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

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Pages 241 to 480

APPEARANCES

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

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

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

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

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

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

--- EXHIBIT NO. PUB-8: Pre-hearing conference transcript

CENTRA GAS PANEL:

GREG BARNLUND, Resumed

NEIL KOSTICK, Resumed

LORI STEWART, Resumed

BRENT SANDERSON, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

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

MR. NEIL KOSTICK: Yes. And --

MR. BOB PETERS: There's --

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

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

MR. NEIL KOSTICK: Yes, that is correct.

MR. BOB PETERS: Thank you.

MR. NEIL KOSTICK: First of all, good morning, Mr. Chairman, members of the Board, ladies and gentlemen. There was one (1) question posed yesterday that -- it had to do with the ROFR rights, or right of first refusal. And it was suggested yesterday that there was the potential that Centra could have possibly gotten lower rates than it negotiated, had it gone through the ROFR process.

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

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

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

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

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

MR. BOB PETERS: Thank you, Mr.

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

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

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

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

MR. BOB PETERS: Does Centra have to

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

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

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

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

MR. BOB PETERS: But that's not -- Mr. Kostick, that's not something that ANR could even do because they are restricted by the FERC maximum, are they not?

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

MR. BOB PETERS: Yeah.

MR. NEIL KOSTICK: Yes.

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

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

MR. BOB PETERS: Can you explain to the Board, Mr. Kostick, what ANR does that makes it a requirement that they have FERC-regulated rates whereas some of their competitors may not have that same responsibility?

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

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

But I believe FERC has to accept that that's acceptable under whatever criteria they would use to determine whether market-based rates would be appropriate or -- or allowable.

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

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

MR. NEIL KOSTICK: I'm there.

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

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

MR. BOB PETERS: I'm sorry, I misspoke. Tab 18 is a numerical representation of Centra's conclusions with the SENDOUT model, correct?

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

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

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

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

MR. NEIL KOSTICK: That's correct.

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

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

MR. NEIL KOSTICK: Yes.

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

MR. NEIL KOSTICK: That's correct.

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

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

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

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

MR. NEIL KOSTICK: No, not at all. There's one (1) summary of the -- of the twenty (20) years, if you will, where SENDOUT produces a best fit portfolio for twenty (20) years of weather, not twenty (20) different portfolios, but one (1) single portfolio that is the lowest cost portfolio, taking in account twenty (20) different years of weather. So it takes into account both warm winters and very cold winters, and it says over all the types of weather that are in the model, in this case the most recent twenty (20) years, it selects a single best-fit portfolio.

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

MR. NEIL KOSTICK: That is correct.

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

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

MR. BOB PETERS: Right.

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

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

MR. NEIL KOSTICK: That's right.

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

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

MR. NEIL KOSTICK: That's correct.

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

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

And then we also see in year 5 of the ICF curves a storage capacity of 19.9 petajoules, which of course is significantly higher than the other results. And, ultimately, in evaluating the type of portfolio that the SENDOUT model put together, and the storage capacities that it selected, it informed our decision that there was no compelling reason to reduce storage capacity from what we have today, particularly in light of other factors such as what can be, I think, fairly described as an uncertain and perhaps further just deterior -- deteriorating situation with respect to the TransCanada mainline.

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

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

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

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

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

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

MR. NEIL KOSTICK: Roughly, yes.

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

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

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

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

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

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

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

MR. BOB PETERS: Theirs was just higher?

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

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

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

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

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

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

MR. BOB PETERS: Now, in addition to the ICF price curves that the Board has seen in -- the Board saw what the curves looked like at Tab 16 of the book of documents for ICF. And that was just a series of stepped lines. In addition to that, Centra had three (3) additional or alternative sets of price curves coincidentally also from ICF. Isn't that correct?

MR. NEIL KOSTICK: Perhaps you could clarify.

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

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

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

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

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

MR. NEIL KOSTICK: I think it was a tight-market scenario, probably reflective of higher natural-gas demand in general and lower supply than what is in the market today.

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

Do you recall that?

MR. NEIL KOSTICK: That sounds correct, yes.

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

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

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

Do you recall that?

MR. NEIL KOSTICK: Yes, I do.

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

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

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

Do you recall that?

MR. NEIL KOSTICK: Yes, I do.

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

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

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

MR. NEIL KOSTICK: That's correct.

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

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

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

MR. NEIL KOSTICK: Yes.

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

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

MR. NEIL KOSTICK: I've located it.

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

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

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

MR. NEIL KOSTICK: Yes.

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

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

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

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

MR. NEIL KOSTICK: Well, that would be TCPL's view in 2007, up to 2011, whereas this model exercise that we undertook was looking at 2013 and beyond. So they're not quite comparable.

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

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

MR. NEIL KOSTICK: That's correct.

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

MR. NEIL KOSTICK: I would tend to agree.

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

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

MR. NEIL KOSTICK: That's correct.

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

MR. NEIL KOSTICK: Yes, that is correct.

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

MR. NEIL KOSTICK: Yes.

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

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

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

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

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

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

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

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

MR. BOB PETERS: Mr. Kostick, when you -- when -- when Centra ran SENDOUT to come up with its optimal portfolio that's before the Board today, Centra initially didn't know what the final tolls would be for all of the specific services, did it?

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

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

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

MR. BOB PETERS: I was.

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

MR. BOB PETERS: Certainly.

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

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

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

MR. BOB PETERS: When Centra negotiated

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

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

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

MR. BOB PETERS: All right.

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

MR. BOB PETERS: Okay. Thank you for the clarification of the answer. When -- your final portfolio before this Board, it certainly contains specific final rates. And those you know, and those are on the table, that can be embedded in the contracts that Centra wants to write up and sign?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

(BRIEF PAUSE)

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

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

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

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

MR. NEIL KOSTICK: Yes, I would agree.

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

MR. NEIL KOSTICK: Yes. In the natural gas marketplace there are what are considered major hubs that have a lot of pipelines either leading to them or from them, and a lot of market participants in terms of marketers and buyers and sellers. Those would be major hubs such as AECO, Henry Hub, or Chicago, are three (3) of the largest in North America.

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

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

Whereas a point like Chicago would be far less impacted by one (1) market participant leaving the market, or one (1) pipeline, for example, being shut down for operational reasons, because there are many pipelines leading into Chicago and many buyers and sellers at Chicago.

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

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

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

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

(BRIEF PAUSE)

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

MR. NEIL KOSTICK: That's correct. We felt it was reasonable to include those at a limited level, that we wouldn't be overly exposed if we bought gas at those points on a somewhat limited basis. But we certainly wouldn't want the model arriving at a conclusion that 50 percent of all the gas we buy should be at any of those points, as that would be too risky in our regard with respect to how pricing at those points could vary from expectations.

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

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

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

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

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

feature?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MR. NEIL KOSTICK: That contract is a

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

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

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

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

MS. LORI STEWART: Yes, it is.

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

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

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

MS. LORI STEWART: Centra's storage and

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

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

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

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

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

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

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

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

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

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

MR. BOB PETERS: All right. So that's a risk Centra faces in its storage and transportation portfolio, is that the major back-haul route may be subject to a higher tariff than it currently enjoys?

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

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

MS. LORI STEWART: No, it has not.

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

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

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

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

(BRIEF PAUSE)

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

Is that correct?

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

So instead of trying to envision what

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

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

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

MR. NEIL KOSTICK: Essentially, yes.

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

(BRIEF PAUSE)

MR. BOB PETERS: You haven't lost your

book of documents, have you?

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

(BRIEF PAUSE)

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

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

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

Would that be fair?

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

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

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

MR. BOB PETERS: But the capacities for

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

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

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

MR. BOB PETERS: Mr. Kostick, are you -- are you certain that the reason for that is because of -- of what you've indicated now on the record, or is that just your conclusion based on removing the constraint and seeing the result? Did the model tell you exactly where that additional cost came from?

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

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

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

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

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

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

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

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

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

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

MR. NEIL KOSTICK: That should be largely related to the fact that the model has to serve that additional 50,000 gigajoules per day. So it puts assets in place to cover off our firm peak day, whereas in practice we would be using some form of peaking service. And our physical portfolio of transportation and storage contracts do not have to directly serve that 50,000 gigajoules per day as per our current practice.

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

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

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

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

MR. NEIL KOSTICK: I'm there.

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

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

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

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

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

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

(BRIEF PAUSE)

MR. BOB PETERS: Can you explain to the Board why the storage capacity would be increased even with the tolls going up 35 percent?

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

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

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

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

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

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

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

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

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

Sorry, hold on one (1) moment.

(BRIEF PAUSE)

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

But I believe it's still using, to a certain degree, western Canadian supply to fill storage. I couldn't tell you if it was using exactly the same amount that it would be using under the Tab 7 results, but I believe it's still using a certain amount of Canadian supply to fill storage along with likely increasing amounts of other US supplies to help fill storage, as it does have to fill quite a bit more storage. So that's what I can, at a high level, pull out from the numbers in front of us here right now.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Am I wrong there or am I misjudging the situation?

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

THE CHAIRPERSON: Okay. So in the context where TCPL tolls are more likely to go up than go down, then there would be -- it seems to me the models are telling us that storage needs to be increased to avoid higher TCPL tolls. Am I -- am I wrong there? In other words, it would put a -- it would put pressure on the extent of storage.

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

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

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

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

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

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

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

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

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

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

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

So I guess the question is: By picking

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

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

(BRIEF PAUSE)

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

I would say, from a modelling

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

So am I -- am I wrong there or -- in other words, have you -- have the markets proven your decisions to be right in the intervening months since we've been -- since you've run the models?

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

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

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

Is that relevant or not relevant?

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

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

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

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

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

That application is ref -- commonly referred to as the NEXT application, N-E-X-T. It's associated with extraction rights. And, basically, the market right now would have no appetite to price supply out any further than two (2) years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MR. RAYMOND LAFOND: Thank you.

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

--- Upon recessing at 11:08 a.m.
--- Upon resuming at 11:22 a.m.

THE CHAIRPERSON: Back to you, Mr. Peters.

MR. BOB PETERS: Yes, thank you.

VINCE WARDEN, Resumed

CONTINUED BY MR. BOB PETERS:

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

MR. VINCE WARDEN: Thank you.

MR. BOB PETERS: Mr. Warden, I guess I have to confess, I did use your name a couple of times this morning. And if during a review of the transcript there's any comments attributed to you or information that you'd like to revise or provide information to the Board on, please do so through your counsel.

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

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

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

MR. NEIL KOSTICK: Yes, I am.

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

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

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

And it reviewed, amongst other things, portfolio options?

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

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

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

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

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

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

MR. NEIL KOSTICK: No, it did not.

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

Is that correct?

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

MR. BOB PETERS: Yes, the --

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

MR. BOB PETERS: -- the analysis --

it's Tab 20.

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

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

MR. NEIL KOSTICK: Okay.

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

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

MR. BOB PETERS: Yes.

MR. NEIL KOSTICK: Yep.

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

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

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

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

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

MR. NEIL KOSTICK: Yes.

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

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

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

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

MR. NEIL KOSTICK: I think the

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

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

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

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

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

MR. BOB PETERS: All right. Dealing

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

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

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

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

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

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

MR. BOB PETERS: Would you co -- does Centra interpret ICF's analysis results to essentially boil down to Option A is similar to Option B for reliability and security of supply, so pick Option A as it's slightly less expensive?

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

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

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

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

MR. NEIL KOSTICK: Yes, I do.

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

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

MR. BOB PETERS: And what they're

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

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

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

Their report acknowledges that if you

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

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

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

MR. BOB PETERS: But ICF, as Mr. Sanderson had told the Board -- and using his words, it could take advantage of arbitrage opportunities as to knowing that -- when to buy and where to buy, because it had those parameters built into the model in advance of the date it would need to purchase them.

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

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

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

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

MR. NEIL KOSTICK: That's correct. In order to avoid having the model make discreet decisions on short-term bases, such as daily or monthly changes in prices, we used seasonal average prices to minimize the effect of perfect foresight, although we could not eliminate the fact that the model has perfect foresight of weather and the exact load that it needs to serve every single day.

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

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

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

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

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

MR. NEIL KOSTICK: Sure, absolutely.

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

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

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

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

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

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

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

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

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

MR. BOB PETERS: In ICF's model they would get thirty-four (34) separate optimized portfolios for each deliverability level that was selected?

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

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

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

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

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

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

MR. BOB PETERS: And then it -- it provides an optimum storage capacity, in petajoules, in the chart based on the -- on the deliverability that is sought by Centra?

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

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

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

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

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

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

MR. NEIL KOSTICK: Weather and price cases.

