



Canada Energy
Regulator

Régie de l'énergie
du Canada

**CANADA ENERGY REGULATOR
RÉGIE DE L'ÉNERGIE DU CANADA**

**Hearing / L'audience
RH-001-2019**

**NOVA Gas Transmission Ltd.
System Rate Design and Services Application**

**NOVA Gas Transmission Ltd.
Demande concernant les services et la conception des droits**

VOLUME 3

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

**Canada Energy Regulator
517 Tenth Avenue SW
Calgary, Alberta**

**December 4, 2019
Le 4 décembre 2019**

**International Reporting Inc.
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HEARING / L'AUDIENCE

RH-001-2019

**IN THE MATTER OF NOVA Gas Transmission Ltd.
System Rate Design and Services Application**

HEARING LOCATION/LIEU DE L'AUDIENCE

Hearing held in Calgary, Alberta, Wednesday, December 4, 2019
Audience tenue à Calgary (Alberta), mercredi, le 4 décembre 2019

COMMISSION PANEL/COMITÉ D'AUDIENCE DE LA COMMISSION

Phil Davies	Presiding Commissioner/Commissaire présidant l'audience
Damien Côté	Commissioner/Commissaire
Stephania Lucuik	Commissioner/Commissaire



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(i)

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- Mr. Sander Duncanson
- Ms. Cassandra Richards
- Ms. Rosemary Stevens

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- Mr. Colin King

Alliance Pipeline Ltd.

- Mr. Robert Bourne

ATCO Gas

- Mr. Laurie E. Smith Q.C.
- Mr. Sean Assié

Black Swan Energy

- Mr. David Wood

BP Canada Energy Group ULC

- Ms. Kim Johnston

Canadian Association of Petroleum Producers

- Mr. Lewis L. Manning

Centra Gas Manitoba Inc.

- Ms. Helga Van Iderstine
- Ms. Jessica Carvell

ConocoPhillips Canada

- Mr. Alan Ross
- Mr. Bradon Willms
- Mr. Mike Baker

Encana Corporation

- Mr. Daniel Dunlop

Industrial Gas Consumers Association of Alberta

- Mr. Mark Thomas



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(ii)

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- Mr. Bernard Roth
- Mr. Simon Kupi

Shell Canada Energy

- Ms. Deanna Grant

Tenaska Marketing Canada, a division of TMV Corp.

- Mr. Tomasz Lange

Tourmaline Oil Corp.

- Ms. Deanna Kruk

Westcoast Energy Inc., doing business as Spectra Energy Transmission

- Mr. Don Davies
- Mr. Robert Bourne

Western Export Group

Ms. Rosa Twyman

Canada Energy Regulator/Régie de l'énergie du Canada

- Ms. Lauren Bell
- Ms. Michelle Haug



ERRATA

(i)

Tuesday, December 3, 2019 - Volume 2

Paragraph No.:

Revised Wording:

1292:

"...you mean, it's when we set up..."

"...you mean, is that when we set up..."

1294:

"...the rate determination?"

"...the rate determination."

1296:

"If I indicated earlier..."

"As I indicated earlier..."

1300:

"...our system more, how the..."

"...our system, is how the..."

1307:

"...has adapted how..."

"...has adapted to how..."

1351:

"...in a frozen system..."

"...in a normal system..."

1365:

"I would say as a result of the changes that are being made results in those enhancements or that alignment."

"I would say the changes that are being made result in those enhancements or in that alignment."

1371:

"...how the FT-R flow..."

"...how the FT-R floor..."

1373:

"...FT-R, three-year averaging of the path, for example, that major markets..."

"...FT-R three-year averaging of the paths, for example, but yes major markets..."

1375:

"...a step down later..."

"...a step done later..."

1383:

"That's what I needed..."

"That's why I needed..."



ERRATA

(ii)

Tuesday, December 3, 2019 - Volume 2

Paragraph No.:

Revised Wording:

1393:

“...would improve a stability...”

“...would improve the stability...”

1398:

“...FT-R pathing, as we...calculate the FT-R pathing.”

"...FT-R paths, as we...calculate the FT-R paths."

1399:

“...reflect the distance, diameter,...”

“...reflect the distance-diameter...”

1433:

“...for that FT-R pathing...in those FT-R pathing...”

“...for the FT-R pathing...in those FT-R paths...”

1439:

“...and help the rate study.”

“...and help rate stability.”

1442:

“Mainly when we're...”

"...postage stamp for the 293 for example."

“Mainly what we're...”

"...postage stamp for the D2 and D3 for example."

1444:

“...for the interim market...”

“...or not is concerned...”

“...for the intra market...”

“...were not as concerned...”

1468:

“...there's non-changes, because there's obviously...”

“...there are no changes, because there are obviously...”

1554:

“...the base less competitive.”

“...the basin less competitive.”

1570:

“...part of RH-2011...”

“...part of RH-003-2011...”



ERRATA

(iii)

Tuesday, December 3, 2019 - Volume 2

Paragraph No.:

Revised Wording:

1640:

"...third-party purchase data..."

"...third-party purchased data..."

1644:

"...was looking at 2020..."

"...was looking at 2023..."

1721:

"...would point a similar picture..."

"...would paint a similar picture..."

1749:

"...versus 600 million Bcf of volume..."

"...versus 600 MMCF of volume..."

1753:

"**MR. RITSCH:** Yes."

"**MR. REED:** Yes."

1778:

"...and -- your credit -- this is..."

"...and to your question, this is..."

1791:

"I work with..."

"I worked with..."

1797:

"...just to wade in the..."

"...just to aid in the..."

1877:

"...the Information Request..."

"...the Information Requests..."

1897:

"As we stated under the Settlement..."

"As we stated, under the Settlement..."

1927:

"...by a major market..."

"...by major market..."

1932:

"...design to both EFT..."

"...design to both FT..."



ERRATA

(iii)

Tuesday, December 3, 2019 - Volume 2

Paragraph No.:

Revised Wording:

1935:

"...delivery and diameter..."

"...distance and diameter..."

1938:

"...groupings, for simplicity,..."

"...groupings. For simplicity,..."

1941:

"...simply be variety of..."

"...simply be a variety of..."



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UNDERTAKINGS/ENGAGEMENTS

No.	Description	Paragraph No./No. de paragraphe
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--- Upon commencing at 9:05 a.m./L'audience débute à 9h05

2218. **THE PRESIDING COMMISSIONER:** Reconvening to deal with the NOVA System Rate Design Application, RH-001-2019.

2219. And we left yesterday with expecting PETRONAS to be at the table, and please correct me if I'm saying the name wrong because I know there's different pronunciations.

2220. So Mr. Roth, would you like to get us started?

2221. **MR. KUPI:** Mr. Chair, long time no see.

2222. My name is Simon Kupi, I'm sure your memory is good because I saw the nod, but I wanted to introduce the members of the PETRONAS Energy Canada, Limited, I'll call PETRONAS witness panel. And their responsibilities have been identified in Exhibits C02922-1 as well as C03284-1.

2223. But I'll briefly introduce them to you.

2224. Closest to you is Dr. Toby Brown, Principal of the Brattle Group. Next to him is Dr. Paul Carpenter, also Principal at the Brattle Group. Next to Dr. Carpenter is Michael Culbert, who serves as Vice-Chairman of PETRONAS. And farthest from the Panel is Elie Atme, who is employed as the Director of Marketing and Corporate Development at PETRONAS.

2225. Mr. Chair, may I have the witnesses sworn?

ELIE ATME: Sworn

MICHAEL CULBERT: Sworn

PAUL CARPENTER: Sworn

TOBY BROWN: Sworn

2226. **THE PRESIDING COMMISSIONER:** Thank you, Ms. Savoie.

2227. Mr. Kupi, please.

2228. **MR. KUPIE:** Thank you.



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

2229. **MR. KUPI:** Starting with Mr. Culbert, do you have a copy before you of the written evidence of PETRONAS filed as Exhibit C01050-2; the responses to the Commission's Information Request Number 2 to PETRONAS filed as Exhibit C0227-2; the CV of Elie Atme filed as Exhibit C03284-2; and the opening statement of PETRONAS filed as Exhibit C03387-2?

2230. **MR. CULBERT:** Yes, I do.

2231. **MR. KUPI:** And was this evidence prepared under your direction and control?

2232. **MR. CULBERT:** Yes, it was.

2233. **MR. KUPI:** Do you have any corrections to make to that evidence?

2234. **MR. CULBERT:** Yes, I do. At paragraph 5 of Exhibit C03387-2 and at Response 2.1(g) on page 7 of Exhibit C03227-2, the range 0.05 to 0.21 should read "0.05 to 0.1".

2235. **MR. KUPI:** Thank you. And apart from those corrections, Mr. Culbert, is this evidence accurate to the best of your knowledge and belief?

2236. **MR. CULBERT:** Yes, it is.

2237. **MR. KUPI:** And do you adopt all of the referenced exhibits as the evidence of PETRONAS in this proceeding?

2238. **MR. CULBERT:** Yes, I do.

2239. **MR. KUPI:** Mr. Atme, do you have a copy before you of the responses to the Commission's Information Request Number 2 filed as Exhibit C03227-2; and your CV filed as Exhibit C03284-2?

2240. **MR. ATME:** Yes, I do.

2241. **MR. KUPI:** And did you participate and assist in preparing this evidence?



2242. **MR. ATME:** Yes, I did.
2243. **MR. KUPI:** And apart from the correction just noted, is this evidence accurate to the best of your knowledge and belief?
2244. **MR. ATME:** Yes, it is.
2245. **MR. KUPI:** Dr. Carpenter, do you have a copy before you of the written evidence of the Brattle Group filed as Exhibit C01050-3; the responses to Commission Information Request Number 1 to PETRONAS filed as Exhibit C02552-2; as well as the responses to Westcoast Information Request Number 1 to PETRONAS filed as Exhibit C01729-2?
2246. **DR. CARPENTER:** Yes, I do.
2247. **MR. KUPI:** Thank you. And was this evidence prepared under your direction or control?
2248. **DR. CARPENTER:** Yes, it was.
2249. **MR. KUPI:** And is that evidence accurate to the best of your knowledge and belief?
2250. **DR. CARPENTER:** Yes, it is.
2251. **MR. KUPI:** And do you accept that Exhibit as the evidence of the Brattle Group in this proceeding?
2252. **DR. CARPENTER:** Yes, I do.
2253. **MR. KUPI:** Dr. Brown, do you have a copy before you of the written evidence of the Brattle Group filed as Exhibit C01050-3; the responses to Commission Information Request Number 1 to PETRONAS filed as Exhibit C02552-2; as well as Westcoast Information Request Number 1 to PETRONAS filed as Exhibit C0179-2?
2254. **DR. BROWN:** Yes, I do.
2255. **MR. KUPI:** And did you participate and assist in preparing that evidence?



2256. **DR. BROWN:** I did.

2257. **MR. KUPI:** And is that evidence accurate to the best of your knowledge and belief?

2258. **DR. BROWN:** It is.

2259. **MR. KUPI:** Dr. Carpenter and Dr. Brown, do you each also have a copy before you of the responses to the Commission's Information Request Number 2 filed as Exhibit C03227-2?

2260. **DR. CARPENTER:** Yes.

2261. **DR. BROWN:** Yes.

2262. **MR. KUPI:** Thank you.

2263. And did each of you participate and assist PETRONAS in preparing this evidence?

2264. **DR. CARPENTER:** Yes.

2265. **DR. BROWN:** Yes.

2266. **MR. KUPI:** Excepting the correction that was noted by Mr. Culbert above, is that evidence accurate to the best of your knowledge and belief?

2267. **DR. CARPENTER:** Yes, it is.

2268. **DR. BROWN:** Yes.

2269. **MR. KUPI:** Thank you.

2270. Mr. Culbert will now deliver the opening statement of PETRONAS.

2271. **MR. CULBERT:** Mr. Chair, for PETRONAS Energy Canada Limited, the NOVA Gas Transmission Limited Rates and Services Settlement represents a positive step toward resolving the uncertainty in the North Montney Mainline tolling framework that persisted since the project first applied for in



2013.

2272. However, PETRONAS has significant concerns about NGTL's applied-for surcharge level and its alignment with the Commission's established tolling principles.
2273. As the North Montney Mainline's anchor shipper, PETRONAS has intervened in this proceeding to ensure that the North Montney's world-class resource -- a resource that is as or more economic than the leading U.S. shale plays -- can secure egress at rates that allow it a reasonable chance to compete to grant Canadian gas a place in the North American market.
2274. PETRONAS signed the Settlement based on the understanding that the surcharge concept included within it was one of several options capable of addressing the concerns expressed by the National Energy Board in its MH-031-2017 decision with respect to North Montney Mainline's compliance and with the cost-based/user-pay principle. PETRONAS sought to bring certainty to the North Montney Mainline tolls and to its significant investments in Northeast British Columbia.
2275. PETRONAS engaged The Brattle Group to consider the level of NGTL's applied-for surcharge, a matter outside of the Settlement. Brattle's evidence indicated that the NGTL's applied-for tolling methodology would achieve tolls consistent with the MH- 031-2017 decision independent of any surcharge. This is the result of the changes that the NGTL has proposed to the methodology's tolling ceiling and pathing approach that significantly enhance the delivery -- the distance-sensitivity.
2276. PETRONAS acknowledges that it is agreed to the concept of a surcharge. However, it remains of the view that only a small surcharge, based on the surcharge coefficient no greater than 0.05 to 0.1 would ensure that the North Montney Mainline shippers do not excessively cross-subsidize the existing NGTL System.
2277. The evidence demonstrates that producers tying its supply into the North Montney Mainline at Blair Creek would pay -- would be paying a toll premium equivalent to one-third of the transportation cost it would otherwise pay under the applied-for surcharge level.
2278. In PETRONAS' view, that is an excessive burden on shippers that



have already made an unprecedented commitment to the sustainability of the NGTL System, and whose production volumes will reduce the existing shippers' tolls.

2279. Westcoast Energy Inc. again advocates for standalone tolling on the North Montney Mainline in this proceeding, and again fails to provide any credible evidence of competition, or sorry -- competitive harm to its system from NGTL. Westcoast's proposal must be rejected. While Westcoast and NGTL appear to be vigorously in compete in regulatory proceedings, PETRONAS considers that there is, at best, a weak support for any environment of pipe-on-pipe competition in Northeast British Columbia at present.

2280. Simply stated, Westcoast offers no compelling service to connect B.C.'s producers to a highly valued NIT market, while NGTL, pending an application to the Commission, is barred from challenging Westcoast for LNG deliveries.

2281. In PETRONAS' view, the dimension of competition that warrants the greatest attention from the Commission in this proceeding is that of basin-on-basin competition currently threatening Canadian's gas producers' ability to compete amidst unprecedented shifts in North American gas supply and demand. The thin margins faced by producers in the current gas environment leave no room for a surcharge level divorced from its true costs and contributions to the North Montney Mainline shippers.

2282. Rather, if desired for inter-pipe competition is to be weighed at all in this proceeding, it should drive the Commission to encourage or require incumbents to innovate in pursuit of offering more responsive to their customers' needs. An excess surcharge imposed on top of an already cost-reflective tolls on the North Montney Mainline is a shrink the pie, not grow the pie, solution in areas where pipelines can compete to deliver value to shippers. Tolling frameworks that serve only to maintain historic regulatory barriers between the NGTL and Westcoast systems benefit neither the long-term interests of producers, pipelines, nor the basin as a whole.

2283. Thank you.

2284. **MR. KUPI:** Thank you very much, Mr. Culbert. And thank you, Mr. Chair.



2285. The witnesses are now available for cross-examination.

2286. **THE PRESIDING COMMISSIONER:** I believe Westcoast is the only person who we expect to be crossing. We'll see if anyone else comes up later.

2287. Mr. Davies.

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

2288. **MR. DAVIES:** Thank you. Good morning.

2289. Good morning, Panel.

2290. Mr. Culbert, PETRONAS Energy, then known as Progress Energy, participated in the MH-031-2017 proceeding, right?

2291. **MR. CULBERT:** Yes.

2292. **MR. DAVIES:** And you may have in fact been sitting in that very same chair.

2293. **MR. CULBERT:** I may have.

2294. **MR. DAVIES:** Now, your position in MH-031-2017 was that the Board should approve the rolled-in tolling methodology that NGTL was then proposing for the North Montney Mainline, right?

2295. **MR. CULBERT:** Correct.

2296. **MR. DAVIES:** And you told the Board in your evidence in the MH-031-2017 proceeding that if the North Montney Mainline were tolled on a standalone basis, "North Montney gas would become uncompetitive with other natural gas production in North America", right?

2297. **MR. CULBERT:** I recall something along that line, yes.

2298. **MR. DAVIES:** Well, in fact I put that in quotes because those were the exact words from your evidence.



2299. **MR. CULBERT:** Okay. Thank you.
2300. **MR. DAVIES:** At the time of the MH-031-2017 proceeding, PETRONAS, then Progress, had signed a project expenditure authorization for FT-R service in respect of the North Montney Mainline, right?
2301. **MR. CULBERT:** Correct.
2302. **MR. DAVIES:** And Progress had a contractual right to terminate its PEA and FT-R service up to 30 days after receiving the NEB's decision on NGTL's application.
2303. **MR. CULBERT:** Yes.
2304. **MR. DAVIES:** And you told the Board in the MH-031-2017 proceeding that if Progress was denied cost-competitive access to the net market hub, Progress would need to consider whether to terminate the PEA rather than continue to invest capital in the development of its North Montney resource, right?
2305. **MR. CULBERT:** Correct.
2306. **MR. DAVIES:** Now, Mr. Culbert, you obviously conducted a very thorough review of the MH-031-2017 decision when it was rendered by the National Energy Board in May 2018?
2307. **MR. CULBERT:** Yes, we would have.
2308. **MR. DAVIES:** And in the decision, the Board denied NGTL's proposed tolling methodology for the North Montney Mainline, yes?
2309. **MR. CULBERT:** Yes. Yes, in the long-term.
2310. **MR. DAVIES:** And the Board in the decision also gave NGTL a year to apply for a new tolling methodology for the NMML facilities and prescribed that, absent approval of a new tolling methodology, NGTL must calculate the NMML tolls using a standalone tolling methodology, right?
2311. **MR. CULBERT:** I believe the words also added, "...in default of



having any other alternatives presented.”

2312. **MR. DAVIES:** And in the absence of that, the answer would be a standalone tolling methodology.

2313. **MR. CULBERT:** Yes.

2314. **MR. DAVIES:** Now, I assume from the fact that you are here today, that after carefully considering the MH-031-2017 decision, PETRONAS decided not to exercise its contractual right to terminate the PEA and FT-R service in respect of the North Montney Mainline, correct?

2315. **MR. CULBERT:** Yes, we have adjusted volumes but we have not terminated it.

2316. **MR. DAVIES:** Prior to making its decision not to terminate, did PETRONAS receive any promises or assurances or commitments from NGTL or from anybody else relating to the tolling of the NMML facilities?

2317. **MR. CULBERT:** We have been an active participant in the Settlement Agreement which was our solution to moving forward and not -- in coming up with an alternative to standalone tolling.

2318. **MR. DAVIES:** But your decision not to terminate the PEA, Mr. Culbert, was made well before the Settlement Agreement was concluded.

2319. **MR. CULBERT:** Yes, it was.

2320. **MR. DAVIES:** And at the time that you decided not to terminate the PEA did PETRONAS or had PETRONAS received any promises or assurances or commitments from NGTL or anybody else relating to the tolling of the North Montney Mainline?

2321. **MR. CULBERT:** No.

2322. **MR. DAVIES:** With regard to the development of natural gas resources in northeast British Columbia, it is for the regulator to apply toll principles and for the governments to, if appropriate, provide subsidies. Do you agree with that?



2323. **MR. CULBERT:** I'm not sure how it reflects on your line of questioning.
2324. **MR. DAVIES:** Well, don't worry about how it reflects. Just answer the question. The question is with regard to the development of natural gas resources in northeast B.C., it is for the regulator to apply toll principles and it is for governments to provide subsidies if they are necessary and appropriate, right?
2325. **MR. CULBERT:** No, I can't agree with the government being required to provide subsidies.
2326. **MR. DAVIES:** I said if necessary and appropriate.
2327. **MR. CULBERT:** I still can't agree with that.
2328. **MR. DAVIES:** Can you agree that it's not the job of this Commission to provide subsidies?
2329. **MR. CULBERT:** I'm not suggesting that the Settlement has any subsidies in it or surcharges so it's ---
2330. **MR. DAVIES:** I didn't refer to the Settlement. Can we agree that it's not the job for this Commission to provide subsidies to producers of natural gas resources in northeast British Columbia?
2331. **MR. CULBERT:** I think it's the Commission's responsibility to provide fair and reasonable tolling.
2332. **MR. DAVIES:** In accordance with toll principles?
2333. **MR. CULBERT:** In accordance with historic toll principles.
2334. **MR. DAVIES:** Thank you. Now, Mr. Culbert, you have a different consulting firm appearing with you in this proceeding than you did in the previous MH-031-2017 proceeding, right?
2335. **MR. CULBERT:** Correct.
2336. **MR. DAVIES:** And is that because you want to re-litigate findings made by the Board in its MH-031-2017 decision?



2337. **MR. CULBERT:** No. As I said in the opening statement, the Brattle Group was here to address the surcharge.
2338. **MR. DAVIES:** Are you requesting, Mr. Culbert, that the Commission vary any of the findings made by the National Energy Board in MH-031-2017?
2339. **MR. CULBERT:** No.
2340. **MR. DAVIES:** Can you tell me when Brattle was retained?
2341. **DR. CARPENTER:** Maybe I can answer that. I think it was in the spring of 2019.
2342. **MR. DAVIES:** Can you tell me whether Brattle was retained before or after PETRONAS executed the Settlement MOU?
2343. **DR. CARPENTER:** I believe it was after the Settlement was executed. I could be wrong.
2344. **MR. DAVIES:** Can you help us ---
2345. **MR. CULBERT:** I can't confirm exactly the timing of that, no.
2346. **MR. DAVIES:** Now if we turn up, please, the PETRONAS evidence, that's Exhibit C01050-2, at page 12, and I'm looking at paragraph 39. And what we see in this paragraph, Mr. Culbert, is PETRONAS Canada expressing the view that levying any amount of surcharge would depart from pure cost causation principles favouring existing NGTL shippers, right?
2347. **DR. CARPENTER:** And I can certainly answer that. The answer is based on our analysis the modifications that NGTL made to its tolling methodology sufficiently added cost causation elements in terms of distance sensitivity and the raising of the ceiling, such that no surcharge will be required to meet the cost causation.
2348. We looked at different levels of surcharges to see the extent to which they would be in line with distance sensitivity of the NGTL tolling methodology and our judgment was that if a settlement was -- if a surcharge was necessary under the Settlement that something on the order of 5 to 10 percent was still cost



reflective and not unduly discriminatory.

2349. **MR. DAVIES:** So the view of PETRONAS, which is set out in page 39, or paragraph 39 of the evidence -- or based on the view of PETRONAS, the answer to my question is "yes"?

2350. **DR. CARPENTER:** I believe so, yes.

2351. **MR. DAVIES:** Now, back at page or paragraph 34 on page -- hard copy page 10. I guess it's PDF page 10 as well -- you point out that:

"As stated by NGTL ... NGTL System shippers agreed to the concept of a surcharge, but not to a specific level of surcharge."

2352. Right?

2353. **MR. CULBERT:** Correct.

2354. **MR. DAVIES:** So Mr. Culbert, from the perspective of pure cost causation principles, the view of PETRONAS is that while there should be a surcharge, the surcharge should be zero, right?

2355. **MR. CULBERT:** I'll pass it on to Dr. Carpenter.

2356. **MR. DAVIES:** This is your evidence. This is the PETRONAS evidence, Mr. Culbert.

2357. **MR. KUPI:** Excuse me, Mr. Chair.

2358. Mr. Culbert is speaking to the PETRONAS evidence right now. It's very clear that there are references throughout that document to the Brattle evidence and those are reflected in footnotes. There are also references to the NGTL application. So I think it would be improper to prevent Mr. Culbert from conferring with his advisors.

2359. **MR. DAVIES:** I don't mind if he confers but when I'm cross-examining on the PETRONAS evidence and we have PETRONAS expressing views, I think I'm entitled to the view of PETRONAS.



2360. So if you want to confer, Mr. Culbert, before answering the question by all means do, but I'm cross-examining on the view expressed by PETRONAS in its evidence and I'd appreciate PETRONAS' response.

2361. So let me repeat the question and, by all means, confer.

2362. The question was, so from the perspective of pure cost causation principles, the view of PETRONAS is that while there should be a surcharge, the surcharge should be zero.

2363. **MR. CULBERT:** We believe the surcharge could be zero because NGTL changed its tolling methodology with the ceiling and pathing.

