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November 2, 2010

VIA RESS, Email and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street,
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: 2010 Natural Gas Market Review
Ontario Energy Board ("Board") File No.: EB-2010-0199
TransCanada PipeLines Limited – Written Submission

In the Board's letter of August 20, 2010, participants in the 2010 Natural Gas Market Review were invited to submit written comments following the Stakeholder Conference. Enclosed with this letter is the written submission of TransCanada PipeLines Limited.

If you have any questions, please do not hesitate to contact the undersigned.

Yours very truly,

Gordon Cameron

Gordon Cameron

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Assessment and Implications of Natural Gas Supply Developments for the Ontario Market

Ontario Energy Board

2010 Natural Gas Market Review (EB-2010-0199)

Submission of TransCanada PipeLines Limited

November 2, 2010

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EXECUTIVE SUMMARY

TransCanada PipeLines Limited ("TransCanada") provides this submission in response to the Ontario Energy Board's ("OEB" or "Board") invitation to participants in the 2010 Natural Gas Market Review to provide written submissions following the Stakeholder Conference held on October 7-8, 2010. TransCanada's submission supplements the presentation materials it filed with the Board on September 21, 2010 and its remarks in the Stakeholder Conference.

From TransCanada's perspective, recent and ongoing dramatic changes in North American natural gas supplies and markets have had and will continue to have significant impacts on Ontario market participants and interests, and will raise important policy considerations for the Board in determining appropriate responses to those changes. TransCanada believes Ontario market participants and end-users benefit from new gas supply options, including rapidly expanding shale production in British Columbia, the Marcellus, and other areas. However, these benefits may come with corollary costs and impacts that must be properly understood and thoroughly weighed and balanced to determine appropriate actions and ensure outcomes are in the public interest. TransCanada believes its existing transmission infrastructure, including the Mainline and other transmission systems, can continue to play an important role in economically and reliably meeting Ontario needs.

In this context, TransCanada reviews in this submission a number of key points, including the following:

- The rapid development of the Horn River and Montney shale gas supplies in British Columbia is stimulating growth in natural gas production in the Western Canadian Sedimentary Basin ("WCSB"). TransCanada is contracting with shippers to support extensions of its pipeline system to connect new supply resources in the WCSB and forecasts total WCSB natural gas production to increase to approximately 16 Bcf/day by 2015. The WCSB remains a viable long term gas supply source for Ontario;
- Increasing shale gas production levels in the Marcellus and other regions are expanding Ontario's gas supply and service options. As has been the case historically, Ontario is benefiting from greater access to diverse gas supplies;

- While ensuring that Ontario continues to enjoy economic access to traditional gas supply sources, TransCanada has been an active participant in expanding the Province's access to diverse new gas supplies and services. TransCanada is also reconfiguring its existing system to facilitate new gas supply options (e.g., Marcellus gas imports at Niagara) and to offer services designed to meet changing gas market preferences (e.g., short haul contracting from Dawn);
- TransCanada's existing facilities can economically and efficiently bring Marcellus gas to Ontario and enable highly flexible and reliable gas delivery services;
- TransCanada believes that the Board should consider in assessing the merits of any proposed new transmission infrastructure, both the use of existing infrastructure as a viable alternative and the impact on existing infrastructure as considerations in determining whether to approve such new facilities; and
- Natural gas supply changes have benefited Ontario and other eastern North American markets, but they have also impacted utilization of existing natural gas infrastructure including the TransCanada Mainline system. While decontracting and lower Mainline throughput creates upward toll pressure, TransCanada has and will continue to pursue various initiatives to improve its competitiveness. However it is important that these impacts, be recognized and weighed against other benefits in evaluating new supply and infrastructure alternatives.

This report is organized into three sections:

- Section I reviews how Ontario has benefited historically from access to a variety of natural gas supplies; explains that the Province is well positioned to benefit from expansion of Marcellus and other new gas supplies; and describes the role TransCanada had and will continue to play in ensuring Ontario's economic access to a variety of gas supply options.

