Q. Please state your name, profession and place of business.

A. My name is James P. Ward. I am the General Manager of St. Lawrence Gas Company, Inc. (the “Company” or “St. Lawrence Gas”) which has its main office at 33 Stearns St., Massena, New York.

Q. What is your education and professional background which might be relevant to this proceeding?

A. I graduated from the State University of New York at Canton with an Associates of Applied Science Degree in Business Administration in 1980. In 1982, I graduated from the State University of New York at Plattsburgh with a Bachelors of Science Degree in Business Administration. I have been employed by the Company for more than 31 years in a variety of positions. From January 1993 to August 2001, I held the position of Assistant to the Treasurer. In this position my duties included gas cost accounting, Gas Adjustment Clause (“GAC”) calculations and gas cost and revenue forecasting for budgeting and rate case purposes. I also worked with the Treasurer on various regulatory issues.

On August 1, 2001, I was promoted to the position of Manager Gas Supply and on May 14, 2002, I assumed additional responsibilities and my job title changed to Manager, Strategic Accounts and Planning. On October 1, 2004, my responsibilities were increased to include the management of the Utility Sales and Customer Relations functions. In December 2010, I was promoted to the position of Assistant General Manager and in May 2014 I was promoted to the position of General Manager.

Q. Have you previously submitted testimony before the Public Service Commission?

A. Yes, I submitted testimony relating to gas supply, aggregation, interruptible incentive sharing revenues and the requirement of a new billing system as part of Case 02-G-1275.

In 2005, I submitted testimony relating to gas supply, the status of the Three Nations Bridge replacement, the Company's Service Quality Performance Mechanism, the status of the Franklin County expansion project and the status of residential and commercial aggregation as part of Case 05-G-1635.

In 2008, I submitted testimony relating to gas purchasing practices, the status of the Three Nations Bridge replacement, expansion into Franklin County, the AG-Energy Cogeneration Facility, the Company's Energy Efficiency Program and the Company's Billing System.

Q. What is the purpose of your testimony?

A. My testimony will address the following topics:

a. Gas Purchasing Practices
b. Changes on Upstream Pipelines
c. Expansion into Franklin County

Gas Purchasing Practices

Q. Can you please describe the gas supply arrangements of the Company?

A. The Company currently holds Firm Transportation ("FT") contracts on the TransCanada Pipeline System ("TCPL") with a capacity of 10,300 Gigajoules ("Gj")/day. This FT capacity has a receipt point of Empress Alberta and delivery point at the Niagara Gas Transmission Limited ("Niagara Gas") interconnection at Cornwall, Ontario. A portion of this FT capacity, equal to 4,494 Gj/day, is reserved by transportation customers. The balance of 5,806 Gigajoules/day FT capacity is filled through short term commodity contracts with various suppliers.

Q. How does the Company purchase its commodity requirements?

A. The Company relies on the expertise of Tidal Energy Marketing, Inc. ("Tidal") for assistance with commodity purchases. When commodity purchases are required, the Company informs Tidal of the necessary information required to develop an RFP for the commodity purchase. Tidal then submits an RFP to approved commodity suppliers. Once all offers are received, the Company and Tidal mutually agree on the best offer. Commodity pricing, available credit, level of service and other considerations are reviewed and discussed before a final determination is made.

Q. What other supply arrangements does the Company utilize?

A. The Company holds 950,000 Gj's of storage capacity ("Storage"). Firm supplies are injected into Storage during periods of low demand and withdrawn from Storage during periods of high demand. Storage is obtained through an RFP process. Storage is currently split evenly between Union Gas Limited located in southern Ontario and Enbridge Gas Distribution located in south-western Ontario. Both Storage contracts will expire on March 31, 2017.

The Company currently contracts for 6,000 GJ/day of Non-Renewable Firm Transportation (FT-NR) with TCPL. FT-NR capacity is contracted for a minimum term of 12 months. This FT-NR capacity has a receipt point of Empress Alberta and delivery point at the Niagara Gas interconnection at Cornwall, Ontario. Beginning in the winter 2013-2014, FT-NR replaced Short Term Firm Transportation (“STFT”) previously utilized by the Company, as a result of a TCPL tariff change which rendered STFT uneconomical . STFT capacity was previously used by the Company for winter periods only, allowing the Company to avoid capacity charges during warmer months.

