
369:25	19 440:19	4	306:7	17,20,24
394:25	441:1	statement	312:19	422:3,5,7
438:4	473:6,10,1	365:10	314:7	424:10,12,
speaks 346:8	2,15	439:2	316:7	15,20
367:19	spring 417:7	464:23	317:25	426:25
special	st 471:8	States 356:1	338:14	433:5,17,2
460:13	stability	394:22	341:10,17,	5
specific	381:15,19,	425:4	18,25	436:15,20
265:13		432:8	342:6,11	437:3,8,19
274:5,9			343:12,15,	438:4,10,2
275:3			23	1
277:1			344:8,15,2	439:1,3,8,
			0,21	14,20,24
				440:6,10,1
				7,25
				441:12

546				
442:3,7,12	284:22	341:22,25	450:10	256:9,20,2
443:13,19	285:16	342:9,15,2	453:17	4 275:5
444:2,23	286:16	2,24	454:4	281:17
445:7,17,2	287:25	343:5,12,1	457:4	287:23
3 446:11	288:13	3,14,17,25	470:18	288:7
447:12	289:18,25	344:1,3,20	471:8,24	290:2
449:17,20	290:14	,23,25	472:2,24	330:7,22
450:6,22	291:4	345:1,4	473:3,11	331:3,7
451:23	292:19	348:6,10,1	477:7,9,13	358:15,16
452:4,7,12	293:4,7	3,15	,16,18,20,	442:7
,25	296:1,4,9,	349:3,7,10	23,25	462:1
453:12,25	10,17	,11,14,15	478:5,13,1	464:19
454:15	297:8,9,19	350:6	4	472:8
456:1,5,17	298:2,3,4,	351:1,7,11	stranded	subjective
458:10,12	7,13 299:3	,12,17,18,	439:17	265:25
459:6	300:25	21	strategy	266:6,8
475:23	301:6,11,1	355:16,18	437:12	273:13
476:5,24	4	359:20,22	stream	280:3
477:2	302:19,22,	361:7	314:19,23	323:20
479:19,23	24,25	363:6,10,1	strictly	submissions
480:2	306:1,4,5,	7 364:3	312:15	414:24
Stewart's	10 307:24	365:2	364:2	submitted
373:2	308:10,20,	367:25	392:18	253:7
382:18	23	368:9,25	strip 466:18	subsequent
479:15	309:4,11	375:2,5,8,	stripped	340:4
STFT 403:22	310:13,21	11,16,25	314:18	successful
404:4,21	311:2,6,10	382:11,13	strong 376:7	418:21
stor 277:22	,11,13,18	384:3,23,2	475:13	sudden
storage	312:15,21	4 385:21	structure	455:13
246:4,9	313:1	387:16,18	287:6	suddenly
250:17,20,	315:5,10,2	390:16,17,	293:24	427:19
23	4 324:4	23	317:8	sufficient
252:2,4,15	325:18	391:2,17,2	382:20	336:2
253:13,14	326:2,9,12	4 393:17	433:8	350:5
254:15,20,	,13,14,24	398:16	struggled	463:8
21	327:5,6	402:6,9,15	447:1	suggest
255:4,8,10	329:5	405:15,17	STS 286:16	248:21
,13,15	330:15	406:6	287:19	263:24
256:17,19,	331:13,20,	407:5	288:19	271:20
23,24	24	408:11,16,	289:3	341:6
257:5,7,8	332:4,7,13	19 409:4	290:5,9,18	348:4
258:10	,17,19,22	412:13,16	291:11,19	367:4,24
261:15,16,	333:2,3,16	416:2,7,16	292:22	368:24
25 262:4,6	,18	419:6	301:13	407:12
263:9,13	334:4,15,2	420:18,19	408:23	459:6
265:6,23	1 335:2,3	422:1	subject	suggested
272:20	336:9,10	428:19,25	253:9	250:3
278:24	337:6,11,1	430:5,9	255:14	311:6
279:12,21	8,25	436:9		
280:2,4	338:4,7,11	437:9		
283:9	,17 339:22	439:11,18		
	340:2,6	443:8		

546				
318:3	winter	298:4,12,1	372:16	266:23
363:4	309:8	3 299:6	388:4	268:4
480:4	406:3	302:18,22	391:2	270:11,12,
suggesting	407:18	303:6	413:19	22 271:16
