



MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.  
TRANSPORTATION AND PORTFOLIO APPLICATION

Before Board Panel:

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

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba

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1	APPEARANCES	
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1 --- Upon commencing at 9.32 a.m.

2

3 THE CHAIRPERSON: Good morning,  
4 everyone. I believe we are ready to proceed. So over  
5 -- I'll turn it over to you, Mr. Meronek.

6 MR. DOUG BEDFORD: Mr. Chair, if I may,  
7 we have two (2) undertakings I believe we can answer.  
8 And it might be efficient if we start off doing that.  
9 There may be something in the answers that prompts Mr.  
10 Meronek to ask a question or two (2).

11 THE CHAIRPERSON: Okay, let's do that  
12 then.

13

14 CENTRA GAS PANEL:

15 GREG BARNLUND, Resumed

16 NEIL KOSTICK, Resumed

17 LORI STEWART, Resumed

18 BRENT SANDERSON, Resumed

19 VINCE WARDEN, Resumed

20

21 MR. DOUG BEDFORD: I'll ask Ms. Stewart  
22 to go first. And she can identify specifically which  
23 undertaking she is responding to.

24 MS. LORI STEWART: Good morning --

25 THE CHAIRPERSON: Good morning.

1 MS. LORI STEWART: -- Mr. Chair,  
2 members of the Board. I'll be responding to  
3 Undertaking number 8 at this juncture. And that  
4 undertaking was for Centra to indicate the derivation  
5 of the \$6.9 million figure associated with our five (5)  
6 year average capacity management results as set out in  
7 Tab 4, Attachment 1, page 61.

8 And that indeed is a Centra source of  
9 information that was used by ICF. And that information  
10 was provided in the 2011/'12 cost of gas application in  
11 Information Response PUB/CENTRA-21-A.

12 MR. RAYMOND LAFOND: Could we get the  
13 page number in the book of documents?

14 MS. LORI STEWART: It wasn't in the  
15 book of documents. Mr. Meronek was referencing Tab 4  
16 in the application. And I believe it was Attachment 1.

17

18 (BRIEF PAUSE)

19

20 MS. LORI STEWART: Yes, page 61 of  
21 Attachment 1 in Tab 4.

22

23 (BRIEF PAUSE)

24

25 MR. RAYMOND LAFOND: Page 61?

1 MS. LORI STEWART: Yes, that's correct.  
2 It was a reference in ICF's report, which is Attachment  
3 1 to Tab 4. And those page numbers are the one (1)  
4 referenced in the upper right-hand corner as opposed to  
5 the page numbers at the bottom. I'm -- can imagine  
6 that could be confusing.

7

8 (BRIEF PAUSE)

9

10 MR. DOUG BEDFORD: Ms. Stewart, I  
11 understood you had a second one? Maybe not.

12 MS. LORI STEWART: No.

13 MR. DOUG BEDFORD: Okay, then Mr.  
14 Sanderson has one (1).

15 MR. BRENT SANDERSON: Yes, Mr. Chairman  
16 and members of the Board. I'm in a position now to  
17 respond to Undertaking number 9, posed by Mr. Meronek  
18 later yesterday, whereby Mr. Meronek asked that I  
19 calculate the average of prices depicted in the  
20 application at Tab 7, Attachment 1. Pardon me,  
21 Schedule 1, pages 1 through 5 of 6.

22 In that -- in which Mr. Meronek asked me  
23 to calculate the average of the futures prices depicted  
24 on those schedules at the AECO delivery point, and  
25 indicate how they compare to the three dollar and forty



1 cent (\$3.40) figure which was the near five (5) year  
2 strip of prices at AECO taken on Friday, June 22nd.

3 I have calculated the average of the  
4 prices depicted on those schedules, and the figure is  
5 four dollars and nineteen cents (\$4.19) per gigajoule.

6 THE CHAIRPERSON: Please repeat that  
7 again, just -- the reference as well.

8 MR. BRENT SANDERSON: Yes. Mr. Meronek  
9 asked that I calculate the average of the AECO prices  
10 depicted on Tab 7 of the application, Schedule 1, pages  
11 1 through 5 of 6. So Schedules A through E -- sub-  
12 schedules A through E. The average of the prices  
13 depicted on each of the schedules at line 1 and 2, that  
14 being AECO delivery point, and the average of the  
15 prices for the period from April, 2013, through March,  
16 2018, depicted in those schedules. And the average of  
17 those prices depicted is four dollars and nineteen  
18 cents (\$4.19) per gigajoule.

19 MR. DOUG BEDFORD: And, Ms. Stewart, I  
20 understand you do have a second undertaking to respond  
21 to.

22 MS. LORI STEWART: Yes, I'm now ready  
23 to respond to Undertaking number 1, which was a request  
24 for Centra to determine whether or not the costs  
25 represented in the Information Response CAC/CENTRA-13-

1 C, whether or not the costs shown for the ANR southeast  
2 and southwest capacities, whether they were shown net  
3 of capacity management revenues. And if they are not,  
4 to determine if that could also be provided.

5 So I can confirm this morning that the  
6 cost -- costs shown on that schedule were exclusive of  
7 our capacity management activities. And I've had staff  
8 prepare a -- a schedule to respond to Undertaking  
9 number 1, that now also includes the values inclusive  
10 of capacity management revenues. And if we could get  
11 those distributed, I would just like to speak to the  
12 values to ensure clarity of understanding.

13

14 (BRIEF PAUSE)

15

16 MS. LORI STEWART: So to walk through  
17 this exhibit, at line --

18 THE CHAIRPERSON: Excuse me. This be -  
19 - would become Exhibit number 5, according to my  
20 records, for Centra, right?

21 MR. BOB PETERS: Yes. Yes, sir, that's  
22 correct.

23

24 --- EXHIBIT NO. CENTRA-5: Response to Undertaking 1

25

1 THE CHAIRPERSON: Thank you.

2 MS. LORI STEWART: You're welcome. In  
3 walking through this exhibit, at line 24 we have the  
4 costs paid to ANR for our southwest or Oklahoma  
5 capacity, and you see the -- those costs represented on  
6 line 24.

7 On line 25 we see the impact of our  
8 capacity management program. In this case, the  
9 capacity releases that were executed, and it was in  
10 particular in gas years 2005/06 and gas years 2006/07  
11 where negative values are represented.

12 And that indicates circumstances where  
13 the incremental revenues earned actually were in excess  
14 of the costs that we paid for that capacity. That is,  
15 we were able to release the capacity in those  
16 circumstances for a higher value than the rate that we  
17 are obligated to pay ANR for those -- for that  
18 capacity. Thank you.

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Just to make sure I  
23 understand this table, if you look at the third column,  
24 I'm looking at what looks like a positive value of  
25 three hundred and seven thousand, six-o-six (307,606).

1                   So that would, in effect, mean that --  
2   that you -- you made approximately -- or, regained  
3   approximately three hundred thousand (300,000), three  
4   hundred (300) and some thousand of the costs, right?

5                   Am I reading that correctly?

6                   MS. LORI STEWART:    I'm sorry, you are,  
7   sir.   The costs paid to ANR in gas year 2007/08 were  
8   the approximately six hundred and fifty thousand  
9   dollars (\$650,000) for that capacity.

10                  And as a result of our releases of that  
11   capacity, we were able to reduce the fixed costs of  
12   that capacity to the three hundred and seven thousand  
13   (307,000) level.

14                  THE CHAIRPERSON:       Since we're talking  
15   about this -- this capacity management matter, I was  
16   wondering yesterday about -- because of your -- of the  
17   reconfiguration and the -- the renegotiation of the  
18   contracts, notwithstanding the comments you made about  
19   the impact of weather, do you expect that the  
20   reconfiguration/renegotiation will have a negative  
21   impact on your ability to capture capacity management  
22   values?

23                  In other words, what I'm saying is that  
24   because you've modified the arrangements, will you  
25   still be able to effect pretty substantial recoup --

1 recuperation of the costs that you incur?

2 MS. LORI STEWART: That's a very good  
3 question. And directionally I would expect our  
4 opportunities for capacity management revenues to  
5 decrease under the proposed portfolio.

6 We have shed fairly substantial portions  
7 of long-haul transportation. And when I'm speaking of  
8 that, I'm talking to the ANR Southwest and Southeast  
9 legs of transport. And those did represent a -- a  
10 fairly healthy contribution to capacity management  
11 revenues.

12 We're not positioned such that in a --  
13 in a summer following a cold year we will be, for  
14 example, buying at the ANR PL (phonetic) injection  
15 point. It -- it involves no upfront or demand charges  
16 associated with transportation to that point.

17 And as a result, of course, we will have  
18 no opportunity to optimize that capacity. So  
19 directionally, yes, I would expect us to earn less  
20 capacity management revenues associated with the  
21 proposed portfolio.

22 THE CHAIRPERSON: Any other under --  
23 undertakings?

24 MR. DOUG BEDFORD: No.

25 MR. RAYMOND LAFOND: So potentially,

1 the \$3 million savings could be eliminated with a \$3  
2 million reduction -- or -- or reduction of to about  
3 half of the recuperation of revenues from capacity  
4 management?

5 MS. LORI STEWART: That is -- that is a  
6 potential outcome, although our objective should always  
7 be to right-size the portfolio from day 1. We don't  
8 want to over-contract on to -- to -- and then speculate  
9 that we might be able to earn money on those assets.

10 Rather, we're sizing the portfolio to  
11 the extent possible to meet the needs of the market and  
12 then in those circumstances, such as a warmer than  
13 normal year, we will do our best to optimize or reduce  
14 the fixed costs of that portfolio.

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: Thank you for  
19 completing those undertakings. Let's turn it back to  
20 you, Mr. Meronek.

21 MR. BRIAN MERONEK: Thank you, Mr.  
22 Chairman. Before I recommence -- although Mr. Stauff  
23 will be formally introduced later on today, he is  
24 present at the table with me, and I just didn't want  
25 the Board to think that -- that there was an interloper

1 here. But if it's okay with the Board if Mr. Stauff  
2 sits here while I do my cross?

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Absolutely.

7 MR. BRIAN MERONEK: Thank you, sir.

8

9 CONTINUED CROSS-EXAMINATION BY MR. BRIAN MERONEK:

10 MR. BRIAN MERONEK: Mr. Sanderson, I --  
11 I indicated yesterday that I'd finished all my price-  
12 forward curves questions. But as I lay awake last  
13 night thinking of nothing else, probably much to your  
14 cha -- chagrin, I have some more questions. And I  
15 guess the adage is be careful what you ask for.

16 But I just want to understand Table 7 a  
17 little better, schedule 1, if you could turn to that,  
18 please.

19 MR. BRENT SANDERSON: You're referring  
20 to schedule 1 of Tab 7 --

21 MR. BRIAN MERONEK: Yes, sir.

22 MR. BRENT SANDERSON: -- that we -- with  
23 reference to the undertaking that I just reported back  
24 on?

25 MR. BRIAN MERONEK: Yes, sir.

1 MR. BRENT SANDERSON: I'm there.

2 MR. BRIAN MERONEK: Now just so that I  
3 can understand the schedule a little better, and we'll  
4 deal with year 1, in terms of Centra's seasonal price  
5 curves, the -- the seasons here would be April to  
6 October, which rep -- which would represent the summer  
7 season, correct?

8 MR. BRENT SANDERSON: Yes, as considered  
9 in the gas industry. For the gas industry, summer is  
10 April to October; winter is considered to be November  
11 through March.

12 MR. BRIAN MERONEK: And looking at line  
13 12, for example, the -- the prices in year 1 are all  
14 consistently the same for the summer at three dollars  
15 and forty cents (\$3.40), and consistently the same at -  
16 - for the winter prices, at three eighty-two (3.82),  
17 correct?

18 MR. BRENT SANDERSON: Correct.

19 MR. BRIAN MERONEK: Now what numbers  
20 did you input or were inputted into the SENDOUT model?

21 MR. BRENT SANDERSON: The seasonal  
22 price curves or the -- in -- in the case of each  
23 delivery hub, the prices that you just referenced?

24 MR. BRIAN MERONEK: Was it the three-  
25 forty (3.40) -- for example, with AECO, and the three-



1 eighty-two (3.82)?

2 MR. BRENT SANDERSON: In terms of the  
3 period depicted, yes. For April 13 through October 13,  
4 three dollars and forty cents (\$3.40), and for November  
5 through March -- November 13 through March 14, the  
6 three dollars and eighty-two cents (\$3.82) and so on  
7 each -- each successive schedule.

8 MR. BRIAN MERONEK: And likewise for  
9 year 5 -- and that's on schedule 1(e), page 5 of 6,  
10 line 12 -- with AECO the seasonal average for the  
11 summer would be four dollars and fifty-seven cents  
12 (\$4.57) per GJ, correct?

13 MR. BRENT SANDERSON: Yes.

14 MR. BRIAN MERONEK: And four dollars  
15 and ninety-six cents (\$4.96) per GJ for the winter  
16 season?

17 MR. BRENT SANDERSON: Yes.

18 MR. BRIAN MERONEK: And again, inputted  
19 into the SENDOUT model would be those average prices  
20 from lines 12 down through 19?

21 MR. BRENT SANDERSON: Yes.

22 MR. BRIAN MERONEK: Now I think in --  
23 in struggling to -- to understand, I probably asked you  
24 for the wrong undertaking. Is there any way you can  
25 duplicate year 1 and year 5, I'm sure you can, for --

1 up to the current date to determine what the  
2 corresponding prices would be?

3 MR. BRENT SANDERSON: Yes, I could  
4 undertake to do that.

5 MR. BRIAN MERONEK: Thank you, sir.

6 MR. BRENT SANDERSON: Just for  
7 clarification, are you looking for both individual  
8 monthly prices and seasonal averages for those -- for  
9 those periods or just the av -- seasonal averages?

10 MR. BRIAN MERONEK: I -- I would be  
11 looking for a duplication or a replication of Schedule  
12 1(a), page 1 of 6, and Schedule 1(e), page 5 of 6.

13 MR. BRENT SANDERSON: I'll undertake to  
14 do that, sir.

15 MR. BRIAN MERONEK: Tha -- thank you.

16

17 --- UNDERTAKING NO. 10: Centra to provide a  
18 replication of Schedule  
19 1(a), page 1 of 6, and  
20 Schedule 1(e), page 5 of 6

21

22 CONTINUED BY MR. BRIAN MERONEK:

23 MR. BRIAN MERONEK: Now, in terms of

24 SENDOUT, I -- I believe, Mr. Kostick, you're the --

25 you're the go-to man. In terms of the inputs into the

1 SENDOUT model, were they all Centra's inputs? And by  
2 that, I mean they were all derived from Centra numbers,  
3 I -- I guess save and accept for the forward price  
4 curves?

5 MR. NEIL KOSTICK: We were the source  
6 of the numbers. For example, the rates for  
7 transportation services and storage services would have  
8 been derived from either what's published by  
9 transportation and storage operators or what was  
10 arrived at through negotiation. So those numbers were  
11 applied by us into the model.

12 MR. BRIAN MERONEK: And the same with  
13 weather, correct?

14 MR. NEIL KOSTICK: Yes, that'll be  
15 based on our historical weather.

16 MR. BRIAN MERONEK: And were there any  
17 other major inputs?

18 MR. NEIL KOSTICK: Not beyond what's  
19 already been discussed, I believe, in the application.

20 MR. BRIAN MERONEK: Now, with respect  
21 to ICF's model, what inputs, if any, from ICF were  
22 provided by Centra?

23 MR. NEIL KOSTICK: We would have  
24 provided the same inputs with respect to storage and  
25 transportation rates.

1                   MR. BRIAN MERONEK:    The difference  
2   being the weather.  Tha -- that would have been  
3   independent, correct?

4                   MR. NEIL KOSTICK:    Yes, I believe they  
5   used their own source of information for the weather.

6                   MR. BRIAN MERONEK:    And as we saw  
7   yesterday, their own price curves?

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

9  
10                  MR. BRIAN MERONEK:    Now, in terms of  
11   this -- the -- the SENDOUT model and the reliance by  
12   Centra, the evidence is replete with the assessment  
13   that it was directional.  On a scale of -- well, in  
14   terms of percentage, how much did Centra rely upon the  
15   SENDOUT model in relationship to other non-quantitative  
16   considerations, such as reliability and flexibility?  
17   Can you -- can you guesstimate that?

18                  MR. NEIL KOSTICK:    I don't have such a  
19   percentage breakdown at hand.  I can't do that, sorry.

20                  MR. BRIAN MERONEK:    Well, is it -- was  
21   it -- was it more -- was there more reliance on SENDOUT  
22   than the other non-qualitative factors?

23                  MR. NEIL KOSTICK:    All factors were  
24   considered in aggregate.  Some factors, such as  
25   flexibility, are, in part, a comparison between one (1)

1 option to another. So, for example, the ANR/Great  
 2 Lakes portfolio would be compared to the Option B  
 3 portfolio with respect to flexibility. With respect to  
 4 total portfolio costs, of course, the model provided  
 5 the results in that regard. Other factors, such as  
 6 supply diversity, was a comparison between the ANR --  
 7 ANR/Great Lakes option and Option B.

8                   So in some cases, you're looking for --  
 9 to see which option was better than the other in order  
 10 to make that determination between options. And then  
 11 as far as sizing of storage capacities or  
 12 transportation capacities, that was directionally  
 13 influenced by the model results, as opposed to -- for  
 14 example, renewal rights were also a consideration, but  
 15 renewal rights didn't factor into the sizing of  
 16 capacity.

17                   MR. BRIAN MERONEK: But you can't score  
 18 them on a scorecard scale, or you didn't do that?

19                   MR. NEIL KOSTICK: We didn't use a  
 20 scorecard methodology, that's correct.

21                   MR. BRIAN MERONEK: Now, with respect  
 22 to the SENDOUT model, did the -- were there any  
 23 assumptions made as to the recovery of costs in the  
 24 secondary market experience by Centra?

25                   MR. NEIL KOSTICK: No, as we've

1 discussed, any attempt to forecast potential capacity  
2 management revenues is dependent not only on the  
3 weather but on market conditions at the time. So there  
4 was no factoring in of capacity management revenues  
5 that could potentially be achieved.

6 MR. BRIAN MERONEK: But everything else  
7 is -- was a forecast as well. So I'm -- I'm struggling  
8 to determine the -- the dis -- the delineation in not  
9 using the capacity release forecast versus weather and  
10 price curve forecast.

11 MS. LORI STEWART: It -- it's a  
12 function of our mandate and our objective, Mr. Meronek.  
13 Our -- our mandate is to serve -- to serve the load, or  
14 to meet the Manitoba market's requirements for natural  
15 gas. And we're designing a portfolio that is best  
16 suited, or is a "best fit" as Mr. Kostick refers to it  
17 as, for this marketplace.

18 At that point, based on a number of  
19 moving parts, there may be an opportunity to reduce  
20 some of the fixed costs of that portfolio. But it's  
21 certainly not something that we would want to depend  
22 on, or to add another complicating factor to the  
23 decision about the portfolio that we intend to put in  
24 place.

25 So let's -- how -- how we viewed it was,

1 let's focus first on what our mandate is, to serve the  
2 needs of Manitobans and to design the best-fit  
3 portfolio to meet that mandate.

4 MR. BRIAN MERONEK: Thank you for that.  
5 In terms of the -- the toll inputs, I understand that  
6 the TCPL toll used was two dollars and twenty-four  
7 cents (\$2.24) per GJ, eastern zone toll, which would  
8 represent approximately sixty-eight cents (.68) per GJ  
9 for the MDA zone, correct?

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

11 MR. BRIAN MERONEK: And I know that  
12 there's some updated evidence coming from TCPL, but my  
13 understanding is that the current application before  
14 the -- the NEB is for tolls in the neighbourhood of  
15 forty (40) to forty-four cents (.44) per GJ. Is that  
16 correct?

17 MS. LORI STEWART: Are you talking  
18 about for the path from NIT (phonetic) to the MDA,  
19 or...?

20 MR. BRIAN MERONEK: Yes.

21 MS. LORI STEWART: Subject to check, I  
22 would need to go and reference those toll schedules,  
23 but -- but yes, directionally, TransCanada's  
24 restructuring proposal was designed to effect a  
25 significant toll reduction, recognizing however that

1 that proposed toll reduction is now proposed to move  
2 upwards by at least 30 percent.

3 MR. BRIAN MERONEK: And -- and as the  
4 application currently sits, the tolls for 2013, were to  
5 be even less than 2012, correct?

6 MS. LORI STEWART: No, they were  
7 proposed to be the same tolls for 2012 and 2013.

8 MR. BRIAN MERONEK: And the 30 percent  
9 which is being talked about is the 30 percent off the  
10 application -- a 30 percent increase off the  
11 application amount, not the 30 perc -- not 30 percent  
12 in addition to the present tolls in effect?

13 MS. LORI STEWART: That's correct.

14

15 (BRIEF PAUSE)

16

17 MR. BRIAN MERONEK: Now I want to  
18 discuss for a moment the -- the options -- the eastern  
19 storage options that were considered. There's been a  
20 lot of evidence on the record, but I just want to  
21 clarify something on the record, if I -- if I could.

22 As I understand it, Mr. Kostick, there  
23 were five (5) storage operators, and to use Mr. Peters'  
24 vernacular, who you picked up the phone and talked to,  
25 correct?



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

2 MR. BRIAN MERONEK: And you received  
3 four (4) formal proposals?

4 MR. NEIL KOSTICK: Yes.

5 MR. BRIAN MERONEK: If you could turn  
6 to Information Request CAC/CENTRA-15, and more  
7 specifically, the attachment, being the Board  
8 recommendation by management to the Manitoba Hydro  
9 board of directors. Do you have that, sir?

10 MR. NEIL KOSTICK: Yes, I do.

11 MR. BRIAN MERONEK: If you look in --  
12 on the first page, page 1 of 3, under "Background,"  
13 halfway down, it indicates that there were rep --  
14 proposals received from stix -- six (6) storage  
15 operators? Can you --

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

17 MR. BRIAN MERONEK: -- can you help me  
18 out with the -- the six (6) versus five (5)?

19 MR. NEIL KOSTICK: The distinction is  
20 that four (4) storage proposals were received from --  
21 among eastern storage operators. We did hold  
22 discussions with other storage operators beyond the  
23 eastern options. As we detailed in the application, it  
24 was clear that only eastern options were -- would be  
25 the most economic and also provide the level of

1 reliability required.

2                   So for reasons beyond even just the  
3 storage costs of the non-eastern options, such as the  
4 transportation costs associated with moving storage gas  
5 from the non-eastern options, those options were  
6 eliminated, as was discussed in detail in the  
7 application and also in the -- in the technical  
8 conference. But we did hold discussions with other  
9 storage operators. And two (2) other storage proposals  
10 did come forward through that process.

11                   MR. BRIAN MERONEK:    So there were six  
12 (6) written proposals?

13                   MR. NEIL KOSTICK:    Whether they're  
14 written or not, there were discussions made. They  
15 might have come in the form of -- I guess you'd call it  
16 written in the form of a slide presentation, or a -- or  
17 something communicated by email. So, sure, there were  
18 six (6) proposals.

19                   MR. BRIAN MERONEK:    And in the next  
20 sentence it says:

21                    "In addition to considering portfolio  
22 reliability, flexibility, and access  
23 -- access to liquid supply, the  
24 leading proposals were  
25 comprehensively modelled."

1 By "leading proposals," is that  
2 referenced to ANR and Option B?

3 MR. NEIL KOSTICK: That's correct.

4

5 (BRIEF PAUSE)

6

7 MR. BRIAN MERONEK: Now, in -- in terms  
8 of the length of contract, there's been a lot of  
9 discussion. But I take it in answer to -- answers to  
10 questions posed by Mr. Peters and -- and by the Chair,  
11 that Centra went into negotiations promoting a five (5)  
12 year term, all things being equal. Would that be fair?

13

14 (BRIEF PAUSE)

15

16 MR. NEIL KOSTICK: I don't think  
17 "promoting it" is the right term. I would say that it  
18 was a logical starting point for negotiations.

19 MR. BRIAN MERONEK: Well, I -- I don't  
20 want to get hung up on the vernacular, but Centra would  
21 not have gone into discussions and started off with a  
22 term length that it didn't feel comfortable with.  
23 Would that be fair?

24 MR. NEIL KOSTICK: We hadn't made any  
25 conclusions on what our preferred term would be at that

1 point. The five (5) year term was a logical starting  
2 point at -- on the face of it we wouldn't have been  
3 alarmed by it.

4 MR. BRIAN MERONEK: And all things  
5 being equal and -- and implicitly cost, Centra would  
6 have been comfortable with a five (5) year term. Would  
7 that be fair?

8 MR. NEIL KOSTICK: Could you clarify  
9 the question?

10 MR. BRIAN MERONEK: All -- and if -- if  
11 all things were equal, specifically pricing, Centra  
12 would have been comfortable with a five (5) year term.  
13 Would that be fair?

14 MR. NEIL KOSTICK: The selection of  
15 term is in part influenced by pricing. So it depends  
16 on what the pricing level would be.

17 MR. BRIAN MERONEK: I -- I was assuming  
18 pricing consideration being acceptable, a five (5) year  
19 term would have been acceptable to Centra?

20 MR. NEIL KOSTICK: If we felt that we  
21 could get -- if the acceptable pricing terms were the  
22 terms that we arrived at and we've applied for, we  
23 would have had a preference for seven (7) years to  
24 secure those rates for a somewhat longer term.

25 MR. BRIAN MERONEK: But you didn't go

1 into negotiations starting off with seven (7) years as  
2 a starting point, correct?

3 MR. NEIL KOSTICK: Yes, I believe  
4 that's been stated, yes.

5 MR. BRIAN MERONEK: Now, the difference  
6 between five (5) years and seven (7) years was a matter  
7 of some discussion yesterday. And subject to what ANR  
8 has to say, the Board may or may not be able to know  
9 what the difference in cost was in relationship in  
10 going from five (5) years to seven (7) years.

11 Is that correct?

12 MR. NEIL KOSTICK: That's correct.

13 MR. BRIAN MERONEK: So if ANR says,  
14 Sorry, we're not -- we don't want that information  
15 revealed, the Board will have no way of knowing whether  
16 the in -- the quid pro quo from going from five (5) to  
17 seven (7) years was fifty dollars (\$50) or five hundred  
18 dollars (\$500) or five hundred thousand dollars  
19 (\$500,000).

20 Is that correct?

21 MR. NEIL KOSTICK: I'm not sure I would  
22 characterize it as a -- as a quid pro quo. But subject  
23 to resolving the matter with ANR and Great Lakes, that  
24 would determine what information can be presented in  
25 this forum.

1                   MR. BRIAN MERONEK:   We do know,  
2   however, that -- from your evidence yesterday that,  
3   subject to check, there were a couple things that were  
4   introduced subsequent to the five (5) year discussion  
5   which, in part, I suppose, induced -- or, culminated in  
6   the seven (7) years.

7                   And I think you indicated the Joliet to  
8   Chicago hub was one (1) new factor or -- or new item on  
9   the menu, correct?

10                  MR. NEIL KOSTICK:   We have that as an  
11   undertaking to formally respond to.  I -- I do have the  
12   information in that regard.  It hasn't been formally  
13   put together.  I might just check with my team here for  
14   one (1) second, if you could.

15

16                                       (BRIEF PAUSE)

17

18                  MR. NEIL KOSTICK:   We need to review  
19   it, and we'll provide the response to that undertaking  
20   after the break.

21                  MR. BRIAN MERONEK:   You can't say at  
22   this point whether the Joliet to Chicago was -- was a  
23   new item on the menu subsequent to the five (5) year  
24   discussion?

25

1 (BRIEF PAUSE)

2

3 MR. DOUG BEDFORD: I think, Mr.  
4 Meronek, my client's preference is that we'll try and  
5 provide it before the morning's out. But we'd like to  
6 do it in a more formal way.

7 MR. BRIAN MERONEK: Fair enough. Now,  
8 there was some mention, Mr. Kostick, about the issue of  
9 Manitoba storage. And the -- the question Manis --  
10 Manitoba storage has -- or, that topic is not a new one  
11 (1), correct?

12 MR. NEIL KOSTICK: That's correct.

13 MR. BRIAN MERONEK: It's been  
14 percolating for several years. Would you -- would you  
15 agree with that?

16 MR. NEIL KOSTICK: Yes.

17 MR. BRIAN MERONEK: But as I understand  
18 it, Centra's gone so far as to do some high-level  
19 analysis?

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

21 MR. BRIAN MERONEK: Has Centra engaged  
22 an independent consultant to assist in that regard?

23 MR. NEIL KOSTICK: Yes.

24 MR. BRIAN MERONEK: And is there  
25 anything that can be put on the record in that regard?

1 (BRIEF PAUSE)

2

3 MR. NEIL KOSTICK: As per one (1) of  
4 the IR responses, we view that information as  
5 commercially sensitive and would seek to keep that  
6 information confidential at this time.

7 MR. BRIAN MERONEK: Was the prospect of  
8 Manitoba storage a driver for Centra or Manitoba Hydro  
9 in going to seven (7) years?

10 MR. NEIL KOSTICK: It was not a large  
11 driver. It was a background consideration. As far as  
12 potentially around 2020, if it had proved to be  
13 economic and technically feasible, that conceivably  
14 there could be a -- a local storage facility  
15 operational by that time. It could also take longer  
16 than that, given that it's never been done before in  
17 Manitoba. And there would obviously a lot of -- a lot  
18 of things to -- to accomplish with respect to  
19 regulatory matters and environmental matters and so  
20 forth. So it could even take longer than that.

21 But the ultimate driver was we sought an  
22 intermediate term from the start of -- of the whole  
23 process, and seven (7) years is within an intermediate  
24 range. And given the pricing that we were able to  
25 obtain, we felt that a seven (7) year term was



1 appropriate and represented an appropriate, balanced  
2 approach.