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

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

The median could also be looked at. It ranges anywhere from 13 to 15 petajoules. Again, not dramatically different than what we've selected. And in terms of if you want to cover off 75 percent of the weather scenarios that could be faced, the results are saying in the 18 to 19 petajoule range you would want to have as your storage capacity.

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

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

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

In Centra's case, the model selected a single best fit portfolio across twenty (20) years of weather. And that would include cold years and warm years. And if it only -- if our modelling only selected storage capacity based on the coldest year, it would probably tell us to take more storage. But we don't necessarily design the portfolio on the assumption that every year is going to be an extreme cold year. Our modelling exercise was intended to determine a best fit portfolio across the -- the range of weather that we would likely face in Manitoba.

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

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

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

MR. BOB PETERS: Didn't Mr. Sanderson

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

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

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

But as Mr. Kostick stated, over multiple weather scenarios, on average, your net costs will be less on the whole -- the whole portfolio taken together as a sum total whole.

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

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

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

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

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

MR. BRENT SANDERSON: No, I don't think that's what I said. I just said in that particular circumstance, if cost wasn't a consideration to Centra, sure -- if I had no other qualifying considerations, I'm sure I would -- we would have loved to have had more storage. But, as I said, we manage on a total portfolio basis all of the assets in concert with one another.

And our portfolio has served us well. And we have had adequate storage, in our opinion, over the twenty (20) years of the existing portfolio. And it's our position that the proposed portfolio will feature adequate storage to serve our market's requirements over the coming proposed term of that portfolio.

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

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

The other thing that it's important to distinguish between is serving a peak day and serving a peak season. So on the firm peak design day that we were discussing with Mr. Peters, during any day of the winter we have a daily deliverability constraint. It doesn't matter whether the temperature in Winnipeg is minus 20 or minus 38, we have a contractual deliverability constraint.

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

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

MR. BRENT SANDERSON: Just to add one (1) further item of clarification. There's no direct correlation between our experience on February 1st, '96, necessarily, and the end of season complete draw-down of storage. We could have just as easily had a year where we had February 1, 1996, and ended that same year, depending on what the subsequent weather was after February 1st, and ended with a material carry over in the storage balance as well.

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

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

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

MR. NEIL KOSTICK: Yes.

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

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

MR. BOB PETERS: Centra agrees with that conclusion?

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

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

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

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

MS. LORI STEWART: For storage refill

purposes, yes.

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

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

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

MS. LORI STEWART: That's correct.

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

MR. NEIL KOSTICK: I believe that's correct that Mr. Stauft did raise that issue, and I believe it was primarily on the basis of an assumption that on a normal year basis that Centra would typically withdraw approximately 10 petajoules of gas from storage. Whereas in our -- I believe in our IRs and rebuttal evidence we clarified that we anticipate pulling harder on storage essentially. In which case, on a normal expected year basis for normal weather, that that transportation would be utilized on a -- on a forecast basis under normal weather.

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

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

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

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

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

(BRIEF PAUSE)

MS. LORI STEWART: As described in my direct evidence, Mr. Peters, what the portion of annual storage allows us to do is to, in essence, empty that portion of storage to the tune of 3.1 petajoules, and then permits us to refill within that same winter heating season if indeed storage is being drawn down.

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

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

(BRIEF PAUSE)

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

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

MR. BOB PETERS: And when we look down to the re-injection in winter on the annual storage component that you were just talking about, that annual injection into storage in winter, that can be accommodated from the Joliet storage component?

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

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

MS. LORI STEWART: That's correct.

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

MS. LORI STEWART: That's correct.

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

MS. LORI STEWART: That's correct.

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

MR. BOB PETERS: I was trying to tie together some of your last answers, Ms. Stewart, for the Board. And with the apparent planned reduction on firm transportation on TransCanada pipeline I think you agreed with me that that signals that Centra can make up some of that reduced capacity by I believe your words were "drawing harder on storage"?

MS. LORI STEWART: That's correct.

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

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

(BRIEF PAUSE)

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

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

MR. BOB PETERS: Even in the shoulder months?

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

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

(BRIEF PAUSE)

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

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Stewart, does that answer confirm that Centra can still flow 10 petajoules of Western Canadian-sourced gas into storage under the proposed new arrangements with TransCanada pipeline, as well as the existing portfol -- or the proposed portfolio?

MS. LORI STEWART: Yes, it does.

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

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

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

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

THE CHAIRPERSON: Mr. Lafond has a question.

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

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

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

MR. RAYMOND LAFOND: Please.

MS. LORI STEWART: The 137.2 swath in the blue on page 36 represents our TransCanada firm contract demand, associated with the winter of 2010/2011. And typically, we're always referring to the swath of capacity that brings gas to the Manitoba delivery area. We have a small swath of capacity also contracted to the southern Saskatchewan delivery area that fill -- feeds the parkland area of the province. But, generally speaking, for simplification purposes, I confirmed for Mr. Peters that out of that 137.2, a hundred and thirty-five thousand (135,000) a day of gas was trans -- was contracted for TransCanada for firm service in the winter of 2010/'11.

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

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

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

And what I'm assuring the Board of is that if indeed we believe that it's in the best interest of ratepayers to resecure some firm capacity on the TransCanada mainline, we have no -- there is no doubt then that I can obtain that in advance of November the 1st.

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

MR. RAYMOND LAFOND: Thank you.

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

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

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

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

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

CONTINUED BY MR. BOB PETERS:

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

(BRIEF PAUSE)

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

Please let me know when you have that at hand.

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

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

Is that correct?

MR. NEIL KOSTICK: Yes, it is.

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

Regulatory Commission in the United States for the service offering?

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

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

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

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

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

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

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: If FERC was to reduce an ANR or a Great Lakes rate below the level that's been negotiated in the proposed portfolio, then Centra would get the benefit of paying the reduced new rate set by FERC?

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

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

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

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

Is that acceptable, sir?

MR. NEIL KOSTICK: Yes, it is.

MR. BOB PETERS: All right. Thank you

for that.

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

CONTINUED BY MR. BOB PETERS:

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

MR. NEIL KOSTICK: Yes, that is correct.

(BRIEF PAUSE)

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

Have I got that right?

MR. NEIL KOSTICK: Yes, it is.

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

MR. NEIL KOSTICK: That's correct.

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

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

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

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

MR. BOB PETERS: And likewise, line 23 for ANR Southeast summer, looks like you're paying maximum, and likewise, line 26 for Emerson to Crystal Falls on the summer forward haul transportation?

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

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

MR. NEIL KOSTICK: Yes.

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

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

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

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

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

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: Is it also correct that the Board will find that each and every rate that is being charged is discounted from the maximum tariff, at least to some extent?

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

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

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

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

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

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

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

MR. NEIL KOSTICK: I would assume so.

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

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

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

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

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

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

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

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

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

But -- but you've said that relative to the tariff rates, a $3 million discount is what Centra calculates approximately, has been the -- the reduction in the -- in the portfolio going forward?

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

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

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

MR. BOB PETERS: Let me ask it this way, Mr. Kostick, and my question may have been too long-winded. But the fact that the proposal before the Board is on storage, as an example, is $2 million less expensive than what you currently have. Isn't that an irrelevant consideration going forward from Centra's perspective, because Centra has to look at the options that are available going forward, not what they already have or what was available in the past?

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

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

MR. BOB PETERS: Thank you. You actually asked and answered the question I had, and that was simply if it was $2 million more than what you currently have, that would not remove it as the optimum portfolio before the Board.

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

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

MR. GREG BARNLUND: Yes, we would.

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

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

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

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

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

Again, they're not suggesting -- one (1) -- one (1) model result didn't suggest 5 petajoules of storage versus 40 petajoules of storage. They were within the ballpark of that 15 petajoules, give or take a petajoule here or there. So they're directionally similar.

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

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

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

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

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

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

MR. NEIL KOSTICK: No, we did not.

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

(BRIEF PAUSE)

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

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

MR. BOB PETERS: Speaking of torturing

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

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

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

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

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

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

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

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

MR. GREG BARNLUND: That's correct.

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

MR. GREG BARNLUND: Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MR. BOB PETERS: And in the negotiation stage, is it correct that the iterative -- iterative discussions on rates and prices was initially centred around a five (5) year term, Mr. Kostick?

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

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

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

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

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

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

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

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

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

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And it could have entered into a storage arrangement even longer than seven (7) years, again not considering the cost concern at this point in time.

MR. NEIL KOSTICK: Yes, we believe so.

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

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

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

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

MR. BOB PETERS: That's a very political answer, because it doesn't answer my question, because the best rates could still be the rates that are before the Board on this piece of paper, for -- and I'm looking at Tab 13. That could be the best rates, Mr. Kostick, that you were able to negotiate. And these same rates may apply to three (3), five (5), or some other year.

Do you understand my point?

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

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

Do you recall that answer?

MR. NEIL KOSTICK: Yes.

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

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

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

MR. NEIL KOSTICK: I believe that would

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

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

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

MR. NEIL KOSTICK: That's correct.

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

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

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

Is that something you'll make the inquiry on?

MR. NEIL KOSTICK: We will.

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

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

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

CONTINUED BY MR. BOB PETERS:

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

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

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

But if you can get rates that are quite attractive -- that's our opinion, that these rates are very attractive -- to go for a slightly longer term, if you will, within the intermediate range, seemed to make sense to us.

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

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

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

So if that situation -- situation presented itself again in the future, would you necessarily conclude that rates are going to be stable on TransCanada going forward? I don't think you can, because history has shown that even when there is an ex -- expectation of stability, tolls actually wound up, on TransCanada, being more than double what the anticipated tolls were.

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

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

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

MR. BOB PETERS: Your point was the first column that showed rates about a dollar ($1) to a dollar six ($1.06), if that was thought to be stability back in '07, we see in 2011 that they're out by 100 percent or more?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FERC-regulated maximum rate.

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

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

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

(BRIEF PAUSE)

MR. NEIL KOSTICK: My apologies. Can

you repeat the question.

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

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

MR. BOB PETERS: Let me rephrase it.

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

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

MR. BOB PETERS: All right.

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

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

MR. NEIL KOSTICK: Yes, to get --

MR. BOB PETERS: All right.

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

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

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

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

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

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

MR. NEIL KOSTICK: Yes.

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

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

MR. NEIL KOSTICK: Yes.

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

(BRIEF PAUSE)

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

MR. BOB PETERS: Could you undertake to verify that last answer of yours, Mr. Kostick, with some certainty, by way of undertaking, as to whether the -- the division of storage into seasonal and annual volumes only came about with the change to seven (7) year from five (5) year, and likewise whether the low tolling rate to go from -- you said Chicago to ANR storage, I'm not sure if you mean Joliet or Chicago but --

MR. NEIL KOSTICK: Well, it's Joliet -- the Joliet point allows access to Chicago.

MR. BOB PETERS: All right.

MR. NEIL KOSTICK: So it's the same thing.

MR. BOB PETERS: And find out whether that -- that feature was also only made available as a result of going from five (5) years to seven (7) years?

MR. NEIL KOSTICK: Yes, we can do that.

MR. BOB PETERS: Thank you for that, sir.

--- UNDERTAKING NO. 6: Centra to indicate if the division of storage into seasonal and annual volumes only came about with the change to seven (7) year from five (5) year; and whether the low tolling rate to go from Chicago to ANR storage was also only made available as a result

of going from five (5)
years to seven (7) years

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Kostick, would the Board be of the correct understanding that while these negotiations have come down to a proposal from ANR and Great Lakes, there was a very comparable proposal also available to the Utility from party 'B'?

MR. NEIL KOSTICK: It was comparable on a total cost basis.

MR. BOB PETERS: Not only on total cost, but in terms of optimizing the portfolio through the -- through perhaps different services.

MR. NEIL KOSTICK: I think our application and various other IRs discuss some of the differences between the ANR Great Lakes option and Option B. It wasn't strictly a matter of cost but there were also considerations of flex -- port -- portfolio flexibility and access to different sources of supply, as well as reliability. And the ANR portfolio was judged to be superior to the Option B portfolio on those other factors.

MR. BOB PETERS: Are you able to say whether Option A, which is ANR and Great Lakes, was still a preferred option at a five (5) year level of services that were being negotiated? Or was Option B more financially advan -- advantageous at that point in the negotiations?

MR. NEIL KOSTICK: In terms of costs, I don't think there would have ever have been a point where they would have been significantly far apart where there would have been a clear winner, so to speak, on a -- on a cost basis alone.

MR. BOB PETERS: Just a note I made to myself and, Ms. Stewart, I apologize for going backwards on this, but going backwards is the -- is the theme. If the TransCanada pipeline becomes has bidirectional valves, if I've got that right, installed at Emerson, such that gas can travel into Canada on the TransCanada line at Emerson, does it matter to Centra in its ability to get storage gas to Manitoba?

