

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



**Hearing Order RH-1-2002
Ordonnance d'audience RH-1-2002**

TransCanada PipeLines

**2003 Tolls & Tariff Application
Demande de droits et tarifs de 2003**

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

**National Energy Board
444 Seventh Avenue SW
Calgary, Alberta**

**March 18, 2003
le 18 mars 2003**

Volume 11

**International Reporting Inc.
Ottawa, Ontario
(613) 748-6043**

Canada

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This publication is the recorded verbatim transcript
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Printed in Canada

Order RH-1-2002

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Imprimé au Canada

Transcript

**HEARING ORDER/ORDONNANCE D'AUDIENCE
RH-1-2002**

IN THE MATTER OF the *National Energy Board Act*
and the regulations made thereunder;

AND IN THE MATTER OF an application dated 16 September 2002,
by TransCanada PipeLines Limited (TransCanada or the Applicant)
pursuant to Part IV of the Act for approval of 2003 tolls and for
associated toll design and tariff amendments

AND IN THE MATTER of National Energy Board Hearing Order
RH-1-2002 dated 5 November 2002

HEARING LOCATION/LIEU DE L'AUDIENCE

Hearing held at Calgary (Alberta), March 18, 2003

Audience tenue à Calgary (Alberta) , le 18 mars 2003

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- Mr. J. B. Ridley
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- Mr. K.F. Miller

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Ms. M. Yuzda

ERRATA

Volume 7, March 07, 2003:

Paragraph

8466

-- was to provide DC committee members with an understanding of their -- "

Should read:

-- was to provide DC members with an understanding of their -- "

Volume 8, March 10, 2003:

9431

"... defined contribution plans as TransCanada offers a defined ..."

"... defined contribution plans as Petro-Canada offers a defined ..."

9485

"The basis of that was the legal opinion that we attained, ..."

"The basis of that was the legal opinion that we attained, ..."

9486

"Even should they be -- ..."

"Even should there be -- ..."

9588

"... information would have leaked out and then we would have decided ..."

"... information would have leaked out and then we could have decided ..."

9943

"... with the comparative group that we look at ..."

"... with the comparator group that we look at ..."

10068

"... and that's the next tax in the filing."

"... and that's the next tab in the filing."

10148

"... unfortunately that is not broken out between various shareholders, but ..."

"... unfortunately that is not broken out between various systems, but ..."

10503

"... that describes how we can peak at the median of the market, ..."

"... that describes how we compete at the median of the market, ..."

10523

"... has people that has the right skill in the right place ..."

"... has people that have the right skills in the right place ..."

ERRATA

Volume 8 , March 10 , 2003

Paragraph

Should read:

10560
"IQUA"

"IGUA"

Volume 9, March 11, 2003

11400
"So we were asking about base pay here."

"So we were asked about base pay here."

11490
"... , yet at the same time, fit to have a retention effect ..."

"... , yet at the same time, fits to have a retention effect ..."

11648
"... we are competitive at the medium of our comparators."

"... we are competitive at the median of our comparators."

11774
"That million dollars of difference will in fact show up in my OM&A in 2004, ..."

"That million dollars of difference will in fact show up in OM&A in 2004, ..."

11985
"... in other words, would watch to the median of the market."

"... in other words, would match to the median of the market."

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EXHIBITS/PIÈCES JUSTIFICATIVES

No.	Description	Paragraph/Paragraphe
B-95	Response to an undertaking given by Mr. Barham to Mr. Schultz at Transcript 9506, relating to employer liability insurance associated with pension plans.	13549
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UNDERTAKINGS/ENGAGEMENTS

Description	Paragraph/Paragraphe
By Mr. Feldman: To advise if there were any other principles, other than the ones referred to in Exhibit C-1-34, that TransCanada relied on to oppose the Southwestern Zone or anything that looked like a Southwestern Zone.	13732
By Mr. Feldman: To provide an estimate, based on contract quantity, of the percentage of shippers on TCPL's system that are producers, marketers and end-users.	14732

--- Upon commencing at 8:30/L'audience débute à 30h8.

13520. **THE CLERK:** Good morning, ladies and gentlemen; bonjour mesdames et messieurs.

13521. **THE CHAIRMAN:** Mr. Schultz...? Mr. Yates...?

13522. **MR. YATES:** Before Mr. Schultz starts his cross-examination of this panel, which is I think why he is seated where he is at the moment, there are a couple of preliminaries that I wanted to speak to.

13523. The first relates to the scheduling conference that was held yesterday after the close of the proceeding.

13524. What I am going to talk to you about is what I think -- or what I understand is a consensus amongst the various parties in respect to how we proceed from here, essentially with the schedule.

13525. The schedule, as it has been discussed, has been driven off an expressed need by certain intervenors for information requests on the TransCanada depreciation filing. And in that regard, I am -- I understand from Mr. Schultz that the CAPP depreciation consultant does see a need for IRs, firstly; and, secondly, those IRs could be filed tomorrow, the 19th of March.

13526. Assuming that there is no dispute about relevance for propriety of the IRs, then TransCanada would strive to respond by March the 26th. And CAPP has indicated that it would like to see in the neighbourhood of 10 days for preparation of evidence once the IR responses are received, and that would put us at April 4th for that evidence.

13527. How we would propose to proceed after that would be that TransCanada would review the evidence and determine whether there would be any need for information requests or written reply before the cross-examination of the depreciation witnesses would commence. That, of course, would include a determination of whether there was any issue about the nature or extent of the new evidence.

13528. But the object of this exercise would be that what TransCanada would end up doing is presenting its depreciation witnesses starting on the 22nd of April. There was some discussion about the week of April the 14th, but one of the expert depreciation witnesses for TransCanada is appearing in a hearing in Manitoba in that week.

13529. So then the question became: How do we keep the hearing moving in the meantime? And the consensus was that we would proceed with completion of the cross-examination of TransCanada's Panel 4 and then go to the cross-examination of TransCanada's Panel 6. Estimates of time for cross-examination were revisited, with the conclusion that it's reasonably possible to complete those two panels by the end of the proceedings on March the 26th.

13530. If we had the good fortune to finish them earlier, the proposal would be that we would stop at that point and that none of the intervenor panels would be brought forward until the week of April 1st.

13531. In that week, the scheduling is still somewhat up in the air, but the intention would be, because of various scheduling issues with witnesses, that we would start with IGUA on April the 1st, or if we haven't finished the TransCanada panels by then, the TransCanada's panels would -- Panel 6 would finish and be followed by IGUA, and that we may be able to deal with the Cogenerators Alliance and Simplot in that week.

13532. CAPP, as I understand it, would be prepared to start not before April 3rd because of some witness timing issues. And then in the week of April 7th, and not before that week, again because of witness timing issues, we would have the FSG panel, followed by the Eastern Utilities panel.

13533. All of this would leave us with not much downtime, but in this scenario, if there were any, it would come after the intervenor panels and before the depreciation witnesses started.

13534. And when I say "the intervenor panels", to be clear, the intervenors, as I understand it, have expressed a willingness to proceed with presenting their witnesses on matters other than depreciation prior to TransCanada's depreciation case being completely on the record. And for that indulgence, I thank them.

13535. Then the discussion didn't go very far in terms of argument, but it seemed that the consensus was that even if there is some time between the end of the intervenor panels and the commencement of the depreciation evidence, that argument would be after all of the evidence is on the record.

13536. That is the proposal, as I understand the consensus to have been yesterday, and it's being put to you, Mr. Chairman and Members -- I wouldn't say for blessing, but as a proposal as the most efficient way to proceed from here on in and to seek your advice as to whether it is something that the Board could live with.

13537. In this context, Mr. Chairman, with this proposal, what we would be looking at is the commencement of the intervenor testimony on the 1st of April -- that's some two weeks away -- and what I would be looking for by the end of this week would be identification of intervenor witnesses.

13538. At this point we have some consultants that have been identified, but we don't have the policy witnesses, for example, for -- well, really, for any of the intervenors other than Enbridge, which was filed the other day.

13539. So I am just putting my request on the record to intervenors to provide me with the -- provide us with the identities and written evidence of the witnesses who will speak to the positions of those intervenors.

13540. I hope that I have not misconveyed any of the consensus, Mr. Chairman, but if I have, perhaps someone will remind me of that.

13541. **THE CHAIRMAN:** Thank you very much, Mr. Yates. We appreciate your efforts to use the time that has been allotted for this hearing in an efficient manner.

13542. Is there anyone else who has any observations on the proposal?

---(No Response/Pas de réponse)

13543. **THE CHAIRMAN:** I guess we understand that it is a proposal and sort of a sketch of the way you think things are going, and we will probably be readjusting, as we have done so far in this hearing, as to how the timelines actually play out. So we will have to see about that.

13544. Just give me a minute.

--- (A short pause/Courte pause)

13545. **THE CHAIRMAN:** The Panel accepts your proposal as its been set forth, Mr. Yates. Thank you very much, again, for your efforts.

13546. **MR. YATES:** Thank you very much, Mr. Chairman and Panel.

13547. Two other things before Mr. Schultz commences. First, I have one response to an undertaking to file. It is a response to an undertaking given by Mr. Barham to Mr. Schultz at Transcript 9506, and it relates to employer liability insurance associated with pension plans.

13548. **THE CLERK:** That would be Exhibit B-95.

--- **EXHIBIT NO./N° DE LA PIECE B-95:**

13549. *Response to an undertaking given by Mr. Barham to Mr. Schultz at Transcript 9506, relating to employer liability insurance associated with pension plans.*

13550. **MR. YATES:** And, Mr. Chairman, Mr. Feldman has advised me of, I think, two transcript matters that he wished to speak to from yesterday.

13551. **MR. FELDMAN:** Yes. I thought these warranted an oral statement here.

13552. The first pertains to paragraph 13401. This is a response that I gave to Mr. Farrell, and it now reads, the second-last line:

13553. *"I guess that explanation that he gave -- and that we gave is inconsistent with the quote that you just showed us in GH-2-87."*

13554. I believe what I said, and what I certainly meant was -- is that it was consistent with the quote, not inconsistent.

13555. And then I would like to turn to paragraph 13505 -- and this had to do with TransCanada's response after the Northridge service was approved. And I indicated there that I was trying to find some history on the reason why we didn't pursue the Southwest Zone, and I've been able to do so.

13556. It was shortly after that time that when Great Lakes -- Great Lakes was full at the time, and when the -- when service was sought, they were charging incremental tolls at the time, so the resulting toll for service from -- on the mainline to Emerson and then Emerson via the Great Lakes route, because an expansion was required, would have in fact resulted in a toll greater than the mainline toll to Dawn, for example.

13557. And therefore, there was no longer any reason for pursuing the Southwest Zone at that particular time.

13558. **MR. YATES:** Thank you, Mr. Feldman.

13559. Thank you, Mr. Chairman.

G. ZWICK: Resumed

P. MILNE: Resumed

M. FELDMAN: Resumed

S. EMOND: Resumed

R. WHITMORE: Resumed

T. ROBINSON: Resumed

13560. **THE CHAIRMAN:** Mr. Schultz...?

--- EXAMINATION BY/INTERROGATOIRE PAR MR. SCHULTZ:

13561. **MR. SCHULTZ:** Thank you, Mr. Chairman.

13562. Good morning, gentlemen.

13563. I dressed in green from head to foot for you yesterday, and Mr. Farrell kept the thing going so long I didn't get to show that off. But I hope you had an enjoyable St. Patty's day after you got out of here, anyway.

13564. Mr. Feldman, I'm going to start with your Opening Statement, which is Exhibit B-70, I believe.

13565. **MR. FELDMAN:** Yes, I have it.

13566. **MR. SCHULTZ:** And the second page of that, near the bottom of the page, so starting with line 20 of your Opening Statement, at page 2, you say this, quote -- and this is in reference to the Southwestern Zone:

13567. *"It is simple to implement with minimal impact on existing customers, rates and services, and it respects the existing Board approved cost allocation and toll design methodology."*

13568. So the focus of my questioning today will be, firstly, with the question of the existing Board-approved cost allocation and toll design methodology, as a matter of principle; then secondly, how you've implemented this Southwestern Zone proposal within the context of that methodology.

13569. And that second part is going to be a numbers exercise, to some extent, although we have endeavored to distill it to what we think are a couple of key points that we'll sort of circle around and see how you've handled and try to avoid to get into too much of the minutia, but there will be some numbers.

13570. So with that, Mr. Feldman, what I'd like to do is talk a little about principles. For that purpose, I am going to refer to history, which is something that came out during the RH-2-92 decision. And I am going to hand that out to you.

13571. I might say, Mr. Chairman, I did give Mr. Yates a heads-up on Saturday as to various of these exhibits from the RH-2-92 hearing that I was going to refer to, so I hope that that helped.

13572. **MR. YATES:** Permit me to say, on the record, Mr. Chairman, that I am grateful to Mr. Schultz for that courtesy and we'll see if it helps.

--- (Document distributed/document distribué)

13573. **MR. SCHULTZ:** What I have distributed, Mr. Chairman, are extracts from the RH-2-92 decision, specifically TransCanada's responses to Information Request No. 6 from Tennessee Gas Pipeline Company; and No. 14, which were filed as Exhibit B-26 in that proceeding; and then, also, Information Request No. 21 from Tennessee that was filed as Exhibit B-43.

13574. And we'll try to be -- do this without being unbearable or losing sight of the bigger picture.

13575. If we could start with the last of the information request responses, No. 21. Mr. Feldman, on the second page of No. 21. We see on page 2, the following statement made by Tennessee in that proceeding, quote:

13576. *"TransCanada is of the view that the current methodology, as approved by the Board in every tolls application since RH-1-72, meets all of the just and reasonable, fair and equitable criteria for the following reasons:"*

13577. And then it goes on to give a number of reasons, and I'm going to just review those with you and ask you if these are reasons that still would support your toll design today.

13578. The first reason is that:

13579. *"TransCanada operates an integrated pipeline system. The methodology recognizes this fact by considering possible routes that gas may travel from the initial receipt point to the ultimate delivery point."*

13580. Are you with me there, Mr. Feldman?

13581. **MR. FELDMAN:** Yes.

13582. **MR. SCHULTZ:** Okay.

13583. And is it your evidence that your proposal respects that factor?

13584. **MR. FELDMAN:** Yes.

13585. **MR. SCHULTZ:** Okay.

13586. And the second factor that's stated is that:

13587. *"The methodology recognizes that shippers do not have a right to use a specific pipeline route and that shippers do not have dedicated pipeline facilities. TransCanada contracts provide for receipts at a specific point and deliveries to a specific point. Contracts do not provide for specific pipeline routes."*

13588. Are you with me there?

13589. **MR. FELDMAN:** Yes.

13590. **MR. SCHULTZ:** And is it TransCanada's evidence that its proposal in the present case respects that factor?

13591. **MR. FELDMAN:** Yes.

13592. **MR. SCHULTZ:** The third factor mentioned is:

13593. *"The methodology recognizes the commingled nature of the gas stream. TransCanada does not, and cannot, track individual molecules of gas."*

13594. Are you with me there?

13595. **MR. FELDMAN:** Yes.

13596. **MR. SCHULTZ:** And is it TransCanada's evidence that its proposal in this case respects that factor?

13597. **MR. FELDMAN:** Yes.

13598. **MR. SCHULTZ:** And the fourth factor that's mentioned in this exhibit is that:

13599. *"Tolls are based on the recovery of the costs associated with all of the pipeline facilities."*

13600. If you're with me there, Mr. Feldman, is it TransCanada's evidence that that -- that its proposal in this case also respects that factor?

13601. **MR. FELDMAN:** Yes.

13602. **MR. SCHULTZ:** Now, the fifth factor mentioned is that:

13603. *"The methodology recognizes the flows of gas on the system on a prorata basis. Where multiple routes do exist from a receipt point to a delivery point, the methodology assumes that the proportion of each possible route is used."*

13604. Mr. Feldman, is it your evidence that your proposal in this case respects that factor?

13605. **MR. WHITMORE:** That's correct.

13606. One of the things that we do do is we take into account the physical flow or the projected flow for the test year in determining the gas going to certain locations.

13607. **MR. SCHULTZ:** Thank you for that.

13608. Anything else you would add to these five factors before we look at -- oops, sorry, there's some on the next page, 6.

13609. It was TransCanada's evidence in 1992 that the toll design methodology is consistent in the determination of distance to all delivery points by measuring along the, quote, "historic pipeline route, except in cases where the system configuration has changed such that gas flows are by another route."

13610. Mr. Feldman, is it TransCanada's evidence that its proposal in this case respects that factor?

13611. **MR. FELDMAN:** That is still the policy, yes.

13612. **MR. SCHULTZ:** Thank you.

13613. And the seventh:

13614. *"The methodology recognizes the principles of cost causation since shippers do use multiple routes and are charged accordingly on a system average unit cost basis."*

13615. Mr. Feldman, is it TransCanada's evidence that its proposal in this case respects that factor?

13616. **MR. WHITMORE:** Yes.

13617. We also have some users that use only a single route; some users that use multiple routes.

13618. **MR. SCHULTZ:** Thank you. We will come back to that in a minute.

13619. If we can now turn back to Tennessee 14. Tennessee, as you will recall in that case, had proposed a shortest direct route methodology, and TransCanada was of the view that that was not appropriate and gave the following factors with respect to why it was inappropriate.

13620. And what I am going to ask you is whether these are factors that one should take into account in judging the appropriateness or inappropriateness of any toll design in respect of the TransCanada system.

13621. The first is:

13622. *"The fact that multiple routes do exist for most of the delivery points on the system."*

13623. Mr. Feldman, is that still a factor today that should be used in assessing the appropriateness of any toll design on your system?

13624. **MR. FELDMAN:** Yes.

13625. **MR. SCHULTZ:** Secondly --

13626. **MR. FELDMAN:** It says most, but not all, so therefore I agree with the statement.

13627. **MR. SCHULTZ:** Thank you for that clarification.

13628. Secondly:

13629. *"The fact that it is not physically possible for all gas to be delivered via the shortest route."*

13630. Mr. Feldman, is that still a factor that should be applied in assessing the appropriateness of toll design?

13631. **MR. FELDMAN:** Yes.

13632. **MR. SCHULTZ:** Thirdly:

13633. *"The fact that tolls would not recover the embedded costs of multiple routes from those shippers using the multiple routes."*

13634. Mr. Feldman, is that still a factor that should apply today in judging the appropriateness of toll design?

13635. **MR. FELDMAN:** Yes.

13636. **MR. SCHULTZ:** Thank you.

13637. Fourthly:

13638. *"The fact that actual flows of gas would not be considered in the cost allocation calculations."*

13639. Mr. Feldman, is that still a factor that should be applied in assessing the appropriateness of any toll design?

--- (A short pause/Courte pause)

13640. **MR. WHITMORE:** So in Part 4, the fact that actual flows of gas would not be considered in the cost allocation calculations, we do simulate where the gas is going to be flowing to. So in some occurrences, our projection would have flow going to certain locations, and they might be on a multiple route or on a single route.

13641. **MR. SCHULTZ:** And I take it from that, that what you are saying is that the actual flows of gas should be considered today in cost allocation calculations? And to the extent a toll design departed from that, that would be a consideration affecting its appropriateness.

13642. Would that be what I heard you to say?

13643. **MR. FELDMAN:** One distinction that Mr. Whitmore made was actual flows. He talked about simulation, so basically it is a look-forward to the test year based on projected flows as opposed to actuals. So that was one distinction that he was making.

13644. **MR. SCHULTZ:** All right.

13645. In terms of simulating the flows for a test year, there is really -- that is a practice that TransCanada has engaged in for many years, including the 1992 test year and the 1993 test year. Would you agree?

13646. **MR. FELDMAN:** I presume so. But you were there and none of us were, Mr. Schultz.

13647. **MR. SCHULTZ:** Would you take it, subject to check, that there was a great deal of debate about simulating things for a test year and then what actually happened during a test year, but that the toll design was based on some simulation?

13648. Are you prepared to accept that, subject to check?

13649. **MR. FELDMAN:** I will accept that, subject to check.

13650. **MR. SCHULTZ:** So with that qualification, then, would -- pardon me, you are consulting. I didn't mean to interrupt.

13651. **MR. FELDMAN:** That's fine, sir.

13652. **MR. SCHULTZ:** Okay.

13653. With that qualification, then, would you still say what was said in 1992, that the fact that actual flows of gas would not be considered in the cost allocation calculations would be a factor weighing against the appropriateness of a toll design?

13654. **MR. WHITMORE:** I would say yes, with the qualification of the simulations moving gas to certain locations.

13655. **MR. SCHULTZ:** All right, thank you.

13656. Fifthly:

13657. *"The fact that TransCanada, as approved by the Board, does not dedicate specific facilities or specific transportation routes in the calculation of transportation tolls."*

13658. Mr. Feldman, is it TransCanada's evidence that its proposal in this case -- or sorry, is it -- let me change that question.

13659. Mr. Feldman, does that factor still apply to the appropriateness of toll design today?

13660. **MR. WHITMORE:** Yes.

13661. **MR. SCHULTZ:** Okay, thank you.

13662. Sixthly:

13663. *"The fact that the principle of cost causation would be ignored, since shippers may use multiple routes but would only be charged for the use of one route."*

13664. Mr. Feldman, does that factor continue to apply today to the appropriateness of toll design?

13665. **MR. WHITMORE:** Yes.

13666. **MR. SCHULTZ:** Thank you.

13667. Seventh:

13668. *"The fact that TransCanada does not believe that the resultant tolls would meet the just and reasonable standard."*

13669. That's obviously a conclusion based on the other six, but I take it that if these various other factors were not respected, then would TransCanada say that the resulting tolls would not meet the just and reasonable standard?

--- (A short pause/Courte pause)

13670. **MR. FELDMAN:** I am going to put a caveat on my "yes" answer, Mr. Schultz, and that is: Since this proceeding, the Board has approved the methodology that TransCanada has used since then, through and including the 2002 test year.

13671. So my presumption is that the tolls and the toll methodology that has been used, including the -- up and including the 2002 test year are just and reasonable because the Board has so approved the tolls.

13672. **MR. SCHULTZ:** Thank you.

13673. And finally, there is a -- there is a paragraph at the bottom that could only have been written in the era that it was written:

13674. *"For all of the above reasons, Tennessee's proposed shortest direct route methodology is not fair, equitable, reasonable or just. In TransCanada's view, the existing methodology meets these four regulatory criteria and should be continued."*

13675. And I take it that the four regulatory criteria are fairness, equity, reasonableness and justness. If Mr. Harvie were still with us in the room, I would ask him to enlighten us on the subtle but important differences between fairness, equity and justness, but I will save that for another occasion, perhaps, unless there is anything you would like to add to them -- to what's there.

13676. **MR. FELDMAN:** You are just reading what's there, so I am not going to supplement it.

13677. **MR. SCHULTZ:** Thank you.

13678. Now, if we just turn back to the first of the information requests from Tennessee No. 6, you will see that Tennessee, in its information request, asked TransCanada if it adhered to a list of principles in designing its tolls, and particularly in relation to the determination of distance.

13679. And you will see in the response on the second page that TransCanada is letting those who might not have been in the know, that what Tennessee was doing was playing back to TransCanada things it had said in an earlier proceeding, but I would like to just, for the sake of certainty, ensure that -- or determine whether or not TransCanada still adheres to these principles.

13680. So if we look at what Tennessee has -- is playing back to TransCanada back in that proceeding and then what TransCanada says, I am going to ask you whether each of these principles still applies today.