3 MR. BRIAN MERONEK: But it was a  
4 consideration that you posed to the Manitoba Hydro  
5 board of directors in part to conclude that seven (7)  
6 years was appropriate.

7 Do you agree with that?

8 MR. NEIL KOSTICK: It was referenced  
9 within the recommendation, as the Board is aware, that  
10 there is, at least a very high level, potential for  
11 Manitoba storage development. But any investigation of  
12 that, as we've already talked about, is very  
13 preliminary at this point.

14 MR. BRIAN MERONEK: Now I'd asked last  
15 week, and it probably got lost in the mix, for a copy  
16 of the contracts as drafted by ANR and Great Lakes.

17 Can someone tell me what the status of  
18 those contracts are?

19 MR. NEIL KOSTICK: The service requests  
20 have been submitted. The draft contracts, to my  
21 understanding, are being formulated or put together by  
22 ANR and Great Lakes based on the pro forma contracts.  
23 And I don't know the exact date when they expect to  
24 return those to us, but I don't expect it should be too  
25 long from now.

1                   MR. BRIAN MERONEK:    The indication in  
2   response to CAC/CENTRA-15 on -- in the middle of May  
3   was that the drafts were in -- in the -- in the process  
4   of being completed and they would be provided as --  
5   when that was completed.

6                   Is there any reason why it's taking over  
7   a month to -- to draft pro forma contracts supposedly  
8   to incorporate as well any changes to -- that  
9   reference, particularly this particular set of  
10  arrangements?

11                  MR. NEIL KOSTICK:    I can't speak  
12  specifically to it, but my understanding is that once  
13  service requests are submitted to ANR and Great Lakes,  
14  it kicks off a chain of -- or, it kicks off a process  
15  that they have internally that I couldn't go through  
16  all the details whether it would include credit checks,  
17  things of that nature. And I don't know what their  
18  typical timeline is for completing things of that  
19  nature.

20                  MR. BRIAN MERONEK:    Is it anticipated  
21  Centra will file those contracts prior to the Board  
22  rendering its decision?

23                  MR. NEIL KOSTICK:    I would expect that  
24  it could be produced fairly shortly, such that they  
25  could be produced prior to a Board decision.

1                   MR. BRIAN MERONEK:   Now I want to turn  
2 to the rebuttal evidence that's been filed by Centra,  
3 and that would be Exhibit CENTRA-2, I believe.

4

5                                 (BRIEF PAUSE)

6

7                   MR. BRIAN MERONEK:   Do you have that  
8 Mr. Kostick?

9                   MR. NEIL KOSTICK:    Yes, I do.

10                  MR. BRIAN MERONEK:   Okay. And I'd like  
11 to have you turn to page 10 of 20. Commencing at page  
12 10 of 20, there are three (3) discrete risks identified  
13 by Centra in going to a shorter contract, and I'd like  
14 to examine each and every one of those, please.

15                  Firstly, there's a reference to a  
16 transportation and storage rate risk. The risk being  
17 that -- these are my words, that if there was a shorter  
18 term there would be a risk that renegotiation would  
19 take place at higher rates. Have I -- have I captured  
20 that?

21                  MR. NEIL KOSTICK:    That's the essence  
22 of it, I believe, yes.

23                  MR. BRIAN MERONEK:   And that's a  
24 hypothetical, isn't it?

25                  MR. NEIL KOSTICK:    Yes. We don't know

1 what market conditions will be at the end of any  
2 contract term.

3 MR. BRIAN MERONEK: So conversely,  
4 rates could go down?

5 MR. NEIL KOSTICK: It is a possibility.  
6 It's generally viewed in the market right now that it's  
7 a soft storage market, which contributes to the  
8 potential to get attractive rates at this point in  
9 time, which we feel contributed to the attractive rates  
10 that we feel that we achieved.

11 We also discussed yesterday about the  
12 asymmetrical risk in this regard, as a number of our  
13 contracts are significantly discounted. For example,  
14 the Great Lakes winter transportation from Michigan  
15 back to Emerson is 76 percent below the tariff rate.

16 If, on a shorter term, the value of that  
17 transportation has increased, if it increases to even  
18 50 percent of the tariff rate, it would add, I think, 2  
19 or \$3 million to cost of the portfolio if we recontr --  
20 if we have to re-contract shorter than a seven (7) year  
21 term. So it would introduce higher costs at a shorter  
22 date.

23 MR. BRIAN MERONEK: You're jumping  
24 ahead to number 2. We haven't got there yet. The risk  
25 -- has -- has Centra quantified the risk associated

1 with going from five (5) to seven (7) years?

2 MR. NEIL KOSTICK: If you're asking  
3 that with respect to this transportation and storage  
4 rate risk that you've identified?

5 MR. BRIAN MERONEK: Yes, sir. And I --  
6 I should say, conversely, it's more appropriately  
7 stated going from seven (7) to five (5) years.

8 MR. NEIL KOSTICK: The only way that we  
9 could attempt to quantify it is to make an assumption  
10 that all of the services went to the maximum rate. And  
11 as we discussed yesterday, the maximum rate for this  
12 package of services is \$31 million annually. The rates  
13 that we've agreed to equal \$14 million on an annual  
14 basis.

15 MR. BRIAN MERONEK: And let's go to  
16 item number 2, that's the Great Lakes winter  
17 transportation. And the discount at that -- at the  
18 present time is, you've indicated, 76 percent relative  
19 to the maximum tariff rate. Is that correct?

20 MR. NEIL KOSTICK: For the Great Lakes  
21 winter transportation capacity that moves storage gas  
22 back to Manitoba? Yes, that's correct.

23 MR. BRIAN MERONEK: And that can be  
24 seen in PUB Exhibit 7, Tab 13? If you could just turn  
25 that up, please.

1 MR. NEIL KOSTICK: Yes, I have that.

2 MR. BRIAN MERONEK: So could -- could  
3 you just point out to the Board where the 76 percent  
4 discount is derived?

5 MR. NEIL KOSTICK: Yes. If we refer to  
6 line number 27, which is the Great Lakes transportation  
7 from ANR in Michigan to Emerson, the tariff rate for  
8 that transportation, which is the first column, is  
9 about nine dollars and forty-five cents (\$9.45). The  
10 rate that is proposed under this package of services is  
11 two dollars and twenty-eight cents (\$2.28), which  
12 results in a 76 percent discount to the tariff rate.

13 MR. BRIAN MERONEK: And that's --  
14 that's pretty cheap service at this point, correct?

15 MR. NEIL KOSTICK: In our view, it's  
16 very cost effective because this transportation path  
17 requires large capacity because it is related to moving  
18 storage gas back to Manitoba. And on any given day in  
19 the winter, we could require 0 gigajoules from storage,  
20 or two hundred (200) and -- or over 200,000 gigajoules  
21 from storage. So you need to hold a lot of capacity.  
22 And given that the transportation is intended to move  
23 storage gas, you know that it's not going to be moving  
24 at full capacity every day. It's going to be moving at  
25 all levels from zero to the max depending on the

1 weather day-to-day.

2                   So given that it has to be large  
3 capacity that, by design, is not going to be used at a  
4 high load factor, you want it to be very cost  
5 effective. And for that type of transportation this is  
6 very cost effective, in our view.

7                   MR. BRIAN MERONEK: And in its function  
8 in part of the market, or probably in total, what the  
9 market will bear in terms of the use of the service.  
10 Would you agree with that?

11                  MR. NEIL KOSTICK: That is a  
12 contributing factor to the value of that  
13 transportation. I would agree.

14                  MR. BRIAN MERONEK: Now, you've  
15 indicated in -- on page 11 that if -- if the discount  
16 was reduced by 50 percent that would add \$2.7 million  
17 to the tariff rate. Could you identify how you arrived  
18 at that number?

19                  MR. NEIL KOSTICK: What this indicates  
20 is -- is that if the tariff rate rose to only provide  
21 Centra a 50 percent discount to tariff, the trans --  
22 the capacity related to that transportation multiplied  
23 by half of the nine dollar and forty-five cent (\$9.45)  
24 maximum rate would increase the costs above what we've  
25 proposed by \$2.7 million. So essentially, you're

1 moving from a rate that is 24 percent of the maximum  
2 rate to 50 percent of the maximum rate. And that would  
3 add \$2.7 million to the cost of that transportation  
4 path per year.

5 MR. BRIAN MERONEK: And conversely, or  
6 not -- and -- and by extension, if it was the tariff  
7 rate it would be nine point four five six (9.456) times  
8 225,000 decatherms, to arrive at an \$8.1 million  
9 increase?

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

11 MR. BRIAN MERONEK: Again, that's a  
12 hypothetical, correct?

13 MR. NEIL KOSTICK: That's correct. We  
14 can't predict any of these -- the future transportation  
15 values in advance, but it is a risk.

16

17 (BRIEF PAUSE)

18

19 MR. BRIAN MERONEK: In terms of market  
20 uncertainty, there's more than just a TransCanada  
21 mainline toll issue that sits out there as a -- as a  
22 market risk. Would you agree with that?

23 MR. NEIL KOSTICK: Yes, I agree.

24 MR. BRIAN MERONEK: There seems to be -  
25 - well, it doesn't seem to be, there's a -- a



1 structural -- a market structural change that's a --  
2 that's a paradigm shift in the way the gas supply and  
3 transportation network has operated up to now. Would  
4 you agree with that?

5 MS. LORI STEWART: Yes, and that's the  
6 -- that's the point we're making in this rebuttal.

7 MR. BRIAN MERONEK: Wouldn't  
8 conventional wisdom tell you that locking into a  
9 longer-term contract in -- in a period of major  
10 uncertainty would not be appropriate until there was  
11 some stabilization in the overall market structure?

12 MR. NEIL KOSTICK: That argument would  
13 be, perhaps, more valid if all of the rates that we had  
14 agreed to were maximum rates, in which case you'd  
15 contract for, you know, shorter term.

16 And you would know that under the -- the  
17 renewal rights that we've negotiated -- well, actually,  
18 in -- in the case of contracting for ANR and Great  
19 Lakes capacity at maximum tariff rates you would  
20 automatically get renewal rates. So in that event if  
21 you were -- you wouldn't have any concern about having  
22 to pay higher rates if you're renewing under a shorter  
23 term, because you're already paying the maximum.

24 In our case, our rates are significantly  
25 discounted. So that introduces the risks that we've

1 talked about, that if you sign up for a shorter term,  
2 market circumstances could have changed for the worst  
3 with respect to the rates that you would be able to  
4 secure at that time.

5                   And as we've talked about, there's  
6 asymmetrical risk that \$14 million that we're proposed  
7 to pay under this portfolio could range anywhere up  
8 from there up to a maximum of \$31 million. Whereas I  
9 think it's much less likely that after a few years that  
10 we be paying -- instead of \$14 million we'd be paying  
11 \$7 million or \$5 million for the portfolio.

12                   MR. BRIAN MERONEK: Are -- are you  
13 seriously suggesting that you can envision a likely  
14 scenario where ANR for the -- the suite of services  
15 that's being supplied to a valued customer would all be  
16 at max rates?

17                   MR. NEIL KOSTICK: I don't know that  
18 there's a large likelihood that they would all be at  
19 max rates. But if the Great Lakes' winter capacity  
20 went to max rate, that adds \$8 million. And there is  
21 for sure the potential for the value of the Great Lakes  
22 winter transportation capacity to increase.

23                   In addition, if we paid for storage at  
24 maximum rates compared to what we're paying, that would  
25 add about \$3 million per year. So if Great Lakes'

1 winter capacity went to maximum rate, and if storage  
2 went to the maximum rate -- and ANR does continue to  
3 sell storage at its maximum rate right now is our  
4 understanding, that's \$11 million right there. So it  
5 doesn't take you all the way to \$31 million, but it  
6 takes you to 25 million, anyways.

7 MR. BRIAN MERONEK: And of course  
8 there's nothing on the record to compare what maximum  
9 rates are being charged to other people and the reasons  
10 for those maximum rates, correct?

11 MR. NEIL KOSTICK: As far as what's on  
12 the record, we've made reference to our knowledge that  
13 ANR has sold storage at its maximum rate.

14 MR. BRIAN MERONEK: But you don't know  
15 what the terms were and you don't know what the price  
16 was and you don't know a lot of other things that you  
17 would want to know to -- to determine whether you're  
18 comparing apples to apples. Would that be fair?

19 MR. NEIL KOSTICK: We do know for a  
20 fact that at least in one (1) instance there was a  
21 maximum rate storage deal concluded for a term of five  
22 (5) years. And that would -- would have been after  
23 Centra signed the term sheet with ANR and Great Lakes.

24 MR. BRIAN MERONEK: Are you in a  
25 position to table that?

1 MS. LORI STEWART: It's publicly  
2 available information, Mr. Meronek.

3 MR. BRIAN MERONEK: Fine. Then I guess  
4 it can be tabled. Could you table that, please?

5 MS. LORI STEWART: Yes, we can.

6 MR. BRIAN MERONEK: Yeah, I -- I had  
7 asked for an undertaking, and I'm going to apparently  
8 get one, to file the five (5) year contract that's been  
9 signed by a shipper with ANR for five (5) years at  
10 maximum rates.

11

12 --- UNDERTAKING NO. 11: Centra to file the five (5)  
13 year contract that's been  
14 signed by a shipper with  
15 ANR for five (5) years at  
16 maximum rates

17

18 MS. LORI STEWART: Yeah, just for  
19 clarification, Mr. Meronek, we're not privy to the  
20 actual document, the contract. But what we are privy  
21 to is the contract term and the rate which are posted  
22 on the -- the public bulletin board. So we can  
23 certainly print a copy of that and provide that to --  
24 in response to the undertaking.

25

1 CONTINUED BY MR. BRIAN MERONEK:

2 MR. BRIAN MERONEK: That would be  
3 helpful. Thank you.

4

5 (BRIEF PAUSE)

6

7 MR. BRIAN MERONEK: In terms of the  
8 rebuttal, just carrying on -- oh, I'm sorry, before we  
9 -- I -- I had a brain cramp, but I've had that  
10 resolved. You were mentioning right of first refusal  
11 rights. There would be nothing to prevent Centra from  
12 obtaining right of first refusal, ROFR rights, to --  
13 for a five (5) year contract. Would that be fair?

14 MR. NEIL KOSTICK: Any discussions  
15 related to a five (5) year term are not current and  
16 would represent intermediate negotiating positions.  
17 And you're probably aware that in the course of  
18 negotiations previous iterations of offers don't  
19 continue to exist after -- that the parties have moved  
20 on to further discussions. So we can't say anything  
21 with certainty in that regard.

22 MR. BRIAN MERONEK: No, but just --  
23 just in -- in terms of discussions. What -- what's the  
24 downside for ANR offering a ROFR right for five (5)  
25 years?

1 MR. NEIL KOSTICK: I -- I can't say how  
2 they would evaluate that, but it is something that is  
3 negotiated for discounted contracts.

4 MR. BRIAN MERONEK: All right. So  
5 presumably if -- if the Board said, Go back and  
6 negotiate five (5) years, you would ask for ROFR rights  
7 for five (5) years, correct?

8 MR. NEIL KOSTICK: Yes, we would.

9 THE CHAIRPERSON: Mr. Meronek, can I  
10 just interject here? I just wanted to ask a question  
11 related to Exhibit -- PUB Exhibit 7, again, the same  
12 page, 48. I'm looking at line 27, ANR to Emerson.

13 You know, we've been talking about a 76  
14 percent decrease relative to the potential rate. But  
15 in reality, what we're looking at is a 100 percent  
16 increase -- over a 100 percent increase to what you  
17 were paying before for the same transportation --  
18 relatively the same transportation rate, right?

19 MR. NEIL KOSTICK: Yes, the rate did  
20 increase.

21 THE CHAIRPERSON: So -- so in ess -- in  
22 essence, and looking at the -- the maps and so on, the  
23 storage option that you are pursuing, you're pretty  
24 well captive to ANR to Emerson, right?

25 To make -- to make the -- to make it

1 work, you -- you have to use the ANR line to Emerson?

2 MS. LORI STEWART: The Great Lakes line  
3 to Emerson, yes.

4 THE CHAIRPERSON: I'm sorry, the Great  
5 Lakes line to Emerson.

6 MS. LORI STEWART: That's right.

7 THE CHAIRPERSON: Okay. So -- so in  
8 essence, they could have asked for a lot more than  
9 they've asked for? I mean, they -- they could have, in  
10 theory, could have said, Well, we want more than two  
11 twenty-eight (2.28); we want five dollars (\$5.00) or  
12 six dollars (\$6.00), or something like that?

13 Am -- am I correct there, or -- I mean,  
14 what's -- from their perspective, what's stopping them  
15 from -- knowing that you're in this -- you're caught in  
16 this position, what's stopping them from asking for  
17 more than two twenty-eight (2.28)?

18

19 (BRIEF PAUSE)

20

21 MR. NEIL KOSTICK: I believe that,  
22 whether we're talking about Great Lakes or ANR, they  
23 would have known that we were considering a number of  
24 options. And if they priced the services out of the  
25 market, so to speak, then we could have potentially

1 pursued another option.

2                   So for -- specifically for -- for ANR's  
3 storage, if that was the only option that there was for  
4 Centra, then -- then, yes, I -- I think there's the  
5 potential that we could wind up paying something higher  
6 for that transportation, that they would want to  
7 extract more revenue from that.

8                   But as we've talked about, we've  
9 examined a wide range of options. Some of them we were  
10 able to dismiss because we knew that they would be more  
11 expensive. But if we were going to have to pay much  
12 higher rates for these services, then that would bring  
13 other options back into play.

14                   So I think it basically boils down to  
15 ANR's and Great Lakes' understanding that if they price  
16 the services out of the market, that we could go to  
17 another option, particularly when other options in the  
18 region would have been competitive with ANR,  
19 particularly option B.

20                   MS. LORI STEWART: The other thing, the  
21 observation that you're making in terms of the current  
22 rate paid for Great Lakes and the proposed rate paid,  
23 which notionally represents the market value of that  
24 transportation path, it's indicative of an increasing  
25 market value for that path.



1                   And that's the risk mitigation that  
2 we've talked with you about, in terms of locking in  
3 that critical component of the portfolio for a longer  
4 term.

5                   MR. RAYMOND LAFOND:    I -- I just want  
6 to clarify one (1) thing in my mind. The right of  
7 first refusal provision does exist in the current  
8 twenty (20) year contract, but it was not in the  
9 proposed contract, the seven (7) year -- the proposed  
10 seven (7) year contract.

11                   Am I correct?

12                   MR. NEIL KOSTICK:    A couple of  
13 clarifications. On the existing contracts, we have the  
14 right of first refusal on all contracts, with the  
15 exception of the Great Lakes winter capacity back to  
16 Manitoba.

17                   With the proposed contracts, we will  
18 have ROFR on every contract, yes. And that would be  
19 automatic if the rates negotiated were the maximum  
20 tariff rate. And in our case, all of the contracts  
21 will be discounted, so the right of first refusal has  
22 to be negotiated as part of the -- as part of those  
23 contracts. But we'll have it on -- on all the  
24 contracts that are proposed.

25                   MR. RAYMOND LAFOND:    Thank you.

1 CONTINUED BY MR. BRIAN MERONEK:

2 MR. BRIAN MERONEK: Do I take from your  
3 response to the Chair, Mr. Kostick, that regardless of  
4 the -- the storage operator, you need Great Lakes?

5 MR. NEIL KOSTICK: For eastern storage  
6 options that we considered, ultimately Great Lakes  
7 would be the most viable path.

8 MR. BRIAN MERONEK: And Great Lakes  
9 would be the most viable path and would have been in  
10 terms of your negotiations with option B, correct?

11 MR. NEIL KOSTICK: That's correct.

12 MR. BRIAN MERONEK: Now just moving on  
13 to Centra's commentary with respect to this -- the  
14 issue of mainline transportation alternatives, and that  
15 starts at page 12 of the rebuttal evidence.

16 And if I can paraphrase the commentary,  
17 it's that Centra, in analyzing Mr. Stauff's  
18 hypothetical scenario, pointed out that -- that there  
19 were three (3) major assumptions that had to come to  
20 fruition before the hypothetical could be reasonably  
21 reliable.

22 Is that fair?

23 MS. LORI STEWART: Yes, that's fair.

24 MR. BRIAN MERONEK: And over on page 13  
25 the first one (1) is that the STFT service must

1 incorporate new flexibility measures which don't  
2 presently exist, correct?

3 MS. LORI STEWART: That's correct.

4 MR. BRIAN MERONEK: It's indicated that  
5 TCPL has not applied for it, but it is on the table  
6 before the NEB. Is it cor -- is that not correct?

7 MS. LORI STEWART: It does form part of  
8 one (1) party's proposal, yes.

9 MR. BRIAN MERONEK: Did Centra propose  
10 it?

11 MS. LORI STEWART: We did not.

12 MR. BRIAN MERONEK: Can you indicate  
13 why you wouldn't have proposed that?

14

15 (BRIEF PAUSE)

16

17 MS. LORI STEWART: Our intervention in  
18 the TransCanada restructuring application and  
19 proceeding is limited in part due to financial  
20 considerations, is limited to responding to the  
21 TransCanada application that has been made.

22 I've -- I've mentioned previously that  
23 this is an enormous undertaking and we do have limited  
24 resources. And we do have to be cognizant of the costs  
25 that we incur, in terms of mounting a more significant

1 intervention.

2                   So we have focussed our efforts on  
3 relaying to the Board our thoughts on both the Alberta  
4 system extension and on some of TransCanada's proposed  
5 changes to services and pricing.

6                   MR. BRIAN MERONEK:   Why don't you hire  
7 me? I've got really reasonable rates. If -- if the  
8 Board ordered that there be new flexibility features  
9 with respect to STFT service, that would be a good  
10 thing for Centra. Would you agree?

11                  MS. LORI STEWART:   Yes, I would.

12                  MR. BRIAN MERONEK:   One (1) of the  
13 other things that is mentioned under A -- not A, the  
14 first bullet, it's indicated that in contrast in the  
15 current NEB application, TCPL proposes to eliminate  
16 similar flexibility features for -- for manual FT  
17 service. Do you see that?

18                  MS. LORI STEWART:   Yes, I do.

19                  MR. BRIAN MERONEK:   And that references  
20 the FTRAM?

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

22                  MR. BRIAN MERONEK:   And Centra is  
23 opposing that proposed elimination, correct?

24                  MS. LORI STEWART:   Yes, we are.

25                  MR. BRIAN MERONEK:   And other shippers

1 are as well?

2 MS. LORI STEWART: Yes, they are.

3 MR. BRIAN MERONEK: And if -- and so  
4 the outcome is -- is undetermined at this point as to  
5 whether or not TCPL will be successful in that regard.

6 MS. LORI STEWART: That's correct.

7 MR. BRIAN MERONEK: The second bullet  
8 relates to the -- the present status of the -- of the  
9 STFT tolls. And we've talked about that already. The  
10 third bullet, however, relates to the indication that  
11 there should not -- there would have to be no premium  
12 for the STFT service, and TCPL's applying for a 140 to  
13 160 percent equivalent annual FT service toll?

14 MS. LORI STEWART: Yes, TransCanada has  
15 applied to increase the minimum bid floor for short-  
16 term firm services on a sliding scale, so to speak. So  
17 the minimum bid floor would increase to 140 percent for  
18 a seasonal block, to 150 percent of the FT toll for a  
19 monthly block, and to 160 percent of the FT toll for a  
20 block less than one (1) month.

21 MR. BRIAN MERONEK: And that's being  
22 opposed as well?

23 MS. LORI STEWART: Yes, it is.

24 MR. BRIAN MERONEK: And can you opine  
25 on the chances of TCPL getting tolls in that amount

1 when at the present time, as I understand it, the STFT  
2 service is at firm transportation tolls.

3 MS. LORI STEWART: I -- I can't provide  
4 an opinion on that, Mr. Meronek. The out -- the  
5 outcome is uncertain at this point.

6 MR. BRIAN MERONEK: Now, I do want to  
7 talk a bit about what Centra is asking for before the  
8 National Energy Board. And in that connection, there  
9 was an Information Request, I -- I believe by the  
10 Board, asking for Centra to table it -- the evidence  
11 before the Board as presented by Centra. And that's  
12 PUB/CENTRA-6.

13 And the reader was invited to an  
14 Internet link. And I availed myself. And I'd like to  
15 talk a bit about what Centra is applying for. And in  
16 that regard I've got a couple of answers to Information  
17 Requests that Centra prepared. I'd like to distribute  
18 those so we can talk about them.

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Are these marked as  
23 exhibits -- exhibits?

24 MR. BRIAN MERONEK: Not as of yet, sir.

25 THE CHAIRPERSON: No.

1 CONTINUED BY MR. BRIAN MERONEK:

2 MR. BRIAN MERONEK: Firstly, what I've  
3 done is I've printed off as opposed to downloaded the -  
4 - a couple of responses that Centra has provided in  
5 response to Information Requests posed, one (1) by  
6 TransCanada, as CENTRA/MANITOBA-1.9.

7 Can you identify that as -- as being a  
8 response that Centra provided in the NEB proceedings?

9 MS. LORI STEWART: Yes, I can.

10 MR. BRIAN MERONEK: And then the second  
11 one (1) is a response that Centra gave to ANE in the  
12 same hearing it -- as ANE/CENTRA-1-6.

13 Again, can you identify that as a  
14 response given to an Information Request posed by ANE?

15 MS. LORI STEWART: Yes, I can.

16 MR. BRIAN MERONEK: Perhaps we can mark  
17 those as -- I -- I can't -- I -- I'm not good at sign  
18 language.

19 MR. BOB PETERS: I'd suggest, Mr.  
20 Chairman, the Information Request from TransCanada to  
21 Centra be marked as CAC Exhibit 3.

22 THE CHAIRPERSON: There's already --  
23 there's already a 3.

24 MR. BOB PETERS: Then my records are  
25 inaccurate. I apologize. CAC Exhibit 4 for the

1 TransCanada one (1), and then Alberta Northeast Gas  
2 Information Request to Centra would be marked as CAC  
3 Exhibit 5.

4

5 --- EXHIBIT NO. CAC-4: TransCanada Information  
6 Request to Centra

7

8 --- EXHIBIT NO. CAC-5: Alberta Northeast Gas  
9 Information Request to  
10 Centra

11

12 CONTINUED BY MR. BRIAN MERONEK:

13 MR. BRIAN MERONEK: Now just looking at  
14 CAC Exhibit 5, firstly. Over on page 2 of 3, Centra  
15 was asked to describe in detail what additional  
16 attributes and flexibility Centra believes TransCanada  
17 should offer to FTF shippers. And you had a bit of a  
18 shopping list.

19 And the first one (1), it was to retain  
20 FT-RAM?

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

22 MR. BRIAN MERONEK: And for reasons  
23 described earlier, that is a useful flexibility tool in  
24 Centra's arsenal?

25 MS. LORI STEWART: That's correct.



1                   MR. BRIAN MERONEK:    The second one (1)  
2   is seasonal STFT -- first of all, just going back to  
3   FT-RAM, is -- is that a flexibility feature that was  
4   inputted into the SENDOUT model?

5

6                                   (BRIEF PAUSE)

7

8                   MS. LORI STEWART:    No, FTRAM was not  
9   modelled in SENDOUT.

10                  MR. BRIAN MERONEK:    But it's -- it's a  
11   service that Centra presently avails itself of?

12                  MS. LORI STEWART:    We do.

13                  MR. BRIAN MERONEK:    The second one (1)  
14   is -- is seasonal FT -- sorry, STFT, service at prices  
15   less than what TransCanada has proposed?

16                  MS. LORI STEWART:    That's correct.

17                  MR. BRIAN MERONEK:    Did -- Centra  
18   didn't indicate its -- its -- what it was prepared to  
19   recommend or accept or be satisfied with specifically.  
20   Is -- is that correct?

21                  MS. LORI STEWART:    That's correct.

22                  MR. BRIAN MERONEK:    Is there any reason  
23   why Centra wouldn't have put a number on it?

24                  MS. LORI STEWART:    We are interested in  
25   the views of other parties as it relates to the

1 absolute levels that should be set for those services.

2 And so we would prefer to have a complete record before

3 us before we take a position on that in final argument.

4 MR. BRIAN MERONEK: Can you indicate to  
5 the Board what -- position of other shippers are in  
6 that regard as to what shippers would be prepared to  
7 accept as a premium, if any, for STFT service?

8 MS. LORI STEWART: I'm aware that the -  
9 - the group that is characterized as the market area  
10 shippers and that represents the big three (3) eastern  
11 Canadian utilities, so Gaz Metro, Enbridge Gas  
12 distribution, and Union Gas, that their proposal is  
13 that pricing for short-term firm services should remain  
14 as is. And at present, short-term firm services are  
15 priced with a minimum bid floor of 100 percent of the  
16 FT toll as opposed to ranging between one hundred and  
17 forty (140) and one hundred and sixty (160).

18 As a re -- there are a number of  
19 Intervenor, Mr. -- Mr. Meronek, so, no, I'm not -- I -  
20 - I can't at this point speak to the positions of every  
21 party in that proceeding.

22 MR. BRIAN MERONEK: Yeah, but they're  
23 fairly prodigious Intervenor?

24 MS. LORI STEWART: I would agree with  
25 that.

1 MR. BRIAN MERONEK: The third one (1)  
 2 is a long-term seasonal transportation service of five  
 3 years. And I think that if you look to CAC Exhibit 4,  
 4 there's -- there's -- it's fleshed out a little more in  
 5 CAC Exhibit 4, which is the answer to TransCanada 1.9.  
 6 Centra indicates that it's interested in a long-term  
 7 five (5) years with ROFR rights, I guess, at a premium  
 8 of 10 percent, which you see over on page 2. Is that  
 9 accurate?

10 MS. LORI STEWART: Yes, it is.

11 MR. BRIAN MERONEK: I'm interested in -  
 12 - in the -- in the vernacular being used here. You  
 13 have five (5) years as a long-term contract whereas  
 14 with the storage and transportation contract it's seven  
 15 (7) years but it's considered intermediate. Can you  
 16 reconcile that?