266:15	summer's	312:16,20,	417:15	276:16,22
296:2	408:3	23	418:10	278:8,20
308:6	summertime	313:5,22	420:1,19	280:7
334:6,7	349:24	314:2	430:5	291:20
367:23	summer-	323:16,17	444:14	293:13
434:19	winter	324:9	468:18	294:11,20
suggestion	264:12,23	325:2,6,13	476:1	295:13
360:8	265:4	340:25	surplus	298:17
suggests	superior	344:18	341:20	299:22
325:20	392:22	351:10	swaps 440:9	300:1
333:12	supplemental	360:13	swath	301:17,19,
suite 251:22	423:1,3,5,	361:6	352:17,21,	20,23
252:5	20,21	368:8	22	302:6,20
253:3,6	424:1,3,13	373:11	swing	308:15
289:11	425:9,24	381:9	406:9,10,1	319:8,16
438:2	supplementar	383:11	3,17	321:1
444:3	y 398:13	392:21	407:2,6,11	331:9
sum 337:2	supplent	398:15,16	,14	341:4,11,1
summarize	398:13	399:17	swings	3 343:6
253:16	supplied	400:22	389:15	344:16
summary	348:16	401:18	switch	352:4,5
259:19	423:4	403:19	453:11	354:21
370:19	supplier	406:9	switching	355:5,7,14
summer	345:23	407:3,11	452:2	360:20
246:17,18	406:23	421:7	system	366:9
264:25	supplies	424:17	284:12	377:1
265:16	302:23	437:13,21,	293:7	382:17
309:16	399:3	23	314:24	387:4
310:6	418:25	support	355:4	396:22
341:14,19	453:20	261:12	405:15	399:8,9
342:3	supply	273:19,20	420:14,24	400:19
349:14	246:13	274:20	421:1	401:9
359:25	260:8	427:4	432:8	409:7,17
360:2	268:1,22	supports	454:19,20	411:16,17
368:9	281:15,16	251:15	455:5	411:16,17
401:11,12,	285:25	273:22	systems	442:16,24
23,24	286:1	suppose	314:20	457:12,15
403:8	293:14	366:8	456:7	459:21
406:6	294:10,14	sure 248:8	<hr/>	462:6,22
435:10,12	296:8,10,1	275:13,17	T	466:23
440:15	2,18,19	282:20	ta 257:19	471:20
461:2	297:13,17,	305:7	Tab 246:22	472:11
478:6	18,20	320:21	257:11,20,	479:22
summer/		329:19	21,22,25	table 243:1
		337:23,24		277:2
		352:13		310:13
		371:21		331:12,19
				332:3,18

546				
333:10	411:16	271:8,18,2	274:20	314:5
334:12	428:14,19	1 272:4	tendency	terms 264:23
346:7	452:4	286:15	309:23	266:6
395:23	talking	287:11	310:5	269:23
410:5	273:16	290:5	tends 250:22	281:2,17
434:7,20	305:6	303:3,14	283:9,10	288:10,12,
460:1	344:24	305:11,17,	term	14,21
477:5	374:13	18,24	245:17,18	289:14
478:11	398:8	306:2	250:19	291:3,8,13
Tabs 409:16	436:15	341:20	305:17	293:17,24
take-it-or-	464:10	347:25	307:12	303:6
leave-it	tar 256:24	348:4	308:3,9	306:13,23
414:19	target 312:7	352:7	338:8	307:19
taking	targeted	371:12	371:11	308:14
259:23	316:19	372:12	374:1,2,3,	309:2,20
269:15	380:15	373:16	5	312:4,17
281:10,12	targeting	382:19	375:4,7,16	314:5,24
295:15	428:14	395:6	376:8,9,18	328:7
296:15	tariff	396:13	,21	330:23
348:6	250:18,25	402:10	377:9,14,2	334:1
370:12	251:1,9,14	408:13,16	3,24	341:19,23
373:21	252:13,21	422:6	379:13	344:18
374:8	253:23	452:10,13,	380:4,5,14	346:8,13
413:12	254:5,17	20 475:20	,15,16,17,	351:10
429:10	255:14,22	476:5	19,22,25	358:19