13681. The first:

13682. *"Toll design has as its objective the designing of tolls which meet the just and reasonable, no unjust discrimination, and related standards of the NEB Act."*

13683. The response is an unqualified "yes".

13684. Would TransCanada's answer still be an unqualified "yes" today?

13685. **MR. FELDMAN:** Yes.

13686. **MR. SCHULTZ:** Thank you.

13687. The second principle:

13688. *"Toll design reflects the integrated character of the system including TransCanada's contractual entitlements on the Great Lakes, Union and TQM systems."*

13689. And TransCanada's response then was an unqualified "yes".

13690. Would TransCanada's response today still be an unqualified "yes" in respect of that principle?

13691. **MR. FELDMAN:** Yes.

13692. **MR. SCHULTZ:** All right.

13693. Third:

13694. *"Tolls are based on the costs of owning and operating a system."*

13695. TransCanada's response then was qualified with the words "tolls are based in part on the costs of owning and operating a system, there are other components that affect tolls."

13696. Mr. Feldman, would TransCanada's response to that principle be the same today?

13697. **MR. FELDMAN:** Yes.

13698. **MR. SCHULTZ:** Thank you.

13699. Fourthly:

13700. *"Costs are allocated on the basis of volume and volume/distance units to reflect the fact that the costs of the system vary with volume and volume/distance."*

13701. TransCanada's response was an unqualified "yes".

13702. Would TransCanada's response today still be an unqualified "yes"?

13703. **MR. FELDMAN:** Yes.

13704. **MR. SCHULTZ:** Thank you.

13705. The fifth statement is a little bit longer, but it goes like this:

13706. *"TransCanada assumes, for the purpose of determining distance, that all gas flows on all routes possible, and conversely, excludes routes which are not possible. This reflects the [commingled] character of the commodity, the circumstances that no shipper has the right to demand the use of a particular route, and the fact that TransCanada does not dedicate particular facilities to particular customers. This leads TransCanada to use a pro-rationing technique to the volumes flowing through the various possible routes and, for that purpose, to forecast the volumes flowing on the various possible routes."*

13707. And the response was as follows:

13708. *"In the context of transportation tolls, the response is yes."*

13709. Mr. Feldman, would TransCanada's response still be "yes" in the context of transportation tolls?

13710. **MR. WHITMORE:** Yes, with the exception, I think on line 3, where it said "excludes routes which are not possible." "It's not projected to flow on." I would used those words.

13711. **MR. SCHULTZ:** All right, thank you.

13712. And the last principle is:

13713. *"TransCanada takes into account equity as between delivery points for like services."*

13714. And the response from TransCanada is lengthier, given the context of that particular case. It's as follows:

13715. *"TransCanada takes into account the justness and reasonableness of its tolls, such that all tolls shall always, under substantially similar circumstances and conditions with respect to all traffic of the same description carried over the same route, be charged equally to all persons at the same rate. In addition, consideration must be given to the effects of the zoning. Therefore, if gas has travelled over different routes to different delivery points, the question of equity between such delivery points is not relevant."*

13716. Would TransCanada's response be the same today in respect of that principle?

--- (A short pause/Courte pause)

13717. **MR. FELDMAN:** We can agree with that today, too.

13718. **MR. SCHULTZ:** All right, thank you.

13719. And is it TransCanada's evidence that its proposal in this case respects the principles listed in Tennessee 6 that we have just been discussing?

--- (A short pause/Courte pause)

13720. **MR. FELDMAN:** Yes, I believe so.

13721. And I put the same caveat on as I did in your concluding statement to the previous IR in the context of the tolls that have been approved by the Board in 2002, to the extent that they respect the same principles.

13722. **MR. SCHULTZ:** All right, thank you.

13723. Would you agree with me that these are all the principles that were employed by TransCanada at various times to oppose the Southwestern Zone or anything that looked like it could lead to a Southwestern Zone?

13724. **MR. FELDMAN:** Sorry, could you repeat that, sir?

13725. **MR. SCHULTZ:** Yes.

13726. My question was: Would you agree that these principles that we have been

discussing in this Tennessee series of information requests are all principles that TransCanada has relied on to oppose the Southwestern Zone in the past or anything that looked like it could lead to a Southwestern Zone?

13727. **MR. FELDMAN:** Well, I'm not sure.

13728. I mean, I've read, you know, some of the history, but I think the opposition has been for different reasons at different points in time.

13729. **MR. SCHULTZ:** All right.

13730. Could you help me out by identifying any principle that TransCanada relied on to oppose the Southwestern Zone or anything that looked like the Southwestern Zone, such as, you know, the discussion of Northridge and some of those situations; the Union/ACQ proposal or the Consumers'/ACQ proposal back in the mid '80s?

13731. Could you undertake to advise me if there were any other principles, other than the ones we have reviewed here, that TransCanada relied on to oppose the Southwestern Zone or anything that looked like a Southwestern Zone?

13732. **MR. FELDMAN:** We can undertake to do that.

--- UNDERTAKING/ENGAGEMENT:

13733. *To advise if there were any other principles, other than the ones referred to in Exhibit C-1-34, that TransCanada relied on to oppose the Southwestern Zone or anything that looked like a Southwestern Zone.*

13734. **MR. SCHULTZ:** Thank you.

13735. Mr. Chairman, could we mark this document?

13736. **THE CHAIRMAN:** We will mark it for reference, Mr. Schultz.

13737. **MR. SCHULTZ:** Thank you.

13738. **THE CLERK:** That would be Exhibit C-1-34

--- EXHIBIT NO./N° DE LA PIECE C-1-34:

13739. *Information requests from Tennessee Gas Pipeline Company, Nos. 6, 14 and 21, filed in the RH-2-92 proceeding.*

13740. **MR. SCHULTZ:** Thank you.

13741. Mr. Feldman, you talked a few minutes ago about the Board having approved TransCanada's tolls for a number of years based on the existing toll design and used the word "presumption" when referring to the justness and reasonableness of the toll design.

13742. And I'm wondering if you would agree with me that a toll design that has been in place for many years and has been repeatedly approved by the NEB can be presumed to be just and reasonable?

13743. **MR. FELDMAN:** Yes.

13744. **MR. SCHULTZ:** Thank you.

13745. That's going to save us probably another exhibit here, if we can agree on one more thing.

13746. Would you agree that in the original development of the toll design that was approved in the RH-1-72 decision, that a volume-distance credit was given in respect of volumes that were delivered via the Great Lakes route?

--- (A short pause/Courte pause)

13747. **MR. FELDMAN:** Do you have a reference for that?

13748. **MR. SCHULTZ:** Well, let's take the reference, then.

--- (Document distributed/document distribué)

13749. **MR. SCHULTZ:** What I have distributed, Mr. Chairman, is also from the RH-2-92 decision -- or proceeding, pardon me. It is some information requests again from Tennessee, Nos. 2 and 3, which were filed as B-26 in that proceeding; and No. 17 and No. 18, which were filed as Exhibit B-43 in that proceeding.

13750. And I had intended to use this document for two purposes. One was a reference to TransCanada's use of the word "presumably" in one of these responses, but Mr. Feldman's already dealt with that in the question I asked a moment ago.

13751. And the only other thing I wanted out of this particular document is found in Tennessee 17.

13752. It's in a -- it's in the paragraph on the first page of that decision and runs over to the second page. And in that second paragraph, there is a reference to the RH-1-72 decision and the

review of the toll making that took place in there and then a statement:

13753. *"Tennessee should also note that the cost allocation methodology used in RH-1-72 is essentially identical to that used today. For example, in RH-1-72 all distances were measured via the historic pipeline route. A volume-distance credit was given in respect of volumes that were delivered via the Great Lakes/Union route."*

13754. So are you with me, Mr. Feldman, on that?

13755. **MR. FELDMAN:** Yes, I see that.

13756. **MR. SCHULTZ:** Okay.

13757. And, then, can we agree that the prorating of volumes through the various routes dates back to the RH-1-72 decision with a volume-distance credit being given in respect of volumes that were delivered via the Great Lakes/Union route?

13758. **MR. FELDMAN:** Yes.

13759. **MR. SCHULTZ:** Thank you.

13760. Would you also agree with me that in that era, 1972, the volumes being delivered to the east were almost entirely domestic volumes?

13761. **MR. FELDMAN:** That's probably true.

13762. **MR. SCHULTZ:** Okay.

13763. And that the volumes TransCanada was delivering to the east at that time were also long-haul volumes?

13764. **MR. FELDMAN:** Yes.

13765. **MR. SCHULTZ:** And with the result that the credit that was being given through the Great Lakes/Union adjustment reflected the long-haul transportation through the Great Lakes/Union path to the east; would you agree?

13766. **MR. WHITMORE:** Yes, I would agree in the past.

13767. **MR. SCHULTZ:** All right, thank you.

13768. **MR. WHITMORE:** The short-hauls now have an effect on that.

13769. **MR. SCHULTZ:** Thank you.

13770. We're going to have an opportunity to understand what's happening there in a moment. Thank you for that.

13771. Mr. Chairman, may we mark this document for identification?

13772. **THE CHAIRMAN:** Yes, Mr. Schultz.

13773. **THE CLERK:** That would be Exhibit C-1-35.

--- EXHIBIT NO./N° DE LA PIECE C-1-35:

13774. *Information requests from Tennessee Gas Pipeline Company, Nos. 2, 3, 17 and 18, filed in the RH-2-92 proceeding.*

13775. **MR. SCHULTZ:** Thank you.

13776. Now, before we actually start looking at some numbers and having fun with that, I would like to just be clear about a couple of aspects of your system.

13777. Would you agree with me that only a few eastern points have what could be considered to be effectively fixed distances to the delivery point in the east?

13778. And if you want something specific, I'll give it to you. A specific example would be St. Clair.

13779. **MR. WHITMORE:** Fixed in terms of the distance?

13780. **MR. SCHULTZ:** Yes.

13781. **MR. WHITMORE:** Yes, I would agree with St. Clair.

13782. **MR. SCHULTZ:** Okay, thank you.

13783. And would you also say that the same thing would apply to short-haul deliveries from points -- such as receipt points such as St. Clair or Dawn to eastern export points, that the distance that's used for calculating tolls is effectively a fixed distance?

13784. **MR. WHITMORE:** Yes.

13785. **MR. SCHULTZ:** Okay.

13786. And finally, in recent years the distance assigned to Iroquois has become effectively a fixed distance; would that be right?

13787. **MR. WHITMORE:** Iroquois still is distance along the original line, but it gets 100 percent credit for flow going through Winchester.

13788. **MR. SCHULTZ:** And the effect of giving it 100 percent credit for the path via Winchester is that the distance to Iroquois varies, it is essentially not impacted by the changes that affect distance to other points.

13789. Would that be right?

13790. **MR. WHITMORE:** In the current projection on the pattern of the gas flow, yes.

13791. **MR. SCHULTZ:** All right.

13792. All the other points in the east -- certainly all the long-haul points, other than St. Clair and Iroquois, have distances for toll purposes that will vary as a function of the pattern of deliveries and the level of deliveries from test period to test period.

13793. Would that be right?

13794. **MR. WHITMORE:** Sorry, I didn't hear all your question.

13795. **MR. SCHULTZ:** Yep.

13796. Other than St. Clair and Iroquois under the current situation -- we will use as of 2002 as opposed to 2003 -- certainly up to that period in time, all the other eastern points that are long-haul -- that take long-haul deliveries have distances for toll purposes that will vary from year to year as a function of the pattern of deliveries and the level of deliveries on the system.

13797. Would that be right?

13798. **MR. WHITMORE:** I would agree.

13799. There is one other point that has a direct distance, and that is Dawn export.

13800. **MR. SCHULTZ:** The Dawn export. Thank you for that.

13801. **MR. WHITMORE:** Also, the meter stations within each zone have direct distances as well, so the aggregate of the zone is just a notional point.

13802. **MR. SCHULTZ:** And that is for the purpose of allocating meter costs?

13803. **MR. WHITMORE:** Yes.

13804. **MR. SCHULTZ:** But for all other costs, the situation I described is as I described it?

13805. **MR. WHITMORE:** Yes.

13806. **MR. SCHULTZ:** Okay, thank you.

13807. Now, with respect to Iroquois, there was a change in the physical hardware connecting up the Iroquois export point with the construction of the Winchester shortcut, was there?

13808. **MR. ROBINSON:** That is correct.

13809. **MR. SCHULTZ:** And it was that change in the physical configuration of the facilities that led to a change in the allocation of credits to Iroquois; is that right?

13810. **MR. ROBINSON:** That is correct.

13811. **MR. SCHULTZ:** Okay.

13812. And the change that occurred then is that, up to that point in time, Iroquois was treated like Cornwall, the Eastern Zone deliveries downstream of the North Bay shortcut junction and other export points to the east of that junction in terms of getting a pro rata share of the various shortcut credits based on the flow simulations that were being used in the test period? Is that correct?

13813. **MR. WHITMORE:** Yes. Iroquois's distance was based on the old line, 100 line, as well as the North Bay shortcut.

13814. **MR. SCHULTZ:** Okay.

13815. And it also got a share of the Great Lakes/Union adjustment just as, for example, Cornwall is doing today?

13816. **MR. WHITMORE:** Yes.

13817. **MR. SCHULTZ:** Okay.

13818. And after this physical change in your hardware, Iroquois's distance was the historic

distance but with 100 percent of the credit via the Winchester shortcut; right?

13819. **MR. WHITMORE:** That's true, which eliminated its availability for Great Lakes credits.

13820. **MR. SCHULTZ:** Okay.

13821. And the situation then, is that based on the flows as they are projected now, Iroquois has a hundred percent of the Winchester credit. Other points that are downstream of the North Bay shortcut junction get a pro rata share of everything that is -- everything to which they are entitled that's upstream of that point, basically, including a piece of Great Lakes and so on?

13822. **MR. WHITMORE:** The flowthrough of the Winchester shortcut exceeds the -- exceeds the quantity that Iroquois requires, so the remaining quantity of volume will be allocated over the other points.

13823. **MR. SCHULTZ:** Right.

13824. I guess what I was getting at is that, if I understand your evidence in this case correctly, for the other points such as the Eastern Zone deliveries downstream of the North Bay shortcut junction; for example, towards Montreal or the -- or Cornwall, for example, is an export point to the east of that junction, essentially they get about 95 percent of a credit through the North Bay shortcut as distinct from Iroquois, which is getting 100 percent. That's roughly how it breaks out today?

13825. **MR. WHITMORE:** Yeah, they are eligible for Winchester credits, North Bay credits, as well as Great Lakes credits.

13826. **MR. SCHULTZ:** And the effect of all of that is that, basically only about 95 percent, if I understand your evidence, of those flows are being projected to be through the North Bay shortcut or Winchester shortcut combination; is that right?

13827. **MR. WHITMORE:** I think it's around 90 percent.

13828. **MR. SCHULTZ:** Ninety percent? Okay, well, that's fine. All I wanted to point out was, it's not a hundred?

13829. **MR. WHITMORE:** It's not a hundred.

13830. **MR. SCHULTZ:** All right.

13831. And the -- and with respect to Iroquois, because of the physical design, Iroquois will always get 100 percent of the Winchester shortcut unless you, somewhere down the road, change

your physical design. Would that be right?

13832. **MR. WHITMORE:** Or if the contract level at Iroquois changes. If the contract quantity increases, it may not be served by the Winchester shortcut only.

13833. **MR. SCHULTZ:** Okay.

13834. So it would have to exceed the -- the demand at Iroquois would then have to exceed the capacity of the Winchester line?

13835. **MR. WHITMORE:** That's correct.

13836. **MR. SCHULTZ:** Okay, thank you.

13837. Are the crossover connections still in place between -- sorry. Are there crossover connections still in place with the hardware that's going to Iroquois and the Montreal line?

13838. **MR. ROBINSON:** Yes, they are still in place.

13839. **MR. SCHULTZ:** Okay.

13840. And would I take it that when TransCanada says that Iroquois takes 100 percent of its flow through Winchester, that that implies that some of those valves must be closed; the valves from the Montreal line into the Iroquois line?

13841. **MR. ROBINSON:** I understand those valves are open normally, and that due to pressures on the system, the gas does flow from the Iroquois line onto the Montreal line.

13842. **MR. SCHULTZ:** All right.

13843. So there is no actual closed system to Iroquois, the valves are open and it's simply a function of the pressure differentials that leads you to project the flow to be 100 percent on the North Bay/Winchester shortcut?

13844. **MR. ROBINSON:** Correct.

13845. **MR. SCHULTZ:** Okay, thank you.

13846. Okay, that's all I need to clarify there. Thank you.

13847. What I would like to do now is actually look at some numbers and understand what you are doing in the kind of with and without -- with or without Southwestern Zone situations.

13848. Mr. Chairman, what I have done is reproduced a number of the schedules that are in the application because I found it intolerable in my office to have three and four binders open at one time. I don't know how -- it's your choice obviously how you would like to do it, but what I will do is, I will distribute those documents, and if people find it more convenient to work with those, then great, and we will see where we go.

13849. **THE CHAIRMAN:** Please proceed, Mr. Schultz.

--- (Documents distributed/documents distribu  )

13850. **MR. SCHULTZ:** Mr. Chairman, what I have distributed are portions from the application itself of the toll design tab, which would, I believe, be the third volume of the application, Exhibit B-1-C.

13851. I've also distributed a portion of the attachment to CAPP Information Request 54, which is work papers that support the application toll design, which is part of Exhibit B-7.

13852. I've also distributed portions of the response to CAPP 62(a), (b) and (c), which are also in Exhibit B-7. I photocopied these on the weekend, so certain of the corrections to CAPP 54 and CAPP 62(b) and (c) that were included in Exhibit B-94 that were filed yesterday are not reflected, but they don't affect what I am going to do. So with that caveat, what I've given is accurate, as I understand the record to be.

13853. **THE CHAIRMAN:** Mr. Schultz, do you want to mark them now for purposes of identification so we can tell them all apart?

13854. **MR. SCHULTZ:** I would be content. Perhaps we should start with the toll design Schedule 1.1 document, and then there are other schedules behind that?

13855. **THE CLERK:** The first one would be Exhibit C-1-36.

13856. **MR. SCHULTZ:** Thank you.

--- **EXHIBIT NO./ N   DE LA PIECE C-1-36:**

13857. *Toll design Schedule 1.1 document*

13858. **MR. SCHULTZ:** I would suggest then CAPP 54 be the next one.

13859. **THE CLERK:** CAPP 54 would be Exhibit C-1-37.

13860. **MR. SCHULTZ:** Thank you.

--- EXHIBIT NO./ N° DE LA PIECE C-1-37:

13861. *CAPP 54 document*

13862. **MR. SCHULTZ:** And then just (a), (b) and (c) in sequence. So it would be CAPP 62(a).

13863. **THE CLERK:** CAPP 62(a) would be C-1-38.

13864. **MR. SCHULTZ:** Thank you.

--- EXHIBIT NO./ N° DE LA PIECE C-1-38:

13865. *CAPP 62(a) document*

13866. **MR. SCHULTZ:** Then CAPP 62(b).

13867. **THE CLERK:** CAPP 62(b) would be C-1-39.

13868. **MR. SCHULTZ:** Thank you.

--- EXHIBIT NO./ N° DE LA PIECE C-1-39:

13869. *CAPP 62(b) document*

13870. **MR. SCHULTZ:** And then finally CAPP 62(c).

13871. **THE CLERK:** CAPP 62(c) would be C-1-40.

13872. **MR. SCHULTZ:** Thank you.

--- EXHIBIT NO./ N° DE LA PIECE C-1-40:

13873. *CAPP 61(c) document*

13874. **MR. SCHULTZ:** What we will start with will be the toll design schedules, which are from the Application, which we have marked for identification as C-1-36, and then CAPP 62(c), which we marked for identification as C-1-40.

13875. So if we can start with the Application case -- and to be clear, to set a context here, since what we are going to be doing is looking at how various volumes are treated for toll design purposes, the Application has a Southwestern Zone but with zero fixed volumes into the zone; is that correct?

13876. **MR. WHITMORE:** That is correct.

13877. **MR. SCHULTZ:** Okay, thank you.

13878. If we look at toll design Schedule 1.4, Sheet 2 of 3, we have here the Great Lakes/Union transportation adjustments for the test year. And I am interested in looking at the column that is related to the fixed allocation units for the purpose of illustrating the points that I want to discuss.

13879. And we see that for this purpose, there is a calculation of the fixed allocation units in line 4 applicable to the Great Lakes route.

13880. Are you with me there?

13881. **MR. WHITMORE:** Yes.

13882. **MR. SCHULTZ:** Then we see a deduction in line 5 for the Sault Ste. Marie firm transportation volumes. Are you with me there?

13883. **MR. WHITMORE:** Yes.

13884. **MR. SCHULTZ:** And that reflects the fact that Great Lakes is being used to serve Sault Ste. Marie and, hence, those volumes are then deducted from the Great Lakes route units?

13885. **MR. WHITMORE:** Yes.

13886. **MR. SCHULTZ:** Thank you.

13887. And then, in line 6, we see a deduction for St. Clair firm transportation. Are you with me there?

13888. **MR. WHITMORE:** Yes.

13889. **MR. SCHULTZ:** And the logic of that deduction is the same as for Sault Ste. Marie, the units that are going to St. Clair flow over Great Lakes and are, therefore, deducted from the Great Lakes route units?

13890. **MR. WHITMORE:** Yes.

13891. **MR. SCHULTZ:** Okay, thank you.

13892. Then we see the zero for the Southwestern Zone, so there is no impact in the

calculation from that; correct?

13893. **MR. WHITMORE:** Correct.

13894. **MR. SCHULTZ:** Thank you.

13895. And then we see an amount of 370,862 gigajoules for the Southwestern delivery area in line 8. Do you see that?

13896. **MR. WHITMORE:** Yes.

13897. **MR. SCHULTZ:** Okay.

13898. And then that's deducted, as well, from the Great Lakes route units to come up with line 9, the Union transportation of 743,066 gigajoules?

13899. **MR. WHITMORE:** Yes.

13900. **MR. SCHULTZ:** Okay, thank you.

13901. And then that amount of the Union transportation in line 9 is what is available for sharing amongst various eligible volumes, and then we'll talk a little later about the eligible volumes.

13902. But I want to focus right now about what's above that line, but just, can you agree that that is -- the 743,066 represents what's available now for sharing by way of shortcut credits?

13903. **MR. WHITMORE:** Yes. I just wanted to point out, though, that we start the schedule at usually lines 10, 11 and 12, and that determines what credits will be available for transportation. And the lines 1 through 9 are fallouts based on the flows.

13904. **MR. SCHULTZ:** Okay, thank you.

13905. We're going to be talking about lines 10, 11 and 12 in due course here, but I just -- I started with -- my focus right now is on line 8 and I'm just going to ask us to just keep this schedule to one side for a minute, because I have a question that arises.

13906. With respect to CAPP 62(c), which we just marked as Exhibit C-1-40, and if you'd look at CAPP 62(c), page 17, and we compare it to what we've got in Schedule 1.4.

13907. And just so we have the context, CAPP 62(c), I think you'll agree with me, gentlemen, is a scenario in which there was a zero volume into the Southwestern Zone, but there was an incremental 630,000 gigajoules per day short-haul from Dawn to the Consumers' CDA; is

that right?

13908. **MR. WHITMORE:** That's correct.

13909. **MR. SCHULTZ:** Okay, thank you.

13910. Now, if we look at this same Great Lakes/Union transportation adjustment in the CAPP 62(c) scenario, page 17 and we look -- we see for the Great Lakes route in line 4 the same units as in the Application case.