17 MS. LORI STEWART: Certainly. In the  
 18 world of TransCanada, which typically has annual  
 19 contracts, which is the norm, a five (5) year  
 20 commitment is considered long-term in that -- in that  
 21 forum, as opposed to in a venue or with a service  
 22 provider such as ANR and other storage providers.  
 23 Certainly in that world in terms of storage contracts,  
 24 ten (10) to twenty (20) years would be viewed as a  
 25 long-term contract, so just different expectations

1 given the experience.

2 MR. BRIAN MERONEK: With respect to the  
3 seasonal STFT prices, as I understand it, the -- the  
4 input into the SENDOUT model was at the -- the premiums  
5 of 140 to 160 percent.

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

7 MR. BRIAN MERONEK: Was there an input  
8 with respect to long-term seasonal transport service at  
9 110 percent for five (5) years?

10 MS. LORI STEWART: No, there was not.

11 MR. BRIAN MERONEK: And lastly, the  
12 fourth item on the shopping list is firm bidirectional  
13 service and I take it that relates to what you spoke  
14 about yesterday with respect to TransCanada from  
15 Emerson to Winnipeg?

16 MS. LORI STEWART: Emerson to the load  
17 centre, yes.

18 MR. BRIAN MERONEK: Can you explain  
19 what it is that -- that is being requested precisely,  
20 what its cost is and -- and what the chances of it  
21 being approved are?

22

23 (BRIEF PAUSE)

24

25 MS. LORI STEWART: All of the utility

1 intervenors in the proceeding are interested in firm  
2 bidirectional service. It would be a service providing  
3 additional flexibility on -- on specific paths and that  
4 would provide a party with the opportunity to move gas  
5 in either direction, for example either from Emerson to  
6 the load centre or from the load centre to Emerson for  
7 -- for that toll.

8 MR. BRIAN MERONEK: So that would be a  
9 good thing for Centra?

10 MS. LORI STEWART: Yes.

11 MR. BRIAN MERONEK: Was that inputted  
12 into the SENDOUT model at all?

13 MS. LORI STEWART: No, we don't have  
14 any certainty that it would be approved.

15 MR. BRIAN MERONEK: Is there opposition  
16 from TCPL in that regard?

17 MS. LORI STEWART: Subject to check, I  
18 -- I don't believe TransCanada supports the proposal.

19

20 (BRIEF PAUSE)

21

22 MR. BRIAN MERONEK: I don't have any  
23 unutilized demand capacity in my bladder. I wonder if  
24 we could take a break?

25 THE CHAIRPERSON: Absolutely. Let's

1 take ten (10) minutes, please.

2

3 --- Upon recessing at 10:59 a.m.

4 --- Upon resuming at 11:21 a.m.

5

6 THE CHAIRPERSON: Mr. Meronek, are you  
7 ready to go?

8 MR. DOUG BEDFORD: Mr. Gosselin, if I  
9 may, I interrupted Mr. Meronek's cross-examination this  
10 morning on the discussion regarding the five (5) years  
11 and the seven (7) years, and I had anticipated that we  
12 would be able to provide answers to the relevant  
13 undertakings that were on the same subject yesterday,  
14 before noon.

15 Unfortunately, having discussed that  
16 with my colleagues, I'm persuaded we need more time.  
17 Mr. Kostick has been able to speak this morning to  
18 someone from ANR Pipeline Company about the sensitivity  
19 of what might be revealed about the discussions around  
20 a five (5) year term, but I'm not persuaded that where  
21 -- we've been clear in our communications with ANR  
22 Pipeline and that they understand what we might be  
23 saying here.

24 So I'm going to have to beg forgiveness  
25 and we will try and have a response this afternoon to

1 the undertakings. And that should allow Mr. Meronek  
2 then to explore the topic in whatever way he chooses.

3 THE CHAIRPERSON: Thank you. Mr.  
4 Meronek...?

5 MR. BRIAN MERONEK: Thank you, sir.

6

7 CONTINUED BY MR. BRIAN MERONEK:

8 MR. BRIAN MERONEK: Just carrying on  
9 with the rebuttal evidence, and we're up to page 13,  
10 starting at page 13. And it's a dissertation of  
11 Centra's responses to Mr. Stauf's discussion in his  
12 evidence as to the appropriate level of storage  
13 capacity.

14 And it -- it's quite a lengthy response,  
15 but if I can just parse it down, one (1) of the  
16 observations by Centra is that -- and Mr. Stauf was  
17 suggesting that the storage infill would be limited to  
18 10 PJs. Is that correct?

19 MR. NEIL KOSTICK: Yes, I believe the  
20 suggestion in Mr. Stauf's evidence actually referred  
21 to our current portfolio expectation historically on a  
22 normal-weather-year basis would be in the neighbourhood  
23 of a 10 petajoule draw-down of storage under normal  
24 weather.

25 MR. BRIAN MERONEK: We'll let Mr.

1   Stauft speak to that, but as I understand the re --  
2   rebuttal evidence as it unfolded, Centra has pointed  
3   out that -- that the withdrawal increase will be from  
4   208.6 TJs per day to 215.6 TJs per day, or about 7 TJs  
5   per day?

6                   MR. NEIL KOSTICK:    Yes, under the new  
7   pro -- under the proposed portfolio the storage  
8   deliverability is proposed to increase by about 7,000  
9   gigajoules per day, or 7 terajoules per day.

10                  MR. BRIAN MERONEK:   Subject to  
11   arithmetic check, that's about a 3 percent increase?

12                  MR. NEIL KOSTICK:    Subject to check, I  
13   assume that's accurate.

14                  MR. BRIAN MERONEK:   And that assumes  
15   Centra will use it all?

16                  MR. NEIL KOSTICK:    By increasing the  
17   daily deliverability that's available from storage,  
18   that represents an equal amount of capacity that will  
19   not have to be held on TransCanada from western Canada.  
20   So any time Centra needs that 7,000 gigajoules that it  
21   did not take on TransCanada, it will be taking it from  
22   storage.

23                  MR. BRIAN MERONEK:   So is the answer,  
24   yes, it assumes Centra will use it all?

25                  MR. NEIL KOSTICK:    It will use it at a



1 -- at a relatively high load factor if you're looking  
2 discretely at the additional seven thousand (7,000).  
3 But it's really kind of a -- a moot point. It's just  
4 part of 215,000 gigajoules per day of deliverability  
5 from storage.

6 But if you are reducing capacity or  
7 other parts of your portfolio, as we've indicated this  
8 would allow for the reduction of 7,000 gigajoules per  
9 day of TransCanada capacity, you would have to pull  
10 that from somewhere else. And so that would be from  
11 storage. So by virtue of the fact alone that the  
12 storage deliverability will increase and it will reduce  
13 other parts of the portfolio you will pull harder on  
14 storage.

15 And we've assumed for the purposes of  
16 discussion that probably in the neighbourhood of at  
17 least a hundred and thirty (130) days through the  
18 winter you would be pulling on storage in that regard  
19 to a greater extent, which would result in greater  
20 draw-down of storage for that reason alone in the  
21 neighbourhood of 0.9 petajoules per year.

22 MR. BRIAN MERONEK: But, in fairness,  
23 that is an assumption at this point?

24 MR. NEIL KOSTICK: We don't know  
25 whether it would be exactly a hundred and thirty (130)

1 days every year. But it's not an assumption that we'll  
2 be pulling harder on storage. We will be pulling  
3 harder on storage by virtue of the fact that we have  
4 additional deliverability that would replace other  
5 parts of the portfolio. That's not weather-dependent.  
6 There will be a harder pull on storage.

7 MR. BRIAN MERONEK: And Centra also  
8 mentions in its rebuttal evidence at page 15 that it  
9 will increase withdrawal to 12.4 petajoules from 10  
10 petajoules?

11 MR. NEIL KOSTICK: I believe we stated  
12 in the rebuttal evidence that we would anticipate that  
13 the normal weather year draw-down of storage would more  
14 likely approach the 12.4 petajoule range, as opposed to  
15 the historical 10 petajoule range.

16 MR. BRIAN MERONEK: Was that anywhere  
17 in Centra's evidence?

18 MR. NEIL KOSTICK: It's in the rebuttal  
19 evidence.

20 MR. BRIAN MERONEK: That's kind of an  
21 important consideration, isn't it?

22

23 (BRIEF PAUSE)

24

25 MR. NEIL KOSTICK: What ultimately is

1 forecast as the draw-down, will not be determined until  
2 the cost of gas application is made for the relevant  
3 year that the new portfolio is put into place. That  
4 will also take into account other considerations, such  
5 as how much TransCanada capacity that we're holding or  
6 how much use we're making of delivered services.

7                   So it's not a -- a concrete number,  
8 which is why we said in general terms we expect that  
9 the number will more closely approach the 12.4  
10 petajoules as opposed to the 10 petajoules. But we  
11 don't have a concrete number at the moment --

12                   MR. BRIAN MERONEK:   And -- and --

13                   MR. NEIL KOSTICK:   -- because the  
14 conditions will change by the time the portfolio is put  
15 into effect.

16                   MR. BRIAN MERONEK:   Is that -- can I  
17 take it from that answer that that's the reason why  
18 Centra didn't volunteer that information in its  
19 application to begin with?

20                   MR. NEIL KOSTICK:   We tried to be  
21 comprehensive in our application and there's a lot of,  
22 if you want to call it "technical information." We  
23 tried to be as comprehensive as -- as possible. I  
24 don't know if it's possible to include every possible  
25 consideration into the application. In this case, it

1 was not included.

2 MR. BRIAN MERONEK: Now in terms of  
3 cyclability, as I understand it, the record as it sits  
4 indicates that, effectively, Centra has the ability to  
5 have a capacity of 18.6 petajoules?

6 MR. NEIL KOSTICK: The proposed storage  
7 capacity is 15.5 petajoules. It can cycle an  
8 additional 3.1 petajoules of storage annually. But of  
9 course it has to withdraw at least 3.1 petajoules for  
10 it to be able to inject 3.1 petajoules. So at any  
11 given point in time it does not have more than 15.5  
12 petajoules. But through cyclability you can make use  
13 of storage over the course of a winter or a year in  
14 which you can move 18.6 petajoules through storage.

15 MR. BRIAN MERONEK: But for the -- that  
16 one (1) abysmal year in 1996 that Mr. Sanderson spoke  
17 about, the storage withdrawal has -- has not approached  
18 fifteen point five (15.5), let alone eighteen point six  
19 (18.6). Is that correct?

20

21 (BRIEF PAUSE)

22

23 MR. BRENT SANDERSON: While the only  
24 time historically during the course of the current  
25 portfolio over the twenty (20) years where we draw --

1 drew storage down virtually to zero, there were other  
 2 years where we made very heavy use of our storage. The  
 3 following year was a very, very cold winter and we did  
 4 draw heavily down on storage. And there was other  
 5 years that we drew much more heavily on storage than in  
 6 a normal year, to varying degrees. But I think the  
 7 important point to keep in mind is that that was a co -  
 8 - with a completely different portfolio of  
 9 complementary assets as well.

10 So we had much more significant levels  
 11 of TransCanada firm transportation capacity than we do  
 12 today, for example, and than we're li -- than we're  
 13 likely to have with the new portfolio. So the extent  
 14 to which we drew into our 15 1/2 million gigajoules of  
 15 storage in the past is predicated upon the portfolio of  
 16 ancillary assets we had working with that storage  
 17 capacity at the time, which is going to be different  
 18 than the full portfolio of assets we have in complement  
 19 with this proposed portfolio before the Board. So it's  
 20 not a relevant direct comparison.

21 MR. NEIL KOSTICK: And if I could just  
 22 add to that. As we discuss in the rebuttal evidence,  
 23 this is a different portfolio. We intend to operate it  
 24 differently. It gives us the ability to reduce  
 25 reliance on western Canadian supply transported on

1 TransCanada.

2 Directionally, the model results  
3 obviously support the storage capacity and the ability  
4 to make use of the annual storage in order to be able  
5 to draw on that as an option in winter when there are  
6 cold weather conditions being experienced, as opposed  
7 to relying more heavily on western Canadian supply and  
8 TransCanada under those conditions.

9 MR. BRIAN MERONEK: And, Mr. Sanderson,  
10 just -- just to follow up your response, does  
11 CAC/CENTRA-17-E summarize the withdrawal experience for  
12 the last seven (7) years?

13 MR. BRENT SANDERSON: I'm sorry, I  
14 didn't catch the last part of your question, Mr.  
15 Meronek.

16 MR. BRIAN MERONEK: Does CAC/CENTRA-17-  
17 E replicate the winter withdrawal experience from ANR  
18 storage for the last seven (7) years?

19

20 (BRIEF PAUSE)

21

22 MR. BRENT SANDERSON: Yes.

23 MR. BRIAN MERONEK: You say you're  
24 going to have a new portfolio, and -- and those  
25 components that are new, which would allow for more

1 flexibility to be able to withdraw more storage,  
2 there's one (1) cyclability. Is that correct?

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

4 MR. BRIAN MERONEK: The Joliet to  
5 Chicago hub?

6 MR. NEIL KOSTICK: Actually, sorry,  
7 it's winter transportation from the Joliet hub to ANR  
8 storage that allows access to the Chicago market.

9 MR. BRIAN MERONEK: Anything else?

10 MR. NEIL KOSTICK: With respect to  
11 flexibility, there are three (3) broad categories of  
12 flexibility associated with the entire Centra-proposed  
13 portfolio. One (1) would be the ability to -- to draw  
14 on Chicago supply in the winter, that we don't have  
15 today. The ability to cycle storage that we don't have  
16 today.

17 The other flexibility would include on  
18 the transportation path for storage gas into storage.  
19 There is the transport segment from Crystal Falls to  
20 storage. And that can be used to either transport gas  
21 from western Canada that flows down from Great Lakes on  
22 to ANR. It can also be used to receive gas at the  
23 Joliet hub. So in the event that Chicago supply is  
24 more economic than western Canadian supply, that can be  
25 utilized. That's actually quite advantageous to have

1 the Chicago path -- or the Chicago market in path of  
2 the path that's used to flow western Canadian gas. So  
3 you can use -- use that path for either.

4 Other elements of flexibility, of  
5 course, include the ability to release capacity on a  
6 seasonal basis. That's embedded under -- under FERC,  
7 as far the provisions to perform capacity releases.  
8 And then, of course, going beyond the ANR and Great  
9 Lakes portfolio, there's the flexibility associated  
10 with what we can do on TransCanada, given that we only  
11 need to renew TransCanada contract levels on an annual  
12 basis. And -- and we can adjust those on an annual  
13 basis to respond to changing market -- market  
14 conditions. So there are several elements of  
15 flexibility in the portfolio.

16 MR. BRIAN MERONEK: I was just trying  
17 to identify the new ones that you don't presently have.  
18 And as I understand it, it's the winter storage to  
19 Chicago. It's the cyclability.

20 MR. NEIL KOSTICK: There are also some  
21 different discounted secondary points on some of the  
22 contracts. So that allows us to use certain secondary  
23 points, if we were to use them ourselves, without  
24 having to pay the maximum rate. So on any discounted  
25 contract, the discount normally applies to just the



1 primary receipt and primary delivery point. We've  
 2 negotiated certain discounted secondary points that can  
 3 be utilized either by us or, in the event of a capacity  
 4 release, the replacement shipper that took the capacity  
 5 from us could use those other points at discount. And  
 6 that could increase the value in the secondary market  
 7 for releasing that capacity. So those would be some --  
 8 another -- or another item that is featured in the new  
 9 portfolio.

10 MR. BRIAN MERONEK: And -- and as the -  
 11 - the Chair pointed out, I think yesterday, the storage  
 12 is -- is really the cheaper. It's cheap in comparison  
 13 to the co -- the overall cost of tran -- of -- of the  
 14 portfolio, correct?

15 MR. NEIL KOSTICK: I -- by --

16 MR. BRIAN MERONEK: Not -- cheap is the  
 17 wro -- is -- is -- are my words, but -- but when you  
 18 look at PUB Exhibit 7, Tab 13, it represents roughly  
 19 \$10 million, \$10 1/2 million?

20 MR. NEIL KOSTICK: Are you referring to  
 21 the current portfolio or the proposed?

22 MR. BRIAN MERONEK: Sorry, the -- well  
 23 in -- in either scenario. It -- it represents a --

24 MR. NEIL KOSTICK: The proposed --

25 MR. BRIAN MERONEK: -- roughly --

1 roughly half, I guess?

2 MR. NEIL KOSTICK: The proposed -- I  
3 believe the -- the Chairman can certainly correct me if  
4 I'm wrong, but I believe he was referencing the cost of  
5 the storage and perhaps the related transportation that  
6 we're applying for in this application relative to the  
7 entire cost of the portfolio, meaning the commodity  
8 cost as well -- and the TransCanada cost, which have  
9 ranged in the two hundred (200) to \$500 million range  
10 over the course of -- of a number of years.

11 MR. BRIAN MERONEK: The -- the point  
12 being that -- that it's the transportation component to  
13 get the gas to storage that's really the -- has to be  
14 factored in as to whether or not storage is -- the use  
15 of storage to any extent is appropriate or not,  
16 correct?

17 MR. NEIL KOSTICK: The appropriate  
18 approach to take is to evaluate different portfolio  
19 options on a total portfolio basis. And attempting to  
20 evaluate pieces of the portfolio in isolation is not a  
21 useful exercise.

22 MR. BRIAN MERONEK: But the problem  
23 that Centra has is that it's in the middle of -- of the  
24 country. It doesn't have any storage right next door  
25 to it like the eastern LDCs. Therefore, there's a

1 significant transportation component to being able to  
2 use storage. Is that correct?

3 MR. NEIL KOSTICK: I believe that's the  
4 case in a lot of instances. I believe eastern LDCs buy  
5 gas at Chicago, which is not next door to their  
6 markets. They buy gas from western Canada. So they  
7 are -- they tend to have diversified portfolios is my  
8 understanding. They buy from Chicago. They even have  
9 transportation that may extend to the southern US, so  
10 they're buying from a lot of different points. And the  
11 transportation isn't necessarily cheap, so I don't  
12 think we're any different in that regard.

13 And what should be noted is that the  
14 transportation path from storage back to Manitoba is  
15 the key cost driver in a storage portfolio. And our  
16 withdrawal path from ANR storage in Michigan back to  
17 Manitoba is generally less expensive than the  
18 withdrawal path from Dawn storage, which mo -- some of  
19 the eastern LDCs hold. To get that gas back to some of  
20 their market points is actually significantly more  
21 expensive than what Centra pays.

22 MR. BRIAN MERONEK: So are -- are you  
23 saying on the record, sir, that -- that having storage  
24 right next door, it would not be a benefit to Centra?

25 MR. NEIL KOSTICK: No, I was not trying

1 to make that point. I was making the point that the --  
2 the physical distance from storage to the market is  
3 actually irrelevant. It's the rate that you actually  
4 pay.

5 So the rates that we pay from Michigan  
6 back to Manitoba are very cost-effective. And it's  
7 quite a bit less than, for example, the path from Don  
8 storage to get the gas to Quebec, or from Don storage  
9 to get the gas to western Ontario. Those paths are a  
10 fair bit more expensive than our withdrawal path. Even  
11 if they may be shorter on a physical basis in terms of  
12 kilometres, it's irrelevant. The question is what's  
13 the rate that you pay.

14 MR. BRIAN MERONEK: You're paying  
15 presently a dollar eighty (\$1.80) per gigajoule for  
16 storage gas right now. Is that correct?

17 MR. NEIL KOSTICK: No, I don't believe  
18 that's correct.

19 MR. BRIAN MERONEK: What is it then?

20 MR. NEIL KOSTICK: Storage gas varies  
21 depending on the price of gas that was flowed into  
22 storage. And then there's a unit average price that  
23 the gas is -- withdrawn from storage.

24 MR. BRIAN MERONEK: So if you had -- if  
25 it cost \$18 million, which it does, to hold storage and

1 related transportation, and you're cycling 10 PJs, are  
2 you not paying a dollar eighty (\$1.80) per unit as a  
3 unit cost?

4 MR. NEIL KOSTICK: Are -- are you  
5 talking about the proposed portfolio or the current  
6 portfolio?

7 MR. BRIAN MERONEK: No, I'm talking  
8 about the current portfolio.

9 MR. NEIL KOSTICK: I believe Mr.  
10 Staft's evidence -- I would actually have to double-  
11 check it for the math. And perhaps it would actually  
12 be better to ask Mr. Staft that question. But, yeah,  
13 I -- I would have to review the evidence to verify any  
14 calculation of that nature.

15 MR. BRIAN MERONEK: Let's move on to  
16 Joliet, to ANR, that issue. It's rebuttal page 17.

17 MR. NEIL KOSTICK: And, Mr. Meronek,  
18 actually if I could just make one (1) more point with  
19 respect to the transportation costs associated with --  
20 whether it's the existing portfolio or the proposed  
21 portfolio.

22 I've already indicated that the  
23 withdrawal path from Michigan storage for us back to  
24 Manitoba is generally more cost-effective than the  
25 transportation path to many of the other delivery areas

1 on TransCanada. With respect to injections into  
 2 storage, you can't simply compare the cost of the  
 3 transportation path for moving gas into storage. You  
 4 also have to take into account the price of the gas  
 5 that you can access with that transportation.

6                   So you have to consider the all-in  
 7 landed cost of gas into storage. So if we have a  
 8 transportation path from Emerson to Michigan storage,  
 9 if that's allowing us to move relatively cheaper  
 10 Alberta gas into storage, versus perhaps an eastern LDC  
 11 that's moving gas from Chicago to Dawn storage which  
 12 may be slightly cheaper on a unit basis, perhaps ten  
 13 (10) cents cheaper per gigajoule, we can actually  
 14 access western Canadian gas to move into storage that  
 15 is far less expensive than Chicago gas generally than  
 16 ten (10) cents. So our landed cost of gas in storage,  
 17 even though it may be moving from Western Canada to  
 18 Michigan, the landed cost is actually less than an  
 19 eastern LDC who is holding transportation from Chicago  
 20 to Dawn storage, because the price of Chicago gas is  
 21 generally higher than the price of gas in Alberta.

22                   So again, this speaks to the point that  
 23 looking at pieces of the portfolio in isolation, single  
 24 pieces of transportation, or a particular  
 25 transportation path, looking at it in isolation is a

1 fruitless exercise. You have to look at it on a total  
2 portfolio basis, including where does transportation  
3 allow you -- allow you to access gas to move it into  
4 storage. And that's the exercise that we undertook in  
5 designing this portfolio.

6 MR. BRIAN MERONEK: Thank you for that  
7 narrative. All I was trying to get you to confirm was  
8 that -- and I think you've said that -- I think you  
9 agree with me, that -- that when you're looking at the  
10 cost of storage you just don't look at the -- the unit  
11 cost of the gas in -- to be held in storage, but you  
12 have to look at the transportation component to  
13 determine whether that's more economical than just to  
14 buy it otherwise. That's all I was trying to get you  
15 to confirm.

16 Is that -- would you agree with that?

17 MR. NEIL KOSTICK: You have to evaluate  
18 things on a total portfolio basis.

19 MR. BRIAN MERONEK: Can we move on to  
20 Jo -- Joliet now. The -- the issue with Joliet, as I  
21 understand it, is that it's going to be useful because  
22 of the harder pull-down anticipated by Centra in terms  
23 of storage, correct?

24 MR. NEIL KOSTICK: We expect that on a  
25 -- that it will be required -- it'll typically be

1 required. The transportation that we hold from Western  
2 Canada to fill storage allows us to fill roughly two  
3 thirds (2/3s) of the storage capacity. That leaves in  
4 the neighbourhood of 5 petajoules or so of storage  
5 capacity that we woul -- we need to put other  
6 arrangements in place to fill that remaining amount of  
7 storage.

8 MR. BRIAN MERONEK: And in the  
9 arrangement with respect to Joliet is purchasing a  
10 fixed asset of approximately a hundred and ninety-two  
11 thousand dollars (\$192,000) a year for seven years, at  
12 roughly \$1.3 million US?

13 MR. NEIL KOSTICK: Yes, I believe those  
14 are roughly the costs per year and over the course of a  
15 seven (7) year term.

16 MR. BRIAN MERONEK: So the issue then,  
17 it becomes whether or not you can a) get gas into  
18 storage on an ad hoc basis cheaper, would that not be  
19 the -- the counterbalance to having a fixed asset that  
20 you may or may not use over the course of seven (7)  
21 years?

22 MR. NEIL KOSTICK: There are different  
23 ways to design a portfolio. There are different  
24 elements that can be left to whatever may be available  
25 in the market on a year-to-year basis. The



1 approximately 7,000 gigajoules per day that we propose  
2 to hold in the summer from the Chicago market to  
3 storage allows us to fill about 1.5 petajoules of  
4 storage with Chicago gas.

5                   So as I talked about, there's 5  
6 petajoules of storage gas that need to be refilled in a  
7 maximum refill scenario. So the Chicago transportation  
8 -- or the Joliet transportation that we're talking  
9 about doesn't even address one third (1/3) of the 5  
10 petajoules, so --

11                   MR. BRIAN MERONEK: No, I understand.

12                   MR. NEIL KOSTICK: -- so there are --  
13 there are certainly different ways to do it and we've  
14 always -- our view is generally to take a balanced  
15 approach. So rather than leaving the entire 5  
16 petajoules up to whatever is available in the market  
17 year-to-year, to put in some cost effective access from  
18 the Chicago market to Michigan to access one (1) of the  
19 most liquid supply points in North America.

20                   As a point of interest, we do know that  
21 some eastern LDCs use another pipeline to move Chicago  
22 gas to Dawn storage. The maximum rate for that  
23 transportation is in the neighbourhood of eight dollars  
24 (\$8 ) per decatherm per month.

25                   We're going to pay for the

1 transportation from Chicago to ANR storage in Michigan,  
2 less than four dollars (\$4) per decatherm per month.  
3 So to access that transportation, we view it as  
4 relatively cost effective.

5 MS. LORI STEWART: To supplement Mr.  
6 Kostick's response, and I think -- I think Mr. Staft  
7 made this point as well in his evidence. In the event  
8 that that capacity is not required for refill purposes,  
9 it is today, given the information we have today, a --  
10 a very valuable path.

11 So if you think about it, there are a  
12 number of parties who would like to access Chicago  
13 priced gas and move it to storage in Michigan. It's a  
14 valuable path, and from my perspective in terms of  
15 optimizing that asset, that's one (1) of the sweetest  
16 assets we have in the proposed portfolio as it relates  
17 to the potential to earn revenues associated with that.  
18 And Mr. Staft concurs with that.

19 MR. BRIAN MERONEK: So you're -- well,  
20 Mr. Staft can speak for himself, but you -- what  
21 you're saying is that you -- you're confident that you  
22 can, to the extent you don't use it, you can release --  
23 release it?

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

25 MR. BRIAN MERONEK: In the -- in the

1 time remaining, maybe, Mr. Barnlund, you -- you and I  
2 could have a chat about what I characterize as  
3 stakeholder -- stakeholder involvement. I understand  
4 your concerns with respect to letting parties in to the  
5 inner sanctum in negotiations is, by and large, an  
6 issue of confidentiality and commercial sensitivity  
7 about the information that might be disclosed.

8 Would that be fair?

9 MR. GREG BARNLUND: Yes, sir.

10 MR. BRIAN MERONEK: And, you -- you  
11 will agree that essentially -- and -- and I think I  
12 said at the technical conference and I'll say it again  
13 on the record, that the information provided was very  
14 informative. But will you agree -- it was restrictive  
15 in the sense that what we got at the technical  
16 conference was a -- a dissertation on the existing  
17 status of the natural gas market, with information  
18 about the potential impediments that lay ahead? And  
19 this is -- this was essentially ICF that -- making this  
20 presentation, correct?

21 MR. GREG BARNLUND: I think that's  
22 fair. I think it was a very broad background document  
23 that ICF had prepared, which we also, in the course of  
24 that technical conference, provided additional  
25 information on our view of the -- our initial view of

1 the -- the options and the TransCanada situation.

2 MR. BRIAN MERONEK: And the second  
3 technical conference was, I'll characterize it as after  
4 the fact. It was after the application, and the  
5 direction that Centra was intending to take was  
6 crystallized?

7 MR. GREG BARNLUND: I'd agree that the  
8 -- the design and the utilization of the second  
9 technical conference was related to the regulatory  
10 application process. And the intention was to ensure  
11 that there was a good understanding of the application  
12 materials, which would facilitate Intervenor in the  
13 preparation of their Information Requests, because we  
14 were looking to have one (1) round of Information  
15 Requests and wanted to make that as effective and as  
16 efficient as possible.

17 MR. BRIAN MERONEK: My client didn't  
18 have the opportunity to have any input into more  
19 specific and -- and profound issues such as length of  
20 the contract, storage capacity, configuration, things  
21 of that nature.

22 Would you agree?

23 MR. GREG BARNLUND: I would agree, sir.

24 MR. BRIAN MERONEK: And -- and Centra,  
25 for the record, isn't motivated by profit in -- in this

1 exercise, right? It -- it doesn't make any money on  
2 the -- on the exercise of -- of purchasing gas or  
3 arranging for storage and transportation?

4 MR. GREG BARNLUND: You're correct.  
5 Those costs are passed through and recovered from  
6 customers.

7 MR. BRIAN MERONEK: And they're --  
8 they're passed through to the customers including my  
9 clients who represent, what is it 90 percent of the  
10 number of customers that Centra has?

11 MR. GREG BARNLUND: They're passed  
12 through to all customers. I'm not sure of your  
13 organization's representation and membership, but  
14 anyhow, they're passed through to all customers.

15 MR. BRIAN MERONEK: Well -- well, we  
16 don't have two hundred and forty-five thousand  
17 (245,000) members, I can assure you. Otherwise, I  
18 wouldn't be applying for costs.

