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Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario
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Attention: Ms. Kirsten Walli
Board Secretary

Dear Ms. Walli:

**Re: Enbridge Gas Distribution 2009 Rates – Phase 2
Ontario Energy Board (“Board”)
File No. EB-2008-0219
Argument of TransCanada PipeLines Limited (“TransCanada”)**

Further to the Board’s direction of May 15, 2009, please find attached TransCanada’s Argument for filing with the Board.

Yours truly,
TransCanada PipeLines Limited

[Original Signed by]

Nadine Berge
Senior Legal Counsel
Law and Regulatory Research

ONTARIO ENERGY BOARD

APPLICATION NO. EB-2008-0219

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, S.O. 1998, c.15, Sched. B, as amended:

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for and order or orders approving or fixing just and reasonable rates and other charges for the sale, distribution, transmission and storage of gas commencing January 1, 2009 (Phase 2 Issues)

Written Argument
of
TransCanada PipeLines Limited

June 2, 2009

1.0 INTRODUCTION

In accordance with the Ontario Energy Board (“OEB” or “Board”) directions, TransCanada PipeLines Limited (“TransCanada”) provides its written argument concerning Enbridge Gas Distribution Inc.’s (“Enbridge” or “EGD”) Application (the “Application”) for approval of rates for the sale, distribution, transmission, and storage of gas for 2009. TransCanada’s submissions are limited to Issue 7 of the Issues List at Appendix B to Procedural Order No. 6; specifically, Enbridge’s request for approval of a change in the requirements for the contracting of upstream transportation that would require direct purchase bundled service (“Direct Purchase”) customers to contract for firm upstream transportation. TransCanada takes no position on other matters referred to in the Issues List.

In this proceeding, the OEB has been asked to decide whether firm markets for gas supply should be served by firm transportation arrangements. Given that such a determination may affect the contract profile on TransCanada’s Mainline, it has participated in this proceeding in order to provide additional information regarding TransCanada’s services, system design, capacity and operations.¹ While TransCanada has not taken a position on the specific details of EGD’s application, it does support the use of firm transportation contracts for markets that require firm gas supply to reduce the risk of supply disruptions and believes that this would assist in addressing the concerns raised by EGD.²

2.0 DISCUSSION

Firm Transportation Service Provides Greatest Certainty of Delivery

TransCanada provided in its evidence a discussion of its primary service offerings, which are Firm Transportation (“FT”), Storage Transportation Service (“STS”), STFT (“Short-term Firm Transportation”), Interruptible Transportation (“IT”), and Firm Transportation

¹ Exhibit L, Tab 21, page 1, lines 9-11.

² Exhibit L, Tab 18, CME-TCPL 1.

– Short Notice (“FT-SN”).³ Table 2 of the evidence lists the attributes of those services. In addition, FT and FT-SN shippers may also deliver gas to the Enbridge franchise areas using alternate receipt points (“Alternate Receipts”) and alternate delivery points (“Diversions”).⁴

For the purposes of this argument, TransCanada will broadly divide the services into two categories, Firm, which will include FT, STS and FT-SN, and Discretionary, which will include IT and Diversions/Alternate Receipts. TransCanada considers STFT to be a Discretionary service, because it does not build facilities or reserve capacity on a long term basis for it.⁵ However, STFT has a specified term and, once it has been awarded, firm priority that is on par with FT, STS and FT-SN.⁶ For clarity, TransCanada in this argument will discuss STFT separately from Firm and Discretionary services.

It is TransCanada’s position that the use of Firm transportation service contracts over Discretionary transportation service contracts provides greater assurance that daily gas deliveries will occur, particularly on days of peak demand on TransCanada’s Mainline. This increased level of security results from the fact that TransCanada designs, builds and maintains its system to meet the daily contract quantities specified in Firm contracts even with loss of the most critical compressor unit.⁷ In the event of mechanical breakdowns or other operational upsets that restrict available transportation capacity, shippers holding Firm contracts are the last to be curtailed. These Firm contract volumes are the basis for all system planning, including facility retirements.⁸ As a result of all of these factors, Firm volumes are seldom curtailed.⁹

Although capacity for Discretionary services into the Enbridge Central Delivery Area (“CDA”) and Eastern Delivery Area (“EDA”) presently exists on most days on the TransCanada Mainline, such services are by definition at risk of being partially or

³ Exhibit L, Tab 21, page 7, lines 3-9.

⁴ *Ibid*, page 7, lines 11-16.

⁵ *Ibid*, page 9, lines 6-7.

⁶ *Ibid*, page 8, Table 2.

⁷ *Ibid*, page 9, lines 2-5.

⁸ *Ibid*, page 10, lines 5-9.

⁹ 3TR125, lines 22-26.

entirely curtailed when capacity restrictions occur, such as on peak winter days or in other circumstances.¹⁰ As indicated by the evidence filed by TransCanada, a significant portion of the gas currently transported to the Enbridge franchise areas utilizes STFT and Discretionary services.¹¹ Furthermore, the capacity available for STFT and Discretionary services may be reduced in the future due to retirement of compressors, the capacity being contracted by new customers, such as the new power generation markets in Ontario¹² or other reasons.