13911. We see for the Sault St. Marie firm transportation the same units being deducted as in the Application case.

13912. And then in the St. Clair firm transportation, line 6, we see the same units being deducted as in the Application case.

13913. And then for the Southwestern Zone, because there's zero volume flowing into the zone, the same zero that is shown in the Application case. Are we okay so far?

13914. **MR. WHITMORE:** Yes.

13915. **MR. SCHULTZ:** Okay, thank you.

13916. And then, finally, we see for the Southwestern delivery area, an amount of 1,000,862 gigajoules which, by my arithmetic or that of my Radio Shack computer, is the same 370,862 that's in the Application, plus the 630,000 short-haul incremental that is the assumption in CAPP 62(c); is that right?

13917. **MR. WHITMORE:** I believe so.

13918. **MR. SCHULTZ:** Okay.

13919. So my question is: Why are short-haul movements from Dawn to the Union CDA being recorded in this calculation as Southwestern delivery area?

--- (A short pause/Courte pause)

13920. **MR. WHITMORE:** The 630 that's recorded there isn't actually the short-haul. It's actually the gas that would have to be injected from other means, either FT injections, in order to balance the system.

13921. **MR. SCHULTZ:** What you're telling us -- well, help me out here. The -- what the shippers who have asked for the 630,000 gigajoules of short-haul have asked for is transportation

from Dawn to the Consumers' CDA; right?

13922. **MR. WHITMORE:** Correct.

13923. **MR. SCHULTZ:** Okay.

13924. And the -- the toll design -- the path that that would notionally -- or sorry, the distances given to those movements for toll design is the distance from Dawn to the Consumers' CDA; right?

13925. **MR. WHITMORE:** Correct.

13926. **MR. SCHULTZ:** And that distance is determined from Dawn via the Union system to wherever the load centre of the Consumers' CDA is. Would that basically be right?

13927. **MR. WHITMORE:** That's correct.

13928. **MR. SCHULTZ:** Okay.

13929. So from a transportation perspective, at least in terms of what the customers' getting, they're getting transportation notionally along that path.

13930. Would that be sort of the logic? And if that's not the logic, I'm looking for some help.

13931. **MR. WHITMORE:** Yeah.

13932. Their transportation toll's based on the path between Dawn to their delivery point.

13933. **MR. SCHULTZ:** Okay.

13934. And you have reflected -- well, let's go back and talk about what the Southwestern delivery area represents.

13935. The -- TransCanada has been making this Southwestern delivery area deduction in this Great Lakes/Union transportation calculation as long as they have been doing the Great Lakes/Union adjustment, have they not?

13936. **MR. WHITMORE:** Yes, they have.

13937. **MR. SCHULTZ:** Okay.

13938. And if we go back far enough in time, when there were no short-haul deliveries from

places like St. Clair or Dawn, the Southwestern delivery area units that would be reflected in this deduction would actually be firm deliveries into the Southwestern delivery area; right?

13939. **MR. WHITMORE:** That's correct, and primarily FST.

13940. **MR. SCHULTZ:** Right.

13941. And the logic behind that would have been that those volumes were being treated as having flowed along Great Lakes and then should be deducted before you get to determining how much of this shortcut transportation is available to points further to the east; right?

13942. **MR. WHITMORE:** They're included in this schedule to ensure that they didn't get credits for Great Lakes because they were deemed to be flowing on Great Lakes directly.

13943. **MR. SCHULTZ:** By deeming them to flow on Great Lakes directly and putting them into this deduction calculation, what's being reflected is they're already getting that distance. So they come off what I would call above line 9?

13944. **MR. WHITMORE:** I can agree with that.

13945. **MR. SCHULTZ:** Okay.

13946. Now, given that what we're talking about is 630,000 gigajoules of short-haul transportation away from Dawn, explain to me again why that's being shown up as if it were a delivery into the Southwestern delivery area?

13947. **MR. WHITMORE:** It is in order to balance our northern and southern flows.

13948. **MR. SCHULTZ:** So what you're capturing here is the -- is that, if I understand you correctly, is that you actually would not be moving that volume across the Union system for anybody; it would just be injected into storage?

13949. **MR. WHITMORE:** We're not moving it across that corridor for toll design purposes.

13950. **MR. SCHULTZ:** Then if it's not actually using the corridor, where is it going from and to and what's it doing?

13951. Where did it come from? Where does it go to?

--- (A short pause/Courte pause)

13952. **MR. WHITMORE:** What we're doing here is assuming that the Dawn to Parkway

-- or TransCanada's M-12 contracts are being utilized by the short-hauls.

13953. Therefore, the gas going to locations such as Niagara and Chippawa would be flowing over the north.

13954. **MR. SCHULTZ:** And what you're capturing is that that -- there was -- on this assumption there is less available to credit to volumes that are east of the Great Lakes/Union -- sorry, pardon me.

13955. What you're reflecting when you do this is that there is less available Great Lakes/Union credit for the volumes that would otherwise be eligible for that credit; is that right?

13956. **MR. WHITMORE:** That's correct.

13957. **MR. SCHULTZ:** Okay. So --

--- (A short pause/Courte pause)

13958. **MR. WHITMORE:** So this methodology was approved in RH-2-92, but this also gets into the problems that we're having with the amount of short-hauls.

13959. As we stated in our evidence, when we get -- when we get sufficient short-hauls, it's going to start eliminating distance credits.

13960. In the scenario that you gave us here to add in 630 TJs of short-haul only has put us into the position where -- well, pretty much into the position that there will be no credits left on the system to give out to the eastern delivery points resulting from Great Lakes. This is the methodology that has to be looked at.

13961. **MR. SCHULTZ:** Thank you for that.

13962. **MR. WHITMORE:** But this has nothing to do with the creation of the Southwest Zone. This will happen in any occurrence.

13963. If we just added 630 TJs in the existing rate design, we'd have the same issue.

13964. **MR. SCHULTZ:** Right.

13965. And I understand that to be the case. And thank you for that.

13966. What I would like to understand is why you're plugging those numbers into a line that is marked "Southwestern Delivery Area" and that traditionally has reflected deliveries into the Southwest delivery area rather than the short-haul transportation?

13967. How is anyone actually to understand what you're doing when the numbers get plugged in that way?

--- (A short pause/Courte pause)

13968. **MR. WHITMORE:** So for the purposes of this table, we are just illustrating that that gas would then have to be dropped off in the Southwest delivery area for this credit mechanism.

13969. **MR. SCHULTZ:** Well, I guess what I am asking you is: Why don't you have an explicit adjustment for short-haul volumes if the effect for toll design is to reduce the available credits?

13970. **MR. WHITMORE:** We could do that. That's just changing the descriptor.

13971. **MR. SCHULTZ:** Well, you still have a Southwestern delivery area, don't you?

13972. **MR. WHITMORE:** Yes.

13973. **MR. SCHULTZ:** Okay.

13974. Now, can you tell me, then, what the -- if we go back to toll design Schedule 1.4, what the 370,862 gigajoules under the fixed allocation units represents there in the Great Lakes/Union transportation adjustment?

13975. **MR. WHITMORE:** It represents an estimate of what will be injected into storage.

13976. **MR. SCHULTZ:** And when you say "injected into storage", can I -- am I correlating that to any transportation contract or is that just an operational injection into storage?

13977. **MR. WHITMORE:** It would be related to various contracts, depending on who is doing the injection.

13978. **MR. SCHULTZ:** Does it capture short-haul movements from St. Clair to points east or from Dawn to points east?

13979. **MR. WHITMORE:** Yes, it would have.

13980. **MR. SCHULTZ:** You guess it would?

13981. **MR. WHITMORE:** Yes, it would have.

13982. **MR. SCHULTZ:** Oh, yes, it would. Thank you.
13983. Would it reflect other things besides that?
13984. **MR. WHITMORE:** None that I can think of off the top of my head.
13985. **MR. SCHULTZ:** Would it reflect any volumes that are going in with respect to STS or short-term firm or any of that kind of thing?
13986. **MR. WHITMORE:** I thought I mentioned that it would be injection, so, to me, STS is FT injections. I thought I mentioned that.
13987. **MR. SCHULTZ:** All right.
13988. So the 370,862 would include some amount of STS injections?
13989. **MR. WHITMORE:** Yes.
13990. **MR. SCHULTZ:** Okay.
13991. Does it include all of the short-haul from St. Clair to points east and from Dawn to points east?
13992. **MR. WHITMORE:** Sorry, I didn't catch your question.
13993. But I do have one other item from the previous question; that was deliveries to Sarnia it would pick up.
13994. **MR. SCHULTZ:** All right.
13995. And what kinds of deliveries would those be? What kinds of transportation? What kind of contract?
13996. **MR. WHITMORE:** The deliveries to Sarnia?
13997. **MR. SCHULTZ:** Yes.
13998. **MR. WHITMORE:** They would be deliveries to Sarnia that would have come off of a Union CDA contract or a Consumers' CDA contract. They would have been diverted there.
13999. **MR. SCHULTZ:** Okay.
14000. So Sarnia is a CDA point?

14001. **MR. WHITMORE:** Sarnia is an SWDA point. They are diverting from a CDA to an SWDA.

14002. **MR. SCHULTZ:** I see, thank you.

14003. So this 370,000 also reflects diversions?

14004. **MR. WHITMORE:** It's basically all deliveries, diversions, injections.

14005. **MR. SCHULTZ:** And the question I was going to ask with respect to the short-haul volumes that are included in here was: Does the 370,862 gigajoules capture all of the short-haul volumes you have under contract from St. Clair to points east and from Dawn to points east?

14006. **MR. WHITMORE:** Yes.

14007. **MR. SCHULTZ:** Okay.

14008. We had an awful time trying to calculate that 370,000 from the information that's provided in the toll design schedule. Can you tell me if it's possible to actually calculate that 370,000 from the information provided in the toll design schedules?

14009. **MR. WHITMORE:** So the way it's determined is, we determine what the Union adjustment -- the Union transportation adjustment is. So that is the 743,066. That's on line 9 or 12.

14010. You take line 4, the Great Lakes route, at 1,253,162, less the St. Clair firm transportation, less the Sault Ste. Marie firm transportation, and the fallout is the 370,862.

14011. **MR. SCHULTZ:** All right.

14012. **MR. WHITMORE:** So in order to get the balance out, that's the amount of gas that has to be diverted or injected off an FT contract.

14013. **MR. SCHULTZ:** Thank you.

14014. Now, when you -- what I would like to do is come back to what you are doing with the short-hauls, and what you are saying with respect to the short-hauls is that it's appropriate, even though they may not be physically using Union transportation, to treat them as if they did, and therefore, that has the effect of reducing line 9, the Union transportation figure, by the amount of the short-haul, and the consequence of that is that line 8, the Southwestern delivery area, then, just bumps up automatically because it's a residual number.

14015. That was probably a lot in that question. Let's take the first half of the question. The first half of the question was: You are saying it's appropriate to reflect the short-haul volumes in the calculation of the available Union transportation?

14016. **MR. WHITMORE:** Yes.

14017. And that's because that's the corridor that gas would have to flow if they could not find a matching nomination in order to flow it over the north.

14018. **MR. SCHULTZ:** And the -- the gas is deemed to flow that way, although, in fact, it was clear from the cross-examination yesterday that to make short-haul deliveries, TransCanada is using its northern line. This is a toll design assumption?

14019. **MR. FELDMAN:** Again, at the margin. Keep that in mind.

14020. **MR. SCHULTZ:** Thank you.

14021. **MR. WHITMORE:** So in the current -- in the rate design in aggregate, we don't know if the short-hauls are going through the north or going through the Dawn/Parkway corridor.

14022. **MR. SCHULTZ:** Thank you.

14023. We are going to be circling around this a couple of times in different ways, so we will probably, hopefully, understand it all by the time we're done.

14024. The second point that was buried in my question was that you reflect the short-haul volumes by reducing line 9, the Union transportation, and then the consequence of reducing line 9 is that line 8 will, other things be equal, increase by that amount?

14025. **MR. WHITMORE:** Actually, what we do is reduce lines 9 and 11.

14026. **MR. SCHULTZ:** And we noted that and I do have a question about that later on.

14027. **MR. WHITMORE:** So what we do on line 11 is that we take the M-12 utilization less the short-haul contracts, and that would drive out the 661,921, which results in the 743.

14028. **MR. SCHULTZ:** Okay.

14029. What that ripples back -- that ripples back into line 9; is that right?

14030. **MR. WHITMORE:** Yes.

14031. **MR. SCHULTZ:** Okay.

14032. And after you have reflected it in line 9, the fallout is that line 8 gets adjusted by whatever that amount would have been?

14033. **MR. WHITMORE:** That's correct.

14034. **MR. SCHULTZ:** Okay.

14035. And that's, then -- if we go back to 62(c), we see where the -- we see that the 630,000 gigajoules has been reflected in -- gets translated through these calculations and becomes a fallout in line 8 with higher Southwestern delivery area units; right?

14036. **MR. WHITMORE:** That's correct.

14037. **MR. SCHULTZ:** Okay.

14038. Now, I think I had my Kirkwall question someplace else, but I am going to pick it up now because I think we are probably looking at -- probably looking at what I need, and if not, then we'll do -- I may run the risk of having to retread a little bit, but let's see if we can get it out of the way now.

14039. **MR. WHITMORE:** Can you just give me one second?

14040. **MR. SCHULTZ:** Yes.

--- (A short pause/Courte pause)

14041. **MR. WHITMORE:** Okay.

14042. **MR. SCHULTZ:** Now, we see that -- if we compare Schedule 1.4 with CAPP 62(c) page 17 again, still looking at the same Great Lakes/Union adjustment, and we see in Schedule 1.4 from the Application -- this is now the Application case with zero Southwest Zone volumes -- we see that the Parkway units are 81,145 gigajoules in the fixed allocation unit column and Kirkwall is 661,921 gigajoules.

14043. Are you with me there?

14044. **MR. WHITMORE:** On CAPP 62(c), do you say 31 --

14045. **MR. SCHULTZ:** Schedule 1.4. Sorry. Schedule 1.4 of the Application.

14046. **MR. WHITMORE:** Okay, so I am with you. 661,921?

14047. **MR. SCHULTZ:** Okay.

14048. And then that totals the Union transportation figure of 743,066 gigajoules; right?

14049. **MR. WHITMORE:** Correct?

14050. **MR. SCHULTZ:** Okay.

14051. Then that becomes the amount of Union transportation that's available for crediting to eligible volumes?

14052. **MR. WHITMORE:** Yes.

14053. **MR. SCHULTZ:** Okay.

14054. Now, if we look at the Case 62(c), what we did was, we still had the zero volume into the Southwestern Zone, but we decided we would have, for hypothetical purposes, 630,000 incremental short-haul from Dawn to the Consumers' CDA.

14055. We see that this has been picked up, as you told us a minute ago, in line 11, the Kirkwall amount has dropped by 630,000 gigajoules; right?

14056. **MR. WHITMORE:** Correct.

14057. **MR. SCHULTZ:** Okay.

14058. And it's now 31,921 gigajoules instead of the 661,921; right?

14059. **MR. WHITMORE:** Correct.

14060. **MR. SCHULTZ:** Okay.

14061. But the Parkway in line 10, the units there remain the same in both cases?

14062. **MR. WHITMORE:** That's correct.

14063. **MR. SCHULTZ:** Okay.

14064. Now, can you explain to me, when we are talking about a transportation from Dawn to the Consumers' CDA, what it is that leads to this amount coming out of the Kirkwall line 11 units?

14065. **MR. WHITMORE:** Whenever we have new short-hauls, we historically have taken them out of the Kirkwall line, and that's in order to leave allocation units that go from Dawn to Parkway, otherwise the Dawn to Parkway corridor and credits associated with that would be zero.

14066. **MR. SCHULTZ:** Okay.

14067. And why -- is that a good or a bad thing?

14068. **MR. WHITMORE:** It just illustrates that gas does move between Dawn and Parkway for long-haul contracts, and therefore, the downstream markets should get credits.

14069. **MR. SCHULTZ:** Isn't gas moving from Dawn to Kirkwall to downstream markets?

14070. **MR. WHITMORE:** Just Niagara and Chippawa. I was referring to the eastern markets such as Cornwall or the EDAs.

14071. **MR. SCHULTZ:** But I am trying to understand -- so what you are making was somewhere -- somewhere somebody decided to make a judgment that this kind of thing would be reflected in Kirkwall and not Parkway?

14072. **MR. WHITMORE:** Correct.

14073. **MR. SCHULTZ:** And the only reason -- and the reason you have given us is to preserve the available allocation of the credit at Parkway?

14074. **MR. WHITMORE:** Correct.

14075. **MR. SCHULTZ:** Okay.

14076. Given that the Union transportation adjustment that is available for credit is line 12, and it's simply the sum of Parkway and Kirkwall, I am having trouble connecting the dots between your rationale and what it does to line 12.

14077. I mean, you take the entire amount of line 12 and allocate it to all of these points, even though they may have nothing to do with Parkway or Kirkwall; right?

14078. **MR. WHITMORE:** So the effect that it does have is it changes the gigajoule kilometres, because the Parkway credit is 156 kilometres, whereas the Kirkwall is 233 kilometres.

14079. **MR. SCHULTZ:** Okay.

14080. And by allocating it all to Kirkwall, the impact on the gigajoule kilometres is greater than it would be if you eliminated Parkway first and then applied it to Kirkwall? -- Just as a hypothetical.

14081. **MR. WHITMORE:** That's correct.

14082. **MR. SCHULTZ:** Okay.

14083. And you're telling us that that approach -- was that approach approved explicitly by the Board in any decision?

14084. Or is it just simply one of these: The Board's been approving our tolls for a long time, so they've approved this, as well?

14085. **MR. WHITMORE:** I don't think it was approved explicitly by the Board.

14086. **MR. SCHULTZ:** Okay, thank you.

14087. Hopefully we don't have to come back to that one when I discover where I've got that piece of paper buried with that question on it.

14088. I would like to talk now about another aspect of this, which is what you are doing also with Southwestern delivery area volumes. And the place we need to look for that will be CAPP 62(a) and the work papers, CAPP 54. And we'll start with 62(a). This was marked as Exhibit C-1-38 earlier this morning.

14089. CAPP 62(a), we can agree, is the case which -- CAPP 62(a), we can agree, is the case where the -- is essentially what I would call the status quo. It's where there is no Southwestern Zone, and it's the world we know today?

14090. **MR. WHITMORE:** That's correct.

14091. **MR. SCHULTZ:** Okay.

14092. And otherwise, it's the Application -- it's the 2003 test year volumes and all the rest of it; right?

14093. **MR. WHITMORE:** Yes.

14094. **MR. SCHULTZ:** Okay, thank you.

14095. And CAPP 54 are the work papers that support the Application case where we have

the Southwestern Zone but with zero volume; right?

14096. **MR. WHITMORE:** That's correct.

14097. **MR. SCHULTZ:** Okay.

14098. So let's look at 62(a), page 22.

14099. What we have here is a work paper that shows the -- if I understand what I'm looking at, is a work paper that shows the calculation of the units that are not eligible for the Union adjustment?

14100. **MR. WHITMORE:** That's correct.

14101. **MR. SCHULTZ:** Okay.

14102. And we see in line 6 under the heading "Consumers - CDA" and "SWDA" in line 6 an amount that's attributed to Dawn of 108,390,036 gigajoules.

14103. Are you with me there?

14104. **MR. WHITMORE:** Yes.

14105. **MR. SCHULTZ:** Okay.

14106. And we see that that forms part of the total Consumers' CDA and SWDA that is not eligible for the adjustment, and that amount is 127,349,979.

14107. Are you with me there?

14108. **MR. WHITMORE:** Yes.

14109. **MR. SCHULTZ:** And have I represented what line 10 represents accurately; that it's the amount of Consumers' CDA and SWDA not eligible for the Union/Great Lakes adjustment?

14110. **MR. WHITMORE:** That's correct.

14111. **MR. SCHULTZ:** Okay, thank you.

14112. Now, if we look at CAPP 54 -- and these are the work papers supporting the Application -- page 3 -- and again, the -- we're talking about all the same volumes in the test year with the exception that now there's a Southwestern Zone with zero volume in it.

14113. And if we look under the heading "Consumers - CDA" at the top left box of the work papers, and we look for the reference for Dawn in the -- in the deduction, we don't see any deduction for Dawn; is that right?

14114. **MR. WHITMORE:** That's correct.

14115. **MR. SCHULTZ:** And we don't see the, on these work papers in CAPP 54, an amount of 108,390,036 gigajoules that was attributed to Dawn in the CAPP 62(a) scenario; right?

14116. **MR. WHITMORE:** That's correct, because Dawn is no longer a part of the CDA.

14117. **MR. SCHULTZ:** Okay.

14118. And we see now that the -- again, this is in CAPP 54. We're looking at a calculation of volumes not eligible for the Great Lakes/Union adjustment.

14119. We see that the amount of Consumers' CDA is now 18,959,943; right?

14120. **MR. WHITMORE:** Yes.

14121. **MR. SCHULTZ:** And the only difference between that total of non-eligible Consumers' CDA volumes in CAPP 54 and what is shown in CAPP 62(a) as non-eligible Consumers' CDA and SWDA is the Dawn amount we were just talking about; is that right?

14122. **MR. WHITMORE:** Yes.

14123. **MR. SCHULTZ:** Okay.

14124. So my question is: Where did -- where did that gas go to?

14125. **MR. WHITMORE:** So all these calculations are based on the base year and that gas was delivered to Dawn and is now part of the Southwest delivery area and would be part of the Southwest Zone.

14126. **MR. SCHULTZ:** Okay.

14127. **MR. WHITMORE:** So it won't be included in the Eastern Zone calculations.

14128. **MR. SCHULTZ:** But it's not shown in the calculation of the Southwestern Zone, either. It doesn't show up; right?

14129. **MR. WHITMORE:** It would show up if there was firm contracts to the Southwest Zone.

14130. **MR. SCHULTZ:** Okay.

14131. But unless there's firm contracts, it doesn't show up?

14132. **MR. WHITMORE:** Correct.

14133. **MR. SCHULTZ:** If there was a firm contract of 1 gigajoule to the Southwestern Zone, would that Dawn amount of 108 million show up?

14134. **MR. WHITMORE:** Show up in this table?

14135. **MR. SCHULTZ:** Show up in your toll design calculations.

14136. **MR. WHITMORE:** It would show up in Schedule 1.1, but it would not be included in any distance-credit mechanisms because it is a route through Great Lakes.

14137. **MR. SCHULTZ:** Let me try my question again.

14138. You said the 108 million gigajoules that's shown in Dawn in CAPP 62(a) is not showing up in the calculation of tolls for the -- for the Application case because there are no volumes to the Southwestern Zone, and the 108 million is based on the base year; right?

14139. **MR. WHITMORE:** This 108 that we're talking about, these are all base year numbers. What we're trying to determine is what percentage of the test year volumes would be eligible for credits.

14140. **MR. SCHULTZ:** Okay.

14141. But the methodology that you have in place today with the Eastern Zone looks at the base year to establish the basis for test year allocations; right?

14142. **MR. WHITMORE:** Yes. The methodology we have today is the Southwest delivery area and the CDA delivery areas are joined together.

14143. **MR. SCHULTZ:** Okay. And what you have --

14144. **MR. WHITMORE:** And we're separating them in this occurrence when we created the Southwest Zone.