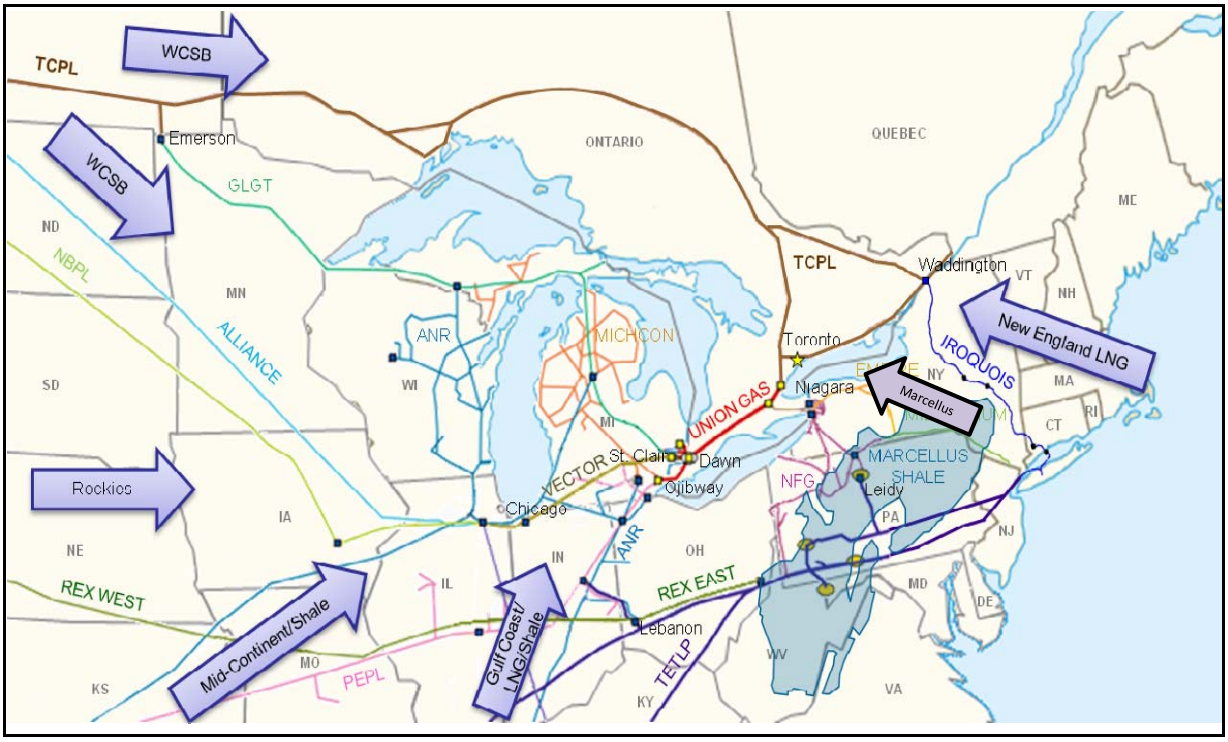
- Section II provides TransCanada's perspective on certain key gas market developments that are likely to impact the Ontario market over the next three to five years, including expansion of shale supplies in the WCSB and the United States ("U.S.") Section II also discusses the role of TransCanada's existing pipeline system in addressing these future market developments.

- Section III provides TransCanada's perspective regarding certain Board questions with respect to the gas market changes, particularly the need to consider the cost of existing and new pipeline infrastructure, the impact of changing pipeline utilization on tolls and the importance of ensuring equitable allocation of the costs and benefits associated with Ontario's expanding gas supply options.