460:12	256:24	TCPL's	382:7	361:6,11
467:21	285:17,22	271:24	385:6,10,1	362:6
talk 322:16	289:17,22	289:2	4 387:8,22	364:10
374:17	290:2,5,15	340:19	389:4	370:3
375:17	291:9	397:3	390:19	371:1
399:16	355:24	476:6	403:5	372:3
406:1	356:4,11	team 427:4	409:7,10,2	383:7
459:16,18	357:5,9	456:8	1 425:24	384:17
talked	359:2,4,5,	technically	426:1	387:5
257:13	12,15,21	315:13	428:1,2,10	389:16
260:24	361:1	429:9	,14	392:13
261:20	363:18,24	techniques	429:4,13,2	393:5
264:18	364:5	474:1	2	394:8
315:22	380:21	temperature	434:11,14,	395:16
321:24	386:10,12	339:2	20,21	397:8
334:17	395:23,25	temperatures	454:2	398:1
366:11	396:2	336:14	465:6	407:3
367:16	414:9	ten 318:5	470:10	411:17
382:9	454:3	339:6	478:1	412:20
384:21	457:25	428:8,11,1	termed 412:3	413:4
385:16	TCPL	5 429:25	terminates	423:8,25
399:12	268:15,19	430:17,18,	292:16	430:2,7
402:4	269:10	19 464:6	421:8	432:3,6,14
403:23	270:8	tend 272:16	terminology	434:13,15
410:10				436:23
				443:7
				453:23

546				
456:15	471:5	320:5	421:9,13,1	therefore
464:22	476:16	324:6,10	7,20,24	301:7
467:20	thanks	325:23	422:5,13	361:4
468:14	427:20	326:6	424:7,15	415:8
473:2,7		328:20	425:10,20	there'll
474:1,25	that'll	329:8,24	426:4	269:15,16
475:2	305:2	330:11	429:6	431:23
test 370:6	359:13	331:16,22	431:17,25	
	450:15	333:20	432:5,25	there's
testified	that's	335:13	433:11	248:7
371:12	248:24	336:7	438:11	249:16,18
373:3	251:14	337:21	439:8,14,1	250:21
testimony	253:24,25	340:13	5,20	252:7
328:4	254:4,13,1	341:17,23	441:12,16	257:13
473:1	4	342:6,11,1	444:20,21	259:19
testing	255:11,24	7 343:9,15	450:6	266:15
370:21	258:2,7,13	344:21	451:12	274:12
	,22	345:2,25	452:5,7	277:25
tests 369:5	260:10,25	346:18,22	453:14	280:18
thank 248:5	261:9	347:1,5,10	454:21	281:11
249:17,23	263:19	348:2	456:22	282:13,25
251:25	268:16	349:4,21,2	457:6,19	284:4
256:5	269:19,25	5 350:3	458:12	297:17
257:9	270:5,25	356:3,8,22	460:3	299:10
260:4	272:10,25	,24 357:3	461:20,25	303:18
276:23	275:1	359:10,17	462:24	305:12
302:1	276:2	360:3	463:2,24	307:3
318:4,14,2	277:4,13	361:3,8	465:1	314:16
2 319:4	278:12	362:23	470:9	319:1
321:13	279:10	363:12	471:16	321:7
337:3	280:2,5,12	365:9	473:17	325:21
340:7	283:20	367:15	480:2	339:24
354:7,16	284:24,25	370:7	Theirs	343:13
355:12	285:8,18,2	371:4,13	265:14	381:18
357:25	3	372:20	theme 393:13	383:10
363:19	286:18,22	376:11,22		390:5
365:24	287:14,15	377:6,11,2	themselves	397:25
366:15	289:3,6,24	0 378:20	416:3	400:20
378:14	290:3	380:24	448:1	419:23
379:17	292:2	381:14		420:2
391:13	295:18,24	382:21	theoretical	423:12
398:11	297:20	383:3,14,1	292:6	431:11
401:14	300:7,12,2	9 386:6	theoreticall	432:2
409:6	0	387:9	y 398:5	437:25
426:24	301:21,25	395:13,15	444:9	440:25
427:11,23	302:25	398:9		441:24
431:4	306:12	404:11	theory	446:7
437:24	309:25	406:7	465:14	455:12