19 But having said that, you will agree  
20 that -- that -- that the small residential consumers,  
21 ostensibly who I represent, are your customers?

22 MR. GREG BARNLUND: Agreed. Right.

23 MR. BRIAN MERONEK: And we occupy a  
24 different position than an Intervenor such as BP or  
25 Shell.

1                   Would you agree with that?

2                   MR. GREG BARNLUND:    I would agree with  
3   that, yes.

4                   MR. BRIAN MERONEK:   And -- and we  
5   represent a different position than Just Energy?

6                   MR. GREG BARNLUND:    Yes, sir.

7                   MR. BRIAN MERONEK:    So is there any  
8   reason why, absent having to go through a public  
9   process, you wouldn't want to engage your customers  
10   through representatives and -- and get some kind of  
11   determination as to whether or not they had an appetite  
12   for five (5) years versus seven (7) years, or storage  
13   capacity at -- at any particular level?

14                  MR. GREG BARNLUND:    Well, I think that  
15   it becomes a bit of an issue of us finding ourselves in  
16   a position of picking and choosing between  
17   stakeholders, in terms of who we would involve and who  
18   we wouldn't involve. And this was an interesting, I  
19   would say a quasi-regulatory process that we were  
20   involved in from June of last year, because we weren't  
21   an applicant at that time. We made application this  
22   year. And typically speaking, in -- in that  
23   environment we'd make an application and -- and deal  
24   with the regulatory process from the start of the  
25   application.

1                   But our regulatory process essentially  
2 started well in advance of making application. And we  
3 were, I think, well guided by -- by the direction we  
4 received from the Public Utilities Board in its orders  
5 in terms of the steps that we would take along the way.  
6 And we are at a point, I think, where it's difficult in  
7 just simply disregarding other Intervenorors and only  
8 inviting one (1) Intervenor into take a peek at the --  
9 at -- at the goods, if you would, at that stage.

10                   MR. BRIAN MERONEK: Well -- well, don't  
11 get me wrong, Mr. Barnlund, I'm not going to argue that  
12 this application should stand or fall on the basis of  
13 whether we were consulted, but I'm more interested in  
14 the future. And this is going to happen again,  
15 presumably, to -- because the contract's either going  
16 to be seven (7) years or five (5) years, or something  
17 else.

18                   And would it not make sense for Centra  
19 to engage its customers in some kind of a disclosure,  
20 maybe not price, but some other kind of communication  
21 so that the -- the consumers might have some input into  
22 ultimately what Centra chooses on their behalf?

23                   MR. VINCE WARDEN: Mr. Meronek, I might  
24 just make the point, and it might be an obvious one,  
25 but as a Crown corporation, you -- you made the

1 reference to we don't have the profit motive for these  
2 customers as a pass -- pass-through cost, but as a  
3 Crown corporation we exist for our customers. That's  
4 our -- that's our reason for being; to serve our  
5 customers.

6                   So our interests are not dissimilar from  
7 -- from yours in serving your clients. So are -- we  
8 always have the best interests of our customers  
9 uppermost in our minds in everything we do.

10                   MR. BRIAN MERONEK: Thank you, sir.  
11 It's a bit paternalistic though, isn't it? I mean --

12                   MR. VINCE WARDEN: Perhaps. And I did  
13 say it was maybe an obvious point, but I -- I think you  
14 raised the point that we didn't have the profit motive,  
15 and I had to make it clear that profit isn't our  
16 motivation.

17                   MR. BRIAN MERONEK: Oh, of course, not.  
18 And I'll -- and this is probably argument, but all I'm  
19 saying is with that in mind we certainly, as a  
20 customer, wouldn't expect that we would be -- that  
21 there would be any ulterior motive behind Centra in its  
22 negotiations. But what we're asking for, and I want  
23 your response on the record, is that we have some more  
24 input in the -- in the future, in -- in making  
25 determinations, or at least getting our -- our views on



1 such items as the length of contract, that we will be  
2 obligated to, no matter what the length is for, in --  
3 in matters of that nature.

4 Is that -- is that something that could  
5 be -- could be developed?

6 MR. VINCE WARDEN: Well, I think as Mr.  
7 Barnlund explained, there was some awkwardness with the  
8 timing. But to the extent that we can involve the  
9 Consumers' Association in the process, we -- we will  
10 certainly endeavour to do that more so in the future.

11 MR. BRIAN MERONEK: Thank you. That  
12 means I can -- I'll buy Mr. Barnlund some coffee. Or  
13 better yet, he can buy me dinner and we can talk about  
14 it.

15 Just one (1) more question before the --  
16 the luncheon break, and that has to do with the asset  
17 management issue. Mr. Warden, you -- you indicated  
18 that -- that there was a time when Manitoba  
19 Hydro/Centra had looked for, or at least looked at the  
20 exercise, or the potential of having an asset manager  
21 look after some or all of Centra's portfolio, and you  
22 mentioned Enron, correct?

23 MR. VINCE WARDEN: Yes, I did.

24 MR. BRIAN MERONEK: And that was about  
25 eleven (11) years ago?

1                   MR. VINCE WARDEN:    We learn from  
2 history.

3                   MR. BRIAN MERONEK:   Right. Are you  
4 familiar, sir, with the kinds of -- of third-party  
5 asset managers that are out there now?

6                   MR. VINCE WARDEN:   Well, I'm not  
7 directly familiar, but I am aware that we have  
8 discussions with those people on an ongoing and regular  
9 basis.

10                  MR. BRIAN MERONEK:   Are -- are you  
11 aware that -- that some of the -- the professional  
12 asset managers are Royal Bank, Shell, BP, JP Morgan,  
13 Louis Dreyfus, the father to Julia Dreyfus? Are -- are  
14 you aware of some of those marketers?

15                  MR. VINCE WARDEN:    I'm aware of most of  
16 them in that list, yes.

17                  MR. BRIAN MERONEK:   So would it not be  
18 prudent to at least investigate, at some point, the  
19 potential of going to a professional asset manager,  
20 putting out an RFP and seeing what shakes out of the  
21 trees?

22                  MR. VINCE WARDEN:    And, Mr. Meronek, to  
23 be clear, I don't -- I think our evidence is we haven't  
24 ruled that out, and we may in -- very well do that at  
25 some point.

1                   MR. BRIAN MERONEK:    Thank you, panel.  
2   Those are my questions, and I'll turn it over to the  
3   Chair.

4                   THE CHAIRPERSON:    Do you expect to ask  
5   any more questions of the panel after lunch?

6                   MR. BRIAN MERONEK:    No, sir.

7                   THE CHAIRPERSON:    Before I adj --  
8   before we adjourn, I -- I have some questions.   And I -  
9   - this is partly -- you will please excuse me because  
10   I'm -- I'm relatively new and I want to understand how  
11   the -- the decision processes work at Centra.

12                   Now, probably, Mr. Warden, you should be  
13   answering this question, I guess.   Is there any point  
14   at which the Board of Directors of Centra was given a  
15   set of options in relation to this particular dilemma  
16   that we are facing?   In other words, Option A would  
17   have been entirely TCPL transportation, Option B would  
18   have been the storage option, Option C would have been  
19   the STFT, short term fixed transportation option.   In  
20   other words, three (3), four (4), five (5) options  
21   weighted as to the criteria, and we have an option  
22   that's obviously the -- the optimal option, which we  
23   then pursue in negotiations.

24                   Now is there at any point where that was  
25   -- such a document was prepared?

1                   MR. VINCE WARDEN:    No, not in that  
2 level of detail. The -- the recommendation that was  
3 provided to the Board of Directors of Manitoba  
4 Hydro/Centra Gas was the document that was filed in  
5 these proceedings, and which I think we reviewed this  
6 morning. So, typically, a recommendation such as that  
7 will be accompanied by a proponent, that is, someone  
8 would speak on behalf of the recommendation.

9                   The recommendation in this case would  
10 have been presented to the Board as largely a  
11 continuation of the existing arrangement, with some  
12 cost advantages compared to the existing arrangement.  
13 As -- as compared to options though, no, the Board  
14 would have accepted that this was the option that was  
15 being recommended by management and would have approved  
16 it on that basis.

17                  THE CHAIRPERSON:    The follow-up  
18 question is: Was -- at any point in the -- in the  
19 evolution of this project, at any point was there such  
20 a document prepared for the executive staff so that you  
21 could sort of say, We think we should go down this path  
22 for the -- for the following reasons, and namely the --  
23 the option that we're now looking at right now?

24                  I guess what I'm asking, is there, did  
25 you at any point consider Option A, B, C, D, and

1 establish criteria for weighing those options, and then  
2 decide that you were going to follow a particular path,  
3 and then negotiate accordingly?

4 MR. VINCE WARDEN: Well, as the vice-  
5 president responsible for gas supply, I would have had  
6 numerous discussions with my colleagues here on the  
7 panel, and others, and would have satisfied myself that  
8 Option A was the direction -- the right direction to  
9 recommend to the -- number 1, to the executive  
10 committee in Manitoba Hydro and, secondly, to the Board  
11 of Manitoba Hydro.

12 THE CHAIRPERSON: That completes my  
13 questioning. We will adjourn right now. Excuse me.

14 MR. RAYMOND LAFOND: Can I have a  
15 supplementary question to your question? Thank you.  
16 Essentially, when you talk of "executive committee" is  
17 it executive management or executive committee of the  
18 Board?

19 MR. VINCE WARDEN: That would be  
20 executive management.

21 MR. RAYMOND LAFOND: So there is no,  
22 like, subcommittee of the Board, for instance, to  
23 review this matter as -- or -- or the next general rate  
24 application eventually?

25 MR. VINCE WARDEN: That's correct. The

1 Board would consider this matter along with a number of  
2 other items it would have -- typically have on the  
3 agenda to consider, yes.

4 MR. RAYMOND LAFOND: Thank you.

5 THE CHAIRPERSON: I believe we have now  
6 completed the questioning of the -- of the witnesses  
7 appearing on behalf of Centra. So you, I guess, are  
8 adjourned for the rest of these proceedings.

9 I want to thank you on behalf of the  
10 panel for all of the work that you've completed over  
11 the past months and the wor -- the documents that  
12 you've put together for us. I know it's a difficult  
13 process. Not quite the attack of the Zulu warriors,  
14 but you did respond with poise, and calmness, and so  
15 on. So thank you very much for that.

16 And I suspect we'll see each other again  
17 in a few months when the GRA comes in, so. And in the  
18 meantime, keep up the good work. Thank you.

19 MR. BRIAN MERONEK: Not so fast, Mr.  
20 Chairman. I -- I forgot one (1) -- one (1) question.  
21

22 CONTINUED BY MR. BRIAN MERONEK:

23 MR. BRIAN MERONEK: Ms. Stewart, could  
24 you table that -- that exhibit -- or that reference  
25 that you made this morning to the capacity management

1 amount of \$6.9 million?

2 MS. LORI STEWART: You'd like us to  
3 provide the document?

4 MR. BRIAN MERONEK: Yes, for the  
5 record.

6 MS. LORI STEWART: Yes, certainly.

7 MR. BRIAN MERONEK: And -- and coupled  
8 with that, could you -- would you be able to indicate  
9 what portion of those amounts relate to the capacity  
10 release for the ANR GLGT portfolio?

11 MS. LORI STEWART: That -- that would  
12 take -- take some considerable effort, Mr. Meronek. I  
13 certainly couldn't do that this afternoon.

14 MR. BRIAN MERONEK: You could do it  
15 this afternoon?

16 MS. LORI STEWART: I certainly could  
17 not do that --

18 MR. BRIAN MERONEK: Oh, okay.

19 MS. LORI STEWART: -- this afternoon.

20 MR. BRIAN MERONEK: I just need an  
21 order of magnitude. If you could, you know, reflect on  
22 that and see if you can provide an answer.

23 MS. LORI STEWART: An answer to?

24 MR. BRIAN MERONEK: I understand the  
25 capacity release program has a lot of components to it.

1 The ones that we're interested in are the ANR GL --  
2 GLGT portfolio aspect of the capacity release. And I'm  
3 wondering if you can determine what portion of the  
4 average \$6.9 million relates to those assets.

5 MS. LORI STEWART: Relates to our US  
6 assets?

7 MR. BRIAN MERONEK: Yes.

8 MS. LORI STEWART: Sorry. With that  
9 clarification, yes, I should be able to provide that  
10 information, for example, by end of day.

11 MR. BRIAN MERONEK: Terrific. Thank  
12 you.

13

14 --- UNDERTAKING NO. 12: Centra to determine  
15 what portion of the  
16 average \$6.9 million  
17 relates to the US  
18 assets of the ANR  
19 GLGT portfolio

20

21 MR. BRIAN MERONEK: Yes. Thank you --

22 THE CHAIRPERSON: Let's recess right  
23 now and start the proceedings again at 1:30.

24

25 (PANEL STANDS DOWN)



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

2 --- Upon resuming at 1:33 p.m.

3

4 THE CHAIRPERSON: Good afternoon. I  
5 understand you have some undertakings, Mr. Bedford?

6 MR. DOUG BEDFORD: We do, and I'll ask  
7 Mr. Kostick to deal with them.

8 MR. NEIL KOSTICK: Thank you. I  
9 believe -- to make sure I've got the numbering correct,  
10 I'll be first addressing Undertaking number 4. And  
11 that was a question related to the minimum tariff rates  
12 applicable to ANR and Great Lakes, and what would  
13 happen in the -- in the event that those minimum rates  
14 rose to a level above our discounted rates.

15 And I've confirmed that on ANR and Great  
16 Lakes, the current minimum reservation rates are zero.  
17 So there is effectively no minimum reservation rate, or  
18 it's zero dollar zero cents. If it were to rise to a  
19 level above our discounted rates, then Centra would in  
20 fact be obligated to pay that minimum. ANR and Great  
21 Lakes have advised that they can't envision a scenario  
22 where that would happen. And our assessment of it is  
23 that the risk of that happening is very, very low.

24 I'll move onto Undertaking number 6.

25 And just to confirm I believe that was the undertaking

1 related to at what point in the negotiations were the  
 2 annual storage and the winter transportation from  
 3 Joliet to storage to access Chicago supply, at what  
 4 point in the negotiations did that come into -- into  
 5 play. And it was in fact once the negotiations had  
 6 moved onto a discussion of a seven (7) year term that  
 7 those additional services were considered. So they  
 8 were considered along with the seven (7) year term.

9                   And moving onto -- I actually do have  
 10 one (1) more undertaking today, and it related to  
 11 showing the transportation capacities that resulted  
 12 from the SENDOUT model runs. I believe we're just in  
 13 the process of preparing that to be printed, and we'll  
 14 provide that as soon as we have that available. I  
 15 believe that's Undertaking Number 7. And I'm available  
 16 once that information is provided to answer any  
 17 questions or any questions related to the information  
 18 that I've just provided.

19                   THE CHAIRPERSON: Thank you for that.  
 20 Mr. Meronek...?

21                   MR. BRIAN MERONEK: Thank you, sir.  
 22 I'm going to proceed this afternoon without a  
 23 nameplate. Mr. Barnlund wouldn't give me his, so I'll  
 24 have to be who I am. It's my pleasure to introduce  
 25 Mark Stauff today to give evidence and to answer

1 questions in connection with the filed evidence. Mr.  
2 Staft, I understand that -- I guess you should.

3

4 CAC PANEL:

5 MARK STAFT, Sworn

6

7 EXAMINATION-IN-CHIEF BY MR. BRIAN MERONEK

8 (QUALIFICATION):

9 MR. BRIAN MERONEK: Mr. Staft, I  
10 understand that by profession you're not only a legal  
11 counsel, but you're a regulatory consultant in the  
12 national gas -- natural gas and pipeline related  
13 industry?

14 MR. MARK STAFT: That is correct.

15 MR. BRIAN MERONEK: And you currently  
16 reside in Calgary?

17 MR. MARK STAFT: I do.

18 MR. BRIAN MERONEK: That must make you  
19 an expert. Mr. Staft, you have prepared some written  
20 evidence in these proceedings, identified as CAC  
21 Exhibit 3. Can you confirm that, sir?

22 MR. MARK STAFT: Yes.

23 MR. BRIAN MERONEK: And attached to  
24 that particular exhibit, you have a resume of your  
25 professional experience?

1 MR. MARK STAUF: That's correct, yes.

2 MR. BRIAN MERONEK: And I guess,  
3 globally speaking, would it be fair to say that  
4 throughout your professional career you have acted for  
5 end users, marketers, shippers, and pipeline companies  
6 in various regulatory proceedings?

7 MR. MARK STAUF: I -- I think that's  
8 fair, yes. It's a very broad and diverse list of -- of  
9 people that I've worked with.

10 MR. BRIAN MERONEK: Perhaps for the  
11 benefit of Board -- the new Board members you can,  
12 generally speaking, advise as to what your experience  
13 is in respect of matters about which we are about to  
14 discuss today.

15 MR. MARK STAUF: Sure. As Mr. Meronek  
16 indicated, I am a lawyer by training. I worked for  
17 about fifteen (15) years and began my career with the  
18 TransCanada pipeline's organization, primarily with  
19 their gas marketing affiliate, which was known at the -  
20 - when I first started as Western Gas Marketing  
21 Limited, and subsequently became TransCanada Gas  
22 Services.

23 As I said, I -- I started out as -- as a  
24 junior lawyer in that marketing organization, and over  
25 time became more and more involved in regulatory issues

1 that were of concern to the company. Just -- just by  
 2 way of background, in those days -- so this is the --  
 3 like the late 1980s, TransCanada had had a -- a large-  
 4 scale merchant pipeline function and controlled a  
 5 significant chunk of the gas that was produced in  
 6 Alberta.

7                   And with deregulation in 1986, that  
 8 whole business model sort of fell apart. And it fell  
 9 on Western Gas Marketing to try to market these  
 10 supplies wherever it could. And there was actually,  
 11 for other reasons, quite a bit of -- there was a glut  
 12 of gas on the market in those days.

13                   So what we were trying to do was market  
 14 these supplies all over North America into the --  
 15 obviously, a large market was, and a traditional market  
 16 was, the -- all of the Canadian distributors, including  
 17 Centra and Enbridge and Union and GMI. And also at  
 18 that time export markets were opening up through the  
 19 introduction of open access transportation in the US.

20                   So my role as part of various teams  
 21 within Western Gas was typically to try to understand  
 22 the interrelationship between the regulated aspects of  
 23 the -- of the business, primarily with pipelines, and  
 24 to some extent with LDCs, and sort of commercial and --  
 25 and market effects, and -- and how the -- how the

1 regulated and unregulated markets interact.

2                   As part of that, as I -- we did a lot of  
3 work in the US with FERC-regulated pipelines that are  
4 connected to Canada so that our -- our access routes  
5 for Canadian gas into the US with the TransCanada  
6 mainline, with the NOVA system in Alberta, and as well  
7 with all of the -- all of the Canadian distribution  
8 companies, including Centra. And I -- I think one (1)  
9 of my earliest experiences testifying anywhere was  
10 probably in Manitoba in the -- in the late '80s. It's  
11 -- it's a bit -- I'm not sure of the date on that one  
12 (1).

13                   But since leaving Tran -- the  
14 TransCanada organization in -- in 2000 or so I have  
15 acted as a consultant and sometimes counsel before  
16 various regulatory tribunals, primar -- well,  
17 oftentimes, on behalf of marketing companies in -- in  
18 connection with the TransCanada and NOVA systems,  
19 sometimes or often with consumer interest groups in  
20 Ontario and Alberta and in Manitoba here.

21                   Several years ago I started to work with  
22 the Consumers Association in Manitoba to advise them on  
23 matters related to upstream transportation and gas  
24 supply issues as they arose in Centra's GRAs and -- and  
25 cost of gas applications and -- and so on. So I have

1 been doing that for a few years now and have filed  
2 testimony in the last few GRAs and the last few gas  
3 cost applications, and also the competitive landscape  
4 proceeding that was held a few years ago.

5 Over the years, I have appeared as a  
6 witness at the FERC and the NEB and the OEB and the  
7 Manitoba Board and the Alberta Utilities Commission in  
8 probably over thirty (30) cases, I've sort of lost  
9 count, and in a number of other cases as -- as counsel  
10 for various people, so. I think that summarizes the  
11 last twenty-five (25) years or so of -- of my  
12 involvement in -- in these kinds of issues.

13 MR. BRIAN MERONEK: Thank you, Mr.  
14 Stauff. With that, unless there are any objections, I  
15 would like to have Mr. Stauff qualified as an expert  
16 for the purposes of giving testimony in these  
17 proceedings.

18

19 RULING (QUALIFICATION):

20 THE CHAIRPERSON: Mr. Bedford, is  
21 Centra prepared to accept Mr. Stauff as an expert  
22 witness?

23 MR. DOUG BEDFORD: Yes.

24 MR. BRIAN MERONEK: Thank you, sir.

25 Thank you, Mr. Bedford.

1 EXAMINATION-IN-CHIEF BY MR. BRIAN MERONEK:

2 MR. BRIAN MERONEK: Do you have any  
3 changes to make with respect to your written evidence,  
4 Exhibit CAC-3?

5 MR. MARK STAUF: I do not, sir, no.

6 MR. BRIAN MERONEK: In addition --

7 MR. BOB PETERS: Mr. Meronek, I don't  
8 usually interrupt you this early, but I have a  
9 correction on the record for the exhibit number. And I  
10 thought if I could capture it as early as possible it  
11 would be better. And I -- I probably created the  
12 problem, Mr. Chairman, but I had circulated a  
13 preliminary exhibit list to the parties. And then I  
14 circulated -- and there was one (1) in the hearing  
15 room, of a final exhibit list.

16 And I wonder if I could just correct Mr.  
17 Meronek and the record, have Mr. Stauf's evidence  
18 marked as CAC Exhibit 2. And I would indicate to the  
19 parties that CAC Exhibit 3 will remain open and blank.  
20 And we've already had this morning CAC Exhibit 4 and 5  
21 related to information requests that are filed in the  
22 National Energy proceeding. And I don't propose to  
23 change those numbers. But I would propose that Exhibit  
24 CAC-3 just remain open on the -- on the list. and I do  
25 apologize, Mr. Meronek and Mr. Stauf, but I know



1 there's people monitoring the proceedings from afar and  
2 I wanted to make sure we caught that as early as I  
3 could. Thank you.

4 MR. BRIAN MERONEK: I thought forward  
5 price curves were complicated.

6  
7 CONTINUED BY MR. BRIAN MERONEK:

8 MR. BRIAN MERONEK: In addition, you  
9 were asked several questions in the form of Information  
10 Requests by the Board with respect to your evidence,  
11 and they are approximately sixteen (16) in number, and  
12 they're listed as Exhibit PUB/CAC-6.

13 Do you have any changes or amendments to  
14 make to those answers?

15 MR. MARK STAUF: No, I don't.

16 MR. BRIAN MERONEK: Okay. Now, Mr.  
17 Staft, please indicate to the Board the purpose of  
18 your testimony today.

19 MR. MARK STAUF: As -- as I mentioned  
20 earlier I have been working with the Consumers  
21 Association for a number of years on issues related to  
22 upstream gas supply, storage, and transportation.

23 Obviously all of us saw the need for  
24 Centra to do something about its expiring ANR and Great  
25 Lakes contracts. We saw that coming many years in

1 advance and have been, I think in the -- over the last  
2 few years I have commented on that occasionally in  
3 other contexts. And so this has been sort of a -- just  
4 a natural evolution of a process that's been going on  
5 for a long time. I did participate in the -- the  
6 technical conference that was held last summer that was  
7 talked about this morning a little bit.

8                   So when the Application was filed, the  
9 CAC asked me to -- to review it, and provide them with  
10 my analysis and any thoughts I might have on the  
11 Application that Centra has filed.

12                   MR. BRIAN MERONEK: Mr. Stauf, just  
13 briefly going through your written evidence, starting  
14 at page 4 you -- you talk at length about generally the  
15 rationale for storage, natural gas storage, in the  
16 market context.

17                   Could you just briefly elaborate upon,  
18 or at least summarize your -- your views on the  
19 rationale for holding storage.

20                   MR. MARK STAUFF: Right. The -- the  
21 purpose of this -- this section was basically to  
22 provide background and -- and context for the more  
23 specific analysis that follows, and in the section I  
24 identify basically three (3) sort of high level  
25 rationales for holding storage that I expect are

1 applicable to Centra.

2                   One (1) of them is -- the first one (1)  
 3 that I -- that I talk about is the economic advantage  
 4 that may arise from being able to purchase gas in the  
 5 summer, as opposed to the winter for peaking  
 6 requirements, or for winter requirements, and I think  
 7 there has been some discussion on -- on that, as well.  
 8 I don't think Centra disagrees that it can be difficult  
 9 to measure that, or know exactly what it is, and -- but  
 10 I think it would be unfair not to attribute some value  
 11 to storage from that source. And for those purposes I  
 12 have just relied on the forward market differentials  
 13 that Centra relied on in its Application.

14                   Another value, or -- or -- well, value  
 15 or use of storage that I think Centra has also talked  
 16 about is operational advantages that it may create --  
 17 that the use of storage may create, particularly in  
 18 relation to intra-day flexibility, and the ability to -  
 19 - to meet rapidly changing demand levels on the system.

20                   I acknowledge in my testimony that that  
 21 is, I think, a -- a genuine benefit of -- of holding  
 22 storage. Although, I -- I wouldn't want to overstate  
 23 it, I don't think. I mean, in Centra's case, where the  
 24 storage facilities that it's relying on are not  
 25 directly connected to its system, that means it has to

1 rely on intervening transmission pipelines to get --  
 2 get storage gas into its system. So it is necessarily  
 3 subject to the, for these intra-day purposes, it's  
 4 necessarily subject to whatever the requirements are of  
 5 the intervening pipelines.

6                   And I think Centra has explained in its  
 7 application that it does benefit, sort of pic -- in  
 8 particular, from the ANR/Great Lakes/TransCanada/STS  
 9 path and the availability of a late night nomination  
 10 window that -- that they talked about.

11                   The -- so anyway, I -- I do acknowledge  
 12 that that is a benefit and there has been, for purposes  
 13 of my -- my testimony, I -- I just assumed -- I -- I  
 14 think that benefit is primarily an economic one, as  
 15 opposed to a -- as opposed to a physical security of  
 16 supply issue. The alternative to late night nomination  
 17 windows is basically having to deal with the imbalance  
 18 provisions and, potentially, imbalance fees on the  
 19 intervening pipelines.

20                   The third and, I think, most significant  
 21 value of storage to a company like Centra is the  
 22 potential for it to reduce overall transportation costs  
 23 by reducing the Utility's need to -- to hold what I'll  
 24 call peak-day capacity, or very high levels of ca -- of  
 25 winter capacity on the long-haul transmission systems

1 that it -- that it uses to -- to move gas from, in  
2 Centra's case, Alberta to Manitoba.

3                   So essentially, what's happening is that  
4 storage and the related transportation infrastructure  
5 is acting as a substitute for Centra holding large  
6 amounts of TransCanada main line capacity from Empress  
7 to -- to Manitoba. So the relative economics of that  
8 are obviously a function of the relative costs of  
9 holding that peak capacity on the main transmission  
10 system, which is one (1) option, versus the incremental  
11 costs that are associated with the storage itself and  
12 all of the related transportation assets that -- that  
13 are required to make that -- make that operate.

14                   And later on in my testimony, I go  
15 through several sort of high conceptual or high level  
16 examples of -- of how the analysis of that trade-off  
17 can be looked at.

18                   MR. BRIAN MERONEK: On page 10, Mr.  
19 Stauff, you -- you commence a discussion of Centra's  
20 proposed arrangements. How did you approach your  
21 assessment as to whether Centra's proposed storage and  
22 related transportation arrangements are appropriate?

23

24                   (BRIEF PAUSE)

25

1                   MR. MARK STAUFF:    To begin with, I -- I  
2   reviewed the application knowing, I think, being  
3   already quite familiar with the way Centra's system  
4   works now and having been -- having talked to them  
5   about it over the years and been to the technical  
6   conference last year.  There are a number of issues  
7   raised in -- in Centra's application about other  
8   potential approaches to -- to contracting for storage  
9   in -- in Alberta and Williston Basin and -- and that  
10  kind of thing and I don't -- I don't think tho -- any  
11  of those were ever really serious contenders for being  
12  a -- arrangements Centra would enter into.

13                   I looked, as well -- assuming that an  
14  eastern storage -- if you're going to have storage, it  
15  seems clear that a -- some kind of an eastern Michigan  
16  or Ontario storage arrangement is what it's going to  
17  be.  And I also obviously looked at the material that  
18  Centra filed about the testing that it did as between  
19  ANR/Great Lakes and the mysterious Option B, whoever  
20  that is.

21                   And again I -- for the reasons that I  
22  outlined in my testimony I -- I think you would expect  
23  -- I would expect options that are physically located  
24  in that general to be comparable economically, and so  
25  I'm not surprised that they turned out to be, given all

1 of Centra's analysis. And so I -- I have no comments  
2 to make really on that whole selection process once  
3 Centra had determined to -- to look to that  
4 geographical area.

5                   Having got to that point I considered in  
6 more detail, various elements of the proposal that  
7 Centra has made, including the -- the actual  
8 configuration of the assets and the sort of -- some of  
9 the ancillary services, transportation services that  
10 are attached to it, as well as matters like -- the --  
11 the term of the contract obviously is a -- is an  
12 important issue, and I -- I did think and write about  
13 that, as well.

14                   MR. BRIAN MERONEK:     Just in that  
15 connection, Mr. Staft, you -- you mention on page 11  
16 of your evidence a reference to what Centra described  
17 as an intermediate term of seven (7) years with a  
18 contractual right of first refusal to renew the  
19 arrangement. Can you comment on -- on the issue of,  
20 first of all, the -- the length of contract as been  
21 described as intermediate and -- and in the context of  
22 the overall marketplace, what -- what does that convey  
23 to you.