2364. **MR. DAVIES:** And then, over on the page in paragraph 35, we see that -- we see the statement that:

"PETRONAS Canada agrees in principle that a surcharge is appropriate to address the concerns raised by the Board in the MH-031-2017 decision..."

2365. Do you see that, Mr. Culbert?

2366. **MR. CULBERT:** Yes, I see that.

2367. **MR. DAVIES:** And can you tell us what principle you're applying to arrive at the conclusion that a surcharge is appropriate?

2368. **MR. CULBERT:** That is based on the evidence that Brattle has provided below, as it states at the opening sentence.

2369. **MR. DAVIES:** Well, I don't follow that because the opening sentence in paragraph 36 indicates that it would be appropriate not to charge a surcharge. That's why it says "exclusive of the surcharge".

2370. So my question to you is, when we come back to paragraph 35 when you say in principle that a surcharge is appropriate, I'm questioning what the principle is.

2371. **MR. CULBERT:** Yeah. What we're referring to here is that we agreed to the surcharge in principle in the Settlement and at that point in time, we



hadn't seen the total effect of what the ceiling and pathing tolls had and how that impacted the cost causation.

2372. **MR. DAVIES:** Well, what do you mean, you agreed to the surcharge in the Settlement in principle? What's the principle?

2373. **MR. CULBERT:** The principle is, we're open to discussing amongst everything else in the Settlement Agreement as a package, we're open to the concept of a surcharge, and as I say, based on tolling methodology and cost causation, so ---

2374. **MR. DAVIES:** Okay. Let's if we can, please, turn up the Settlement MOU, and it's Exhibit A98318-3 at PDF page 9. So that's the MOU on page 7.

2375. Just excuse me for a minute, Mr. Chairman. I just need to grab my binder.

--- (A short pause/Courte pause)

2376. **MR. DAVIES:** If we could just scroll down, please. Thank you.

2377. And this is the North Montney provision, right?

2378. **MR. CULBERT:** Yes, it is.

2379. **MR. DAVIES:** And I assume that PETRONAS, as one of the parties to the MOU, has no disagreement with what is written here?

2380. **MR. CULBERT:** Correct.

2381. **MR. DAVIES:** Now, with regard to the second sentence, at the time that it signed the MOU, what did PETRONAS understand was meant by, "the cost of using the existing NGTL System"?

2382. And don't look to Brattle, because Brattle wasn't retained by the time you signed the -- at the time you signed the MOU, Mr. Culbert, so I'm asking you. At the time that you signed the MOU, what was your understanding or PETRONAS' understanding of what was meant by "the cost of using the existing NGTL System"?



2383. **MR. CULBERT:** Well, we wouldn't have had a defined number, but what we would have looked at is what the change to the ceiling and what the pathing would have potentially resulted in as far as the range of tolls that -- or the range of surcharge that could have been -- could have rose from them.
2384. **MR. DAVIES:** Which has nothing to do with the cost of using the existing NGTL System. So I'm asking you, what was your understanding as to what was meant by "the cost of using the existing NGTL System"?
2385. **MR. CULBERT:** Well, I think from our perspective, whether it be the base toll, based on the receipt point, the FT-R, as well as a surcharge, we look at that as using the NGTL existing System and the North Montney Mainline.
2386. **MR. DAVIES:** At the time that you signed the MOU, Mr. Culbert, did you have an understanding as to how the cost of using the existing NGTL System would be determined?
2387. **MR. CULBERT:** As I say, we look at it in conjunction with the FT-R rate at the receipt points that we put gas onto the North Montney Mainline and the concept of a surcharge as the total rate of using the North Montney Mainline and the NGTL existing System.
2388. **MR. DAVIES:** So are you telling me you had no specific discussions with NGTL or anyone else about how the cost of using the existing NGTL System would be determined?
2389. **MR. CULBERT:** The cost, as it says here, was in the concept of a surcharge being added to the NGTL shippers.
2390. **MR. DAVIES:** So did you or did you not have discussions with NGTL or others at the time about how the cost of using the existing NGTL System would be determined?
2391. **MR. CULBERT:** As I say, the way we look at this is the cost of the North Montney Mainline and the NGTL System, which, as we've talked and as our evidence has shown, we're looking at it in the context of rolled-in. And if rolled-in is not acceptable, then a toll based on the FT-R, adjusted FT-R plus a surcharge is acceptable to us, as we've signed the MOU.
2392. **MR. DAVIES:** But I didn't ask you how you were looking at it. I



asked whether you had discussions with NGTL or anyone else about how the cost of using the existing NGTL System would be determined?

2393. **MR. CULBERT:** Well, that's how we look at it, so that's based on internal conversations we have, internal analysis, as well as conversations. I don't know exactly who we talked to at the time.

2394. **MR. DAVIES:** Okay. Now, in your opening statement, Mr. Culbert, in paragraph 3 you tell us that PETRONAS signed the Settlement on its understanding that the surcharge concept included within it was one of several options capable of addressing the concerns expressed by the National Energy Board in MH-031-2017 with respect to NMML's compliance with the cost-based user pay principle.

2395. See that?

2396. **MR. CULBERT:** Yes, I see that.

2397. **MR. DAVIES:** And what were the other options?

2398. **MR. CULBERT:** On page 42 of the decision, the Board laid out potential alternatives and indicated that applying for a toll surcharge to shippers on the North Montney Mainline Facilities was one, and creating toll zones was another. So there was a number of items laid out there on page 42.

2399. **MR. DAVIES:** Was the default methodology of standalone tolling one of the options?

2400. **MR. CULBERT:** The default of standalone tolling was an option, failing other alternatives being brought forward.

2401. **MR. DAVIES:** Being brought forward and approved?

2402. **MR. CULBERT:** And approved.

2403. **MR. DAVIES:** Was the surcharge concept included in the Settlement to take a standalone tolling option off the table?

2404. **MR. CULBERT:** The standalone is in essence a 100 percent surcharge. So it's either/or whether you have it standalone or you have it as a 100



percent surcharge; I think it's more or less the same math.

2405. **MR. DAVIES:** But the question was, was the surcharge concept included in the Settlement to take a standalone tolling methodology off the table?

2406. **MR. CULBERT:** Well, as I say, I think 100 percent surcharge is in essence a standalone so it doesn't take it off the table, but it's another way of getting to that.

2407. **MR. DAVIES:** Now, you go on to tell us in paragraph 3 that, including the surcharge concept in the Settlement -- and I'm looking at the last line now -- brought certainty to NMML tolls and to the PETRONAS investments in Northeast B.C., right?

2408. **MR. CULBERT:** Yes. We did say that.

2409. **MR. DAVIES:** And can you explain how the surcharge concept brings certainty to NMML tolls?

2410. **MR. CULBERT:** Well, with the combination of the Settlement and the revised FT-R rates, plus whatever decision the Commission makes on the surcharge, that would give us toll certainty and we could base our go-forward investment decisions based on that toll certainty.

2411. **MR. DAVIES:** But you don't yet have a decision from the Board, or from the Commission on the surcharge coefficient.

2412. **MR. CULBERT:** That's correct.

2413. **MR. DAVIES:** So how does the concept of a rolled-in surcharge methodology give you certainty?

2414. **MR. CULBERT:** We'll have certainty following this decision; we're hopeful.

2415. **MR. DAVIES:** So there was nothing about the Settlement itself that gave you certainty? I had read you to say here that that was one of the reasons you signed the Settlement. In fact, if you look up in the first paragraph, it says it represents a positive step towards resolving the uncertainty in the tolling. How does it represent a step towards resolving the uncertainty in the tolling?



2416. **MR. CULBERT:** The Settlement provides new FT-R rates at each delivery point. Based on those ceilings and pathing methods, it's changed what the northern reaches of the System will pay. In other words, higher rates, and other portions on the System will pay lower rates depending on that ceiling and pathing method.
2417. So with those items, that provides certainty as far as what FT-R rates are following the Settlement. Following a decision from the Commission on the issue of surcharge will also provide certainty one way or the other as to what that combined toll on the North Montney Mainline and existing north -- existing NGTL System. That will -- once that decision is rendered, we will have certainty and we think the Settlement is a good step in that direction to move forward with.
2418. **MR. DAVIES:** So the position of PETRONAS is that the Commission should approve the rolled-in surcharge methodology as part of the Settlement, and then determine the appropriate toll level by way of the coefficient.
2419. **MR. CULBERT:** Yes. That's correct. And that would provide certainty that we haven't had since 2013 when this was first applied for.
2420. **MR. DAVIES:** I wonder, Mr. Culbert, if you could turn up with me, please, the GH-001-2014 decision? Did you bring that? I asked your counsel to have you bring it. And maybe as well we could bring it up on the screen, please. So it's the GH-001-2014 decision.
2421. Do you have the decision, Mr. Culbert?
2422. **MR. CULBERT:** No. I don't have it.
2423. **MR. DAVIES:** Did your counsel not pass the message or did you forget?
2424. I'll blame Mr. Roth.
- (Laughter/Rires)
2425. **MR. DAVIES:** It's the decision from the original North Montney case in 2014.



2426. **MR. CULBERT:** Okay. I now have it. Thanks.
2427. **MR. DAVIES:** And I'm looking at hard copy page 14, once we get it up on the screen, it will be PDF page 38.
2428. **MR. CULBERT:** PDF page 13?
2429. **MR. DAVIES:** Sorry. Page 14.
2430. Perfect. Thank you. And if we could go to PDF page 38. And just scroll down a little bit, please. Perfect. Right there.
2431. So you see, Mr. Culbert, under the heading, "Views of the participants on tolls of service proposal"?
2432. **MR. CULBERT:** Yes. Yes, I see that.
2433. **MR. DAVIES:** And it starts out, "Views of NGTL". And you'll see that NGTL was proposing that the Board consider the application in two steps?
2434. **MR. CULBERT:** Yes. I see that.
2435. **MR. DAVIES:** And you were also involved in this proceeding, sir, correct?
2436. **MR. CULBERT:** That's correct.
2437. **MR. DAVIES:** Now, the proposed first step was that the Board determine whether the cost of the project should be rolled-in to the cost pool for the entire NGTL system, right?
2438. **MR. CULBERT:** Yes. That's what it says.
2439. **MR. DAVIES:** And the second step being proposed by NGTL was that, assuming a roll-in, the Board would then determine whether the rate design would result in a toll consistent with the Board's tolling principles, right?
2440. **MR. CULBERT:** That's what it says, yes.
2441. **MR. DAVIES:** So NGTL's concept here, Mr. Culbert, was that the



Board should approve the roll-in and then make any adjustments necessary to the rolled-in toll to achieve the Board's tolling principles, right?

2442. **MR. CULBERT:** That seems correct, yes.

2443. **MR. DAVIES:** And the Board in its GH-001-2014, rejected this proposed two-step consideration of the application; do you recall that?

2444. **MR. CULBERT:** Can you point us to where the Board rejected it?

2445. **MR. DAVIES:** Sure. It's on hard copy page 32, PDF page 56.

2446. The Board rejected this proposed two-step consideration of the application because it considered that the two steps were interrelated.

2447. **MR. CULBERT:** Yes, I see that.

2448. **MR. DAVIES:** I'm suggesting or what I'll suggest to you, Mr. Culbert, and invite you to agree with me is this. What PETRONAS is advocating in the present case is essentially what NGTL was advocating in the GH-001-2014 case with one exception. Instead of asking the Commission to first determine whether the cost roll-in is appropriate, you're asking the Commission to simply accept that the cost roll-in is appropriate because it has been acknowledged in the Settlement. Do you agree?

2449. **MR. CULBERT:** Can you repeat that, please?

2450. **MR. DAVIES:** Sure. I suggest to you that what PETRONAS is advocating in the present case is essentially what NGTL was advocating in the GH-001-2014 case with one exception. Instead of asking the Commission to first determine whether the cost roll-in is appropriate, you're asking the Commission to simply accept that the cost roll-in is appropriate because it has been acknowledged in the Settlement. And I'm inviting you, Mr. Culbert, to agree with that.

2451. **MR. CULBERT:** We don't believe we can agree with that.

2452. **MR. DAVIES:** Why not?

2453. **MR. CULBERT:** I'll have my experts reply to that, if I could.



2454. **DR. BROWN:** Our analysis in our written evidence looks at the NMML tolls that result from rolling in and applying NGTL's revised tolling methodology. And then we look at those tolls and consider whether they are consistent with economic principles including cost causation. So I think that approach is consistent with looking at these two steps together.
2455. **MR. DAVIES:** Okay. If we could turn up, please, Exhibit C00032-2, at PDF page 46? Yes, that's it. Thank you.
2456. And this is, Mr. Culbert, an attachment that was provided by NGTL in response to an information request. And you'll see from the heading that what this shows -- and I can tell you that it goes for 22 pages. It shows the FT-R rates under the current rate design and the proposed rate design, and it also shows the percentage changes.
2457. Have you reviewed this document before, Mr. Culbert?
2458. **MR. CULBERT:** I have seen this document as filed, yes.
2459. **MR. DAVIES:** And if we were to scroll through this document, what we would see is that there are significant rate increases at a number of receipt points. In some cases, the rates more than double. Do you agree?
2460. **MR. CULBERT:** On the page that is up on the screen, I see that there are pluses and minuses of varying percentages, yes.
2461. **MR. DAVIES:** On the first page we've got some rates that increase by 121 percent, more than double, right?
2462. **MR. CULBERT:** Yes, I see that.
2463. **MR. DAVIES:** And if we were to go over, for example, to PDF page 49, we see rate increases of 168 percent taking the FT-R toll from 14 cents to over 38 cents. Do you see that?
2464. **MR. CULBERT:** Yes, I see that.
2465. **MR. DAVIES:** And I assume that as a signatory to the Settlement, PETRONAS considers these sorts of rate increases to be justifiable?



2466. **MR. CULBERT:** I believe it would be fair to say that all parties signing the Settlement would find that acceptable.
2467. **MR. DAVIES:** Including PETRONAS? Sorry...?
2468. **MR. CULBERT:** Yes, including PETRONAS.
2469. **MR. DAVIES:** And the reason that PETRONAS would find those sorts of rate increases from 14 cents to 38 cents to be acceptable is what?
2470. **MR. CULBERT:** It's like any negotiated agreement. There's give and take across the system and, as I say, the signatories to the system or the Settlement found this to be acceptable. We would only look at the particular meter stations that affected us and have an opinion on those.
2471. **MR. DAVIES:** Well, isn't the reason that these sort of rate increases are acceptable is because they better reflect cost causation?
2472. **MR. CULBERT:** Yeah. I think the individual changes really reflect NGTL's tolling methodology and, in particular, the changes to the -- that the Settlement has created. So getting into the details of each one of these would be difficult for us to assess what actually goes into that and what causes those tolls.
2473. **MR. DAVIES:** So if we turn up your response -- this is the PETRONAS response to the Commission's Information Request 2. It's Exhibit C03227-2 at PDF page 3, if we could just scroll down a bit, please? And I'm looking at the last sentence of the second paragraph, Mr. Culbert, where you say:
- “...every other producer of natural gas on the NGTL System outside the NMML has more confidence in their cost of gas and development execution risk than PETRONAS does, because they can predict their FT-R toll within a reasonable band of confidence based on the stability of established cost allocation practices.”*
2474. Do you see that?
2475. **MR. CULBERT:** Yes.



2476. **MR. DAVIES:** How can you make this statement when we see producers at other receipt points on the NGTL system facing toll increases of more than double, as the result of -- do you want me to finish the question or would you like to consult first?
2477. **MR. CULBERT:** Go ahead and finish the question.
2478. **MR. DAVIES:** Let me start again.
2479. How can you make this statement when we see producers at some receipt points on the NGTL system facing toll increases of 168 percent as the result of the toll settlement?
- (A short pause/Courte pause)
2480. **MR. CULBERT:** In the evidence filed by Brattle, we had some diagrams that are better -- would better explain exactly why we have this feeling.
2481. If I could turn it over to Brattle to Dr. Brown to comment on that.
2482. **MR. DAVIES:** I'm going to let you -- just wait. I'm going to let you respond, Dr. Brown, but I will say that those graphs have nothing to do with the question that I'm asking. But go ahead.
2483. **DR. BROWN:** I understand that the NGTL System has hundreds or perhaps it's more than 1,000 receipt and delivery points, which is why, when we looked at the impacts of the changes in NGTL's tolling methodology that are proposed in this proceeding, we focused our analysis onto a subset of those receipt points, which account for almost all of the increased production that comes onto the NGTL System or that has come on over the last 10 years. And so that's why we focused our analysis onto that subset of the receipt points.
2484. **DR. CARPENTER:** And when you look at the results, it demonstrates -- you don't see these 168 percent changes as showing up in those charts. I mean, you can see from the charts what the change in the tolling methodology meant for the 90 percent of the receipt points that matter.
2485. **MR. DAVIES:** Sorry, you say the 90 percent of receipt points that matter? The other 10 percent don't?



2486. **DR. CARPENTER:** Well, what Dr. Brown was just saying is, the receipt points that we've focused on accounted for 90 percent of the increased production in the last 10 years.
2487. **MR. DAVIES:** So if the other 10 percent get tolling increases of 168 percent, so be it?
2488. **DR. CARPENTER:** Well, our analysis would suggest that that is -- you would not likely see that result. We're sampling out of the largest, the most important receipt points. So even if they were, those wouldn't matter, in the whole scheme of things.
2489. **MR. DAVIES:** I see. So now we have important receipt points and unimportant receipt points?
2490. **DR. CARPENTER:** Any network does, in terms of volume.
2491. **MR. DAVIES:** Sure. So ---
2492. **MR. ROTH:** Sorry. Like, he's arguing with the witnesses. The Board staff and IRs fully canvassed this issue of what was going on with those receipt points and why.
2493. The witnesses have told them what they were looking at and why it was relevant to the North Montney, and all we get is a bunch of arguing and editorializing. And I don't think it's helpful. I think the Commission has on the record what it needs to consider what went on with those individual receipt points. NGTL said how much of a percentage that was of the overall system, explained it fully, and I don't see how this is helping the Commission to have Mr. Davies argue with PETRONAS on things that they haven't looked at.
2494. **MR. DAVIES:** Well, first of all, I think -- I mean, Mr. Culbert said he had looked at this exhibit that I put to him.
2495. But let me ask you this, Mr. Culbert. When you talk about a reasonable band of confidence, an FT-R toll within a reasonable band of confidence, in your response to the Commission's Information Request Number 2, what do you mean by "a reasonable band of confidence", plus or minus 168 percent?



2496. **MR. ROTH:** I -- he always does this. You make an objection ---

--- (Laughter/Rires)

2497. **MR. ROTH:** You make an objection, and then he pretends he might be asking a different question, and he starts it out that way, and then he puts it right back to his zinger.

2498. So I would like if the Commission would tell him to move on.

2499. **MR. DAVIES:** I can't help myself, Mr. Chairman.

2500. But let me just -- let me withdraw the plus or minus 168 percent and just ask you what you mean by an FT-R toll within a reasonable band of confidence?

2501. **MR. CULBERT:** What we're looking for is certainty in the toll, going forward. As I mentioned, we have not had certainty since 2013 when the North Montney Mainline was first applied for. Coming out of this toll hearing, we would like to have confidence what that is so we can move on with investing or not investing in the North Montney resource.

2502. **MR. DAVIES:** Well, first of all, I think you are going to get some certainty as the result of this decision, Mr. Culbert.

2503. But are you seriously suggesting that having made this commitment to the North Montney Mainline, that you might pull out of the North Montney resource?

2504. **MR. CULBERT:** What I'm saying is that the investment as we go forward will be adjusted accordingly, depending on what economics look like, just like every other investment in the western Canadian sedimentary basin.

2505. **MR. DAVIES:** Okay. If I could have you go back to the PETRONAS evidence, please, Exhibit C01050-2 at page 19, and I'm looking at paragraph 64.

2506. And here, Mr. Culbert, you tell us that to fulfill its Canada LNG application -- or sorry, obligation, -- PETRONAS contracted for 500 million cubic feet a day of capacity on Westcoast T-North, right?



2507. **MR. CULBERT:** Yes, to supply our 25 percent working interest in the natural gas feedstock for LNG Canada, we took our existing capacity on Westcoast T-North and have added to that during the open season to go up to 500 million cubic feet a day for a term of 40 years, as it says.
2508. **MR. DAVIES:** And what you neglected to mention in this paragraph is that as part of this arrangement by which PETRONAS will contract for 500 million a day on T-North, it also relinquished 374 million a day of existing contracts on T-North, right?
2509. **MR. CULBERT:** Yes, that's what I just stated, is that we had existing capacity and we then built on that to go up to 500 million a day, and whether it's legally relinquished or built upon, it's neither here nor there. It's 500 million a day which is our 25 percent of the feedstock for LNG Canada, and as I say, a 40-year term.
2510. **MR. DAVIES:** If PETRONAS had contracted for the 500 million a day of capacity on NGTL, as you say in paragraph 63, that you were considering, would you have been able to relinquish the 374 million a day of capacity on T-North?
2511. **MR. CULBERT:** As I stated very early on in previous testimony, is that we see transportation capacity as an asset and we indicated at that point in time -- or I indicated at that point in time that it would be our intent to continue to have both Westcoast and NGTL North Montney Mainline in our portfolio. And I think this demonstrates exactly what I said a number of years ago, in that we see the transportation as an asset and we have 700 million a day on the North Montney Mainline as well. And the combination of those two volumes will service our markets.
2512. **MR. DAVIES:** So what's the answer to my question?
2513. **MR. CULBERT:** I think I answered it, didn't I?
2514. **MR. DAVIES:** I don't think so. If PETRONAS had contracted for 500 million a day of capacity on the NGTL System, would you have been able to relinquish the 374 million a day of capacity on T-North?
2515. **MR. CULBERT:** I think I answered that by saying no, we see it as an



asset and we have 700 million a day on T-North -- or sorry, on NGTL.

2516. **MR. DAVIES:** Well, why did you relinquish the 740 million a day of capacity on T-North if you saw that as an asset?

2517. **MR. CULBERT:** The 740 million a day?

2518. **MR. DAVIES:** Sorry, the 374 million.

2519. **MR. CULBERT:** That was just academic relinquishing and then going to the open season for longer-term. So it's just realignment of capacity. The reality is, you can net the numbers, and we took another 110 million, or you can say we took -- relinquished some and got some -- got a larger number; whichever way you want to look at it. But the end result, is we have 500 million today, going forward for 40 years to serve the LNG project.

2520. **MR. DAVIES:** Okay. Drs. Brown and Carpenter, I do have a question for you, and if I could ask you to turn up, please, the response to Westcoast Information Request 1.6.

2521. And I hope I gave you the exhibit number -- yes, Ms. Savoie -- at PDF page 7.

2522. And if we go to the top of the page, you'll see in the preamble there's a reference to your evidence when you say,

"In our view, it is not possible to identify 'existing system costs' associated with the NMML volumes other than by using NGTL's tolling methodology."

2523. See that?

2524. **DR. CARPENTER:** Yes.

2525. **MR. DAVIES:** And in (a), you're asked to explain how existing system costs associated with the North Montney volumes should be identified using NGTL's tolling methodology.

2526. And in your response, you say that, assuming that the proposed tolling methodology is cost-based, the existing system cost can be identified by the



difference between the North Montney revenues, and the North Montney costs of service, which is \$28 million, assuming no surcharge, right?

2527. **DR. CARPENTER:** Correct.

2528. **MR. DAVIES:** If there is a surcharge, the existing system costs would increase?

2529. **DR. CARPENTER:** If there was a surcharge, the contribution of the NMML shippers to the recovery of the existing system costs would increase.

2530. **MR. DAVIES:** And ergo, the existing system costs would increase.

2531. **DR. CARPENTER:** Well, ergo, the allocation of existing system costs would increase, and I say that because it's important to distinguish between a tolling methodology that allocates cost to a project, and incremental cost that a project may or may not impose on the system.

2532. In this case, the NMML project does not impose incremental costs on the existing system. And the support for that is page 55 of the decision, in a variance application in which it points out that NGTL has evidence -- indicated that there were no additional facilities required on the existing system to accommodate the NMML project.

2533. **MR. DAVIES:** What about the Groundbirch Compressor Station?

2534. **DR. CARPENTER:** My understanding is, the Groundbirch Compressor Station is included in the NMML extension costs.

2535. **MR. DAVIES:** In (b), Dr. Carpenter, you're asked to explain how existing system costs associated with volumes transported to the NGTL system by competitors to NGTL should be identified, right?

2536. **DR. CARPENTER:** Yes.

2537. **MR. DAVIES:** And your response is that those -- in that case, the existing system costs should be identified by having regard to the NGTL receipt toll?

2538. **DR. CARPENTER:** Yes. That -- it would be an extension that



would be outside of the NGTL footprint.