I. THE ONTARIO GAS MARKET AND TRANSCANADA'S ROLE

Ontario is the second largest consumer of natural gas in Canada, with annual provincial demand in excess of 900 Bcf or, on average, about 2.6 Bcf/day. The Province enjoys a highly favorable position on the North American natural gas pipeline network, and serves as an important regional storage and transportation center. Ontario enjoys access to multiple sources of natural gas including those from the WCSB, the U.S. Gulf Coast, Midcontinent and Rocky Mountain regions. Marcellus shale gas is becoming the latest addition to Ontario's expanding portfolio of gas supply options. Figure 1 depicts Ontario's current diversity of gas supply options.

Figure 1: Ontario Gas Supply Options

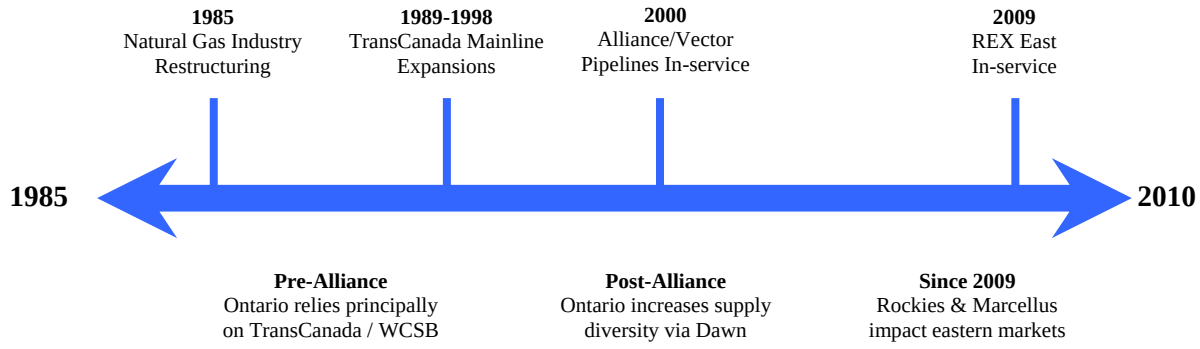


[Source: Union Gas]

Since the 1950's, the TransCanada Mainline has been the primary source of natural gas supply for Ontario and has played a critical role in ensuring the diversity and reliability of the Province's gas supplies. As stated at the Stakeholder Conference, TransCanada has more invested in pipe in the ground in Ontario than any other market participant and its affiliates have sizeable investments in gas-fired electric generation in the Province. Figure 2 presents a timeline

of significant events in the development of Ontario's current gas supply portfolio over the past 25 years.

Figure 2: Ontario Gas Supply Timeline



Before the development of the Alliance Pipeline, Ontario, like many eastern markets, relied principally on accessing distant gas supplies through a single long-haul pipeline system. The Province had some local production, was interconnected to U.S. Midwest pipelines near St. Clair and Ojibway, and maintained an extensive gas storage system, but relied extensively on WCSB supplies delivered on the TransCanada Mainline. As shown in Figure 3, long-haul contracts on the Mainline increased significantly from 1989 to 1998. These firm contracts drove significant Mainline expansions totaling approximately $8 billion to serve domestic demand in Eastern Canada markets and export requirements.