(BRIEF PAUSE)

MS. LORI STEWART: No. At present, we're indifferent to that.

MR. BOB PETERS: Are there contractual agreements, or agreements as between governments, that have to be taken into account for TransCanada and perhaps even Great Lakes to alter the flows of its gas, or the volumes of the flows of its gas, that have to be considered?

MS. LORI STEWART: Typically its facilities upgrades are reviewed by the regulator.

MR. BOB PETERS: Cen -- Centra's not aware of any agreements as between Canada and, say, TransCanada pipeline as to what it has to flow in terms of volumes, either south through Emerson or north over northern Ontario?

(BRIEF PAUSE)

MS. LORI STEWART: There -- there is a historical agreement, Mr. Peters, as to the -- the relative percentage of mainline flows that must move over the northern Ontario line. I'm not -- I couldn't speak to those details of that agreement in this venue today.

MR. BOB PETERS: And are you -- is Centra aware of any agreements as between Canada and the United States concerning transit pipelines?

MS. LORI STEWART: No. Typically the North American pipeline grid operates as one (1) integrated facility, practically speaking.

MR. BOB PETERS: Ms. Stewart, I hope this isn't too far off base. And certainly to the Board I apologize if it is. But from what you've told the Board earlier about Great Lakes being able to physically reverse the flow of gas on its line, and with TCPL putting in bidirectional valves, does that imply that at some point in the future physical molecules can come to Manitoba through the Great Lakes pipeline up into the Manitoba delivery zone through TransCanada at Emerson?

MS. LORI STEWART: Yes, it does.

MR. BOB PETERS: And as far as Centra's portfolio that's now before the Board, Centra is indifferent if that ever happens?

MS. LORI STEWART: That's not what I said. I believe your former question was in terms of the flows outlined under the contracts associated with this proposed portfolio. At present we're indifferent, because the pipeline is only physically moving gas in a counter-flow direction very few days out of the year. So the pipeline manages that.

And at present there is -- is no proposed change on the table to the tariff. But, of course, we need to pay attention to that in the event that TransCanada were to propose a change to the tariff going forward associated with flows. Because, quite frankly, the tariff was designed in a different world. And we've -- Mr. Sanderson and -- and myself have both spoke about how the North American natural gas market is changing. And it is having an impact on pipelines. And so, of course, we will remain attentive to any such change that would impact our future contracting -- I'm sorry, and operation.

MR. BOB PETERS: Under the proposed portfolio you have before the Board, does Centra see it as being flexible enough to take physical delivery of gas through the Great Lakes transmission line, up through TCPL at Emerson?

(BRIEF PAUSE)

MS. LORI STEWART: Mr. Peters, I would appreciate if you could repeat the question.

MR. BOB PETERS: Oh, yeah, you've cottoned on. Ms. Stewart, I was asking that the proposed portfolio which is shown, coincidentally, at Tab 6 on the winter operations map. Tab -- page 28 of the book of documents, just to have the -- the map in front of us. The question was whether the portfolio that Centra is proposing before this Board today can accommodate the flexibility, where molecules will physically flow on Great Lakes into Manitoba through the bidirectional metering at TCPL's facilities in Emerson.

MS. LORI STEWART: Yes. Yes, it can.

MR. BOB PETERS: So in that instance, Centra would be able to have a competitive option to Western Canadian sourced gas, in terms of bringing gas from the east. Would that be true?

MS. LORI STEWART: I think for me to go down this path we have to be very careful about characterizing our contractual commitments and what is happening physically on the pipeline because, as you know, they -- they are significantly disconnected.

MR. BOB PETERS: I was trying to get at, Ms. Stewart, recognizing the contractual arrangements that Centra has, whether its portfolio that it's pro -- proposing would be flexible enough to allow it to actually bring molecules from the south and the east.

MS. LORI STEWART: And contractually, yes, we have that ability whether or not those molecules are actually coming from the WCSB and arriving at Manitoba and then displacing volumes further -- further down the line. There's a different answer to your question in terms of what's happening physically on a day-by-day basis.

MR. BOB PETERS: All right, now, I -- I have your clarification on that. But you're saying that theoretically it can be accommodated, and it's just a question of whether it's -- is it actual physical forward haul or is it -- is it the notional back haul that we're talking?

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

MR. BOB PETERS: Okay, I have your points. Thank you for that.

MR. RAYMOND LAFOND: Can I ask a supplent -- supplementary question to this? Essentially, would you have the capacity to -- to essentially supply all your gas through Great Lakes from ANR storage and the other points of supply?

(BRIEF PAUSE)

MS. LORI STEWART: The proposed portfolio is designed to provide us with the flexibility to take as much as 100 percent of our gas from the WCSB or as little as 60 percent of our gas from the WCSB. So this proposed portfolio is providing us with that range.

It does not go as far as providing us with the ability to -- to bring 100 percent US-sourced supplies to Manitoba.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Kostick, I just wanted to move forward. But again I find myself -- I think I missed an area with you on Tab 18 of the book of documents. Tab 18, page 61, contains the numerical output from the SENDOUT model using the price curves that Centra ran.

And we've talked about that at some length?

MR. NEIL KOSTICK: Yes, we have.

MR. BOB PETERS: One (1) of the things we didn't talk about and we see on that chart is that the supply is -- is broken down as to where the supply should come from.

Do you see that at the bottom third of the chart?

MR. NEIL KOSTICK: Yes, I do.

MR. BOB PETERS: Can Centra provide the transportation capabilities that SENDOUT recommended as optional for both the recommend -- yeah, as -- as optimal for both the -- the futures curves that were used by Centra as well as the ICF curves that are shown on this chart?

(BRIEF PAUSE)

MR. NEIL KOSTICK: So just to confirm, you're asking for the -- the transportation capacities or...

MR. BOB PETERS: Yes, the transportation capacities that SENDOUT has recommended be engaged for different legs of transportation for -- for the SENDOUT results that are shown on this page.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Mr. Peters, we're -- what's the reference?

MR. BOB PETERS: Mr. Meronek, yes, if one looks to Tab 18 of the book of documents, page 61, there's a chart of the SENDOUT results. And I was putting to the witness that while the bottom third of the page shows the annual supply and where it should come from under an optimal portfolio, we don't see the same for the transportation portion.

And I'm asking Mr. Kostick if he and his colleagues can undertake to provide that in relation to this chart.

MR. NEIL KOSTICK: My apologies. Yes, that information can be made available.

MR. BOB PETERS: Can it be presented -- and I'll let you think about this one (1) as well as part of the undertaking, Mr. Kostick -- can it be presented in a way similar to what you've broken down on Tab 13 of the book of documents on page 48, where you've broken it down into seasonal -- or, ANR transportation summer and winter, as well as Great Lakes summer and winter?

MR. NEIL KOSTICK: Yes, we can do that.

MR. BOB PETERS: Thank you for -- for that, sir.

--- UNDERTAKING NO. 7: Centra to indicate the annual supply and where it should come from under an optimal portfolio for transportation portion, and break it down into ANR summer and winter, and Great Lakes summer and winter

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Kostick, and Ms. Stewart, I want to spend as little time as possible, because I think we've talked about the non-storage option and reliance solely on TransCanada pipelines in lieu of storage, although there are a few points that I didn't get to.

If I asked the question, Ms. Stewart and Mr. Kostick, if -- if storage wasn't an option for the Utility, what TCPL services would Centra expect to rely on to meet the load?

(BRIEF PAUSE)

MS. LORI STEWART: If storage was not available in any marketplace, or...

MR. BOB PETERS: Yeah, let's go with -- it's not available at all, Ms. Stewart, and you have to have a -- have a non-storage option, as I've called it. Let me help you, you -- you'd use the firm transportation to the extent that you needed it for base load.

Would that be a fair consu -- assumption?

MS. LORI STEWART: Yes, we would likely

use a combination of TransCanada services relying predominantly on both firm transportation as well as short-term firm transportation.

And for the benefit of the Board, short-term firm transportation is available for as little as a seven (7) day period, or as long as a seasonal block, so a five (5) month block in the winter, or a seven (7) month block during the -- the summer season of the gas year.

MR. BOB PETERS: In addition to that you might use some delivered service. Was that also a thought?

MS. LORI STEWART: Yes. Typically our use of delivered service, or primary gas transported by others, is driven by the economics of the arrangement on a case-by-case basis.

So if we see value for ratepayers in contracting for a delivered service in lieu of mainline firm transportation and a combination of our supply contract, then we will evaluate those options.

MR. BOB PETERS: Would -- would it be prudent from Centra's perspective to use the STFT that you've talked about, Ms. Stewart, to meet the entire load?

MS. LORI STEWART: Well, one (1) of --

there are -- at present there are a couple of significant pitfalls associated with short-term firm transportation. One (1) of them is the fact that we do not earn ram credits on STFT.

So I would have limited ability -- not no ability, but more limited ability -- to mitigate the fixed costs of our short-term firm contract. And the other consideration is that at present, short-term firm transportation contracts do not come with renewal rights.

And so that's something that in today's environment doesn't necessarily overly concern us, but typically a utility is looking for renewal rights associated with its service such that it can assure itself and assure, for the benefit of ratepayers, that there will be continuity of service.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Stewart, if Centra did avail itself of the STFT and recognizing those pitfalls, would it also incur additional balancing fees?

MS. LORI STEWART: In a no-storage portfolio, definitely.

MR. BOB PETERS: And Mr. Stauft quantified them at about $2 million a year. Is that something you're prepared to accept as a reasonable amount in that scenario?

MS. LORI STEWART: Well, balancing fees are calculated as a function of the firm transportation toll, so as firm transport tolls increase, thus would balancing fees. So the -- again, the balance of risk is perhaps to a number greater than that.

MR. GREG BARNLUND: And if I might add, I believe Mr. Stauft had referred to some level of balancing fees we had paid in the past, probably in the late 1990s, in the neighbourhood of $2 million. But bearing in mind, that was when we, as we do today, operate with storage on our system.

And so if we were completely absent storage, I'd question whether the $2 million estimate is valid. I would think it would be significantly low.

MR. BOB PETERS: One (1) of the benefits, though, would be -- with the no-storage option, would be the ability to source more gas -- sorry, you -- you'd have the ability to source only your gas from -- from Western Canada, correct?

MS. LORI STEWART: Yes.

MR. BOB PETERS: And that may bring

with it additional costs when we talk about -- and I think it was Mr. Sanderson who showed us the summer/winter price differential.

And Centra wouldn't be able to take advantage of that, if that exists in any particular year, by putting cheaper summer gas into storage.

MS. LORI STEWART: Yes, that's correct. And there are also the cost implications associated with our swing service. So our primary gas supply contract has both a base load component and a swing component.

And I think it's generally accepted that our swing pricing is favourably impacted by the inclusion of those base load volumes. The base load volumes are easy to serve up, same day, same amount every day within the month.

It's the swing volumes that represent the challenge for a service provider if we're ranging, you know, 50,000 GJs on the day, and we're doing that as late in the day as intra-day 2. So they're in the gas day, the market has closed, and we adjust our nomination.

And the supplier wears the risk that the price has changed and that we're putting gas back to them, and it's at a lower price than what they had originally factored in.

So at present, that swing component of our supply contract is another of our tools, in terms of meeting the variable requirements of the Manitoba marketplace. We rely most heavily on storage. We also rely on the swing component of our contract. And lastly, we're -- we rely on our peaking delivered services.

If we were in a no-storage environment, my -- in my professional judgment, the cost of the swing component of our supply contract would increase. I -- I can't at this point suggest to you the extent which that could happen, but I think we could be looking at some materially higher costs for swing service.

MR. BOB PETERS: Ms. Stewart, or fellow witness colleagues, do you have any opinion on whether the summer/winter price differential that Mr. Stauft quantified at $4 million is reasonable?

MR. BRENT SANDERSON: Without going away and deconstructing his numbers, I wouldn't be willing to venture an opinion on it, with the exception of saying that to the extent that buyers and sellers in the marketplace today are exchanging prices for future delivery out as far as five (5) years, at a level that reflects an expectation that, on average, winter prices will be approximately 10 percent higher on average than the prior summer's prices, and that that agrees so consistently with the historical experience, with the caveat that what happens in each and every individual year is anyone's guess.

I would say I would agree with the markets expectation as being very reasonable and consistent with the historical experience.

MR. BOB PETERS: Lastly on this point, the total costs of the US storage and transportation that you have before the Board, you've told the Board do not include any TCPL costs.

But it is also accurate to say that if the prop -- portfolio is approved as filed, there would be the TCPL storage transportation service cost that would also have to be added into the annual costs that Centra's ratepayers would have to pay because of the storage and transportation portfolio?