14145. **MR. SCHULTZ:** Well, I guess the question I have is: If you have -- if you weren't

having a Southwestern Zone, you would have some amount of Eastern Zone deliveries into Dawn that would be reflected in toll design, and then --

14146. So logically, it would seem that if you have volumes that should be respected for toll design purposes in the status quo situation, somewhere they should be reflected when you create a new zone, but they're not, and I'm trying to understand that.

14147. **MR. WHITMORE:** So in the existing methodology, there's no contracts to the Southwest delivery area currently. So when we do the -- as we're going through the calculations to figure out what the distance credit percentages are, we use the base year numbers.

14148. When we move that into a test year, if there's no Southwest delivery contracts, then there'd be no distance reflection in the Eastern Zone load centre.

14149. **MR. SCHULTZ:** Well, we better back up, then, and look at CAPP 62(a). Is the amount of 127,349,979, as the total non-eligible Consumers' CDA and SWDA, not used in the calculation of the Great Lakes/Union adjustment in the CAPP 62(a) scenario?

14150. **MR. WHITMORE:** In the test year? No, we used the 40.91 percent number on line 12.

14151. **MR. SCHULTZ:** You used that percentage, but the percentage is driven off the relationship of lines 10 and 11; right?

14152. **MR. WHITMORE:** Yes.

14153. **MR. SCHULTZ:** Okay.

14154. So in the CAPP 62(a) scenario, the Dawn volumes drive the percentage eligible -- are one of the factors driving the percentage eligible for the Union/Great Lakes transportation adjustment, leading to a percentage of 40.91 percent; right?

14155. **MR. WHITMORE:** That's correct, because Dawn is part of the SWDA/CDA within the Eastern Zone.

14156. **MR. SCHULTZ:** Okay.

14157. And if we look at what you're doing when you have a Southwestern Zone in CAPP 54, instead of 40.91 percent not being eligible for the adjustment, we see in line 11 of CAPP 54 for the Consumers' CDA, 9.35 percent is now not eligible; right?

14158. **MR. WHITMORE:** That's correct.

14159. **MR. SCHULTZ:** Okay.

14160. And today you don't have any firm contracts into the Southwestern delivery area, but you're recognizing -- if you were not proposing a Southwestern Zone, you'd be recognizing the Dawn deliveries to establish your allocations.

14161. Now you're going to propose a Southwestern Zone, but you still have those Dawn deliveries in the base year, but now you're not recognizing them; right? We can at least agree on that.

14162. **MR. WHITMORE:** Yes.

14163. We're not recognizing them because we're separating the SWDA from the CDA.

14164. **MR. SCHULTZ:** And by not recognizing them, then the Eastern Zone Consumers' CDA non-eligible percentage drops from 40.91 percent to 9.35 percent; right?

14165. **MR. WHITMORE:** That's correct.

14166. **MR. SCHULTZ:** And just give it to me one more time: The rationale for doing this is simply you've created the zone and you don't know where to put these volumes?

14167. Is that an unfair characterization?

14168. **MR. WHITMORE:** So we've separated the SWDA from the CDA in order to create the Southwest Zone, and those volumes would be applied to the Southwestern Zone, not to the Eastern Zone.

14169. **MR. SCHULTZ:** All right, thank you.

14170. That's probably as much as we're going to be able to accomplish with that, in terms of my understanding, at least.

14171. Now, if we could look at -- hang on to these two documents, CAPP 54 and 62(a), and now look at CAPP 62(a), page 19.

14172. And again, CAPP 62(a) is what I would call the status quo situation with no Southwestern Zone. We see the calculation of the units eligible for the Great Lakes/Union adjustment and we see that the amount eligible in line 9 is 558 -- I'm looking in the "TEST YEAR" column, I should say.

14173. This is line 8, right-hand side, in the test year gigajoule "FIXED" allocation unit column -- an amount of 558,942 gigajoules; right?

14174. **MR. WHITMORE:** That's correct.

14175. **MR. SCHULTZ:** Okay.

14176. And that's -- is that determined from the various amounts that start with line 1, which has the unadjusted firm service for the Eastern Zone in line 1?

14177. **MR. WHITMORE:** That is correct.

14178. **MR. SCHULTZ:** Okay.

14179. With a deduction for units that are deemed to flow through the North Bay shortcut, line 2?

14180. **MR. WHITMORE:** Yes.

14181. **MR. SCHULTZ:** Okay.

14182. And then a deduction for the volumes deemed to flow through the Winchester shortcut in line 3; right?

14183. **MR. WHITMORE:** Yes.

14184. **MR. SCHULTZ:** All right.

14185. Then a deduction for the Union and CDA units; right?

14186. **MR. WHITMORE:** Yes.

14187. **MR. SCHULTZ:** Followed by, in line 5, the deduction for Consumers' CDA and SWDA of 223,594 gigajoules in the test year; right?

14188. **MR. WHITMORE:** That's correct.

14189. **MR. SCHULTZ:** Okay.

14190. And then some further subtractions in 6, 7 and 8, and that gives us our volume eligible in line 9 that I just mentioned; the 558,942?

14191. **MR. WHITMORE:** Correct.

14192. **MR. SCHULTZ:** Okay.

14193. Now, if we can just hang on to that and look at CAPP 54, page 1, and do a comparison, we see that in line 9 -- this, again, is the units eligible for the Great Lakes/Union adjustment Eastern Zone volumes. In line 9 we see the eligible amount in the test year fixed column is 743,424 gigajoules.

14194. Are you with me there?

14195. **MR. WHITMORE:** Yes.

14196. **MR. SCHULTZ:** And that's obviously increased -- and this is the case where we have a Southwestern Zone but no volume into it. That's increased from the status quo shown in 62(a) of 558,942; right?

14197. **MR. WHITMORE:** Correct.

14198. **MR. SCHULTZ:** Okay.

14199. And we see -- if we look along the various changes that have been made in the figures, we see that there is a change in line 2 to the amount of units with respect to the North Bay shortcut. And I am going to come back to that in a minute in a separate question.

14200. But then we see also a change with respect to the Winchester shortcut. The amount for the Union CDA is the same in both cases. We see for the Consumers' CDA and SWDA that the amount is -- in CAPP 62(a) is reduced to an amount in CAPP 54, line 5, of 51,103. Do you see that?

14201. **MR. WHITMORE:** Yes.

14202. **MR. SCHULTZ:** Okay.

14203. And is the -- and that reflects the smaller deduction for non-eligible Consumers' CDA volumes; right?

14204. **MR. WHITMORE:** Correct.

14205. **MR. SCHULTZ:** And that is the fallout of what we were just talking about with respect to the treatment of the Consumers' CDA and SWDA in the status quo as opposed to the Application case; right?

14206. **MR. WHITMORE:** Yes.

14207. **MR. SCHULTZ:** Okay.

14208. And then we see an amount for Union, in the status quo case, line 6, CAPP 62(a), of 47,795 gigajoules, that in the Application case, CAPP 54, line 6, is now zero; right?

14209. **MR. WHITMORE:** Correct.

14210. **MR. SCHULTZ:** Same logic as what we were talking about with the SWDA/CDA issue?

14211. **MR. WHITMORE:** Yes.

14212. When we create Southwest Zone, the Union CDA lines all become eligible for Great Lakes/Union credits.

14213. **MR. SCHULTZ:** In the status quo case, they get deducted before you get to the volume eligible; right?

14214. **MR. WHITMORE:** Some gets deducted, yes.

14215. **MR. SCHULTZ:** Yes. Well, the amount of 47,795. Okay.

14216. So this is showing us how it is that the Eastern Zone is getting more of the Great Lakes/Union credit with a Southwestern Zone that has zero deliveries than it would get under the status quo; right?

14217. **MR. WHITMORE:** Yes.

14218. But like I said, it doesn't depend on the creation of the Southwest Zone. If we were to just separate the SWDA from the CDA, then our existing rate design would be the same impact.

14219. **MR. SCHULTZ:** Why do you combine them in the first place?

14220. **MR. WHITMORE:** They were combined because of the FST contracts.

14221. **MR. SCHULTZ:** Okay.

14222. **MR. WHITMORE:** Because the FST contracts had two delivery points, Dawn and Parkway.

14223. **MR. SCHULTZ:** So if we go back to the era prior your combining the CDA and the SWDA where you treated the SWDA separately and work through that logic, you say that what CAPP 62(a) would show us would be, in the Eastern Zone calculation here of non-eligible

volumes, we would only have the CDA volumes, not the SWDA volumes; right?

14224. **MR. WHITMORE:** Can you say that again, please?

14225. **MR. SCHULTZ:** You said what you are showing -- what I heard you to say was what you are showing in CAPP 54 with respect to the treatment of the Consumers' CDA and the Union CDA would be the same today with an Eastern Zone and no Southwest Zone if you separated out the SWDA in your toll design calculations; right?

14226. **MR. WHITMORE:** That's correct.

14227. **MR. SCHULTZ:** Okay.

14228. So let's work through that logic. Let's look at what that would mean in CAPP 62(a). If we took out the Consumers' SWDA piece from line 5 of page 19, and we take out the Union amount of 47,795, and now we would say those don't come into this calculation of eligibility, where will I find those in the calculation of credits?

14229. Doesn't it have to show up in the SWDA amount that gets taken off in a different part of the calculation?

14230. **MR. WHITMORE:** So it would -- those volumes would go into just a SWDA delivery area, not combined with CDA. And because those distances are already through the Great Lakes route, they would not get any credits and not be included in the credit --

14231. **MR. SCHULTZ:** Okay.

14232. Now, where am I seeing those volumes, in the Application case, showing up? Shouldn't they be coming out above the line somewhere in the SWDA volumes, by the logic you have just given us?

14233. **MR. WHITMORE:** I don't understand your question.

14234. **MR. SCHULTZ:** My question was simply this: If you didn't have a Southwest Zone and if you kept the SWDA separate, then those -- then the volumes that are SWDA volumes would be showing up in that SWDA deduction we were talking about, it seems a long time ago now, but in the deduction from the Great Lakes transportation to get to the amount of Union transportation or to reconcile it with the Union transportation.

14235. And I am saying, if we applied that logic, then in the Application case they should be showing up there, and I don't think they are, are they?

14236. **MR. WHITMORE:** So I can't follow your logic. I don't know if you can restate

your question or --

14237. **MR. SCHULTZ:** All right.

14238. Let's go back to Schedule 1.4. This is the Application -- from the Application itself, and it's the document we marked as C-1-36 this morning, and we will look at Schedule 1.4, Sheet 2. There is an amount of -- in the deduction for the fixed allocation units, Southwest delivery area, line 8, we see that figure of 370,862 gigajoules that we talked about earlier; right?

14239. **MR. WHITMORE:** Correct.

14240. **MR. SCHULTZ:** Okay.

14241. Now, if we had -- if we were separating out the SWDA instead of combining it with the CDA today, instead of it -- instead of a deduction in 62(a) showing up in your calculation of Eastern Zone eligibility, which is a figure -- a calculation relevant to line 13 in Schedule 1.4; right? That's where the rubber is going to hit the road with the calculation of eligibility in line 13?

14242. **MR. WHITMORE:** Yep.

14243. **MR. SCHULTZ:** Okay.

14244. And if we just remind ourselves when we look back to CAPP 54, which I know is going to get us thoroughly confused, but that work paper, line 9, page 1 of CAPP 54, shows us the test year volume eligible for the Eastern Zone of 743,424, and that's the same 743,424 we see in column (e) in line 13 of toll design Schedule 1.4; right?

14245. **MR. WHITMORE:** Yes.

14246. **MR. SCHULTZ:** Okay.

14247. So -- and the 370,862 in line 8 of Schedule 1.4 for the Southwestern delivery area stays the same in these examples we have been looking at between 62(a) and the Application case; right?

14248. **MR. WHITMORE:** Can you give me those references again?

14249. **MR. SCHULTZ:** Okay.

14250. The Application, Schedule 1.4, line 8, fixed allocation units shows an amount of 370,862; right?

14251. **MR. WHITMORE:** Correct.

14252. **MR. SCHULTZ:** Okay.

14253. And if we look at CAPP 62(a) and find the same piece of it, which would be page 17 of CAPP 62(a), we see the Southwest delivery area in line 7 and we see the same amount of 370,862; right?

14254. **MR. WHITMORE:** Correct.

14255. **MR. SCHULTZ:** Okay.

14256. And we also see there, in CAPP 62(a), in line 12, the smaller amount of eligible volume of -- or eligible units, rather, under fixed allocation units in Column (e) of 558,942, which is the same figure we saw on page 19 of CAPP 62 in line 9, Column (e); right?

14257. **MR. WHITMORE:** Correct.

14258. **MR. SCHULTZ:** Okay.

14259. So what I am asking you is: If we imagine ourselves taking those SWDA units and treating them separately, even within the existing toll design, what should happen is that if we look at 62(a), is that we would see a change -- if we look at page 17 again -- we would see a change in line 12 of the -- in the 558,942 figure, that would have to change, and the Southwest delivery area amount of 370,862 should go up; right?

14260. One would go down and one would go up -- or sorry, both would go up. Line 12 would go up because more would be eligible in the Eastern Zone, but line 7 would also go up because now you are attributing more to the SWDA; right?

14261. **MR. WHITMORE:** No, because in a test year we have no contracts for the SWDA.

14262. **MR. SCHULTZ:** Well, then, why do you have this -- why are you calculating eligibilities based on base years that have SWDA units in them and then use that in your test year calculations, which is what you are doing?

14263. **MR. WHITMORE:** So we are trying to find a percentage of what is eligible or ineligible, and the only way that we can do that is on base year flows.

14264. **MR. SCHULTZ:** And historically the toll design has reflected base year flows as a proxy for the test year and as a way of capturing how the system is actually used and should be allocated to people for tolls; correct?

14265. **MR. WHITMORE:** Correct.

14266. But if in the test year you have no contracts, then the base year numbers become --

14267. **MR. SCHULTZ:** All right.

14268. So this is an aspect of your historical approach to toll design that -- where you have had to make a judgment call about what to do with those SWDA base year volumes; right?

14269. **MR. WHITMORE:** Yes.

14270. This occurs in any instance where we have base year contracts that go -- and then have base year actual flow in which the test year there is no contract, we have a non-renewal.

14271. So you have got base year numbers to do your prorations and determine what is eligible and what is ineligible, but nothing to apply it to in the test year.

14272. **MR. SCHULTZ:** Well, you are applying it when you give people this Great Lakes/Union transportation adjustment; right?

14273. **MR. WHITMORE:** You are using your base year number to determine what percentage of your test year volume should be eligible or ineligible.

14274. **MR. SCHULTZ:** Right.

14275. And that adjustment becomes a component of the volume/distance allocation that drives your toll design; right?

14276. **MR. WHITMORE:** Correct.

14277. **MR. SCHULTZ:** And you may not have any firm contract that would be affected by it, but once you have done that calculation, that's going to drive the toll in one scenario or another; right?

14278. **MR. WHITMORE:** It will drive the toll, but if you are looking at doing distance credits and trying to apply it to a location that you don't have a contract, it doesn't get applied.

14279. **MR. SCHULTZ:** Understood.

14280. Well, I think we have been around the bush. We probably have exhausted the --

14281. **THE CHAIRMAN:** Mr. Schultz, is this a convenient time for us to take our morning break?

14282. **MR. SCHULTZ:** Thank you, sir.

14283. **THE CHAIRMAN:** Thank you very much. We will reconvene in 20 minutes.

--- Upon recessing at 10:34/L'audience est suspendue à 10h34

--- Upon resuming at 10:54 a.m./L'audience est reprise à 10h54.

14284. **THE CHAIRMAN:** Mr. Schultz...?

14285. **MR. SCHULTZ:** Thank you, Mr. Chairman.

14286. Gentlemen, just looking at -- carrying on from what we were looking at a moment ago in CAPP 62(a) and then the work papers, CAPP 54, I had left a little place-keeper question there about something.

14287. So if you'd look at CAPP 62(a), page 19, and also CAPP 54, page 1, you'll -- we noted in the -- this calculation of the allocation units eligible for the Union adjustment in the CAPP 62(a) scenario, which is the status quo scenario, and the CAPP 54, which is the Application work papers, that there was a change with the creation of a Southwest Zone, even though there is zero volume going to it, in the amounts of units deducted in respect of the North Bay shortcut and the Winchester shortcut in lines 2 and 3 of CAPP 54 on Sheet 1.

14288. Do you recall that discussion?

14289. **MR. WHITMORE:** Yes.

14290. **MR. SCHULTZ:** Okay.

14291. Sorry, the -- I don't know if I said it the right way. In CAPP 62(a), the amount that's deducted in respect of the North Bay shortcut in Column (e), test year fixed gigajoules, is 578,722 versus the Application case of 607,996; right?

14292. **MR. WHITMORE:** Correct.

14293. **MR. SCHULTZ:** Okay.

14294. And then the Winchester shortcut in CAPP 62(a) is 129,100. Do you see that in line 3, test year fixed, Column (e)?

14295. **MR. WHITMORE:** Did you say 129,100?

14296. **MR. SCHULTZ:** Yes, 129,100.

14297. **MR. WHITMORE:** Okay.

14298. **MR. SCHULTZ:** And then the comparable figure in the -- for line 3, Winchester shortcut in CAPP 54, is 135,630; right?

14299. **MR. WHITMORE:** Yes.

14300. **MR. SCHULTZ:** Okay.

14301. Can you explain to me why those figures would change as between the status quo case and the Application case?

14302. **MR. WHITMORE:** The amount of eligible volumes in the Consumers' CDA has increased, so it will attract greater North Bay and Winchester shortcut credits.

14303. **MR. SCHULTZ:** And that's a fallout of the mathematics of these adjustments, basically; is that right?

14304. **MR. WHITMORE:** It's a fallout of what is eligible or ineligible between Great Lakes and Winchester/North Bay regarding Consumers' CDA.

14305. **MR. SCHULTZ:** Okay.

14306. And I guess all I was saying was that these various adjustments reconcile to each other. So if you make a change in one, it carries through into other adjustments. Would that be right?

14307. **MR. WHITMORE:** Yes.

14308. **MR. SCHULTZ:** Okay, thank you.

14309. Now, in that vein, I would like to see what happens with the Great Lakes/Union adjustment in respect of the Thunder Bay bypass adjustment.

14310. And for that, I'd like to illustrate it with the CAPP 62(c) scenario. So we'll be looking at the toll design, Schedule 1.4, and CAPP 62(c).

14311. And I ought to say, just so the record's clear, CAPP has no toll design proposal in front of the Board. These questions are simply to understand what's going on and whether it's -- it does indeed meet what Mr. Feldman said in his Opening Statement about respecting existing methodologies.

14312. If we look at page 17 of CAPP 62(c), and line 12 -- we were talking about this earlier -- we see that the effect of adding 630,000 gigajoules of short-haul from Dawn to the Consumers' CDA into the mix in respect of the fixed-allocation unit, Column (f), is to reduce the Union transportation adjustment, and the amount that would be available for adjustment in the 62(c) scenario is 113,066 gigajoules; right?

14313. **MR. WHITMORE:** Yes.

14314. **MR. SCHULTZ:** Okay.

14315. And that is a -- we can turn it up if we need to, but that's a reduction from the 743,066 gigajoules that would be available under the Application case, Schedule 1.4?

14316. **MR. WHITMORE:** Yes.

14317. **MR. SCHULTZ:** Okay.

14318. The amount available for the adjustment in the CAPP 62(c) scenario for the Eastern Zone, line 13, is the 743,424 in Column (e)?

14319. **MR. WHITMORE:** Yes.

14320. **MR. SCHULTZ:** Okay.

14321. And that's the same figure as is found in the Application case, Schedule 1.4, agreed?

14322. We can look it up, if we need to. It is Schedule 1.4, Sheet 2, line 13, Column (e).

14323. **MR. WHITMORE:** Yes.

14324. **MR. SCHULTZ:** Okay, thank you.

14325. But because there is less available for crediting between the Application case and the CAPP 62(c) case, then if we look at Column (f), we see in respect of the line 13, the Eastern Zone, there is less credit given in the 62(c) case; right?

14326. **MR. WHITMORE:** That's correct.

14327. **MR. SCHULTZ:** Okay.

14328. And the -- from a toll design perspective then, less of the Eastern Zone volumes that would otherwise be eligible for Union/Great Lakes transportation, have been deemed to have

flowed via Great Lakes and Union on the CAPP 62(c) case than under the Application case; right?

14329. **MR. WHITMORE:** That's correct.

14330. And it's less for all the other points, as well.

14331. **MR. SCHULTZ:** Yes.

14332. And we see the same thing for Niagara Falls. We see that Niagara Falls, under 62(c), is getting a credit of 48,881 units in line 14 of Column (f) in 62(c).

14333. And then that's compared to the larger number we see in Schedule 1.4, line 14, Column (f); right?

14334. **MR. WHITMORE:** That's correct.

14335. **MR. SCHULTZ:** Okay.

14336. So if we just now then, with that background, look at the -- what happens with the Thunder Bay bypass. And if we look at CAPP 54 now -- I'm afraid we have to go to the work papers, page 6 of CAPP 54 -- we see that when we are coming to do the Thunder Bay bypass and calculating the units eligible for the Thunder Bay bypass, and if we focus on the right-hand Column (e), and we come down to where it's talking about the Eastern Zone, we see, in line 8 -- and again, CAPP 54 is the Application case that corresponds with Schedule 1.4 in this line, line 8.

14337. We see that the amount of 343,251, that is the amount of the credit given to the Eastern Zone for the Great Lakes/Union transportation adjustment in Schedule 1.4, now becomes a deduction in the Thunder Bay bypass; right?

14338. **MR. WHITMORE:** That's correct, because that gas has been deemed to go through the south, therefore, should not get Thunder Bay credits.

14339. **MR. SCHULTZ:** Okay.

14340. And that's to avoid double crediting?

14341. **MR. WHITMORE:** Correct.

14342. **MR. SCHULTZ:** Okay.

14343. And we also see, in CAPP 54, zero for the Southwestern delivery area, right, in

line 9?

14344. **MR. WHITMORE:** Correct.

14345. **MR. SCHULTZ:** Okay.

14346. And if we come down just to see what's happening with export points, for the fun of it, we see in line 12, Column (e), the amount of the credit given to the Empress/Niagara Falls units in respect of the Union transportation adjustment of 321,246, that is the figure that one would find in Schedule 1.4 in respect of the Great Lakes adjustment for Niagara Falls; right?

14347. **MR. WHITMORE:** Correct.

14348. **MR. SCHULTZ:** Okay.

14349. Now, if we look at CAPP 62(c), page 27 -- and we know from looking at page 17 earlier what the -- that there were smaller amounts for the Eastern Zone and Niagara Falls.

14350. But we see here -- if we look, Column (e) of page 27, line 9, we see the smaller amount of the Union transportation adjustment for the Eastern Zone leading to a smaller deduction here in the calculation of Thunder Bay bypass eligibility; right?

14351. We see the 52,230 in line 9?

14352. **MR. WHITMORE:** Correct.

14353. **MR. SCHULTZ:** Okay.

14354. And if we look down at line 13, we'll see the smaller amount for Niagara Falls of 48,881. That's line 13, Column (e); right?

14355. **MR. WHITMORE:** Correct.

14356. **MR. SCHULTZ:** Okay.

14357. And again, that's reconciling the Thunder Bay bypass to what was being done in the case of the Great Lakes/Union adjustment; right?

14358. **MR. WHITMORE:** Correct.

14359. **MR. SCHULTZ:** And the effect of this -- the effect of these smaller deductions is that more of the Eastern Zone volumes and more of the Niagara Falls volumes are deemed, for toll design purposes, to have flowed through the north under the CAPP 62(c) scenario; right?