2539. **MR. DAVIES:** So if 1.717 Bcf per day of gas were delivered to Saturn by a competitor, the existing system costs as determined by the Saturn receipt toll would be ---
2540. **DR. CARPENTER:** I'm sorry?
2541. **MR. DAVIES:** Yeah. I'm sorry. You were being whispered at.
2542. **DR. CARPENTER:** Feel free to complete your question.
2543. **MR. DAVIES:** Thank you.
2544. If 1.717 Bcf per day of gas were delivered to Saturn, the existing system costs as determined by the Saturn receipt toll would be \$126 million?
2545. **DR. CARPENTER:** So I'm reminded that our understanding is that there is not capacity at that point to take that volume, so the hypothetical is not possible.
2546. **MR. DAVIES:** Well, assume that North Montney Mainline wasn't built, but somebody else had built it. The existing system costs, if somebody else had built it, would be \$126 million, right?
2547. **DR. CARPENTER:** So I think that's correct under the assumption that you have a third-party building a extension or a lateral into NGTL at that point. I guess what I would wonder at that point is, commercially, whether or not some other arrangement such as a TBO would have been organized by the parties, such that that third-party extension could be included in the NGTL as, effectively, a rolled-in exercise.
2548. In other words, having a third-party build a pipeline to connect to some other pipeline doesn't necessarily require a stacking of the tolls. You can enter into a commercial arrangement -- and parties do it all the time in the U.S. -- where -- and they've done it in Canada -- where TBO arrangements are organized to handle that kind of situation. You can think of Great Lakes and its relationship to the TransCanada Mainline; that's a TBO as well.



2549. **MR. DAVIES:** In the course of preparing your testimony, you would have reviewed, I take it, the GH-001-2014 decision and the MH-031-2017 decision?

2550. **DR. CARPENTER:** Yes.

2551. **MR. DAVIES:** Did you review the evidence that was filed in those proceedings?

2552. **DR. CARPENTER:** I reviewed some of the evidence. I'm not sure there was time in the day to review all of the evidence, but no.

2553. **MR. DAVIES:** Thank you, gentlemen. Thank you, Mr. Chairman.

2554. **THE PRESIDING COMMISSIONER:** We'll take a 20-minute break at this point; reconvene at about 20 to 11:00. Thank you.

--- Upon recessing at 10:22 a.m./L'audience est suspendue à 10h22

--- Upon resuming at 10:43 a.m./L'audience est reprise à 10h43

TOBY BROWN: Resumed

PAUL R. CARPENTER: Resumed

MICHAEL CULBERT: Resumed

ELIE G. ATME: Resumed

2555. **THE PRESIDING COMMISSIONER:** I understand that the Board counsel has a few questions for the panel, Mr. Roth, and then we'll go to you for redirect if you have any.

2556. Ms. Haug...?

--- EXAMINATION BY/INTERROGATOIRE PAR MS. HAUG:

2557. **MS. HAUG:** Thank you, Mr. Chair.

2558. Can I ask the Regulatory Officer to turn up a couple of exhibits of evidence? The first one would be from NGTL's application, Exhibit A98318-2, and go to PDF page 47 at lines 3 to 6.

2559. Good morning, Panel. I just want to show you a couple of references



elsewhere and then ask your comments.

2560. Here you can see NGTL's evidence where it states:

"As existing wells outside of the Peace River Area continue to decline without replacement, new facilities in the Peace River Area, including the NMML, are needed to enable the System to continue providing markets with access to economic supply."

2561. And the next reference I would like to draw to your attention is from CAPP's response to the CER IR 2.4 and that's -- I think that's Exhibit C03210, at the top of PDF page 12. And here CAPP identifies factors through which the NMML project will contribute to the existing NGTL system and the factors:

"...include the replacement of depleted gas supply connected to the system, ..."

2562. And so having provided you with those references my question is, do you have any comments or do you agree with NGTL and CAPP that the NMML project will make gas supply available to the existing NGTL System to help replace the depleting gas supply connected to the System?

2563. **DR. CARPENTER:** Yes. I certainly would agree and I think it echoes the finding that the Commission -- the Board made back in the 2017 variance decision. If you look at page 61 of that decision there's -- and 62 -- there's a very nice discussion with respect to the need for the project as to how it would support the future development of the WCSB.

2564. So my view on this, in terms of how it interacts with the question of the surcharge, is that obviously one of our goals here is to come up with a tolling arrangement that promotes economic efficiency, meaning that these resources are developed in as efficient a way as possible to support the basin. And if you think of the surcharge as sort of the dial on the price signal that the NGTL toll methodology creates, the more you dial up the surcharge, the more you tax, in effect, production on the NMML, the more you're sending a signal that would cause these resources not to be developed in as efficient a way as possible.

2565. So my view is you want the surcharge to be low enough so that you get the efficient price signal, but high enough so that there -- I think the term has been used "meaningful contribution". But our evidence shows that you don't need



a very big surcharge for there to be a meaningful contribution that even a zero surcharge produces a contribution of \$28 million a year without taxing the resource and potentially not getting the benefits that CAPP and the Board has previously identified.

2566. **MS. HAUG:** Thank you. Can I get you to -- you probably already started to answer my next question, but I'd ask for your views about an overview of the benefits that the gas supply will provide to the users of the existing NGTL system.

2567. **DR. CARPENTER:** I'll start, and if Mr. Culbert wants to weigh in, I'm just the economist here and not a commercial guy. From an economics point of view, if you get the tolling right, as I was just discussing, then you create the right economic incentives for development.

2568. Another way of thinking about the surcharge dial on the price signal machine is that turning up the dial sort of tells the market, downstream of NOVA, that the resource is further and further away from the WCSB. It's no longer in northeast B.C.; from an economic point of view you're putting it in the Yukon or something even further north. So that's -- if you think of the surcharge and toll differentiation in distance terms that's effectively what the surcharge does. It moves the resource further and further away from the NOVA footprint.

2569. My understanding of the whole development of NOVA over its history, it was designed so that you would get maximum development in the WCSB throughout Alberta with a minimal use of infrastructure to do that. And so the concept of an integrated system and tolling where you had receipt tolls and delivery tolls with a hub created, that is all supportive of that concept. And the benefit that the NOVA System provides to shippers like PETRONAS and others is that it's a gateway to export and it doesn't disadvantage any one producer, relative to another, depending on how far away they are from the system.

2570. So my view of the standalone approach, it's effectively of 100 percent surcharge but it's telling the market downstream of NOVA that these resources are way up in the Yukon, not in northeast B.C. They're far enough away as it is to compete. We shouldn't have a toll mechanism that makes them even further away.

2571. **MR. CULBERT:** I think I would just add to what Dr. Carpenter has indicated in the context to the North Montney and the economics of the Montney



Reservoir itself. As we have indicated in our evidence and others have as well is, first of all, it's a large resource for Canadian natural gas. It's one of the most economic resources of natural gas in North America. So when we look at the growth of the NGTL System into that part of the Western Canadian Sedimentary Basin, the economics will be -- the economics can -- of the Montney development can support that.

2572. In addition, we believe that the market -- and when I say market, the capital markets -- will also speak as to where the investment in the Western Canadian Sedimentary Basin will be directed. The Montney is one of the resources of natural gas along with the Duvernay that is up and coming. And the reality with the forward ATCO strip being just right around the \$2 mark for the next 45 years, most of the natural gas will come along with natural gas liquids that help support those economics. The Montney fits into that regime in certain parts of Alberta and British Columbia and so that will also support the capital investments.

2573. **MS. HAUG:** Did any other -- did the other panel members have anything they wish to add to that section?

2574. **MR. ATME:** If I can address to Mr. Culbert's comments, the competitiveness of the Montney -- of experience that competitiveness over the last several years and we've been able to historically get product into ATCO and get gas out of ATCO into other markets today with a current -- it's that the threat to us is that we're not able to compete in the eastern markets where there is significant demand.

2575. So not just being able to get to ATCO economically but going out of ATCO to other markets economically has been very, very tough for us and when we look the forward five-year -- NGX settles -- it is -- we're out of the money in the current rate stack through NGTL and downstream pipelines in reaching those markets.

2576. **MS. HAUG:** Okay. In PETRONAS' view, what are the consequences of the users of the existing NGTL System not having access to gas supply from the North Montney Mainline project?

2577. **DR. CARPENTER:** Well, my view is it will obviously have an impact on future tolls. Lower volumes mean less quantity to recover costs over and so you would expect larger toll increases than you otherwise would expect.



2578. There's also a potential price effect, more difficult to forecast, but the less -- if the low-cost resources are pushed out because of bad tolling decisions, then you would end up having potentially a higher commodity price than you otherwise would see.
2579. **MR. CULBERT:** I would just reiterate that what's also been presented, that at an approximately 19 percent decline of NGTL receipt capacity, there's about two and a half Bcf per day that needs to be replaced on an annual basis. The North Montney -- and as I say, the development of the Montney resource goes a long way in offsetting that decline rate.
2580. **MS. HAUG:** Did the other panel members have anything they wish to add? Thank you. One moment.
- (A short pause/Courte pause)
2581. **MS. HAUG:** Thank you.
2582. Mr. Atme, I think you said something about getting from ATCO to the east was not profitable, and I'm not really getting your words quite correct, but could you elaborate on that, please?
2583. **MR. ATME:** Sure. So we -- in the current market price, I can give you a specific example. When we looked at the price settles for Dawn, Ontario, the price difference, as an example, between Dawn and ATCO over that period is 88 cents.
2584. If I rate stack the pipeline rates from the tailgate of our plants to deliver it to market, that rate stack, depending on which path we go, whether we go through the mainline or down through Great Lakes is from \$1.08 to \$1.16 USD per MMBtu.
2585. That makes us, over the next five years, if we were to sell our production forward in the market at it's settled as of November -- the middle of November of 2019, we would be losing anywhere from 20 to 30 cents, effectively.
2586. And I compare that, my experience being with an Appalachian



producer, I can get to the same markets and push back -- American supply can push back Canadian supply and compete with us and be at least 30 to 40 cents ahead on their price competitiveness.

2587. That's -- so when we look at the competitiveness of getting from ATCO to these markets, we're very challenged today because of that rate stack.

2588. And further, adding to that rate stack is going to further push us back from accessing traditional markets.

2589. The same scenario plays out at Chicago. Chicago bases to ATCO is roughly about the same, 88 cents, so will be -- the rate stack is \$1.02, so I'm out about 14 cents if we were to move gas into those markets.

2590. **MS. HAUG:** Thank you.

2591. Mr. Chairman, that concludes my questions of this panel.

2592. **THE PRESIDING COMMISSIONER:** Mr. Kupi or Mr. Roth, over to you if you have redirect.

--- RE-EXAMINATION BY/RÉ-INTERROGATOIRE PAR MR. ROTH:

2593. **MR. ROTH:** I just have one point, sir, and I'm not sure if it's Mr. Culbert or Mr. Atme that may be able to answer it, but Mr. Davies was talking to you about contract relinquishment associated with taking on a new volume commitment of 500 million a day for 40 years.

2594. Just wondering, the contracts that were relinquished, what term would have been on those contracts relative to the 40 years?

2595. **MR. CULBERT:** Mr. Atme will pull up the spreadsheet, but my recollection, after I spoke also, was that one of the reasons we relinquished that capacity is we have two joint ventures and the 375 million cubic feet a day was in one of the joint ventures, whereas we wanted the capacity, the 500 million a day associated with LNG Canada to be in the other joint venture.

2596. So as I indicated, in that we relinquished some, but at the same time, we really just -- it was a contractual swap, in essence, and by doing that, we got that into the joint venture that aligns with LNG Canada Investment.



2597. And in addition to that, we also wanted to have security knowing that we had a 40-year term, which again aligned with the LNG commitment that we have.

2598. **MR. ATME:** I don't have the initial term on that, but it was definitely shorter than the 40 years. I can look that up and ---

2599. **MR. ROTH:** And maybe, Mr. Culbert, can you do any more off the top of your head?

2600. **MR. CULBERT:** Just looking at the spreadsheet we have here with us, the capacity that we're talking about and that we hold currently has varying terms and also drops down over time. But the final 100 million cubic feet a day would terminate in 2032.

2601. **MR. ROTH:** Thank you very much. Those are my questions.

2602. **THE PRESIDING COMMISSIONER:** Well, the panel is excused, and thank you very much for your help in dealing with these questions.

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

2603. **THE PRESIDING COMMISSIONER:** We next have up Centra. I understand they're going to be putting their panel up in the next few minutes, so we'll just wait here while they do so and Ms. Van Iderstine, if you could come up to the mic, please?

--- (A short pause/Courte pause)

2604. **THE PRESIDING COMMISSIONER:** Thank you for your patience.

2605. It's Ms. Carvell? Yes? Please proceed.

2606. **MS. CARVELL:** Thank you. Good morning, Mr. Chair, Commissioners.

2607. My name is Jessica Carvell. I am counsel for Centra Gas, and I'm pleased to introduce Centra's panel today.



2608. Seated closest to you is Ms. Christine Symons. Next is Ms. Lori Stewart. Moving along towards myself is Mr. Mark Drazen. And finally, closest to me is Mr. Ron Mikkelsen.
2609. Ms. Symons, can you please state your position with Centra Gas and your areas of responsibility in this proceeding?
2610. **MS. SYMONS:** Good morning, Commissioners.
2611. My name is Christine Symons, and I'm a Regulatory Analyst for Centra Gas Manitoba. One of my primary responsibilities is to evaluate the NGTL system under the direction of Ms. Stewart. Together, Ms. Stewart and I have prepared the evidence for Centra Gas Manitoba that is filed in this proceeding.
2612. **MS. CARVELL:** And Ms. Symons, can you confirm that your CV has been filed in this proceeding as Exhibit C02930-4?
2613. **MS. SYMONS:** Yes, I can.
2614. **MS. CARVELL:** My colleague has advised me that this panel should be sworn in before giving their additional information about themselves, so I've asked that that be done now.

RON MIKKELSEN: Affirmed

MARK DRAZEN: Affirmed

LORI STEWART: Sworn

CHRISTINE SYMONS: Sworn

--- EXAMINATION BY/INTERROGATOIRE PAR MS. CARVELL:

2615. **MS. CARVELL:** Thank you.
2616. Ms. Symons, now that you're under oath, can you confirm the accuracy of the information you provided a moment ago?
2617. **MS. SYMONS:** I can.
2618. **MS. CARVELL:** Thank you.



2619. Ms. Stewart, can you please state your position with Centra Gas and your areas of responsibility in this proceeding?

2620. **MS. STEWART:** Yes. I manage gas supply for Centra Gas Manitoba, and I have responsibility for all of our gas supply-related commercial arrangements, including storage and transportation contracting and upstream regulatory matters in both Canada and the U.S.

2621. As Ms. Symons referenced, together, she and I have prepared the evidence of Centra in this proceeding.

2622. **MS. CARVELL:** Mr. Drazen, would you please state your position and a brief statement of your qualifications?

2623. **MR. DRAZEN:** Yeah. I'm a Consultant in public utility regulation and economics. What else do you want to know?

--- (Laughter/Rires)

2624. **MS. CARVELL:** Perhaps you can just confirm that a statement of your full qualifications has been filed in this proceeding as Exhibit C01048-1?

2625. **MR. DRAZEN:** Yes.

2626. **MS. CARVELL:** Thank you.

2627. And Mr. Mikkelsen, can you please state your position and a brief statement of your qualifications?

2628. **MR. MIKKELSEN:** Yes. I'm a Consultant with Drazen Consulting Group. I've worked with Mark for a couple of decades. I have a background originally in oil and gas, specifically reservoir engineering. I've worked in the electric utility business, and involved in regulatory affairs extensively through the electric industry, and more recently, gas pipeline involving both NOVA and TransCanada.

2629. **MS. CARVELL:** Thank you.

2630. And a statement of your full qualifications has also been filed in this



proceeding and that's at Exhibit C01048-1?

2631. **MR. MIKKELSEN:** That is correct.

2632. **MS. CARVELL:** Thank you.

2633. Now, Ms. Stewart, I understand that Centra Gas has filed evidence in this proceeding which is set out at Section C of the CER's Exhibit List, and it includes Centra's letter of comment; Centra's written evidence; Centra's responses to information requests from the CER, NGTL, CAPP, and ATCO; as well as Centra's opening statement; is that correct?

2634. **MS. STEWART:** Yes.

2635. **MS. CARVELL:** Thank you.

2636. And Mr. Chair, would you like me to read in each exhibit number?

2637. **THE PRESIDING COMMISSIONER:** Yes, please.

2638. **MS. CARVELL:** Thank you.

2639. So Centra's letter of comment, Exhibit number is A98808; Centra's written evidence at C01048-1; Centra's information request responses can be found at C01726, and that's C01726-2, C01726-3, C01726-4; Centra's responses to Information Request can be found also at C02246-2. Additional Information Request responses can be found at C03186-2; and Centra's opening statement, C03355-1.

2640. Now, Ms. Stewart, can you confirm that the evidence filed by Centra, other than the evidence of Drazen Consulting Group, was prepared under your direction and control?

2641. **MS. STEWART:** Yes.

2642. **MS. CARVELL:** And do you have any corrections or additions to that evidence?

2643. **MS. STEWART:** I do not.



2644. **MS. CARVELL:** And is that evidence accurate to the best of your knowledge and belief?
2645. **MS. STEWART:** Yes.
2646. **MS. CARVELL:** And do you adopt that evidence as Centra's evidence in this proceeding?
2647. **MS. STEWART:** Yes, I do.
2648. **MS. CARVELL:** Thank you.
2649. Mr. Drazen and Mr. Mikklesen, do you both have before you the written evidence of Drazen Consulting Group and the Information Request relating to that evidence?
2650. **MR. DRAZEN:** Yes.
2651. **MS. CARVELL:** And was that evidence prepared jointly by you or under your direction and control?
2652. **MR. DRAZEN:** It was.
2653. **MS. CARVELL:** And do either of you have corrections or additions to that evidence?
2654. **MR. MIKKELSEN:** Yes, we have one correction that was filed this morning. There is a reference in a footnote on page 13 of our evidence referred to an incorrect document in the proceeding, and the letter outlines the correct reference.
2655. **MS. CARVELL:** And that correction has been given Exhibit Number C03411-1.
2656. Aside from that correction, is the evidence true to the best of your knowledge and belief?
2657. **MR. DRAZEN:** Yes.
2658. **MS. CARVELL:** And do you accept and adopt that evidence as your



evidence in this proceeding?

2659. **MR. DRAZEN:** We do.

2660. **MS. CARVELL:** I would now invite Ms. Stewart to read in Centra's opening statement.

2661. **MS. STEWART:** Centra Gas Manitoba is the sole natural gas LDC in Manitoba, serving approximately 285,000 natural gas customers in the province. Centra has a very long-term interest in serving this market.

2662. Centra contracts for the vast majority of its natural gas supply from the WCSB and transports it by way of the NGTL System and Canadian Mainline.

2663. Centra contracts for a significant amount of delivery capacity, FT-D, on the NGTL System. Centra's Canadian Mainline experience informs its views and concerns about the NGTL System, recognizing that there is more risk today than in 2011 about the future of natural gas demand.

2664. Centra's issue in this proceeding is simple -- long-term accountability for the cost of massive capacity expansions. NGTL is proposing to invest 10 billion in new facilities -- that figure was corrected by Mr. Prior to 9.2 billion on Day 1 of the proceeding -- that have a useful life of over 30 years. This is on top of the 8.5 billion spent in the period 2010 through 2018.

2665. On the delivery side, export shippers are bound by lengthy contract terms, the weighted average contract term being over 30 years in one instance, that being the 2021 System Expansion Project. But on the receipt side, NGTL requires only eight-year contracts for the most part. Recent history has shown that some receipt shippers do not renew their contracts, leaving underutilized capacity cost.

2666. Centra also takes issue with NGTL's position on the sharing of underutilized or unutilized capacity costs. NGTL indicates that it will continue to rely on system-wide depreciation rates to address unutilized facilities, meaning that it proposes to bear no cost responsibility.

2667. Centra is not alone in its concerns. In the NEB's competition in Northeast B.C. Examination Decision, the Board identified the criteria that NGTL



sets for system extensions and the risk of underutilization of extension facilities as issues that NGTL must address.

2668. Adequate contractual underpinning is necessary to mitigate the risks inherent in NGTL's capital expansion program. Default contract terms of eight years that underpin much of this investment do not align with the economic life of the assets. And while NGTL has the discretion to request longer contract terms, it has rarely done so.

2669. Centra has proposed that making both NGTL and all NGTL shippers more accountable for the recovery of underutilized capacity cost will reduce the risk of such cost and keep rates more manageable. Longer contract terms for all shippers will either rationalize NGTL's capital expansions or if built, will mitigate the risk of underutilization, either way resulting in more efficient and economic infrastructure development. Centra submits that timely direction from the CER on rate design and NGTL's contracting practices will strengthen the long-term viability of the NGTL System.

2670. Thank you.

2671. **MS. CARVELL:** Thank you.

2672. Mr. Chair, the panel is now available for cross-examination.

2673. **THE PRESIDING COMMISSIONER:** Mr. Duncanson?

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

2674. **MR. DUNCANSON:** Thank you, Mr. Chairman.

2675. Good morning, Panel. My name is Sander Duncanson. I'm counsel for NGTL.

2676. Now, NGTL doesn't agree with much of what we've seen in Centra's evidence, but in our view, the record's sufficiently clear on most of your positions and we'll address them in argument. So I just have a few questions for you this morning.

2677. The first question actually relates to your opening statement, Ms. Stewart. There was discussion about aligning contract term with the economic



life of assets. And can I have you confirm, Centra's only contract on the NGTL System that's longer the one year -- does that align, in your view, with the economic life of the assets that you were underpinning in that case?

2678. **MS. STEWART:** Centra provided evidence that we bid into NGTL's 2021 System Expansion, and that contract has a contract term length of in excess of 15 years.

2679. Additionally, we do have FT-D capacity with renewal rights, which requires us to provide one year of notice. And it is in that regard that Centra's proposal to introduce a term-up provision, which could potentially have required a shipper like Centra to term up to, for example, five years as a result of the need for new facilities.

2680. So we are currently a shipper with a contract term length of one year; however, we've made a very long-term commitment to the NGTL System by way of the 2021 System Expansion.

2681. **MR. DUNCANSON:** And just so that the record's clear, you've said in your evidence that the contract term for that contract is in excess of 15 years. I'm not asking you to disclose the specific number if you're not comfortable disclosing that, but in your view, the number that you did bid and that you were awarded, does that number align with your view of the economic life of the assets that you were underpinning in that case?

2682. **MS. STEWART:** It does not fully align with the economic life of the assets. Our opening statement references that these assets are primarily 30- to 35-year assets. However, Centra's contract in the 2021 expansion and our discussion in our evidence of the 15-year contract term default that exists on the Canadian Mainline are examples of contract term lengths that significantly better align with the economic life of the assets.

2683. **MR. DUNCANSON:** Okay. I just wanted to make sure the record was clear.

2684. Panel, if we could pull up Centra's written evidence? This is Exhibit C01048-1. And I'm looking specifically at page 9 of 19 which is PDF page 10, I believe. And I'm looking specifically in Q&A 19, just a little farther down. Perfect.



2685. Are you with me?

2686. **MS. STEWART:** Yes.

2687. **MR. DUNCANSON:** The third sentence there in your A19 reads:

"The majority of the revenue from an 8 year 18 contract contributes only to the metering costs and not the other, more expensive, facilities in constrained areas of the NGTL system."

2688. You see that?

2689. **MS. STEWART:** Yes.

2690. **MR. DUNCANSON:** What analysis has Centra done to support that statement?

2691. **MS. STEWART:** My apologies, Mr. Duncanson. We're just conferring and we'll do so for another minute or so.

2692. **MR. DUNCANSON:** Okay.

--- (A short pause/Courte pause)

2693. **MS. STEWART:** I believe that it had to do with our assessment of the way Appendix E costs are driven out. That was the underpinning of that statement for us.

2694. **MR. DUNCANSON:** Okay. So I just have a few questions to follow up on that.

2695. And first, if we could perhaps turn up the NGTL application, which is Exhibit A98318-2, and I'm looking at PDF 27 of that document, hard copy page 2-16. If we can just scroll down slightly, in the middle of the page there, there's a summary of the minimum contract terms under the Settlement.

2696. And if new facilities are required, you're dealing with Scenario 2 or 3 on this list. And just looking first at Item 3, this says that if there are other new facilities required on the System -- those are those larger facilities you reference in your evidence -- there's a distinction between whether new metering facilities



are required or if no metering facilities are required. If there are no metering facilities required there is a minimum primary term of two years and then a secondary term of eight years, minus the primary term. Do you see that?

2697. **MS. STEWART:** Yes.

2698. **MR. DUNCANSON:** And you would agree with me that in that case all of the revenues under the contracts would be paying towards those other facilities that are not metering costs, right?

2699. **MS. STEWART:** In the event that no new metering facilities are required, yes.