449:11	313:11,15,	409:5,13,2	thereafter	460:13
455:22	16	1	312:6	464:10
457:1,9	317:3,25	411:3,8,15	381:16	465:24
459:11	319:18	415:17	467:21	466:2,3
				468:19

546				
479:12	455:1	364:9	381:17,21	364:3
they're	thread	386:5	382:3,5	392:11,12
257:18	462:15	394:19	383:13,18	408:11
262:25	three-four	396:25	384:7	419:5
269:15	467:3	405:14	405:7	422:22
272:1	throughout	407:24	410:11	478:14
278:18	336:15	450:24	429:21	totally
284:12	373:11	455:12	Tomas 242:7	447:21
314:11	381:5	467:25	tomorrow	towards
325:25	436:18	468:3,7	476:18	308:2
326:7	448:18	470:6	480:13	461:9
344:18	throughput	today's	tool	track 443:13
367:23	454:25	404:11	251:17,19	tracks 443:6
368:2,24	455:7	toll 272:7,8	470:16	trade 282:15
383:1,25	thus 405:7	291:13	tools 407:3	307:4
406:20	444:6	292:22	471:13	traded 281:7
411:19	477:21	293:4,6	474:2	283:1
416:17	ticket	382:19,20	top 271:2	464:1,10
422:21	462:14	405:7	294:2	tradeoffs
438:22	tie 348:22	411:6	300:15	296:15
448:20	tied 290:25	432:10,11	441:23	336:16
460:17,20	tight 267:22	tolling	442:17	362:6
they've	268:6	246:8	topic 252:1	367:13
326:7	tight-market	300:10	305:2	430:10
332:3,5	267:25	340:19	351:25	trades
476:7	267:25	383:7	459:16	282:16
third 264:9	timeline	391:1,22	topics	464:5
269:8	371:22,25	tolls	351:25	trading
315:7	372:3,7	271:9,13,1	422:9	282:12,20,
329:4	timelines	4,18,21	torture	23 284:5
399:19	312:17,20	275:2,8	369:21	468:8
400:21	today 253:15	281:21	torturing	traditionall
third-party	254:22	292:23	369:25	y 248:16
449:14	262:6	293:6,8	total 257:1	Tran 273:23
thirds 427:8	263:14	300:16	258:5,8,11	trans 292:13
thirty-five	268:2	301:1,5,7,	259:11	353:3,10
353:2	275:1	8	279:3,15	440:11
thirty-four	288:17	303:3,8,14	298:7,10,1	transaction
330:1,4,25	290:12	,21,23	4,19 301:3	362:11
thirty-seven	294:5	304:2,10,1	310:14,17,	411:13
352:7	315:24	6	18	transactions
thousand	338:19	305:11,17,	311:3,18	281:12
267:7	345:7	18,24	325:8	439:25
285:6	348:11	306:2	334:6	451:25
343:8	349:12	313:17	335:22	455:9
349:13,21	351:20	316:6	337:2,25	TransCanada
353:2,9,16	353:7	317:12,24	362:4	
thousands	363:11	340:19	363:9,10	
		356:13		
		360:16		
		373:8		

546				
262:10	243:16	343:1	389:19	288:4
273:23	244:3	346:14,16	397:9	289:8,14
274:21	248:20,22	347:24	423:23	318:6
275:8	249:2	348:4,14,2	428:11	329:22
281:9	318:25	5	truism 466:2	334:24
288:10,20	464:20	349:10,22	trust 475:4	335:23
292:3,14,1	479:15	350:14	try 315:19	338:5
8 300:10	transferred	351:12,19	332:15	353:16
301:5,6,8,9	317:9	355:17,18	387:12	362:15
304:2,10,1	transit	360:2	420:15	430:19
6 313:13	394:22	382:14	455:14	twenty-five
316:1,9,10,13,17	transmission	384:4,6	trying	353:9
317:2	245:12	385:22	293:25	type 262:2
346:14	341:21	386:9	348:22	292:20
348:14,25	356:19	387:17	377:11	373:6
349:6	357:8	390:17	397:15	409:25