MS. LORI STEWART: Yes, those two (2) parts of our arrangements are -- are linked.

MR. BOB PETERS: And what's the approximate annual STS costs, Ms. Stewart?

MS. LORI STEWART: Just under $3 million, Mr. Peters.

MR. BOB PETERS: And Mr. Stauft also raised the variable costs of being about $1 million, and you'd accept that as being reasonable for the running of the US storage and transportation portfolio?

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

MR. BOB PETERS: Thank you. If we turn to the term sheet. It's back at Tab 3 of the book of documents, and don't take that as a directional indication of where we are.

But the term sheets on page 20, Mr. Kostick, these are the eight (8) contracts that Centra has referred to, correct?

MR. NEIL KOSTICK: Yes, that's right.

MR. BOB PETERS: And this contains the numerical representation of what the Board has already seen on the maps at Tabs 5 and 6 of the book of documents, as well as the chart on Tab 13 of the book of documents?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And so let's look at the notes related to the term sheet, because that's usually where the -- the issues could arise.

The first note reminds Centra and all others that this is packaged deal, and it's a take it or leave it type of arrangement. Would that be correct?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And if one (1) aspect of this was problematic, Centra would be back at the drawing table -- negotiating table, trying to address any deficiencies that were identified by this Board, as well as construct the portfolio as optimally as it can under new negotiations?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: We've talked about the tolls. Secondary delivery is a point that we should mention. And Centra is getting some ability to deliver at secondary points included in their -- in their services offerings from the counter-parties.

Have I got that right?

MR. NEIL KOSTICK: Yes, on ANR and Great Lakes, one (1) can receive and deliver gas at different points that aren't on the contract. But if you have a discounted contract, using those alternate points that are not on the contract would cause the rates to go to the maximum rate for any volumes that are used at those alternate points unless you have specifically negotiated other discounted receipt and delivery points.

MR. BOB PETERS: And Centra has

negotiated some other secondary receipt points at a discount, correct?

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

MR. BOB PETERS: And the ones that are not expressly negotiated, those revert back to the entire, full FERC toll if Centra wants to take advantage of them.

MR. NEIL KOSTICK: That's right.

MR. BOB PETERS: If Centra did want to go to a secondary receipt point or delivery point that was not included in this agreement, Centra would have to calculate the economics of the full FERC rate to the profitability of the transaction it was trying to construct.

MR. NEIL KOSTICK: That's right.

MR. BOB PETERS: We've talked about Tab 8 in terms of the right of first refusal. Tab -- point 9 -- note 9, the contracts will be pro forma. Lawyers hate these because they're too boilerplate. But this just means that these pro forma contracts have already been approved, certain of them, by FERC already.

Would that be correct?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: However, one (1) of these FERC has never approved before. Would that also be correct?

MR. NEIL KOSTICK: One (1) of the contracts will have what's termed nonconforming language, because it's not part of the pro forma contract, but an existing -- the same exists on our existing contract. So FERC has essentially approved that in the past. And it does need to be, once again, though brought before FERC for approval of that particular contract.

MR. BOB PETERS: As shown on the maps that we've seen already, the non-conforming portion is the part that allows ANR to take the gas and deliver it into storage, either at a place called Deward or at a place called Farwell?

MR. NEIL KOSTICK: It's the contract that moves the storage gas from ANR storage facilities to Great Lakes, and that could be at either Deward or Farwell.

MR. BOB PETERS: And if it can be at either Deward or Farwell, whose choice is that in terms of the delivery?

MR. NEIL KOSTICK: On a day-to-day basis, it's Centra's choice. However, if for operational reasons ANR wants to change it to a point that Centra didn't select it can do that. It would be transparent to Centra and all billing would assume that the gas moved as Centra nominated.

MR. BOB PETERS: If this Board approves what's before them in terms of the portfolio package, ANR and Centra plan to operate as per the agreement, while ANR and -- gets FERC approval for this non-conforming portion?

MR. NEIL KOSTICK: It's expected that this will be brought before FERC as soon as possible once this Board provides any required approvals or the required approvals. And so that would be known well in advance of the contracts taking effect.

MR. BOB PETERS: But if FERC hasn't given its approval, Centra and ANR continue -- intend to operate as per these contracts on the assumption that FERC will approve it?

MR. NEIL KOSTICK: We're operating on the assumption that -- that FERC will approve it.

MR. BOB PETERS: I'm not sure if you got my point. And I apologize if you didn't, Mr. Kostick. Assuming this Board does approve the portfolio and the cost consequences of the eight (8) contracts and we find ourselves on April the 2nd, 2013, without FERC having approved the non-conforming portion of this one (1) contract, what happens to Centra's portfolio?

MR. NEIL KOSTICK: That depends on what FERC would ultimately order. And the response from ANR would be based on whatever FERC orders in that regard. And I believe ANR provided a response on that in one (1) of the information requests, that it could be a regulatory response with respect to either further discussions with FERC or making a change in their tariff.

MR. BOB PETERS: Mr. Barnlund, Mr. Stauft also raised concerns about the consultation process. You're aware of that?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: Do you agree that there was a gap between the stakeholder consultation that took place in 2011, where Centra had not yet undertaken any detailed analysis to the point where Centra prepare -- presented its final proposed portfolio as -- as essentially a take-it-or-leave-it prospect, in my words?

MR. GREG BARNLUND: Well, there was certainly an elapsed period of time from the end of the stakeholder process, the receipt of the written submissions, which would have been early September, and then when we actually made application here in 2012.

MR. BOB PETERS: Right. But Centra also didn't go back and look to the stakeholders for any input when it got into the negotiations with parties 'A', 'B', 'C', and 'D'?

MR. GREG BARNLUND: No, we did not.

MR. BOB PETERS: Centra took the view that that was -- was -- it had to be too nimble, it had to be very responsive and, therefore, didn't have time to involve other stakeholders?

MR. GREG BARNLUND: I -- I think that, you know, of course, events transpire very quickly through the course of a negotiation process. But I think it was also the view of the -- of the Company that -- that we really were in a position where we wanted to be able to obtain information from the proponents and begin evaluating this so that we could begin narrowing down our choices. And -- and so that's really the path that we chose to take through September and October of this year.

MR. BOB PETERS: Mr. Barnlund, could stakeholders have been involved in the modelling and optimization process?

MR. GREG BARNLUND: I think it really -- it's probably very difficult and awkward in that when we enter into the process of -- of being able to do this modelling we obviously have to have some information from the different storage proponents themselves to be able to begin this.

To the extent that those parties are providing us with that information on a confidential basis, because they are competitors with each other in the storage market, they are providing us with that information with the understanding and assurance that we are going to protect that information, use it for our analytical purposes, but not be sharing it with others.

And so the difficulty in -- in embarking on a public process in the midst of that is that it would inevitably result in disclosure of the details of the -- of those contracts or -- or proposed rates, which would, you know, obviously place the storage proponents at some risk, because they're providing their quotations essentially into the public domain at that point in time.

MR. BOB PETERS: Even if there was additional consultation, does Centra acknowledge that it would still need to make application to this Board for approval of the cost consequences?

MR. GREG BARNLUND: Yes, very much. And I think that we've followed the -- certainly the directions that were given by this Board in planning our entire process to deal with these contract renewals. And certainly an application to this Board was one (1) of those commitments, and that the approach that we took was in complete compliance and adherence with the provisions that were set out by the Public Utilities Board in the spring of 2011. And -- and we're confident that we -- we pursued this in that regard.

MR. BOB PETERS: Over the next seven (7) years, Mr. Kostick and Mr. Barnlund, does Centra expect to learn from their portfolio as to what was -- what is in fact optimal? Is there an opportunity to learn here?

MR. GREG BARNLUND: I'm not sure, Mr. Peters -- could you ask me that one (1) again?

MR. BOB PETERS: I'll ask it differently. Going forward, Mr. Barnlund, Centra will have actual data based on actual prices, actual weather, and whatever is happening in the marketplace, correct?

MR. GREG BARNLUND: We would know the actual results of -- of the operation of the portfolio, given the weather we had experienced and the customer load.

MR. BOB PETERS: Are you able to use that information going forward, so that in -- if your application is approved seven (7) years from now, you can explain to the Board what you've learned from this -- this process?

(BRIEF PAUSE)

MR. GREG BARNLUND: I -- I think that I'm not exactly sure of the usefulness of that exercise in that we -- we are designing a portfolio to take into consideration a wide range of weather conditions. And as we go through each of the seven (7) years operating the portfolio, we will experience weather conditions that -- that may be, you know, may not range in the same way that we had -- of the -- as the weather that we had examined when we did our evaluation or our analysis. So it's difficult to say whether that would actually be useful to us or not.

MR. BOB PETERS: Then how will Centra know it's been successful in the operation of its portfolio going forward?

MR. GREG BARNLUND: Well, I think very much the -- the metrics we would have is to ensure that, you know, that we are obtaining supplies for the

Manitoba market without interruption, without any type of reliability issue. And that we would be, obviously, filing on an annual basis approval of gas costs that we had incurred. And we would bring forth, you know, on a total portfolio basis, all of our gas costs, commodity costs and transportation and storage costs at that point in time. And we would be providing that information to the Public Utilities Board in the process of setting rates on an annual basis.

MR. BOB PETERS: That would include, Mr. Barnlund, the unused demand charges that Centra has to pay because its capacity exceeded its requirements in any particular year?

MR. GREG BARNLUND: Well, I think, Mr. Peters, we more or less do that now because we report on our capacity release -- capacity management results. And capacity management is a component of our -- of our rate setting process.

MR. BOB PETERS: If I understood the previous evidence, Centra intends to keep its hands on the senput -- the SENDOUT model. Is that correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: There's an annual cost to that, probably cost to what you've paid already on an annual basis?

MR. GREG BARNLUND: Yeah, I'm not sure what it'll be going forward but there's certainly an annual cost associated with that.

MR. BOB PETERS: And could Centra run SENDOUT with actual weather and actual prices to provide guidance for whether the portfolio -- what would have been the portfolio with perfect hindsight at that point in time?

MR. GREG BARNLUND: No, that wouldn't be possible because the SENDOUT model will know -- you input the actual weather, and it will know every day of the year what it -- what you would have to dispatch to be able to serve that load. And that clearly isn't available to us as operators of the system. We have to, again, look at -- at the outset of the winter try and look at, on a -- you know, on a day-by-day, month-by-month, basis, as we go through the winter, how we manage the amount of gas we have in storage to be able to make sure that we've got storage available to us by the time we get to the end of the winter season.

So SENDOUT is a model that -- that knows what weather is going to occur every day of the -- of the winter. And so it can plan exactly how you would use the system. Unfortunately, in real life any utility does not have access to that information. And so every utility would operate the system to the best of their ability, but it would not produce -- or SENDOUT could not be modelled to produce a result that could be used to effectively back-check that.

MR. BOB PETERS: The primary gas contract was a question raised by Board Member Lafond, and the company currently has its supply contract with ConocoPhillips that terminates October 31 of 2012?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: The request for proposal has gone out, and Centra has requested a two (2) year contract from various proponents?

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

MR. BOB PETERS: And as I understood the information, forty-three (43) parties received the request for proposal from Centra, Ms. Stewart?

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

MR. BOB PETERS: And eight (8) of them responded?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: And Centra is now going through the due diligence on the eight (8) that responded, have I got that right?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: Are there any

constraints on the storage and transportation portfolio that will be imposed by the new primary gas contract?

MS. LORI STEWART: No.

MR. BOB PETERS: Does the new primary gas contract that's being contemplated, Ms. Stewart, have any implications for Centra's TCPL commitments?

MS. LORI STEWART: No.

MR. BOB PETERS: One (1) of the other topics that was canvassed in the Information Requests from Just Energy, as well as the Public Utilities Board, had to do with western transportation service, correct?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And, Mr. Barnlund, some consumers in Manitoba purchase their primary natural gas from Centra and some pur -- purchase it from registered natural gas brokers, is that correct?

MR. GREG BARNLUND: yes.

MR. BOB PETERS: And when consumers buy primary gas from the marketers, the primary gas they're purchasing is a percent of their total annual consumption as ultimately determined by Centra.

MR. GREG BARNLUND: Yes, and I would add that all customers will experience that separation of primary gas and supplemental gas on their bill. We bill all customers primary gas separately from supplemental gas, and so the primary gas may be supplied by a marketer or it may be supplied by Centra.

MR. BOB PETERS: But the supplemental gas is provided 100 percent by Centra.

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And in terms of percentages, the primary gas that a consumer sees on an annual basis is approximately, for a residential customer, 97 percent?

MR. GREG BARNLUND: I believe there's an IR that has that information. I think it's PUB/CENTRA-18. Mr. Peters, PUB/CENTRA-19, I think, would turn up the actual -- the actual percentages.