2700. **MR. DUNCANSON:** Right. And then if new metering facilities are required you mentioned that the primary term is determined by Appendix E and then there is again a secondary term of eight years minus the primary term. You understand the Appendix E calculation essentially provides that the primary term must cover the number of years required for the revenues under the contract to recover the cumulative present value cost of service in metering facilities? Is that consistent with your understanding?

2701. **MS. STEWART:** It is.

2702. **MR. DUNCANSON:** And are you aware that for most large contracts on the NGTL System, Appendix E only requires a relatively short primary term, two years?

--- (A short pause/Courte pause)

2703. **MS. STEWART:** We're reviewing the response to Centra-NGTL 1.1(h).

--- (A short pause/Courte pause)

2704. **MS. STEWART:** Mr. Duncanson, is the premise that you're putting forward -- is it in NGTL's evidence somewhere?

2705. **MR. DUNCANSON:** That wasn't in my question. I was simply asking whether that was something that Centra was aware of. And if you're not aware of that that's perfectly fine.



--- (A short pause/Courte pause)

2706. **MS. STEWART:** No, I'm not aware that it's predominantly two years and I guess I'm seeking clarification as to whether or not that information was provided by NGTL.

2707. **MR. DUNCANSON:** Okay. Well, we can deal with that, I think, to a degree in Argument, but to the extent that you have an eight-year contract and Appendix E only requires a two-year primary term, you would agree that the majority of the revenue under that contract would not be paying down the cost of the metering facilities. It would in fact be paying down the cost of the other facilities?

2708. **MS. STEWART:** NGTL's evidence is that that range is between two years and five years out of an eight-year contract. So if it's two years, then it would be not the majority; however, if five years in the range that you provided is the outcome, then it would be the majority of the cost.

2709. **MR. DUNCANSON:** Okay. And I guess that helps me understand the basis for Centra's argument. You're saying, because Appendix E in the tariff has a two to five-year range, you're saying that if Appendix E resulted in a 5-year primary term in that case, the majority of the revenue would be paying down the metering costs under Appendix E?

2710. **MS. STEWART:** Yes.

2711. **MR. DUNCANSON:** Okay.

2712. Mr. Mikkelsen, Mr. Drazen, I only have one question for you gentlemen, and I think it will be quick.

2713. Mr. Mikkelsen, you participated in the MH-031-2017 proceeding?

2714. **MR. MIKKELSEN:** Yes, I did.

2715. **MR. DUNCANSON:** And for delivery customers on the NGTL System, like your client in this proceeding, Centra, you would agree with me that they have a need for the NGTL System to connect new sources of supply such as through projects like the North Montney Mainline, right?



2716. **MR. MIKKELSEN:** Or for other demand to depart the system. There has to be a balance. If there is decline of supply, it would need to be replaced or other delivery customers would need to vanish.
2717. **MR. DUNCANSON:** Right. So as a delivery customer like Centra, there is a need to connect new supply both to offset natural declines, and to accommodate the incremental delivery contracts on the system.
2718. **MR. MIKKELSEN:** Yes. In that example, if you're going to -- if the demand is either going to be static or increasing then, yes, new supply would have to be brought on.
2719. **MR. DUNCANSON:** Okay. And those views apply to Centra as well, as a delivery customer on the System?
2720. **MR. MIKKELSEN:** I'm sorry. I thought you just asked that in a generic context, if delivery customers would require new supply to come on.
2721. **MR. DUNCANSON:** And I'm simply confirming that those statements that you made would apply to Centra as they would to other delivery customers.
2722. **MR. MIKKELSEN:** As a delivery customer. Yes.
2723. **MR. DUNCANSON:** Yes. Okay.
2724. Panel, if we pull up your response -- Centra's response to the Commission's Information Request 2.2. This is in Exhibit C03186-2, at PDF page 4. Are you with me?
2725. **MS. STEWART:** Yes.
2726. **MR. DUNCANSON:** And I guess before I start asking questions about this, was this information offered by Centra or by Drazen Consulting Group?
2727. **MS. STEWART:** By Centra.
2728. **MR. DUNCANSON:** Okay. And so there's a discussion there, Ms.



Stewart, about the Settlement Guidelines -- and I want to make sure that I understand Centra's position on these Settlement Guidelines. I interpret your response here to be that the Commission in this proceeding does have the ability to modify the Settlement. In other words, it has the discretion to change terms in the Settlement, and approve that as the NGTL rate design in this proceeding. Did I get that right, or not?

2729. **MS. STEWART:** Yes. That's correct.

2730. **MR. DUNCANSON:** And can you help me understand the basis for that position? Where in the Settlement Guidelines does it say that the Commission has the ability to do this?

2731. **MS. STEWART:** I would start in responding to your question with the List of Issues that the Commission defined for this proceeding. And Issue 1(d), "Contracting practices" is a matter that is contained within the Settlement; however, Issue 3 is the appropriateness of matters not addressed in the contested Settlement, including the outputs that NGTL was directed to provide in response to the examination decision, as well as toll impacts of capital spending plans.

2732. And those matters are outside of the Settlement and in this circumstance -- then I'll flip to the excerpt from the Settlement Guidelines, which reads that

"...adequate information must be placed on the public record for the Board to understand the basis for the agreement, assess its reasonableness, and be able to determine that the resulting tolls are just and reasonable and not unduly discriminatory."

2733. And it goes on to say that the Settlement must not fetter the Board's ability and discretion to take into account any public interest considerations which may extend beyond the immediate concerns of the negotiating parties.

2734. So in this case, Mr. Duncanson, you walked back your witness, Mr. Prior, yesterday, who had characterized the information provided in Centra's Aid to Examination, which was a table characterized as illustrative tolls from the Edson application, and it's also contained in response to a WEG IR in this case. You walked back your witness and provided him with the opportunity to clarify that it was not NGTL's forecast of tolls, that NGTL does not forecast tolls; it was illustrative tolls.



2735. Now, I'm not sure what it's illustrative of, if it's not NGTL's forecast, but the Commission in this circumstance does not even have a toll forecast from the pipeline associated with its capital expansion plans.
2736. **MR. DUNCANSON:** Ms. Stewart, I'm sorry to cut you off but I feel like we're straying quite far from the question that I asked you which was, where in the Settlement Guidelines does it say the Commission has the ability to modify a Settlement?
2737. **MS. STEWART:** And I pointed out that the Settlement Guidelines read that adequate information must be placed on the public record, and I'm pointing out the gap in this evidentiary record in that NGTL has not even provided the Commission or intervenors with a toll forecast associated with its capital expansion plans in this case.
2738. **MR. DUNCANSON:** And so you're saying that means that the Commission should reject the Settlement?
2739. **MS. STEWART:** I'm saying that it's an example -- and there are other examples -- of the gap in the evidentiary record on matters that are not tied to the Settlement that could cause this Commission to make alterations or modifications to the Settlement.
2740. **MR. DUNCANSON:** Okay but ---
2741. **MR. DRAZEN:** Mr. Duncan -- would it be okay if I added something to that?
2742. **MR. DUNCANSON:** Go right ahead. As long as it's relevant to my question, I'm happy for you to chime in.
2743. **MR. DRAZEN:** Stepping back from the procedure, and I guess maybe I take more of an engineer's approach to it. The Settlement Guidelines say the Board can approve the Settlement, deny the Settlement, or approve the terms on an interim basis and direct further examination of issues that dissenting parties have raised.
2744. So I suppose the Commission can always say, we deny the Settlement, but if you do this, this and this, we'll approve it. I think procedurally that works,



but as far as Centra goes, what Centra has proposed really has nothing to do with the Settlement as such, right? Centra's two points are, number one, put NGTL on notice that it may have to bear some of the -- some stranded cost, okay?

2745. There's nothing -- that doesn't contravene anything in the Settlement. And the other is, require a longer or longer terms throughout a tertiary term. Whether that is inconsistent with the Settlement, I don't think it is, but at least half of Centra's proposal has nothing to do with the Settlement, as such.

2746. **MR. DUNCANSON:** Okay. Well, we can address that particular issue in Argument, Mr. Drazen, but I just again, to allow us to go into Argument understanding what Centra is actually saying in this proceeding, we need to understand Centra's position on the Settlement Guidelines and what that allows, in Centra's view, this Commission to do in this proceeding.

2747. So Mr. Drazen, your characterization of the Settlement Guidelines are closely aligned with my understanding. You agree with me that there is nothing in the Settlement Guidelines that says that the Commission or the NEB has the ability to modify the terms of a negotiated settlement that is being treated as a Settlement under the Guidelines, right?

2748. And if it does, I'd like you to point me to it.

2749. **MS. STEWART:** Could we call up the Settlement Guidelines?

2750. **MR. DUNCANSON:** Why don't we do that?

2751. **MS. STEWART:** There's a flowchart that is contained within them, if we could have a look at that?

2752. This could be subject to debate, but when I read this flowchart, by the time an application has landed in a hearing process, the steps before it are either that the Board has approved the terms of the Settlement only on an interim basis - - which in this case, is not the case -- or the Board has denied the Settlement and we've gone to hearing.

2753. **MR. DUNCANSON:** Okay. So that's helpful, Ms. Stewart.

2754. So Centra's view is, the Commission has denied the Settlement and that's why we're here today?



2755. **MS. STEWART:** Centra's view is that the Settlement fails to address the issue of long-term cost accountability.
2756. **MR. DUNCANSON:** No, I know Centra has concerns about the Settlement, but in terms of again, the Settlement Guidelines and what they allow this Commission to do, your view is, because we're here in a hearing room today, that means that the Commission has denied the Settlement, and that's the basis for your -- the content in your Information Request response?
2757. **MS. STEWART:** My basis is twofold. It's on the reliance of that which you just relayed, as well as my earlier response which is about the Board's or the Commission's list of issues in this proceeding. And there are issues that are outside of the Settlement that have bearing on the Settlement. One of those -- in fact, the most fundamental one that I can think of -- is the toll impact of capital expansion plans. And I read to you an excerpt from the Settlement Guidelines that talks about the importance of the Commission or the Board having adequate information in front of it in order to make determinations.
2758. So the fact that NGTL does not even -- is not even prepared to supply the Commission with a toll forecast for the 2023 period, that that would concern me if I was a Commissioner.
2759. **MR. DUNCANSON:** Okay. If we go back to Centra's response to the Commission's Information Request 2.2, right at the end of that response -- this is on page 6 of 6, second-last paragraph. You start the paragraph by saying, "Centra does not support the rejection of the Settlement."
2760. Do you see that?
2761. **MS. STEWART:** I do.
2762. **MR. DUNCANSON:** Okay. So presuming that the Settlement has not been denied already by the Commission, and the Commission agrees with NGTL and other parties in this proceeding that it must either approve the Settlement as a package or reject the Settlement as a package, is Centra requesting that the Commission accept Centra's proposals in this proceeding even if that means rejecting the Settlement?
2763. **MS. STEWART:** Mr. Duncanson, I think the Board has a number of



avenues available to it in this circumstance.

2764. Mr. Drazen talked about how the Commission could approve the Settlement on an interim basis and provide guidance, right?
2765. I'm sorry, Mr. Drazen spoke about how the Commission could reject the Settlement; however, provide guidance that would effectively allow it to be -- then be approved, i.e., for modifications to be made as a result of its assessment of this evidentiary record. So that's one option that is available.
2766. Additionally, there is no modification of the Settlement required for NGTL to exercise its discretion to require longer contract terms.
2767. And what Centra is looking for the Commission to do is to signal to NGTL that that's the direction it wants it to move. NGTL retains discretion by way of the Settlement, and NGTL has provided us with a recent example of where it has required a 15-year contract term. So that is -- that can unfold with no modifications to the Settlement.
2768. **MR. DUNCANSON:** Okay. And so if NGTL exercises its discretion in a way that Centra agrees with, you'd be comfortable with the Settlement as it's been proposed?
2769. **MS. STEWART:** If NGTL takes steps to address longer-term cost accountability and the current discrepancy as between delivery or export shippers specifically and intra-basin shippers, Centra would be satisfied.
2770. **MR. DUNCANSON:** Okay. And just going back to my earlier question, just to make sure that I've got a clear answer from Centra on this point -- and this is my last question, depending on what I hear back. I heard from Mr. Drazen that the majority of Centra's issues are, in his view, outside of the Settlement.
2771. So again, if the Commission determines in this proceeding that its options are either to approve the Settlement as a whole or reject it as a whole, in light of Centra's view that it does not support rejecting the Settlement, is Centra's position that if the Commission determines it has those two options before it, it should approve the Settlement or reject it?



2772. **MS. STEWART:** If the Commission rejects the Settlement and these matters go back to, for example, the TTFP for further negotiations, the issue is that the capital will be spent, so the opportunity to intervene and alter the path forward is now.

2773. As a result, our preference would be that the Commission approve the Settlement with guidance.

2774. **MR. DUNCANSON:** Okay. That's helpful.

2775. Thank you very much, Panel, all of you.

2776. That's all my questions, Mr. Chairman.

2777. **THE PRESIDING COMMISSIONER:** The notes I have indicate that no other intervenors wish to cross-examine the Centra panel, and so I understand Board counsel -- sorry, Commission counsel has a few questions. Thank you.

--- EXAMINATION BY/INTERROGATOIRE PAR MS. HAUG:

2778. **MS. HAUG:** Good morning, Panel. I am CER counsel, Michelle Haug, and I do have a few questions for you.

2779. I'd like to start with a subject area that was already touched on in the hearing. Can the Regulatory Officer pull up, yeah, the Reasons for Decision RH-003-2011, and there's the chapter on fundamental risk? And, I believe, in the full decision -- it's PDF pages 53 to 65, but more specifically PDF 61 of 276 of the full reasons for decision. But you have a short -- oh, you've got it there, okay. Thank you.

2780. So my colleague, Ms. Bell, questioned the NGTL panel about fundamental risk in the National Energy Board's reasons for decision. Do you agree that fundamental risk refers to the situation where a pipeline company's throughput has declined to the point where it cannot recover all of its costs?

2781. **MS. STEWART:** Yes, yes.

2782. **MS. HAUG:** Thank you. Sorry, go ahead.



2783. **MS. STEWART:** I'm sorry, Ms. Haug. I'm going to add to that.

2784. Our interpretation of the RH-003-2011 decision, it includes an important concept from our perspective and that is that fundamental risk, in the Board's words is not:

"...determined by the ability of [...] captive shippers to pay increasing tolls."

2785. And the Board goes on to talk about if that indeed was the case, if the threshold, so to speak, was what the market could bear, the Commission who authored the RH-003-2011 decision go on to explain that the analysis of supply and market and competitive factors would have fairly little relevance in their assessment of whether a fundamental risk had materialized and, instead, the evaluation would be the point at which customers could -- would convert to an alternative.

2786. So I think I would just like to say that that component of this section is, in Centra's view, critical to an understanding of how that threshold will be assessed and that it is not what the market can bear.

2787. **MS. HAUG:** Thank you. Is it Centra's understanding that the concept of fundamental risk applies to NGTL?

2788. **MS. STEWART:** We were uncertain of that in advance of this proceeding. Our concern was that NGTL might point to the RH-003-2011 decision and suggest that that decision was specific to the Mainline's circumstance. However, we did hear and appreciate Mr. Prior's evidence yesterday, which is that NGTL accepts that these provisions or the direction provided by the NEB in RH-003-2011 that they are applicable to NGTL as well.

2789. **MS. HAUG:** So I heard you respond to Centra's appreciation of NGTL's evidence. Does Centra itself have a position now? You said coming into the hearing, I think, Centra didn't have a position.

2790. **MS. STEWART:** Well, we've always had the position that NGTL bears that risk. We struggle because NGTL's evidence is it truncates at a discussion of its System-wide depreciation rate approach. And what that means to me as a shipper is in the event that revenues are dropping or throughput is dropping and costs must be recovered, NGTL's solution will be to increase



depreciation rates, and that means that shippers pay more. NGTL's evidence never described or discussed that which was sought by the Commission in the examination decision, which is the steps that NGTL proposes to take to ensure that the cost of any undepreciated receipt pipeline facilities that are being or will be underutilized or not used, will be allocated fairly to shippers and NGTL in the future.

2791. So NGTL's evidence in this proceeding simply truncates that discussion of depreciation rates. However, the Commission counsel, Ms. Bell, yesterday foisted perhaps a next evolution of that discussion into this proceeding and that was very helpful.

2792. **MR. DRAZEN:** Can I add something? I think Centra may have hired us or hired me in order to bring up the average age of the panel but what comes along with that is some sense of history.

2793. If you go back far enough, which would be roughly 1997, so 20-something years, NGTL faced a major risk and the risk was called the Palliser Pipeline. The Pan-Canadian and Westcoast teamed up to develop an alternate pipeline which would have diverted volumes from NGTL. NGTL, in response said, "We'll come up with a load retention service rate" and they did that. Pan-Canadian and Westcoast dropped the Palliser proposal.

2794. NGTL and Pan-Canadian negotiated a rate and the Board at the time recognized that this was dealing with risk and said, in fact, that NGTL had to absorb 25 percent of the foregone revenues, relative to the regular rates. So this was an example of risk that NGTL faced very concretely and dealt with, and the Board recognizes a risk.

2795. **MS. HAUG:** Thank you. I'd like to turn to Centra's response. Actually -- it's actually Centra's written evidence, Exhibit C01048-1, under section 5.0 "Remedy" at PDF 15 of 42.

2796. And there Centra's -- under the question it says:

"What is Centra's proposed remedy to address the lack of long-term accountability for expansions and extensions of the NGTL System?"

2797. At line 23, Centra states:



“Centra proposes that the Board put NGTL on notice that it may share in any stranded costs resulting from asset underutilization.”

2798. I think some of your responses may have been edging this way but what do you mean by "put NGTL on notice"?
2799. **MS. STEWART:** If the Commission in its ruling on this matter clearly delineated that the RH-003-2011 fundamental risk framework applies to NGTL that would be putting NGTL on notice, from Centra's perspective.
2800. **MS. HAUG:** Do any other members of the panel have -- the panel have comments?
2801. **MR. DRAZEN:** Putting NGTL on notice is more than saying something may happen. There may be some reduction of revenues in return, or the like, in future. It's also intended to make NGTL consider more carefully what expansions are likely to be economic for the long term and which ones create some risk. So it has an effect. It's not just the financial effect. It's supposed to have a behavioral effect, too.
2802. **MS. HAUG:** Ms. Stewart, I think your response to me suggested that Centra's proposal about putting NGTL on notice could be aligned with fundamental risk but is Centra's proposal different from what fundamental risk already contemplates or is it perhaps a bit different?
2803. **MS. STEWART:** I listened to the exchange between Ms. Bell and Mr. Prior yesterday and NGTL fairly was unclear as to whether Centra was proposing a step beyond what -- beyond the framework that's defined in the RH-003-2011 decision and I can confirm that we are not. We're not looking for any more than that; we're also not looking for any less. And Mr. Reed's part of the discussion yesterday referenced again this concept of fundamental risk equating to that which the market can bear.
2804. And again, I'll just illustrate that from Centra's perspective, and factually, as in the words that are on paper suggests that that is not what the Board ruled in RH-003-2011.
2805. **MS. HAUG:** Ms. Stewart, I'd like to take you back just a little earlier



this morning, you commented about gaps in information. Can you provide us with further examples of information gaps that the Commission should be aware of?

2806. **MS. STEWART:** The most striking gap is the fact that the PipeLine is not prepared to provide a toll forecast. I'm a utility person and I've honestly never encountered a situation where the Applicant will not own its own forecast of what the toll impacts will be for its customers.

2807. And it was fascinating to watch Mr. Duncanson walk back Mr. Prior's reference to that illustrative rate table, to ensure that the record got corrected that it's actually not a forecast. So if that's not NGTL's forecast, I think it's quite important in these matters that are being discussed here that the Commission have one.

2808. So that's the most fundamental gap that I observed but again, in response to the Board's examination decision, in Centra's view, NGTL was not fully responsive to the requirements that the Commission defined. They're in black and white. I read an example of one where NGTL simply did not discuss how underutilized costs might be shared, as amongst NGTL and shippers. Its response was that it would rely on its system-wide depreciation approach, and what that translates into is, we will increase depreciation rates and shippers will bear all the costs.

2809. **MS. HAUG:** So some of your responses this morning have addressed how contract terms, in your view, should align with the economic life of the facilities. Do you have any further comments or conclusions you'd like to make at this time?

2810. **MS. STEWART:** Our evidence references the default contract term to underpin new facilities on the Canadian Mainline, that is 15 years. And we acknowledge that that does not fully address the economic life of the assets; however, it would be a meaningful step towards better mitigating the long-term risks of underutilization.

2811. So that, I think, is a concrete benchmark that exists on another TC Energy facility that makes sense to us.

2812. **MS. HAUG:** Mr. Chairman, that concludes my questions for the Centra panel.



2813. **THE PRESIDING COMMISSIONER:** Does counsel for Centra wish to redirect?

2814. **MS. VAN IDERSTINE:** No. We have no redirect. Thank you.

2815. **THE PRESIDING COMMISSIONER:** Okay. And thank you to the panel. It was very helpful to hear you this morning.

2816. And we'll adjourn for lunch and when we come back, Westcoast's panel will be seated and we'll go from there.

2817. Thank you.

--- Upon recessing at 12:08 p.m./L'audience est suspendue à 12h08

--- Upon resuming at 1:14 p.m./L'audience est reprise à 13h14

2818. **THE PRESIDING COMMISSIONER:** I think we're prepared to proceed, Mr. Davies or Mr. Bourne.

2819. **MR. BOURNE:** Thank you. Good afternoon, Mr. Chairman, Commissioners.

2820. I have the pleasure of introducing the Westcoast panel this afternoon.

2821. Seated closed to me is Mr. Richard Stout, Consultant for Westcoast. In the middle is Mr. Brian Troicuk, Manager, Regulatory Affairs for Westcoast. And closest to the Panel is Mr. Garth Johnson, Director, B.C. Pipeline and Field Services for Westcoast.

2822. I'll ask if the witnesses could please be sworn in.

RICHARD STOUT: Sworn

BRIAN TROICUK: Affirmed

GARTH JOHNSON: Sworn

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

2823. **MR. BOURNE:** Thank you.



2824. I'll start with Mr. Stout. Mr. Stout, do you have the written evidence of Richard Stout before you? That's Exhibit C01047-3?
2825. **MR. STOUT:** I do.
2826. **MR. BOURNE:** And was that evidence prepared by you or under your direction or control?
2827. **MR. STOUT:** It was.
2828. **MR. BOURNE:** And do you have any corrections to make to that evidence?
2829. **MR. STOUT:** No, I don't.
2830. **MR. BOURNE:** And is that evidence true and accurate to the best of your knowledge and belief, and do you adopt it as your sworn testimony in this proceeding?
2831. **MR. STOUT:** Yes. It is, and I do.
2832. **MR. BOURNE:** Thank you.
2833. Mr. Troicuk, do you have before you the direct evidence of Brian Troicuk, Exhibit number C02924-2?
2834. **MR. TROICUK:** I do.
2835. **MR. BOURNE:** And was that evidence prepared by you or under your direction or control?
2836. **MR. TROICUK:** Yes, it was.
2837. **MR. BOURNE:** And do you have any corrections to make to that evidence?
2838. **MR. TROICUK:** I do not.
2839. **MR. BOURNE:** And is that evidence true and accurate to the best of your knowledge and belief, and do you also adopt it as your sworn testimony in



this proceeding?

2840. **MR. TROICUK:** I do.

2841. **MR. BOURNE:** Thank you.

2842. And finally, Mr. Johnson, do you have the direct evidence of Garth Johnson, Exhibit number C02924-2 before you?

2843. **MR. JOHNSON:** I do.

2844. **MR. BOURNE:** And was that evidence prepared by you or under your direction or control?

2845. **MR. JOHNSON:** Yes, it was.

2846. **MR. BOURNE:** And Mr. Johnson, can you also confirm that you were involved in the preparation of the following written evidence and bear with me as I list off these exhibit numbers.

2847. I'll start first with the written evidence of Westcoast which is Exhibit C01047-2; Westcoast response to Information Requests, which is made up of Exhibits A99786, C00415, C01513, and C01514; and finally, the opening statement of Westcoast which is Exhibit Number C03392?

2848. **MR. JOHNSON:** Yes, I will.

2849. **MR. BOURNE:** And do you have any corrections to make to that evidence?

2850. **MR. JOHNSON:** No, I don't.

2851. **MR. BOURNE:** And is the evidence true and accurate to the best of your knowledge and believe, and do you also adopt it as your sworn testimony in this proceeding?

2852. **MR. JOHNSON:** Yes, I do.

2853. **MR. BOURNE:** Thank you.