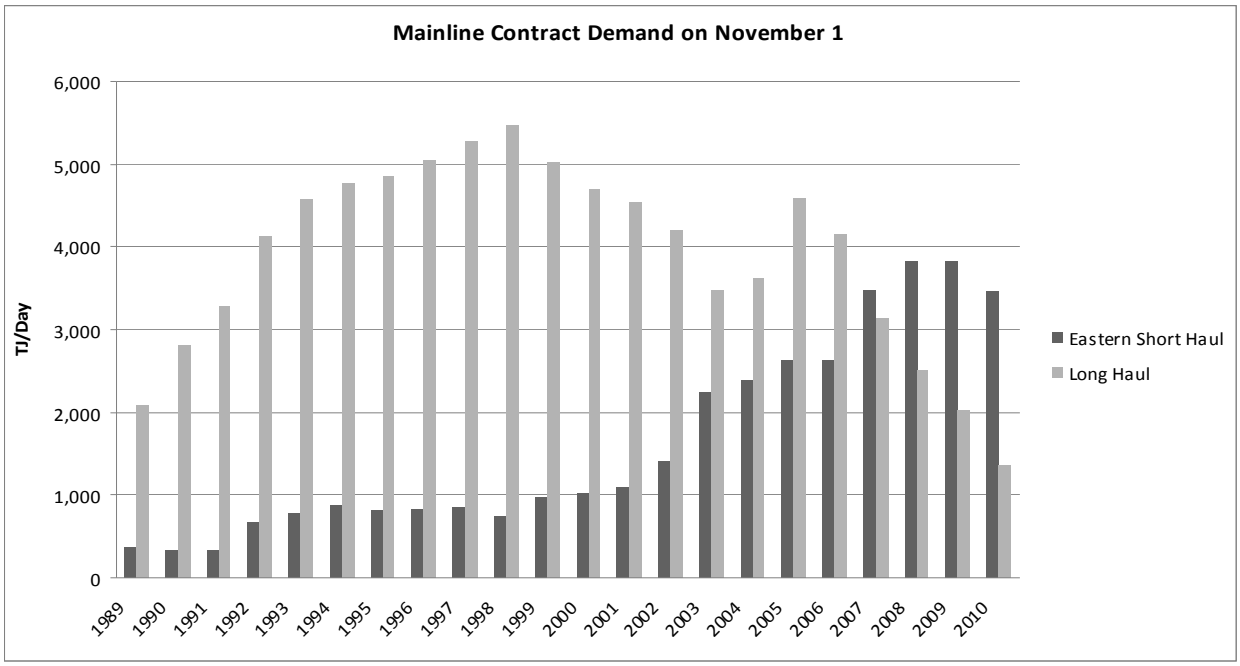
Alliance and the downstream Vector Pipeline entered service in late 2000, directly connecting Ontario to the Chicago Hub and expanding the Province's access to Gulf Coast and Midwest U.S. gas supplies, as well as to WCSB supplies, via this new delivery path. Subsequent expansions by Vector and other pipeline projects have further increased Michigan to Dawn capacity. [1]

[1] Ontario's position on the TransCanada system also enabled the Province to consider sourcing new gas supplies from proposed LNG import projects in Québec. Although these projects have been delayed or canceled, TransCanada's Mainline provides access to these potential projects, thus providing additional supply optionality benefits to Ontario. Furthermore, the TransCanada system allows Ontario to benefit from enhanced regional gas supply liquidity enabled by the availability of LNG delivered into New England and New Brunswick through new LNG facilities in those locations.

Over the past several years North America witnessed a rapid growth in shale gas production, initially in Texas and the U.S. Midcontinent area and most recently in the Marcellus and other emerging shale resource plays. Then in 2009, the eastern leg of the Rockies Express pipeline ("REX-East") entered service. Although REX-East does not directly serve Ontario, for the first time it directly connected eastern gas markets with the large and growing Rocky Mountain supply area, thereby significantly diversifying regional gas supply. Once again, Ontario's diverse upstream pipeline interconnections favorably position the Province to access these new gas supplies.

Throughout this period, TransCanada played an integral enabling role in ensuring that Ontario could access and benefit from the expansion of gas supply options. As shown in Figure 3, over the past decade, shippers have increasingly utilized TransCanada's integrated pipeline system to further diversify Ontario's supply sources by contracting for short-haul transportation services in TransCanada's eastern market area. While achieving the benefits of supply diversification, enhanced security and competition, these contracting shifts have served to decrease the utilization of long-haul service on TransCanada's Mainline and increase the unit cost of transportation on the existing infrastructure.