FT-NR capacity allows the Company to purchase additional supplies, priced at the monthly AECO C/N.I.T (7A) index (“AECO”), to cover winter demand.

The Company also contracts for winter firm service through an RFP process with the assistance of Tidal. Winter firm service is defined as a supply of natural gas including the delivery, via firm transportation capacity on TCPL, to the Niagara Gas interconnection at Cornwall, Ontario or to the Iroquois Gas Transmission System interconnection near Waddington, N.Y. The use of winter firm service contracts provides a secure supply for the winter period only and eliminates the need to contract for additional firm TCPL capacity..

The Company uses a combination of winter firm service, FT-NR, peaking contracts, pipeline balancing accounts and interruptible curtailment to supply the system during periods of high demand when its base load firm service and storage deliveries are not adequate to meet total system requirements.

The St. Lawrence Gas system is also connected to the Iroquois Gas Transmission System ("IGTS") at three locations; the Lisbon Gate, the Edwards Gate, and the New Bremen Gate.

The goal of the Company's purchasing strategy is to provide a reliable source of natural gas to its customers at an affordable cost. The current supply portfolio as discussed above is diversified and provides a reliable source of firm supply for its sales customers and also provides the required supply for the load balancing service provided to both sales and transportation customers.

Q. Can you explain how the Company limits price volatility for its customers?

A. To limit the price volatility associated with winter natural gas prices, the Company uses financial hedges for a portion of its base load supply contracts. Financial hedges are based on supply contracts in place and their associated monthly index pricing. The Company's base load supply, for example, is contracted at the monthly AECO index. Hedges are then based on a portion of the contracted supply and the hedge price is based on the monthly AECO index.

The hedging strategy utilized by the Company requires hedging for prices associated with commodity contracts in place for the period beginning November 1 and continuing through March 31 each year. Hedge frequency is limited, however, due to the relatively small size of the Company's supply portfolio. The Company mitigates market volatility by spreading hedge transactions over the period beginning April 1 through September 30th to be effective for the following winter period. For the 2015-2016 winter season the Company plans to execute hedge commodity contracts for approximately 22% of its firm supply requirements. Storage accounts for an additional 33% of the winter supply requirements. The combination of hedged commodity contracts and storage provides a level of price protection for 52% of the Company's winter supply portfolio. The remaining balance of base load supply floats on monthly index pricing.

Q. Does St. Lawrence Gas rely on Enbridge for assistance with hedge transactions?

A. Yes, the Company utilizes the expertise of Enbridge Risk Management (US) LLC ("Enbridge Risk Management") to complete financial hedge transactions. Transactions are based on the terms of an ISDA Master Agreement between the

Company and Enbridge Risk Management and each transaction is confirmed by a written confirmation signed by two officers of both the Company and Enbridge Risk Management.

Before each scheduled hedge transaction, the Regulatory Analyst and Enbridge Risk Management discuss current market conditions and review pricing options under different hedging instruments (e.g. swap, call, collar). A mutual decision is made as to the preferred instrument based on current market pricing, instrument premium costs and market intelligence. The decision is recommended to the Company's General Manager and forwarded for required approvals.

The un-hedged portion of the gas supply floats on the monthly AECO index. Monthly index pricing also reduces price volatility by avoiding the large price swings associated with daily market pricing. This portion of supply will represent approximately 45% of the 2015-2016 winter requirements.

The Company's plan to mitigate price volatility is reviewed annually as system requirements and market conditions change.

Changes on Upstream Pipelines

Q. Mr. Ward, can you please describe the changes on the upstream pipelines that interconnect with the Company's distribution system that have or will have an impact on the Company's supply portfolio?

A. The Energy East Pipeline Project ("EEP") on TransCanada Pipelines Limited ("TCPL") involves the conversion of an existing natural gas pipeline to a fuel oil transportation pipeline between Burstall, Saskatchewan and Cornwall, Ontario. New sections of oil transportation pipe will also need to be constructed to link up with the converted pipeline. The EEP will remove an existing 42 inch natural gas pipeline in the North Bay Short Cut. The Eastern Mainline Project ("EMP") will build a new 36 inch natural gas pipeline to replace the 42 inch line. The Company believes that the end result of these projects is a reduction in available capacity during periods of high demand.