350:14	379:7,22	399:23	410:5	419:1
351:2	396:12	400:7,10,1	411:13	445:8
352:18	transparency	1,24	433:12	types 260:1
353:3,7,17	346:9	401:11,21	443:23	315:23
354:2	transparent	402:21	448:5	337:19
371:19	413:1	403:2,3,5,19	450:16	typical
372:4,9,19,23	transpire	405:6	451:17	361:18
381:4,10,1	415:11	408:11,16,19	464:12	typically
1,14,17,20	transpires	409:4	tune 344:1	253:13
382:1,4,9	458:14	419:6	turn 261:17	339:12
383:6,12,1	transport	422:1,11	270:15	342:20
6,18 384:6	317:21	436:9	299:22	346:4
393:13,16,25	381:9	438:23	331:9	352:20
394:8	405:7	439:11,18	341:11	394:4,23
395:10,25	transportati	440:12	344:15	403:13
402:5	on 241:7	443:8	354:21	404:13
403:1	246:16	453:17,19	382:11	445:7
432:9	285:15	454:4	409:6	477:23
453:3	286:16	457:4,20	423:15	478:1
454:2,19,2	287:13	transported	441:17	
2,24,25	288:1,13	350:17	444:11	<hr/>
455:5	289:18,25	403:14	459:20	ultimate
475:24	290:14	424:21	turning	323:21
TransCanada'	291:1,4,21	travel	257:11	347:19
s 288:15	292:19	393:15	450:9	374:5
289:17,22	293:5,6,7	tread 459:17	turns 443:3	ultimately
290:14	298:14	trend 260:16	tweak 277:9	257:6
291:1	299:2	tried 261:6	twenty	262:2
301:13	312:15,21	428:22	258:21,24	276:18
316:14	313:1	tries 439:22	259:3,5,7,8,15,19,21	277:16,24
454:6	314:20,24	true 308:18	,24 260:2	278:14
476:11	338:18			279:3
transcript				283:19

546				
302:16	468:11	19 468:18	unreliable	utilities
311:4	understandab	469:3	325:12	241:3,20
324:19	le 427:19	476:22	unused	366:25
362:1	understandin	477:3	419:11	417:7
368:15	g 253:14	479:4	440:3	419:8
374:6	256:4	undertakings	unusual	422:10
376:18	261:4	243:4	264:7	utility
414:3	289:2,9	245:1	336:22	392:9
422:23	291:5	246:1	369:3	402:10
432:4,16	306:8	247:1	unutilized	404:13
434:16	316:8	478:22	448:9,25	420:25
458:23	331:18	undertook	458:8	421:1
un 448:9	361:22	271:25	upcoming	427:13
458:8	377:7	undoubtedly	347:12	461:16
unadjusted	392:6	362:20	353:11	479:24
461:6	416:8	uneconomic	update	utility's
uncertain	427:5	304:3	316:11	248:17
262:8	432:7	unexpected	320:3	433:7
309:16	442:6	248:11	updated	utilization
448:20	452:13	unfold	478:16,19	444:10
454:7	475:23	428:18	upgrades	utilize
uncertainty	understood	454:9	394:5	444:20
313:21	274:2	unfolding	upon 248:1	474:19
371:12,18	275:13	453:22	318:9,10	utilized
372:12	337:5	Unfortunatel	354:11,12	343:1,18
456:18,19	363:3	y 420:24	430:22,23	443:9
uncommitted	419:19	unidentified	450:19	458:6
293:15	421:14	271:5	451:21	460:9
underlying	429:23	Union 454:20	469:13	469:16
466:4	479:19	unique	471:5	utilizing
understand	undertake	287:5,7	480:15	451:3
248:13	357:17	368:20,24	upward-	456:13
265:10	390:20	United 356:1	sloping	
288:9	401:1	394:22	309:21,23	val 317:19
289:7	475:17	425:3	useful	valid 364:12
290:19	undertaken	units 352:8	418:19	405:18
305:8	414:17	unknown	444:1	validation