Figure 3: Changing Profile of Mainline Contract Demand



Includes: FT, FT-SN, FT-NR, FST, LTWFS, STS

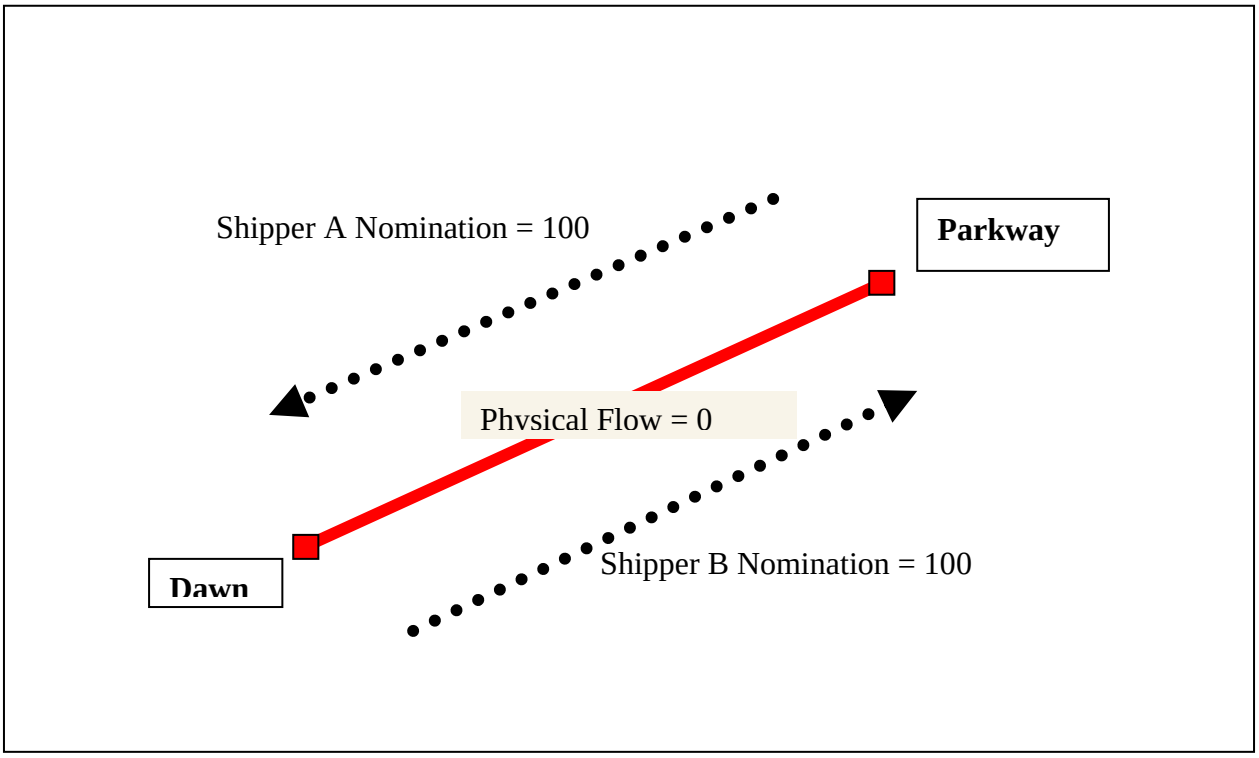
The trend in annual contracted capacity depicted in Figure 3 clearly highlights the flexibility of TransCanada's Mainline system. Over this period, TransCanada's traditional long-haul contracted capacity rose from 2,000 to over 5,000 TJ/day from 1989 to 1998 driving major expansions to the TransCanada Mainline. These expansions served both domestic and export markets. Long-haul contracts have since then fallen to less than 1,300 TJ/day, while new eastern short-haul contracted capacity has surged from less than 500 to approximately 3,500 TJ/day.