2854. Thank you, Mr. Chairman, Commissioners. That completes my examination. The panel is now available for questions.
2855. **THE PRESIDING COMMISSIONER:** No opening statement then, I presume?
2856. **MR. BOURNE:** Westcoast has filed its opening statement, but we don't propose to read it out here today.
2857. **THE PRESIDING COMMISSIONER:** We'll rely on the record for that.
2858. Mr. Duncanson, I believe you had indicated you'd like to cross? It will be up to you then.
2859. **MR. DUNCANSON:** Thank you, Mr. Chairman. I do intend to cross as well as the counsel for Black Swan and PETRONAS. The order that we've discussed between the three of us is Black Swan will go first, followed by PETRONAS, followed by NGTL. Thank you.

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

2860. **MR. WOOD:** Good afternoon, gentlemen. My name is David Wood and I'm here to ask you a few questions on behalf of Black Swan.
2861. My first questions are for the company witnesses. At the beginning of your evidence -- and I don't think you need to turn it up -- but at the beginning of your evidence, you say that,

"Westcoast competes with NGTL to transport North Montney gas to the existing NGTL System and the NIT market."

2862. Right?
2863. **MR. JOHNSON:** Correct.
2864. **MR. WOOD:** And sir, what did Westcoast do to compete for Black Swan's North Montney volumes?



2865. **MR. JOHNSON:** T-North is -- it delivers gas to the existing NGTL System at Sunset and at Gordondale. And Black Swan has contracts that deliver to for sure Sunset. I can't remember if they have it at Gordondale.
2866. **MR. WOOD:** Sir, you understand that Black Swan is contracted for 229 million cubic feet a day on the North Montney Mainline? Is that your understanding?
2867. **MR. JOHNSON:** I didn't know that, but I will take your word for it.
2868. **MR. WOOD:** Take that subject to check?
2869. Westcoast cannot today offer Black Swan or any other party 229 million cubic feet a day on T-North, right?
2870. **MR. JOHNSON:** To which points?
2871. **MR. WOOD:** Well, to transport North Montney gas to the existing NGTL System.
2872. **MR. JOHNSON:** There is no available capacity to do that. That is correct.
2873. **MR. WOOD:** Right. And back in 2015 and 2016 when Black Swan was looking for transportation for its North Montney volumes to get them to the NGTL System, you couldn't offer them 229 million cubic feet a day of capacity on T-North then either, right?
2874. **MR. JOHNSON:** We would have to expand for that.
2875. **MR. WOOD:** Mr. Stout, in your view, does the economic health of shippers affect the long-run viability of a pipeline?
2876. **MR. STOUT:** The long-run viability of a pipeline depends on the availability of shippers that are able to pay the toll. I wouldn't say the viability depends on the health of any specific shipper.
2877. **MR. WOOD:** Well, can we agree, sir, that if tolls make the product being transported uneconomic, that harms both shippers and the pipeline?



2878. **MR. STOUT:** Before the pipeline is built, there must be many factors considered as to if the pipeline is, in fact, going to be an economic and viable expansion. And that's the time prior to the building of the pipeline that those factors must be considered. And that's why it's so important to arrive at the right price signal to signal what might be an efficient and effective expansion and what might not.

2879. **MR. WOOD:** But back to my original question, if tolls make the product being shipped uneconomic, that causes harm both to the shippers and to the pipeline, right?

2880. **MR. STOUT:** What I'm trying to explain, Mr. Wood, is that is the fundamental aspect of the free market, of the competitive market, that if a pipeline toll is going to work out as to be too high to attract any shippers, then that sounds like a pipeline that's not an efficient or needed expansion. And then that's what we have a marketplace for and that's why pipeline tolls have to be -- provide the right signals so that it supports that sort of orderly and efficient development.

2881. Your question seems to be somehow a little backward to me, that you would complain afterwards that the fact that a toll is too high rather than before the competition.

2882. **MR. WOOD:** What do you mean, sir, by "before the competition"?

2883. **MR. STOUT:** In a competitive supply situation of regulated pipelines competing with regulated pipelines, and that's what I would regard as the competition, as the competitive aspect to move the gas from that supply down to the market.

2884. **MR. WOOD:** Your answer, though, sir, presupposes that the tolls are known at that point, right?

2885. **MR. STOUT:** The tolls may not be known precisely, but based on the estimated cost of the pipeline, it's not difficult to have a good estimate of what the toll will be before the event.

2886. **MR. WOOD:** This is, by my reckoning, the third North Montney hearing, yes?

2887. **MR. JOHNSON:** Yes.



2888. **MR. WOOD:** Mr. Stout, do you maintain that in the case of North Montney, simply knowing the costs of the pipeline was sufficient to give everybody a pretty good idea of what the toll was going to be?
2889. **MR. STOUT:** That is of course assuming the tolls are based on costs and reflect cost-causation. It's not that hard, therefore, to project what a toll might be if it's based on cost-causation, which is really the principle we're talking about here.
2890. **MR. WOOD:** Can we agree, Mr. Stout, that North Montney shippers will cause no new costs on the existing NGTL System?
2891. **MR. STOUT:** Mr. Wood, I don't know what new costs might be. What incremental costs might be involved, I understand those incremental costs might be small, but certainly North Montney Mainline shippers will cause costs on the existing NGTL System at Saturn, as defined by the FT-R toll at Saturn.
2892. **MR. WOOD:** North Montney shippers didn't cause the costs of the existing NGTL System as it stands today, right?
2893. **MR. STOUT:** They did not cause costs of the existing system because obviously they weren't there when the existing system, at least most of it, was first developed. That argument is the incremental argument yet again, whether I should be able to get on a bus for free because I didn't cause the cost of that bus to occur. But there's an empty seat. I shouldn't have to pay my ticket which has been deemed to be the cost of using that bus. That's a fallacious argument in the event of a normal pipeline service.
2894. **MR. WOOD:** Mr. Stout, you're aware, I take it, that NGTL required North Montney shippers to enter into 20-year contracts?
2895. **MR. STOUT:** Yes.
2896. **MR. WOOD:** And I take it, sir, that you're also aware that North Montney shippers have restricted secondary rights compared to existing NGTL shippers?
2897. **MR. TROICUK:** Yes, we're aware.



2898. **MR. WOOD:** Mr. Stout, are those factors that the Commission should take into account when considering the proposed North Montney toll methodology and surcharge?
2899. **MR. STOUT:** My understanding is the toll is to be based on the costs and the term is an aspect which deals with the risk separately.
2900. **MR. WOOD:** Right. And because of the 20-year commitments, North Montney revenues are of greater certainty, and thus of greater value; would you agree with that?
2901. **MR. STOUT:** They may have value in terms of risk management, Mr. Wood, but it still has nothing to do with the principles of tolling based on cost-causation.
2902. **MR. WOOD:** Mr. Johnson, Westcoast is not a shipper on the NGTL System?
2903. **MR. JOHNSON:** Correct.
2904. **MR. WOOD:** Westcoast doesn't pay any NGTL tolls?
2905. **MR. JOHNSON:** No, they don't.
2906. **MR. WOOD:** And Westcoast has intervened in this proceeding on its own behalf?
2907. **MR. JOHNSON:** That is correct. And as we've noted in the CAPP response, we believe it is in the public interests to do so.
2908. **MR. WOOD:** NGTL shippers are sophisticated commercial entities, yes?
2909. **MR. JOHNSON:** Yes.
2910. **MR. WOOD:** They don't need Westcoast to advocate for them in this proceeding?
2911. **MR. JOHNSON:** No.



2912. **MR. WOOD:** The costs of Westcoast's participation in this hearing are captured in the fixed O&M expenses amount under the 2018 and 2019 transmission toll Settlement, right?
2913. **MR. JOHNSON:** That is correct.
2914. **MR. WOOD:** Why does Westcoast think it is acceptable to require its shippers to pay for Westcoast to intervene in NGTL's rate cases and take positions that you know they do not support and that are contrary to their interests?
2915. **MR. JOHNSON:** The Settlement is part of a bigger global agreement just like we've talked about with this Settlement, and that was one of the factors that was in it.
2916. **MR. WOOD:** Do you believe that shippers at that time understood that they would be paying for you to appear in rate cases advocating for positions that are against your shippers' interests?
2917. **MR. JOHNSON:** I would have to check on that because I was not directly involved with the negotiations.
2918. **MR. WOOD:** Mr. Stout, your view is that FT-R shippers do not benefit from the North Montney Mainline, right?
2919. **MR. STOUT:** Correct.
2920. **MR. WOOD:** Is it your position that FT-R shippers do not benefit from long-term revenue stability for the pipeline?
2921. **MR. STOUT:** Mr. Wood, this sounds like a departure from cost-causation into arguments about benefits and the benefits of -- I'll leave it at that. It sounds to me like you want to discuss benefits here, and benefits are not a principle of cost-causation or tolls designed to recover costs.
2922. **MR. WOOD:** Well, Mr. Stout, I'm just exploring the boundaries of your position that FT-R shippers don't benefit from a North Montney Mainline. And so my question to you again, sir, is whether it is your position that FT-R shippers derive no benefit from long-term revenue stability for the pipeline?



2923. **MR. STOUT:** Mr. Wood, can you clarify that, please? Are you talking about long-term revenue stability on the North Montney Mainline, or are you talking about revenue stability of the rest of the NGTL System?
2924. **MR. WOOD:** On the rest of the system. Can we agree that access to more diverse supplies and longer-term firm commitments enhance pipeline revenue stability?
2925. **MR. STOUT:** Again, Mr. Wood, I think we're treading into areas of gas market supply and demand and stability there. As far as volumes on the NGTL System are concerned, they could come from many other places other than the North Montney Mainline.
2926. **MR. WOOD:** At your view, sir, is that the proposed toll for the North Montney Mainline results in excessive cross-subsidies to the detriment of existing NGTL shippers, right?
2927. **MR. STOUT:** Correct.
2928. **MR. WOOD:** Where are they?
2929. **MR. STOUT:** Where are who?
2930. **MR. WOOD:** Well, sir, if your view is correct and the North Montney toll methodology and the proposed surcharge results in excessive cross-subsidization by shippers who derive no benefit from the North Montney Mainline, objecting shippers should be lined up out the door and down the hall, objecting to the proposed toll. But in fact, sir, no FT-R or FT-D shippers have filed evidence in this proceeding objecting to the North Montney Mainline tolling methodology, have they?
2931. **MR. STOUT:** Mr. Wood, Mr. Johnson may want to expand on this, but my understanding is that this is a global Settlement where many issues were settled and the absence of those individuals may indicate that the balance of interest may lie in having the Settlement approved.
2932. **MR. WOOD:** Well, you're not suggesting that the Commission should infer from the fact that no shippers are appearing here or have filed evidence objecting to the North Montney toll methodology -- the Commission



shouldn't draw an inference from that that they really do object; that's not what you're suggesting, is it, sir?

2933. **MR. JOHNSON:** Maybe we should just take a step back and look at why Westcoast is here and then that may feed into why some of ---

2934. **MR. WOOD:** Well, no, sir. That is not at all responsive to my question. My question was just asking Mr. Stout to confirm that no FT-R or FT-D shippers have filed evidence in this proceeding objecting to the North Montney toll methodology.

2935. **MR. STOUT:** That's correct.

2936. **MR. WOOD:** Thank you, gentlemen.

2937. Thank you, Mr. Chairman and Commissioners.

2938. **THE PRESIDING COMMISSIONER:** Thank you, Mr. Wood.

2939. When you're ready, Mr. Kupi.

2940. **MR. KUPI:** Thank you, Chair.

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

2941. **MR. KUPI:** So I'm unlikely to get close to my two-hour allocation today, so I'll let everyone know that from the get-go. I've already informed Mr. Duncanson that I'm unlikely to take very long.

2942. I only have a few questions on a few matters, mostly in relation to the MH-031-2017 decision. So I'd like to bring that up if I can, please. Thank you.

2943. And could we please turn to page -- paper page 40, PDF page 58, and I believe my questions will, for the most part, be relevant for the Westcoast representatives on the panel. And if you need a copy of the decision I'm happy to provide it on paper but otherwise I'll assume you guys have access to something.

2944. **MR. TROICUK:** We're good.

2945. **MR. KUPI:** Thank you.



2946. So we're on page 40 of the variance decision, as I may call it, so MH-031-2017 or the variance decision. On the last paragraph of this page, if we could scroll down a bit, we'll see that the Board is referencing how approving the tolls that NGTL had proposed at the time of the application on the North Montney Mainline variance proceeding:

"...could result in competitive impacts to Westcoast,..."

2947. But it also adds that Westcoast is:

"...accountable for its own commercial decisions."

2948. And do you see that language in the paragraph?

2949. **MR. TROICUK:** Yes, we do.

2950. **MR. KUPI:** Thank you.

2951. And it makes a couple of findings -- the Board makes a couple of findings. One of these findings is in the third-to-last sentence, and I'll read it:

"Westcoast did not ensure that NGTL had corresponding capacity to receive gas that would flow to Sunset and Gordondale as a result of Westcoast's recent expansions."

2952. Do you see that?

2953. **MR. TROICUK:** Yes.

2954. **MR. KUPI:** Since the MH-031-2017, or variance decision, has Westcoast ensured that NGTL had this corresponding capacity to respond to the Board's finding?

2955. **MR. JOHNSON:** What Westcoast has done -- there has only been one open season since then and that was the PETRONAS contract that we talked about earlier. And PETRONAS does have the take-away at Sunset because obviously they are part of LNG Canada.

2956. **MR. KUPI:** So apart from this from what you referenced, there is no



other -- no other expansion of note since the time of the decision?

2957. **MR. JOHNSON:** No other open seasons, no.

2958. **MR. KUPI:** I'd like to ask about another finding. It's in the second-to-last sentence. It's that Westcoast did not:

"...eliminate diversion rights for shippers contracting on its recent expansions, to mitigate the risk of shippers diverting this gas to Station 2 and letting their existing Station 2 contracts expire."

2959. Do you see that?

2960. **MR. TROICUK:** Yes, we see that.

2961. **MR. KUPI:** So since the MH-031-2017 decision or the variance decision, has Westcoast eliminated shipper diversion rights on new expansions to respond to the Board's finding here?

2962. **MR. TROICUK:** Sir, can you repeat your question, please?

2963. **MR. KUPI:** Sure. So again, I'm looking at the second-to-last sentence of this page of the decision and there is a statement that Westcoast did not:

"...eliminate diversion rights for shippers contracting on its recent expansions, to mitigate the risk of shippers diverting this gas to Station 2 and letting their existing Station 2 contracts expire."

2964. And my question is, has Westcoast eliminated these shipper diversion rights that are referenced by the Board on new expansions?

2965. **MR. TROICUK:** Sir, Westcoast embarked on a number of meetings and conversations and consultations with its shippers, commencing in November of 2018, looking at its rate design for T-North and its accompanying service attributes. And the outcome of that was a combination of filing to the Board at the time in March of 2019, which kept the diversion aspects as they were before, and they are still there today.



2966. **MR. KUPI:** So your answer is no, then?

2967. **MR. TROICUK:** They have not changed; yes, that's correct.

2968. **MR. KUPI:** And I'd like to look at the last sentence which states that -- the last sentence of this paragraph that we've been on, and there is a statement that:

"Westcoast does not appear to have made any significant changes to its toll design in Zone 3 to respond to competition from the NMML and NGTL."

2969. Do you see that?

2970. **MR. TROICUK:** Yes.

2971. **MR. KUPI:** Now, since the MH-031-2017 decision, has Westcoast made significant changes to its Zone 3 toll design to respond to this finding of the Board?

2972. **MR. TROICUK:** As I was indicating earlier, Westcoast went through consultations with its shippers looking at the proper rate design for its team or its system which is a transmission header collection system and concluded that the postage stamp, in conjunction with the receipt and deliverability, flexibility that goes with that is appropriate for meeting competition that is fair.

2973. **MR. KUPI:** So in other words, no changes?

2974. **MR. TROICUK:** The discussions are still ongoing, so at the moment, there have -- the existing rate design system has remained the same.

2975. **MR. KUPI:** So I'd now like to turn to page 41 of the same decision, so just to move on to the next page. And if we look at the second paragraph on this page, do you agree, in general terms, with the Board's statement -- and I know you're able to find it -- that it's the responsibility of pipelines to innovate, to respond to competition, and manage their business risks?

2976. **MR. TROICUK:** Yes, I see that.



2977. **MR. KUPI:** And do you agree with it?

2978. **MR. TROICUK:** I do not disagree with it, no.

2979. **MR. KUPI:** You do not disagree with it?

2980. **MR. TROICUK:** That's correct. I agree with it.

2981. **MR. KUPI:** Okay. Now, starting on the fifth line, we see the words,

"NGTL may return to the Board with a toll methodology that ensures users of the NMML Facilities pay a toll that is reflective of the costs they cause on the System. This could result in tolls that are competitive with or lower than Westcoast's tolls. Westcoast may need to adapt its suite of services, contracting practices, and its tolling framework to remain competitive, particularly to compete with [NIT] to transport gas to NIT."

2982. Do you see that?

2983. **MR. TROICUK:** Yes, sir.

2984. **MR. KUPI:** Where, in your evidence, have you described Westcoast adapting in the way that the Board is describing here?

2985. **MR. JOHNSON:** From a response perspective, I think the first thing Westcoast is doing is intervening in this hearing to ensure that North Montney Mainline tolls adhere to the North Montney variance decision.

2986. The Westcoast can't compete with a subsidized pipeline.

2987. Some of the things that Westcoast has done, for example, in the -- well, the PETRONAS contract that was done, it's -- we call it Project Silver Star -- that, if you look at the open season, you'll see that there are changes to our traditional open season.

2988. One of the big changes was we put a 30-day cancellation cost or cancellation right on behalf of the shipper, in this case, PETRONAS, after a CER decision. That's something that Westcoast has never done before. In fact,



- Westcoast would prefer not to do it because it likes certainty on a project. But that's what the competition is doing. That is what Westcoast is being asked to do, so that is what Westcoast did.
2989. As Mr. Troicuk explained, there is the TTTF discussions, the TTTF subcommittees that have been going on as a result of those subcommittees and through a lot of discussion with our customers. Westcoast did not change things like the postage stamp that you referred to. We didn't change the relocations or the -- not relocations, but diversions -- because that's what the customer wanted us to do.
2990. We can't compete if we start taking away contract attributes. We need too be adding contract attributes, and we need to have a competitive toll.
2991. **MR. KUPI:** Thank you for that very comprehensive answer. I think what I'm hearing is that the change, perhaps, that you would offer in terms of the adaptation the Board is referencing here is a 30-day term in a open season. I didn't hear anything different.
2992. And it sounds to me like your primary means of adjusting the competition is intervening in the Commission proceeding at this point; is that accurate?
2993. **MR. JOHNSON:** When you say "adapt", you need to be adapting to something. We don't know what we're going to adapt to. What is that competition going to be? Will it be a toll that reflects cost causation? Will it be a subsidized toll? Will it be -- the Board had come out in the variance decision with other options such as a zonal toll.
2994. I don't know where this is going to land. I think zoned is probably out of it, but as far as if it's going to adhere to proper cost causation is the question.
2995. And once we know what that answer is, it's easier then to adapt to that answer.
2996. **MR. KUPI:** What I found interesting in your response was that the competition is prospective. There's no suggestion of present competition. It's a future, it's a future competition that you're talking of. Is that accurate? Have I understood you correctly?



2997. **MR. JOHNSON:** I wouldn't say it's future competition. It is the competition. It is the competition is the discussion we're having with our customers right now. I thought what you were referring to is what is Westcoast doing to adapt? And adapt, in my mind, has more of a future tense to it.
2998. **MR. KUPI:** Well, sometimes you have to adapt to something that is in the present, that -- some competitive fit that exists today. And certainly, you might, in a market environment, be forced to make drastic changes quite quickly and you may need to come to the Regulator for those changes. But it sounds like you guys aren't there yet.
2999. **MR. STOUT:** Just taking that paragraph that you took us to, what it says there is that facilities pay a toll that is reflective of the costs they cause on the system. The adaptation is conditioned on the assumption here that costs -- the costs caused on the system are being paid by North Montney Mainline, and in the same paragraph again just before that, the Board has repeated its tolerance for cross-subsidization in the area is low.
3000. So it's very difficult for Westcoast to adapt when they don't know even whether this toll, at the end of the day, will be reflective of costs or not. And I think it's reasonable to expect to see more in terms of adaptation when it's clear that the tolls reflect costs.
3001. And as Mr. Johnson said earlier, Westcoast can't compete -- and I don't think anybody can compete -- with a cross-subsidized toll, which is essentially what NGTL's proposal stands at at the moment.
3002. **MR. KUPI:** I'm still interested in Westcoast's specific corporate perspective here, and that was -- that's been how I've been framing my questions so far, I believe. But I think Mr. Stout raises an interesting issue, which is did Westcoast assume the Board to mean that it need not consider adapting its services, its contracting practices, and its tolling framework, as we see in the wording there, until it gets a Commission decision that approves NGTL's NMML tolling methodology?
3003. **MR. JOHNSON:** No. This is just -- the response to date is a practical recognition that we can't compete with a subsidized toll. T-North is a separate, standalone cost pool competing with a pipeline that comes into the area that's subsidized, and delivering the same service to the existing NGTL system.



3004. **MR. KUPI:** What I hear though, is that you have not adapted as the Board contemplated may need to be the case. And it seems like you're simply assuming that until you face a negative tolling decision, you won't be there and you could -- we'll cross that bridge when we get to it, is essentially Westcoast's position here.
3005. **MR. JOHNSON:** Westcoast has been and continues to talk to their customers and sometimes adaptation is change, sometimes it's listening to the customers and saying, or seeing what they want. But at the end of the day, you can't compete with a subsidized toll.
3006. **MR. KUPI:** Well, it's obviously not the view of many parties in this proceeding that we're facing a subsidized toll under the applied-for framework. And in PETRONAS' case, even in the framework of the surcharge being taken away according to the evidence of Brattle.
3007. So I don't think that's a compelling answer to our question of adaptation. Again, it's the recognition of competition but -- that we've seen in these Board decisions -- but it seems like, from what you're telling me, that it's all very prospective and that you'll keep coming to the Board or to the Commission and fighting these battles until you're forced to do something.
3008. Do you have a response? Sorry, I ---
3009. **MR. JOHNSON:** Can you repeat the recipient's comment again?
3010. **MR. KUPI:** Sorry, the recipient's?
3011. **MR. JOHNSON:** Repeat your question, please.
3012. **MR. KUPI:** I'd just like to move on. I think we have a good sense of what's happened with Westcoast. But your intervention is essentially supporting raising tolls for North Montney shippers, relative to NGTL's application.
3013. So maybe a profitable way forward in terms of questioning would be, why not get creative and figure out a way to give shippers like PETRONAS a better deal, and if that doesn't align with the status quo, maybe apply to the Commission to consider it. Isn't that more in line with an innovative approach?
3014. **MR. JOHNSON:** Sir, no. The position of Westcoast is that the tolls



- on the North Montney Mainline should be set so that the North Montney Mainline shippers are paying for the cost to use the existing system, as well as the incremental costs of the North Montney Mainline system.
3015. **MR. KUPI:** I still don't hear any response to my question there. I'm asking about whether it might make more sense for Westcoast to change its approach before the Board -- before the Commission, sorry -- in particular, with respect to a proposal that might actually reduce tolls and potentially represent innovation.
3016. Now do you suggest that it's innovative to talk to your shippers?
3017. **MR. JOHNSON:** Sorry. I'm still stuck on your comment of Westcoast just reduce tolls. Where would that reduction come from?
3018. **MR. KUPI:** Well, you tell me. I think it's not my job to respond to competition and to innovate. It's Westcoast's according to the Board's finding. And it sounds like to me that your strategy in terms of competition has been entirely before the Regulator in terms of opposing toll applications and fighting for higher costs on the North Montney Mainline. So can you present me with something that's along the lines of innovation?
3019. **MR. STOUT:** I don't think that's at all fair. I think what Mr. Johnson is telling you, repeatedly, is that Westcoast cannot compete with a cross-subsidized competitor. They're simply asking for a level playing field for competition, and for North Montney shippers to pay tolls reflective of the costs they cause on the system.
3020. If you turn the page to page 42 of the decision, there the Board has laid out what it considers the costs that are to be calculated that the toll should be reflective of. And that's all that Westcoast is here for, is to ask for the toll to be -- from the North Montney Mainline facilities to be based on the cost as outlined by the Board at the top of page 42.
3021. And if that is not done, then what my fellow members of this panel are saying is that there is very little they can do to adapt to get below a cross-subsidized toll of a competitor.
3022. **MR. KUPI:** So again, I don't think that's all responsive to even the topic of my question which is this statement of the Board, this fairly broad



statement, that it's the responsibility of pipelines to innovate, respond to competition, and manage their business risks.

3023. But I just want to confirm that there is nothing in the application that specifically, or sorry -- in your evidence that specifically addresses this particular point, despite it being there in the tolling section of the variance decision.

3024. **MR. STOUT:** Sorry. I want to correct an earlier statement. It's the bottom of page 41 is what I meant -- the same page we're on, not page 42.