Discretionary services to Enbridge delivery areas have in recent years been curtailed at times for various reasons, a primary reason being capacity restrictions due to extremely cold temperatures and peak demand. During periods of extreme cold, available capacity may be reduced due to increased competition for available Discretionary capacity, increased utilization of contract entitlements by Firm shippers, and mechanical failures and reductions in capacity. In January of 2009, for example, Discretionary services were curtailed over a period of several days.¹³ Enbridge noted in its Argument¹⁴ that TCU3.4 shows that on January 14, 2004, Discretionary volumes were curtailed. It should, however, be clarified that the IT nominations that were not authorized are only those affected by the bottlenecks noted in the undertaking response. Some gas that did not flow on a path through the bottlenecks was delivered under IT to the EGD CDA and EDA.¹⁵ Mr. Pohlod summarized TransCanada's position with respect to Discretionary service in his testimony:¹⁶

I think what needs to be clarified, perhaps, is that what's important isn't whether or not, in an overall sense, there is sufficient available pipeline capacity. When we look at a peak day on the system, the real question is: Can deliveries to any particular area on an absolute peak day be absolutely assured?

I think the important point is that if one is relying on interruptible or discretionary transportation services, there is a greater likelihood that the

¹⁰ Exhibit L, Tab 21, page 11, line 18 – page 12, line 4.

¹¹ *Ibid*, page 21, lines 4-6.

¹² *Ibid*, page 10, lines 5-9.

¹³ Undertaking TCU3.4, pages 2-3.

¹⁴ Enbridge Argument, page 8 of 17, paragraph 20.

¹⁵ Exhibit L, Tab 18, CME-TCPL 2.

¹⁶ 3TR173, lines 1-11.

supply may not show up on a real peak day. Does it happen often? No.
Can it happen? Yes.

Direct Energy Marketing Limited has suggested that a Firm transportation contract requirement would unnecessarily increase costs.¹⁷ However, Enbridge's evidence is that Ontario consumers are already paying for the weighted average cost of holding long haul FT contracts.¹⁸ It is reasonable to assume that Enbridge established this system on the basis that direct suppliers were, in fact, contracting for long-haul FT transportation. Furthermore, TransCanada's evidence shows that the reduction in Firm contracting has resulted in higher tolls on the Mainline, in turn causing increased costs that all Mainline customers, including Enbridge and its customers, must pay.¹⁹ Further, the evidence also demonstrates that incremental FT contracts and flows would result in lower tolls for all customers.²⁰ The result of contracting for additional long haul FT service as proposed by EGD could lower the long haul toll from Empress to the Enbridge CDA by as much as \$0.07/GJ.²¹

There has also been considerable interest in STFT service during this proceeding. STFT service does allow shippers to obtain the same priority as Firm services on a shorter term basis. It should be noted, however, that TransCanada's system planning does not include volumes that flow under STFT service.²² As a result, although shippers can obtain priority equivalent to that of Firm services using STFT, the availability of STFT service cannot be predicted or assured on a yearly basis.²³ Mr. Stringer provided a detailed description of the process used to make STFT service available to shippers during his testimony, including the fact that the capacity is allocated through an auction process in which shippers seeking STFT service may be outbid.²⁴ Mr Pohlod further commented on the availability of STFT service²⁵:

¹⁷ Exhibit L, Tab 7, page 7 of 8.

¹⁸ Exhibit C-1-10, pages. 7-10; 1TR21, ll. 15-1TR22, l. 5.

¹⁹ Exhibit L, Tab 21, page 14, lines 8-10.

²⁰ *Ibid*, page 14, lines 3-5.

²¹ Exhibit L, Tab 15, Shell-TCPL 6(b).

²² *Ibid*, page 11, lines 6-7.

²³ 3TR126, lines 21-27.

²⁴ 3TR126, l. 21 – 3TR128, l. 24.

²⁵ 3TR130, lines 16-23.

So what will stop us? If the capacity is contracted, if there is FT contracting, if there is STFT contracting, if there is a particular demand in the area, in that particular area that is high or if something happened on the system that might limit the amount of STFT available to a particular delivery area, then those are all the types of things that would cause us not to be posting STFT, but only because it wouldn't be available.