24                   MR. MARK STAFT:     Yeah, it -- it's  
25 obviously -- to me the terms long-term and short-term

1 and intermediate term in this kind of connection don't  
 2 -- aren't terms of art. I believe that what would be a  
 3 long-term contract will differ according to what kind  
 4 of customer you were talking about and what the  
 5 circumstances of that customer are.

6 Certainly in the -- the pipeline and  
 7 storage business in general, if there are new  
 8 facilities involved, or required to provide the service  
 9 that's being asked for, then a ten (10) or twenty (20)  
 10 year initial contract is -- goes without saying. The  
 11 pipeline insists on that and that's what happens. Once  
 12 the initial contracts expire then parties are just  
 13 subject to whatever renewal, or -- or right of first  
 14 refusal mechanisms are in place on the -- on the  
 15 particular system that you're talking about.

16 So as I say, I -- I hate to -- I hate to  
 17 say anything definitive about what is or isn't an  
 18 intermediate term contract for somebody like Centra.  
 19 For -- for some parties, for marketers, three (3) years  
 20 is probably a really long-term contract. There are  
 21 other local companies that are captive to one (1)  
 22 pipeline or another, or are sort of sitting on top of  
 23 particular storage facilities where they know they're  
 24 going to be using those facilities forever anyways  
 25 because they have no alternatives. So it probably



1 makes very little difference to them whether they sign  
2 a one (1), five (5), ten (10) or twenty (20) year  
3 contract. It's -- it's always going to be there.

4                   In the context of Centra, which was sort  
5 of one (1) of the -- themes or thoughts that I think  
6 runs through my -- my written evidence, is that, in my  
7 view, Centra is not like that. I mean, they have used  
8 the ANR/Great Lakes storage infrastructure for a long  
9 time. But just because of their physical location  
10 being quite remote from -- from those storage  
11 facilities, and the fact that they have other  
12 alternatives in the sense of upstream pipeline  
13 capacity, and the fact that the market for that has  
14 changed dramatically in the last twenty (20) years  
15 since Centra first signed up for this, Centra -- one  
16 (1) of the -- one (1) of the things that will drive  
17 people when they make choices about how long a contract  
18 to sign up for on these kinds of things, including --  
19 obviously price is one (1), but the potential for  
20 alternatives to arise or to present themselves that,  
21 for whatever reason, may be superior is -- is an  
22 important one.

23                   And I think that for Centra, more than  
24 most utilities, that is probably the case. In a way,  
25 it's a benefit for them. They -- they're not tied to

1 any particular set of facilities necessarily. But for  
2 them, I was -- I was surprised, frankly, that they --  
3 they would sign up for a seven (7) year term given the  
4 general uproar and discombobulation that's going on in  
5 the -- in the market on TransCanada, and really across  
6 Canada as well.

7 MR. BRIAN MERONEK: You talk about  
8 process starting at page 12. Can you give the Board a  
9 flavour for the -- your -- your general comments with  
10 respect to the process that was undertaken in this  
11 particular application?

12 MR. MARK STAUFF: Yes. And I  
13 understand that there's been some discussion about this  
14 already that I didn't catch all of. But I -- in my  
15 testimony I -- I expressed the view that it -- I think  
16 it would have been a good thing from the CAC's  
17 perspective if there had been sort of a greater level  
18 of consultation in the lead-up or as -- as Centra was  
19 thinking about what it was going to do and then going  
20 on to -- to actually do it with ANR and Great Lakes.

21 And what I had in mind there -- well, to  
22 be -- first of all, to be clear, I -- I would not be  
23 suggesting, and I'm not suggesting, that it would be  
24 appropriate for customers or anybody other than Centra  
25 to be in the room with ANR and talking about price and

1 -- and these kinds of things. That wasn't where I was  
2 going with it at all.

3                   What I had in mind as the whole process  
4 of reviewing the renewal or potential renewal of  
5 Centra's storage-related arrangements would be --  
6 essentially, I think of it almost as a settlement  
7 process where -- that would be, well, analogous to  
8 similar processes that happen on many pipelines,  
9 certainly the Canadian pipelines.

10                   They have, in fact, sort of little  
11 constituted bodies called "task forces" where  
12 interested parties are members and everybody signs  
13 confidentiality agreements. And what typically happens  
14 is the utility will present its bright ideas for what  
15 it wants to do, and how it wants to do arrange its  
16 rates, or -- or whatever issues come up, to these  
17 consultative bodies before they file an application.

18                   And you get sort of back and forth  
19 communication through that process. And if everybody's  
20 lucky, it results in a general agreement -- and there's  
21 -- negotiation can go on as well. But if everybody's  
22 lucky you end up with an agreement and then a filing  
23 with what -- with the appropriate regulator. Or, if  
24 not, then okay the -- the utility files an application  
25 and you go to a -- go to a hearing.

1                   There's nothing exactly analogous with  
 2 Centra, or -- and I -- I -- I'll acknowledge it's --  
 3 that's not quite as formalized usually with  
 4 distribution utilities in general, but given the  
 5 context here where the sort of architecture of their  
 6 entire upstream infrastructure is in play after twenty  
 7 (20) years, we were, I think, hoping for more of that  
 8 back and forth dialogue up front in relation to just  
 9 the des -- potentially the design of the portfolio and  
 10 things like term that -- that we've spoken about.

11                   MR. BRIAN MERONEK:    Okay.  You -- you  
 12 talk discretely, Mr. Staft, on page 17 about your  
 13 concerns with respect to the Joliet to Chicago storage  
 14 tram -- transportation feature that's incorporated into  
 15 this particular application.  Could you -- could you  
 16 elaborate upon what your concerns are?

17

18   (BRIEF PAUSE)

19

20                   MR. MARK STAFT:    The concerns as  
 21 expressed in my evidence, I believe -- well, to begin  
 22 with, it -- looking at that arrangement I don't see,  
 23 and I don't think Centra even claims, that -- that on  
 24 an expected basis there's any particular cost advantage  
 25 to locking in that transportation route relative to the

1 alternatives that it has -- that it has talked about,  
2 including just buying gas in Michigan at -- at various  
3 points.

4                   And some they don't mention, either. I  
5 mean, that's a very fluid area down there in Michigan.  
6 And it's certainly possible to get supply from Emerson,  
7 which Centra could get to Emerson using its existing  
8 mainline FT entitlements through the great sys --  
9 through the Great Lakes system at quite heavily  
10 discounted rates for long -- for -- for long -- for a  
11 whole season sometimes.

12                   So anyway, there -- I think there's a  
13 lot of alternatives. So my concern was really just  
14 with the fact that they would think it necessary to  
15 incur a fixed cost for this one (1) route, admittedly  
16 for a relatively minor volume. And if -- if -- my logic  
17 is that if there is no particular expected cost  
18 advantage, why pick up the fixed cost if you don't need  
19 to, particularly if the expectation is you're only  
20 going to use it half the time, or perhaps if they use  
21 their storage more intensively, a third of the time, or  
22 something like that, because then you have the problem  
23 of trying to get rid of it in the secondary market.

24                   Now, I appreciate Ms. Stewart's point.  
25 And I think I even acknowledged in my testimony that,

1 yes, there is a secondary market for that capacity.  
2 And probably most of the time they can -- they can sell  
3 it, but -- for a reasonable price. But it seems like  
4 an unnecessary burden in terms of fixed costs and just  
5 -- just an additional risk that -- that probably isn't  
6 doing a whole bunch of good.

7 MR. BRIAN MERONEK: You talk about  
8 mainline transportation alternatives commencing at page  
9 20. Do you want to explain why you focussed on  
10 mainline transportation concerns and -- and what your  
11 analysis told you?

12 MR. MARK STAUF: First of all, just --  
13 just to be clear, the -- the whole discussion and  
14 analysis of potential mainline alternatives was not  
15 intended to be a proposal or as a -- as a substitute or  
16 alternative to what Centra has proposed here.

17 I think I acc -- accept and said quite  
18 explicitly that, for now, and given the way the market  
19 is, I -- I don't see an alternative to -- there's no  
20 clearly better alternative that I can see to what  
21 Centra has -- to the facilities and services that  
22 Centra has signed up for.

23 The whole point of this analysis was to  
24 show or -- or demonstrate that, conceptually, if you  
25 did have different market conditions and different

1 market circumstances, then -- then in -- in those kinds  
 2 of cases there may be other types of market or -- or,  
 3 sorry, delivery assets that could be more economic than  
 4 what Centra has proposed or -- or proposes to contract  
 5 for with ANR and Great Lakes.

6                   So the point really was just to -- to  
 7 try to illustrate using plausible numbers that there  
 8 may be alternatives out there that will pop up in the  
 9 future. And this, of course, goes primarily to the  
 10 issue of the term of the arrangement and the risks and  
 11 costs that are involved in having either a longer or  
 12 shorter term with ANR if there are potentially other  
 13 options out there, if things change in the marketplace.

14                   MR. BRIAN MERONEK: You mentioned  
 15 "term" again at page 30, as the length of the contract.  
 16 And you have done an analysis that talks in terms of  
 17 the -- the pros and -- and cons of a seven (7) year  
 18 versus, I think you've got here, four (4) years. What  
 19 is your opinion or -- or view on -- on the proposal for  
 20 seven (7) years, versus the four (4) years that you  
 21 have identified as a -- as an option?

22                   MR. MARK STAUFF: First of all, there  
 23 was no special significance to the four (4) years as  
 24 opposed to a three (3) or a five (5). It was just a --  
 25 a shorter number. Again, the general concept is that a

1 shorter-term contract gives the utility optionality in  
2 the sense that it is able to adjust its portfolio more  
3 easily and more quickly in the event that things change  
4 in the market.

5                   And in my testimony I -- I think without  
6 saying very explicitly -- without explicitly trying to  
7 weigh or balance these -- these factors, I did  
8 acknowledge that, yes, there are probably risks and  
9 potential costs involved with a shorter-term contract.  
10 And Centra has talked about those, and I think I  
11 acknowledged them as -- as well in my -- in my  
12 testimony in relation to re-contracting risk and what  
13 happens if you go back and talk to ANR and they --  
14 they're mad and don't give you the same deal and -- and  
15 all that kind of -- kind of stuff.

16                   On the other hand, I think there are  
17 risks and costs involved with -- potential costs  
18 associated with a longer-term arrangement just because  
19 of the potential for the landscape to change in a way  
20 over the -- an entire seven (7) year term that would  
21 make the proposed arrangements much less attractive  
22 relative to the alternatives that -- that might -- that  
23 might present themselves over that period.

24                   And if you're stuck with a long-term  
25 contract you -- you can try to modify your situation or



1 -- or change it, but the fact remains that you're with  
2 a -- you know, it's a binding contract and that burden  
3 of those fixed costs is -- is very difficult to -- to  
4 get away from if things change in the marketplace.

5

6 (BRIEF PAUSE)

7

8 MR. BRIAN MERONEK: On page 33 of your  
9 evidence you talk in terms of potentially the prospect  
10 of Centra turning over part or -- or all of its asset  
11 portfolio to a third-party manager. Why were you  
12 engaging in this kind of conversation in this evidence?

13 MR. MARK STAUFF: Just -- well, again,  
14 it goes to the question that I just talked about of  
15 what risks are presented by a long-term contract. I  
16 mean, I think -- in fact, my preference, if -- if I  
17 was forced to choose, I think my preference on the term  
18 issue would -- would have been to go -- would be --  
19 would have been for Centra to go -- have gone for a  
20 shorter term with these. That's what I expected when  
21 we went through the technical conference process.

22 As I said, I think it does -- having  
23 shorter-term arrangements does present issues for  
24 Centra that they've identified, but so does the longer-  
25 term contract. And if you have a shorter term

1 arrangement -- essentially what that means is that  
 2 Centra has to -- has to face the market more frequently  
 3 if it is always having to -- to re-up on its  
 4 arrangements, which means that it assumes the risk of  
 5 positive or negative changes in the overall market  
 6 environment more frequently than it does under a long-  
 7 term contract.

8                   So, yes, there is -- and that is, I -- I  
 9 think, the essence of what is meant by the re-  
 10 contracting risk that Centra talks about. On the other  
 11 hand, you -- you can avoid those by signing up for a  
 12 long-term deal. But at the same time, by not  
 13 following, or -- or floating with the market you run a  
 14 bigger risk, or a significant risk, that down the road  
 15 your -- your arrangements turn out to be way out of  
 16 sync with the market.

17                   And potentially that could be either  
 18 positive or negative. It -- it's not known, but the  
 19 longer the term, the bigger the chance of being --  
 20 having a significant lost opportunity in -- in the form  
 21 of an alternative arrangement that you -- you could  
 22 have accessed with a -- if you'd had a sort of ability  
 23 to -- to react to the market more frequently.

24                   In terms of the asset management topic  
 25 that did come up in my testimony, that discussion,

1 along with the -- the discussion that -- that is sort  
 2 of associated with it around process in the -- within  
 3 the regulatory regime in Manitoba, is really premised  
 4 on an assumption that -- that -- or on a case where  
 5 there is a long-term arrangement approved and Centra  
 6 goes ahead and does it, and recognizing the risks that  
 7 I've just talked about associated with that, of getting  
 8 way out of sink with -- with the market, what can be  
 9 done prospectively to deal with that. And one (1) way  
 10 of dealing with it, or one (1) approach that I think  
 11 can be considered, would be the kinds of asset  
 12 management arrangements that -- I -- I didn't actually  
 13 discuss them other than just really to refer to them in  
 14 this testimony, but I did talk about that in an earlier  
 15 -- in an earlier case.

16                   And what those really do is, if -- if  
 17 you have a set of assets, and Centra, of course, and I  
 18 -- I accept that Centra tries to optimize the use of  
 19 those from time to time, and it has -- accounts for it,  
 20 and we've talked about that in previous GRAs as well,  
 21 but I think there are limitations on what Centra can  
 22 do, for various reasons. Those inc -- well, I mean,  
 23 those include just the fact that they don't have as --  
 24 as broad a scope and scale of operations as -- as some  
 25 asset managers do.

1                   But, anyways, the point is that there  
2 are -- there is a whole industry of people that go out  
3 and sign contracts to manage assets for utilities as  
4 efficiently as possible. And that is a way of  
5 discovering, in a sense, through a commercial process  
6 what the value of the assets is and how they can best  
7 be op -- how they can best be utilized. We probably  
8 won't be able to see how that works exactly, but the --  
9 the net commercial result, in my view, is that the  
10 assets do get optimized and the majority of the benefit  
11 of that winds up flowing back to the Utility.

12                   MR. BRIAN MERONEK: There has been some  
13 discussion about the risk associated with Centra  
14 turning over a portion or all of its assets to a  
15 counter-party. And that counter-party, e.g. Enron,  
16 ending up being insolvent, what are your comments about  
17 that kind of a risk?

18                   MR. MARK STAUF: I know this -- this  
19 came up and was a significant part of Centra's response  
20 the last time I brought this up, which was in about  
21 2009. And I -- and I gather there's been some  
22 discussion of it here as well. I -- I think that that  
23 concern is -- is overblown, frankly. I mean -- and  
24 it's -- it's not fair, in my mind, to compare the  
25 situation today and the way the market works today and

1 the number of -- and quality of players that are in the  
2 market to what was happening in the last 1990s. I  
3 mean, that was -- that was quite a different  
4 environment.

5 Yes, you know, they can always thrown  
6 the Enron example in my face, and that's -- that's a  
7 hard one to argue, but Enron went broke for bus -- for  
8 reasons that had nothing to do with their gas  
9 management or asset management activity. It was -- it  
10 was totally other stuff.

11 And, I mean, there are big creditworthy  
12 companies doing this. It's, as I understand it, a  
13 pretty common activity in Canada. I know the eastern  
14 LDCs have asset management arrangements on one (1)  
15 scale or another, maybe not a totally comprehensive  
16 scale, but on some scale.

17 And just as a practical matter, I -- I  
18 think it would be -- obviously it would be awkward and  
19 inconvenient if, you know, Shell Canada went bankrupt  
20 in the middle of some kind of asset management deal  
21 with Centra, but that's a very low probability. And  
22 even if it did, the assets are still Centra's. They --  
23 they are still the primary contract holder. It's not  
24 like somebody can -- can steal their storage capacity,  
25 and wind up in the hands of a receiver.

1                   So I -- to me, the -- the -- to the  
2 extent that focus -- Centra has focussed on that set of  
3 concerns around this, I think, is -- is just  
4 exaggerated, and certainly less relevant now than it --  
5 than it might have been fifteen (15) years ago, as  
6 well.

7

8                   (BRIEF PAUSE)

9

10                  THE CHAIRPERSON:   Excuse me, could I  
11 ask a few questions here at this point since we're  
12 talking about asset management?

13                  MR. BRIAN MERONEK:   Sure.

14                  THE CHAIRPERSON:   Looking at the -- the  
15 bundle of services that are a part of this rate  
16 application, could -- could you parcel some of that off  
17 to an asset manager, in your view? Like in other  
18 words, we're -- we're looking at it as a bundle, you  
19 know, the --

20                  MR. MARK STAUFFT:   M-hm.

21                  THE CHAIRPERSON:   -- this entire  
22 winter-summer movement and so on, could some of that be  
23 parcelled off, in your view, to an asset manager?

24                  MR. MARK STAUFFT:   Yes. Yes, sir, that  
25 -- that's kind of what I have in mind, as a matter of

1 fact. I mean, I -- I didn't put a lot of stuff in --  
 2 in this testimony about it but the sort of full-blown  
 3 asset management deal, and I don't again know for sure  
 4 that this would be available in the market for a  
 5 company in Centra's circumstances, but the -- sort of,  
 6 conceptually, the -- the full-blown deal will be  
 7 probably through some RFP process.

8                   Centra enters into an arrangement with  
 9 XYZ Corp., and as part of the deal basically assigns,  
 10 or releases, everything to XYZ. Like their storage  
 11 contract, and their -- all their storage related  
 12 transportation, and their mainline capacity, and their  
 13 gas supply, and all this, all the rest of it. And  
 14 Centra agrees to keep paying the cost of those, the  
 15 fixed costs, and 'X' -- the -- the manager promises in  
 16 return to say, Okay, You tell us how much gas you need  
 17 at Centra's facilities and when, and we'll promise to  
 18 have it there, but you can't ask how we get it there,  
 19 basically. And then the -- the manager just takes this  
 20 stuff -- oh and the manager says, And in addition to  
 21 that I will pay you 'X' amount of dollars.

22                   It's essentially the -- the asset  
 23 management concept that Centra already has, but there  
 24 is some commercial arrangement where the manager  
 25 promises to pay Centra some amount of money. And the

1 premise of it is, or the -- the sort of economic  
 2 rationale for it, is that the manager is likely to be  
 3 able to be more efficient than the Utility in managing  
 4 all of this, and will extract value out of the assets,  
 5 and basically pay most of that to the Utility. The  
 6 amount that it pays gets -- is controlled by the --  
 7 basically a bidding process amongst the potential  
 8 people.

9                   So in that kind of an arrangement,  
 10 Centra might have -- I mean, this is again  
 11 conceptually, and there would be a lot of details that  
 12 -- that Centra would work out, but conceptually Centra  
 13 would not have to know what was happening with any of  
 14 its assets. All it knows is that it gets its gas when  
 15 it wants it, and it gets its -- its payment.

16                   And the -- the asset manager might use  
 17 these assets totally differently. Like it might -- it  
 18 might buy all of Centra's requirements at -- at  
 19 Emerson, just in the -- the Emerson market, and use --  
 20 and -- I mean, the would still have the -- the firm  
 21 arrangements that Centra has entered into as a backstop  
 22 if things go wrong in the market, but, you know, it  
 23 might be that 95 percent of the time the cheapest and  
 24 most economical way to serve the Manitoba market would  
 25 be to buy the gas at Emerson and just haul it back up -



1 - up to Winnipeg. And then the manager would go out  
2 and do something different with the -- the storage and  
3 the Great Lakes transport and all that other stuff and  
4 would generate revenue from that that it would share  
5 with Centra.

6 Now I mean, it would still -- as I was  
7 saying, it would still have the firm arrangements as a  
8 backstop if something went wrong, and it would be,  
9 certainly, accountable to Centra if -- if it didn't  
10 handle that properly. But -- but that's the kind of,  
11 sort of, divorce between the exact use of the assets  
12 and the final result of gas showing up at the Utility  
13 city gate that's -- that's possible under these kinds  
14 of arrangements.

15 THE CHAIRPERSON: To what -- to what  
16 extent is that vehicle used in Canada? And -- and to  
17 what extent is it used in the United States?

18 MR. MARK STAUF: Yeah. I was asked  
19 this question by -- by the Board counsel and I do not  
20 have -- unfortunately I don't have statistics on that.  
21 I have sort of anecdotal information from marketer  
22 types that I -- that I deal with. My understanding is  
23 that most of the -- certainly, like Union and -- and  
24 Enbridge and GMI, have at least small scale versions of  
25 this kind of thing. I do not -- I -- and I won't say

1 and can't say that any Canadian distributors that I  
 2 know of have -- have entered into the kind of big scale  
 3 thing that I just described where the whole portfolio  
 4 gets turned over. I think in -- it's more typically  
 5 particular pieces of transportation, or particular  
 6 pieces of storage, and not necessarily for a long time  
 7 either. It might be for just a winter or a summer.

8 I -- I think in the States, my  
 9 understanding is that the practice again -- well, the  
 10 practice varies quite widely. I mean, there are some  
 11 utilities that don't do that at all, and some that have  
 12 quite -- quite massive, or quite large scale  
 13 arrangements that they -- that they enter into with --  
 14 with asset managers.

15 I've -- I've -- in fact I've -- I've  
 16 heard it suggested that some utilities are afraid not  
 17 to do that because they're worried that if -- if they  
 18 don't -- they're concerned about their commission staff  
 19 and Intervenor's probing into and complaining about  
 20 their own management and optimization of their upstream  
 21 assets. And so one (1) way of addressing that problem  
 22 is to just turn it over to somebody else and -- and  
 23 they don't have to worry about it any more.

24 I -- I've been told that there are  
 25 examples of that. I can't say that that's -- and I

1 won't say that that's everybody. But it -- it's not  
2 uncommon. It's -- it's -- and it's becoming more  
3 common all the time, I think, as -- as confidence in  
4 that kind of business activity sort of grows in -- in  
5 the community.

6 MR. RAYMOND LAFOND: I need a better  
7 understanding of this.

8 MR. MARK STAUFF: Sure.

9 MR. RAYMOND LAFOND: What I'm hearing,  
10 or trying -- or understanding is that this would apply  
11 more to the management of supply and the purchasing of  
12 the supply than the -- the current application that is  
13 of transportation and storage, and that's how these  
14 managers could effect some savings. Am I correct?

15 MR. MARK STAUFF: Not -- not entirely,  
16 no. It could -- it could involve supply purchases, or  
17 -- or taking over supply contracts, but I -- I think  
18 the actual, the typical value that these kinds of  
19 market operators can provide is really probably more  
20 tied to the operation of assets and -- and how assets  
21 are used to serve different kinds of markets. I'm just  
22 trying to think of an example.

23 The -- the example that I -- I gave  
24 before of, you know, perhaps the most economical way to  
25 serve the Manitoba market would be to buy gas at

1 Emerson most of the time, and use the -- the storage  
 2 and transportation assets for some other purpose. Like  
 3 instead of hauling the gas from Michigan all the way  
 4 back through Great Lakes and up into Winnipeg, rather  
 5 than doing that you sell it to somebody in Michigan or  
 6 in Ontario at a better price than, you know, what the  
 7 net landed value is all the way back in Winnipeg, and  
 8 instead buy gas at Emerson and just bring it up from --  
 9 from Emerson.

10 And there's sort of a net -- it's --  
 11 it's an efficiency gain really. Right, it's just a --  
 12 a more efficient flow of the commodity across the grid  
 13 in terms of it -- it -- the gas going to where people  
 14 want to pay the most for it and -- and the -- the  
 15 cheapest possible supply being used to -- to serve the  
 16 Manitoba market.

17 Is that helpful? I -- I will say too  
 18 that I'm -- I'm certainly not suggesting that Centra is  
 19 -- could -- could be blamed for not doing that kind of  
 20 thing, just taking that kind of hypothetical, because -  
 21 - and that's, I think, one (1) of the reasons why in  
 22 some circumstances these kinds of arrangements are --  
 23 are helpful, because I -- I don't know enough  
 24 accounting to say this, but I imagine that it would be  
 25 a heck of a problem for Centra to have to account

1 through its PGVA -- through its variance accounts for  
2 that kind of sort of off-the-books activity, buying and  
3 selling gas at weird intervals and unexpected times at  
4 Emerson, or -- or in Michigan, or wherever.

5 Right, that's -- I -- I can see how that  
6 would be just a horrendous problem and a real good  
7 reason for Centra to not try to do that. It's not its  
8 fault, it's just a -- that's a -- that's a result of,  
9 or follows from the -- the regulatory structure that  
10 it's necessarily subject to, and the pass-through of  
11 gas costs.

12 MR. BRIAN MERONEK: Thank you, Mr.  
13 Chairman. Thank you, Mr. Stauf. Mr. Stauf is now  
14 available for cross-examination.

15

16 (BRIEF PAUSE)

17

18 MR. RAYMOND LAFOND: While -- while  
19 they discuss this I have a question for you. Several  
20 times you've referred to the possibility of market  
21 conditions changing over the next seven (7) years, and  
22 -- and that's why a term of three (3) to five (5) years  
23 could have been preferable, could have preferable.

24 Because we're dealing with assets which  
25 have a very long-term life, pipelines, storage capacity

1 versus, for instance, the digital industry. Is really  
2 seven (7) years long in -- in this -- in this instance,  
3 unless you as an expert you're aware of some things  
4 coming upstream in the next few years? Because there's  
5 a long time process for pipelines to be built, et  
6 cetera.

7

8 (BRIEF PAUSE)

9

10 MR. MARK STAUFF: I think that's an  
11 interesting point, yes, and -- and I think you're quite  
12 right that under normal circumstances, and for most  
13 distributors, there just isn't that much market  
14 uncertainty. You know, there -- there's really very  
15 little that can be done.

16 A lot of this concern, just by way of  
17 background that I -- that I didn't go through -- but  
18 the problem in Centra's case here is that -- well,  
19 first of all, the -- the situation has changed  
20 dramatically on the mainline system compared to twenty  
21 (20) years ago when Centra first entered into these  
22 arrangements. At that time the system was very tight.  
23 You know, as a substitute for -- for mainline capacity,  
24 which was a scarce commodity, storage was a -- a pretty  
25 obvious alternative.

1                   And -- and I think I said in my  
2 testimony, that's all changed, right, there's like 3  
3 BCF a day of empty capacity going right past Manitoba  
4 on the mainline now. So that's one (1) factor. I  
5 mean, so that -- that factor has -- that's a -- that's  
6 a changed market circumstances -- circumstance that, in  
7 a sense, makes it less urgent or necessary for Centra  
8 to hold storage because that alternative is there.

9                   On the other hand, it's also had the  
10 effect of making TransCanada tolls preposterously high  
11 over the last few years. So that's that sort of  
12 countervailing effect of that that -- that makes  
13 storage more attractive.

14                  And at even a broader level, I think  
15 there is a concern. And I think Centra has -- I don't  
16 think I'm disagreeing with them when I -- when I say  
17 this, but they're -- there are -- there's potential for  
18 the pattern of gas flows to change quite dramatically  
19 as between Alberta and -- and the east, for example,  
20 largely because of declining productive capacity in --  
21 in Alberta -- sorry if my mic is sounding funny, and  
22 ballooning supply in the northeast US.

23                  The problem -- I -- I think nobody --  
24 nobody really knows what's going to happen. I mean, we  
25 could find -- in five (5) years we could have gas

1 flowing from Niagara Falls through Dawn, Ontario  
 2 backwards on Great Lakes to Winnipeg, you know,  
 3 something that nobody would have dreamed of ten (10)  
 4 years ago. Or maybe not. I mean, we don't know. The  
 5 -- the mainline could fill back up. It could go broke.  
 6 It could write off the whole system across the top of  
 7 the Great Lakes. It's just very difficult to say  
 8 what's going to happen.

9                   So it's not really so much a matter of  
 10 the -- the facilities themselves. It's -- it's sort of  
 11 the -- the larger market environment that is creating  
 12 uncertainty about what the best thing to do is -- is  
 13 going to turn out to be down the road.

14                   MR. RAYMOND LAFOND: And -- and I would  
 15 be a hundred percent in support if we were looking at  
 16 renewing a twenty (20) year agreement for another  
 17 twenty (20) years. What's it -- but, in my mind, it's  
 18 like three (3) years versus five (5) or seven (7).  
 19 That's where I have more difficulty in -- in arriving  
 20 at what would be the ideal solution.

21                   MR. MARK STAUFF: Yeah. I -- I take  
 22 your point, sir. That's quite right. I mean, I -- if  
 23 -- if Centra was proposing a twenty (20) year -- a new  
 24 twenty (20) year deal I would be, you know, being a lot  
 25 louder about my opposition to that kind of thing. So



1 it is -- I -- I agree that it is a -- it's a matter of  
2 degree. There's no -- and I haven't attempted to -- to  
3 say that there's any kind of bright line test on that.  
4 Again, to my way of thinking, seven (7) is sort of on  
5 the outer range of what might be reasonable.

6 And certainly I think a shorter term  
7 could also be reasonable depending on your evaluation  
8 of the -- and -- and the weight that you attach to --  
9 to whatever risks I've acknowledged do come with --  
10 with shorter-term arrangements in terms of arrangements  
11 in terms of having to face the market more often.

12 THE CHAIRPERSON: Mr. Bedford, are you  
13 prepared to examine the witness?

14 MR. DOUG BEDFORD: Well, I'm prepared.  
15 But I'm also going to tell you that I have no questions  
16 on cross-examination for Mr. Stauff, which reveals that  
17 both my colleagues and I have found his written  
18 material and his presentation this afternoon worthwhile  
19 and particularly fair and balanced. So thank you, Mr.  
20 Stauff.