MR. BOB PETERS: So it's 97 percent for -- for the firm customer?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: Under the definition of supplemental gas, there has been, over time, a change in the definition of what is supplemental gas provided by Centra.

Would that be true?

MR. GREG BARNLUND: I think there has been a change in terms of that definition of supplemental gas and primary gas in conjunction.

MR. BOB PETERS: And the definition of supplemental gas used to be gas that was the winter peaking gas. And then that evolved to US-sourced gas. And I think it's not evolved to all gas not purchased under the primary gas contract by Centra?

MR. GREG BARNLUND: I think that's...

MR. BOB PETERS: Plus the delivered service?

MS. LORI STEWART: With that clarification, yes.

MR. BOB PETERS: Ms. Stewart, the -- the peaking delivered service is still supplemental gas?

MS. LORI STEWART: That's correct.

MR. BOB PETERS: But I don't want to go back to the supply stacks, but the -- just the delivered service is still -- is now called primary ga -- is still called -- considered primary gas?

MS. LORI STEWART: Yes. We refer to it as primary gas transported by others.

(BRIEF PAUSE)

MR. BOB PETERS: And, Mr. Barnlund, if

the portfolio before the Board is as flexible as Centra maintains, it is possible that Centra could increase the percentage of gas it purchases in the United States?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: If it did that, that could alter the ratio of what customer receives as primary gas and what a customer receives as supplemental gas?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And that could have a financial implication on the gas brokers who are providing only the primary gas?

MR. GREG BARNLUND: It could have an impact, yes.

MR. BOB PETERS: And so this issue is one (1) that Centra is now certainly attuned to, correct?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And is Centra proposing any change in the percentage of primary and supplemental gas at least in the short term?

MR. GREG BARNLUND: I -- I would say

not as a result of the portfolio in the short term. We would, on an annual basis, as a usual matter of course, reforecast those percentages to be adjusted and reset for November 1 of each year. And that's based on just overall operational considerations that we would be dealing with on a -- on a routine basis.

MR. BOB PETERS: Does that answer, Mr. Barnlund, imply that the ratio could change somewhat dramatically?

MR. GREG BARNLUND: Well, I don't think so, in that I think we really wouldn't see the effects of -- of the new portfolio until probably November 1 of 2013 at the earliest.

MR. BOB PETERS: And before that time there will be, as I heard from perhaps you or Mr. Warden earlier, that Centra will be filing its general rate application, which would include its cost of gas proposal?

MR. GREG BARNLUND: Yes, sir.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, I'd like to thank the witness panel -- Mr. Warden, Mr. Barnlund, Mr. Kostick, Ms. Stewart, and Mr. Sanderson -- for their answers to my questions. Those do complete my questions. Although if I might, I -- I have in my notes here that Mr. Willie Derksen is noticeably absent form the Centra wis -- witness panel and support team.

And it's my understanding that after a distinguished career with Centra Gas and Manitoba Hydro, Mr. Derksen has retired exactly one and two thirds (1 2/3) business days ago. So I'll take this opportunity on the public record to congratulate Mr. Derksen on his retirement.

I do want to thank him, I believe on behalf of all, for his exceptional years of service in the public utility regulation. And I can indicate when Mr. Derksen was involved in proceedings before this Board and the dozens of times I cross-examined him, I quickly learned that his work was accurate and complete. But more so, he could explain with such eloquence and ease that those -- those concepts that I couldn't understand were suddenly fully understandable, and thanks to him.

So I take the liberty on behalf of all of us to wish Mr. Derksen the very best as he authors his next adventure. So thank you for that.

THE CHAIRPERSON: Before we recess, do we have any more questions? I have a question, and it relates to the term that we've been debating, a der -- term of the contract, the five (5) years versus seven (7) years.

And I guess the first question that popped in my mind is what if -- you know, you explained the reasons why you decided to go with seven (7) years, risk mitigation and so on. I guess for me a natural question was, why not go to ten (10)? If you're -- if you're going to get these kind of advantages from extending a term beyond the five (5) years, why not be a true Canadian and go ten (10) years?

MR. NEIL KOSTICK: Well, there is certainly an amount of judgment involved. As we've talked about, we were targeting an intermediate term. Ten (10) years might start to fall into the long-term range, not that that would necessarily disqualify it.

We do want to keep options open for bigger things that could potentially unfold. And we've talked a little bit about local storage development and the potential for that. While the portfolio -- portfolio we have is quite flexible, and we've certainly tried to make that case before you, that the portfolio we are proposing to implement is flexible, there could still be, through the investigation of local storage, and depending on other things happening in the marketplace, you could potentially -- that could potentially -- potentially be an option. And it would take a number of years to -- to put in place if it were economic. A seven (7) year term doesn't preclude that as a possibility.

So that's, in part, some of the -- some of the rationale for not going even longer in the event that that did prove to be an economic and -- and technically viable option. But to us it -- it basically boiled down to taking a balanced approach to the -- to the whole matter. Short-term, given the attractive rates and services that we got, for us didn't make sense. An intermediate term made sense, which is what we -- what we're -- what we're applying for. And -- and we didn't see necessarily the need to go for something longer than that. But it does boil down to judgment, I -- I would agree.

THE CHAIRPERSON: And -- and this goes to the discussions you had with the -- the providers, I guess, they -- I got the impression from reading the documentation that they gave you more favourable tolls by extending the term another couple of years. At least that, I think, is what I understood.

Would that have been the case as well if you had extended beyond seven (7) years to ten (10)?

In other words, would you have received more of a discount if you had extended the terms of that contract?

MR. NEIL KOSTICK: I can't really say for sure. I think any storage operator has to take into account factors that, you know, we're not privy to in terms of -- I think that they value a customer like Centra. We were able to secure some proposed very attractive rates. I think the storage operator would have to evaluate tradeoffs between securing a valued customer at a, if we can call it, low rates, versus, you know, perhaps they don't want to lock in really attractive rates for any longer than seven (7) years. So I -- I really can't say whether we would have gotten better rates for going longer than seven (7) years.

THE CHAIRPERSON: That concludes my questions. I propose that we take ten (10) minutes and be back here at -- on my watch it says ten (10) after -- ten (10) after 3:00, so twenty (20) after 3:00 back in this room, please.

--- Upon recessing at 3:09 a.m.

--- Upon resuming at 3:21 p.m.

THE CHAIRPERSON: I believe we're in a

position to resume the proceedings. Are we waiting for Mr. Warden or can we proceed -- why don't we proceed. Over to you, Mr. Meronek.

MR. BRIAN MERONEK: Thank you, Mr. Chairman. I'll ask all my questions of Mr. Warden right now.

CROSS-EXAMINATION BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: And I might just say that given the complete job that Mr. Peters has done in the erudite questions of the Board, there's not much meat on the bone left but let me nibble at the marrow here. And my questions, as my kids are wont to say, will be random because I -- I want to just go over some ground that has been covered already.

Starting with you, Mr. Kostick, just for clarification. The $14 million US plus change that's sought by Centra in this application is in US dollars, correct?

MR. NEIL KOSTICK: Yes.

MR. BRIAN MERONEK: And as I understand it, the consumer will not be receiving a bill for the -- a firm amount because there'll be some Canadian-US exchange rates involved.

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

MR. BRIAN MERONEK: And -- and obviously there's been no exchange factor involved in -- in this process in terms of determining what ultimately the customer is going to pay.

MR. NEIL KOSTICK: That's correct.

MR. BRIAN MERONEK: The -- in terms of FERC and the maximum rates, it's my understanding that -- that the system in the States is somewhat different than in Canada in that with respect to TransCanada pipelines there are annual toll applications, or regular toll applications, and whatever is ordained by the NEB is what is required to be charged, correct?

MR. NEIL KOSTICK: Yes.

MR. BRIAN MERONEK: In terms of FERC, however, FERC sets maximum rates, and the -- as long as the -- the rates ultimately determined between the parties is between the minimum and maximum rates, it's -- it's really as you've indicated to Mr. Peters, a market-driven consideration.

MR. NEIL KOSTICK: Largely, yes.

MR. BRIAN MERONEK: And as I understand it, with respect to FERC as it relates to ANR, those rates -- those maximum rates were set many years ago.

MR. NEIL KOSTICK: With respect to ANR, I believe that's the case, yes.

MR. BRIAN MERONEK: And it's only if someone complains about the rates that there is a potential for an application before FERC, is that correct?

MS. LORI STEWART: A customer concern about the fairness of the rates might be one (1) driver, but another could be the utility's cost structure changing and, as a result, it needing to go before the FERC to request higher rates to cover its costs.

MR. BRIAN MERONEK: That's fair enough. I -- I was really trying to get confirmed that FERC doesn't initiate these applications.

(BRIEF PAUSE)

MS. LORI STEWART: There have been situations of late where -- where the FERC has initiated actions against pipelines.

MR. BRIAN MERONEK: But not with respect to ANR.

(BRIEF PAUSE)

MS. LORI STEWART: To the best of my

knowledge, Mr. Meronek, not -- not as it relates to ANR Pipeline Company.

MR. BRIAN MERONEK: With respect to the issue of right of first refusal, or ROFR as it's -- the acronym is pronounced -- it sounds like a dog. But just to clarify the -- the ROFR under the present contract is not on the table, correct?

MR. NEIL KOSTICK: The -- we're not pursuing a ROFR process.

MR. BRIAN MERONEK: I'm just harkening back to the term sheet, which seems to dictate -- and I -- I don't want to ask a legal question -- dictate the terms between the parties.

MR. NEIL KOSTICK: The term sheet does outline the terms between the parties that will ultimately be reflected in the contracts.

MR. BRIAN MERONEK: Now if, for some reason, the Board doesn't approve the application as presented, am I correct in -- in suggesting that -- that the term sheet is -- is off the table as well?

MR. NEIL KOSTICK: Given that the term sheet reflects the specific portfolio that we've brought forward, then -- then, yes, I believe that would be the case.

MR. BRIAN MERONEK: So does that put

Centra at risk of -- of the -- another party coming along and matching the -- the price or exceeding the price that Centra has negotiated?

(BRIEF PAUSE)

MR. NEIL KOSTICK: With respect to the rights of first refusal that Centra currently has on its current contracts, the ROFR period has elapsed on the Great Lakes summer capacity. And we do not have -- currently have ROFR on the Great Lakes winter capacity. But the Great Lakes summer capacity would essentially become available to the market. And with respect to ANR, the ROFR period would commence sometime in August.

MR. BRIAN MERONEK: So what you're saying from that, to the extent that ROFR is -- has not expired, it would automatically -- it could be -- automatically be invoked for those contracts where ROFR is still involved?

MR. NEIL KOSTICK: Yes, if -- if ANR and Centra were not able to reach agreement on something else, then the ROFR period would automatically kick in, essentially.

MR. BRIAN MERONEK: So in that case, if someone came along and offered a greater price than what was negotiated, Centra would have to match it, correct?

MR. NEIL KOSTICK: Through the ROFR process, yes. Or, the capacity would be lost if we didn't match.

MR. BRIAN MERONEK: And where ROFR is expired, then it -- it's just a matter of the best deal that -- that ANR can get from any potential competitors of Centra for that storage or transportation?

MR. NEIL KOSTICK: Yes.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, Ms. -- Ms. Stewart, you were talking to Mr. Peters about the portfolio as being robust, flexible, and diverse. Those were adjectives that -- that we've seen throughout the application and certainly repeated in evidence?

MS. LORI STEWART: Yes, Centra has used those words in its evidence.

MR. BRIAN MERONEK: And just for my plebian mind here, what does "robust" mean in terms of Centra's portfolio?

(BRIEF PAUSE)

MS. LORI STEWART: What comes to mind first, Mr. Meronek, is the portfolio's ability to accommodate a wide range of weather scenarios.

MR. BRIAN MERONEK: And "flexibility" relates to what?

MS. LORI STEWART: Flexibility from the perspective of having annual storage incorporated as a part of our portfolio now, the flexibility that that affords as well as the fle -- flexibility to adjust our purchase strategy and to access a number of liquid supply hubs.

MR. BRIAN MERONEK: And "diversity" relates to what?

(BRIEF PAUSE)

MS. LORI STEWART: I think the distinction is, in our mind, Mr. Meronek, flexibility is the opportunity to adjust those -- those supply purchases. And "diversity" means the access to those different supply hubs.

MR. BRIAN MERONEK: Thank you for that. Now, Centra has taken the position -- and there's no reason to doubt it, that under the present contract and suite of services and assets in Centra's portfolio, it is a robust, flexible, and diverse portfolio, correct?

MS. LORI STEWART: You're speaking about our current portfolio?

MR. BRIAN MERONEK: Yes.