TransCanada had two options available to meet the demand for short-haul transportation capacity shown in Figure 3 above: Build or Exchange:

- The **"Build"** option would have required TransCanada to contract for incremental M-12 transportation service on Union Gas from Dawn to Parkway, expansion of the Union system to meet this requirement, plus expansion of TransCanada's system from Parkway to the Maple compressor north of Toronto. The cost of the expansion on the TransCanada system alone would have been in the order of $300 million in capital costs; or roughly $30 million per year of incremental costs to shippers. Assuming Union's current M-12 tolls, the costs to TransCanada for incremental M-12 service would have been in the order of $20 million a year. In total, this option would have cost TransCanada's customers roughly $50 million a year, based on current requirements. Further, the Build option would necessitate long term contractual commitments by customers, typically 10 years, to underpin the capital investments. In addition, the provision of service to customers would have been delayed by approximately 24 months; the time required by TransCanada and Union to obtain all necessary approvals and to construct the incremental facilities.
- TransCanada's second option was to meet these incremental short-haul requests for service "from" Dawn via **"Exchange"** with long-haul transportation requests for deliveries "to" Dawn. Exchanges are common operating practices on many natural gas pipelines. A simple example on the Union system is illustrated in Figure 4: Customer A requests to move 100 TJ from Parkway to Dawn while, at the same time, Customer B requests to move 100 TJ in the opposite direction from Dawn to Parkway. Union does not transport gas to meet either of these requests. Instead, Union takes the receipt of 100 TJs from Customer A at Parkway and delivers the gas to Customer B at Parkway. Similarly, Union takes the receipt of 100 TJs

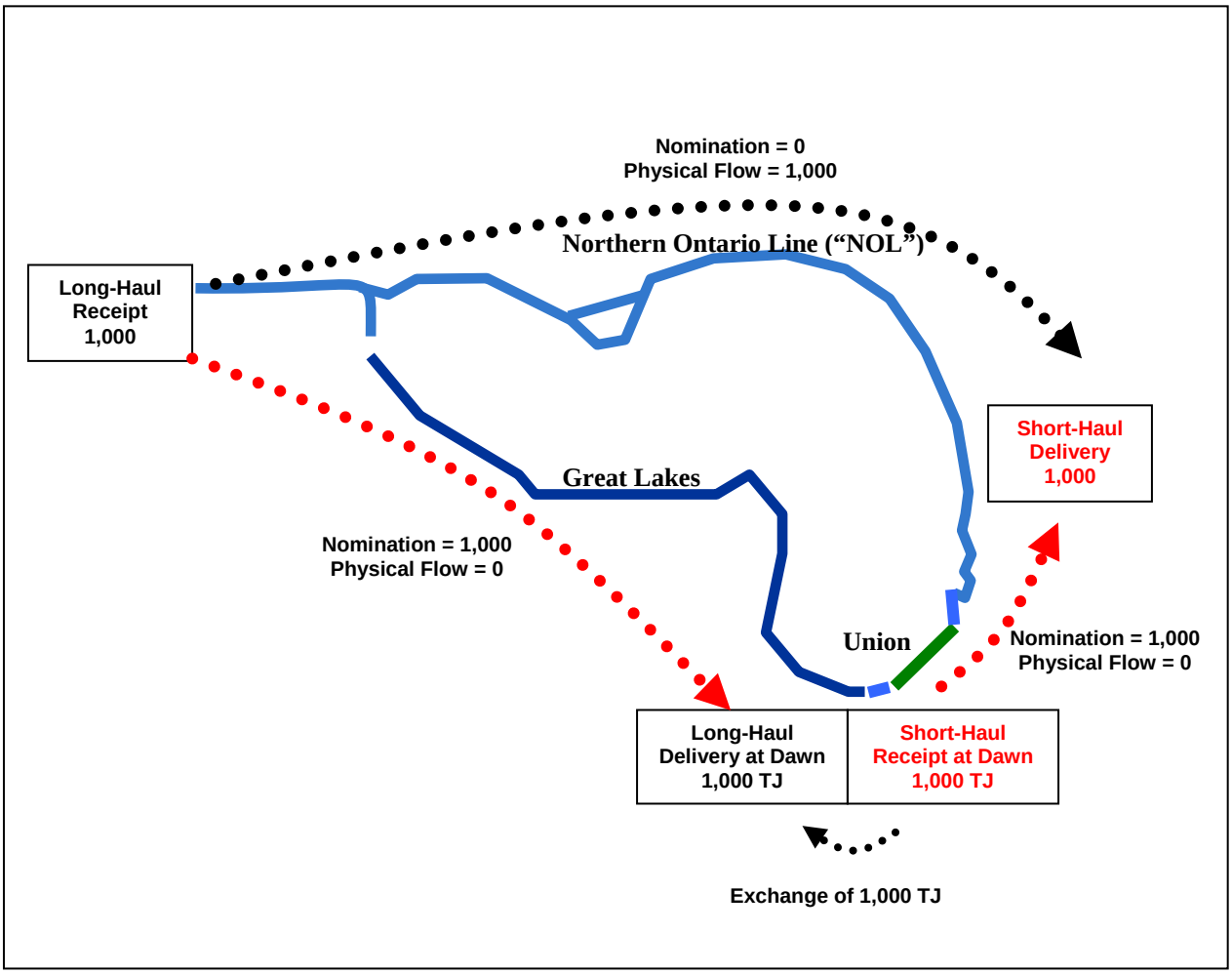
from Customer B at Dawn and delivers it to Customer A at Dawn. Via this "exchange", no gas is physically transported and both customers receive their requested service.