Q. How will the EEP and EMP impact the Company's gas supply/capacity portfolio?

A. In November 2013, TCPL announced an open season (2016 NCOS) for new firm transportation service which included requests for conversion from long haul to short haul contracts. The 2016 NCOS highlighted the changes on TCPL that would impact the Company's portfolio. Contract minimum terms had increased; certain services were eliminated, firm capacity delivered to Cornwall would be limited, and new 15-year contracts require onerous precedent and financial agreements.

The 2016 NCOS was premised on future capacity constraints within the Eastern Triangle, which includes the Cornwall delivery point that the Company relies on for firm supply to its franchise area. Shippers like St. Lawrence Gas were encouraged to consider participating in the 2016 NCOS if they held firm non-renewable transportation ("FT-NR") service or if they have utilized short term firm transportation ("STFT") service. The Company has utilized both FT-NR and STFT services and was interested in converting long haul capacity to short haul capacity. The 2016 NCOS required a minimum term of 15 years which TCPL claimed would be required to support new facilities for the services included in the open season. Interconnecting pipelines including Union Gas Limited ("Union") and the Iroquois Gas Transmission System ("IGTS") held coordinated open seasons to align with the 2016 NCOS. Shippers bidding into the 2016 NCOS were required to execute Precedent Agreements and Financial Assurance Agreements ("Precedent Agreements") within 30 days of receipt.

Q. Did the Company submit bids as part of the 2016 NCOS and coordinated interconnecting pipeline open seasons?

A Yes, the Company submitted bids in the 2016 NCOS and the coordinated Union open season and received Precedent Agreements from both companies. Both Union and TCPL requested financial assurances to cover the risk of building the new facilities. The TCPL Precedent Agreements included an estimated Company share of facilities cost of $31.2 million through 2017. Under the agreements the Company would be at risk to pay or provide an adequate assurance of payment for the $31.2 million in a type and form acceptable to TCPL. The Union Precedent Agreement s included a total estimated Pre-Service Cost of $408.6 million with no indication of the portion of those costs that would be the responsibility of the Company. The Company was provided a very short window to review the terms of the Agreements or to analyze available alternatives. For these reasons the Company decided it would not execute the Agreements with either company effectively canceling the bids.

Q. Did TCPL, Union or Iroquois have any subsequent open seasons similar to the 2016 NCOS?

A Yes, in January 2015, TCPL announced an open season (2017 NCOS) for new firm transportation service which included requests for conversion from long haul to short haul contracts beginning on November 1, 2017. Union and Iroquois also announced open seasons.

Q. Did the Company submit bids as part of the 2017 NCOS and coordinated interconnecting pipeline open seasons?

A Yes, the Company submitted bids in the 2017 NCOS and the coordinated Union open season and received Precedent Agreements from both companies. As was the case with the 2016 bids, both Union and TCPL requested financial assurances to cover the risk of building the new facilities. The Company believes that there are no viable alternatives other than the TCPL and coordinating Union capacity to ensure that system demand can be met on a firm basis during periods of high demand. Therefore the Company felt compelled to execute the Precedent Agreements with TCPL and Union.

Q. Mr. Ward, can you please describe in more detail why the Company felt compelled to sign the 2017 Agreements with TCPL and Union?

A. Yes, the Company's distribution system is uniquely situated and constructed so that firm TransCanada capacity delivered to Cornwall is required to serve our customers. Our distribution systems were built in the early 1960's with a sole source of supply coming from the TransCanada Cornwall interconnection. In the early 90's the Company connected to the Iroquois Gas Transmission System ("IGTS") at three locations, however no one IGTS interconnection can supply the full requirements of the St. Lawrence Gas system. The Company, therefore, requires TransCanada firm gas transportation capacity to serve our markets and believes that we have no viable alternative at this time. It is the Company's opinion that capacity to the Cornwall interconnect will be very limited as a result of TCPL's decision to replace natural gas service with oil service. Other options include contracting for capacity on Iroquois and flowing it north to TCPL and then on to Cornwall. While this option may at some future date become more attractive, it is currently cost prohibitive as a result of the extreme volatility in pricing at Algonquin.