(BRIEF PAUSE)

MS. LORI STEWART: Yes, I believe that's the case, although to a lesser degree than the portfolio that we're proposing.

MR. BRIAN MERONEK: And I'll get into that. And the problem is that with respect to the geographical situation where Centra finds itself, and given the weather-driven component, excuse me, of the load, it's a complex mix of -- of assets that need to be incorporated into the portfolio to optimize that portfolio for the customers of Centra. Would you agree with that?

MS. LORI STEWART: I -- in my opinion, other LDC's portfolios are as complex. They're buying at multiple hubs and have various transportation components in their -- in their portfolio.

MR. BRIAN MERONEK: I'm not worried

about other LDCs right now, Ms. Stewart, just Centra. Would you agree with that statement?

MS. LORI STEWART: Yes, I would.

MR. BRIAN MERONEK: And to the ex -- to the extent that it's complex, Centra has to make certain that it has enough gas flowing to its customers under certain extreme conditions, correct?

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

MR. BRIAN MERONEK: And the problem that Centra faces is that the -- the arrangements that it makes with respect to transportation and storage don't always get used in -- in a year or a season, correct?

MS. LORI STEWART: Yes, that's -- that's the case.

MR. BRIAN MERONEK: And in that case -- I don't want to use the word "stranded," but there is a cost whether the storage is used, or the transportation is used, or not, correct?

MS. LORI STEWART: That's correct.

MR. BRIAN MERONEK: And what Centra tries to do is ameliorate that by engaging in its capacity management release program, correct?

MS. LORI STEWART: Yes, its capacity management program and one (1) set of transactions under that program are its releases.

MR. BRIAN MERONEK: And one (1) of the ways that Centra is able to mitigate unused capacity is by way of selling these assets on the secondary market, correct?

MS. LORI STEWART: Yes, releasing those assets.

MR. BRIAN MERONEK: And another way is by way of exchanges or swaps of -- of gas?

MS. LORI STEWART: Yes, I would characterize an exchange as the sale of virtual trans -- transportation, but, in essence, yes.

MR. BRIAN MERONEK: And with respect to that exchange, is that becoming less and less viable given the basis differential between summer and winter gas?

MS. LORI STEWART: Yes. In the past couple of years our exchange revenues are down as a result of the spreads shrinking.

MR. BRIAN MERONEK: So the -- the propitiousness of your capacity release program will be predicated to a larger degree now on your ability to be able to sell in the secondary market. Would that be fair?

MS. LORI STEWART: There's so many

factors that feed into spreads. So as long as we recognize that, that there are market conditions, including weather, that can dramatically change the value of exchanges during the winter season on a year-by-year basis. But, yes, generally I would agree with you.

MR. BRIAN MERONEK: And I believe you were asked by Mr. Peters if you could determine what the capacity release revenue results were over the last five (5) year average. And I believe you indicated it's on the record, correct? Past records.

MS. LORI STEWART: Yes, that's correct. We report our capacity management revenues on an annual basis.

MR. BRIAN MERONEK: In Tab 4, Attachment 1, on page 61. And that's the ICF report, if you could turn to that for a moment. Tab 4, Attachment 1 of the application, yeah, page 61.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Sorry, it's the -- page 61 at the top, not the bottom, page 41 at the bottom. There's a reference that -- that over the five (5) year period ending October 31, 2010, Centra generated an annual average of $6.9 million in revenues from the capacity release program?

MS. LORI STEWART: I see the reference. Sorry, was there a question?

MR. BRIAN MERONEK: Yes, is that -- is that your understanding?

MS. LORI STEWART: Subject to check, yes.

MR. BRIAN MERONEK: Would you mind checking as to the source of that information and -- and providing it to us by way of an undertaking?

MS. LORI STEWART: I can do that, yes.

MR. BRIAN MERONEK: For the purposes of the court reporter, the undertaking is to provide the derivation of the $6.9 million, five (5) year average capacity release results of Centra as set out in Tab 4, Attachment 1, page 61, at the top.

--- UNDERTAKING NO. 8: Centra to indicate the derivation of the $6.9 million five (5) year average capacity release results of Centra, as set out in Tab 4, Attachment 1, page 61

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Now, not that anything really turns on -- on this question at this point in time, but -- but it may have some bearing on -- on Centra going forward.

But is there any way that Centra tracks its results on an annual basis in percentage terms of recapturing storage or transportation costs that weren't utilized by Centra?

(BRIEF PAUSE)

MS. LORI STEWART: At present we track and report the revenues generated as a result of those activities; but, no, we do not measure it in -- in the manner that you just described.

MR. BRIAN MERONEK: Is that something that could be done?

MS. LORI STEWART: It could be done. In my opinion, there -- there would be little value in that.

MR. BRIAN MERONEK: As it presently stands, but on a go-forward basis in trying to measure the proficiency of your -- of Centra's capital release program under a new portfolio, would that not be a use

-- a useful measure?

MS. LORI STEWART: If we start from the premise that we're putting a suite of assets in place to serve a wide range of weather scenarios, then in any given year the percentage of assets that we use is driven primarily by the weather and thus customers' requirements for natural gas in the marketplace.

So in a year where it's cold and I theoretically use 100 percent of the assets in that year, relative to a warm year where my utilization of the assets will be less than that, and then I turn around and -- and move into the market to release those assets to make whatever money we can from them to offset those fixed costs, I -- I'm -- I'm not sure what the value of reporting that percentage to this Board would be.

MR. BRIAN MERONEK: Well, the value -- and I -- I don't want to argue the point with you. But in the -- in your scenario if Centra was able to utilize 100 percent because it was a cold year, that's something obviously -- that's an explanation it could give to the Board, correct?

MS. LORI STEWART: Well, we do report on an annual basis our load factor, recognizing the activities of our capacity management program. So we already report that on a regular basis.

MR. BRIAN MERONEK: I -- I realize that, but on -- following along on your example, in a warm year if it's, say, 60 percent, presumably you'd have an explanation to the Board that would indicate in part that it was because of warm weather, correct?

MS. LORI STEWART: Yes. Typically we would provide that type of rationale in our annual cost of gas proceeding.

MR. BRIAN MERONEK: But it -- it may also bear on the issue of the extent to which Centra was able to effect its capacity release program, would it not?

(BRIEF PAUSE)

MS. LORI STEWART: I can assure the Board that when we are in a situation where we have excess assets, we, on a very regular basis, take those assets to market to -- to secure dollars to offset the fixed costs of those arrangements.

MR. BRIAN MERONEK: But --

MS. LORI STEWART: And -- I -- I'm -- I'm looking -- I'm seeking to understand your perspective, Mr. Meronek, but I think that there are --

there -- there is such a multitude of factors that drive the value that we derive from the release of our assets that I -- I am questioning whether or not that would be of value to the Board.

MR. BRIAN MERONEK: That may be for others to determine. But are you saying then that there's no way to measure the performance of the capacity release program, such that the Board could take comfort that Centra is doing the best job possible?

MS. LORI STEWART: At present the measure that is used is the five (5) year rolling average of the revenues earned by virtue of the capacity management program. And I -- we've been around -- we've been around this issue for some time. And to date, that is the only measure that has been agreed to.

MR. BRIAN MERONEK: So in the future, you're saying that any performance measure that Centra might want to use to determine how well it's doing in its por -- new portfolio arrangement is going to be predicated simply -- not simply, but exclusively on how much capacity release revenue is generated in any given year?

MR. VINCE WARDEN: Mr. Meronek, this

has been an issue we've struggled with for a number of years, as to -- to measure whether or not we're getting the maximum revenues out of our capacity management program.

I think, after discussing about it -- this issue for a number of years, we've concluded that really the five (5) year average is -- is as good a benchmark as we're going to get.

It gives the Board some comfort that we're -- the revenues we get in any one (1) year is aligned with what we've been getting in the past. As Ms. Stewart indicated, the -- the amount of those revenues in any given year is so dependent on weather, not only in -- in the market we serve, but in the markets that we're selling into.

So, you know, it wouldn't be a simple matter of saying, Okay, we're -- we're going to match it up with degree days in the Centra service jurisdiction and -- and make some kind of a benchmark comparison based on degree days, because, you know, the weather could be totally different in the market that we're selling into.

So it is a difficult one (1). We -- we have the portfolio of assets that we think are optimum to serve the Manitoba market. And when conditions present themselves, we'll -- we'll dispose of some of those assets to the extent that we can to recover some of those costs that we incur.

MR. BRIAN MERONEK: And -- and without being pejorative, I'm just trying to get a handle on this. The Board and the Inter -- and the Intervenors will have to accept that, that you've -- that Centra has done the best job it can under the circumstances to recover un -- unutilized capacity.

MR. BRENT SANDERSON: I think I'd just like to clarify. I don't believe it's Centra would be in agreement that the five (5) year average of capacity management revenues was ever viewed as a performance benchmark.

It is simply an amount, a credit, that is given to customers in their rates prior to the realization of any of those capacity management activities. And throughout history, we have been very cautious about doing that for the reason that those revenues are so uncertain, given the fact that they're determined largely as a result of the market demand that our customers have that determines the amount of excess assets available for remarketing.

And the revenues, or the portion of those unutilized assets whose costs you can recover, you can only recover what the market will bear. So we wouldn't characterize it as a benchmark. It's a credit that is included in the customers' rates before the fact.

And we've always cautioned that there is no necessary linkage between the historical five (5) year average of those capacity management revenues and what we may realize in the year relating to which that credit has been applied before the fact to customers' rates.

MR. BRIAN MERONEK: Thank you for that. Going forward then, if -- and this bears on the question of -- of whether or not Centra is going to go out to the marketplace in an RFP to have a third-party asset manager manage some or all of Centra's assets.

I believe that you -- you indicated, Ms. Stewart, that you -- you'd need a year or two (2) to determine Centra's performance level under the new portfolio to -- to have some kind of measure, correct?

MS. LORI STEWART: It's as much related to operating experience, so it would be difficult for me to assess someone else's performance in managing those assets if I don't have any operating experience, for example, at a new point like Joliet.

MR. BRIAN MERONEK: No, I appreciate

that. It's -- it's a good point. So you'll want to get some history to be able to determine whether, if an RFP goes out, a potential counter-party can do better than what Centra in its nascent history can achieve on its own, correct?

MS. LORI STEWART: Yes, that's correct, recognizing that in the past when we have evaluated the potential merits of such an arrangement, Centra has concluded that the risks that it would take in turning over its assets, including the commodity in storage, to another entity to manage, that those risks outweigh the benefits of such an arrangement.

MR. BRIAN MERONEK: I -- I understand that. And I'm not even going down that path yet. That'll be one (1) my last series of questions. But I'm just trying to get you to confirm that in order to measure your own performance, in order to even go the market to determine whether the market can do better, you'd want a couple of years of history based upon the capacity release revenues that Centra potentially will achieve in a couple of years under the new portfolio?

MS. LORI STEWART: That -- that information, it will provide more information than we have today. However, we have to be very cautious in evaluating that information. So in a situation where, for example, it's been cold the first two (2) years that we've deployed the proposed portfolio and, as a result, we're, to a large extent, fully utilizing the assets that we put in place as a result of cold weather in Manitoba, the capacity management program earnings in those two (2) years would appear to be very low.

That makes sense. It's intuitive. And so, in that case, if an asset manager was to come in and propose that it could earn a million dollars greater than that, then we just have to understand the assumptions that we're making. So are we going to weather-normalize and on what basis? And that's a very difficult -- a very difficult thing to do given the number of variables that are at play in the marketplace as well as the variability of weather.

MR. BRIAN MERONEK: I accept that. I'm just trying to follow up on your -- your answers to Mr. Peters about wanting to have some history and that before you even entertain the thought of going out to the marketplace. And that -- that history will be largely predicated upon your capacity to release results under the new portfolio over time.

MS. LORI STEWART: Yes, I'm -- I'm not meaning to be picky, but it's actually the capacity management program. And one (1) set of transactions that we execute under it are releases.

MR. BRIAN MERONEK: Now, switching gears for a moment, and -- and while you have the mic, Ms. Stewart, you -- we've talked about the physical molecules coming from east to west. And that's a relatively new phenomena?

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

MR. BRIAN MERONEK: I think your evidence was that Great Lakes has done it for the last couple of years and TCPL has recently or is about to do the same thing?

MS. LORI STEWART: Yes, my understanding is that TCPL has recently moved the vol -- moved the molecules from east to west and around the horn via the northern Ontario line.

MR. BRIAN MERONEK: Now, in that regard, can you opine on what potential implications there are down the road if that becomes a viable and significant use of the pipelines by Great Lakes and TCPL to Centra's portfolio and -- including cost implications?