21 MR. MARK STAUFF: Thank you, sir.

22 THE CHAIRPERSON: Thanks, Mr. Bedford.  
23 Mr. Peters...?

24 MR. BOB PETERS: Unfortunately, Mr.  
25 Chair, I can't echo my friend opposite. I have some

1 question for Mr. Staft.

2

3 CROSS-EXAMINATION BY MR. BOB PETERS:

4 MR. BOB PETERS: So if -- if I may, Mr.  
5 Staft, would you agree with me, sir, that when I look  
6 at your evidence and testimony and your -- including  
7 your answers to your information requests, there really  
8 aren't any factual disputes as between your evidence  
9 and what -- what the Corporation has filed in terms of  
10 facts being not agreed upon?

11 MR. MARK STAFT: I think that's  
12 generally fair, yes. I mean, there's -- there may be  
13 disagreements about emphasis, or -- or nuance here and  
14 there, but I -- I don't think -- your -- I think that's  
15 correct. There's no fundamental factual disagreements.

16 MR. BOB PETERS: But the Board will see  
17 in your evidence that your judgment provides a  
18 different perspective than the one (1) that -- than the  
19 judgment that Centra has exercised in reaching its  
20 preferred portfolio.

21 MR. MARK STAFT: Yes, sir, I agree  
22 with that.

23 MR. BOB PETERS: Mr. Staft, I'm going  
24 to go through your pre-filed evidence somewhat  
25 chronologically, if that's the right word, and deal

1 with some of the points that I had. And then I have a  
2 few that have followed up from today. So if you need  
3 to follow along or otherwise -- turning to page 3 of 34  
4 of your pre-filed evidence, which we have agreed, I  
5 hope, that is now marked as Exhibit CAC-2.

6 The point that you're making, Mr.  
7 Stauff, at -- at this point is that Centra has come  
8 before -- before the Board -- and I trust Mr. Meronek's  
9 given you access to Board counsel's book of documents,  
10 but Tab 13 is the -- is from Centra's application,  
11 which contains the costs of the current arrangement and  
12 the costs of the proposed arrangements. Have you got  
13 that, sir?

14 MR. MARK STAUFF: Yes, I do, thanks.

15 MR. BOB PETERS: And one (1) of the  
16 points you make in your evidence is that while Centra  
17 comes in and asks the Board to approve \$14 million, you  
18 think it should be more correct for the Board to  
19 understand that Centra's coming in and asking for  
20 approval of what amounts to \$18 million because you  
21 want to include the STS service and you want to include  
22 variable costs.

23 MR. MARK STAUFF: No, I don't think  
24 that's quite fair. What -- I -- I understand that what  
25 Centra has -- has asked for approval of is just the ANR

1 and Great Lakes capacity. In -- in a different -- to  
 2 the extent that I'm including TransCanada STS costs and  
 3 fuel or variable costs in the analysis, that's really  
 4 just for analytical purposes. I'm not making any  
 5 comment on -- the -- the STS is not up for -- for  
 6 approval and it is easily changeable in any event.

7 MR. BOB PETERS: You're providing the  
 8 Board with the approximate \$3 million of STS costs, and  
 9 the \$1 million of variable costs becomes important from  
 10 an analytical tool if the Board considers the no-  
 11 storage option. Would that be fair?

12 MR. MARK STAUF: No storage, or less  
 13 storage, yes. Yes. That's -- that's why I've -- I've  
 14 sort of conceptualized it that way, that -- that the  
 15 STS is really part of the -- operationally part of the  
 16 -- the Great Lakes/ANR bundle as opposed to the -- to  
 17 the mainline bundle.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Mr. Stauf, the  
 22 evidence you filed also contains the suggestion that --  
 23 and as you said to Mr. Meronek in your direct evidence  
 24 that one (1) of the benefits of storage is allowing the  
 25 utility to capture any difference in price as between

1 winter gas and summer gas, correct?

2 MR. MARK STAUFF: Yes, sir. Yes.

3 MR. BOB PETERS: And in terms of  
4 quantification of it, I just want to come to some  
5 understanding. You -- you indicated you used the  
6 futures market to come up with your calculation of --  
7 of what that amount could be.

8 MR. MARK STAUFF: Right. And -- well,  
9 and it was -- and specifically the price curves that  
10 Centra utilized for its analysis of -- of the -- sorry,  
11 of -- of the storage alternatives. I don't think I  
12 reproduced the numbers exactly, but -- they -- they  
13 varied around a bit, but they were all around -- over  
14 the long term around about a forty cent (\$.40) dif --  
15 seasonal differential.

16 MR. BOB PETERS: There was also  
17 discussion with the Centra panel -- and they looked at  
18 Tab 23 of that book of documents that you have and they  
19 looked at the chart, and my understanding of the Centra  
20 evidence was that on average over the last ten (10) or  
21 eleven (11) years, as depicted on page 98, or under Tab  
22 23 of the PUB Exhibit 7 book of documents, that over  
23 the last approximate eleven (11) years one could  
24 conclude that the difference between summer and winter  
25 prices was approximately 10 percent.

1 MR. MARK STAUF: Right. And I  
2 understand one (1) of the Centra witnesses -- I'm  
3 sorry, I don't remember exactly who --

4 MR. BOB PETERS: Mr. Sanderson, I  
5 believe.

6 MR. MARK STAUF: Mr. Sand -- I think  
7 Mr. Sanderson indicated that and I -- I either heard  
8 about it, or read it in the -- in the transcript, yes.

9 MR. BOB PETERS: And -- and you don't  
10 take issue with that?

11 MR. MARK STAUF: No, just as a -- as a  
12 historical statistical fact, I mean, I -- I have no  
13 reason to doubt that at all.

14 And -- and that number is probably less  
15 than the forty (40) cents that is reflected in -- in  
16 the Centra forward market data. You know, 10 percent  
17 of a -- of a two dollar (\$2) gas price is twenty (20)  
18 cents and not forty (40) cents, so.

19 And I -- I think I did say in an IR  
20 response somewhere that, you know, you have to -- you  
21 have to attribute some weight to this, and what else  
22 are you going to use other than the forward market.  
23 The -- the historical data is so corrupted and -- and  
24 overwhelmed by all the other factors that -- that  
25 influence gas pricing, that it's -- it would be very

1 difficult to get anything useful out of that.

2 MR. BOB PETERS: You were quick to  
3 concede in your evidence that there may not be a direct  
4 correlation and it may be tough to find it over  
5 history, but your point was you should give credit to  
6 that opportunity as having some economic benefit in the  
7 storage option as compared to the no storage option?

8 MR. MARK STAUF: Right. I didn't want  
9 to be -- I -- I think it would be misleading to -- to  
10 say that -- that there is no value of storage  
11 associated with that expectation that the market has  
12 for -- for seasonal price differentials.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: Another matter that  
17 you commented on, both in your evidence and also to Mr.  
18 Meronek, had to do with the operational advantages of  
19 storage.

20 Do you remember that?

21 MR. MARK STAUF: Yes, sir.

22 MR. BOB PETERS: And one (1) of the  
23 things we've heard is that storage allows the Utility  
24 to get the right amount of gas to Manitoba without  
25 encouraging -- without incurring balancing penalties

1 that might be charged by the -- by the pipeline  
2 company.

3 And so they can use the storage  
4 withdrawals as their balancing mechanism to try to  
5 avoid most of those balancing fees, correct?

6 MR. MARK STAUFFT: Yes. Yes, as a --

7 MR. BOB PETERS: And --

8 MR. MARK STAUFFT: -- topic.

9 MR. BOB PETERS: -- in terms of  
10 quantification, again, your evidence was -- was fairly  
11 clear that you used a number of \$2 million even though  
12 acknowledging that that data may be somewhat dated, but  
13 that was the best information you had?

14 MR. MARK STAUFFT: Yes. Just by way of  
15 explanation, again, as with the summer or winter price  
16 differentials I think it would be unfair not to give  
17 some val -- not to attribute -- or just wrong, not  
18 unfair, but wrong, to not attribute some value to -- to  
19 that. The \$2 million, I guess that number popped into  
20 my head when I -- I saw that there was an Information  
21 Request from Centra on that saying that prior to the  
22 development of the late night nomination windows they  
23 had incurred balancing fees up to \$2 million, and then  
24 pointed out that -- and that was based on -- on lower  
25 rates.



1                   So I didn't quite know what to make of  
2 the up to \$2 million. I don't know what the average  
3 is, or what the median is, or anything like that. But  
4 I do take the point that, yeah, these balancing regimes  
5 can change and -- and it's -- it's an estimate for --  
6 sort of for conceptual purposes that could be wrong in  
7 either direction.

8                   MR. BOB PETERS: Well, we heard from  
9 one (1) of the Centra witnesses, I think Mr. Barnlund  
10 provided that information, that those balancing fees  
11 could be much higher than the \$2 million in today's  
12 environment.

13                  MR. MARK STAUFF: And I accept that.  
14 Tha -- that's -- it's possible. Another point I did  
15 make on the balancing fees though is that...

16

17                                   (BRIEF PAUSE)

18

19                  MR. MARK STAUFF: Sorry, I'm breathing  
20 heavily into the microphone here. Sorry. Sorry.

21                   Again, it doesn't go directly to the  
22 quantification of what -- what that value is but, at  
23 the same time, I -- I pointed out that to the extent  
24 that what we're really talking about is the Utility's  
25 ability to move its nomination around intra-day, like

1 at three o'clock in the morning or something. You  
 2 don't need 200 mil -- 200,000 GJs a day of deliver  
 3 ability to meet whatever 3:00 a.m. nomination changes  
 4 you need, right. I mean, yes, that flexibility  
 5 provides a benefit. But it's not a justification by  
 6 itself for holding 200 million a day of capability. It  
 7 might be 20 or 30 million of that kind of flexibility  
 8 would -- would deal with your balancing fees.

9 MR. BOB PETERS: But your point in  
 10 making it is that if the Board is going to look at the  
 11 economics of it the Board should attribute some  
 12 economic value to storage attributed to the reduction  
 13 that would be expected in balancing fees.

14 MR. MARK STAFT: No, you're right. I  
 15 -- I agree with that. I was just making a slightly  
 16 different point. And certainly, I mean, nobody's --  
 17 and I'm not suggesting that we go out and do something  
 18 different on the basis of the -- the kind of sort of  
 19 very high level analysis that I've undertaken here.  
 20 That would be part of the analysis if Centra was going  
 21 to be looking at doing something different, yeah, and  
 22 they would have, I imagine, a pretty good grasp of what  
 23 their exposures are to -- to balancing fees. And that  
 24 would certainly be -- for sure be a cost that you'd  
 25 want to take into account.

1                   MR. BOB PETERS:   Mr. Stauff, from your  
2   experience, do you find Centra's situation in  
3   developing a portfolio for storage and transportation  
4   to be more complex than most gas utilities?

5                   MR. MARK STAUFF:   I do, yes.   I think  
6   that they -- I think Centra is both -- they're sort of  
7   lucky and unlucky at the same time, just in terms of  
8   their -- their -- where they are geographically.

9                   As I was, I -- I think, talking about,  
10   earlier, the more typical situation is that the storage  
11   -- storage facilities that utilities are able to use  
12   are located pretty close to -- to where they are, like  
13   in southern Ontario or in Michigan or up in the  
14   Northeastern US.   And what makes Centra -- Centra's  
15   situation unus -- well, so -- so Centra doesn't have  
16   any physical storage located anywhere near it, which  
17   means that it has to go a long way on Great Lakes and  
18   ANR in order to get there.   At the same time, it has  
19   the advantage of being much closer to -- from -- from a  
20   cost perspective, it's much closer to Alberta than GMI  
21   is, for example.

22                   I mean, yeah, you don't like to pay for  
23   -- for more long-haul capacity than you -- than you --  
24   you have to, but it'd cost Centra about a third (1/3)  
25   of what any of the eastern zone utilities have to pay

1 to -- to secure gas from Alberta. So they're sort of  
2 stuck in the middle. And qualitatively, they're --  
3 they have a lot more transper -- storage-related  
4 transportation infrastructure in place to make this  
5 work than -- than would be typical; so all the ANR  
6 stuff and all the Great Lakes and -- and so on.

7 MR. BOB PETERS: Thank you, Mr. Stauff.  
8 Mr. Chairman, in light of the hour, I wonder if this  
9 would be an opportune time for the Board to take an  
10 afternoon recess. I can indicate to Mr. Stauff and the  
11 parties that I expect I will take up most of the  
12 balance of the afternoon, but I will finish today in  
13 terms of my questions for this witness. And for  
14 planning purposes I provide that. If I find myself  
15 encroaching on the end of the day and perhaps need a  
16 little more leeway, I'll ask the Board at that time if  
17 they could sit a little later to -- tonight, but  
18 certainly not much.

19 THE CHAIRPERSON: Agreed. Let's recess  
20 now, and back in this room -- let's be back in this  
21 room at ten (10) after.

22

23 --- Upon recessing at 3:02 p.m.

24 --- Upon resuming at 3:14 p.m.

25

1 THE CHAIRPERSON: Good afternoon again.  
2 Board Member Lafond has a question.

3 MR. RAYMOND LAFOND: Mr. Stauff,  
4 unfortunately I -- I don't have the gas expertise you  
5 do, so I need to question you a wee bit on this  
6 management by third parties, management of assets by  
7 third parties.

8 I was not clear on possible examples of  
9 -- of other utilities doing that to a major extent, but  
10 more particularly I think you said that type of people  
11 we're looking, or companies we are looking at are --  
12 are Shell, BP, et cetera, and if I heard you correctly  
13 you were a bit surprised that Centra did not approach  
14 these to -- to become third party managers for Centra.

15 Why is it that these companies would not  
16 approach Centra, and -- and present a case as to what  
17 they could do, how they would do it, and the -- and the  
18 savings, et cetera, and the gran -- guarantees they  
19 could provide? Because I assume that these companies  
20 do not have millions of clients like this. I mean,  
21 these are large clients, and they are -- they are few,  
22 and it seems to me they would have the expertise to  
23 make such a presentation, and -- and convince them that  
24 that was the case.

25

1 (BRIEF PAUSE)

2

3 MR. MARK STAUFF: First of all, Centra  
4 would know more about that than I do, but I would be  
5 very surprised if the marketing community doesn't do  
6 that all the time. Doesn't talk to Centra quite  
7 frequently.

8 I mean, these people all know each  
9 other. It's -- it's not that big a community. And  
10 Centra, I think, does business with many of these  
11 companies in -- on -- in other ways, like through  
12 exchange transactions, and -- and certainly in the gas  
13 market, and buying delivered services, and -- and  
14 things like that. So I -- I don't think Centra's --  
15 I'd be surprised if Centra is, you know, unaware of  
16 that potential, or unaware of -- of any interest that  
17 mark -- the marketing community would have in -- in  
18 providing services like that.

19 MR. RAYMOND LAFOND: I guess I was not  
20 referring so much to -- to awareness as rather than the  
21 BPs and the Shells coming to them, and making them a  
22 presentation as to exactly what they could do and how  
23 they could do it for them.

24 MR. MARK STAUFF: M-hm. Again, that --  
25 that's just a matter of -- of what kind of dialogue

1 goes on between -- between Centra and the marketing  
2 community, and I really don't know. As I say, I would  
3 have -- if Centra asked people to do that they would do  
4 it. I guarantee it. You know, they would -- they  
5 would put a lot of work into -- into trying to quantify  
6 that, and -- and make a pitch, but I don't know if  
7 they've been invited, or -- or welcomed to make  
8 pitches, or -- or when that might have happened.

9 MR. RAYMOND LAFOND: I should tell you  
10 that life insurance salesmen are not shy about phoning  
11 me to sell me something.

12 MR. MARK STAUF: Yeah. I don't think  
13 it's shyness so much. It's just -- you know, it's --  
14 as I say, it's ongoing relationships. These people all  
15 know each other, so as I -- I'm -- I'm sure if they  
16 were invited they would -- they would gin up a dandy  
17 PowerPoint slide, and a -- and a whole bunch of  
18 arithmetic.

19 The arithmetic can get pretty  
20 complicated with this stuff, too. I -- I don't profess  
21 to understand it. Again, I sort of get this  
22 anecdotally, so it's not like it's always a simple -- a  
23 simple thing, but that's the business these people are  
24 in, so.

25 THE CHAIRPERSON: Mr. Peters...?

1 MR. BOB PETERS: Yes, thank you.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Stauff, on the  
5 same theme that Board member Lafond was talking to you  
6 about, in PUB/CAC question number 16 that was asked in  
7 Information Requests, you -- you don't need to turn it  
8 up unless you -- unless we get -- unless you're stuck  
9 for an answer. But I -- I, as Board member Lafond was  
10 asking you that question, I counted up the number of  
11 parties that you offered up as names of asset managers  
12 who provided services in some form of the type you were  
13 talking about.

14 Do you recall that question and your  
15 answer?

16 MR. MARK STAUFF: Yes.

17 MR. BOB PETERS: And you'd accept,  
18 subject to your own checking, that you listed thirty  
19 (30) different companies that -- that you're aware of  
20 that does asset management?

21 MR. MARK STAUFF: Yes. Yes. And  
22 actually, where I got that from, just to be clear, was  
23 that similar questions arose in another TransCanada  
24 case that I'm involved in, where asset management  
25 activities and -- and arrangements have been entered



1 into and are quite commonly entered into by longer  
2 haul, like eastern zone companies, or shippers on the -  
3 - on the TransCanada system. And another client of  
4 mine had provided evidence about the extensiveness of  
5 that activity which is quite different -- it's a  
6 different sort of transaction. But -- and they were  
7 asked, Well, who does this kind of thing? And I  
8 cribbed my list from the list that was provided by --  
9 by my other client.

10 MR. BOB PETERS: And, Mr. Stauf, what  
11 you're indicating is that, first of all these thirty  
12 (30) companies, there may be more or -- than this,  
13 correct?

14 MR. MARK STAUF: Yes.

15 MR. BOB PETERS: And even all thirty  
16 (30) of these may not be interested in the type of  
17 portfolio that Centra has?

18 MR. MARK STAUF: That's entirely  
19 possible, sure. I -- I didn't investigate or talk to  
20 any of them, so.

21 MR. BOB PETERS: But before these  
22 people could come to Centra with a price, you would  
23 expect they'd want to know the details of Centra's  
24 portfolio, much like this Board is now learning of it?

25 MR. MARK STAUF: Certainly. Yes, that

1 would be the -- that would be the basis on which they  
2 would value the assets. They'd have to know what they  
3 are and -- and the details around them.

4 MR. BOB PETERS: When you say they --  
5 they value the assets, they have to determine what  
6 value they can extract from these assets and still meet  
7 Centra's obligations?

8 MR. MARK STAUF: Yes, that's what I  
9 meant. Yeah.

10 MR. BOB PETERS: And to do that, that  
11 could be done through a request for proposal process,  
12 if the Utility was so inclined? And I think, in  
13 fairness to Mr. Warden, he indicated that that had not  
14 been ruled out by the corporation yet. I believe I  
15 heard that today.

16 MR. MARK STAUF: I -- I heard that as  
17 well, yes. I'm sorry, I -- I might --

18 MR. BOB PETERS: But my question was  
19 that --

20 MR. MARK STAUF: -- I might -- I  
21 already forgotten your question.

22 MR. BOB PETERS: My -- my question is  
23 that you would expect, then, that the -- the proper  
24 business protocol isn't necessarily to pick up the  
25 phone and phone one (1) or two (2), but you might issue

1 a proposal or a request for proposal to a number of  
2 companies?

3 MR. MARK STAUFFT: That would certainly  
4 be an option, sure. I -- I think it's probably done in  
5 different ways with different people, just according to  
6 people's practices. But certainly an RFP process would  
7 be one (1) --

8 MR. BOB PETERS: And I think in --

9 MR. MARK STAUFFT: -- obvious way to do  
10 it.

11 MR. BOB PETERS: I think -- sorry to  
12 interrupt. I think one (1) of the questions of the  
13 Chairman this morning was that the portfolio that the  
14 corporation could seek someone to manage doesn't have  
15 to be the entire portfolio that's put before the Board  
16 today. It could be a portion of it, could it not?

17 MR. MARK STAUFFT: Yes. Yes.

18 MR. BOB PETERS: All right. And that  
19 could be up to the Corporation to decide what it's  
20 looking for, an indication of interest from other  
21 parties?

22 MR. MARK STAUFFT: Yes.

23 MR. BOB PETERS: And when other parties  
24 get involved in these arrangements, they do it for  
25 profit, do they not?

1 MR. MARK STAUF: The marketing firms?

2 MR. BOB PETERS: Yes.

3 MR. MARK STAUF: Yes, that's the  
4 general idea for them.

5 MR. BOB PETERS: And in terms of what's  
6 in it for Centra -- excuse me -- what would be the  
7 profit sharing arrangement? Would it be a fee for  
8 service, would it be a sharing of profits, or how would  
9 that be normally dealt with?

10 MR. MARK STAUF: I think, again, that  
11 that would be -- that would be entirely up to the  
12 negotiations or RFP process, or -- or whatever went on  
13 between Centra and prospective clients.

14 I don't think there -- I -- as far as I  
15 am aware there is no fixed scheme for doing this. It  
16 could be just, you know, We'll give 5 million bucks,  
17 you know, or, We'll give you 85 percent of some amount  
18 calculated as follows, with a ten (10) line formula or,  
19 I mean, anything that people can dream up. There's --  
20 I can -- I'm -- I'm afraid I'm not able to help you  
21 with the specifics of how that would work.

22 MR. BOB PETERS: And in the vein of  
23 full disclosure, one (1) of those possible asset  
24 managers at least is a -- is a client of yours?

25 MR. MARK STAUF: Yeah, Tenaska market

1 in Canada is a company that I work with. I'm actually  
2 representing them at the -- at the NEB right now. And  
3 they are in that group. Again, a company that is known  
4 to Centra along with many of the other firms on that  
5 list.

6 MR. BOB PETERS: And that particular  
7 client, is there -- is the volume they ship on the  
8 TransCanada a matter of public record?

9  
10 (BRIEF PAUSE)

11  
12 MR. MARK STAFT: I don't believe it  
13 is, but I --

14 MR. BOB PETERS: I -- I see Mr. Meronek  
15 reaching for his buzzer, but let me just ask it this  
16 way, is it your understanding they are a larger shipper  
17 than Centra on TransCanada, or a smaller shipper than  
18 Centra on TransCanada? Are you able to answer that?

19 MR. MARK STAFT: If Centra is 90,000  
20 GJs a day -- well, let me -- let me back up. To the  
21 extent that Tenaska, or any of these firms, are  
22 shippers on the mainline system today, they are likely  
23 doing that mostly as assignees of a sort of more  
24 permanent firm shipper, like one (1) of -- one (1) of  
25 the LDCs, or an industrial, or a -- or an export

1 customer, sort of as a -- as an assignee. There was a  
2 time, five (5)/six (6) years ago, when many of the  
3 marketing firms held capacity on their own -- for their  
4 own account. But that's not common -- that's not so  
5 common anymore.

6 But Mr. Meronek has handed me a -- a  
7 list from Centra's application that does list Tenaska  
8 as the eighth largest shipper on the mainline at a  
9 121,000 GJs per day. So they -- they are a significant  
10 shipper there. They're also a very active shipper on -  
11 - like in the hundreds of thousands per day, as I  
12 understand it, on the NOVA system.

13 MR. BOB PETERS: All right. Let's get  
14 back to the TransCanada discussion you just raised in  
15 your second-last answer, sir. In the -- in the  
16 National Energy -- well, first of all, on the  
17 TransCanada mainline, you accept that that is the  
18 pipeline that physically transports all the gas  
19 molecules that are consumed in Centra's service  
20 territory?

21 MR. MARK STAUF: I -- I do, yes.

22 MR. BOB PETERS: And this morning you  
23 gave an answer, I think to the Chairman or to Board  
24 member Lafond, about a possible purchasing of molecules  
25 by a marketer at Emerson and then shipping them to

1 Winnipeg. Do you see that as being in the foreseeable  
2 future even an option?

3

4 (BRIEF PAUSE)

5

6 MR. MARK STAUF: I expect that it  
7 happens today to the extent that Centra purchases  
8 delivered services like outside the -- the store --  
9 this whole storage topic that we're talking about, to  
10 the extent that they buy delivered services that -- I  
11 would expect that's exactly how people do it. That's  
12 not a physi -- that's --

13 MR. BOB PETERS: It would be a back-  
14 haul arrangement as opposed to a physical forward-haul?

15 MR. MARK STAUF: Right. I'm sorry, I  
16 -- I was thinking maybe you were -- you were curious  
17 more about how that works physically given that the  
18 flow is -- is south on Emerson. But -- but that --  
19 that's right, it's -- it's what's called a "back-haul"  
20 in the transportation business.

21 MR. BOB PETERS: No, I -- my -- my  
22 question related more to the physical molecules getting  
23 to Winnipeg in some other way than on the TransCanada  
24 mainline.

25 MR. MARK STAUF: Yeah. No, no, they

1 don't, under that kind of arr -- physically under a  
2 back-haul arrangement like that, what has happened is  
3 somebody is shipping gas physically from Emerson -- or  
4 sorry, Empress to Emerson. And the physical molecules  
5 that are being "transported" from Emerson upstream to  
6 Winnipeg are just being dropped off on their way to  
7 Emerson and being replaced by somebody else's gas at --  
8 at Emerson.

9 MR. BOB PETERS: Mr. Stauff, we've  
10 heard a lot about the uncertainty of the TransCanada  
11 pipeline mainline application and the various issues  
12 that it -- it's raising. What's your understanding as  
13 to when the National Energy Board may issue a decision  
14 related to 2012 tolls and 2013 tolls?

15 MR. MARK STAUFF: I would expect maybe  
16 February of next year, give or take a month.

17 MR. BOB PETERS: February of 2013?

18 MR. MARK STAUFF: Probably, yes.

19 MR. BOB PETERS: And is there  
20 expectation that that will be an order that will  
21 address with some finality the tolls for '12 and '13?

22 MR. MARK STAUFF: I -- I think it will  
23 address with some finality -- or a lot of finality the  
24 tolls for two -- for 2012 and 2013. The -- well, I  
25 mean, it's all very awkward now because 2012 will be



1 over by the time the -- the Board decides the -- the  
 2 tolls. And in the meantime, we have the 2011 tolls in  
 3 place as interim tolls. And they -- they won't be  
 4 retroactively adjusted. So for 2012, what you -- what  
 5 people are paying now is what they're going to end up  
 6 paying. But there will be an adjustment through a  
 7 deferral mechanism to -- to change -- or to -- to roll  
 8 whatever difference there turns out to be into -- into  
 9 future test years.

10 In terms of the tolls, they -- they will  
 11 be decided. And the Board will make decisions on all  
 12 of the various proposals that have been made by  
 13 TransCanada and by Intervenors one (1) way or the  
 14 other. I would not go so far as to say that once  
 15 that's done everything will be sort of settled down and  
 16 everybody will be happy on the -- on the mainline  
 17 system. There's bigger forces in play than just  
 18 National Energy Board decisions there, so, partly yes  
 19 but partly no.

20 MR. BOB PETERS: Sorry, you'll have to  
 21 fill in the blanks on that one (1) for me. There's  
 22 bigger issues at play other than the NEB?

23 MR. MARK STAUFF: Ju -- just the mar --  
 24 just the market, the way the market will -- will  
 25 operate. I mean, that's -- TransCanada is -- the --

1 the fear with TransCanada is that, you know, the -- the  
2 throughput is declining at an alarming rate. They're  
3 losing firm customers. Producers may be losing  
4 interest in -- in sending gas east. There is a lot of  
5 competition coming out of the northeast US for -- for  
6 market in Canada, mostly in Quebec and southwestern  
7 Ontario. So I mean, yeah, the Board will decide  
8 whatever it can within its jurisdiction.

9 But it -- it's ultimately the market  
10 that decides what the flows are. And -- and those have  
11 those -- the level of flows have toll implications  
12 under the standard model that has -- those flows have  
13 toll implications beyond what TransCanada or anybody  
14 else can -- can do anything about.

15 MR. BOB PETERS: So the competing  
16 challenge -- challenges that you're telling this Board  
17 about is that TCPL and to, I guess, the extent their  
18 regulator, the National Energy Board, have to look at  
19 ways, if they can, to keep tolls low so that the  
20 western Canadian gas is still purchased and desired by  
21 eastern Canada and shipped over the mainline. And the  
22 competing opposite interest of that at this point in  
23 time is that TCPL wants to recover its full revenue  
24 requirement?

25 MR. MARK STAUF: Yes, that's -- that's

1 a challenge for everybody.

2 MR. BOB PETERS: And currently, at Tab  
3 12 of the book of documents that was prepared as PUB  
4 Exhibit 7, we had some evidence earlier about the  
5 tolls, and we can see that the current eastern toll is  
6 two dollars and twenty-four cents (\$2.24) a gigajoule,  
7 and the toll to the Manitoba delivery zone is  
8 approximately sixty-eight (68) or sixty-nine cents  
9 (\$.69). Is that your understanding as well, sir?

10 MR. MARK STAFT: Yes, sir.

11 MR. BOB PETERS: And if -- if TCPL's  
12 restructuring proposal is accepted, that could be good  
13 news for Manitoba and for Centra gas. Would you agree?

14

15 (BRIEF PAUSE)

16

17 MR. MARK STAFT: Well, certainly in  
18 the sense that if the result of that TransCanada case  
19 is a reduction in the toll level then, yes, that would  
20 be a good thing for -- for Centra and its customers.

21 MR. BOB PETERS: Just to interrupt you  
22 if I could on that thought, Mr. Staft. The current  
23 toll of sixty-nine cents (\$.69) is proposed to be -- on  
24 the restructured arrangement would be closer to forty  
25 cents (\$.40). Wouldn't that be correct?