14360. **MR. WHITMORE:** Yes.

14361. **MR. SCHULTZ:** Okay, thank you.

14362. What I would like to do now, then, is look at another situation. And this is the case where we have the Southwestern Zone and we have incremental long-haul into the zone -- into the new zone but no short-haul out.

14363. So this is the case of CAPP 62(b), and if we -- we'll be comparing that with the Application cases, as well, but for -- to start with, let's look at CAPP 62(b), page 2.

14364. You will see, if we look in -- under the "FIXED ALLOCATION UNITS", the test year, Column (j), and we look down to line 18, where we find the Southwest Zone in 62(b), we see the incremental 630,000 gigajoules.

14365. That's the assumption in this case; right?

14366. **MR. WHITMORE:** Yes.

14367. **MR. SCHULTZ:** Okay.

14368. And just so we're all clear, the Application case has got -- has got a zero in there; right?

14369. **MR. WHITMORE:** Correct.

14370. **MR. SCHULTZ:** Okay.

14371. Now, if we took -- if we take these first few pages of CAPP 62(b) and we take the Application, Schedule 1.1, and we -- and you'll find the -- we'll find on page 2 of Schedule 1.1 the reference to the Southwestern Zone and the zero amount that's there.

14372. But if we look at all the kilometre load centres associated with the fixed allocation units as well as the GJ kilometres for the test year, all of those allocation units, I believe, are the same in CAPP 62(b) as in the Application case, even though we now have an incremental 630 long-haul into the -- 630 terajoules long-haul into the Southwestern Zone; is that right?

14373. **MR. WHITMORE:** Yes.

14374. **MR. SCHULTZ:** How can that be?

14375. **MR. WHITMORE:** Can you ask the question again?

14376. **MR. SCHULTZ:** My question is driven off something we were talking about earlier, which is that for most of your delivery points in the east, the -- a change in delivery pattern or a change in level of deliveries has a daisy-chain effect on the load centres and nothing's changing as between the Application case and the CAPP 62(b) case where you've added 630 terajoules of gas into the Southwestern Zone.

14377. I'm just saying, intuitively, that can't be right.

--- (A short pause/Courte pause)

14378. **MR. WHITMORE:** So in scenario B, we are just including the 630 TJs from Empress to the Southwest Zone?

14379. **MR. SCHULTZ:** That's right.

14380. **MR. WHITMORE:** So that does not affect the Union -- or Great Lakes/Union transportation adjustments because there is no short-haul attached to that.

14381. **MR. SCHULTZ:** Okay.

14382. Let's go there, then, because we noticed something going on there, so let's take a look at where that takes us.

14383. So let's look at page 17 of CAPP 62(b). And if we look at -- so we are at page 17, CAPP 62(b), Column (f), "FIXED ALLOCATION UNITS", and we see, in line 7, a Southwestern Zone figure of 500,000 gigajoules. Do you see that?

14384. **MR. WHITMORE:** Yes.

14385. **MR. SCHULTZ:** My first question is: Why is it 500,000 and not 630,000?

14386. **MR. WHITMORE:** It should be 630,000.

14387. **MR. SCHULTZ:** It should be 630,000?

14388. **MR. WHITMORE:** Yes.

14389. **MR. SCHULTZ:** But that is not actually going to change anything, is it, because even the 500,000 is not deducted from the calculation even though it's shown as a deduction, is it?

14390. **MR. WHITMORE:** That's correct, because those numbers are supposed to be

followed from the calculation on lines 10, 11 and 12.

14391. **MR. SCHULTZ:** All right.

14392. So what we have now is we have a calculation in 10, 11 and 12 that comes to the amount of 743,066 gigajoules; right?

14393. **MR. WHITMORE:** Yes.

14394. **MR. SCHULTZ:** And that is the same figure we see in the Application case where we have no Southwestern Zone volumes; right?

14395. **MR. WHITMORE:** That's correct.

14396. **MR. SCHULTZ:** Okay.

14397. And now that becomes the input to line 9; right?

14398. **MR. WHITMORE:** That's correct.

14399. **MR. SCHULTZ:** So you then have these deductions that are supposed to reconcile with 9, so to make the reconciliation, you show a deduction of 500,000, which you have now corrected to 630,000, but because it doesn't reconcile, you just ignore it.

14400. Is that what you have done here?

14401. **MR. WHITMORE:** No, it would be an error on our part.

14402. **MR. SCHULTZ:** I'm sorry?

14403. **MR. WHITMORE:** It would be an error on our part. We just don't ignore it.

14404. **MR. SCHULTZ:** Why is it there if it doesn't reconcile to anything?

--- (A short pause/Courte pause)

14405. **MR. WHITMORE:** So when we determine the Union transportation adjustments, we solely focus on the utilization of the M-12 contract and then we reduce any short-hauls from that. Then we backtrack to determine what flow -- we try and reconcile what flow has hit the Union transportation in line 9 from the flow that we see on Great Lakes.

14406. **MR. SCHULTZ:** When -- I'm sorry, I didn't mean to interrupt you. Go ahead.

14407. **MR. WHITMORE:** So what would happen is the Great Lakes flow remains the same, the Union transportation remains the same between -- line 8 would have to be readjusted because it's the one that is the fallout. So what would happen is we would have to deem that there is less gas going along the Great Lakes route to reconcile this.

14408. **MR. SCHULTZ:** When we were talking earlier about what this -- where this deduction or this credit arrangement originated, it was in respect of long-haul deliveries into the east via the shorter Great Lakes route; right?

14409. **MR. WHITMORE:** But it's measured by how much M-12 utilization we have. So if we have -- if we have -- running our Great Lakes at full contract level, but not running our M-12 at full contract level, it would use the lower M-12 contract level because that is the gas that is getting through to the eastern points.

14410. **MR. SCHULTZ:** The distance credit is based -- the distance -- the distance saving that is reflected in lines 10 and 11, the distance saving to Parkway of 156.59 kilometres and the distance saving to Kirkwall of 233.01 kilometres, is calculated by the difference between the southern route, which is the long-haul southern route via Great Lakes, and the historic route; right?

14411. **MR. WHITMORE:** That's correct.

14412. But it's all restricted on the amount of utilization we have on the M-12 contract.

14413. **MR. SCHULTZ:** And here we have an incremental 630,000 gigajoules of long-haul deliveries to the Southwestern Zone; right?

14414. **MR. WHITMORE:** Correct.

14415. **MR. SCHULTZ:** And by your evidence, the only way that I can get there is through Great Lakes; right?

14416. **MR. WHITMORE:** Correct.

14417. **MR. SCHULTZ:** And yet it's not being reflected as having consumed any of that Great Lakes route figure in line 4 of 1,253,162 because it's not being deducted; right?

14418. **MR. WHITMORE:** Correct.

14419. **MR. SCHULTZ:** And the reason for that is, you are saying, because what you do is you really just focus on how much Union transportation is going to be available to you. Why don't we forget about Great Lakes altogether then?

14420. **MR. WHITMORE:** So when we include the 630 TJs of incremental load from Empress to the Southwest Zone, that would flow through the south, but it would push gas up to the north, because we don't have the contract on Great Lakes to flow the additional 630 TJs.

14421. **MR. SCHULTZ:** Is there anything else you want to say about this?

14422. **MR. WHITMORE:** No.

14423. **MR. SCHULTZ:** All right, thank you.

14424. Now, I would like to just note line 13 of page 17 of CAPP 62(b), and note the credit that's been -- that, in this scenario, is given to the Eastern Zone from transportation of 343,251 gigajoules.

14425. Are you with me there?

14426. **MR. WHITMORE:** Yes.

14427. **MR. SCHULTZ:** Okay.

14428. And that is the same credit that we saw in the Application case in Schedule 1.4? We can look that up, if we need to.

14429. **MR. WHITMORE:** Yes.

14430. **MR. SCHULTZ:** Okay.

14431. Now, could we just look and see what happens in CAPP 64(b) when we get to the Thunder Bay bypass; if you look at page 27.

14432. What we see, then, is that same -- if we look now at page 27 of CAPP 62(b), Column (e) under the "TEST YEAR FIXED", line 9, we see the deduction for the Union transportation adjustment in the calculation of the Thunder Bay bypass eligibility and we see that that 343,251 has been deducted; right?

14433. **MR. WHITMORE:** Correct.

14434. **MR. SCHULTZ:** Okay.

14435. And the size of that adjustment, as we were discussing previously with respect to other scenarios, reflects a toll design assumption that that 343,251 units is deemed to flow through Great Lakes/Union for toll design purposes?

14436. **MR. WHITMORE:** You said the 343,251 was through Great Lakes for toll design purposes?

14437. **MR. SCHULTZ:** Yes, by deducting it here, the toll design assumption is that it's gone through Great Lakes/Union.

14438. **MR. WHITMORE:** Okay.

14439. **MR. SCHULTZ:** And you are saying "yes"?

14440. **MR. WHITMORE:** Yes.

14441. **MR. SCHULTZ:** Okay, thank you.

14442. And can you agree with me that that is the same amount deducted in the Thunder Bay bypass adjustment for the Application case?

14443. **MR. WHITMORE:** Yes.

14444. **MR. SCHULTZ:** Okay, thank you.

14445. Now, I would like to talk to the status quo again -- this is CAPP 62(a) -- and compare that with the Application case, so we will be looking at CAPP 54.

14446. And I would like to look at CAPP 62(a), page 33, and I would like to compare this page -- we are going to need to get CAPP 54 out for this -- CAPP 54, page 9.

14447. If we look -- and just so we are clear again, CAPP 54 are the work papers supporting the Application case and CAPP 62(a) is the status quo case -- and we look at -- in CAPP 62(a), page 33, line 3, we see, for the Consumers' CDA, units that are eligible for the North Bay shortcut credit, and we see various figures in Columns (b), (c), (d) and (e) in respect of variable, fixed, base year and test year units; right?

14448. **MR. WHITMORE:** Which schedule are you on? Sorry.

14449. **MR. SCHULTZ:** I am on CAPP 62(a), page 33.

14450. **MR. WHITMORE:** Okay.

14451. **MR. SCHULTZ:** I am looking at line 3, Consumers' - CDA. These are the units eligible for North Bay shortcut; right?

14452. **MR. WHITMORE:** Yes.

14453. **MR. WHITMORE:** So in scenario B, we are just including the 630 TJs from Empress to the Southwest Zone?

14454. **MR. SCHULTZ:** That's right.

14455. **MR. WHITMORE:** So that does not affect the Union -- or Great Lakes/Union transportation adjustments because there is no short-haul attached to that.

14456. **MR. SCHULTZ:** Okay.

14457. Let's go there, then, because we noticed something going on there, so let's take a look at where that takes us.

14458. So let's look at page 17 of CAPP 62(b). And if we look at -- so we are at page 17, CAPP 62(b), Column (f), "FIXED ALLOCATION UNITS", and we see, in line 7, a Southwestern Zone figure of 500,000 gigajoules. Do you see that?

14459. **MR. WHITMORE:** Yes.

14460. **MR. SCHULTZ:** My first question is: Why is it 500,000 and not 630,000?

14461. **MR. WHITMORE:** It should be 630,000.

14462. **MR. SCHULTZ:** It should be 630,000?

14463. **MR. WHITMORE:** Yes.

14464. **MR. SCHULTZ:** But that is not actually going to change anything, is it, because even the 500,000 is not deducted from the calculation even though it's shown as a deduction, is it?

14465. **MR. WHITMORE:** That's correct, because those numbers are supposed to be followed from the calculation on lines 10, 11 and 12.

14466. **MR. SCHULTZ:** All right.

14467. So what we have now is we have a calculation in 10, 11 and 12 that comes to the amount of 743,066 gigajoules; right?

14468. **MR. WHITMORE:** Yes.

14469. **MR. SCHULTZ:** And that is the same figure we see in the Application case where

we have no Southwestern Zone volumes; right?

14470. **MR. WHITMORE:** That's correct.

14471. **MR. SCHULTZ:** Okay.

14472. And now that becomes the input to line 9; right?

14473. **MR. WHITMORE:** That's correct.

14474. **MR. SCHULTZ:** So you then have these deductions that are supposed to reconcile with 9, so to make the reconciliation, you show a deduction of 500,000, which you have now corrected to 630,000, but because it doesn't reconcile, you just ignore it.

14475. Is that what you have done here?

14476. **MR. WHITMORE:** No, it would be an error on our part.

14477. **MR. SCHULTZ:** I'm sorry?

14478. **MR. WHITMORE:** It would be an error on our part. We just don't ignore it.

14479. **MR. SCHULTZ:** Why is it there if it doesn't reconcile to anything?

--- (A short pause/Courte pause)

14480. **MR. WHITMORE:** So when we determine the Union transportation adjustments, we solely focus on the utilization of the M-12 contract and then we reduce any short-hauls from that. Then we backtrack to determine what flow -- we try and reconcile what flow has hit the Union transportation in line 9 from the flow that we see on Great Lakes.

14481. **MR. SCHULTZ:** When -- I'm sorry, I didn't mean to interrupt you. Go ahead.

14482. **MR. WHITMORE:** So what would happen is the Great Lakes flow remains the same, the Union transportation remains the same between -- line 8 would have to be readjusted because it's the one that is the fallout. So what would happen is we would have to deem that there is less gas going along the Great Lakes route to reconcile this.

14483. **MR. SCHULTZ:** When we were talking earlier about what this -- where this deduction or this credit arrangement originated, it was in respect of long-haul deliveries into the east via the shorter Great Lakes route; right?

14484. **MR. WHITMORE:** But it's measured by how much M-12 utilization we have. So

if we have -- if we have -- running our Great Lakes at full contract level, but not running our M-12 at full contract level, it would use the lower M-12 contract level because that is the gas that is getting through to the eastern points.

14485. **MR. SCHULTZ:** The distance credit is based -- the distance -- the distance saving that is reflected in lines 10 and 11, the distance saving to Parkway of 156.59 kilometres and the distance saving to Kirkwall of 233.01 kilometres, is calculated by the difference between the southern route, which is the long-haul southern route via Great Lakes, and the historic route; right?

14486. **MR. WHITMORE:** That's correct.

14487. But it's all restricted on the amount of utilization we have on the M-12 contract.

14488. **MR. SCHULTZ:** And here we have an incremental 630,000 gigajoules of long-haul deliveries to the Southwestern Zone; right?

14489. **MR. WHITMORE:** Correct.

14490. **MR. SCHULTZ:** And by your evidence, the only way that I can get there is through Great Lakes; right?

14491. **MR. WHITMORE:** Correct.

14492. **MR. SCHULTZ:** And yet it's not being reflected as having consumed any of that Great Lakes route figure in line 4 of 1,253,162 because it's not being deducted; right?

14493. **MR. WHITMORE:** Correct.

14494. **MR. SCHULTZ:** And the reason for that is, you are saying, because what you do is you really just focus on how much Union transportation is going to be available to you. Why don't we forget about Great Lakes altogether then?

14495. **MR. WHITMORE:** So when we include the 630 TJs of incremental load from Empress to the Southwest Zone, that would flow through the south, but it would push gas up to the north, because we don't have the contract on Great Lakes to flow the additional 630 TJs.

14496. **MR. SCHULTZ:** Is there anything else you want to say about this?

14497. **MR. WHITMORE:** No.

14498. **MR. SCHULTZ:** All right, thank you.

14499. Now, I would like to just note line 13 of page 17 of CAPP 62(b), and note the credit that's been -- that, in this scenario, is given to the Eastern Zone from transportation of 343,251 gigajoules.

14500. Are you with me there?

14501. **MR. WHITMORE:** Yes.

14502. **MR. SCHULTZ:** Okay.

14503. And that is the same credit that we saw in the Application case in Schedule 1.4? We can look that up, if we need to.

14504. **MR. WHITMORE:** Yes.

14505. **MR. SCHULTZ:** Okay.

14506. Now, could we just look and see what happens in CAPP 64(b) when we get to the Thunder Bay bypass; if you look at page 27.

14507. What we see, then, is that same -- if we look now at page 27 of CAPP 62(b), Column (e) under the "TEST YEAR FIXED", line 9, we see the deduction for the Union transportation adjustment in the calculation of the Thunder Bay bypass eligibility and we see that that 343,251 has been deducted; right?

14508. **MR. WHITMORE:** Correct.

14509. **MR. SCHULTZ:** Okay.

14510. And the size of that adjustment, as we were discussing previously with respect to other scenarios, reflects a toll design assumption that that 343,251 units is deemed to flow through Great Lakes/Union for toll design purposes?

14511. **MR. WHITMORE:** You said the 343,251 was through Great Lakes for toll design purposes?

14512. **MR. SCHULTZ:** Yes, by deducting it here, the toll design assumption is that it's gone through Great Lakes/Union.

14513. **MR. WHITMORE:** Okay.

14514. **MR. SCHULTZ:** And you are saying "yes"?

14515. **MR. WHITMORE:** Yes.

14516. **MR. SCHULTZ:** Okay, thank you.

14517. And can you agree with me that that is the same amount deducted in the Thunder Bay bypass adjustment for the Application case?

14518. **MR. WHITMORE:** Yes.

14519. **MR. SCHULTZ:** Okay, thank you.

14520. Now, I would like to talk to the status quo again -- this is CAPP 62(a) -- and compare that with the Application case, so we will be looking at CAPP 54.

14521. And I would like to look at CAPP 62(a), page 33, and I would like to compare this page -- we are going to need to get CAPP 54 out for this -- CAPP 54, page 9.

14522. If we look -- and just so we are clear again, CAPP 54 are the work papers supporting the Application case and CAPP 62(a) is the status quo case -- and we look at -- in CAPP 62(a), page 33, line 3, we see, for the Consumers' CDA, units that are eligible for the North Bay shortcut credit, and we see various figures in Columns (b), (c), (d) and (e) in respect of variable, fixed, base year and test year units; right?

14523. **MR. WHITMORE:** Which schedule are you on? Sorry.

14524. **MR. SCHULTZ:** I am on CAPP 62(a), page 33.

14525. **MR. WHITMORE:** Okay.

14526. **MR. SCHULTZ:** I am looking at line 3, Consumers' - CDA. These are the units eligible for North Bay shortcut; right?

14527. **MR. WHITMORE:** Yes.

14528. **MR. SCHULTZ:** Okay.

14529. And we see for the base year and the test year various volumes under both the "VARIABLE" and "FIXED" columns; right?

14530. I won't read all those numbers into the record. Are you with me there; Columns (b), (c), (d) and (e)?

14531. **MR. WHITMORE:** Yes.

14532. **MR. SCHULTZ:** Okay.

14533. And I want to now compare the same columns in the work papers supporting the Applications. So that's CAPP 54, page 9. It's the work papers at the bottom of the page, "ALLOCATION UNITS ELIGIBLE FOR THE NORTH BAY SHORTCUT EASTERN ZONE FIRM SERVICE".

14534. And we see line 3, "Consumers - CDA", and we see a bunch of figures for both the base year and the test year for the variable and the fixed, and they -- every one of them is different from 62(a).

14535. Do you see that?

14536. **MR. WHITMORE:** Yes.

14537. **MR. SCHULTZ:** Okay.

14538. Can you explain why that is?

14539. **MR. WHITMORE:** When we separate the SWDA from the CDA, the CDA then becomes -- has -- sorry, the CDA lines become eligible for North Bay -- or a greater percentage of them become eligible for North Bay credits.

14540. **MR. SCHULTZ:** And that, again, is the -- is the fallout from what we were talking about earlier in respect of the change between the SWDA and the CDA; right?

14541. **MR. WHITMORE:** When we removed the SWDA from the CDA, that's the change.

14542. **MR. SCHULTZ:** All right.

14543. And because of the way your adjustments reconciled to each other, mathematically they -- the effect ripples through?

14544. **MR. WHITMORE:** Yes.

14545. **MR. SCHULTZ:** Okay, thank you.

14546. What I would like to do is, when we look at 62(a), page 33, and then look at page 34, which is a supporting calculation, if I understand it, and then we do the same thing with CAPP 54 -- so we're looking at page -- I'm getting confused here somewhere -- Sheet 10 of CAPP 54.

14547. So we're going to be comparing essentially four different pages here. But we see -- if we look at CAPP 62(a), page 34, line 14, we see a total amount for the Consumers' CDA of 48,002,616 gigajoules for the base year; right?

14548. **MR. WHITMORE:** Correct.

14549. **MR. SCHULTZ:** Okay.

14550. And then, if we look at the Application case in CAPP 54, page 10, and we look down to line 16 there, we see the same amount of Consumers' CDA, 48,002,616 gigajoules; right?

14551. **MR. WHITMORE:** Correct.

14552. **MR. SCHULTZ:** Okay.

14553. But if we looked at the next line in each case, in the case of CAPP 62(a), page 34, line 15, we see a total customer figure of over 311 million gigajoules, and then if we look over at CAPP 54, Sheet 10, line 17, we see a total customer figure of a smaller amount of over 202 million gigajoules.

14554. Do you see that?

14555. **MR. WHITMORE:** Yes.

14556. **MR. SCHULTZ:** Why is the total customer figure different in these two schedules for the base year?

14557. **MR. WHITMORE:** In our -- so in CAPP 22 -- or 62(a), we're assuming this existing system. So the Consumers' CDA is also the combination of CDA and SWDA. So the entire flow to the two -- sorry, to the two delivery areas.

14558. And when we move to the Southwest Zone case, the \$200 million number is just the CDA volumes.

14559. **MR. SCHULTZ:** Okay.

14560. So this is -- so the disappearing SWDA volumes in the Application case now ripple through here where we see a lower total customer amount for the Consumers' CDA in CAPP 54, Sheet 10; right?

14561. **MR. WHITMORE:** Yes.

14562. **MR. SCHULTZ:** Okay.

14563. And the result of that is that when we look at the percentage eligible on Sheet 10 of CAPP 54, we see a percentage eligible for the North Bay shortcut adjustment of 23.66; right?

14564. **MR. WHITMORE:** Yes.

14565. **MR. SCHULTZ:** All right.

14566. And as compared to the status quo percentage eligible shown on CAPP 62(a), page 34, line 16 of 15.42 percent; right?

14567. **MR. WHITMORE:** That's correct.

14568. **MR. SCHULTZ:** Okay.

14569. So the effect of this issue around the SWDA leads to an increase in North Bay shortcut credits for the Eastern Zone; right?

14570. **MR. WHITMORE:** Yes.

14571. It leads to an increase in the Great Lakes/Union credits, as well as an increase to the North Bay credits.

14572. **MR. SCHULTZ:** Okay, thank you.

14573. So if we just pursue the logic here a little bit, if we look at CAPP 62(a), and just to pick up on what you've already -- I think you've told us for what I need for this next one here. We'll see if we can skip a step.

14574. If we look now at what happens with the Thunder Bay bypass and we look at CAPP 62(a), page 27, and we compare that with CAPP 54, page 6, and we look again at the Eastern Zone, so if we look at the Application case --

14575. Oh, no, let's look at the status quo case, 62(a). I'm looking at the right-hand column, Column (e), test year fixed, and I'm looking at the Eastern Zone.

14576. So I'm looking for the deductions that are made from the Eastern Zone firm units to determine eligibility for North Bay -- sorry, for the Thunder Bay bypass. And we see in line 8 a deduction for the Union transportation amount of 291,486.

14577. Are you with me there?

14578. **MR. WHITMORE:** Yes.

14579. **MR. SCHULTZ:** Okay.