3025. **MR. JOHNSON:** Maybe it may help if we just talk about what that competition would look like.

3026. So if we look at the T-North cost of service, the toll is around the 23 cent, it's going to go up a little bit. We've had de-contracting happen about 340 million a day over the last year. That's going to increase the toll.

3027. The Spruce Ridge project will be constructed. That -- we've gone through that hearing. The facilities there will cause the toll to go up. Not as much as originally contemplated, because the turnback has resulted in one of the compressor units not being required anymore. So back to one of the original questions of Black Swan, is there available capacity? Well, no; there's not. Because we're adjusting our builds to adjust to this turnback.

3028. But at the end of the day, if you look at the T-North toll and it goes up to the 25, 26 cent range, and then you break it down. And let's break it down to just variable costs. And "variable costs" means look at your capital and assume there's zero recovery, assume there's zero return. So zero depreciation, zero return, zero taxes associated with it. If you're down to variable costs of operating the pipe, you're still above the 12 cents of the North Montney Mainline. And that doesn't take into account that there'd still be maintenance capital, a cash outlay, and integrity capital, more cash outlay ---

3029. **MR. KUPI:** I don't want to interrupt you but again, I don't see any response to my specific question. I'm letting you go on, I'm giving you some leeway here, but the question was simply about your evidence and what in your evidence addresses this concept of innovation from pipelines in response to competition?

3030. And if the answer is no, then a simple no suffices. And I understand



your position on cost-causation; that's clear. It's not related necessarily to my question, so if your answer is no, then your answer is no. I'd would just ask that you provide a simple answer.

3031. **MR. JOHNSON:** The answer is yes. We've gone through what those responses have been, multiple meetings with the customers, ongoing meetings with the customers, determining how to respond; open-season responses -- and I mentioned just one but there's others, which we don't need to get into.

3032. But again, it's just being more responsive to the customers. That's what we're doing.

3033. **MR. KUPI:** NGTL, in this application, in the context of it's application, would very much say that it's being responsive to its customers. And it's also being responsive to the directions of the Board.

3034. The Board singled out Westcoast in this part of its tolling application, and despite you focusing on this part of the decision, for some white space that you're using quite a lot of -- you're using a lot of -- quite a lot of paper on this section of the decision, I don't see anything in relation to this particular element, that is, what you have to do to adapt to the new world of pipeline competition, if it exists.

3035. **MR. JOHNSON:** And as I've been saying, we are adapting. I just don't think you like my answer.

3036. **MR. KUPI:** I don't think you've given me one, but I am going to move on, I think, in the interests of everyone here. We have a sense of where Westcoast is coming from, I think, but I want to get a few things clear about competition before I finish. And that's -- one thing is, I understand that Westcoast has confirmed PETRONAS to be the largest shipper on the T-North System?

3037. **MR. JOHNSON:** Correct.

3038. **MR. KUPI:** And PETRONAS has 510 million cubic feet a day of Westcoast T-North long-haul capacity, correct?

3039. **MR. JOHNSON:** Yes, that is correct, as per the IR.



3040. **MR. KUPI:** And do you understand that Westcoast is intending on using that capacity as feedstock for the LNG Canada plant?
3041. **MR. JOHNSON:** I think you're -- unfortunately, there's two 510s up here. There is the first 510 which is as per the IR response, that PETRONAS holds 510 effective September 2019. That's the first 510.
3042. The second 510 is the expansion that we've talked about, the Silver Star Expansion.
3043. So in between is -- several things have happened. First of all, there was the relinquishment open season that was talked about this morning. That relinquishment open season not only resulted in 374 million a day of PETRONAS turning back this first 510, of this first 510, the 374, but also resulted in another 230 million cubic feet per day turned back from other shippers.
3044. So as a result, with the first part, the 510, you've got to subtract 374.
3045. **MR. KUPI:** Right. I'm really just asking about the LNG component here, and at the time the capacity was awarded -- and I'm talking about the LNG capacity -- can you confirm that NGTL was subject to a condition that would prevent it from transporting gas on the NMML Facilities except after applying for approval of a revised tolling methodology? Is that your understanding at the time that -- before September 2019?
3046. **MR. JOHNSON:** You'd have to point it to me.
3047. **MR. KUPI:** Sure, I can do that.
3048. So we're in the same decision. Just going to go to PDF page 126, paper page 108.
3049. And so I just want to confirm that the NMML is not capable of transporting to other markets beyond -- and other markets that include an LNG market. Do you understand that the North Montney Mainline would not be able to supply LNG needs due to Condition 3(a) of the Board's Tolling Order?
3050. **MR. TROICUK:** Yes, I see that.
3051. **MR. KUPI:** So when it comes to a producer seeking capacity for the



LNG market, at the time at which this LNG capacity was procured, there was really no competition for LNG deliveries, pipeline pipe competition for LNG deliveries between NGTL and Westcoast. And the reason for that would be this condition. They would simply need to come back to the Board and apply for some sort of authorization.

3052. **MR. TROICUK:** Sir, we're not following your train of thought for your questions, okay? Can you try that again, please?

3053. **MR. KUPI:** Are you aware of NGTL being authorized to use the North Montney Mainline Facilities to connect to an LNG plant or to LNG markets or to non-existing NGTL connected markets?

3054. **MR. TROICUK:** Sir, are you asking if I'm aware of, like, market intelligence of what business activities NGTL has ongoing?

3055. **MR. KUPI:** No, no, no. This is simply your understanding of the variance decision, really. It's a component of the variance decision that was a live issue being argued at the time around the implications of the cancellation of the previous LNG project and what it meant for the future of this facility. Are you not aware of that?

3056. **MR. TROICUK:** I'm aware, sir, that the LNG project changed and did not go ahead. And I'm aware that the variance decision was based on that. And they added a condition that if the facilities are not delivered to markets currently attached to the NGTL, that something else would have to happen.

3057. **MR. KUPI:** Sorry, wait. Okay. So I think you summarized it pretty well.

3058. And sorry, did you have something to add, Mr. Johnson?

3059. **MR. JOHNSON:** I also think, if I read this ---

3060. **MR. TROICUK:** Sir, we're going to have to ask you to repeat your question again.

3061. **MR. KUPI:** Was Westcoast in competition with NGTL? Has Westcoast been in competition with NGTL for LNG deliveries? We know that the variance decision has this condition which we've discussed. Is it possible that



- there could be any competition between those two pipes for this market, for this new emerging market? It would seem like ---
3062. **MR. TROICUK:** Sir, if you're asking if Westcoast could compete for LNG service, the answer would be yes.
3063. **MR. KUPI:** Yes, I'm asking if NGTL could, and if I was getting that mixed up, that was -- that's my apology, but I'm fairly certain that I've been focused on NGTL's ability to compete with a pipeline system that is obviously a conduit for a future LNG project, so I would think that you'd interpret he is referring to NGTL here. So it's a simple yes or no question.
3064. **MR. TROICUK:** Well sir, just looking at this condition in the decision, so to the extent that NGTL wishes to compete for LNG, they would have to be delivering to new markets. They would need to reapply to the Commission.
3065. **MR. KUPI:** Yeah. In other words, they can't compete. They are -- they have to come and apply first and then they can compete but they can't compete right now.
3066. **MR. TROICUK:** Well sir, of course they can compete. They would have to meet this condition, though, that they would have to reapply.
3067. **MR. KUPI:** Right, okay. But right now the answer is "no", correct?
3068. **MR. TROICUK:** The Commission has put a condition on that applies to NGTL that to the extent that they want to deliver to a new market ---
3069. **MR. KUPI:** You're not answering my question. Is the answer yes or no?
3070. **MR. DAVIES:** I think he's trying.
3071. **MR. TROICUK:** I'm saying they can compete but they have to meet certain conditions.
3072. **MR. KUPI:** I think I'll have to take that. Thank you very much for your time.



3073. Mr. Chair, that's -- that's my cross.

3074. **THE PRESIDING COMMISSIONER:** We'll take a short break and come back at 25 to 3:00 and commence with NGTL's cross. Thank you.

--- Upon recessing at 14:20 p.m./L'audience est suspendue à 14h20

--- Upon resuming at 14:40 p.m./L'audience est reprise à 14h40

GARTH JOHNSON: Resumed

BRIAN TROICUK: Resumed

RICHARD STOUT: Resumed

3075. **THE PRESIDING COMMISSIONER:** Mr. Duncanson.

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

3076. **MR. DUNCANSON:** Thank you, Mr. Chairman.

3077. Good afternoon, panel. My name is Sander Duncanson. I'm counsel for NGTL.

3078. Mr. Johnson, we have had the pleasure of doing this a few times before but this is the first time for Mr. Stout and Mister -- is it Troicuk?

3079. **MR. TROICUK:** Very good, sir.

3080. **MR. DUNCANSON:** All right. Well, nice to meet you both.

3081. Even though you didn't read in your opening statement this afternoon, I'd like to start there if we could. This is Exhibit C03392-2.

3082. Perfect. Do you have that, panel?

3083. **MR. TROICUK:** Yes, we do.

3084. **MR. DUNCANSON:** Great. And the first paragraph of the opening statement you say:

"Contrary to what NGTL asserts, it is not the position of



Westcoast that the cross-subsidization of the North Montney Mainline shippers should be determined by comparison to standalone tolling. Rather, it is the position of Westcoast that the cross-subsidization of the [North Montney Mainline] shippers should be determined by a comparison of their toll revenue to the costs that they cause."

3085. Do you see that?

3086. **MR. TROICUK:** Yes, I do.

3087. **MR. DUNCANSON:** And when you talk about the costs the North Montney shippers cause on the system what you mean by that is the full cost of service on the North Montney Mainline facilities and the full FT-R toll at Saturn, right?

3088. **MR. TROICUK:** Not quite, sir. It's the cost to use the existing system and the incremental cost of the North Montney Mainline facilities and less any portion of the North Montney Mainline costs that are attributable to the existing shippers' users or indirect use of and need for the North Montney Mainline facilities.

3089. **MR. DUNCANSON:** Okay. But in terms of how you evaluate the costs to use the existing system or, as you phrase it here, the costs caused by the North Montney shippers on the existing system, you used the existing FT-R toll to calculate that, right?

3090. **MR. STOUT:** That's correct.

3091. **MR. DUNCANSON:** Okay. And you're saying that there is no need or use of the North Montney facilities by existing shippers so there is no deduction, which means when you're evaluating what you talk about in the first two sentences of your opening statement you say, "We're not measuring this against standalone tolling", yet the measure is the full incremental cost of service of North Montney, plus the full FT-R toll at Saturn. Am I missing something?

3092. **MR. STOUT:** I don't think you're missing anything, Mr. Duncanson, I'm sorry.

3093. **MR. DUNCANSON:** We even talked about this.



3094. **MR. STOUT:** Yeah, we talked about it in the washroom.

--- (Laughter/Rires)

3095. **MR. STOUT:** As far as I am concerned that is the cost of service what you have just read out. There is certainly a cost to use the existing system. There is obviously the cost -- the incremental costs that NMML have to be recovered and page 41 is a reference I usually go to. The Board has suggested or invited the Applicant to find and quantify any costs that may be attributable to existing system users' indirect use and need for North Montney Mainline.

3096. In my work I went on a search for those costs in that third term and essentially could find none that were attributable to the existing system and I certainly wouldn't be able to usefully quantify any of them. So in other words, if the third term is null, then the first two terms do tell you what the cost of service is. It just happens to arithmetically come out at the same result as if you apply a standby -- a standalone toll.

3097. **MR. DUNCANSON:** It just happens to end up that way?

3098. **MR. STOUT:** Yeah, that is -- that is the arithmetical result. You will get the same arithmetical result as the cost of service if you apply a standalone stacked toll.

3099. **MR. DUNCANSON:** But just so that I understand, Mr. Stout, if you conclude that there is zero attribution of costs to shippers on the existing system, doesn't it have to be the same as standalone? You're taking the incremental cost of service and you're taking the full FT-R toll at the interconnection with the existing system, which is the same thing as standalone tolling.

3100. **MR. STOUT:** I think -- I think we're in agreement that that is the arithmetic result. It would be the same arithmetic result as standalone tolling if you find that the third term is null -- a zero.

3101. **MR. DUNCANSON:** Okay. Just wanted to make sure I wasn't missing something.

3102. Now, when we're talking about the existing Saturn FT-R toll, I take it your view, Panel -- so you're suggesting that's the appropriate measure of what



- shippers connecting at Saturn or connecting along the North Montney pay to use the NGTL System east of that point, right?
3103. **MR. TROICUK:** Yes, sir.
3104. **MR. DUNCANSON:** And so your view is, that toll is just and reasonable and there's no excessive cross-subsidization? You're not taking issue with that toll; you're taking issue with the tolls on the North Montney Mainline, right?
3105. **MR. STOUT:** I think the toll at Saturn is just and reasonable and represents the cost to use the existing system. Is that -- are you asking me to agree to that?
3106. **MR. DUNCANSON:** Yes.
3107. **MR. STOUT:** Yes.
3108. **MR. DUNCANSON:** That's perfect.
3109. **MR. STOUT:** I further heard, I thought I heard -- I'm pretty sure I did hear PETRONAS agree to that as well in earlier testimony.
3110. **MR. DUNCANSON:** Okay. Now, Mr. Johnson, we're sitting up here -- I'm standing, you're sitting; this is, I think, the third time in a row. A few new faces -- I saw Mr. Engbloom sitting at the back of the room. Is there a reason you didn't have Mr. Engbloom join you again this time?
3111. **MR. JOHNSON:** Mr. Engbloom is near retirement.
3112. **MR. DUNCANSON:** He turned you down.
3113. **MR. JOHNSON:** Yes.
- (Laughter/Rires)
3114. **MR. DUNCANSON:** Okay. Mr. Stout, I'm going to start with a number of questions for yourself and then I'll turn to the Westcoast witnesses for the majority of the remainder.



3115. If we could turn up your evidence -- this is Exhibit C01047-3 -- and I'm looking at page 2 which is also PDF 2. If we scroll down so we can see the number 2 in the middle of the page. Do you see that?

3116. **MR. STOUT:** I do.

3117. **MR. DUNCANSON:** And lines 21 to 22 you say,

"There are no costs that can be attributed to the existing system users' indirect use of and need for the NMML facilities."

3118. Right?

3119. **MR. STOUT:** Correct.

3120. **MR. DUNCANSON:** And I think you said something similar a minute ago. So your view, sir, is that existing shippers on the NGTL System will not use the North Montney facilities in any way?

3121. **MR. STOUT:** That's right.

3122. **MR. DUNCANSON:** So what about delivery customers on the system that acquire their gas supply from receipt points on the North Montney Mainline, through NIT?

3123. **MR. STOUT:** Those delivery customers are buying their gas at NIT. You could say that all shippers on the system are using the existing NGTL System, but you can identify specifically the only shippers that use the North Montney Mainline facilities are the 11 shippers on that system. It's pretty clear that nobody else is using that particular extension.

3124. **MR. DUNCANSON:** Now Mr. Stout, you understand how the FT-R and FT-D contracting works on NGTL where shippers are not paying to have their gas moved from one point to another. They pay to put their gas onto the system at a particular receipt point, or they pay to take their gas off the system at a particular delivery point. The integrated system is managed by NGTL to make sure that those two things balance.

3125. But once the North Montney shippers put their gas onto the system at



the North Montney receipt points, you understand that gas is immediately commercially available to any delivery customer on the system and they can acquire that gas.

3126. **MR. STOUT:** Yes. I understand that, and the key word is, commercially available. That is a financial transaction; that is not a physical transaction.

3127. **MR. DUNCANSON:** So your view is, when the North Montney shippers put their gas onto the system at receipt points on North Montney, they are the only ones who are physically using the pipeline in that area?

3128. **MR. STOUT:** Yes.

3129. **MR. DUNCANSON:** So the sellers of the gas are the ones using the pipeline; the buyers of the gas are not?

3130. **MR. STOUT:** Yes.

3131. **MR. DUNCANSON:** Okay.

3132. If we turn up the Westcoast evidence -- this is Exhibit C01047-2 and I'm looking at PDF page 3 which is also hard copy page 3 of 10. And if we scroll down to lines 15 to 17, which is on the screen right now -- do you see that, Mr. Stout?

3133. **MR. STOUT:** The quote starting, "Existing system shippers"?

3134. **MR. DUNCANSON:** Yes. So Westcoast here is quoting the Board in MH-031-2017, where the Board says that:

"Existing system shippers without contracts on the North Montney facilities only indirectly contribute to the need for and use of the facilities, by generating demand for maintaining declining System to supply."

3135. Do you see that?

3136. **MR. STOUT:** Yes, I do.



3137. **MR. DUNCANSON:** And I take it, sir, you disagree with that finding? You're suggesting, in fact, there is no use of or need for the facilities by existing System shippers?
3138. **MR. STOUT:** Sorry, Mr. Duncanson. Could you please, for clarity, repeat the question? I thought I heard two questions there just now.
3139. **MR. DUNCANSON:** My question was whether you disagree with the Board's statement that is quoted at lines 15 to 17 of Westcoast's evidence.
3140. **MR. STOUT:** And that is the Board's statement which is -- I believe is on page 37 of the decision MH-031-2017.
3141. **MR. DUNCANSON:** That's right.
3142. **MR. STOUT:** Yeah. No, of course I don't disagree with the Board's statement, but I think you asked a follow-up question to that which was something a little different.
3143. **MR. DUNCANSON:** Well, it was just essentially the same thing. So the Board says that existing shippers indirectly contribute to the need for and use of the North Montney facilities by generating demand for maintaining declining system to supply, but you're saying, no; there is no use of or need for the North Montney facilities by existing shippers?
3144. **MR. STOUT:** That's correct. I'm saying there's no need for or use of because, first of all, the statement is -- I read this as "only indirectly contribute to the need for" and that's under the assumption that they may contribute to the need for at all.
3145. And I think the Board clarifies that if you turn to page 38 of the decision, second paragraph.

"The Board recognizes that the existing NGTL System users require additional supply to meet demand as existing wells in the basin decline. However, it does not follow that production declines must necessarily be offset by supply that requires significant mainline extensions of the NGTL System. FT-R renewals on the existing system, for example, could help to offset declines, as could bringing on gas from other systems,



including at the interconnections with Westcoast."

3146. So I think where you talk about need here, we have to make a distinction between need and indirect need and in terms of supply and demand with gas, there is a generic need in aggregate for a commodity, that gas, that can be provided in a market by a number of independent suppliers in competition. That's one way you can understand need.
3147. The second way is the specific need for a facility -- in this case, the North Montney Mainline Extension -- as viewed by a central planner with an exclusive franchise. They would treat need differently.
3148. So the term "indirect need" at the top of page 37 there, is contemplating a possible linkage between the market for gas as a commodity and the cost of a pipeline. But because this doesn't result in a specific need for that facility, I could find no contribution.
3149. And I think, as the Board goes on in its decision, it finally provides the formulaic guidance that we've discussed earlier, at the bottom of page 41 where it lays out this invitation, if you like, to consider this contribution, if it exists at all, in laying out those three terms: the cost of the existing system; the incremental cost by North Montney less, if there are any, the costs that you can attribute to the existing system users indirect use of and need for the NMML facilities.
3150. I have not seen any evidence in this proceeding by anybody that there is such a need or any attempt to quantify that effect. And that is consistent with my own consideration of that, that that third term is null; in other words, this possible "indirect use of" does not actually exist.
3151. **MR. DUNCANSON:** Okay. So that was a fair bit of information. I've got a few follow-up questions from that.
3152. First of all, I might have just misheard, Mr. Stout. You didn't suggest NGTL has an exclusive franchise area, did you?
3153. **MR. STOUT:** No, I didn't. What I was talking about was different uses of the word "need". And the only way I can conceive that a single specific facility is needed to balance supply and demand in the gas market would be if this was a monopoly planned by a central planner who determines instead of competition, it determines which facility goes ahead to satisfy the aggregate need.



3154. That's the only circumstances I can imagine you could identify that need and use of by the FT-D shippers of the North Montney line. And obviously, we're about as far away from that situation as it's possible to get, because we are in the position of competing pipelines in this instance.
3155. **MR. DUNCANSON:** Okay. So if I understand you, what you're suggesting is that the demand that existing delivery shippers on the NGTL System have for incremental supply, that does not -- that's not good enough to attribute costs to them for facilities like North Montney. The only scenario where they could be said to actually need new facilities like North Montney is in a world where there is a central planning function where someone says, "That demand must be met by this particular set of facilities"?
3156. **MR. STOUT:** Yes. And the model I had in mind there was what often happens with the vertically integrated electric utility where the aggregate need of all the consumers on the system is reviewed by a central planner and then says, "We're going to build this new source." Let's call it Genesee for the sake of an argument, and that becomes the facility that is needed to supply that market for energy in that case.
3157. So those are the only situations I'm familiar with where you can convert aggregate need for energy into compelling a specific facility to be built to deliver it at the other end of the system as opposed to relying on competitive markets to bring that supply forward by a number of competing means.
3158. **MR. DUNCANSON:** Okay. Mr. Stout, recognizing that you have limited experience before the NEB, that's your interpretation of what the NEB intended by the wording on page 37 that you referred me to?
3159. **MR. STOUT:** It's my interpretation and the interpretation of Westcoast.
3160. **MR. DUNCANSON:** Okay. Now, I have a few more questions on this theme of need of existing shippers for the North Montney Facilities. And if we turn again to your evidence, Mr. Stout -- this is Exhibit C01047-3 -- I'm looking at the very bottom of page 8.
3161. Are you with me?



3162. **MR. STOUT:** Yes, sir.
3163. **MR. DUNCANSON:** Okay. And in Q&A 15, you ask yourself, "Are any of the costs of the North Montney Facilities caused by existing system users?"
3164. You say no.
3165. And then in the next three Q&As, you explain the three factors that led you to that conclusion, right?
3166. **MR. STOUT:** Yes.
3167. **MR. DUNCANSON:** And starting with the first one, you refer to Figure 3-5 in the NGTL application, right?
3168. **MR. STOUT:** Correct.
3169. **MR. DUNCANSON:** And so if we pull that up -- that's Exhibit A98318-2 -- and I'm looking at PDF page 49. And this is the figure you were referring to, right?
3170. **MR. STOUT:** Yes.
3171. **MR. DUNCANSON:** And as I understood what you were saying, Mr. Stout -- but please correct me if I'm wrong -- is that because there is in this Figure A, an imbalance between receipts, which is shown in green, and deliveries shown in red, you take that to mean that the existing delivery customers on the system can meet their needs for gas without the specific North Montney Facilities? Did I get that right?
3172. **MR. STOUT:** Yes, that's correct. There's no indication on that graph, as yet, that there is need for a facility, and certainly no need for a specific unique facility such as North Montney Mainline.
3173. **MR. DUNCANSON:** Okay.
3174. **MR. STOUT:** And that goes back to my earlier statements that there are a number of sources that can supply the market apart from the North Montney Mainline, but they ---



3175. **MR. DUNCANSON:** Yes.
3176. **MR. STOUT:** --- at the first pass you look at that graph and you say, "Well, there doesn't appear yet to be a need for new supply."
3177. And I'm not suggesting that that doesn't mean that supply buyers can't change as we move through time. And if it does change, then that's the job, if you like, of the price mechanism in that market to signal to suppliers that through increased prices for the commodity that new supply is needed at some point and I would expect them to respond by bringing a new source online.
3178. **MR. DUNCANSON:** Okay. So we'll get to that in a moment.
3179. But what's not shown on this figure are the natural supply declines on the NGTL System year over year. And do you understand, Mr. Stout, that the NGTL System requires roughly 2.4 Bcf per day of gas every year of incremental supply getting connected to the System just to replace natural production declines?
3180. **MR. STOUT:** Yes, sir.
3181. **MR. DUNCANSON:** Sorry, I didn't catch that. Yes?
3182. **MR. STOUT:** Yes.
3183. **MR. DUNCANSON:** Okay. And your view is that existing shippers do not need new facilities to connect new supply to offset those declines?
3184. **MR. STOUT:** My view is they don't need the specific North Montney Mainline facility, and my view is there are other potential facilities or sources of supply that could satisfy that aggregate demand.
3185. **MR. DUNCANSON:** Okay.
3186. If we pull up Exhibit C03224-1, PDF page 29, this is an update to Figure 3-5. Have you seen this before, Mr. Stout?
3187. **MR. STOUT:** Yes.
3188. **MR. DUNCANSON:** And you can see there that as you predicted



just now, over time, in fact, supply and demand does tend to realign and now there is a need of existing demand -- delivery customers on the NGTL System for all of the supply contracts that are currently connected, right?

3189. **MR. STOUT:** I agree with you so far as there is a -- now, a better balance of supply and demand and that's the result of the market for the commodity working. I do not agree with any suggestion that that demonstrates a need for North Montney Mainline, because you're comparing a before and after -- an addition that will have impacted the market.