317:23	undertakes	329:21	usefulness	475:13
367:6	479:8,9	unless 356:8	418:10	value 251:23
377:5	undertaking	410:22	US-sourced	254:20,21
427:19	244:4	464:16	384:24	314:11,18
431:21	272:3	unlikely	399:2	317:9,18,2
432:21	358:3,16	251:5	424:4	0 318:2
445:24	379:6,20	unlimited	usual 426:2	324:5
450:13	388:18	297:24	usually	326:3
451:10	390:22		409:22	340:10
454:17	391:16			345:17
459:18	401:7,17			
460:5,21	442:11,14,			

546				
369:24	475:1	268:19	330:16	440:3
375:11	vary 284:3	269:14,15	volumes	WCSB 384:13
380:10	293:23	271:19,24	246:5	397:23
386:14	varying	272:7,9,14	279:12	398:23,24
403:17	384:7	,15	350:5	wears 406:23
430:7	vast 368:24	273:2,19,2	390:24	weather
441:4	ve 251:8	4,25	391:18	258:21,25
443:20	vendor	277:18,20	394:2,9	259:4,6,8,
444:15,17	367:17	278:11,24	397:24	16,21,24
446:2,4	venture	279:21	406:14,15,	260:1
475:5,15	407:22	345:15	17 410:21	293:21
value-added	venue 394:18	364:22		299:18
314:12	ver 355:23	371:17	wages 475:17	328:13
valued	verify	375:15	waiting	329:1,6,18
430:10	330:10	380:13	431:1	,20,22
values 460:1	357:11	383:8	Warden	330:2,4,8,
valves	390:21	384:15	243:11	9,12
393:14	version	388:14	262:12	331:14
395:6	320:23	415:6,13	266:19	332:11,23
vanilla	versus 253:2	463:13	318:16,20,	333:7
266:7	264:15	468:1,9	21,22,23	334:2,13,1
variability	266:7	474:12,18	319:4	8,20,25
326:20	270:8	viewed	426:16,24	335:8,15,1
451:15	302:6	313:20	431:2,5	7,18,19,20
463:18	322:12	448:13	446:25	,23 336:25
variable	324:20	views 270:3	Warden's	340:4
336:22	336:20,23	307:15	248:10	342:25
407:4	341:8	475:6	warm 259:25	343:2
409:2	352:5,8	VINCE 243:11	297:15	370:9
463:15	367:25	318:16,22	334:25	417:20,24
variables	428:2	319:4	444:10	418:12,14,
303:18	430:11	446:25	445:4,6	16
367:6	458:22	virtual		420:5,11,2
451:14	470:2,6	440:11		2 437:5
variations	via 452:15	477:21	warmest	441:3
331:14	viable 429:9	virtually	335:20	444:4,6
varies	440:14	296:9	wasn't	445:6
375:16	452:18	307:7	259:14	447:13,21
various	vice-	311:10	261:7	451:4,15
266:3	president	virtue	266:15	weather-
296:14,15	316:12	446:13	337:13,16,	driven
303:5	vicinity	461:9,11	22 338:11	438:16
307:17	283:8	465:23	364:19	weather-
350:18	view 253:6	vol 452:13	381:3	normalize
392:16	264:5	volatility	392:18	451:12
421:12		281:17	402:9	weather-
438:23		326:10,21	474:5	related
		331:6	watch 430:18	333:6
		volume	ways 301:14	weathers

546				
337:19	24 407:7	323:1,13	309:14	wide 418:12
we'd	413:17	333:21,25	whether	437:5
276:11,13	417:8	334:8,17	246:7	444:4
wee 313:14	429:14	335:14	252:9	widely 367:1
weeks 312:11	430:6,25	345:7	255:25	Willie 427:3
467:23	434:8	347:7	256:9	willing
weigh 303:16	438:12	352:6	266:6	285:20,22
458:10	444:3	366:11	278:1	407:22
weight 264:8	447:2,8,10	367:16	279:20	465:16
265:4	,15,17,22	381:5,7	292:18	win 389:14