Q. Can you describe the TCPL and Union 2017 Open Seasons and Precedent Agreements?

A Both TCPL and Union require 15-year commitments. This is a much longer term than the Company has been required to contract for previously. The 15-year term does, however, provide certainty that the Company will have the required firm capacity to supply its customers through 2032. The Company has several concerns over the amount of cancellation costs allocated through the 2017 Precedent Agreements. For TCPL, the cancellation costs equal $23.6 million through 2018. The Company sought clarification from TCPL with respect to the Company's share of facilities cost but received no clarification.

The Company understands that TCPL has not yet received the required internal approvals to undertake its obligations under the 2017 Agreements. The Company believes that it is unjust and unreasonable that any project costs incurred by TCPL prior to their internal approvals should be allocated to shippers like St. Lawrence Gas. The risk of gaining internal approvals should be TCPL's alone. The Company also believes that in-service dates with Union and TCPL capacity should be aligned.

Q. Can you please list the capacity bid as part of the 2017 NCOS for both Union and TCPL?

A. Yes, to secure firm capacity and to diversify supply basins, the Company bid for and was awarded 10,000 Gj/day firm short haul TCPL capacity with a Receipt Point at the Union Parkway Belt and a Delivery Point of Cornwall, Ontario. The Company also bid for and was awarded 4,000 Gj/day firm short haul TCPL capacity with a Receipt Point at Iroquois and a Delivery Point of Cornwall, Ontario.

The Company also bid for and was awarded 10,412 Gj/day Union capacity with a Receipt Point of Dawn and a Delivery Point of Parkway. This service is required to move gas purchased at Dawn across the Union system to Parkway/TCPL Interconnection.

Q. Will the Company take part in the National Energy Board ("NEB") regulatory proceedings relating to the TCPL and Union projects?

A. Yes, the Company plans to participate in the NEB proceedings.

Q. Did the Company bid for capacity on Iroquois as part of their South-to-North Project ("SoNo") open season?

A. Yes, the Company bid for 4,000 Mmbtu/day capacity as part of SoNo open season. The Company was not awarded capacity as a result of insufficient interest to proceed with the project by Iroquois shippers.

<u>Status of the Franklin County Expansion</u>

Q. Mr. Ward, can you please provide an update on the Franklin County Expansion Project?

A. The pipeline contractor began construction on August 21, 2012. Overall pipeline construction went very well but geologic conditions (significant rock encountered) hampered progress especially as it relates to horizontal direction drilling ("HDD"). Construction on the pipeline ended for the season in late December 2012 and resumed in April 2013. Transmission line construction continued in 2013, and by the end of the year all 48 miles of main had been installed with the exception of 3 HDD's in Brushton, NY that were not completed as a result of geologic conditions including significant rock and changing subsurface conditions. The HDD contractor worked through the 2013-2014 winter, but work was significantly delayed as a result of unusual restrictions by the New York State Department of Environmental Conservation ("DEC"). The first of the remaining HDD's (Wetland 23A) was completed on April 26, 2014, and the Farrington Brook HDD was completed on June 26, 2014.

Upon completion of work at Farrington Brook, the contractor moved to the Little Salmon River HDD but several setbacks occurred over the summer. Progress picked up in August and the pilot hole was opened to approximately 1,100 feet of the required 1,560 foot opening. On September 5, 2014, the contractor reached the west side of the river and continued forward for approximately 20 feet. While using water as drilling fluid, it was observed that a neighboring well was overflowing. It was determined that pressurized water within the drill hole had impacted the water well causing it to overflow. Forward drilling was immediately stopped, the water overflow was contained, and the well was cleaned. In the days following, the Company tested the impacted well along with neighboring wells to detect any related impacts. All wells tested negative for drilling fluid or contamination. To increase the potential for a successful HDD, the contractor employed the services of Brierly Associates to assess geological conditions and the interaction of these conditions with drilling activities. The geologist from Brierly Associates concluded that conditions under the river dictate that non-industry standard HDD drilling practices were necessary for the completion of the drill and to maintain drill fluids. The subsurface conditions allow drill fluid to be stored in the various formations under the river until pressure builds beyond a certain point. Once beyond the pressure limit, drill fluid escapes to the surface. A mitigation program was designed to reduce drill fluid pressure along the drill path while maintaining sufficient flow to clean and advance the HDD. The mitigation program included the installation of casing, vent pipes or wells, reduction of drill fluid density, as well as water level, Ph, and pressure monitoring. Casing and vent pipe installation on the drill side of the river took several weeks to complete and forward drilling resumed on October 23, 2014.