1                   MR. MARK STAUF:    That -- that's  
2 correct, yes.

3                   MR. BOB PETERS:    And I think in one (1)  
4 of Information Requests you answered for the Board, you  
5 answered that in light of -- and as Ms. Stewart I think  
6 also told the Board, there's been some recent  
7 developments, and that forty cent (\$.40) proposal may  
8 go up as much as 30 percent. And I think Centra has  
9 told this Board that they're waiting to get a final --  
10 some -- some final additional evidence on that point.

11                  MR. MARK STAUF:    Yes, TransCanada has  
12 indicated that the flow forecast that underlay their  
13 entire several thousand pages of application, they've  
14 revised it downwards. And the -- the result is  
15 approximately a 30 percent increase in -- in the  
16 forecast tolls. We -- we haven't seen that yet. It's  
17 coming in the next week or so.

18                  I -- I should back up a little bit on  
19 this. I mean, this -- this case involves a whole bunch  
20 of moving parts, including a number of cost of service  
21 issues around depreciation. You know, TransCanada has  
22 proposed a significant reduction in their overall  
23 composite depreciation rate which has a lot of cost  
24 effect, and just all by itself has a significant effect  
25 in -- in reducing tolls.

1                   There will be a big argument about  
2 allowed return. They think that 12 percent is fair,  
3 and most of the Intervenor's think that more like eight  
4 (8) would be appropriate. So that's uncertain.  
5 There's various deferral things, proposals, that are  
6 out there.

7                   The -- the matters that Centra is  
8 concerned about in terms of the delimitation of RAM and  
9 the availability of -- of more flexible and -- and  
10 better and cheaper seasonal services. TransCanada  
11 likes to -- to sort of lump all of these disparate  
12 proposals into one (1) big lump and -- and pretend as  
13 if -- or -- or talk as if they are sort of an  
14 indivisible package, but they're not.

15                  I mean, they're -- they're all different  
16 things that will be decided on their own merits. And  
17 if -- if the case turns out favourably for Centra on  
18 the cent -- issues that Centra has identified, that  
19 won't -- that will have practically zero effect on  
20 tolls.

21                  TransCanada doesn't have to win the  
22 entire -- doesn't have to obtain approval of the entire  
23 restructuring proposal in -- in order for tolls to go  
24 down very significantly. In fact, in -- when they --  
25 on rate of return, for example, they want tolls to go

1 up a lot, right? And so they -- they -- it's -- it's  
2 very difficult to talk coherently about what a likely  
3 outcome is on this and -- because it's -- there's --  
4 there's cost of service factors moving in all  
5 directions and -- and volume factors as well.

6 MR. BOB PETERS: I just wanted to pick  
7 your brain while you're here.

8 MR. MARK STAUF: Sure. No, that's  
9 fine. I'm -- I'm happy to talk about it. It's -- it's  
10 an interesting and -- it's a fascinating topic, but...

11 MR. BOB PETERS: Mr. Stauf, you agree  
12 with Centra's decision to rule out a TransCanada  
13 pipeline option only, correct?

14 MR. MARK STAUF: Yes. Yes, for now I  
15 -- I -- and I think I explained my reasons for that  
16 earlier.

17 MR. BOB PETERS: Yes, and -- and  
18 certainly on a firm basis it's way too expensive on the  
19 -- on the TransCanada for 100 percent of the  
20 requirements of the utility?

21 MR. MARK STAUF: If you were to -- to  
22 contract for full-year FT service, it would be wildly  
23 expensive, yes. That would be a bad plan.

24 MR. BOB PETERS: Yes. And you also  
25 then in your evidence, you talked about the short-term

1 firm transport and -- and some of the issues and  
 2 questions around that. But -- but, Mr. Stauff, if --  
 3 at Tab 13 of Board counsel's book of documents, if the  
 4 -- if the TCPL-only option and a no-storage option came  
 5 in less than \$14 million compared to the ANR option,  
 6 would you recommend to this Board that Centra sign up  
 7 for the TCPL-only option?

8 MR. MARK STAUFF: First of all, in  
 9 order for the economics to be comparable, I think you  
 10 would have to make significant assumptions about this -  
 11 - the -- the amount of money Centra could obtain in the  
 12 secondary market for the very large amounts of -- of  
 13 summer FT capacity that it would have under that kind  
 14 of scenario.

15 That would be the -- the problem with  
 16 it, is they would have hundreds of thousands a day of -  
 17 - or a couple hundred thousand a day of capacity in the  
 18 summertime that they would have to dispose of at a --  
 19 at a market price that they -- they couldn't lock in.  
 20 So there would be a lot of risk associated with that.  
 21 I -- I don't see a -- I don't see a sort of year-round  
 22 FT arrangement working for that reason.

23 And also, I think as I -- as I indicated  
 24 in my analysis, there are -- it depends on how you --  
 25 how you measure the costs. I've -- I've -- as I've

1 acknowledged, there are benefits to holding storage  
2 apart from efficiencies that you gain in the holding of  
3 long-term firm transportation. So you would have to  
4 take that into account as well. Like the -- the  
5 summer-winter price differentials and any operational  
6 benefits.

7                   And -- and, you know, I mean Centra says  
8 that there -- there may be diversity benefits and so  
9 on. I'm not entirely persuaded by that, but it's -- if  
10 it was close and the economics were the same -- well, I  
11 don't -- I don't think they would be the same by the  
12 time you took all the risks into -- into effect -- into  
13 account.

14                   MR. BOB PETERS: All right. But my  
15 question to you assumes that the economics, however we  
16 do calculate them, are almost the same, but they favour  
17 the TCPL-only scenario. Is that a scenario, in 2012,  
18 that you would recommend approval of in that  
19 hypothetical situation I presented to you?

20                   MR. MARK STAUFF: If the economics were  
21 very similar, I do not -- no, I -- I don't think I  
22 would -- I would not be recommending that the Board  
23 overrule something that Centra wanted to do. If they  
24 had their own reasons and the reasons made sense for  
25 favouring a storage option over a -- a similarly



1 economically viable mainline option.

2 MR. BOB PETERS: All right. Let's  
3 leave Centra out of the consideration and you've got  
4 two (2) options. One (1) is proposed with storage at a  
5 certain price. And one (1) is proposed with no storage  
6 at a lower price. And wondering whether you -- you  
7 would be prepared to recommend the no-storage option,  
8 simply based on -- on the economic side?

9 MR. MARK STAUFF: Yeah. I mean -- oh,  
10 sorry. Mr. Meronek advised me that my -- I'm  
11 mishandling my button here, too, and likely causing  
12 grief. So I'm -- I apologize for that as well. Yeah.  
13 There we go.

14 MR. BRIAN MERONEK: Some of us missed  
15 that.

16 MR. MARK STAUFF: So the -- yeah, I  
17 mean if the scenario was that some mainline option  
18 would be more economic than a storage option, then  
19 logically you would -- you would say, yes, that's the  
20 one (1) you should take.

21 But the -- the difficulty with all of  
22 this is that there is a lot of probabilities involved  
23 in it and risks that are not easily measurable. So I  
24 think a certain amount of judgment just inevitably has  
25 to come into it, and that I would expect if it's -- if

1 the -- the economic analysis is close that, you know,  
2 there would be -- there would be some leeway given to -  
3 - to Centra and a recognition that we're never going to  
4 get to a -- get to a point where our analysis is  
5 sophisticated enough and certain enough that we're  
6 going to be able to say with a high degree of  
7 confidence that one (1) is way better than the other if  
8 -- if they look close.

9                   So, I mean, in principle, sure, you --  
10 what you're always going for is the -- the highest  
11 value option. But I think in -- in the real world it's  
12 going to be difficult, or often will be difficult to --  
13 to identify that.

14                   MR. RAYMOND LAFOND:    Can I add a  
15 supplementary question?  If -- if economics were the  
16 same or lower, the -- the issue of having not diversity  
17 of supply, I guess, but diversity of transportation,  
18 like access to two (2) pipelines instead of one (1)  
19 should be worth something.  You know, if something  
20 happens, an explosion, I don't care if it's due to  
21 terrorism or whatever, is that not a factor to be  
22 considered?

23                   MR. MARK STAUFF:    Again, in principle,  
24 it -- it would be.  As the physical layout works with  
25 TransCanada and Great Lakes though, they -- you don't

1 really have two (2) separate pipelines now. I mean,  
 2 Great Lakes -- a Great Lakes back-haul will not  
 3 function -- will not work without volumes being --  
 4 being transported physically on the mainline from --  
 5 from Alberta south. So Centra is kind of stuck with  
 6 one (1) transmission facility in any event, just the  
 7 way it works out. In principle, if you can -- if you  
 8 have the diversi -- the ability to -- to access two (2)  
 9 separate pipeline routes then that would be a benefit  
 10 of some kind.

11 MR. RAYMOND LAFOND: I think if I heard  
 12 correctly yesterday, we were told that now Great Lak --  
 13 Lakes can actually flow gas from east to west. And  
 14 that's fairly recent. And -- and therefore, does it  
 15 not offer a measure of security?

16 MR. MARK STAUF: Yeah, I guess it -- I  
 17 guess it would and I -- yeah, I -- I -- sorry, I stand  
 18 corrected on that -- on that point in the sense that in  
 19 theory you can -- gas can be propelled backwards on the  
 20 Great Lakes system.

21 So I -- I guess if the market evolved to  
 22 the point where that was -- that was a common  
 23 occurrence and -- and there was supply to do -- to do  
 24 it, then sure, you would have the advantage of having  
 25 access both ways. I -- I don't think that there is

1 enough -- I -- I -- my understanding is that that's a  
2 se -- a pretty -- a highly seasonal phenomenon now.  
3 It's not a natural flow, and there's not enough gas in  
4 Dawn to -- to flow backwards.

5 But, you know, it would be possible if  
6 enough gas sort of overwhelmed -- gas from the US  
7 northeast sort of overwhelmed the -- the eastern  
8 Canadian market then that -- that could happen. And in  
9 which case I would agree with you, yes.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Stauff, even  
13 though you weren't in the room with Mr. Kostick when he  
14 had to consider the western storage options against  
15 eastern options, with your hindsight you support his  
16 conclusions that eastern storage would be more -- would  
17 be better than western storage. And I think you said  
18 to Mr. Meronek that western probably weren't even  
19 serious contenders, correct?

20 MR. MARK STAUFF: Yes, I think that's  
21 fair. I think I said in my testimony that there -- or  
22 in an IR response that there would be no point in  
23 having storage in Alberta because you'd still have to  
24 hold all the -- all the mainline capacity you'd need to  
25 move the peak day, which is -- which is kind of the

1 point of the whole exercise is to get rid of that.

2 MR. BOB PETERS: All right. And -- and  
3 going a little bit further, even though you weren't in  
4 the room with Mr. Kostick when it came down to  
5 evaluating the eastern options 'A', 'B', 'C', and 'D'.  
6 Again, with hindsight, you support his narrowing it  
7 down to 'A' versus 'B'?

8 MR. MARK STAUF: Yeah, not -- not  
9 knowing what any of 'B', 'C', or 'D' are or where they  
10 are, I just rely -- I relied on -- I have no reason to  
11 -- to doubt Centra's understanding of the economics of  
12 these -- of the --

13 MR. BOB PETERS: All right.

14 MR. MARK STAUF: -- the other  
15 proposals.

16 MR. BOB PETERS: And as I understood  
17 your evidence to Mr. Meronek, through Mr. Meronek, you  
18 really didn't even want to be in the room with Mr.  
19 Kostick when he was doing that evaluation. That wasn't  
20 what you were -- that's not what you're saying in your  
21 evidence as to where -- where the stakeholders could  
22 have additional involvement?

23 MR. MARK STAUF: I think that's fair  
24 as well, yes. I -- that -- that's not -- detailed  
25 economic comparisons amongst closely similar competing

1 alternatives is not something that I would see myself  
2 or my client being usefully involved in.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: And, Mr. Staft, once  
7 Centra had narrowed down the viable proponents to 'A'  
8 and 'B', you're saying it's reasonable to hold that  
9 eastern storage and associated transportation capacity  
10 at some level and for some -- some term, correct?

11 MR. MARK STAFT: Yes.

12 MR. BOB PETERS: And the questions that  
13 you then raise, how much storage and for how long,  
14 correct?

15 MR. MARK STAFT: Primarily for how  
16 long, yes.

17 MR. BOB PETERS: All right. Well, then  
18 let's deal with the other question first, is how much  
19 storage. In terms of the 15 1/2 gigajoules, you  
20 weren't aware when you prepared your evidence in terms  
21 of how they planned to actually operate the proposed  
22 portfolio, were you?

23 MR. MARK STAFT: No. I believe that  
24 there was further information about that provided by  
25 Centra in its -- in its reply or rebuttal evidence.

1                   MR. BOB PETERS:    I apologize, Mr.  
2    Stauft, if I misspoke in terms of the storage size as  
3    being 15 1/2 petajoules.  If I misspoke and said  
4    something less, I apologize.

5                   But in any event, you were assuming the  
6    operation would be consistent with what's happened in -  
7    - in prior years, of which you have learned through  
8    your involvement, in the general rate applications that  
9    Centra has filed?

10                  MR. MARK STAUF:    That's fair.  That  
11    was my assumption, yes.

12                  MR. BOB PETERS:    And, Mr. Staft, now  
13    that you understand -- and I -- I think I've learned  
14    the new vernacular, that Centra intends to pull harder  
15    on storage, does that give you some comfort in knowing  
16    that 15 1/2 petajoules is the recommended optimal  
17    portfolio size for storage?

18

19                                       (BRIEF PAUSE)

20

21                  MR. MARK STAUF:    I think that's  
22    helpful.  And I -- I think that is probably a good  
23    thing for Centra to be doing.  I want to be -- to be  
24    clear as well though that I -- in -- in my written  
25    evidence I was not recommending a different --

1 recommending against the 15.5 petajoules because I have  
2 no ability to make a fully reasoned evaluation of  
3 whether that is or isn't the optimal amount.

4 I mean, I -- I was forced to rely on the  
5 -- the analysis that Centra did that in the current  
6 market conditions was consistent with something around  
7 15 petajoules. The -- my comments about the -- the  
8 sort of uncertainty or the -- or the potential for that  
9 to be the wrong number arose initially -- or -- or  
10 mainly in the context of the -- the consultation issue  
11 and -- and by way of suggesting that it would have been  
12 nice if the customers had had a chance to evaluate that  
13 before a commitment was made.

14 I wasn't suggesting, I don't think -- I  
15 never did suggest that -- that that commitment having  
16 been made should be -- should be taken back, but it was  
17 -- it was a different context.

18 I note, as well -- I mean, the -- the  
19 storage level, or the -- the optimal storage level as  
20 indicated by the SENDOUT model and the rest of the  
21 tools that Centra uses is quite sensitive to factors  
22 like the toll level that is assumed as an STF  
23 alternative, or as -- as I understand it, the -- the  
24 transportation cost that would be embedded in a  
25 delivered service price.



1                   There would -- CAC gave them an IR about  
2   that asking them to run a sensitivity, and -- and the  
3   Board did as well. And on different assumptions they  
4   indicated storage level can be quite a bit lower with -  
5   - with lower toll levels.

6                   MR. BOB PETERS:   Perhaps a matter that  
7   needs to be looked at in the future, again dependent on  
8   a lot of the TCPL outcomes and how that shakes out, Mr.  
9   Staught?

10                  MR. MARK STAUGHT:   I think that's fair.  
11   Yeah. I mean, there's -- there's the toll level, and  
12   there's -- there's service flexibility, and a number of  
13   issues that would -- that would be relevant.

14                  MR. BOB PETERS:   And, Mr. Staught,  
15   please take this question in the vein in which its  
16   asked, but even if you and Mr. Kostick were playing  
17   with computer models together, would you have the  
18   ability to determine whether 15 petajoules was the  
19   right number for the consumers of Manitoba, or would  
20   you have to rely on his -- his modelling?

21                  MR. MARK STAUGHT:   I am happy to concede  
22   that Mr. Kostick is much more expert than I am at  
23   running these models and analyzing the -- the -- well,  
24   analyzing the outputs.

25                  MR. BOB PETERS:   No, and I -- and

1 that's fair. I -- but my -- my -- the point I'm trying  
 2 to get at, Mr. Stauff, is if -- if your suggestion is  
 3 that the consumer should have had more input into the -  
 4 - into the 15.5 petajoule decision, on what would you  
 5 rely that Mr. Kostick wasn't relying on that you now  
 6 know in hindsight?

7 MR. MARK STAUFF: Right. I don't  
 8 believe that it would be a modelling exercise. I -- my  
 9 -- the -- what I have in my -- in my mind when I'm  
 10 talking about the input is more -- is related to -- the  
 11 word "policy" keeps coming into my head, but -- but  
 12 policy-level issues where there is some element of  
 13 judgment about risk preferences is in play.

14 If it came up that -- that Centra said,  
 15 Well you know, we -- we can go -- 15 petajoules looks  
 16 like a good deal if -- if -- or an appropriate amount  
 17 if TransCanada situation is -- is such and such. But,  
 18 hey, you know, if -- if it turns out to be something  
 19 different then eight (8) will turn out to be the right  
 20 number. Right. We're -- we're -- there's a matter of  
 21 -- of different risks being attached to different  
 22 alternatives. And nobody really knows what's going to  
 23 happen. But, you know, what I had in mind was that  
 24 customers may have preferences different than Centra's,  
 25 or that I think Centra should at least hear about in

1 relation to those -- to those preferences, if they come  
2 up.

3                   They might not come up. I mean, it --  
4 it might be that no matter what you do the -- the  
5 answer is fairly clear. And -- and that's fine but  
6 that -- that's much more the kind of thing I was  
7 talking about, as opposed to me trying to tell Mr.  
8 Kostick how to do his job in -- in doing the economics  
9 and running -- running the models.

10                   MR. BOB PETERS: So then, Mr. Stauff, I  
11 can take from your answer so far, and the Board can  
12 take, that your primary concern, primary complaint, is  
13 to do with the seven (7) year term that Centra has come  
14 down on, correct?

15                   MR. MARK STAUFF: I think that's fair,  
16 sir, yes.

17                   MR. BOB PETERS: But your -- you -- you  
18 easily acknowledge the uncertainty on the mainline that  
19 exists now and perhaps in the next few years?

20                   MR. MARK STAUFF: Right, which is --

21                   MR. BOB PETERS: May --

22                   MR. MARK STAUFF: -- which is, in fact,  
23 the source of my anxiety about a longer term. But,  
24 yes.

25                   MR. BOB PETERS: Well, you -- you said

1 just earlier to me that even though the NEB is going to  
2 give a decision in February-ish, 2013, that's not going  
3 to really resolve all the issues. There's going to be  
4 some more time needed for that to shake out. Would  
5 that be fair?

6 MR. MARK STAUFF: Well, sure. I mean,  
7 there are some issues that it will resolve and some --  
8 some not. And there's a -- but that's the problem, we  
9 don't --

10 MR. BOB PETERS: But the point is --

11 MR. MARK STAUFF: -- know what's going  
12 to happen.

13 MR. BOB PETERS: Right. And you don't  
14 know if it's going to resolve itself, Mr. Stauff, in  
15 four (4) years, in five (5) years, or six (6) years,  
16 correct?

17 MR. MARK STAUFF: Or keep changing  
18 unpredictably in various directions over that entire  
19 period. I mean, that is possible.

20 MR. BOB PETERS: Okay. Okay, well  
21 let's talk about that. Unpredictably, the rates could  
22 go up in the short term, higher than what Centra has  
23 currently faced, which would make -- make the storage  
24 option they've put before the Board perhaps more  
25 attractive. Would that be fair?

1 MR. MARK STAUF: Yes.

2 MR. BOB PETERS: And if the rates go  
3 down, then the storage por -- portfolio before the  
4 Board may not look as attractive, correct?

5 MR. MARK STAUF: Correct, yes.

6 MR. BOB PETERS: And you've been a bit  
7 careful, you and others, to not give the Board the  
8 probability of what's going to happen. But you want  
9 the Board to reach its own conclusions on that, or do  
10 you have any advice you want to offer to them as to  
11 whether the -- the risk of rates going up versus the  
12 risk of rates going down, where you see that falling  
13 out?

14 MR. MARK STAUF: M-hm. I'll -- I'll  
15 come back to your question, but I -- I wanted to point  
16 as well that part of the -- it's not just a matter of  
17 the overall level of the tolls. The -- the issue that  
18 I raised about the flexibility of seasonal alternatives  
19 on the mainline, including STFT, or if -- if Centra was  
20 to be able to talk TransCanada into offering a -- a  
21 seasonal service, is actually kind of more important  
22 for the economics of -- of these sort of lower storage  
23 or no-storage alternatives, just because most of the  
24 cost is really -- is really in the stranded or -- or  
25 that unutilized capacity that you have because of the

1 variability of the load.

2                   So -- so that's an element that -- that  
3 may or may not be sorted out fairly quickly. And it --  
4 I mean, it might -- that could drag on a while, too.  
5 But that's a sort of a more discrete issue.

6                   In terms of the absolute level of the  
7 tolls, you know, if you look at the chart on Tab 12,  
8 it's been a pretty sorry history over the last several  
9 years of tolls going in the wrong direction. And --  
10 and the -- the throughput forecast that TransCanada has  
11 advertised are not helpful.

12                   So, yeah, I mean probably it's more  
13 likely they're going up than going down, but you -- you  
14 -- it's hard to tell. I'm -- and another -- there's  
15 certainly -- there have been options su -- suggested  
16 that where people have said, Well why don't you just  
17 write off \$2 billion worth of rate base, that would  
18 help a lot with the rates. And it would, you know?  
19 TransCanada will resist that fiercely, but it's an  
20 option. There's a -- there's a securitization option  
21 that I -- I described in an IR response.

22                   It may be -- there may be options for  
23 the mainline to -- to segment its system into -- into  
24 more discrete chunks. That has been talked about,  
25 although I -- I don't know what the rate implication of

1 that would be, but it's -- I mean, I -- I can  
2 acknowledge that our experience has not been a happy  
3 one with mainline rates over the last few years. But  
4 at the same time I wouldn't want to concede that it's  
5 just inevitable or -- or highly probable that it's  
6 going to spiral even further out of control or -- or  
7 even stay necessarily at the same level it is now.  
8 There's do -- there's always -- there's a -- there's a  
9 reasonable possibility of things improving.

10 MR. BOB PETERS: Thank you, Mr. Staft.  
11 When we look at Tab 13 of Board counsel's book of  
12 documents, PUB Exhibit 7, and we look at the proposed  
13 ANR/Great Lakes portfolio, as well as the rates that  
14 are being charged, your position is that the rates  
15 being charged are really a -- reflective of the market  
16 rates that can be extracted by the storage and  
17 transportation of -- operators. Would that be fair?

18 MR. MARK STAFT: Yes. I think the  
19 fact that they are all discounted rates basically says  
20 that.

21 MR. BOB PETERS: Does that mean that  
22 the storage operators are -- they're looking for  
23 customers?

24 MR. MARK STAFT: Yes.

25 MR. BOB PETERS: And does that then

1 mean that in terms of what we've heard Centra call the  
2 "asymmetrical relationship" of the risks, is that if  
3 Centra had to go back and call on ANR and Great Lakes  
4 Gas and say they want the portfolio to be -- the term  
5 to be shortened to seven (7) years, the risk is the  
6 storage operators, if they're going to adjust the  
7 tolls, they're going to adjust them higher, not the  
8 tolls but the rates?

9 MR. MARK STAUFF: Sorry, the scenario  
10 was where Centra goes back right away and says, Golly,  
11 we'd like a shorter term than seven (7)?

12 MR. BOB PETERS: They go back on July  
13 5th.

14 MR. MARK STAUFF: Okay. But as part of  
15 this cycle, so -- certainly there is a risk of that.  
16 And if Centra -- and it -- and it's possible that this  
17 sort of local conditions, or micro conditions, have  
18 changed in that market since Centra did this deal with  
19 ANR and Great Lakes, that -- that's possible.

20 I mean, the more general lo -- sort of  
21 contracting risks I think are -- are probab -- are more  
22 symmetrical just in the sense that whatever rates Great  
23 Lakes and ANR were prepared to agree to whenever they  
24 agreed to them, presumably incorporated at that time  
25 their own evaluation of -- or their own expectations



1 about what is likely to happen over the longer run.

2                   So I -- I don't see any particular  
3 reason to think that from that, sort of, longer-run  
4 perspective the risk would be either higher or lower of  
5 them -- of -- of rates changing in the future, like in  
6 years 6 and 7 of a longer -- you know, of a -- of a  
7 period. But it's certainly possible that local --  
8 since that deal was done the local conditions have  
9 changed adversely to Centra now.

10                   MR. BOB PETERS: Mr. Stauff, let's  
11 approach it from the other side where -- let's just  
12 make the assumption negotiations are -- are moving  
13 along on a five (5) year arrangement and then let's  
14 just say Centra wants to know if -- what it would --  
15 what they would get in return for extending it to seven  
16 (7) years.

17                   And I think, as I understand today, one  
18 (1) of the things that was thrown into -- if that was  
19 going to happen, was Centra would get the Joliet Hub to  
20 storage, I believe it was in the winter, as an  
21 additional component.

22

23                   (BRIEF PAUSE)

24

25                   MR. BOB PETERS: Sorry, I -- I think it

1 is cur -- the -- the winter -- if the Joliet to ANR  
2 storage in the winter was -- was an add-on, you see  
3 that as having some value, especially if the toll  
4 that's charged is -- I forget the number, was it a 93  
5 percent reduction over what was -- what FERC has said?

6 MR. MARK STAUFF: Yeah, ANR, they're --  
7 ANR is charging a penny for it. They're -- they're  
8 giving it away. And it's a sixty thousand dollar  
9 (\$60,000) cost component just, you know, because it's a  
10 -- that's about what its market value is if that's what  
11 ANR is -- is proposing to -- to sell it for.

12 MR. BOB PETERS: Okay, so you're saying  
13 that there's no great value in -- in going from five  
14 (5) to seven (7) years, based on getting Joliet Hub to  
15 storage at -- at a very discounted rate that that's  
16 included?

17 MR. MARK STAUFF: In the winter? This  
18 is the winter service we're talking about?

19 MR. BOB PETERS: Yes, the winter  
20 service. Yes.

21 MR. MARK STAUFF: No, I do -- I don't  
22 see that. I -- my understanding would have been --  
23 maybe I -- I'd have to say I wasn't necessarily  
24 listening carefully. But, you know, if ANR is willing  
25 to -- to offer a lower rate for a longer term, that

1 suggests that -- I mean, they -- they seem to -- it  
2 seems to suggest to me that they're afraid that market  
3 prices are going to go down and that they -- they would  
4 rather have the -- have the commitment upfront than --  
5 they'd rather give up money now than in return for a --  
6 for a commitment that would be explicable on the basis  
7 that they think they run the risk of not having the  
8 customer at all out in the years 6 and 7 or -- or that  
9 the market rate will be much lower.

10 That's why I say I think the risks from  
11 a long-term perspective on these -- all of these  
12 pricing things are presumably symmetrical because  
13 everybody has -- they -- they sort of embody the joint  
14 expectations of the parties as to what the market  
15 alternatives are going to look like over the term.

16 MR. BOB PETERS: Mr. Stauf, if one (1)  
17 of the other inducements to go to five (5) to seven (7)  
18 years, and I'll say if, was the division of the storage  
19 capacity into seasonal storage and into annual storage,  
20 as contained in the proposed portfolio, that has  
21 economic benefit to Centra, does it not?

22 MR. MARK STAUF: I -- I believe it  
23 does, yes.

24 MR. BOB PETERS: And that's because the  
25 cyclability that comes along with it that was been

1 explained of -- I think the ratio was one point four  
2 two (1.42), and would allow an extra 3.1 petajoules of  
3 effective storage, provided Centra drew down that  
4 storage during the season in -- in the first place?

5 MR. MARK STAUFF: That's correct. I  
6 mean, it -- that -- that kind of storage is just, in  
7 general, more -- more valuable for any customer that  
8 values flexibility. I -- I think I actually made the  
9 point in my -- in my testimony that that feature would  
10 also be valuable in the secondary market if your target  
11 market was -- was marketer types as opposed to LDCs.  
12 So that -- I -- I thought of the value more in those  
13 terms than whatever operational benefits it may have  
14 for Centra. But if it says -- if Centra sees those,  
15 then fine.

16 MR. BOB PETERS: Are you able to offer  
17 to this Board a quantification of the benefit of  
18 breaking storage into seasonal storage as well as  
19 annual storage?

20 MR. MARK STAUFF: Well, again, for --  
21 for Centra, for the use that it makes of its -- of its  
22 storage capacity and the amount that it -- it carries,  
23 I have difficulty seeing the benefit at all. If -- if  
24 the -- what it -- if its usual practice is to draw down  
25 -- to actually use on a -- on a -- in a forecast year

1 only two thirds (2/3s) of its capacity, and maybe it  
2 goes a little bit beyond that, it's difficult to see  
3 what the benefit to them is of being able to draw down  
4 all of their capacity and then another 3 BCF if they've  
5 -- if they've never done that before and don't intend  
6 to.

7 I mean, it would be useful in a super  
8 cold year maybe, but that's not -- it doesn't appear to  
9 be part of their operational practice, or their -- or  
10 their objective. So I -- I did have some difficulty  
11 seeing that.

12 MR. BOB PETERS: All right. If you  
13 didn't see value in that from Centra's perspective, in  
14 terms of the economics of the actual portfolio without  
15 consideration of a secondary market in which to sell  
16 it, what do -- what do you quantify as the expected  
17 benefit in dollars and cents that Centra would have  
18 achieved from going from five (5) years to seven (7)  
19 years on their total \$14 million portfolio proposal?