(BRIEF PAUSE)

MS. LORI STEWART: The critical path in

question for Centra is from Emerson back to the load. And at present, we're not aware of any other entity who has interest in that path other than TransCanada itself. And it's interested in that path to preserve its operating flexibility. And then, of course, Centra has an interest in that path, as well.

MR. BRIAN MERONEK: And more than interest, what -- define or describe in more detail what that interest would be and what benefits or detriments may arise out of -- as a result of that switch in flow.

MS. LORI STEWART: Well, I think it -- it depends on the preponderance of that reversal of flow. So that's one (1) factor that we would need to be aware of and considering going forward, keeping an eye on, so to speak. And our interest in that path is related to our storage and transportation service arrangements, and as well may relate to a firm transportation path from Emerson back to the load, as it relates to bringing in US supplies.

MR. BRIAN MERONEK: And -- and right now this is just -- this is a recent unfolding event that has yet to play out in terms that are financially and operationally identifiable by Centra.

MS. LORI STEWART: Yes. It's -- it's a

fairly recent occurrence and Centra takes some comfort in the immediate term, at least, in that TransCanada did not contain proposed tariff changes related to its storage and transportation service in its current restructuring application. However, I certainly cannot speak to TransCanada's intentions after that.

MR. BRIAN MERONEK: So it's uncertain at this point in time as to how that bidirectional development will unfold and -- and what the financial implications, or operational impli -- implications, are for Centra, won't be known for some time.

(BRIEF PAUSE)

MS. LORI STEWART: Yes, I'm -- I'm realizing now that it may be helpful to the Board to understand some of the flow dynamics that are resulting in this reversal of flow. So at present, in -- at Parkway, which is a point on the TransCanada system where it intersects with the Union Gas system, there is a constraint there. And that's one (1) of the reasons why TransCanada has been contracting for capacity on Great Lakes. And it's one (1) of the reasons that TransCanada finds itself accompanied with the reduction in throughput on the mainline that TransCanada finds itself moving gas on a physical basis thousands of kilometres further than what one (1) would intuitively imagine to be the most economic path.

So there has been a gradual disconnect on the TransCanada system between physical flows and what is happening contractually. And that is now being exacerbated by the reduction in throughput on the mainline, because for so long -- and our historical experience has been that flows will -- or transactions can be effected through displacement. But if that assumption was predicated on 5 Bcf moving through the mainline, today there's only 2 Bcf moving through the mainline, all of a sudden we have a problem. And there have been some creative solutions to try and move around that. So as that bottleneck at Parkway is -- is eliminated in gradual stages, then again that will have an impact.

So there are a number of things that are impacting this non-traditional -- or non-traditional flows. And we will continue to keep -- keep our eye on all of those factors.

MR. BRIAN MERONEK: Thank you for that. Did I hear you right, or correctly, when you indicated that -- that the west, sorry the east to west flow on Great Lakes is of no moment to Centra?

MS. LORI STEWART: Is of -- sorry, what?

MR. BRIAN MERONEK: No moment? Im -- no impact?

MS. LORI STEWART: I think I was careful to qualify that on a daily basis the pipelines are going to optimize their systems. And on a daily basis, my team doesn't need to be concerned about whether or not the flows are moving east to west. But at a more macro level, I -- I absolutely need to be in the know about that situation.

MR. BRIAN MERONEK: And the extent to which Great West (sic) is utilizing an east-west flow, again it -- it's -- it's an evolutionary process that has yet to be played out in -- in absolute terms as to what's going to happen down the road?

MS. LORI STEWART: Yes, it's a source of uncertainty, and our -- our proposed Great Lakes contracts remove that uncertainty in that regardless of which direction flows are physically moving on that pipeline, we are paying the rates that are included in this proposal. So that's an element of certainty that -- that is provided to us as it relates to the Great Lakes contracts.

MR. BRIAN MERONEK: Just moving on to

you, Mr. Barnlund. And I -- I thank you for your answer to Mr. Peters about the important comparison is not the price that Centra currently pays for its US transportation and storage arrangement, but what was -- what is available when you are renegotiating, correct?

MR. GREG BARNLUND: Yes, that's correct.

MR. BRIAN MERONEK: And you're probably concerned now that I thank you for that answer.

MR. GREG BARNLUND: Yes.

MR. BRIAN MERONEK: The -- and -- and, for example, if you look at PUB Exhibit Tab 13.

MR. GREG BARNLUND: That would be the rates and capacities comparison?

MR. BRIAN MERONEK: Yes, Tab 8, Attachment 5 of the application.

MR. GREG BARNLUND: Yes, I have that.

MR. BRIAN MERONEK: And just looking at lines 22 and 23, that's the ANR southwest, I guess it's Oklahoma, and the ANR southeast transportation at Louisiana, that is -- has been deleted from the portfolio.

MR. GREG BARNLUND: Yes, sir.

MR. BRIAN MERONEK: And those were -- those were by and large at maximum tariff rates, correct? At least with respect to the southeast?

MR. GREG BARNLUND: I would say that the southeast was, but the southwest was not.

MR. BRIAN MERONEK: And it's -- it's my recollection that over time that these assets were either not utilized or not utilized fully, such that Centra had to -- and did, in fact, engage in capacity release in order to recoup un -- unutilized capacity?

MR. GREG BARNLUND: I believe that to be the case, but Ms. Stewart may want to weigh in on that.

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

MR. BRIAN MERONEK: So that in any event of what -- what transpires, there are -- there are better options currently available to Centra than -- than renewing those contracts?

MR. GREG BARNLUND: I would say that overall, the portfolio that has been established replaces the existing portfolio in that regard.

MR. BRIAN MERONEK: Point being that it -- it's of no real consequence to -- to say that the cost is now $14 million versus $17 million as indicative of a -- of a benefit ultimately to the consumer, in part because of ANR Southwest and Southeast was probably not going to be renegotiated anyways.

Would that be fair?

(BRIEF PAUSE)

MS. LORI STEWART: I would suggest that similar to our annual ri -- results related to capacity management, it's of interest, but you have to be very careful in placing weight on those two (2) different numbers.

MR. BRIAN MERONEK: Thank you for that.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Well, I -- I want to get into a talk -- topic with you, Mr. Sanderson, where angels fear to tread, not that I'm an angel. But I -- I want to talk and understand about the future price curve.

And as I under -- if you could turn to the application, Tab 7, Schedule 1(a).

(BRIEF PAUSE)

MR. BRENT SANDERSON: You're referring

to the table of values covering the April 2013 to March of 2014 period?

MR. BRIAN MERONEK: That's correct.

MR. BRENT SANDERSON: I'm there.

MR. BRIAN MERONEK: As I understand that series of schedules, they represent the Centra price curves as adjusted by -- Centra price curves and Centra's seasonal price curve adjustments for a five (5) year period that was utilized in the modelling -- the SENDOUT modelling.

Is that correct?

MR. BRENT SANDERSON: Just taking special pains to note that there's five (5) schedules that depict annual periods individual; but, yes, generally I would agree with that.

And when I say -- when we say, Centra's price curves, they're derived from the marketplace.

MR. BRIAN MERONEK: I was just reading the -- the heading. It said, "Centra Price Curves," but we know they're from the marketplace. And -- and a I understand the application, Centra took these price curves and then made some seasonal price curve adjustments on a monthly basis to -- to more replicate reality?

MR. BRENT SANDERSON: No. I -- I don't

know if I would describe it that way. We simply took, for the summer period, being the months April through October, and the winter period, the months of November through March, we simply in each case took the arithmetic average of the individual monthly prices that you see in the unadjusted price series for the express purpose of overcoming the misleading conclusions that a model like SENDOUT would direct you towards, by virtue of its perfect foresight before the fact, by arbitraging rapidly buying and selling gas to exploit monthly price differentials by virtue of its perfect foresight of the forthcoming series of prices on a month-to-month basis as well as the perfect foresight of the load that it needs to serve each and every day, which is not a realistic assumption that any utility could pursue in actual practice.

MR. BRIAN MERONEK: And -- and the Centra seasonally adjusted price curves are the ones that were inputted into SENDOUT, correct?

MR. BRENT SANDERSON: Yes, that's correct.

MR. BRIAN MERONEK: And as I read the evidence, these price curves were, as at January 9, 2012?

MR. BRENT SANDERSON: That's sounds

correct, subject to check.

(BRIEF PAUSE)

MR. BRIAN MERONEK: I'll save you checking. It's page 9 of Tab 7.

(BRIEF PAUSE)

MR. BRENT SANDERSON: A hundred percent in agreement, Mr. Meronek.

MR. BRIAN MERONEK: I'm going to take that one to the bank. I'm going to go buy a lottery ticket, as a matter of fact. Now, just to -- just to follow the thread here, what Centra did was take these seasonally adjusted price curves.

And did it put every schedule into the SENDOUT model to obtain a result?

MR. NEIL KOSTICK: Centra used years 1 and year 5 of those price groups in the SENDOUT model.

MR. BRIAN MERONEK: So that would be on this schedule, schedule -- Tab 7, schedule 1(a), would have been lines 12 to 19, for year 1, correct?

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

MR. BRIAN MERONEK: And schedule 1(e),

page 5 of 6, for year 5, lines 12 to 19?

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

MR. BRIAN MERONEK: Is there any reason that Centra wouldn't have used all of the schedules as opposed to just year 1 and year 5?

MR. NEIL KOSTICK: Years 1 and 5 appear to represent reasonable bookends of that series of prices, so we felt that was sufficient.

MR. BRIAN MERONEK: Reasonable bookends. Wouldn't you want to determine an average in order to be more -- replicate more of what's happening over the next five (5) years?

MR. NEIL KOSTICK: Given that we view years 1 and 5 as bookends, the years in between would produce similar or slightly variable results. But if we look at the model results using years 1 and year 5, that should essentially capture the range of that price variability.

MR. BRIAN MERONEK: I -- I believe in answer to a question from Member Lafond, Mr. Sanderson, you indicated that are no seven (7) year price curves. If there were, they wouldn't be very reliable.

Is that correct?

MR. BRENT SANDERSON: That's not quite what I said. There is price discovery or financial instruments or futures contracts traded at certain large benchmark hubs, Henry Hub in Louisiana being the basis of the New York mercantile exchange. Natural gas futures contract is a rare example of a futures market that trades discreet monthly contracts out as far as ten (10) years, so they do exist. But with the exception of the Henry Hub contract for the major hubs, there is nothing, as a rule, beyond five (5) years.

AECO is a -- is a perfect example of what I'm talking about where there's nothing traded beyond the near five (5) -- five (5) year period. So we would encounter difficulties in trying to flesh out a series of futures price curves for anything but the Henry Hub point beyond the five (5) year period.

MR. BRIAN MERONEK: Not to make too fine a point of it, Mr. Sanderson, but unless I was asleep, you -- you never mentioned anything about the Henry Hub as being available, but...

MR. BRENT SANDERSON: Subject to checking the transcript, I think my -- the words I used were it becomes very difficult to assemble these series of prices for terms out beyond five (5) years. Implicit in my statement was the details that I just described to the Board.

MR. BRIAN MERONEK: And -- and the

lexicon that's been used as -- for year 5 is -- is a bookend or an outlier. I think Mr. Kostick said bookend for year 5, and I think you said outlier for year 5, correct?

MR. BRENT SANDERSON: I never used that term, to my knowledge.

MR. BRIAN MERONEK: Must have been a different person, a different hearing. In any event, year 5 is -- the -- the further you go out, the less reliable these price curves are, correct?

MR. BRENT SANDERSON: The way I would characterize it is based on the information that was available to the market at the time these prices were taken, it in theory represents the distillation of all of that collective knowledge in the market in the form of the prices that buyers and sellers are willing to exchange on January 9th for delivery in that future period.

Inevitably the actual index prices in those further-out periods as we -- as they become nearby or spot prices are more likely to be different than the prices we see taken five (5) years prior by virtue of the fact that more new information become available to the market, there's more time for market circumstances to change.

So I wouldn't characterize them as less accurate, but there's -- it's just a fundamental truism that there's more time over a five (5) year period for the underlying fundamentals of the market to change and have their result and effect on price than over a one (1) year period.

So prices will be more stable futures relative to spot over a one (1) year period on average than over a longer-term horizon - five (5) years, for example.

MR. BRIAN MERONEK: Again I don't want to put words in your mouth because I -- obviously I'm -- I'm zero for two (2) here. But I think you said that as of last Friday the forecast of future price curve five (5) year averages was three dollars and forty cents ($3.40) per GJ?

MR. BRENT SANDERSON: The arithmetic average of the five (5) year strip of futures prices at the AECO Hub in Alberta as of the Friday close was approximately three dollars and forty cents ($3.40) a gigajoule Canadian, yes.