14580. And then we see the deduction for the Southwest delivery area amount in line 9 of 370,862; right?

14581. **MR. WHITMORE:** Yes.

14582. **MR. SCHULTZ:** Okay.

14583. And that leads, then, to the volume eligible for the Thunder Bay bypass in respect of the Eastern Zone; right?

14584. **MR. WHITMORE:** Correct.

14585. **MR. SCHULTZ:** Okay.

14586. And if we compare that to the Application case, CAPP 54, right-hand column, test year fixed, Column (e), we see here, then, what you were telling us about earlier, which is the Southwest delivery area is zero, as a deduction, because it was -- and we talked about that earlier; right?

14587. **MR. WHITMORE:** Yes.

14588. **MR. SCHULTZ:** Okay.

14589. And then we see that the Union transportation adjustment is the larger amount of three -- the credit there is 343,251 gigajoules; right?

14590. **MR. WHITMORE:** Yes.

14591. **MR. SCHULTZ:** Okay.

14592. And that reflects what you told us a moment ago, when we were looking at the North Bay shortcut, that with the zone and the way you treat it, the Eastern Zone gets more of the Union transportation adjustment; right?

14593. **MR. WHITMORE:** Yes.

14594. **MR. SCHULTZ:** Okay.

14595. But at the same time when we compare CAPP 54 to CAPP 62 (a), we see that the amount eligible for the Eastern Zone in the Application case, CAPP 54, is a larger eligible

volume of 1,443,616 gigajoules compared to 1,124,519 gigajoules in the status quo case; right?

14596. **MR. WHITMORE:** Correct.

14597. **MR. SCHULTZ:** So under the Application case, the Eastern Zone has greater eligibility for the Thunder Bay bypass adjustment; right?

14598. **MR. WHITMORE:** Yes.

14599. **MR. SCHULTZ:** And mathematically what that leads to, when you prorate, is under the Application case, the Eastern Zone then gets a larger share of the Thunder Bay bypass than it does in the status quo case; right?

14600. **MR. WHITMORE:** Yes.

14601. **MR. SCHULTZ:** Okay.

14602. So what you have in the Application case is the Eastern Zone, by the way you are doing this, getting more of the Great Lakes adjustment, more of the Thunder Bay bypass adjustment, and more of the North Bay shortcut adjustment; right?

14603. **MR. WHITMORE:** That's correct.

14604. **MR. SCHULTZ:** Okay.

14605. So the effect of that is that, even though we're talking about the same amount of Eastern Zone gas in both the status quo case and the Application case, your toll design, as you would apply it, has the Eastern Zone being deemed to flow more through Great Lakes and, at the same time, more through the north?

14606. **MR. WHITMORE:** That's correct, because when we look at the unadjusted distances, the load centres for the CDA combined SWDA changes in the two scenarios. So they'll start off -- in the existing rate design, the unadjusted CDA/SWDA load centre will be lower and they receive lower credits.

14607. In the Southwest Zone scenario, the unadjusted load centre for just the CDA will be higher because it does not reflect the deliveries into Sarnia and Dawn, and they'll receive the credits -- greater credits.

14608. **MR. SCHULTZ:** But I just want to be perfectly clear. The fallout of what your application of this toll design would do is that it would, at the very same time, deem more of the Eastern Zone volumes to have gone through Great Lakes and more of them to have gone through the Northern route at exactly the same time as compared with the status quo; right?

14609. **MR. WHITMORE:** Restate your question, please.

14610. **MR. SCHULTZ:** Well, we talked about how under the Application case, the Eastern Zone getting more of the Great Lakes/Union adjustment meant that for toll design purposes, more Eastern Zone gas was deemed to move through the Great Lakes/Union route than under the status quo case; right?

14611. **MR. WHITMORE:** Right.

14612. **MR. SCHULTZ:** Okay.

14613. We also have seen now that the implication of what is being done in respect of the Great Lakes/Union adjustment, when you reconcile it through the mathematics of the other adjustments, is that the Eastern Zone, under the Application case, now gets more of the Thunder Bay bypass adjustment than under the status quo case; right?

14614. **MR. WHITMORE:** Correct.

14615. **MR. SCHULTZ:** And the implication of that for toll design purposes is that more Eastern Zone gas is deemed to flow through the north, right, in the Application case than under the status quo case; right?

14616. **MR. WHITMORE:** That's correct.

14617. **MR. SCHULTZ:** So we have at the very same time, your use of this toll design telling us that exactly the same amount of Eastern Zone gas, as in the status quo case, is flowing both more through the south and through the north at exactly the same time?

14618. **MR. WHITMORE:** In the scenarios, they are two different Eastern Zones, so they're not relevant together -- it's not relevant to say that.

14619. **MR. SCHULTZ:** Well, your toll design for the Application case is saying more of the Southwest -- more of the Eastern Zone gas is moving through Great Lakes than in the status quo and more of the Eastern Zone is flowing through the north than in the status quo. And it's saying those things at the same time; right?

14620. **MR. WHITMORE:** Because it's a different Eastern Zone than in the existing system.

14621. **MR. SCHULTZ:** Well, my question respected that fact, that the simple mathematics of your adjustments are that the Eastern Zone is getting more of all the adjustments, which implies that it is more everywhere at the same time.

14622. **MR. WHITMORE:** Yeah, except for the new Eastern Zone has no benefit of deliveries to Dawn and Sarnia, which it has in the existing zone.

14623. **MR. SCHULTZ:** Well, how is that relevant to how gas is being deemed to flow for toll design purposes?

14624. Does your toll design deem more gas to be moving along routes than you actually have gas, I mean, just for the sake of giving people some extra credits, or is it supposed to reflect reality?

14625. **MR. WHITMORE:** It does not give out more credits than it can.

14626. **MR. SCHULTZ:** But what you have done with your Application case is have the Eastern Zone getting more of everything, even though it's exactly the same amount of gas that we are talking about than the number of units.

14627. **MR. WHITMORE:** So the new Eastern Zone gets a larger proportion of the credits than it had -- than it has in the Southwest Zone scenario -- sorry, in the existing scenario, the existing rate design.

14628. **MR. SCHULTZ:** Thank you.

14629. Excuse me for a moment, Mr. Chairman.

--- (A short pause/Courte pause)

14630. **MR. SCHULTZ:** Excuse me for a moment, Mr. Chairman, while I just look at my notes for a second here. We may be able to abbreviate this.

--- (A short pause/Courte pause)

14631. **MR. SCHULTZ:** I see Mr. Feldman is consulting, so I better wait before I pack it in.

14632. I was about to say I had nothing further, so unless you have something further, I am done, gentlemen.

---(No Response/Pas de réponse)

14633. **MR. SCHULTZ:** I see head shakes, so thank you, gentlemen.

14634. Thank you, Mr. Chairman, that is my cross-examination.

14635. **THE CHAIRMAN:** Thank you, Mr. Schultz.

14636. Mr. Thompson...?

14637. **MR. THOMPSON:** Thank you, Mr. Chairman.

--- EXAMINATION BY/INTERROGATOIRE PAR MR. THOMPSON:

14638. **MR. THOMPSON:** Panel, as you know, I represent the Industrial Gas Users Association.

14639. I would like to start, if I might, by coming back to a topic Mr. Farrell was discussing with you is with respect to the nature of this Southwest Zone proposal.

14640. Would you agree with me that, in substance, what it is is a special toll to a point which has emerged as a trading hub within an existing tolling zone?

14641. **MR. FELDMAN:** No.

14642. **MR. THOMPSON:** Why would you disagree with that?

14643. **MR. FELDMAN:** Because it's a toll computed on the same basis as we have historically computed the distance to points or zones.

14644. **MR. THOMPSON:** So you are quarreling with the word "special"?

14645. **MR. FELDMAN:** Yes.

14646. It's using the NEB-approved toll design and cost allocation methodology for the TransCanada system.

14647. **MR. THOMPSON:** All right.

14648. So would you agree that it's a toll to a point which has emerged as a trading hub within an existing tolling zone?

14649. **MR. FELDMAN:** Yes.

14650. **MR. THOMPSON:** All right.

14651. And how many other trading hubs have emerged in the Eastern Zone?

14652. **MR. FELDMAN:** None to this extent.

14653. **MR. THOMPSON:** Does gas not trade at Parkway?

14654. **MR. FELDMAN:** Not to the same degree, sir.

14655. Dawn is acknowledged, I think, as the key market hub, having significantly more liquidity and depth than any other hub anywhere else in the Eastern Zone.

14656. **MR. THOMPSON:** But some gas does trade at Parkway; correct?

14657. **MR. FELDMAN:** Some gas trades at many other points in the Eastern Zone, but none compares at all to Dawn. That is where people are seeking service. When they come to us, they look for service generally from Dawn.

14658. **MR. THOMPSON:** All right.

14659. And would you agree that Dawn, as a trading hub, is not a geographically distinct area?

14660. **MR. MILNE:** Mr. Thompson, perhaps could you be more precise what you mean by "geographic distinct area"? Are you talking about a single point and place?

14661. **MR. THOMPSON:** Well, that was the phrase you used, Mr. Milne, when you represented IGUA and we were proposing a split rate base for service to the Northeast, which fell on its you know what, but --

--- (Laughter/Rires)

14662. **MR. MILNE:** Sir, we were using the term at that time in a different context than I understood, perhaps, what you might have been meaning with respect to Dawn.

14663. **MR. THOMPSON:** Well, Mr. Farrell took you through the characteristics of zone, and one of them was geographic distinction. Some were political, some were economic, and the point I am putting to you: that a point that emerges within an existing zone where deals can be made does not qualify as a geographically distinct area within the context of zoning and tolls.

14664. Would you agree with that?

14665. **MR. MILNE:** Dawn is a geographically distinct point. As I understand it, most of the trading takes place at the meter stations in the Dawn yard.

14666. **MR. THOMPSON:** So are you saying that Dawn yard qualifies as a zone?

14667. **MR. MILNE:** Sorry, Mr. Thompson?

14668. **MR. THOMPSON:** Are you suggesting that Dawn yard qualifies as a zone for the purposes of tolling?

14669. **MR. MILNE:** What TransCanada is proposing is the Southwest Zone, which would include the Dawn yard.

14670. **MR. THOMPSON:** All right.

14671. So you are not suggesting that Dawn yard qualifies as a zone, it's the Dawn yard and some other yards?

14672. **MR. MILNE:** It's the Dawn yard and the delivery point to Sarnia, but the primary point of the market is the Dawn yard.

14673. And I should add, I suspect there are also trades that are taking place at the storage sites themselves.

14674. **MR. THOMPSON:** Okay.

14675. And what makes the Dawn yard and the other yard a zone? Surely they are just locations within an existing zone which have emerged as a trading point.

14676. **MR. MILNE:** And I would add that the market, sir, at the Dawn yard and within the Southwest Zone is different than the market in other delivery areas of the Eastern Zone.

14677. **MR. THOMPSON:** It's busier?

14678. **MR. MILNE:** It's a great deal busier.

14679. There is very little trading that takes place within the delivery areas of the Eastern Zone.

14680. I would add to that, there is few, if any, opportunities to store the gas within the delivery areas of the Eastern Zone.

14681. **MR. THOMPSON:** All right. Let's move on.

14682. Would you agree with me that the Southwest Zone proposal involves no reduction in TransCanada's revenue requirement, total revenue requirement?

14683. **MR. FELDMAN:** No reduction or increase, sir.

14684. **MR. THOMPSON:** All right.

14685. And so by lowering the toll to the Dawn yard, its impact on other tolls is to cause an increase?

14686. **MR. FELDMAN:** Absent any changes in throughput, that is true.

14687. **MR. THOMPSON:** All right.

14688. With changes in throughput under the existing tolling régime, all tolls would go down; right?

14689. **MR. FELDMAN:** Or up if we don't have a competitive service and we lose additional volumes from the system, sir.

14690. **MR. THOMPSON:** All right.

14691. Well, assuming that there are no changes in -- no incremental volumes attracted to the system, the way I characterize the proposal is it's a teeter-totter proposal.

14692. **MR. FELDMAN:** I don't accept your premise, sir.

14693. The argument we are making is if we do not do something, we are going to continue to receive service requests from Dawn. This will lead to further offloading of the mainline and all of our customers, including your client, will see an increase in their toll.

14694. **MR. THOMPSON:** Well, I'll come to the offloading rationale for this proposal in a moment, but on the assumption that there are no incremental volumes attracted to the system, it is in fact a teeter-totter proposal.

14695. **MR. FELDMAN:** Again, if there are -- if there is new service to the Southwest Zone, I agree with you, absent any new contracts.

14696. **MR. THOMPSON:** All right.

14697. **MR. FELDMAN:** There is any -- marginal impacts to different other tolls.

14698. **MR. THOMPSON:** Well, we will come to that in a minute.

14699. Let's turn, then, to the rationale for the proposal. And you describe this in the Prefiled Evidence, which I think is at B-2, and it was Tab E. And you have discussed this with

Mr. Farrell.

14700. You might just want to turn it up, though, because -- the portion of it that I wanted to direct your attention to was Answer 27, which appears on page 12.

14701. And at lines 17 to 21, there appear to be two grounds on which you rationalize this proposal, one is you say you are responding to customer demands, and the second is you are attempting to enhance the competitiveness of the mainline as a source of supply to the Dawn hub.

14702. Are those -- have I characterized the two reasons reasonably accurately?

14703. **MR. FELDMAN:** Yes, I think so.

14704. **MR. THOMPSON:** All right.

14705. And I'd like to focus first on the customer demand aspect of this rationale, and it's over in -- I think it's Question 39 -- Answer 39 on page 17 where you point to what you describe as indicators of customer interest accessing a regional market in short-haul capacity on the mainline at -- I think you're referring there to at Dawn.

14706. And then you talk about people signing up with you at Dawn for short-haul service; correct?

14707. **MR. FELDMAN:** That's correct.

14708. **MR. THOMPSON:** All right.

14709. And it is from that -- it's one of the indicators you say of this customer demand for service at this hub?

14710. **MR. FELDMAN:** That's correct.

14711. **MR. THOMPSON:** All right.

14712. But I would like to look at this a little more broadly and start with your existing customers and their classification.

14713. First of all, you have LDCs in the shipper mix; is that correct?

14714. **MR. FELDMAN:** Yes.

14715. **MR. THOMPSON:** And what proportion, approximately, of the gas currently

being shipped on your system would be shipped by LDCs?

14716. **MR. FELDMAN:** I would have to check.

14717. I know it's been going down as the eastern LDCs have left the system, but I couldn't tell you off the top of my head, sir. I don't know.

14718. **MR. THOMPSON:** Could you give me an estimate, subject to check?

--- (A short pause/Courte pause)

14719. **MR. FELDMAN:** Mr. Whitmore advises me it's about 32 percent of the contracts directly held by the eastern Canadian LDCs, the long-haul contracts.

14720. **MR. THOMPSON:** Thanks.

14721. And then the other long-haul shippers, there are producers and then there are marketers.

14722. Do you distinguish between those two categories of shippers or do you call them producers/marketers?

14723. **MR. FELDMAN:** It depends on the context.

14724. **MR. THOMPSON:** Well, perhaps you could just give me an estimate of the percentage of shippers on your system that are producers and those that are marketers -- and the last category I wanted to get was end-users -- just so we have an idea of the mix of your customer base.

--- (A short pause/Courte pause)

14725. **MR. FELDMAN:** We don't have those numbers right off the top of our head, sir.

14726. **MR. THOMPSON:** All right.

14727. Would you undertake to produce them?

14728. **MR. FELDMAN:** Pardon?

14729. **MR. THOMPSON:** Would you undertake to provide them?

14730. **MR. FELDMAN:** Sure.

14731. **MR. THOMPSON:** Thank you.

--- UNDERTAKING/ENGAGEMENT:

14732. *To provide an estimate, based on contract quantity, of the percentage of shippers on TCPL's system that are producers, marketers and end-users.*

14733. **THE CHAIRMAN:** Mr. Thompson, before you go on, could we take our five-minute break?

14734. **MR. THOMPSON:** Yes, please.

14735. **THE CHAIRMAN:** Thank you.

--- Upon recessing at 11:59 a.m./L'audience est suspendue à 11h59

--- Upon resuming at 12:06 p.m./L'audience est reprise à 12h06

14736. **THE CHAIRMAN:** Mr. Thompson...?

14737. **MR. THOMPSON:** Thank you, sir.

14738. Panel, just with respect to the undertaking, Mr. Yates spoke to me at the break to get the measure that should be used to determine the proportion of the -- the approximate proportion of the mix of your existing long-haul shippers, and I suggest it be done on the basis of contract quantity. Could that be done?

14739. **MR. FELDMAN:** Yes, we'll do that, sir.

14740. **MR. THOMPSON:** All right, thanks.

14741. And again, could you -- again, just to help us -- give us some idea of the number of customers that you have, how many long-haul shippers are there on your system, approximately?

14742. **MR. EMOND:** Again, I'd have to check the number, but I would guess, say, around 200, something in that range.

14743. **MR. THOMPSON:** 200, subject to check. Thanks very much.

14744. Okay. Now, in terms of the long-haul shippers, if there are any components of that constituency that are seeking this lower toll at Dawn, would you agree that they're not participating in this proceeding?

14745. **MR. FELDMAN:** I would agree with that, but there are those participants who are demonstrating through their actions that they are very interested in service from Dawn and, in fact, taking up that service.

14746. **MR. THOMPSON:** Okay, I'll come to that in a second.

14747. And just in terms of the shipper mix, the long-haul shipper mix, consisting of LDCs, producers, marketers and end-users --

14748. Just stopping there, have I missed anybody? Does that represent the constituency of long-haul shippers?

14749. **MR. EMOND:** Would I be correct in assuming PowerGen would fit in in the end-user category?

14750. **MR. THOMPSON:** Yes.

14751. **MR. EMOND:** Yes, that should cover it.

14752. **MR. THOMPSON:** All right.

14753. Would you agree with me that LDCs purchase gas and ship to meet their own requirements? They're not generally traders; would you agree with that?

14754. **MR. FELDMAN:** I would agree they're not traders, but certainly -- my understanding would be they would certainly buy gas at a hub.

14755. **MR. THOMPSON:** All right.

14756. **MR. FELDMAN:** But again, they may or may not be traders; I can't say for sure.

14757. **MR. THOMPSON:** Well, I take your point that they may trade on occasion, but they're not generally traders, would be my suggestion to you.

14758. Similarly, end-users that are buying to meet their own requirements are not generally traders. Would you agree with that?

14759. **MR. FELDMAN:** That would be my understanding.

14760. **MR. THOMPSON:** All right.

14761. And producers, marketers, some of them may be moving gas on spec to trade it at a hub.

14762. But would you agree that there's a portion of the producer market or shipped gas that is going to specific markets -- specific end uses, specific customers -- and is not being shipped to trade?

14763. **MR. FELDMAN:** Well, I would agree with that. But again, let's not confuse the trading and buying gas at a hub.

14764. Many producers sell their gas at AECO NIT, for example; just selling it. And certainly buyers at Dawn would be buying gas there. That wouldn't make them a trader, per se, but they certainly buy it at a hub, or sell.

14765. **MR. THOMPSON:** No, I accept that.

14766. But one of the purposes of this Southwest Zone, according to your evidence -- Prefiled Evidence at page 13 -- sorry, page 14, Question 32, is to increase the physical volume available to be traded at Dawn; is that correct?

14767. **MR. MILNE:** Yes, sir.

14768. **MR. THOMPSON:** Okay.

14769. And so what I'm trying to point out is a significant portion of your long-haul shipper constituency is not interested in moving gas to Dawn for that purpose.

14770. Would you agree with that?

14771. **MR. MILNE:** Mr. Thompson, that is maybe a fair statement with respect to the past, but as indicated in TransCanada's evidence, a significant number of contracts come to term beginning on October 31st of this year.

14772. And I think what that will do will free up a lot of parties who have been purchasing gas in Alberta and using long-haul to change their purchase and transportation practices in a way that they'll be purchasing more gas at Dawn and holding, as Mr. Feldman has stated, short-haul from Dawn.

14773. And so somebody has to get the gas to Dawn, and one of the purposes of setting up the Southwest Zone is to provide a more economic service directly to that hub to augment the supply of gas at that hub.

14774. **MR. THOMPSON:** Well, existing customers, Mr. Milne, that are currently buying their gas at Empress and taking the risk of the long-haul transportation may well wish to change that arrangement to purchase delivered gas at a point downstream of Empress?

14775. **MR. MILNE:** Yes, sir.

14776. **MR. THOMPSON:** And there's nothing new in that?

14777. **MR. MILNE:** It's a phenomenon that has been growing in the past few years and is expected to grow, perhaps much more rapidly, beginning later this year.

14778. **MR. THOMPSON:** All right.

14779. But that expectation, I suggest to you, could be consistent -- and I suggest to you is consistent -- with a desire by the current shippers of the gas to shift the risk of transportation upstream of a point downstream of Empress to the producers.

14780. It doesn't necessarily mean they want some trading hub at Dawn.

14781. **MR. MILNE:** Sir, if they're -- they have to have a place to buy the gas if they want to -- if they want to pursue the strategy you just outlined. And that point, to date, has been Dawn.

14782. And what's missing is that TransCanada, at this stage, doesn't have a fully competitive service into the hub to participate in the supply of the hub.

14783. **MR. THOMPSON:** We're talking about people who are already shipping on the TransCanada system.

14784. Let's take somebody that's shipping gas to Iroquois, and the shipper of record is the LDC marketer, producer, cogen located in the States, and that customer, on restructuring -- on renewal may say to his producer, or the seller -- the gas seller at Empress: I want to buy my gas at Iroquois.

14785. And the effect of that, I suggest, is simply to -- if the seller agrees with it, is to shift the risk -- the transportation risk from the gas buyer to the gas seller?

14786. **MR. FELDMAN:** That is one scenario.

14787. I guess what we have put in evidence here is what has actually happened, and that is in the table -- and the discussion in my Opening Statement, plus I've said certain requests that we have had from -- and you mentioned Iroquois -- exactly from shippers off the Iroquois system who are looking to access a near market hub for service.

14788. So that is certainly another scenario, and that is one that we have observed.

14789. **MR. THOMPSON:** All right.

14790. Let's turn to this demand that you talk about for short-haul from TransCanada PipeLines from Dawn east. And this is described, Mr. Feldman, in your Opening Statement, I believe, which was Exhibit B-70 -- and you talked to Mr. Farrell about it.

14791. Now, who is it -- these are not existing long-haul shippers with TransCanada that are making these demands of TransCanada?

14792. **MR. FELDMAN:** Yes, they are.

14793. **MR. THOMPSON:** For what gas? You tell us in your evidence no gas is moving to Dawn.

14794. **MR. FELDMAN:** No, these -- so these would include long-haul shippers who are converting to short-haul service.

14795. **MR. THOMPSON:** All right.

14796. **MR. FELDMAN:** Not entirely, but certainly included in the list is that.

14797. **MR. THOMPSON:** All right.

14798. Well, let me just understand this, then. You had -- in your original filing, at page 11, you showed three short-haul contracts from Dawn; correct?

14799. **MR. FELDMAN:** That's correct.

14800. **MR. THOMPSON:** And then in this updated Opening Statement, it looks like we've now got six.

14801. **MR. FELDMAN:** That's correct.

14802. **MR. THOMPSON:** Okay.

14803. And the ship -- the shippers that are asking for this service are people that have converted long-haul to the Eastern Zone to some sort of short-haul arrangement.