20 MR. MARK STAUFF: I'm sorry, can you --  
21 can I have that question again. I was --

22 MR. BOB PETERS: I'll try a little bit  
23 better this time. You may not have been in the hearing  
24 room. There was some discussion that there was -- that  
25 it would be -- it was financially more attractive to

1 Centra to go from five (5) to seven (7) years. Are you  
2 of that understanding?

3 MR. MARK STAUF: Yes, sorry, yes.

4 MR. BOB PETERS: And I think that was  
5 in the PUB-1, the first Information Request, ANR and  
6 Great Lakes, or just ANR. Somebody was prepared to  
7 reduce the tolls -- sorry, reduce the rates even  
8 further if the contract was extended --

9 MR. MARK STAUF: Right.

10 MR. BOB PETERS: All right. Okay. And  
11 my question to you, Mr. Stauff, is how large of a  
12 financial inducement do you expect that was?

13 MR. MARK STAUF: I -- I have no idea,  
14 honestly. I -- I don't know.

15 MR. BOB PETERS: All right. And I'm  
16 not sure this -- this -- that that information will be  
17 placed on the public record, but you're not prepared to  
18 offer an opinion as to what -- what you think it would  
19 be worth to go from five (5) to seven (7) years?

20 MR. MARK STAUF: No, I -- I -- it --  
21 it will be a matter of the -- just the -- the dynamics  
22 of the storage market in -- in that area. And that is  
23 ,you know, something that people that trade in that --  
24 in that market, in that business every day, would --  
25 would maybe have some feel for, but I'm -- I'm not

1 involved in the market at that -- at that level of  
2 detail, or -- or through actual commercial transactions  
3 of that kind. I mean, you might be able to figure it  
4 out from -- from forward price information or  
5 something, but even that would be unlikely, I think.

6 MR. BOB PETERS: Mr. Staft, in your  
7 evidence on the right of first refusal, as well as the  
8 seven (7) and five (5) year terms we've been talking  
9 about, would the Board be correct in understanding your  
10 position that if you can get a right of first refusal  
11 on a seven (7) year arrangement, you could also get a  
12 right of first refusal on a five (5) year arrangement?

13 MR. MARK STAFT: That would be my  
14 expectation, yes.

15 MR. BOB PETERS: And you're aware --  
16 excuse me for a second.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: You're aware that the  
21 right of first refusal, that card lies entirely in the  
22 hand of the -- of ANR as well as Great Lakes?

23 MR. MARK STAFT: For a discounted  
24 arrangement that is true, as -- as Centra explained,  
25 yes.

1                   MR. BOB PETERS:   And all of -- all of  
2   the rates that are proposed before the Board are  
3   discounted from the FERC maximum?

4                   MR. MARK STAUFFT:   They are, yes.   Yes.

5                   MR. BOB PETERS:   All right.   So it's --  
6   it's ANR and Great Lakes and only ANR and Great Lakes  
7   that control that decision, as to whether the right of  
8   first refusal will be given?

9                   MR. MARK STAUFFT:   Yes.

10                  MR. BOB PETERS:   And would it be  
11   correct that the right of first refusal really may not  
12   have an economic value, but it will have a value in at  
13   least securing the capacity at whatever price is then  
14   prevailing, should it be exercised in five (5) or seven  
15   (7) years?

16                  MR. MARK STAUFFT:   Yes, it -- it gives  
17   the Utility the option to hang on to that capacity at  
18   max rates indefinitely.   That's -- that's the purpose  
19   of it.

20                  MR. BOB PETERS:   But it may not be max  
21   rates that are -- that are offered up by a third party,  
22   so Centra would get the benefit of whatever discount  
23   that third party had as well?

24                  MR. MARK STAUFFT:   I can't confirm that.  
25   I -- I would have to look at the language of the --



1 it's been a long time since I've looked at the ROFR  
2 language.

3 MR. BOB PETERS: Oh --

4 MR. MARK STAUFF: That's possible.

5 MR. BOB PETERS: Okay. Well, thank  
6 you. Mr. Stauff, something you said earlier to me that  
7 I -- I just -- just thought about a bit further is, you  
8 wanted to know when Centra would go back and try to  
9 renegotiate in a hypothetical example I was giving you,  
10 and I -- I gave you a date, the day after closing  
11 submissions. But on reflection of your quest -- your -  
12 - your thought process that I saw, are you suggesting  
13 that in a year or two (2), if this arrangement is  
14 approved by the Board as to its costs, that in a year  
15 or two (2), that's when Centra should go back and try  
16 to shorten the term?

17 MR. MARK STAUFF: No. No. My -- my  
18 understanding of the -- of the deal as it sits is that  
19 what Centra has is a conditional arrangement that is  
20 subject -- with ANR that's binding, except that it's  
21 subject to Board approval.

22 So if Board approval is not forthcoming,  
23 Centra will have to go back to -- to TransCanada and  
24 ANR and Great Lakes, and -- and talk to them about it.  
25 But if -- if the Board does approve it then they have a

1 deal, and -- for seven (7) years.

2 MR. BOB PETERS: And so the opportunity  
3 to go back and -- and try and change the term will only  
4 come on direction from this Board.

5 That would be your understanding?

6 MR. MARK STAUF: That's my  
7 understanding, yes. Without -- I mean, I didn't look  
8 at the documents with that question in mind, but that  
9 was certainly my impression from the way Centra  
10 presented it.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Mr. Stauf, in our  
15 questioning of Centra earlier, relative to the computer  
16 model they used, Centra indicated, and it's found at  
17 Tab 17 of the book of documents, that -- that they put  
18 five (5) constraints on their SENDOUT model.

19

20 Were you familiar with that?

21 MR. MARK STAUF: Yes.

22 MR. BOB PETERS: Mr. Stauf, do you  
23 agree with those constraints as being appropriate in  
24 imbedding them in the model?

25

1 (BRIEF PAUSE)

2

3 MR. MARK STAUF: I'm not sure that I  
4 understand how all of these would work. The  
5 constraints on the -- on the STS capacity, I mean, that  
6 -- those -- those are the -- essentially the current  
7 levels, and they reflect the -- the TransCanada STS  
8 part of the whole package. So if that is a constraint  
9 that's being placed on the model that - - that  
10 interferes with the model choosing a different storage  
11 level, that doesn't seem to make much sense; if -- if  
12 that's what's being suggested here.

13 I would have thought that the STS level  
14 would just -- would be adjusted to reflect whatever the  
15 storage capacity and injection -- well, injection and -  
16 - and withdrawal rights would be. So that's just a  
17 sort of minor note on the thing.

18 MR. BOB PETERS: It --

19 MR. MARK STAUF: It -- it really  
20 reflects my lack of understanding of how the innards of  
21 this -- of this model work.

22 MR. BOB PETERS: Would you have that  
23 same view, Mr. Stauff, if you understood these  
24 constraints to be the maximum amounts at any one (1) of  
25 these points, or for any one (1) of these reasons, as

1 opposed to a fixed amount; that that would be a maximum  
2 level to which the model could -- could seek out the  
3 appropriate portfolio?

4 MR. MARK STAUF: Again, it's very hard  
5 to say. I -- I think what I would be curious about, if  
6 I was having a back and forth dialogue with Centra  
7 about this is, what happens if you take those  
8 constraints off, you know, to do -- do the thing  
9 without those constraints, and does it have an effect?  
10 If they have no effect then fine, it doesn't matter.

11 But if you find that a -- just to pick  
12 one (1), 2,100 GJ per day Emerson ANR or Farwell  
13 capacity constraint is -- is affecting the results in  
14 some significant way, I would want to understand why  
15 that was and think harder about whether the constraint  
16 is realistic

17 I mean, the constraints are all  
18 artificial to some extent. They can change -- any of  
19 this can be -- probably be changed, so. I mean, I  
20 didn't make any comment on these here, just because I -  
21 - or in my testimony, just because I don't know how it  
22 works, but I would -- I would want to know what affects  
23 these are having on -- on the outputs.

24 MR. BOB PETERS: All right. Thank you  
25 for that answer. And I think to some extent the -- the

1 removal collectively of the constraints has -- has --  
2 certainly some of them have -- there -- there's a -- a  
3 model run that's been done, but you're saying it'd be  
4 interesting to know on an individual one (1) by one (1)  
5 as to what impact it has on the model?

6

7 (BRIEF PAUSE)

8

9 MR. MARK STAUF: Yes, that's -- that's  
10 what I had in mind.

11 MR. BOB PETERS: Mr. Stauf, would it  
12 be fair to say that in your career, including the time  
13 you were with TCPL and Western, or WGML, you were  
14 always on the opposite side of the table from the  
15 Utility in that you've never -- you've never designed  
16 an optimum portfolio, you were the -- you were the  
17 person on the other side trying to sell them the  
18 product?

19 MR. MARK STAUF: That is generally  
20 true except for about a year and a half period that I  
21 spent with the -- the mother ship at TransCanada  
22 Pipelines, that -- but that doesn't count. You're --  
23 you're right. My -- my career has been almost  
24 exclusively dealing -- or -- or acting on behalf of  
25 customers.

1                   MR. BOB PETERS:    Mr. Staft, you're  
2   aware that Centra engaged ICF Consulting and it  
3   provided a -- a report to which your counsel has re --  
4   referred in his questioning of -- of Centra, but you've  
5   had a chance to also review the conclusions reached by  
6   ICF found -- and that's found at Tab 20 of the book of  
7   documents that you have?

8                   MR. MARK STAFT:    Yes, I've seen that.

9                   MR. BOB PETERS:    Can you provide the  
10   Board with your opinion as to what, if any, comfort the  
11   Board should take on the conclusions reached by ICF  
12   International?

13

14                                       (BRIEF PAUSE)

15

16                   MR. MARK STAFT:    As I understand it,  
17   the -- the part of ICF's analysis that -- that we're --  
18   you're asking me about, and you can correct me if I'm  
19   skimming it incorrectly here, but my -- my  
20   understanding is that the -- the issue is the extent to  
21   which ICF -- ICF's analysis appears to validate ANR --  
22   or Centra's evaluation of the -- the ANR versus Company  
23   B options.

24                                       Is that fair?

25                   MR. BOB PETERS:    Well, you could -- you

1 can tell the Board whether you think it validates  
2 Centra's conclusions.

3 MR. MARK STAUF: Well, it appears to,  
4 but I -- it seems to be generally -- generally  
5 consistent with it. On the other hand, I -- I think I  
6 said in my testimony that I'm -- Centra's analysis  
7 wasn't at all surprising to me in terms of the -- the  
8 result that they were -- they were roughly similar, so  
9 I'm not sure that that result needs a lot of  
10 validation.

11 To the extent that I -- I remember -- I  
12 -- I may get this mixed up, but the -- the -- some of  
13 the inputs that ICF used, they -- I believe tended to  
14 use as a price forecast the outputs of their own North  
15 America balancing optimization model. And as I think I  
16 suggested in my testimony, my preference actually is  
17 Centra -- I -- I have more confidence in Centra's  
18 approach of just using futures market prices. So I  
19 have to say I didn't pay a lot of attention to the ICF  
20 stuff on -- on ANR versus Company B because I -- I  
21 think Centra's analysis was fine and didn't need to be  
22 validated.

23 MR. BOB PETERS: Mr. Stauff, on page 32  
24 of 34 of your pre-filed evidence you asked yourself the  
25 penultimate question as to whether or not this Bo --

1 you would recommend to this Board to approve the  
2 application as filed by Centra, or to reject the  
3 application and direct Centra to renegotiate the  
4 arrangement with Great Lakes and ANR. Do you recall  
5 that, sir?

6 MR. MARK STAUF: Yes, sir.

7 MR. BOB PETERS: Do you recall what  
8 your answer was?

9 MR. MARK STAUF: I don't think my  
10 answer was real clear.

11 MR. BOB PETERS: Well, I'm going to  
12 give you a chance to clarify that. It's -- it's -- and  
13 your -- your answer indicated it wasn't possible for  
14 you to say with any confidence that, on balance, either  
15 approach would be necessarily better or worse than the  
16 other. Have you had a chance to think further on that  
17 matter since you wrote this some months ago?

18 MR. MARK STAUF: Well -- well, that is  
19 certainly still true. There -- there are -- or -- or  
20 something I -- that I still -- still believe. You  
21 know, if the option is -- if the options are approve as  
22 filed or send Centra back to -- to do a new deal with -  
23 - with ANR and Great Lakes, you know, either one (1) of  
24 those could turn out better or worse than the other.  
25 And part of the problem is we'll never know anyway



1 really because we can't -- we can't run both -- both  
2 experiments at the same time. So that much is true.

3 I -- I think that earlier in talking --  
4 or in my -- in my oral direct evidence I did say that  
5 my preference, and I think it would be a fairly strong  
6 preference, would have been for -- would be for Centra  
7 to -- or to have done a shorter-term deal for the  
8 reasons I explained, which -- which were basically --  
9 it's almost a risk ana -- it -- it almost seems, in a  
10 sense, like a lower risk option in the fa -- in the  
11 sense that you are -- you are -- if you -- if you face  
12 the market more often you are subject to the -- to the  
13 -- the vagaries and unpredictability of market.

14 But if you enter into a long-term deal  
15 you run a bigger risk -- or it's not a bigger risk, but  
16 a risk that you will get more seriously offside with  
17 the market over the term of that contract. And so my -  
18 - my preference would have been -- my inclination would  
19 have been for the -- for the shorter term.

20 And in my -- in my evidence I -- I tried  
21 to, as objectively as I could, acknowledge and identify  
22 the competing risk considerations for -- for both  
23 approach. But I think -- I think, yeah, consistent  
24 with what I said before, I think it should have been a  
25 shorter-term deal. And I think the risks of that are

1 there. But, you know, all things considered, I would  
2 have gone in that direction.

3 I mean, but at the same time I  
4 acknowledge that this is a matter of degree and a  
5 matter of judgment, that it's not my job to deal with,  
6 unfortunately. It's -- it's the Board's job to deal  
7 with. So -- which was sort of the flavour I was trying  
8 to convey in the first place, was that I think there is  
9 a ma -- it is a matter of weighing probabilities and --  
10 and potential outcomes that are kind of difficult to --  
11 to weigh.

12 But that would be -- well, I mean,  
13 that's what I -- I said in my evidence and I -- and I  
14 think that's still true.

15 MR. BOB PETERS: So let me conclude on  
16 this line of questioning then. You're suggesting that  
17 the Board has to make a choice, exercising its judgment  
18 and weighing the largely subjective probabilities that  
19 it's heard discussed by Centra as well as yourself?

20 MR. MARK STAUFF: I think that's where  
21 we are, yes. Yes, sir.

22 MR. BOB PETERS: All right. If that's  
23 where we are now, let's talk about where we're going to  
24 be seven (7) years from now. Is there a way --

25 MR. BRIAN MERONEK: Not so fast.

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Five (5) years from  
3 now, sorry. Thank you, Mr. Meronek. Where we're going  
4 to be years from now when it's time to evaluate this  
5 arrangement, Mr. Staft. How can the Public Utilities  
6 Board of Manitoba determine using what will then be 20-  
7 20 hindsight, whether this portfolio was indeed optimum  
8 for -- for Manitoba gas consumers?

9 MR. MARK STAFT: For purposes of  
10 thinking about what to do prospectively from that  
11 point, you mean?

12 MR. BOB PETERS: No, let me rephrase my  
13 question. In a number of years, Centra is going to be  
14 back at this again, correct?

15 MR. MARK STAFT: Yes.

16 MR. BOB PETERS: You and I may or may  
17 not be here, but we can -- there can be advice left for  
18 the Board in terms of how does it judge the intervening  
19 years between now and when that portfolio review is  
20 again examined, as to whether or not the portfolio that  
21 we've just had has been successful or whether it was  
22 flawed.

23

24 (BRIEF PAUSE)

25

1                   MR. BOB PETERS:    And, Mr. Staft, just  
2 to conclude on -- on my questioning on that point that  
3 the -- the whole point would be as -- as a learning  
4 point for the Board and for Centra in terms of how to,  
5 if possible, better design the next portfolio.

6                   MR. MARK STAFT:    Yeah.  That's --  
7 that's an interesting question that I -- that I hadn't  
8 thought of before.  I -- I think in general that --  
9 that is part of the difficulty here, is it is difficult  
10 to, even retrospectively, it's probably difficult to  
11 evaluate these kinds of things without having a large  
12 amount of data, historical data.  So I, you know -- I -  
13 - I have trouble seeing exactly how you would do that.

14                   I -- I think that what you would -- you  
15 would try to do is, based on information that you would  
16 -- you would have about the past at that point would be  
17 to try to model other alternatives that -- that could  
18 have been used over the -- over the seven (7) year  
19 period, and see on a sort of back-testing type of basis  
20 whether, gosh, that -- whether if Centra had -- had  
21 used some different portfolio or different  
22 configuration, the economic results would have been  
23 significantly different.

24                   I mean, I think you could -- you could  
25 go through that exercise at some fairly high level, and

1 that might be instructive. It -- it wouldn't  
 2 necessarily be totally informative to the extent that  
 3 you -- it might not reflect what reasonable judgments  
 4 would have been made at the time, or over the period,  
 5 by the Company. But certainly in a sort of number-  
 6 crunching type of way I think you could do that  
 7 exercise at some level.

8 MR. BOB PETERS: Mr. Chairman, with  
 9 that answer from Mr. Stauff, I'd like to thank him for  
 10 his answers, collectively, to my questions. I'd also  
 11 like to thank Mr. Meronek and Mr. Masi for their  
 12 cooperation in providing the information forward. And  
 13 I don't know that Mr. Meronek has any re-examination,  
 14 but I do thank Mr. Stauff, regardless.

15 And I do want it noted that this is  
 16 probably the earliest I've been late. So I'll turn it  
 17 back to -- to the Board.

18 THE CHAIRPERSON: Board Member Lafond  
 19 has some questions.

20 MR. RAYMOND LAFOND: Based on your --  
 21 your exposure and knowledge of the transportation and  
 22 storage market, and your insights, not -- in the future  
 23 markets, one (1) of the questions that came up in the  
 24 last couple of days, either yesterday or Monday, was  
 25 the whole issue of the possibility of looking after --

1 for Centra to do it directly or through a third party,  
 2 providing storage in Manitoba. For instance, close to  
 3 the southeastern border of -- well, the boarder of  
 4 Saskatchewan and Manitoba in the south portion. So --  
 5 from -- from -- based on your experience, do you think  
 6 there is even some merit in looking at that?

7 MR. MARK STAUFF: I certainly do think  
 8 there would -- is merit in looking at that. And I  
 9 would hope that Centra does or -- or is -- is looking  
 10 at that.

11 For the -- for the kind of analysis that  
 12 I've been -- or that we've been talking about here  
 13 today that sort of local storage basically eliminates  
 14 most of the problems that I've been talking about that  
 15 have been sort of animating my whole participation in  
 16 this case, right, because you would be -- well, yeah, I  
 17 mean that -- that's the ideal situation, is to have a  
 18 significant storage facility immediately upstream of  
 19 your -- of your distribution facility. That's what  
 20 minimizes your -- your long-haul pipeline  
 21 transportation costs. And it -- it sort of gives you  
 22 the most intra-day flexibility.

23 I imagine -- so as an objective I think  
 24 that's unquestionably something Centra should be  
 25 looking at. I imagine the problem is -- and I can't

1 speak to this, but I imagine the problem is just again  
2 the economics of the development of that kind of  
3 facility. You know, is -- is there a -- is it some  
4 kind of salt cavern kind of deal. I -- I didn't even  
5 hear the details of what it is, but I mean that's --  
6 that's an option. Or is -- are there -- typically  
7 these storage facilities are depleted gas reservoirs  
8 where the gas has just all been produced. And I know  
9 that there are some storage facilities in Saskatchewan,  
10 so.

11 I mean, as an objective, yes, I think  
12 that's a great idea, but it would be up to Centra to --  
13 to evaluate whether -- you're not going to pay an  
14 infinite amount for that, right. I mean, it's -- it's  
15 a tremendous value but at the same time it still has to  
16 be -- it has to make sense economically relative to the  
17 alternatives.

18 MR. RAYMOND LAFOND: But based on your  
19 knowledge of the industry, it is possible that it could  
20 be economically feasible?

21 MR. MARK STAUFF: As far as I'm aware,  
22 yes. Yes.

23 MR. RAYMOND LAFOND: Okay.

24 THE CHAIRPERSON: Are there any other  
25 matters to address, Mr. Bedford?

1                   MR. DOUG BEDFORD:    I believe we have  
2 answers to two (2) or three (3) more undertakings. And  
3 I'll ask Mr. Kostick to do one (1) of them.

4                   MR. NEIL KOSTICK:    Yes, thank you. I  
5 believe Terri is handing out the Undertaking number 7.  
6 And I'll just wait until everybody gets a copy of that.  
7 I believe -- it's in -- well, it is in relation to an  
8 under -- undertaking from yesterday that requested the  
9 modelled transportation capacities from the SENDOUT  
10 model results. And that has been added to the SENDOUT  
11 model result data in this undertaking. And I can  
12 answer any questions on that once everybody has a  
13 chance to have a look, if they're so inclined.

14

15                                       (BRIEF PAUSE)

16

17                   MR. RAYMOND LAFOND:   We are to compare  
18 this with page 59 under Tab 17?

19

20                                       (BRIEF PAUSE)

21

22                   MR. BOB PETERS:    Mr. Chairman, if I can  
23 be helpful -- and I was looking at it, I hope I haven't  
24 cut off Mr. Kostick in his answering. If I have, I'm  
25 sure he'll get the microphone back.



1                   This, I believe, was an undertaking that  
2 I had requested, and the purpose was to find out what  
3 transportation specifically was the outcome of the  
4 SENDOUT model. And Mr. Kostick can help the Board. In  
5 the middle of the page under transportation listed for  
6 ANR and Great Lakes, Mr. Kostick, these are the  
7 transportation capacities that the modelling has -- has  
8 come up with?

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

10                  MR. BOB PETERS: And in terms of what  
11 Centra has come up with, when we compare it to perhaps  
12 Tab 14, Board member Lafond, would be a closer  
13 comparator in dealing with capacities, wanted to see  
14 what the model indicated was optimum -- optimal for the  
15 transportation. And I wanted to compare that to what  
16 in fact the contracts are going to embed.

17                  So that was the purpose of it. And, Mr.  
18 Kostick, do you have any comments on the specific  
19 capacities relative to what the model has indicated?

20                  MR. NEIL KOSTICK: Yes. I think the --  
21 I think, generally speaking, the model results are  
22 close to what we've ultimately selected in the proposed  
23 portfolio, within, generally, 1 or 2 or 3 terajoules.

24                  The one (1) exception is -- you'll note  
25 that on the second line under "ANR" it generally has --

1 or at least in three (3) or four (4) cases it has not  
 2 selected the summer Joliet transport to storage. The -  
 3 - the purpose of Centra selecting that, first of all,  
 4 of course, as we've talked about throughout the  
 5 application hearing is that the model result -- model  
 6 results have always been taken by Centra as  
 7 directional.

8                   We made a -- a judgment call, if you  
 9 will, on that summer capacity from Joliet to storage.  
 10 The western Canadian -- or the transportation from  
 11 western Canada to storage allows Centra to fill  
 12 approximately two-thirds of the storage, so that leave  
 13 another 5 petajoules that need to be filled. So the  
 14 transportation from the Joliet Hub to storage allows  
 15 access to the Chicago market. And flowing that gas  
 16 throughout the summer contributes about 1.5 petajoules  
 17 of the 5 petajoules that would need to be filled after  
 18 a cold winter.

19                   So we made a -- an assessment that to  
 20 avoid, as we've talked about, over-reliance on supply  
 21 at the ANR injection point, which is not -- that does  
 22 not have live electronic trading or a published index,  
 23 that we did not want to have an over-reliance on that.  
 24 So we made the -- the judgment or determination that  
 25 the transportation from the Joliet Hub to storage would

1 -- would be in our interest to help assist the  
2 additional 5 petajoules of storage that needs to be  
3 filled after -- after a cold winter. And it does that  
4 to -- to the extent up to about 1.5 petajoules of those  
5 5 petajoules that would need to be filled.

6 MR. BOB PETERS: If I might, Mr.  
7 Chairman, just a couple of questions, or at least a  
8 question following that up. Mr. Kostick, the Joliet  
9 Hub to storage in summer, that's at a cost of  
10 approximately a hundred and ninety-two thousand dollars  
11 (\$192,000) a year?

12 MR. NEIL KOSTICK: Yes, that sounds  
13 correct.

14 MR. BOB PETERS: And it was the Joliet  
15 Hub to storage in winter which was the increased  
16 optionality provided to Centra when Centra agreed to  
17 extend the term from five (5) years to seven (7) years?

18 MR. NEIL KOSTICK: It was the winter  
19 capacity from Joliet to storage that was only discussed  
20 after the discussions moved to seven (7) years.

21 MR. BOB PETERS: All right. Thank you.  
22 Mr. Chairman, with -- with that answer, I have no  
23 further questions of Mr. Kostick related to Undertaking  
24 number 7, which we should mark as an exhibit. It'll be  
25 Centra Exhibit 6, Centra Exhibit 6, please.

1 --- EXHIBIT NO. CENTRA-6: Response to Undertaking 7

2

3 MR. BOB PETERS: I believe the next  
4 exhibit is -- or the next undertaking was from Mr.  
5 Meronek. And I'll turn that back to Mr. Bedford.

6 MR. DOUG BEDFORD: Ms. Stewart has an  
7 answer to a further undertaking.

8 MR. BOB PETERS: Oh, I'm sorry.

9 MS. LORI STEWART: Yes, this is in  
10 response to Undertaking number 11. And it was a  
11 request for Centra to -- to provide the contract terms  
12 and the rate for a contract signed by a shipper with  
13 ANR for the maximum rate for five (5) years.

14 And I can confirm the counter-party is  
15 Twin Eagle Resource Management, that is a marketer in  
16 the North American natural gas marketplace. Twin Eagle  
17 has signed for 1,002,500 decatherms of -- of ANR  
18 storage at maximum rates for both capacity and deliver  
19 ability. And the one (1) clarification I will make is  
20 that it is for a term of five (5) years less two (2)  
21 months. Typically, storage contracts may be signed  
22 effective the commencement of the summer season, April  
23 the 1st. However, this contract start date is June the  
24 1st, 2012, expiring March the 31st, 2017. And the  
25 source of this information is ANR's electronic bulletin

1 board, a public source.

2

3 (BRIEF PAUSE)

4

5 MR. BOB PETERS: Mr. Chairman, I would  
6 suggest that if Mr. Meronek has any questions relative  
7 to that undertaking this would be the appropriate time  
8 to ask them.

9 MR. BRIAN MERONEK: I don't have any.

10 MR. DOUG BEDFORD: And I believe Mr.  
11 Sanderson has an answer to a third undertaking.

12 MR. BRENT SANDERSON: Thank you, Mr.  
13 Bedford. And I thi -- believe that that has been  
14 distributed to all in attendance. Earlier this morning  
15 Mr. Meronek had asked that I update what was originally  
16 Attachment 1 of Tab 7 of the application, Schedule 1(a)  
17 and Schedule 1(e).

18 Schedule 1(a) being Centra's forward  
19 price curves for the April 2013 through March 2014  
20 period. Schedule 1(e) being Centra's forward price  
21 curves for the period April 17th -- April ni -- 2017  
22 through March 2018. Those have been provided. And all  
23 of the prices represented in those two schedules have  
24 been updated as of the Friday, June 22nd, 2012, market  
25 close.

1                   MR. BOB PETERS:    Mr. Chairman, I'd  
2 suggest that also be marked as an exhibit. And we  
3 would use Centra Exhibit number 7 for that. And again  
4 recognizing this was an undertaking at the request of  
5 CAC's counsel, it would be appropriate if Mr. Meronek  
6 is -- has any questions at this time that he pose them.

7

8 --- EXHIBIT NO. CENTRA-7: Response to Undertaking 11

9

10                  MR. BRIAN MERONEK:   Mr. Chairman, I  
11 refuse to end this hearing on a futures curve -- price  
12 curve question.

13                  MR. BOB PETERS:    And I -- I think  
14 procedurally again I gather there was no further  
15 examination of Mr. Stauff before we took off on our  
16 undertaking requests.

17                  MR. BRIAN MERONEK:   Well, in light of  
18 Mr. Bedford saying this was a balanced piece of  
19 evidence, I want to start over again. But given the  
20 time, I don't have any re-examination.

21

22                                       (PANEL STANDS DOWN)

23

24                  MR. BOB PETERS:    With those comments, I  
25 would suggest, Mr. Chairman, that should there be any

1 further undertakings that are with Centra, those would  
2 be provided to the parties in writing. And I would  
3 suggest that it would be appropriate for the Board to  
4 adjourn and to reconvene on July the 4th for closing  
5 submissions.

6                   As I did indicate, I will -- I have been  
7 and I will again be in contact with Just Energy, Shell  
8 Energy, and BP Canada Energy to see if they have any  
9 written submissions and afford them an opportunity to  
10 provide them in writing as early as possible, and  
11 certainly before we reconvene for oral closing  
12 submission.

13                   And in terms of a time on July the 4th,  
14 I might suggest that 9:30 would be an appropriate time,  
15 or ten o'clock, as it suits the Board. I would expect  
16 to hear -- for myself, would be brief. We'd then turn  
17 to CAC's counsel and if that takes us to the lunch hour  
18 then we would -- would hear from Centra right after  
19 lunch.

20                   THE CHAIRPERSON: Okay. With that I  
21 think business for today is completed. Mr. Stauft, I  
22 wish you a good trip back to Calgary. And to thank all  
23 of you. I wish you all a happy Canada Day, and we'll  
24 see you next week. Thank you.

25

1 --- Upon adjourning at 4:54 p.m.

2

3 Certified correct,

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9 Ms. Cheryl Lavigne

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<u>\$</u>	\$4 562:2	496:4,13	641:13,21	558:13,16
<b>\$ .40</b> 621:14	<b>\$4.19</b>	497:25	644:3	589:18
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644:7	<b>\$4.57</b> 497:12	500:25	649:4,5,20	593:2
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