MR. BRIAN MERONEK: Do you want to -- can you compare that to what's on Tab 7 in the Schedule 1, or not?

MR. BRENT SANDERSON: Yes, I'd be glad

to compare it.

MR. BRIAN MERONEK: Could you do that? How does the three-four (34) --

(BRIEF PAUSE)

MR. BRIAN MERONEK: Is -- is that something you can do now on the record?

MR. BRENT SANDERSON: Absolutely. What -- what -- how -- what would you -- like what observations would you like me to make, one (1) relative to the other?

MR. BRIAN MERONEK: Well, you're -- you're saying three dollars and forty cents ($3.40) per GJ. I just want to know how that compares to schedule 1 that was taken from January 9 of 2012.

MR. BRENT SANDERSON: I think we had an exchange with the panel members yesterday regarding current price levels relative to January, and I had described in general terms that prices had continued to fall thereafter the taking of these prices -- settlement prices from the futures market, but that in recent weeks they had been on the rise somewhat.

I gave a blanket characterization, not -- I guess, not significantly different today from --

or, the general -- the general view of the market was not fundamentally different from January. I think it's clear that prices are somewhat lower today than they were in January.

I guess how you determine the significance of that difference, I guess, is in the eye of the beholder. So they are somewhat lower today. The futures markets are currently trading a forward price view that is somewhat lower than in January.

MR. BRIAN MERONEK: But as I -- as I understand it the three dollars and forty cents ($3.40) per GJ that you indicated was a five (5) year average. And what would that compare to on -- on January 9, in terms of schedule 1?

MR. BRENT SANDERSON: I'm fairly decent at doing mathematical calculations on the fly, but if you'd like that figure, I'll have to take that as an undertaking and make sure that it's accurate.

MR. BRIAN MERONEK: There's nothing you can point out on the schedule. You have to do some calculations, correct?

MR. BRENT SANDERSON: I would have to go work through the math.

MR. BRIAN MERONEK: Could you do that, please?

MR. BRENT SANDERSON: I can.

--- UNDERTAKING NO. 9: Centra to indicate how three dollars and forty cents ($3.40) per GJ compares to Schedule 1 that was taken from January 9, 2012

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: But what you can say is that, as we know, the market changes every day, and depending upon the day that is chosen for the price curve, a different result will be -- will result from different price curves put into the -- to whatever optimization model is utilized.

Would that be fair?

MR. BRENT SANDERSON: I think the relevant point is not the minute details of the output or the result of the model, depending on whatever day's prices you input in the model. I think what is important is the general direction or guidance that that model result gives you.

And I think, as Mr. Kostick has covered in great depth, there were significant differences between the level of forward prices assumed in ICF's model runs versus the futures market prices that Centra employed.

And in spite of those fairly sizeable differences, which are much greater than the difference in futures prices today versus when we took them on January 9th, the general direction of the guidance given in both cases was very, very similar.

MR. BRIAN MERONEK: Again, that's another qualitative term. "Directional" means what? When -- when you -- when you're saying the model directionally demonstrates something, what -- what is it that you're referring to exactly?

MR. BRENT SANDERSON: By way of analogy, I might describe it as, I don't think any member of the panel or Centra would purport that a tool such as SENDOUT can give us such refined guidance as to allow us to be confident to contract for storage capacity of 14.625 petajoules per year.

I would characterize it more as Mr. Kostick has said, if it comes in around fifteen and a half (15 1/2) and you get a petajoule either way, depending on who is doing the analysis and the methodologies that were employed, it's -- that would be the level of specificity that we would impart to the guidance provided with those models, rather than something as refined as the first example that I gave you.

MR. BRIAN MERONEK: Okay, but the -- I -- I thank you for that. But depending upon the price curve dollar amount inputted, there could be a significant difference in the resulting requirement for st -- storage capacity.

Would you agree with that?

MR. BRENT SANDERSON: As I said, a comparison of the independent modelling and analysis conducted by both Centra and ICF using completely different tools and a complete different set of a price assum -- price assumptions, the conclusions that we would draw from that is the portfolio that is indicated and is reflected in the one (1) that's before the Board now is not highly sensitive to changes in forward price assumptions.

MR. BRIAN MERONEK: If I could just end the day on pursuing that at PUB Exhibit 7, Tab 18. Do you have that, sir?

MR. BRENT SANDERSON: Yes, I do.

MR. BRIAN MERONEK: Okay. If you look at that particular schedule and under "Storage Capacity," and you look over to the ICF curve for year

5 for ANR, you will note nineteen point nine (19.9) in storage capacity?

MR. BRENT SANDERSON: Yes, I see that.

MR. BRIAN MERONEK: And the five (5) year price curve that ICF used was in the eight dollar ($8) range, is that not correct?

MR. BRENT SANDERSON: For the sake of our discussion, why don't we agree for that subject to check? It sounds reasonable, in that neighbourhood.

MR. BRIAN MERONEK: Yeah, I would just -- sorry, yes, I was just looking at Tab 16.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Sorry, I misspoke. It was anywhere from -- it was certainly above six dollars ($6), up to approximately eight dollars ($8).

MR. BRENT SANDERSON: Depending on the delivery hub, anywhere from six dollars and fifty cents ($6.50) to -- or approximately eight dollars ($8), just shy of eight dollars ($8).

MR. BRIAN MERONEK: Would that not, in part, reflect on the output in the ICF model in relation to storage capacity need for year 5?

MR. BRENT SANDERSON: Mr. Kostick has

covered this in his previous testimony. And what you're seeing there in terms of the model driving the optimizer to hold a greater amount of storage in year 5 is not a function of the absolute price levels. It's more a function of ICF's assumption of very, very large winter-summer price spreads, which, with the perfect foresight of the model in terms of the load it has to meet and knowing with full certainty the flexibility it has to pursue arbitrage in exploiting seasonal price spreads, would drive the portfolio model or -- to hold an increased amount of storage to speculatively exploit seasonal market price spreads.

And as we had said, not wanting to take anything away from ICF, but we do feel that the winter seas -- winter-summer price spreads reflected in the futures markets are far more consistent with that that's been experienced historically on average.

MR. BRIAN MERONEK: Did you ask ICF why it used a forecast other than what you perceived to be the most prudent forecast, that being the five (5) year price curve?

MR. BRENT SANDERSON: ICF was employed on Centra's behalf to take an independent approach to this modelling effort. We left it to ICF in their professional judgment as to what was most appropriate to employ in terms of their modelling techniques and tools, and the prices into which -- that were input into their models.

MR. BRIAN MERONEK: With respect, that wasn't my question. My question was did anyone at Centra ask ICF as to why it felt that it -- the -- it's prife cur -- price curve was more prudent than the -- a five (5) year average price curve.

MR. BRENT SANDERSON: I don't think that there was ever any claim on ICF's behalf that their price curve would -- they would characterize it as more prudent. It was a -- another view, another set of data. And I don't, to my recollection, remember ICF ever claiming it was more prudent, as you would characterize it. And nor did Centra challenge them to defend their proprietary product.

MR. BRIAN MERONEK: But clearly, you're of the view that a -- a -- the forward price curve is -- is the best available market intelligence to utilize in this particular exercise?

(BRIEF PAUSE)

MR. BRENT SANDERSON: If I was forced to put money down, in terms of picking amongst the various options that I thought were the most sound in terms of making a bet on forward prices, which I am not prepared to do, I will always go with the market. I will -- I will trust in the market.

But I think it's clear the value that was delivered by not forcing our views on ICF and allowing them to choose their own path in their independent modelling effort in order to assure the independence of that effort. And I think it gives Centra an additional level of confidence, as we said, as to the robustness of the portfolio before the Board in that in spite of us not endeavouring to influence ICF's approach, it was a strong validation of the portfolio that is now before the Board and that we feel is a very good value for customers.

MR. BRIAN MERONEK: Well, I won't ask you to undertake to bet any of your wages on -- on any particular price curve. But just maybe be -- before we end the day, Mr. Peters asked -- or -- or got confirmation that TCPL doesn't use in its forecasting a forward price curve.

Did I get that correct?

MS. LORI STEWART: My understanding is that TransCanada does its own forecasting, its own in-house forecasting. And so one (1) of the factors I'm sure that it does consider is the futures curve.

MR. BRIAN MERONEK: Was -- did -- did I get the impression -- and if I got a wrong impression please correct me, that you, Mr. Sanderson, were -- were not impressed with TCPL -- or you, Ms. Stewart, were not impressed with TCPL's forecasting because they've been so far out?

MR. BRENT SANDERSON: All I did, to the best of my recollection, in an exchange with the Board near the end of the day yesterday was make an observation that TransCanada's proprietary forecast has clearly been wrong.

MR. BRIAN MERONEK: It's 4:30, Mr. Chairman. It's been a long day and I've run out of forward price curve questions. Maybe we could adjourn?

THE CHAIRPERSON: Thank you, Mr. Meronek. We'll adjourn now and resume the deliberations tomorrow morning at 9:30. So have a good evening, everyone.

MR. DOUG BEDFORD: Mr. Chairman, with your permission, we have the answer to one (1) undertaking that was given yesterday. I think it will only take us a minute or two (2). And I'll ask Ms. Stewart, with your permission, to enter it into the record.

THE CHAIRPERSON: Yes, please do.

MS. LORI STEWART: This is in response to Undertaking number 2, which was to reconcile the numbers in the graph in pre-ask PUB/CENTRA-1 and the information in the table associated with Information Request CAC/CENTRA-17.

The storage inventory withdrawal represented on the graph in pre-ask PUB/CENTRA-1 is 4.6 petajoules. The difference between the storage withdrawal figures reported in pre-ask PUB/CENTRA-1 and Information Request CAC/CENTRA-17-E is 2.8 petajoules. This 2.8 petajoules is associated with an out-of-sink storage exchange with a counter-party in the winter of 2005/'06 as part of Centra's capacity management program.

Storage exchanges are routinely conducted with counter-parties as part of our capacity management program. Storage exchanges involve a counter-party delivering gas to the Manitoba delivery area and Centra delivering gas out of its storage facility to that counter-party, thus effecting virtual transportation.

The storage exchanges are typically conducted on a next-day basis but can also be conducted on a same-day basis. Out-of-sink storage exchanges are typically arranged for a longer term and represent deferred repayment of the gas delivered to the Manitoba delivery area. In this circumstance, the counter-party delivered 2.8 PJs to Centra in the winter of 2005/'06. And Centra repaid out of its storage inventory 2.8 petajoules to the counter-party the following summer.

Centra realized incremental capacity management revenues as result of this exchange. Given that Centra had a requirement for, and used, the 2.8 petajoule -- petajoules just discussed during the winter of 2005/'06, the table represented in Centra's response to Information Request CAC/CENTRA-17-E is the correct depiction of storage withdrawals. That is, Centra used a total of 7.4 petajoules of storage gas during the winter of 2005/'06.

We have with us an updated pre-ask PUB/CENTRA-1, which now accurately reflects this information. And with your leave, Mr. Chair, Ms. Bercier will distribute the updated graph.

MR. BOB PETERS: Mr. Chairman, it would be customary, with the permission and concurrence of counsel, all -- that these undertakings be given an exhibit number. And I'll actively search for my list here. And I believe this would now become Exhibit Centra number 4. I'll look to Mr. Bedford for the nodding of his head, but we'll mark it as Centra Exhibit 4.

--- EXHIBIT NO. CENTRA-4: Response to Undertaking 2

MR. BOB PETERS: Mr. Chairman and Board members, it's also customary during the course of the proceedings that when -- when a witness undertakes, or a witness panel undertakes, to provide an answer, if -- if the hearing is still ongoing an opportunity is generally afforded the party that initially asked the question if there's anything further that flows from it.

At this point in time, I'm just going to have to re-read Ms. Stewart's answer on the transcript later this evening, but I have no questions at this time. If I do, I will seek permission of the Board to ask further questions at that time. But as I understood Ms. Stewart explained the -- the difference that was noted in the materials. And the new chart that was provided would replace the chart that I drew the Board's attention to primarily at Tab 7 of the book of documents on page 31. And just have Ms. Stewart confirm at this time that the intention of the Utility is to have Centra Exhibit 4 replace the chart that was on page 31 of Board counsel's book of documents.

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

MR. BRIAN MERONEK: With this caveat, Mr. Chairman, Mr. Peters yesterday suggested that this represented my EKG. I'd just like to have an addendum filed. After his cross-examination you can show a flat line.

(PANEL RETIRES)

THE CHAIRPERSON: Is there any other business? If not, let's adjourn and we'll see each other again tomorrow morning at 9:30.

--- Upon adjourning at 4:38 p.m.

Certified correct,

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Ms. Cheryl Lavigne