14804. Is that what you are suggesting?

14805. **MR. FELDMAN:** So the only one I can really speak about a name is the Consumers' EDA volume there, the 145,000 GJs per day. The reason it's the only one I can speak of directly a name, because we have the policy of not naming the specific shipper until the contract is in effect.

14806. But I can speak of that because, of course, Enbridge has indicated their intentions in their evidence, which was to non-renew a long-haul service and contract for the short-haul from Dawn and, at the same time, they are going to get the gas there from Chicago via contract on the Vector system.

14807. **MR. THOMPSON:** Right. Okay.

14808. Well, let's just -- since we can talk about that one, let's focus on it. This is a Consumers' EDA that is to start up November 1, 2003; is that right? According to

14809. your --

14810. **MR. FELDMAN:** I'm sorry, Mr. Thompson, I was -- there was one other volume I can speak of. You see the Contract No. 2 there?

14811. **MR. THOMPSON:** Yeah.

14812. **MR. FELDMAN:** And that -- it went into service in 2002?

14813. **MR. THOMPSON:** Yes.

14814. **MR. FELDMAN:** So it's in service now, so I can speak about that, and it's a short-haul contract held by Nexen. And that is in fact a replacement of service to Niagara that was previously a long-haul service to Niagara.

14815. **MR. THOMPSON:** All right.

14816. Well, let's just focus on the Consumers' EDA, if we might.

14817. Except for Nexen, the others are to start up prospectively, they are not operating today?

14818. **MR. FELDMAN:** That's correct.

14819. **MR. THOMPSON:** Let's take Consumers', then, as an example. Consumers' is -- I know from participating in the Ontario proceedings -- is bringing some gas in on Vector?

14820. **MR. FELDMAN:** Right.

14821. And that is what they have indicated in their evidence in this proceeding as well, Mr. Thompson.

14822. **MR. THOMPSON:** Okay.

14823. So they are -- the volumes that you are moving up from Dawn east for Consumers' are volumes arriving on another pipeline?

14824. **MR. FELDMAN:** Yes.

14825. **MR. THOMPSON:** All right.

14826. And would it be safe to assume that is the situation for Cases 1, 3, 5 and 6, as well?

14827. **MR. FELDMAN:** I don't know.

14828. **MR. THOMPSON:** Could you find out and --

14829. **MR. FELDMAN:** I doubt if I can.

14830. **MR. THOMPSON:** Well, how could it be anything else? -- because in your evidence you tell us you are not moving any gas to the SWDA.

14831. **MR. FELDMAN:** I'm sorry, we are not today. Those -- as we have said, those services start in November 1, 2003. Parties have an opportunity to contract on our system to that point, but --

14832. **MR. THOMPSON:** Assuming --

14833. **MR. FELDMAN:** -- they may not.

14834. **MR. THOMPSON:** I'm sorry, I interrupted you.

14835. **MR. FELDMAN:** They may. We would say that it is very much more likely that they would if we would implement the Southwest Zone, of course.

14836. **MR. THOMPSON:** Are you suggesting --

14837. **MR. FELDMAN:** But we don't know -- their service is from Dawn and we don't need to determine, in terms of signing the contract, where the gas comes from.

14838. **MR. THOMPSON:** Are you suggesting they have purchased this Dawn east capacity from you on spec?

14839. **MR. FELDMAN:** I don't know what sales arrangements they have made. They may have -- they may have purchased the gas at Chicago and taken out some capacity on Vector to get to Dawn. They may have made purchase arrangements at the Dawn hub. I don't know

that.

14840. **MR. THOMPSON:** All right. Now, why --

14841. **MR. FELDMAN:** All we know is that they have asked for service in Dawn to these points and we have agreed to provide that service.

14842. **MR. THOMPSON:** Why do you think they are asking you for service from Dawn?

14843. **MR. FELDMAN:** We provide good customer service, I guess. I don't know. You know, we have indicated that we have -- we have the capacity available. Obviously we are interested -- we are a service provider. We are interested in providing the service.

14844. **MR. THOMPSON:** Well, that's it. You've got excess capacity on the Dawn/Union system. That is why people --

14845. **MR. FELDMAN:** No, we do not.

14846. In fact, what we already said, in answering Mr. Farrell, is that to physically deliver the gas and meet these requirements, we in fact, in the winter season, effectively have to move the gas by Northern Ontario.

14847. Overall we are better using our facilities, and that is why we are offering the service, but in fact for the contracts we have and the use that we make of the M-12, we don't have excess, as you say.

14848. That has been the whole discussion that has been around the -- that Mr. Farrell had with us about how physically are you going to get the gas from Dawn to other -- to another point.

14849. **MR. THOMPSON:** Okay.

14850. Well, that discussion -- and I flagged that yesterday. That took place around Transcript 12931, where you explained to Mr. Farrell that you, as I understood it, at this point in time had used up all your M-12.

14851. **MR. FELDMAN:** That's correct.

14852. **MR. THOMPSON:** But when the case was filed, I was left with the impression you hadn't used it all up at that point, but events since it was filed caused it to all be used up. But I may have misunderstood the discussion.

14853. **MR. FELDMAN:** I can tell you right now, given the contracts we have in place,

we are fully -- we will be fully utilizing our M-12 service. And in fact, the way we will effect delivery in a practical sense is moving the gas by -- some volume over the north.

14854. **MR. THOMPSON:** All right.

14855. And the using up of all of the M-12, were these additional contracts cited in your Opening Statement part of the transactions that used it up or are they over and above transactions that used it up?

14856. **MR. FELDMAN:** I don't know right off the top of my head, sir. I can just say the aggregate of our needs for M-12 service exceeds the capacity available we have for M-12.

14857. **MR. THOMPSON:** Okay.

14858. So you are, in effect, then, offering a short-haul service from Dawn to -- is it Parkway? Is that the --

14859. **MR. FELDMAN:** It depends, sir.

14860. You can see that the delivery point is shown on the table. In one case it's GMi EDA; one is Niagara; another one is GMi EDA, Consumers' CDA/Union CDA and Union CDA. So it's to different delivery points, depending on the contract.

14861. **MR. THOMPSON:** All right.

14862. But you are offering this short-haul service that is not physical, it's notional or contractual?

14863. **MR. FELDMAN:** No, every service we offer is point to point, and how we get the gas there is not specified in the contract. That's the way we operate our system.

14864. **MR. THOMPSON:** All right.

14865. So what's the word to use? Is it physical flows from Dawn to the delivery point?

14866. **MR. FELDMAN:** It's a contract.

14867. **MR. THOMPSON:** It's a contract.

14868. **MR. FELDMAN:** We name a receipt point and a delivery point, and how we get the gas there is our business.

14869. **MR. THOMPSON:** Could you give me a word I could use to describe that that's

not physical? Notional? What word would you be comfortable with? Deemed?

14870. **MR. FELDMAN:** Why don't we call it contract path.

14871. **MR. THOMPSON:** I didn't catch the --

14872. **MR. FELDMAN:** It's not path, per se, but I -- do we really have to do this? Can't we find another way of getting to what you are after?

14873. **MR. THOMPSON:** All right. Well, let's move on.

14874. The demand for this short-haul service, though, does not equate, I suggest, to a demand for a toll to Dawn that is lower than the existing eastern toll and consequential tolls that, for some, are higher.

14875. **MR. FELDMAN:** You are right, we can sit back and watch our system being completely bypassed by accepting gas in at Dawn and offloading our long-haul and our tolls continue to go up.

14876. **MR. THOMPSON:** All right.

14877. Well, let's move on from there, because you seem to be suggesting in the testimony that this Southwest Zone proposal will help you attract incremental long-haul demand. Do I understand that correctly?

14878. **MR. FELDMAN:** I am going to ask Mr. Zwick to elaborate, but basically we would say in the medium to longer term, that we will either attract more or lose less than we would otherwise do by having in place the Southwest Zone.

14879. **MR. ZWICK:** I think Mr. Feldman has described that quite well.

14880. **MR. THOMPSON:** Okay.

--- (Laughter/Rires)

14881. **MR. THOMPSON:** Okay.

14882. **MR. FELDMAN:** Thank you, Mr. Zwick.

14883. **MR. THOMPSON:** Let's move on from there.

14884. What's your definition of medium to longer term, Mr. Feldman?

14885. **MR. ZWICK:** So there is two concepts that we need to deal with here.

14886. **MR. THOMPSON:** Oh, you are going to answer this, because I thought I asked --

14887. **MR. FELDMAN:** I think I'll agree with him, Mr. Thompson.

14888. **MR. THOMPSON:** Oh, good. This was a setup, was it?

--- (Laughter/Rires).

14889. **MR. ZWICK:** There is two concepts that we need to talk about here and that we need to be clear about in terms of time frame; the first is throughput and the second is competition for throughput.

14890. So in the first context, we have talked about the short to medium term as being the time frame when the infrastructure out of the Western Canadian Sedimentary Basin is fixed. And in the medium to longer term, new infrastructure can be added which affects the competitive landscape.

14891. As the swing pipeline, TransCanada's throughput is principally determined by the volume of residual WCSB supply after the needs of the western Canadian market and other pipelines are met.

14892. In the medium to longer term, that volume of residual gas can be reduced due to the addition of a new XWCSB infrastructure causing further throughput losses to the mainline. In the short to medium term, that infrastructure is fixed.

14893. So how long is that in calendar terms? A new expansion of a system could occur, a compression-based expansion in less than two years. So that's the time frame from a throughput perspective.

14894. But clearly, if TransCanada implements a more competitive toll structure the day before new infrastructure goes into service, it's too late. That infrastructure is already committed at that point.

14895. For TC to compete, it has to have a competitive rate structure in place prior to commercial commitments being made for new pipelines.

14896. **MR. THOMPSON:** Did Mr. Feldman write this or did you?

14897. **MR. ZWICK:** I wrote this.

14898. The time frame for the competition for new infrastructure is clearly now.

14899. **MR. THOMPSON:** Finished?

14900. But what you didn't define for me, the medium term. Mr. Feldman had said in the medium to longer term.

14901. I just wanted to get, if I could, your definition for those time frames.

14902. **MR. ZWICK:** Yes.

14903. From a throughput perspective, that is the time frame in which new infrastructure can be added from the basin.

14904. **MR. THOMPSON:** How many years out are you talking when you use the phrase "medium term"?

14905. **MR. ZWICK:** In that context, expansion of an existing system could be completed in less than two years.

14906. **MR. THOMPSON:** But where are the incremental volumes going to come from in the medium term that you're supposedly going to capture with this proposal for a Southwest Zone toll?

14907. There aren't any out there that I'm aware of.

14908. **MR. ZWICK:** We can be successful in competing with potential new infrastructure, which allows TransCanada to retain throughput.

14909. In addition, there are developments that could cause TransCanada's throughput to increase. That could include stronger supply, weaker western Canadian demand, or the connection of northern gas.

14910. If some of those positive developments were to occur and TransCanada were to be bypassed, it would not participate in that potential upside on throughput.

14911. **MR. THOMPSON:** Well, let's try it this way:

14912. Would you agree with me you're unlikely to get volumes from the Alliance/Vector pipelines because they're generally on long-term contracts?

14913. **MR. FELDMAN:** I thought your original question was: Where could the additional competition come from in that time frame?

14914. **MR. THOMPSON:** No, I was talking about incremental volumes. I thought you suggested that this proposal would help you attract incremental long-haul demand --

14915. **MR. FELDMAN:** Or reduced -- I'm sorry, Mr. Thompson. Or reduce the loss that we would otherwise have, so --

14916. **MR. THOMPSON:** Okay.

14917. I'll come to enhancing the -- or sorry, minimizing the risk of non-renewal in a moment. But I'm talking about incremental.

14918. Is there any realistic prospect, in the short term, of incremental volumes being attracted to the system by this proposal? I suggest no.

14919. **MR. ZWICK:** TransCanada is the swing pipeline out of the basin, and as such, we would not anticipate capturing significant volumes of gas from existing pipeline systems.

14920. It is principally in the competition with new infrastructure where this is of benefit.

14921. **MR. THOMPSON:** Does that then mean Alaskan or northern gas? Is that primarily what you're trying to position yourself for?

--- (A short pause/Courte pause)

14922. **MR. ZWICK:** It is intended to compete with any new infrastructure out of the basin and into the market area.

14923. **MR. THOMPSON:** Well, does that mean northern and Alaskan gas or something else?

14924. **MR. FELDMAN:** No, it means -- it includes, for example, expansion of existing pipes into the market area and -- or construction of new pipes or extension of existing pipes into our market area, looking at it from the market end.

14925. And certainly it does include, though -- and this would be, we would say, in the longer term in terms of attraction of northern gas. We've said that in our evidence.

14926. **MR. THOMPSON:** All right.

14927. So is it fair for me to suggest that in the short-term there are unlikely to be any incremental volumes, long-haul volumes, attracted to your system as a result of this SWZ proposal, if it's approved?

14928. **MR. FELDMAN:** I think what we've said is that we don't expect there to be any probably material increases. There's potential increases in the short-term.

14929. But more importantly, by putting this in place now, when decisions may be made with respect to infrastructure -- may be being made right at this very moment for additional capacity into Dawn, for example -- that that will affect our throughput in the medium to long-term.

14930. **MR. THOMPSON:** All right, thanks.

14931. Now, you've had some discussion with Mr. Farrell with respect to the results of your proposal versus the segmented service -- I don't know if that's the right phrase to use -- along the mainline to Emerson, and then the Great Lakes system to St. Clair, and then to Dawn.

14932. And you were directed to NEB 1.28(a)(iii) and also NEB 1.29. And these were part of Exhibit B-68, if I'm not mistaken.

14933. And dealing with, if I could, NEB 1.28(a)(iii) first, this exhibit -- and there are others in the record -- show that delivery on your system to Emerson and then the Great Lakes system to St. Clair and then to Dawn is more competitive than your Southwest Zone proposal by, according to this document, 5 cents per GJ.

14934. Have I got that straight?

14935. **MR. FELDMAN:** Well, I've got 5 cents if you've got page --

14936. **MR. THOMPSON:** You're right, you pay 1.61 versus 1.66, yeah. Okay.

14937. Okay. So if there were incremental volumes out there clamoring to get to Dawn, why would they go for your \$1.66 if they could get it for \$1.61?

14938. **MR. FELDMAN:** I think if the capacity were available, they would choose the lower option. That's the fundamental premise of our TBO evidence, in fact, Mr. Thompson.

14939. **MR. THOMPSON:** Okay. Well, maybe I'm crossing panels here and --

14940. **MR. FELDMAN:** No, you're not, I don't think. This is relevant to this particular topic.

14941. **MR. THOMPSON:** All right.

14942. But you hold capacity on Great Lakes; right?

14943. **MR. FELDMAN:** Yes, we do.

14944. **MR. THOMPSON:** And if there were incremental shippers out there clamoring to get to Dawn, why wouldn't you offer them your unused capacity on Great Lakes for \$1.61 -- or sorry, whatever the piece is that -- the Great Lakes piece?

14945. Instead of the Southwest Zone proposal, it seems to me you have this ability to use your capacity on Great Lakes to facilitate delivery to Dawn at a buck sixty-one.

14946. **MR. FELDMAN:** Well, what we've shown, for example, in the schematics that Mr. Farrell went through, that we utilize -- fully utilized our Great Lakes capacity in the summer season to optimize our throughput, in fact.

14947. **MR. THOMPSON:** Well, I guess we'll come to that on the next panel, but you've got a lot of -- you've got a lot of excess capacity when you take the Northern line and the Great Lakes line together.

14948. Did you give any thought to trying to sell your Great Lakes capacity in the secondary market for \$1.61 or less?

14949. **MR. FELDMAN:** We sell our Great Lakes capacity from time to time when we don't require it, and then -- and there's a market for it, yes.

14950. **MR. THOMPSON:** But if people were clamoring to get to Dawn for a dollar less -- less than \$1.73, I guess, on Alliance/Vector and you have the capacity on Great Lakes to provide a delivery there in combination with deliveries to Emerson at \$1.61, why isn't that option exercised by TransCanada? I don't understand it.

14951. **MR. FELDMAN:** I'm not sure if I can add to what I've already said, Mr. Thompson, about our requirement and use of the Great Lakes capacity and the fact that we do assign it from time to time.

14952. **MR. THOMPSON:** Well, is that it? Because you use it for part of the year for operational purposes, you've decided to withhold it from the market? Is that the upshot of it?

--- (A short pause/Courte pause)

14953. **MR. FELDMAN:** Again, coming back to our requirements in the summer, Mr. Thompson, in terms of our requirements for -- to meet our obligations at St. Clair, Niagara, Chippawa and our STS obligations, we require that capacity in the summertime.

14954. And, yes, we've said even in the summertime from time to time we do assign the capacity, and in the wintertime, when it is more cost effective, we do offload our Great Lakes

system, and then we do sell that capacity in a secondary market to parties or, as we've done this particular winter, we've sold a considerable amount of both STFT and IT service, in fact, to Dawn using our existing service and the capacity that we have on Great Lakes.

14955. **MR. THOMPSON:** All right.

14956. Well, I'll probably pursue that a little more with the TBO panel.

14957. Let's move, if I might, to NEB 1.28(b). And this, again, was a response to an information request that you were discussing with Mr. Farrell.

14958. And I'm looking at page 1 of 1. This has the various cases in a spreadsheet, and the Case 1 is the existing Eastern Zone toll, as I understand it; is that correct?

14959. **MR. WHITMORE:** That's the 125.3?

14960. **MR. THOMPSON:** One -- sorry?

14961. **MR. WHITMORE:** 125.3?

14962. **MR. THOMPSON:** 128(b), page 1 of 1.

14963. **MR. WHITMORE:** Yes. And the Eastern Zone toll in Case 1 is 125.3?

14964. **MR. THOMPSON:** Oh, I'm sorry. Okay.

14965. **MR. WHITMORE:** Is that where we are?

14966. **MR. THOMPSON:** Yes, thanks; Case 1.

14967. And then Case 2 is the Southwest Zone proposal on what scenario? Nobody taking up the service?

14968. **MR. WHITMORE:** It's just the creation of the Southwest Zone; no service to or from.

14969. **MR. THOMPSON:** All right.

14970. So that's the no deliveries to the Southwest Zone scenario; is that right?

14971. **MR. WHITMORE:** Correct.

14972. **MR. THOMPSON:** Now, just stopping there, if I might, what is it you're asking

this Board to approve in tolls? Is it the Case 2 tolls or is it some other case tolls?

14973. **MR. WHITMORE:** It would be the tolls in Case 2.

14974. **MR. THOMPSON:** All right.

14975. Now, why would the Board approve tolls which have a toll going to a new zone on a scenario where there's no gas flowing?

14976. It seems to me to be a little strange. Can you help me with that?

14977. **MR. FELDMAN:** I don't find it so strange.

14978. **MR. THOMPSON:** Okay. Well --

14979. **MR. WHITMORE:** The Board approves TransCanada's system average unit costs, so if new service comes up during a calendar year, we can implement that and create a toll.

14980. **MR. THOMPSON:** All right.

14981. But if gas flows through the Southwest Zone, the Eastern Zone toll goes up; right?

14982. **MR. FELDMAN:** Not necessarily, depending on whether it is incremental flow or not. That's why we illustrated these different scenarios.

14983. It depends on the scenario, whether the toll goes up or down.

14984. **MR. THOMPSON:** All right.

14985. But you've told me earlier that you're not anticipating material incremental flows.

14986. So what you must be anticipating is some, what you call, restructuring if your proposal's approved?

14987. **MR. FELDMAN:** Not necessarily restructuring.

14988. **MR. THOMPSON:** Recontracting is the word?

14989. **MR. FELDMAN:** Well, no.

14990. Just to clarify, what we've seen is customers who are actually just looking for service out of Dawn. They aren't necessarily restructuring; in other words, two different parties. One may request the service from Dawn and we would hope, through implementation of the

Southwest Zone, that customers would then be interested in contracting to the SWDA.

14991. **MR. THOMPSON:** All right.

14992. **MR. FELDMAN:** And in terms -- so you could think of it though conceptually, you know, to use your term, restructuring. And again, the impact would be -- would depend on the particular short-haul service that's requested.

14993. So in the table attached to my Opening Statement, there were two contracts for the GMi EDA, for example, and if we had --

14994. And let's assume -- because we don't know, I'll just assume for this purpose -- that there's a corresponding reduction in long-haul service by the sum of those two contracts, which is then 70,000 GJs per day, and someone contracts into Dawn to provide the matching service to recreate the service to the GMi EDA, for example. You could think of that, conceptually, as restructuring, even though it's two parties.

14995. The toll impact would be something we actually don't show on this table because Case 3, which is the reconstructed, assumed that the short-haul service was to the Consumers' EDA.

14996. Obviously, the adverse impact -- the adverse impact -- I don't even know if it was adverse; it could even be positive -- to the extent your -- that the short-haul service to the GMi EDA instead of the Consumers' EDA, as was assumed in Case 3.

14997. **MR. THOMPSON:** Well, what I'm just trying to understand is the tolls you're asking the Board to approve are those in the Case 2?

14998. **MR. FELDMAN:** Yes.

14999. **MR. THOMPSON:** And you're seeking approval for tolls on the assumption that there's going to be some take-up of the Southwest Zone toll?

15000. **MR. FELDMAN:** If there is a take-up, this is the toll that a customer to the Southwest Zone would pay. If there is no take-up, I guess there's not an issue.

15001. **MR. THOMPSON:** Sorry, I thought the toll that is with the no take-up is that 10905?

15002. **MR. FELDMAN:** That's what I meant, yes. That's what I was referring to. That is the toll we're applying for.

15003. **MR. THOMPSON:** Right.

15004. But with take-up, the toll changes. We've got a take-up scenario in Case 3, and whether we call it restructured or recontracted, it is -- somebody has taken up the Southwest Zone proposition and has -- has converted to service to Dawn and then something east of Dawn; right?

15005. **MR. FELDMAN:** And if that replaces a long-haul contract to somewhere east of Dawn, to use your term there, and that somewhere east of Dawn was the Consumers' EDA -- CDA, I should say, that is the resulting toll. And that would have to be in a subsequent year, because what we are asking for are the tolls in Case 2 for the 2003 test year.

15006. **MR. THOMPSON:** All right.

15007. **MR. WHITMORE:** If there is any new contracts that come on later this year, it's not going to be reflected in TransCanada's tolls. The tolls will be based on the system average unit costs that are approved as part of this Application.

15008. **MR. THOMPSON:** What does my IGUA member pay in 2003 if your proposal is approved for service to the Eastern Zone?

15009. **MR. WHITMORE:** You will pay the 125.8.

15010. **MR. FELDMAN:** .28.

15011. **MR. WHITMORE:** .28.

15012. **MR. FELDMAN:** 125.28.

15013. **MR. THOMPSON:** Are there any clawbacks? If there is a rush for the Southwestern Zone, you are proposing this to have effect when? November 1? When does the Southwest Zone proposal kick in under your proposal?

15014. **MR. WHITMORE:** When it receives Board approval.

15015. **MR. THOMPSON:** All right. Well, give me an estimated date. July 1?

15016. **MR. WHITMORE:** July 1.

15017. **MR. THOMPSON:** All right.

15018. **MR. FELDMAN:** Well, I would say -- based on what I heard this morning, I would think September 1, at the earliest.

15019. **MR. THOMPSON:** Okay, fine.

15020. Well, if you keep going, I will be out of here.

--- (Laughter/Rires)

15021. **MR. THOMPSON:** But September 1 --

15022. **MR. FELDMAN:** Well, make that July, then.