459:9	451:3,11	382:9	322:10	winner 393:8
Welcome	453:2	385:16	324:20,21	Winnipeg
318:21	west	396:3	333:17	241:22
354:14	452:5,14	399:12	339:2	339:2
we'll 280:6	455:24	402:4	342:14	350:5
315:17	456:9,13	410:10	357:18,20	winter
321:15	western	411:16	359:14	246:17,18
322:19	268:21	412:11	360:8	264:24
334:19	269:16	416:25	362:5,6	265:17
385:11	297:25	420:19	373:13	286:20
448:1	302:18	428:1,13,1	375:3	291:21
476:17	303:25	8,21	379:8	292:16
479:1	304:4,8,12	434:22	380:11	309:14
480:12	,13 313:22	436:17	385:18	339:1,7
we're 252:1	340:11,20,	446:14,15	386:20	343:11,19
263:21	24 341:7	447:1,6,11	390:4,22,2	344:2,16,2
273:16	344:19	449:5	5 391:9,22	3,25
299:21	348:7,16	451:2	392:25	352:19
306:14	349:8,22	452:4	396:24	353:4,6,11
307:21,23	350:6	wh 277:13	397:17,22	386:11
311:8	351:1,7,10	whatever	398:6	387:18
315:24	,17 368:8	255:24	405:17	390:17
329:17	381:9	330:22	407:17	396:22
338:19	384:13	372:22	418:18	401:11,12,
341:13	397:8	414:4	420:6	23,25
346:5	405:23	417:20	430:14	403:7
350:13,15	422:11	432:11	439:18	408:1
352:20	we've 251:22	444:13	446:3	420:15,17,
353:5,23	254:12	469:15,20	447:2	20,23
362:18	261:20	whatsoever	449:13	424:3
364:20,21	264:10	252:12	450:2,18	435:11
365:15	273:22	262:24	456:9	440:15
372:2	274:17,20	wh 324:20	whole 315:4	441:4
384:4,5	305:6	whereas	337:1,2	461:3
393:22	306:6	254:25	368:12	473:14
395:18	309:12	271:24	429:11	477:13
398:8	311:9	281:23	wholesale	478:4,11,1
400:16	312:2	298:25	304:6	5
406:18,19,	313:13	342:22	whose 412:20	winters
	315:1,15	whereby	448:25	
	319:20			

546				
259:25	438:25	yesterday's	zone 395:9	
winter-	worry 294:2	312:9		
summer	worse 382:9	yet 414:16		
265:8	worth 380:11	450:14		
473:6,15	wound 382:3	453:23		
wis 427:4	wrap 332:15	456:15		
wise 337:18	write 277:3	yield 370:16		
wish 427:22	written	York 464:3		
withdraw	414:23	you'll 261:1		
326:2	wrong 305:19	335:11		
342:21	306:3	336:19		
withdrawal	311:24	379:14		
477:7,10	476:3,12	450:1		
withdrawals		yours 390:21		
478:13		you've		
witness	<hr/> X <hr/>	249:13		
248:6	XL 317:4	258:14		
249:12		265:22		
354:20	<hr/> Y <hr/>	270:18		
355:5	year's	283:14		
400:21	309:17	297:1		
407:17	Yep 321:12	300:1		
426:24	yesterday	305:21		
427:4	248:7	312:2		
479:8,9	249:12	329:21		
wondered	250:1,3	349:19		
305:3	251:16	362:15		
wont 431:13	257:13	363:20,23		
work 266:10	258:15	369:6		
276:8	262:11	370:21		
285:10	264:19	378:13		
315:15	265:9	384:19		
322:6	266:19	387:3		
336:12	272:13	388:8		
345:24	287:11	389:8,9,18		
427:16	303:5	,25 390:1		
468:23	315:2,22	395:3		
worked	320:9	396:19		
367:17	321:25	401:8,10		
Working	322:16	403:23		
332:4	332:10	408:12		
workings	336:8	418:4		
366:21	337:5	419:24		
world 396:2	339:11	432:18		
worried	347:23	448:7		
	467:18	<hr/> Z <hr/>		
	476:10,22	zero 339:22		
	480:4	466:13		