Finally, STFT service also does not provide the long term certainty of capacity that is available with an FT contract, due to the fact there are no renewal rights accorded to STFT shippers.²⁶ FT shippers are entitled to renew their capacity each year with six months notice, ensuring that their priority to the Mainline capacity is protected.²⁷

Firm Service Enhances the Balancing of Supply with Demand in the Franchise Area

As noted above, the use of Discretionary upstream transportation increases the risk that gas markets within the Enbridge franchise will not obtain sufficient supplies during periods of peak demand and capacity constraints. A compounding problem with use of Discretionary upstream transportation is that Enbridge may have less certainty regarding the quantity of gas that will be delivered by Direct Purchase customers over the course of the Gas Day.²⁸ This concern was referred to by both Enbridge and the Board during this proceeding.²⁹ In addition to the benefits provided above, increased Firm transportation contracts will reduce the extent to which this uncertainty occurs and, in turn, the extent to which Enbridge may be required to implement remedial actions, such a curtailment of its own interruptible customers or nominating for its own peaking supplies.³⁰

Direct Purchase customers holding Firm transportation service on TransCanada's Mainline can nominate for, and typically be assured delivery of, their full daily contract quantity at the Timely nomination window, roughly 16 hours prior to the start of the Gas Day.³¹ With assurance of deliveries through Firm service by Direct Purchase customers,

²⁶ Exhibit L, Tab 21, page 8, Table 2.

²⁷ *Ibid.*

²⁸ The Gas Day on TransCanada is from 10:00 hours Eastern Clock Time (ECT) to 10:00 hours ECT the following day.

²⁹ 1TR25, ll. 2- 1TR26, l. 19; 3TR170, lines 2-21.

³⁰ 1TR21, lines 3-10.

³¹ Exhibit HD 3.7.

Enbridge would be able to more confidently plan its own supply at the Timely window to meet its forecast aggregate demand in the franchise area.

Conversely, a Direct Purchase customer relying on Discretionary service on TransCanada may not be allocated any, or only a portion of, its requested nomination at the Timely window. Enbridge would be aware that the Direct Purchase customer was unable to have its full delivery requirements confirmed by TransCanada. However, Enbridge would not receive this information until the completion of the Timely nomination window.³² It is then too late for Enbridge to increase its own Timely window nominations to make up the supply shortfall. Enbridge can seek to increase its Firm service nominations at subsequent Evening and/or Intra-Day windows. However, TransCanada can only reserve capacity for Firm services at the Timely nominations window, not at Evening or Intra-Day windows.³³

A further complication for Enbridge is that it may not know how much supply the Direct Purchase customers will ultimately deliver over the course of the Gas Day using Discretionary services, nor the extent to which market cuts or additional supplies will be required to make-up for the shortfall.³⁴ Direct Purchase customers can nominate for incremental Discretionary transportation service at the Evening and/or two Intra-Day nomination windows, to make up for any short-fall from the Timely window. Depending on capacity availability and demand from other shippers, these Evening or Intra-Day nominations for Discretionary service may be authorized by TransCanada in full, rejected in full or partially authorized. Consequently, Enbridge may not know how much supply the Direct Purchase customers will ultimately deliver to the service territory over the day until after all Intra-Day nomination windows are complete (approximately 21:00 Eastern Time on the Gas Day).³⁵ This situation is precisely what occurred during the

³² 3TR165, l. 8 – 3TR169, l. 10.

³³ 3TR160, l. 20 – 3TR161, l. 20.

³⁴ 1TR26, lines 5-19.

³⁵ Exhibit HD 3.7.

January 13-15, 2009 period.³⁶ In such a scenario, TransCanada understands that Enbridge must deal with anticipated short-falls through curtailment or bringing on additional peaking supplies from its own transportation contracts and storage, if available.³⁷ Use of Firm upstream transportation would lessen the risk of market interruption and provide greater certainty for Enbridge in managing the supply-demand balance in its franchise areas, particularly on peak demand days.

3.0 CONCLUSION

It is TransCanada's position that the use of Firm transportation contracts to serve Enbridge firm markets would reduce the risk that insufficient gas will be available to meet the needs of EGD's customers, particularly on extremely cold days. TransCanada designs, builds, and maintains its system to meet the requirements of its Firm contracts, not for Discretionary services or STFT service. Capacity available for Discretionary services, and for STFT service, can be reduced due to equipment retirement, the addition of new Firm contracts and other reasons. Furthermore, the requirement for additional Firm contracts would provide additional certainty for Enbridge in balancing aggregate supply and market for its franchise areas.

Should the Board decide that it is appropriate to require Direct Purchase customers to hold Firm upstream transportation arrangements, or to require Enbridge to contract for more Firm transportation, TransCanada currently has long haul Firm capacity availability to both the Enbridge CDA and EDA. TransCanada believes this long haul Firm capacity offers significant benefits to Enbridge customers, including a one-year term, flexibility features and renewal rights.³⁸

³⁶ 1TR25, lines 2-28.

³⁷ Slide Entitled "Emergency Procedures Manual – Curtailment", Exhibit I, Tab 12, Schedule 5, Attachment 1, page 4 of 5; Exhibit C, Tab 1, Schedule 10, Paragraph 6; 1TR76, l. 26 – 1TR77, line 4

³⁸ Exhibit L, Tab 21, page 22, lines 20-26.

Respectfully submitted.

June 2, 2009.

TransCanada PipeLines Limited

[Original signed by]

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