--- (Laughter/Rires)

15023. **MR. THOMPSON:** 2003, if there is take-up of the proposition, then the Eastern Zone toll, minus the Southwest -- what we are calling the Eastern Zone will go up?

15024. **MR. FELDMAN:** Only in the scenario that we described here; right? It depends on the short-haul service and the destination of the short-haul service.

15025. **MR. THOMPSON:** Right.

15026. **MR. FELDMAN:** In the year after -- not in 2003, in the subsequent year.

15027. **MR. THOMPSON:** All right.

15028. So that -- do I understand correctly that to the extent the toll amounts change in 2003, TransCanada is going to eat that? Is that right?

15029. **MR. WHITMORE:** Why would the tolls change? Once the Board approves the tolls, they are not going to change --

15030. **MR. THOMPSON:** Maybe I am not phrasing this properly, but theoretically, the moment there is some take-up of the Southwest Zone at a point in time, the other tolls are affected by that.

15031. **MR. WHITMORE:** It would generate -- so if there is take-up of the Southwest Zone, it would bring in additional revenue to TransCanada and that would be passed back to the customers in the following year.

15032. **MR. THOMPSON:** So we don't get this tilted effect that is in Case 3 in 2003. Is that what you are telling me? -- where the Eastern Zone goes up from 1.25.30 to 1.27.25.

15033. **MR. WHITMORE:** What would happen if you looked at the future year, you would receive -- customers would get the revenues that were generated in 2003 and that would

go against the 2004 revenue requirement.

15034. At that time, all things being equal, that toll at \$1.27.25, in Case 3, would be slightly lower, depending on how much money you deferred between the years.

15035. **MR. THOMPSON:** But there are many exhibits that tell us that for the remaining Eastern Zone, the long-haul toll under your Southwest Zone proposal will be higher than the existing Eastern Zone toll. The amounts range from, I think it's 2 cents per GJ. There are many exhibits that tell us that.

15036. I am just trying to find out, when do my clients get hit with that number if your proposal is approved? Is it in 2003 or sometime later?

15037. **MR. FELDMAN:** First, I must suggest to you that when we talk about "the hit", we don't think there will be a long-term -- or a medium to long-term hit. What we have indicated the concern is, if we do not implement it, there will be a significant hit for your customers; that hit resulting from the fact that we will lose long-haul service to short-haul service and our tolls will go up.

15038. But in the shorter term, assuming for the moment that there is no incremental throughput -- just for this discussion, assume that, the toll -- and I'll say toll increase -- would depend on the level of take-up and the destination point of the short-haul service.

15039. In other words, if you had significant volumes to the GMi EDA or East Hereford, or something like that, at the extreme end, obviously the impact is going to be different than if the short-haul service were to the Dawn or Union CDA, as an example.

15040. **MR. THOMPSON:** Okay.

15041. I accept all that, but when will "the hit" hit? 2003 or 2004?

15042. **MR. FELDMAN:** The tolls that are shown in scenario -- in Case 2 are the tolls that we are applying for that would apply in 2003, regardless of the take-up of the service to the Southwest Zone or any other point, frankly. It's not just the Southwest Zone. That's always been the practice.

15043. You set your tolls for the year and then somebody new contracts for service, and the revenues you get then goes into a deferral account, and then gets credited to your cost of service in the following year.

15044. Or to the extent you have assumed in the test year -- in this case 2003 -- that all your existing contracts remain in place right through till December 31st, but some shippers give notice on April 30th that they are going to non-renew their contracts effective October 31st,

those revenues are not collected, then there is a deficiency, and that must be collected, then, in the 2004 tolls.

15045. So this is no different than with our proposal here that has existed for many, many years, and we expect that to continue.

15046. **MR. THOMPSON:** No, I was just trying to clarify that. Deficiencies will carry forward.

15047. **MR. FELDMAN:** And additional revenues the same.

15048. **MR. THOMPSON:** All right, thank you.

15049. Let's move on now, if I could, to 129. This is, again, at (a) of the exhibit that Mr. Farrell discussed with you, because this goes to the competitiveness of this proposal.

15050. And when you are talking about competitiveness of the mainline, my understanding of what you are talking about is the competitiveness of the mainline in pipeline-to-pipeline competition. Is that what you are talking about?

15051. **MR. ZWICK:** Yes, it's pipeline-and-pipeline competition.

15052. **MR. THOMPSON:** All right.

15053. And so to be competitive with the other pipeline systems serving the Eastern Zone, we are talking about the TransCanada toll to that zone or to the subset that you are proposing compared to the cost of getting gas to that area by other pipeline systems?

--- (A short pause/Courte pause)

15054. **MR. ZWICK:** The proposal is designed to make TransCanada more competitive with expansions of existing pipeline systems and potential new pipeline systems.

15055. **MR. THOMPSON:** But -- well, let me just come to this exhibit and make this point clearer.

15056. For points east of Dawn, Exhibit N 1.29(a), Mr. Farrell took you through this -- shows that for everyone except -- this is page 2 of 2, 1.29(a) -- for every point east of Dawn, except the Union CDA, the delivered cost of your SW -- well, your SWZ proposal is more expensive than the Eastern Zone toll; right?

15057. **MR. ZWICK:** In the context of the answer that I just provided to you, and as we indicate in our Opening Statement, the place where TransCanada meets its competition

principally is at Dawn.

15058. **MR. THOMPSON:** But that's not focusing on my question. What we have here is pipeline-to-pipeline competition at points east of Dawn between TransCanada's Eastern Zone toll and its Southwest Zone proposition, which involves short-haul from Dawn.

15059. And you just have to look at this exhibit to conclude that the Southwestern Zone proposal loses the competition at points east of Dawn except for the Union CDA. Do you agree?

15060. **MR. WHITMORE:** That's assuming that the same customer takes the -- both ends of the contract.

15061. **MR. THOMPSON:** Its assuming what?

15062. **MR. WHITMORE:** The customer takes both ends of the contract; Empress to the Southwest Zone and then Dawn to the short-haul delivery area.

15063. **MR. THOMPSON:** No.

15064. But for people who are going to restructure, whatever you want to call it, why are they going to take a proposal that has more delivery costs involved than the existing Eastern Zone?

15065. **MR. FELDMAN:** What our evidence is is that many customers are not going to restructure. What they are interested in is contracting to the nearest hub. That's what we've seen. That's what the attachment to my Opening Statement shows. That's what I can tell you that the interest we have for service. They may do that because they can buy their gas there. It's readily available at the hub. It reduces their demand charge exposure.

15066. So there is no longer a need for them to contract for long-haul service. That, we see, is a trend; perhaps not for all gas purchased. But certainly we would see it being part of an eastern customer's portfolio, depending on the customer. So it's not a matter of restructuring. What we're seeing is customers buying their gas at Dawn, not only -- but we are seeing that happening.

15067. And what we are seeking is then, by the creation of the Southwest Zone, a more competitive toll to that hub. So we are not seeing customers who are coming back and saying: We -- and we are not expecting necessarily that Gaz Métro, given these numbers here, would say: Oh, I am going to buy at Dawn and I am going to take out the service from Empress to Dawn. No, we don't see that.

15068. But we do see them or some other party contracting back to Dawn, and then us providing the service to Dawn on long-haul and another party would be taking up that contract.

15069. **MR. THOMPSON:** But you have a seller of gas on one hand, a buyer on the other hand and a buyer in the eastern market, and in between you have transportation costs.

15070. And under your Southwest Zone proposal, the transportation cost of that transaction goes up in every area east of Dawn except the Union CDA. That's a fact, isn't it?

15071. **MR. FELDMAN:** If all that happens is no throughput and just the restructuring -- restructuring to the Consumers' CDA -- and I keep coming back to the basic assumption in these numbers. But we are saying and observing that parties are interested in contracting to Dawn and therefore -- I'm just repeating myself here -- but what they gain from that is access to a liquid hub at that point; buy their gas there reliably, contracted short-haul, reducing their demand charge exposure. That is their interest, it appears.

15072. **MR. THOMPSON:** Right.

15073. Well, you are saying that there is no customers here supporting it, but --

15074. **MR. FELDMAN:** Customers are showing that through their actions. They are not here supporting that. They are doing it.

15075. **MR. THOMPSON:** Well, we'll argue that.

15076. But the reality is, involved in your proposition are more transportation costs from the basin to the delivery areas east of Dawn except the Union CDA. That's a fact.

15077. **MR. MILNE:** The choice, Mr. Thompson, that customers will be making will be the price of Dawn -- the price of gas at Dawn, plus the short-haul toll to their delivery area, or the price of gas in Alberta, plus the Eastern Zone toll.

15078. They will have an additional option through the proposal to create the Southwest Zone.

15079. **MR. THOMPSON:** But the total transportation costs from the basin to the delivery area, except for the Union CDA will be greater. The answer to that question is "yes", based on this exhibit?

15080. **MR. FELDMAN:** No, sir.

15081. On this exhibit, under the assumptions made, I agree.

15082. **MR. THOMPSON:** Thank you.

15083. **MR. FELDMAN:** But there are many different assumptions, and it's not a fact. It is the calculation based on these assumptions.

15084. **MR. THOMPSON:** All right.

15085. And the same thing applies to NEB 1.29(b). The total costs of the transportation arrangement under the Southwest Zone proposal to delivery points -- export points, other than Chippawa and Niagara, will be greater on the assumptions that have gone into this exhibit?

--- (A short pause/Courte pause)

15086. **MR. FELDMAN:** So this shows that segmented service is greater than the current long-haul service. I agree with that.

15087. But the value a shipper seeking, you know, service from the Dawn hub is, again, a reduction of availability of gas and reduce to man-charge exposure.

15088. **MR. THOMPSON:** But that reality, what that shipper pays, buying it -- sorry, what that purchaser pays buying it from Dawn and what the other person pays to get it to Dawn, when you add the transportation components together for service on your system, it's greater than the long-haul toll. That's what this exhibit shows.

15089. **MR. FELDMAN:** Yes.

15090. And today, when we don't have a Southwest Zone, we're still finding parties are contracting back to Dawn, those who may today have long-haul service, when the toll is even higher to the Southwest Zone.

15091. **MR. THOMPSON:** All right.

15092. Well, it depends how the gas gets there. You're not bringing any gas to the Southwest Zone, you tell us --

15093. **MR. FELDMAN:** Precisely, that's my point, Mr. Thompson.

15094. **MR. THOMPSON:** That's your point?

15095. And so why is -- anyway.

15096. The toll -- the gas that's moving through Dawn now is coming on other pipeline systems, so it's not fair to say the toll on those systems is higher. It's not, it's lower.

--- (A short pause/Courte pause)

15097. **MR. FELDMAN:** No, I don't think that's quite true, sir. We deliver gas at Dawn; either through diversions, STS injections.

15098. And how that then -- the ultimate destination of that gas, we don't know. It, in many cases, can be traded there or put into storage, as we've said, in the rationale for the creation of the zone itself.

15099. So that same gas coming off our system, some of it could, in fact, be supporting other short-haul service. We don't know that.

15100. **MR. THOMPSON:** Well, are you delivering gas to Dawn or not?

15101. I'm looking at your Answer 22 in your evidence -- in your Prefiled Evidence, B-2, where you tell us the current absence of long-haul contracts to the SWDA presents an ideal opportunity to create a new toll zone.

15102. I took it from that that you didn't have any --

15103. **MR. FELDMAN:** We don't have any FT service.

15104. But I guess what I have said is we do deliver volumes of gas to Dawn, and I would suggest it could be through diverted FT volumes or, in effect, STS injection volumes, or STFT and IT, as I've mentioned.

15105. So it's a combination of services that we -- what we've said is that we don't have any long-haul FT service contracts to Dawn.

15106. **MR. THOMPSON:** All right.

15107. Well, you have -- are you delivering IT to Dawn?

15108. **MR. FELDMAN:** We have, from time to time.

15109. **MR. THOMPSON:** Well, how does all this tie in with your IT proposal? -- where, my understanding is, you're proposing an IT toll of, I think, it's 110 percent of the FT toll. Others are higher and others are lower.

15110. On that percentage approach, what happens if the IT firms up?

15111. **MR. FELDMAN:** I'm not quite sure what you mean by "what happens". What happens, we will -- we will still continue to propose the Southwest Zone. Just trying to tie into this panel, I'm not quite sure what you mean.

15112. **MR. THOMPSON:** Well, I guess I was tying it to the deliveries to the SWDA. If IT is being delivered to the SWDA and it firms up, then you do have deliveries to the SWDA which, under your Southwest Zone proposal, if it's approved, would immediately qualify for the lower FT toll.

15113. Is that the way it would work?

15114. **MR. FELDMAN:** Any party that would contract for FT service to Dawn would pay the NEB-approved -- excuse me, NEB-approved toll to the Southwest Zone.

15115. **MR. THOMPSON:** Well, let's move on, if we could, to the implications of beyond 1.29(a) and to NEB 2.16(c). And also, there's a follow-up to that, NEB 4.3. And again, I believe these documents are all part of B-68.

15116. And I, quite frankly, didn't understand what was going on here, and that's why I'm asking these questions.

15117. This -- these two exhibits seem to suggest that your Southwest toll -- Southwest Zone proposal, if it's approved, will trigger some changes to the short-haul tolls.

15118. Is that what these exhibits are telling me?

15119. **MR. WHITMORE:** No.

15120. **MR. THOMPSON:** Well, please explain, then. What's -- what's happening in the NEB 2.16(c) scenario?

15121. **MR. WHITMORE:** The Board had asked us to look at a possible change to our short-haul tolls to ensure that if you looked at a long-haul toll and looked at the segmented service, that those two tolls would equal.

15122. So it was an alternative of having different segmented tolls adding up to something larger or smaller than the long-haul toll. So this was the concept that we put up before the Board.

15123. **MR. THOMPSON:** All right.

15124. So is this an alternative you're proposing? This is what I didn't understand.

15125. **MR. WHITMORE:** No, we're not.

15126. **MR. THOMPSON:** You're not proposing this.

15127. This is just responding to the Board's question, that if we had to equalize these to certain points, we'd have to increase the short-haul toll to certain points?

15128. **MR. WHITMORE:** If it was necessary to change our short-haul method, this is one of the ones that we would consider looking at.

15129. **MR. THOMPSON:** All right.

15130. So that's not part of your proposal? Thanks.

15131. Let's turn, then, to the concept that we've been discussing a little bit about this erosion of long-haul throughput; that this proposal is somehow going to prevent erosion of long-haul throughput.

15132. And you discuss that, I think, in your Prefiled Testimony. At Question and Answer 45, you tell us, at lines 20 and 21, that there's a risk that domestic customers that choose not to renew all their long-haul contracts and instead will contract short-haul from Dawn for gas supplied to the hub by other pipelines, such as Vector, rather than long-haul on the mainline.

15133. This is this risk of further erosion that you're talking about? You were mentioning that, Mr. Feldman, earlier?

15134. **MR. FELDMAN:** That's right.

15135. **MR. THOMPSON:** And this proposal -- this Southwest Zone proposal is supposedly designed to ameliorate that risk in some fashion?

15136. **MR. FELDMAN:** Yes, sir.

15137. **MR. THOMPSON:** Okay.

15138. And when you talk about erosion of long-haul throughput, do I equate that to non-renewal of FT? Is that what that means?

15139. **MR. FELDMAN:** I'll say "yes", but it's probably broader than that, because if the volume flowed under another service, for example, but flowed long-haul, it wouldn't be of concern; right? -- if the long-haul volumes flowed.

15140. So I'm not directing it to FT service necessarily; particularly, you know, if our IT tolling proposal goes through.

15141. So really what we're thinking about here is loss of long-haul throughput. If you can use that term and think of it that way, that's what really does affect our -- you know, ultimately

our toll and our competitiveness.

15142. **MR. THOMPSON:** All right.

15143. Well, in terms of the non-renewal of FT -- I appreciate the distinction you're making, and maybe this will make it clearer for me.

15144. I had understood a primary cause of non-renewal mentioned in this case was a shift from FT to IT. Is that a primary cause of non-renewal in the past year, or so?

15145. **MR. FELDMAN:** It has been one of the drivers, but I'm -- I didn't realize that's where you're going, but I'm glad I made my previous comment, because it's very relevant in terms of the import of the Southwest Zone proposal.

15146. Obviously, that's not meant to address the migration of FT to IT. That's what our IT pricing proposal is all about. This is really looking at long-haul throughput.

15147. **MR. THOMPSON:** Okay.

15148. So do you -- how do you classify the IT throughput that will be affected by your IT proposal, if it's accepted? Is that long-haul or something else?

15149. **MR. FELDMAN:** I'm not sure I quite understand your question. Let me -- well, maybe you should reclarify for me, anyhow, at least what you're asking.

15150. **MR. THOMPSON:** All right. I'll try.

15151. You'd indicated that the Southwest Zone proposal does nothing to arrest the shift between FT and IT. It's not designed to solve that problem?

15152. **MR. FELDMAN:** That's correct.

15153. **MR. THOMPSON:** And that the IT proposal is designed to address that problem?

15154. **MR. FELDMAN:** In part; and as we said on the Panel 1 appearance here, it is -- one of its primary objectives is to price it fairly, relative to FT service, given the significant availability of excess capacity.

15155. **MR. THOMPSON:** But what I'm driving at: If your FT proposal is approved, then is it your expectation that some volumes currently flowing as IT will firm up as long-haul FT?

15156. **MR. FELDMAN:** We would expect that that could be an outcome, yes.

15157. **MR. THOMPSON:** All right.

15158. And so is it the IT proposal that is arresting and reversing erosion of the non-renewal phenomenon?

15159. **MR. FELDMAN:** Well, in part, but not in its entirety.

15160. I mean, we have -- several elements of our overall Application are meant to address our overall competitiveness, and this is one of those proposals to do so.

15161. **MR. THOMPSON:** All right.

15162. **MR. FELDMAN:** But it's not the only one.

15163. **MR. THOMPSON:** And is total throughput, including firm and IT, on the increase or the decline or holding steady in 2003, compared to 2002?

--- (A short pause/Courte pause)

15164. **MR. FELDMAN:** I think we -- we may have to check this, sir, but I think it would be relatively the same. It could be up somewhat.

15165. Certainly in January and February -- because of market conditions in both California, which affects the draw out of the basin to the west, combined with the cold weather in the east and northeast, we've certainly seen higher throughput in January and February.

15166. Overall, I don't know how significant it is, but it may be slightly up, relative to 2002. But it depends on the time frame you're talking about.

15167. Obviously, it's gone down significantly since 1999. So it depends on the time frame you're talking about here.

15168. **MR. THOMPSON:** Well, I was looking at 2002 to 2003, and I take your point on a weather-normalized basis, it might not be as high as it has been in recent months.

15169. But is it fair for me to conclude that it's about the same as 2002, on a weather-normalized basis, total throughput?

15170. **MR. FELDMAN:** It depends on how you're using it. We can probably go with that assumption. We will check the relative numbers, but --

15171. **MR. THOMPSON:** Okay. Subject to check?

15172. **MR. FELDMAN:** Yes.

15173. **MR. THOMPSON:** Okay, thanks.

15174. And so then we come to your testimony where you tell us about all these people that are coming up for renewal, and the domestic -- sorry, the different delivery areas in the Eastern Zone are shown at page 19 of your Prefiled Evidence; right?

15175. **MR. FELDMAN:** Yes.

15176. **MR. THOMPSON:** Okay.

15177. And coming back to NEB 1.29(a), page 2 it appears to me that all of these volumes, except 51,100 GJ in the Union CDA are in delivery areas where, under the Southwest Zone proposal, the total transportation costs will go up compared to the existing long-haul Eastern toll.

15178. **MR. FELDMAN:** And?

15179. **MR. THOMPSON:** Well, do you take that, subject to check?

15180. **MR. FELDMAN:** I'll agree with that, but I guess I would make the point: If you look at the table again attached to my Opening Statement, you've seen -- and the one party I will -- whose name I will quote, because it's already in the evidence here, provided by them, is Enbridge/Consumers'.

15181. Obviously Consumers' CDA has opted to contract for service from Dawn from us to the Consumers' CDA and contract for service on Vector to get the gas to Dawn, and have indicated that they will be non-renewing their -- or allowing their contract to expire for long-haul service on the TransCanada system. That's outside of the Union CDA area.

15182. **MR. THOMPSON:** Right, but Vector and Enbridge are related companies, are they not?

15183. **MR. FELDMAN:** I believe they are, yes.

15184. **MR. THOMPSON:** They might even be affiliates, for all I know.

15185. But these people, on renewal, if they go with the Southwest Zone proposition, the parties between these consumers, if you will, of services and the parties that are selling the services under the Southwest Zone proposal, the total transportation component from the basin to the delivery area will be greater.

15186. Why would they go for the Southwest Zone proposal? It doesn't make sense.

15187. **MR. FELDMAN:** Again, from the table, you've seen a customer serving the GMi EDA has contracted for service; one in the amount of 50,000 GJs per day, another 20,000. That's in the table. We can't say whether there will be any corresponding reduction in our long-haul service because the party has not given indication to us of intentions, but -- so we have an indication of that request and approval of a short-haul service.

15188. I guess one could look at it this way: If nobody takes up the service, what's lost? There is a de minimus impact on other customers.

15189. **MR. THOMPSON:** Okay.

15190. Let's just turn, before the break, to the other contract quantities you were mentioning, and this is in Answer 46. This is -- you talk about contracted capacity to the U.S. northeast and here, again, part of this is the 706,217 GJs to Iroquois, which, according to NEB 1.29(b), the combination the Southwest Zone and short-haul from Dawn produces a total toll that exceeds the long-haul toll by 13 -- almost 14 cents per GJ; correct?

15191. **MR. MILNE:** There is an important element missing in your analysis, Mr. Thompson, and we talked about it a moment ago, and that's the price of gas at Dawn. You can't make the kind of -- come to the kind of conclusions that you appear to be doing without knowing what the price of gas is at Dawn.

15192. **MR. THOMPSON:** No, but we are talking about pipeline-to-pipeline competition. TransCanada is not in the commodity business at Dawn, is it, Mr. Feldman?

15193. **MR. FELDMAN:** We agree, but we are not quite sure of the implication of what you said -- or the import of it.

15194. **MR. THOMPSON:** Well, I think Mr. Milne is saying the prices at Dawn can go up and down all over the map.

15195. **MR. MILNE:** That's right, and they do.

15196. And buyers, be they at Iroquois or in the EDA or the CDA, when they are evaluating their different options, will take into account the price of gas at Dawn at the time they have to exercise their option.

15197. **MR. THOMPSON:** Right.

15198. But in terms of the total transportation piece in the puzzle, regardless of how that commodity price varies, your Southwest Zone proposal has more costs than the long-haul

proposal.

15199. I mean, that's the reality of the situation. How it plays out in the commodity price, nobody can tell. Is that fair?

15200. **MR. MILNE:** Well, I think Mr. Feldman has agreed with you on that point. But in terms of how this -- how the combination of these different services will or will not be used, you have to know what the price of gas at Dawn is or will be.

15201. **MR. THOMPSON:** Okay.

15202. I am moving to another topic, Mr. Chairman. Would that be a convenient point to break? A little bit early, but not much.

15203. **THE CHAIRMAN:** It would indeed, Mr. Thompson. Thank you very much.

15204. Do we have anything to do before we adjourn?

---(No Response/Pas de réponse)

15205. **THE CHAIRMAN:** We are adjourned until 8:30 tomorrow morning. Thank you.

--- Upon adjourning at 1:28 p.m./L'audience est ajournée à 13h28