Figure 4: Simple Exchange on the Union Gas System



The manner in which TransCanada could meet incremental requests for short-haul service from Dawn via Exchange is illustrated in Figure 5 below. Short-haul gas received at Dawn is used to meet long-haul delivery obligations at Dawn. Long-haul gas received at Empress is transported through TransCanada's Mainline to meet short-haul delivery obligations in the east. The net effect is that both customers receive their requested service; the requirement to physically flow gas on both Great Lakes Gas Transmission ("Great Lakes") and Union is reduced, while extra gas flows on the Mainline using spare capacity on that segment of the TransCanada system.

Figure 5: TransCanada Exchange to meet Short-haul Service Requests from Dawn



TransCanada chose the Exchange option to satisfy the increased demand for short-haul service as shown in Figure 3 since it was clearly in the best interests of its customers and the market. The Exchange was far less costly than the Build option (i.e., no need for incremental facilities on TransCanada and Union) and service could be provided sooner (i.e., no 24 month delay in getting facilities approved and installed). Moreover, service could be provided under shorter-term contract commitments by customers since there were no incremental facilities to underpin. This Exchange is a very efficient use of existing infrastructure and has conservatively saved over $200 million in costs since 2003 to the benefit of Ontario and Eastern ratepayers. TransCanada emphasizes that all requests for service have been met and that to date there has not been a bottleneck between Parkway and Maple.

In response to recent requests for further short-haul service "from" Dawn, combined with reduced customer deliveries "to" Dawn, TransCanada has contracted for some firm backhaul service on Union and Great Lakes to transport gas from the Dawn area back to Emerson and then utilize the Mainline as required in order to ensure peak day deliveries. (i.e., Backhaul). At the Stakeholder Conference it was suggested that gas flows approximately 3800 km 'around the horn' rather than 250 km from Dawn to Parkway. TransCanada wants to clarify that gas has never physically moved off the Great Lakes Gas Transmission system into Canada at Emerson, nor has gas physically moved from Dawn to St. Clair. Instead, Great Lakes has met these backhaul requests via exchange with forward haul requests on its system, similar in nature to the exchange illustrated in Figure 4.