3190. And if one facility proceeds, or once source proceeds that brings on the incremental supply to restore balance, then competing, or potential competing resources are not going to come forward to feed into what would then be potentially a supply overhang.

3191. So if you build a facility, they will come. It becomes a sort of a self-fulfilling prophecy. Now, you can look at the supply and demand situation now with the facility built and say, well, if you take that away, there might now be a supply shortage which would be true, but you could say that of any existing facility -- that if you take it away, it could create a supply shortage. It is not a demonstration of need.

3192. **MR. DUNCANSON:** Okay. I think I understand your position on that point. But just before I leave this line of questioning, in your evidence when you go on to talk about the other factors that you considered to conclude that there was no need of existing shippers for these particular facilities, you essentially say what you just said now, which is that supply can connect to the system through third parties and the existing shippers would get the same benefits, and there wouldn't be the need to single out North Montney for special treatment.

3193. Do you remember saying that?

3194. **MR. STOUT:** Yes, sir. I would also add there may be FT-R renewals as well, so they are all a part of the potential supply mix.

3195. **MR. DUNCANSON:** Okay. Now, you understand that all extensions of the NGTL System historically have been tolled on a rolled-in basis, right?

3196. **MR. STOUT:** My understanding is, that is true but for the Komie North decision, sir.



3197. **MR. DUNCANSON:** But that facility never proceeded.
3198. **MR. STOUT:** Right. But if it had, it may have been rolled in. So yes, I agree with your statement.
3199. **MR. DUNCANSON:** Okay. And the last extension of the NGTL System that was brought before the NEB was the Towerbirch Project, and I know Mr. Johnson's familiar with that. Are you familiar with that project, Mr. Stout?
3200. **MR. STOUT:** Yes, sir. I've read the decision relating to that including the dissenting opinion of one of the Board members on that case.
3201. **MR. DUNCANSON:** Okay. And given that you have read that decision, I might be able to save a few minutes by asking you whether you agree or disagree with the conclusions of the majority in that decision.
3202. **MR. STOUT:** I disagree with the conclusions of the majority. I agree with the conclusion of the dissenting member, Mr. Parish.
3203. **MR. DUNCANSON:** Okay. That was very efficient; I just moved through about three lines of questioning.
3204. **MR. STOUT:** Glad to be of service, sir.
3205. **MR. DUNCANSON:** Mr. Stout, in the last one of these hearings, the MH-031-2017 hearing, Mr. Priddle was one of the experts that Westcoast had on its panel and I asked him whether he would agree that when discussing cross-subsidization in the context of new facilities that are proposed to be rolled in, the NEB has primarily looked at that issue from the perspective of the pipeline and its shippers, specifically, the relationship between the existing shippers and the new shippers. He agreed with that.
3206. Do you have any reason to disagree?
3207. **MR. STOUT:** I think I'd need more information on the context of that discussion before I could agree or disagree with what was said by Mr. Priddle.
3208. **MR. DUNCANSON:** Fair enough.



3209. So this was in the aids to cross-examination that we provided yesterday and it's in the transcript, Volume 5, from the MH-031 proceeding. In the package of aids to cross-examination, the particular extract I'm looking at shows up at PDF page 34, which paragraphs 7471 and 7472. Perfect.
3210. **MR. STOUT:** Jumping into this, Mr. Duncanson, is a little difficult because I wasn't familiar with this transcript. But it seems to me what we're discussing here is the effect -- the consideration of the tolling effects on existing shippers versus new shippers on an extension if you roll it in versus take some other tolling approach. Is that ---
3211. **MR. DUNCANSON:** Right.
3212. **MR. STOUT:** --- so I assume Mr. Priddle is pointing out you have to take that into account, that whatever tolling approach you take for the extension will have effects on existing and new shippers and the effects will be different depending on the tolling approach you take.
3213. And roll-in, in my experience, is often preferred by the new shipper because it essentially reduces their toll, but may not be preferred by the existing shippers because it tends to pull up their toll because you're -- from what it otherwise might be because you're increasing the costs -- the numerator when you're looking at the toll calculation, rolled-in toll calculation which is essentially some of the cost divided by the volumes.
3214. **MR. DUNCANSON:** Right. And really the question that's in the transcript -- and it's on the screen now -- was essentially as I phrased it to you just now which is, when the NEB has historically looked at this issue of whether rolled-in tolling is appropriate for new facilities or whether some other form of tolling is appropriate on those new facilities, the lens that the Board has used to look at that issue has been, what is the relationship between the new shippers and the existing shippers and essentially, is that allocation of cost fair as between those two groups?
3215. **MR. STOUT:** Now I think I'm getting to what you're talking about. I think that is one aspect of this you have to look at. My understanding is also -- and the Board has looked very closely at whether this incremental cost is -- could be considered an expansion of the system or whether it's an extension on its own right-of-way from some existing terminus and that will serve an identifiable and



distinct group of new shippers, in which case my understanding of the Board's determinations on that is that is a lesson to where the situation where roll-in does not necessarily apply and would not necessarily be the appropriate approach notwithstanding that it produces different effects for the new shippers versus some other non-rolled-in approach.

3216. **MR. DUNCANSON:** Maybe we're still talking past each other, Mr. Stout. I think we are. In the very few and very recent cases where the Board has said the things you just said, the lens has still been the relationship between the new customers and the existing customers, whether that apportionment of costs and risks and benefits, whether that is an appropriate allocation, right? That's the primary lens they look at this.

3217. **MR. STOUT:** I think we are in partial agreement, Mr. Duncanson, that that lens, as you call it, of effects on new versus existing is definitely a consideration that the Board, or in fact any regulator, in my experience, would look at. But it's not -- it's certainly not the only thing they look at.

3218. And I think the primary -- the primary factor in deciding whether a roll-in would be appropriate or not would be the issue of, is this a system expansion that is going to be used essentially by all the customers on the system where it's difficult to distinguish exactly who is using it any particular time, versus an extension as I've just described and won't repeat where you can identify a distinct set of shippers who are the only users of an extension. And roll-in is not indicated in my understanding and as I understand the decision of RH-031-2017.

3219. **MR. DUNCANSON:** Okay. I'll move along.

3220. Now, we covered some of this already, Mr. Stout. But you characterized it a little bit differently in your evidence. When you talk about cross-subsidization and how to calculate cross-subsidization in the context of this application, you talk about first allocating revenues towards the incremental cost of service on the North Montney facilities and then you see how much remaining revenue is left over and you compare that to what you call the "North Montney share of existing system costs" which, as we talked about already, is the existing FT-R toll at Saturn.

3221. Did I get that generally right?

3222. **MR. STOUT:** Yes.



3223. **MR. DUNCANSON:** And what you say in your evidence is that if that remaining revenue, after accounting for the North Montney incremental cost of service, is less than the current FT-R toll at Saturn that means that North Montney shippers are paying what you call an implied FT-R Saturn toll that is less than the actual toll, right?
3224. **MR. STOUT:** That's my evidence.
3225. **MR. DUNCANSON:** Okay. And you say that any toll, any implied toll that is less than the actual toll would be contrary to cost causation, would send improper price signals, and would be unjustly discriminatory, right?
3226. **MR. STOUT:** Yes.
3227. **MR. DUNCANSON:** Okay. Now, I took that to mean that any tolling methodology that generates less revenue than a standalone stacked toll, in your view would be contrary to cost causation, would send improper price signals, and would be unjustly discriminatory. Did I get that right?
3228. Mr. Johnson is coming to help.
3229. **MR. STOUT:** My position is that any toll which is less than the cost of service would be unjust and unreasonable. And maybe -- if that doesn't answer your question, maybe you need to repeat it.
3230. **MR. DUNCANSON:** Perhaps just to, then, flesh out what you're saying, when you talk about the cost of service, any toll that produces revenue that is less than the full incremental cost of service on North Montney and the full FT-R toll at Saturn -- any methodology that you come up with that creates less revenue than that is, in your view, contrary to cost causation, would send improper price signals, and would be unjustly discriminatory, right?
3231. **MR. STOUT:** That is correct. And I think why your questions threw me is you somehow worked standalone tolling into your earlier question and I'm basing my opinion on cost of service, not standalone tolling. For instance, if the proposal NGTL was approved with a factor -- with a coefficient of .88, arithmetically it would also match the cost of service. So my point is a standalone toll is not the only toll that would recover the cost of service. It can be done other ways.



3232. Now, I prefer a standalone toll for reasons which I'm sure we'll get into, but I'm basing my calculations on cross-subsidies as a departure, as defined by the Board -- as a departure from full cost of service recovery and that has nothing to do with standalone tolling. You first calculate the cost and then you consider what tolls will deliver that revenue that matches that cost.
3233. **MR. DUNCANSON:** Okay.
3234. And Mr. Johnson, just quickly over to you just because Mr. Stout brought up the opening statement and this again will save us a few more minutes later in the day.
3235. You share that view of Mr. Stout, right, that you figure out the amount of revenue that you think the North Montney shippers need to generate, which just happens to work out to the same amount of revenue that would be generated under standalone tolling, and anything that is less than that -- any methodology that produces less revenue would be inconsistent with cost causation. That's Westcoast's position, right?
3236. **MR. JOHNSON:** Correct. And as Mr. Stout said, it could be standalone; it could be the coefficient high enough to be .88 or slightly less than .9, whatever that exact number is, yes.
3237. **MR. DUNCANSON:** Okay. And that's generally the same position, Mr. Johnson, that Westcoast has taken in the previous proceedings, including MH-0031? Are there nuances that I'm not picking up?
3238. **MR. JOHNSON:** That's correct.
3239. **MR. DUNCANSON:** Okay.
3240. Now, Mr. Stout, back to you. This characterization of how you think this Commission should be looking at the issue of cross-subsidization, you mentioned a minute ago you see a distinction between extensions and expansions. Are you suggesting that every extension of the NGTL System should be subject to that characterization you just gave about figuring out the costs that need to be recovered based on the methodology that is essentially standalone and then ensuring that the tolling methodology produces sufficient revenues to cover those costs, right?



3241. **MR. STOUT:** I think you have to look at extensions on a case-by-case basis and determine the context and the conditions. But if we're talking about, as we are with the North Montney Mainline, the extension, a significant extension that is in an area considered to be subject to competition of the suppliers, for instance what comes to mind there is maybe a further extension to Kahta, as I understood, was one of the original proposals, then I would expect a toll to be -- develop that which would also cover that full incremental cost of service which would have the effect, as you said, of stacked tolling.
3242. But it depends very much on the circumstances, and particularly in the presence or absence of competition, whether the areas are well developed to reach economies of scale or not.
3243. And sometimes, even an extension that goes to another system might be considered more of an expansion, depending on interactions between networks.
3244. So the bottom line is, look at it case by case and if it is a significant extension into a competitive area, yes, I think an appropriate approach for that would be a stand-alone toll.
3245. **MR. DUNCANSON:** Okay. So just so that I'm clear, Mr. Stout, you had anticipated where I was going with a few questions that I'll get to in a minute.
3246. But so are you suggesting that the way that this Commission should calculate cross-subsidization is different, depending on the circumstances, and if there's competition present, it should calculate cross-subsidization differently, or if there are economies of scale, it should approach cross-subsidization differently? What did you mean by that?
3247. **MR. STOUT:** I don't think the Board needs to consider cross-subsidization differently. They make it very clear what that is. It's a departure from a cost recovery. I think when you are designing the toll, you need to look carefully about the distortions you can produce with tolling if you do recover anything less than the full cost of service or the cost of those facilities. So that's why competition is a fact that needs to be considered when you're making that approach, as I said earlier.
3248. If the expansion or addition to the system is more in the nature of an expansion of increasing the throughput of the existing system, then I think that's



- appropriate to roll that in. Of course, that would appear like a different cost of service approach, but I think it's -- I think the Board has said also, in comparing expansions with extensions, sometimes it's appropriate to roll in in the case of an expansion that's increasing the throughput for the entire or for the existing system.
3249. But where you've got the extension into a competitive area, just what I think of as radial line or a lateral going out from a terminus on an existing system into an area that could be competitively served, then you have to recover those costs from the shippers on that particular line. Otherwise, you will not end up with the efficiencies of -- that can be delivered by a competitive development and you risk over capacity and all the sins that go along with that.
3250. **MR. DUNCANSON:** So I just want to make sure that I'm following along with what you're suggesting, Mr. Stout, because what I heard you say is you've got this relatively -- call it objective formula that you can come up with for any extension. You take the incremental cost of service, you look at the FT-R toll at the interconnection point, you add those two things up, absent some sort of central planning, unless there is sufficient revenue from the new customers on the extension to cover those two buckets of costs, there is, in your view, insufficient revenue, it's contrary to cost causation, it would send improper price signals, and it would be unjustly discriminatory.
3251. Now, I think what I heard you say is that there may be circumstances where it's okay to roll in, and so you're suggesting that notwithstanding that a tolling methodology would be contrary to cost causation, would send improper price signals, and it would be unjustly discriminatory, the Commission could still approve roll-in?
3252. **MR. STOUT:** Where it's okay to roll in is as I've said, is an expansion on the existing system where costs are already rolled in and where approximations to the cost of service within that rolled-in area are acceptable because they are not likely to damage competition by resulting in an improper price signal. It has to be acknowledged that there is a large existing area where costs are rolled in and that adding an incremented cost within that area is likely to be used by many customers. You can't identify a separate group that is only specifically using that facility.
3253. And furthermore, it's part of the roll-in tolling mechanics that's expected all along by my customers that are served on the roll-in tariff; that is, if



there's an increment of costs, the numerator goes up, the toll goes up. If there's an increment of volumes, the denominator goes up, the toll goes down. That's part of the mechanics of rolled-in tolling.

3254. And I think part and parcel of that is, you accept that within that rolled-in area that is not so sensitive to competition because there's something that looks more like a monopoly in that area that it's set to what I have some departure from precise cost causation.

3255. **MR. DUNCANSON:** So I think what I heard you say is again, extensions should be treated differently than expansions, and it's okay to depart from those things I talked about when you're dealing with expansions. But where we started on this line of questioning is whether the approach that you're advocating for to the Commission in this proceeding would apply to any extension of the NGTL System.

3256. And I thought you'd say yes, because otherwise it would do all of these horrible things you talk about.

3257. **MR. STOUT:** I've lost track of the question again, Mr. Duncanson, but I think I am agreeing with your suggestion that I would recommend a full cost recovery of the incremental costs of an extension, which would have the effect, as you're putting to me, of stacking tolls for those extensions.

3258. And all I was trying to say is that cost causation doesn't change, but if you are in an area that's not subject to regulated pipeline pipe-on-pipe competition, then the departure from strict cost causation or allowing some cross-subsidization is less critical. But the point here and why we're here, why Westcoast is here, is that is absolutely critical in this particular circumstance in North Montney Mainline.

3259. **MR. DUNCANSON:** Yeah. I thought we'd get there. It just took a little longer than I expected.

3260. So I want to talk about how this approach that you're advocating for would work in practice, and if we could turn up the NGTL application, this is Exhibit A98318-2. And I'm looking at PDF page 40 which has a figure at the bottom, if we could zoom in on that.

3261. I'm not sure, Mr. Stout, how familiar you are with the history of the



NGTL System, but do you see the black line roughly in the middle of the figure that crosses the Alberta-B.C. border?

3262. **MR. STOUT:** Yes.

3263. **MR. DUNCANSON:** Okay. So that was the Groundbirch Pipeline that was constructed around 2010 and that is a new extension of the NGTL System. And so let's say this Commission had endorsed the approach that you're putting forward in this proceeding -- they had endorsed that back in 2010, that would have been a standalone stacked toll, right? To use that facility?

3264. **MR. STOUT:** Not necessarily. If they had endorsed my position, there would have been a toll there which recovered the incremental cost of that facility. In other words, it would not have been rolled in.

3265. **MR. DUNCANSON:** Right. It would have its own standalone toll.

3266. **MR. STOUT:** Or some other toll that collected the incremental cost of that extension.

3267. **MR. DUNCANSON:** Okay. And then a couple of years after Groundbirch was built, there was the Saturn extension which connected up to the most westerly blue dot on the Figure, and that again would have attracted -- that would have been a new extension, so that would have attracted again a new tolling methodology, stacked toll or equivalent, to recover those incremental costs, right?

3268. **MR. STOUT:** That may have happened, but obviously I'm aware that didn't happen. We've got a rolled-in system there and I'm not really here to speculate on what may or may not have happened in the past.

3269. We have a situation today where maybe everyone's thinking has evolved into considering the importance of recovering the incremental cost of an extension and the full cost of using the existing system when you're extending regulated pipelines into an area of competitive development, where you could get pipe-on-pipe competition, and where you would prefer that competition to drive the most effective and efficient development of that area.

3270. What applied in the past, I don't find particularly relevant to that question of what is the best way, going forward.



3271. **MR. DUNCANSON:** But as I understand your position, Mr. Stout, you're saying that rolling in the costs of an extension results in excessive cross-subsidization, it's contrary to cost-causation, it's unjustly discriminatory. But you also agreed with me that the existing toll at Saturn is just and reasonable -- right -- and it was not produced through excessive cross-subsidization?

3272. **MR. STOUT:** It has been deemed just and reasonable in the context of it is part of a rolled-in -- a greater rolled-in system. So it's part of a system where the toll has been rolled in. So by definition, it is just and reasonable and, you know, now asking me to speculate what might have happened had different decisions been made and I'm just saying, well, they weren't made and we're here now. That's part of the existing rolled-in system and we're now looking at what would be appropriate to extend that system further. And I'm telling you, that is not a rolled-in tariff.

3273. **MR. DUNCANSON:** Okay. So what you're saying, Mr. Stout, is history is history and going forward, the NEB should change its approach, and Saturn is the line that they should draw?

3274. **MR. STOUT:** I'm not asking the Board to change any approach. The decision of MH-031-2017 is very clear that the cost of service includes the incremental cost of this extension and that a rolled-in approach, as proposed by NGTL, at least, would not recover the cost of service.

3275. The Board is very clear. Again, I point you to page 41 of their decision. I'm certainly not asking them to alter anything in that. It's clear enough what they consider the cost to be and the cost that must be recovered through a toll. And it could be recovered through a roll-in toll with a high enough coefficient or surcharge, and it could be recovered by a standalone toll arrangement.

3276. And as I've said, I have reasons for preferring the latter, but either would recover the cost of service as the Board has indicated it believes it should be recovered.

3277. **MR. DUNCANSON:** And I guess just to be clear, Mr. Stout, when I was talking about the NEB's historic practice, I was talking about the fact that the NGTL System many decades ago started out in a small area in Alberta. Over time, it has extended all the way up to Saturn. All of those extensions have been



- fully rolled in, and what your suggesting is that that approach should change going forward.
3278. And not only is the North Montney tolling methodology inappropriate, which does require additional cost attribution from the North Montney shippers, you're suggesting that the Board should go as far as standalone tolling for all extensions going forward from Saturn?
3279. **MR. STOUT:** I'm not suggesting the Board should change anything. As I said, it's the Board that is suggesting that this approach should change going forward and I agreed with you that the logical extension of that is that further extensions should be considered for this approach.
3280. And if -- I want to go back to your historical allusion to how the NGTL System developed. I mean, I am aware of lots of interconnected networks of either pipes or transmission lines that have developed in that way and it's not uncommon that this is how monopolies develop. As it starts out small, it builds, it develops the economies of scale in an area until it is the dominant network in that area. And under those conditions, to assist it gaining those economies of scale, regulators will typically -- they'll roll-in tolling until it gets to a certain size and efficiency.
3281. And when competition may start to develop from other service providers and that is the point where you do draw a line to say, we don't think rolled-in tolling is appropriate for further extensions because it will do harm to competition and ultimately harm to the most effective and efficient developments in that area where we believe competition will produce better results.
3282. **MR. DUNCANSON:** Okay. Mr. Stout, I don't want to go back over the questions that I've asked you already. I thought we'd already established that presence of competition doesn't matter -- that your proposal applies for any extension of the NGTL System, but I think the record is sufficiently clear on that.
3283. If we could turn up Westcoast's IR response to NGTL, this is Exhibit C01725-2 at PDF page 5.
3284. Mr. Johnson, you list here several recent expansions of the T-North System, right?
3285. **MR. JOHNSON:** Correct.



3286. **MR. DUNCANSON:** And each of those expansions was intended to deliver incremental volumes to the NGTL System, right? Incremental volumes to Sunset or Gordondale or both?
3287. **MR. JOHNSON:** Just to walk through, the Jackfish open season was only to Station 2, for 138 million a day. High Pine was 240 million a day from Fort Nelson mainline to Sunset. Windwood was 35 million a day from the McMahon area to Station 2, 15 MMcf per day from McMahon area to Sunset. And then Spruce Ridge was 360 MMcf per day from Fort Nelson mainline to Sunset and 42 MMcf per day from McMahon area to Station 2.
3288. **MR. DUNCANSON:** Okay. So all of them except for Jackfish did involve expansions to Sunset?
3289. **MR. JOHNSON:** Correct.
3290. **MR. DUNCANSON:** And you missed the T-North expansion, the first column, but that's the case for that one too, right?
3291. **MR. JOHNSON:** Yes.
3292. **MR. DUNCANSON:** Now, there was a little bit of discussion earlier today about the PETRONAS capacity on T-North and how it was 374 million cubic feet of existing contract that was relinquished and then PETRONAS had signed up for 500 million of new contracts. Did the delivery point change from the 374 to the new 500?
3293. **MR. JOHNSON:** For some of the contracts, yes.
3294. **MR. DUNCANSON:** And can you tell me what that change was?
3295. **MR. JOHNSON:** Of the 374, 200 was delivered at Sunset, and so the 174 -- just a minute.
3296. So 200 was to Sunset, 25 was to Gordondale, and the remainder was to Station 2 and that -- what the PETRONAS turned back, all were from the Fort Nelson Mainline area and then the other 230 were all going to Sunset as well from the Fort Nelson Mainline area.



3297. **MR. DUNCANSON:** Okay. And just so that I'm clear there, the 500 of new contracts, they're all Sunset, or is that breakdown you just gave me? I might have missed that.

3298. **MR. JOHNSON:** Sorry, the breakdown I gave you was 600 million a day of relinquishment for 510-million-a-day new contracts. The reason you're at 600 million a day is the contracts that were relinquished were not full path, so you had to cobble together different contracts to make that full path for PETRONAS.

3299. Then you add on the non-renewals that have happened over the past year. And we've taken some of those non-renewals and cobbled them together to get full path for PETRONAS and the result is we're doing a metre station at Sunset for ultimate delivery to LNG Canada.

3300. **MR. DUNCANSON:** Right. And that's where that 500 a day is going?

3301. **MR. JOHNSON:** Yes.

3302. **MR. DUNCANSON:** Okay. Now, Mr. Stout, I hope these next few questions go relatively quickly. We've covered some of this ground already.

3303. But those expansion projects that Westcoast listed out in the IR response, you confirmed elsewhere in this response that your view is there is no cross-subsidization within the T-North shipper base for any of these projects, right?

--- (A short pause/Courte pause)

3304. **MR. DUNCANSON:** Ms. Savoie, if we scroll down slightly on the page, I think you'll see the response I'm referring to.

3305. **MR. STOUT:** Yes, that was our response.

3306. **MR. DUNCANSON:** Okay. Now just so that I understand it -- and I think this come back to your distinction between extensions and expansions -- so on the T-North System, Mr. Stout, if there are incremental contracts driving an expansion on a portion of that system, let's say between Station 2 and Sunset, for example, but other Westcoast shippers do not transport gas over that route, would you still consider that expansion to be joint use?



3307. **MR. STOUT:** My understanding is it may be difficult to say because by directional flow and different path options -- as to exactly who is or who won't be using that facility -- and it is joint use. And something that perhaps I should have mentioned before, it's when you told me that lenses for roll-in, it goes to the degree of integration.

3308. So if those facilities are considered to have a high degree of integration as these facilities in question do have, then certainly the Board would consider roll-in to be an appropriate approach.

3309. I just go into a reference here. It's page 33 of the decision RH-031-2017:

"In many hearings, the Board has been faced with the issue of whether rolled-in or stand-alone tolls would best adhere to the principle of cost causation. In these cases, the Board examines the degree to which the proposed facilities would be integrated with the rest of the pipeline system and the nature of the service to be provided by the proposed facilities in relation to the service provided by the rest of the pipeline system."

3310. And to me that is a very important lens to be looking at the degree of integration when you consider whether facilities should be rolled in and jointly-used facilities are sufficiently integrated that is appropriate to use a rolled-in approach.

3311. **MR. DUNCANSON:** So if I understand what you're saying, for expansions of an existing system, those two factors, integration and nature of service, result in roll-in and based on your response to the NGTL IR, in fact, no cross-subsidization, right?