The contractor was able to make slow forward progress from October 23 through October 28 as the drill was advanced to a point that would allow additional mitigation measures to be installed. During this period, drill fluid was not returned to the drill, pressure increased, and fluid was stored within the subsurface conditions. On October 29, 2014, the contractor successfully installed a 6" vertical well that intersected directly to the bore path. This mitigation measure reduced drilling pressure and provided an exit point for the fluid stored in the subsurface conditions. The pilot hole for the HDD was completed on November 21, 2014. Back reaming the pilot hole began in early December. Over the winter period of 2014-2015, the contractor made slow forward progress with several setbacks including the record cold temperatures which caused equipment freeze-ups, and a required excavation to remove a piece of a rock ledge from the bore path. The mitigation plan put in place in September was successful with no additional environmental issues resulting from HDD operations. The HDD is now anticipated to be completed in June 2015. Several alternatives to horizontal directional drilling were considered given the extreme geological conditions at the Little Salmon River including an open cut of the river, drilling at other locations and rerouting the transmission line out to State Route 11 utilizing a state owned bridge as a crossing. After much analysis, it was determined that the only viable option was to continue to drill at the current location.

Environmental regulations and time to gain regulatory approval to open cut the river made this option unattractive and unrealistic. Moving to an alternate bore location was not favorable as it could potentially lead to similar results as the current location. Rerouting the pipe to State Route 11 and using a bridge crossing seemed like the most logical alternative, but discussions with the New York State Department of Transportation ("DOT") indicated that a permanent bridge crossing would not be allowed. According to the DOT, the Company could build a pipe bridge attached to the wing walls of the bridge structure as a temporary measure. A permanent solution to cross the river outside the DOT right-of-way would be required. All alternatives would increase costs and increase time to complete the Project.

As of June 1, 2015, all transmission pipe for the entire project has been installed with the exception of one HDD at the Little Salmon River in Brushton. The first section of transmission line from the tie-in point in Norfolk to the first industrial customer in North Lawrence was energized in November 2013. The first anchor customer, North Country Dairy, began service in November and the second anchor customer, St. Lawrence Central School, began service in late December 2013. Natural gas service was also made available to customers in Brasher/Winthrop and North Lawrence. Service availability for the balance of the transmission line is dependent upon the completion of one remaining HDD which is expected to be completed in June 2015.

The Company began construction on the distribution systems required to provide gas service to customers located within the expansion area in April 2013. Distribution systems located within the first section of the transmission line were energized in the fall of 2013. The Company also built distribution systems in Franklin County within the Towns/Villages of Brushton, Malone, and Chateaugay. Franklin County is east of the Little Salmon River and gas service has been unavailable due to the extended construction related to the final HDD at the Little Salmon River.

Q. Are project costs above estimates included in the July 13, 2012 Commission Order Granting Amendment of Certificate of Public Convenience and Necessity (Case 10-G-0295)?

A. Yes. Actual project costs are currently above project estimates by approximately $10 million. The main drivers behind the excess project costs are: HDD costs due to extreme conditions, inspection costs, and environmental costs. Inspection costs have come in over budget for various reasons including: (i) increased requirement for 100% visual weld inspections, and (ii) an increase in the requirement for additional environmental inspection to adhere to a level of environmental oversight by the DEC that was not reasonably anticipated. In the case of the DEC, HDD drilling was significantly delayed because of additional requirements imposed by DEC (upon threat of enforcement) beyond which was required by Commission-approved documents (including the Project EM&CP). Given the Commission approval of the Project EM&CP, and the fact that this is an Article VII Project, DEC's interference was unanticipated. The extreme geological (hard and abrasive rock) conditions and the associated impact on the time required to complete the HDD's increased the time required, and costs incurred, for inspection work.

Project costs through 2021 are now estimated at $59.3 million.

Q. How has the Franklin County Project been treated in this rate application?

A. The Franklin County Project's incremental costs and revenues have been removed from the rate application and are treated separately so that the rate design requested will recover the Company's revenue requirement exclusive of the expansion project.

Q. Does this complete your Testimony?

A. Yes, it does.