3312. **MR. STOUT:** Essentially, yes. I don't think that answer is inaccurate in terms of no cross -- it's considered to have no cross-subsidization. If you really wanted to pull apart a fully-integrated system and start to argue about whose gas molecules float where or who is using one part of it more than another, you could perhaps make a case that it's not fully reflective of cost causation in exactly every circumstance for exactly every designated flow. But my understanding is that they are sufficiently close to cost causation overall that it is considered that in that condition, in those circumstances of a fully-integrated



joint-use system that roll in -- a roll-in approach does not result in cross subsidy.

3313. **MR. DUNCANSON:** Okay. Now, Mr. Stout, you -- I'll give you a minute.

3314. **MR. STOUT:** Yeah, my colleagues are just pointing me to a response to CAPP here, and I'll just read it in. It's quite consistent with what I just said, which is:

"None of the projects identified [...] above were tolled on a stand-alone basis. This is because all of the projects were expansion projects where the new facilities (looping and compression) and the existing facilities would be jointly used by the new and existing shippers such that it could not be distinguished as to which specific shippers would be physically using which specific facilities. This can be distinguished from an extension like the [North Montney Mainline], which is physically utilized by an identifiable set of shippers."

3315. That's perhaps much more succinct than what I was trying to explain earlier.

3316. **MR. DUNCANSON:** Okay. Now this distinction that you make between extensions and expansions -- I'm going to ask some similar questions to both you, Mr. Stout, and then the Westcoast witnesses.

3317. But Mr. Stout, how do you define an extension when you say that there is a distinction between extensions and expansions?

3318. **MR. STOUT:** I think I just explained it and I think I define it in the way that the Board described it. It's a linear path to sort of a new customer at one end or a group of new customers. And it terminates at the other end against the existing system. It's bolted to the existing system, if you like, and it blazes a trail through some new territory and it's of significant length, and that would be an extension.

3319. **MR. DUNCANSON:** Okay. And so I take it that definition would apply whether the extension is to connect a new supply customer or a new delivery customer, in your view?



3320. I'll get to you shortly there, Mr. Johnson.
3321. **MR. STOUT:** To be quite candid, Mr. Duncanson, I haven't thought about it in the gas situation on the demand or the FT-D side. Obviously, this -- the focus here has been on the FT-R side and on the supply side. Certainly, what I have said applies to North Montney Mainline.
3322. I imagine the difference on -- a significant difference on the supply side, not that you define "extension" any differently -- but you may well be in a less competitive area that's already populated by a significant network of customers consuming the gas.
3323. I don't know if Mr. Johnson would like to add to it.
3324. **MR. DUNCANSON:** I'm sure he can't help you with your understanding of an extension, Mr. Stout.
3325. But I will turn now to Mr. Johnson. Is that the same way that Westcoast defines an extension, Mr. Johnson, any linear path to serve a new customer?
3326. **MR. TROICUK:** Sir, the position of Westcoast on an extension is a pipeline. In our view, we're looking at supply laterals is that it connects gas production from a supply area to the T-North System.
3327. **MR. DUNCANSON:** Okay. So you do distinguish between supply and market?
3328. **MR. TROICUK:** This position was with respect to attaching supply. We had not looked at what it would be for attaching a delivery market. I think you would have to look at the case-by-case, the specific facts of a delivery lateral as to whether it was a mirror image of a supply lateral.
3329. **MR. DUNCANSON:** Okay. So I thought I was clear on Westcoast's position up until this point, but maybe I'm not. So I had taken Westcoast's position in past proceedings and the examination proceeding that the NEB instituted as meaning that any supply lateral that connects gas production to an existing pipeline system is an extension, but connecting to a market, even if it is a linear buildout from the existing footprint, is an expansion because it's serving a market, and that's how you distinguished the Stewart Lake Extension from other



- extensions.
3330. **MR. TROICUK:** No, sir. I wasn't saying any delivery lateral would be an expansion. I was saying you would have to look at the circumstances of the case to make that determination.
3331. **MR. DUNCANSON:** So in some cases an extension may be characterized as an expansion; in other cases, no?
3332. **MR. TROICUK:** It would depend on the facts of the case. Yes, sir.
3333. **MR. DUNCANSON:** Okay. And I take it that position would apply equally if NGTL were to connect its system to a new market such as a market that is currently being served by Westcoast, that you'd have to look at that on a case-by-case basis to see whether Westcoast was comfortable characterizing that as an expansion or an extension?
3334. **MR. TROICUK:** Yes, I think you'd have to look at that on a case-by-case basis.
3335. **MR. DUNCANSON:** Okay. Now, Mr. Chairman, I know we're right up against four o'clock. I expect to be hopefully less than an hour, but in and around that ballpark. I'm in your hands whether you want me to continue now or move to tomorrow.
3336. **THE PRESIDING COMMISSIONER:** We have a hard stop. I think we have to honour at 4:30 today, so we could go til then if you think that would be convenient, or you may prefer to stop now and begin your line of questioning tomorrow. In any event, I think if you need an hour, we'll be carrying over til tomorrow.
3337. **MR. DUNCANSON:** Well, why don't we continue on, Mr. Chairman, and see how far we get, and I'll see if I can't get through most of it in 30 minutes.
3338. **THE PRESIDING COMMISSIONER:** Okay. We're good til 4:30.
3339. **MR. DUNCANSON:** Mr. Stout, I only have a few more questions for you, and so at the very least, I think you and I could be finished up by the end of the day today, I'm hoping.



3340. I just have really two more lines of questioning for you. The first, if we could turn up your written evidence; this is again, Exhibit C01047-3 and I'm looking at PDF page 11.
3341. **MR. STOUT:** Yes.
3342. **MR. DUNCANSON:** You have that?
3343. And so you talk there about Concentric's evidence on behalf of NGTL, the cost coverage ratios of 1.4 to 1.7, and you provide some different numbers to, in your words, "provide a more complete picture," right?
3344. **MR. STOUT:** Correct.
3345. **MR. DUNCANSON:** And those new numbers go from -- anywhere from 1.48 all the way down to 1.11, right?
3346. **MR. STOUT:** Right.
3347. **MR. DUNCANSON:** And the 1.11, that's really comparing the North Montney revenues under the existing contracts to the cost of service of the North Montney Mainline all the way out to 2054. Did I get that right?
3348. **MR. STOUT:** Yes.
3349. **MR. DUNCANSON:** And I take it that assumes no additional revenue after expiry of the initial contracts, correct?
3350. **MR. STOUT:** Yes. You may say that's a conservative assumption, that we had no evidence to the contrary, so yes, it does assume no additional revenue.
3351. **MR. DUNCANSON:** So when you say you had no evidence to the contrary, NGTL explained why its view was it's very reasonable to expect additional contracting. You simply didn't agree with that or discounted it?
3352. **MR. STOUT:** It wasn't quantified, so we wanted a clear, quantified number supportable by data. So yeah, we may ---



3353. **MR. DUNCANSON:** How would you quantify ---
3354. **MR. STOUT:** --- disagree on the reasonableness or whether it's reasonable or not, but we had no data to suppose otherwise. So that's the number and you may well characterize it as conservative if you like.
3355. **MR. DUNCANSON:** Okay. Might even characterize it as unreasonable or unlikely.
3356. I take it though, Mr. Stout, you didn't undertake any assessment of the likelihood of that scenario materializing?
3357. **MR. STOUT:** No.
3358. **MR. DUNCANSON:** Right. Now, Mr. Stout, I've got some questions for you based on some work that you've done in the electricity space. I provided those -- we filed those as aids to cross-examination yesterday. Do you have access to those?
3359. **MR. STOUT:** Yes, I have them here. And thank you, Mr. Duncanson. You caused me a pretty sleepless night to go through that.
3360. **MR. DUNCANSON:** It wasn't that long ago you provided that evidence, so hopefully it wasn't -- it was still somewhat fresh in your mind.
3361. Now, I think you agreed, Mr. Stout, in an IR response to PETRONAS that your background is in electricity and you have no specific experience prior to this proceeding with pipeline regulation, right?
3362. **MR. STOUT:** Correct.
3363. **MR. DUNCANSON:** And some of the consulting work that you've done in the last 10 years or so on the electricity side was on behalf of the Association of Major Power Customers of B.C., which uses the acronym, AMPC; is that right?
3364. **MR. STOUT:** Sorry, that is correct. That is some of the consulting work I've done in the last 10 years or so.
3365. **MR. DUNCANSON:** Yes. And one of the things that you did for



AMPC is you filed written evidence on behalf of AMPC in a B.C. Utilities Commission proceeding on the Dawson Creek Chetwynd Area Transmission Project, otherwise known as DCAT?

3366. **MR. STOUT:** Yes.

3367. **MR. DUNCANSON:** And that was included in the aid to cross-examination package starting at PDF 130. So if we turn to that -- yeah, and Ms. Savoie, we probably should bring it up on the screen if we can.

3368. And so this is the document here, Mr. Stout. It's entitled, "Written direct evidence of Richard Stout on behalf of the Association of Major Power Customers of B.C." dated June 7, 2012, right?

3369. **MR. STOUT:** Correct.

3370. **MR. DUNCANSON:** And if we turn to hard copy, page 4, of that written evidence, which I believe is at PDF 135, you discuss there in the Q&A under heading 3.1, the postage stamp rate design on B.C. Hydro. And at line 19 you say that:

"In AMPC's view, postage stamp or 'rolled-in' rates must be preserved because they are of key social importance and a critical factor in securing regional and long-term economic development in B.C."

3371. **MR. STOUT:** Correct.

3372. **MR. DUNCANSON:** Okay. And then in the next Q&A that starts on the same page ---

3373. **MR. STOUT:** Mr. Duncanson, before you go much further, I think I might need to discuss with you -- and I can do it later if you like -- some critical differences between gas pipeline tolling and electric tariffs, especially in this case, which is a case concerning a Crown corporation monopoly charged with serving all customers in the province, regardless of their distance from a system under a postage stamp tariff and the distortions inherent in a postage stamp tariff can only be contained or limited through a contribution policy and that is the context of this evidence that I filed with the BCUC on the unsuitability of B.C. Hydro's contribution policy at the time.



3374. It still is the contribution policy but I think you have to understand that with that sort of utility -- with an electric utility charged with serving an entire province, postage stamp is the almost universal way of determining the tariff for the customers.
3375. And if you want to imply or suggest by this that I'm a supporter of postage stamp I'm going to tell you right now I am not a supporter of postage stamp tolling. And if I can just digress one moment, I will go back to PETRONAS 1.11, where I explain my experience in developing the first open access transmission tariff in Alberta. And as part of that experience, I thought I had the opportunity to depart from postage stamp tariffs for electric transmission, which otherwise would have been essentially mandated by the province.
3376. And in a model that looks somewhat like NGTL's tariff model, I designed a tariff system for the Alberta, which are points of supply and not just to receipt points, points of delivery and not just to delivery points. I took the costs of the system, split 50-50 between the supply and demand and then I attempted to design tariffs for both supply and demand on them, on a non-postage stamp basis.
3377. And what I can tell you is I was shot down very, very quickly by a government that made it very clear to me that it is not acceptable to design any electrical transmission tariff on anything other than a postage stamp basis. And I learned there and then in that experience that when you're talking to an electric utility and when you're talking to a government, especially a Crown corporation, you learn to salute postage stamp tariff and move on to the contribution policy to find ways to limit what otherwise would have been 100 percent roll-in of everything if you don't have an effective contribution policy.
3378. So I just want to put it in context and my appearance, or my submission in this hearing, was to defend or suggest contribution policies that would basically limit the economic damage inherent in postage stamp methodology.
3379. So I just want to be clear about that before you go through this any further.
3380. **MR. DUNCANSON:** Okay. Well, I was a little surprised to hear that you are not a fan of postage stamp tolling. You're aware your client uses postage stamp on its system?



3381. **MR. STOUT:** That's something I will let them address. It wasn't what I was engaged to work on.
3382. **MR. DUNCANSON:** They might have to find a different consultant for that next case.
3383. Now, just so that I am clear, Mr. Stout, you say you're not a fan of postage stamp tolling, but your position in this written evidence is that you were advocating for preservation of postage stamp or rolled-in tolling, were you not?
3384. **MR. STOUT:** As I said before, I'm not a fan of postage stamp tolling and I have learned through my experience -- from long experience in this that you have to accept postage stamp tolling in some instances. And such was the reaction on the few times I have tried to depart from postage stamp in this province and in B.C., that it became very clear to me that if you want the attention of a regulator, if you want the attention of a government-owned utility, and to tell them why their contribution policy is in need of a major overhaul, you first have to explain that you're not about to dismantle their postage stamp system because that's the fear and that's why.
3385. On one occasion I nearly lost my job because of the concern that I might, if left to my own devices, take apart the postage stamp tolls in electric systems. So that's why you see this particular wording here. I'm easing B.C. Hydro, I'm easing the government; I'm easing the regulator in this province. Look, I'm not here to take this apart, but I am here to tell you how to limit and control the worst excesses of postage stamp or 100 percent rolled-in methodology, which is where this would go to without a sensible contribution policy.
3386. **MR. DUNCANSON:** So Mr. Stout, if I understand it, what you're saying is you wrote this to the BCUC. You told the BCUC:
- “...postage stamp or “rolled-in” rates must be preserved...”*
3387. But when you wrote that that wasn't actually what you believed. You were just trying to give them comfort that they should listen to the rest of what you had to say?
3388. **MR. STOUT:** That was and is the clear policy of the B.C. government, of B.C. Hydro and the B.C. regulator at that time. And the policy



was for political, for social, for economic policy reasons, the postage stamp must be preserved.

3389. Now, in this particular instance, I would like you to remember in that time we had a province of the premier -- sorry, the premier of the province that was telling everybody we were going to get nine -- count them -- LNG plants built in B.C. And the government and B.C. Hydro -- and I have difficulty separating the two because the government is the sole shareholder of B.C. Hydro -- have made it very clear that they were going to offer favourable tariffs for anything gas -- gas compression, LNG. And it seemed like they were going to arrive at that by somehow giving preferential treatment to those services if, for instance, if a gas compressor selected electric drive rather than gas drive and so on, in the LNG.

3390. So the concern there, and certainly of all the rest of the customers on the system that we don't want to have a system where it's postage stamp for most of the users, but these selected new customers coming in are going to get some special deal. So and that's why the emphasis here was on keep the deal you've always had here in terms of rolling-in or postage stamp.

3391. And the other way to skin that -- I'm mixing my metaphors here. The other way to deal with the problems that are inherent to postage stamp is to redesign the contribution policy, because through -- depending on the contribution policy you choose, you can actually completely undo the effects of a postage stamp. And a lot of people who are not familiar with contribution policies don't realize how easy that is to do.

3392. And so that was a concern here, yes. I was trying to get them comfort and not, "Don't worry, I'm not here to snatch away your postage stamp or suggest you should move from it. I am here to correct the problems with postage stamp, but I think that's most pragmatically done through changing the contribution policy."

3393. **MR. DUNCANSON:** Now, when you start discussing the contribution policy, you use the example of a radial extension, and this is in the next page. If we turn to hard copy page 5, I believe it's PDF 136, under the question, "Can you please explain the above concepts with an example?" And the above concepts are essentially the contribution policy you just spoke to; you talk about a radial extension, right?



3394. **MR. STOUT:** Yeah, that is the term generally used in the electric utility for an extension.

3395. **MR. DUNCANSON:** Just a physical extension beyond the existing footprint to connect a new customer?

3396. **MR. STOUT:** Yes. In the case of one of the extensions and the primary extension involved here, the Northwest Transmission Line, that was a very significant extension, I think the most significant extension the B.C. Hydro had built for many decades to serve a customer.

3397. **MR. DUNCANSON:** Okay. And when you're talking in your evidence about this contribution policy and what that should look like, you say, starting on line 20 -- we've got that on the screen,

"It is clearly appropriate for that customer..."

3398. --- in this context, the customer of the extension ---

"...to bear a portion, but not all, of the associated radial transmission costs in order to limit the rate impact on other customers of rolling in extraordinary costs. The principle usually adopted is that a radial transmission line will be extended as far towards the customer as the expected new revenues can support without creating upward rate pressure."

3399. Do you see that?

3400. **MR. STOUT:** Yes. Yes, I do, and I remember it well. And I'm describing the contribution policies that are universal in electric utilities. And I'm describing it because B.C. Hydro has a very peculiar, opaque, and just strange contribution policy. They refer to it as Tariff Supplement Number 6. And the language itself gives that it clearly indicates this was something directed from Victoria, and nobody at B.C. Hydro -- and I worked at B.C. Hydro -- no one dared to change the wording of that tariff because it had been handed down from Victoria.

3401. And what I'm doing here and through most of this evidence is, I'm explaining how -- what is a standard practice, what is usual for provincial electric utilities in terms of contribution policy. So that's the context you have to read



that. When I say it's usual for a customer to bear a portion and we talk then about the revenue versus the cost, that is how, in all the electric world that I'm familiar with, contribution policies work.

3402. And I'm not advocating any rolling in, I'm just saying those are how those systems work. B.C. Hydro, I'd be a lot happier if you had something more like the rest of the electric utility world. And as a matter of fact, I have some follow up with B.C. Hydro after this hearing.

3403. **MR. DUNCANSON:** Well, just ---

3404. **MR. STOUT:** And they were shocked that they were so far out of line with the rest of the world. So I just want to explain, this is why I'm -- and it's phrased this way. You have to read -- it is clearly appropriate, i.e., in the context of contribution policies of electric utilities elsewhere.

3405. **MR. DUNCANSON:** Okay. So when you say "it is clearly appropriate", you're not suggesting, Mr. Stout, that your view of it is appropriate?

3406. **MR. STOUT:** No, I'm not at all. It wouldn't be the way I would do any of this, given a free hand. But as I explained to you earlier, in the electric utility world, especially in provincial electric utilities like B.C. Hydro, you don't get that free hand. You say, 'No, there has to be a postage stamp tariff.' And if you look at what other contribution policies look like, as I've described them here, they usually take some indication of revenue, that contract demand or the annual revenue from the contract, and they apply some number to that, some number which seems almost randomly generated, and they say, "That's how much the utility will invest in this new customer. Welcome to B.C." And that's the amount they roll in.

3407. Now, I will say practically, in terms of a long extension like the Northwest Transmission Line, that usually results in next to nothing being rolled in. And those sorts of long lines, even under that contribution policy, which is perhaps the point, tend to pick up a 100 percent or close to 100 percent of the cost of the extension as a customer contribution.

3408. So that's not a lot different from a stacked toll, particularly in this instance, the Northwest Transmission Line. There was a government direction to turn that customer contribution into a surcharge. I don't recall how long. Maybe it was 20 years, but they turned it into a surcharge which looks exactly like a



standalone tariff.

3409. **MR. DUNCANSON:** So Mr. Stout, we're taking a little longer with these questions than I had hoped. So my promise to be done with you today may not ultimately hold true. But in your evidence -- and maybe again this is something that you say in your evidence that you didn't personally believe -- but you say that the contribution policy,

"...reflect[s] a user-pay / cost-causation tariff principle and send a price signal to drive economically efficient decision making by resource developers."

3410. Is your view that the contribution policy in your evidence does reflect the cost causation principle and send a price signal to drive economically efficient decision making, or was that again something that you said just to appease the government?

3411. **MR. STOUT:** I want to be clear on this. I don't say things that I don't believe in. So in the context of an electric utility tariff, which I know has to be postage stamp, that's why I say that it's the way to go because I know that is the way they will go. There's no point in fighting that or suggesting any alternative. I'm not saying anything I don't believe in that.

3412. I believe in that context and I think I've said earlier, there may be some contexts such as the NGTL existing System where rolled-in approaches are appropriate. And all I'm saying here is, yes, I agree. Rolled-in approaches or postage stamp tariffs are appropriate on electric utilities because I know I won't get anywhere with another approach.

3413. And in terms of the contribution policy, I've already explained to you, the purpose of a contribution policy is to limit the economic damage of that rolled-in approach. And what you're trying to do with it is to give price signals for efficient development.

3414. And I'll give you the specific example right here with DCAT, which was -- I believe it's a Shell Groundbirch compressor was the major load there. And they had sited the compressor close, relatively close to the existing B.C. Hydro system, but it was weak there. The transmission system is very weak there. And the lowest cost to supply that would have been local generation, local gas-fired generation. Either Shell could have provided its own or it could have



used gas and driven compression or B.C. Hydro could have built a gas-fired generator in the area. That was the least-cost solution.

3415. And what we were trying to do with tariffing or tolling or contribution policies is to send the right pricing was to have the least cost solution. But because in this instance the application of Tariff Supplement Number 6 resulted in -- and I think the numbers are later in here -- a very large transmission, incremental transmission cost being rolled-in, Shell Groundbitch and other customers benefitted from that; it's all in their price signal. And to them electricity was suddenly very cheap and lower cost than the gas alternative and that's what I mean by, if you've got to be careful not to distort the price signal, rolling-in has that kind of effect. And that's why you need a contribution policy that is contrary to that.

3416. In the other instance, I believe the contribution policy actually worked out okay in terms of the Northwest Transmission Line, because that was a long radial line and it did not get rolled in. That ended up being constructed and funded by the customer plus federal and provincial government grants which goes to a point earlier, I think, which is if you're looking for a subsidy, look to the government, not to the regulator. Now ---

3417. **MR. DUNCANSON:** What do you ---

3418. **MR. STOUT:** --- so it worked in one instance, the contribution part. It didn't work in the other instance; it sent the wrong signal. And the essence of this evidence is that, look, this is inconsistent; you've got to find an approach that makes sense.

3419. If the Northwest Line resulted in a large contribution, then the DCAT or the Shell Groundbitch development should have resulted in a large contribution as well, which would have changed customer choices, highly likely that then those transmission costs would have been avoided and the customer could have met their needs either through its own supply gas or through electricity supplied by B.C. Hydro used in a gas turbine.

3420. **MR. DUNCANSON:** Okay. I think I just have about two minutes left and so hopefully I can finish with this aid to cross-examination.

3421. Mr. Stout, if we turn to hard copy page 10, PDF 141 starting at line 15, you summarize the Transmission Supplement 6 that you just referred to. In line



15 you say that what this means is that B.C. Hydro effectively treats all radial extension costs as 100 percent contribution without any roll-in, and treats all system reinforcements as rolled-in without any contributions, and you conclude at line 19,

"This series of results is discriminatory and unnecessarily distorts the economics of resource decisions."

3422. Right?

3423. And again, that was your evidence?

3424. **MR. STOUT:** That was my evidence.

3425. **MR. DUNCANSON:** Okay.

3426. And just so that I'm clear, when you talk about the appropriate customer contribution policy -- and you refer to it elsewhere in your evidence as the appropriate sharing formula that you were putting forward -- this approach of having contributions to ensure that the existing rates on the electricity system are not negatively impacted by new facilities, your view was that that reflects the user-pay cost-causation principle and sends a price signal to drive economically efficient decision-making by resource developers, right?

3427. **MR. STOUT:** Sorry. What are you saying I'm saying sends the right price signal?

3428. **MR. DUNCANSON:** An appropriate contribution policy that ensures existing rates are not negatively impacted by new facilities.

3429. **MR. STOUT:** Yes. I'm saying a well-designed contribution policy will, as I've said a number of times here, minimize the distortion caused by rolling in and will result in reasonably efficient and effective price signals. I gave the Northwest Transmission Line -- that was the right price signal. Unfortunately, the Groundbirch situation was not the right price signal and the reason why it's not goes to another big difference between gas and electric which is the degree of integration.

3430. I can't imagine a more integrated system than the electric and I've touched on it earlier when I've said, you have to look at not only the transmission;



you have to look at the generation and in Groundbirch instance, the distribution. So all three, the distribution, the transmission, and the generation were a factor in this and when you look at that from an integrated view, you realize, whoops, we'd have been better off, the costs would have been minimized, society would have been better off if we had built a gas generator there instead of spending this much on transmission.

3431. And that's why -- one of the reasons -- there were many other reasons, by the way, in that 150 MV.A cap reversal was one of them, that Tariff Supplement Number 6 is not an appropriate policy and I was asking for a review and something more consistent, less opaque, that will be applied and give some certainty to customers. Because another factor about this was that it took months if not years to get an answer out of B.C. Hydro as to what the customer contribution was actually going to be, and that's unacceptable. What you need is a tariff where the customer can figure out themselves, very quickly, what the costs will be. Otherwise, you're not really giving a price signal.

3432. **MR. DUNCANSON:** Okay.

3433. And on that, Mr. Davies, I know we're past 4:30 so I'll stop there and pick this back up tomorrow morning.

3434. **THE PRESIDING COMMISSIONER:** Thank you, Mr. Sanderson -- Mr. Duncanson. I knew I'd do it once.

3435. Mr. Davies, in addition to further questions from Mr. Duncanson, we are also expecting Board counsel to have a few questions as well tomorrow.

3436. Thank you, and we'll adjourn until tomorrow morning at 9:00 a.m.

3437. Thank you.

--- Upon adjourning at 4:32 p.m./L'audience est ajournée à 16h32