TransCanada uses its existing integrated system to provide reliable service in the most economic manner. Currently, TransCanada is pursuing several initiatives designed to ensure that Ontario will continue to be able to access and benefit from new gas supply choices. For example, TransCanada has conducted open seasons for shippers seeking to access Marcellus and other gas supplies at Niagara and Chippawa. Market interest has been strong; TransCanada received requests for approximately 1 Bcf/day of new service with 10 year terms. On the other side of the border, U.S. pipelines report similar strong demand for capacity to deliver gas to Ontario. Recent open season results include Tennessee (150,000 Dth/day at Niagara); National Fuel (320,000 Dth/day at Niagara); and Empire (350,000 Dth/day at Chippawa).

As these and other requests for service arise and as the market continues to evolve, TransCanada routinely reassesses the Build versus Exchange/Backhaul options. For contracts currently in effect for November 1, 2010, the Exchange/Backhaul remains as the optimal, lowest cost, most efficient means of fully meeting market demands from the Dawn area. When the Build option becomes the optimal solution for TransCanada and its customers, TransCanada will proceed with an expansion on an expeditious basis.

II. KEY GAS MARKET DEVELOPMENTS IMPACTING ONTARIO

This section provides TransCanada's perspective on several key gas market developments that are likely to impact the Ontario market over the next three to five years:

- In the WCSB, unconventional shale and coal bed methane ("CBM") production is anticipated to expand rapidly to 4 Bcf/day by 2015 and conventional gas production is forecast to level off in the range of 12 Bcf/day. With a rebound in total WCSB production, Mainline flows are expected to climb to nearly 4 Bcf/day by 2015;
- U.S. shale supplies are also growing rapidly. Marcellus production is anticipated to exceed 4 Bcf/day by 2015, and increasing volumes are forecast to enter Ontario at Niagara and Chippawa. Likewise, Midcontinent and upper Midwest shale production is expected to experience rapid growth which should benefit Ontario gas supply optionality at Dawn; and
- Driven by a more than 50% increase in gas demand for power generation, Ontario's total gas demand is anticipated to grow approximately 240 MMcf/day or 9% by 2015 from 2009 levels. Residential and commercial demand is forecast to grow modestly while industrial demand is expected to fall well short of historical levels.

There remain many factors that can impact future market developments in unanticipated ways, some of which were highlighted in the Stakeholder Conference (e.g., environmental restrictions on future shale gas production). In a market environment subject to considerable uncertainty, TransCanada's existing integrated pipeline system offers gas supply optionality[2] and has underutilized capacity that can be flexibly deployed to reliably serve uncertain gas supply and demand developments without the need to build expensive new infrastructure. While future supply shifts and shipper decontracting will likely continue to impact Mainline throughput and tolls, TransCanada is confident in its ability to serve the market with creative, flexible, and competitive services.

[2] At the Stakeholder Conference, Enbridge spoke to the value of TransCanada optionality: "From a contractual flexibility perspective, our TransCanada contracts are now annually renewable, so there is definitely a lot of optionality that we have with the TransCanada contracts." [*EB-2010-0199 Conference transcripts for October 7, 2010; pgs.94-95*]

TransCanada's WCSB Outlook

The historical decline of conventional gas production in the WCSB has been well documented. However, TransCanada believes WCSB production has bottomed out and will rebound over the next five years, driven by changes in provincial royalty regimes, production regulations and the application of new technology to the large and diverse resource base (see Figure 6).

Figure 6: Ultimate Potential of the WCSB

	Cumulative Production TCF	Remaining Potential TCF	Ultimate Potential TCF
WCSB Conventional[1]	168	109	277
WCSB CBM[1]	1.0	55	56
Montney Shale Hybrid[2]	0.1	30 – 50	30 – 50
Horn River Shale[2]	negligible	40 – 100	40 – 100
WCSB Total	169	234 – 314	403 – 483

1 Source: ERCB & Gas Potential Committee
2 Source: TransCanada

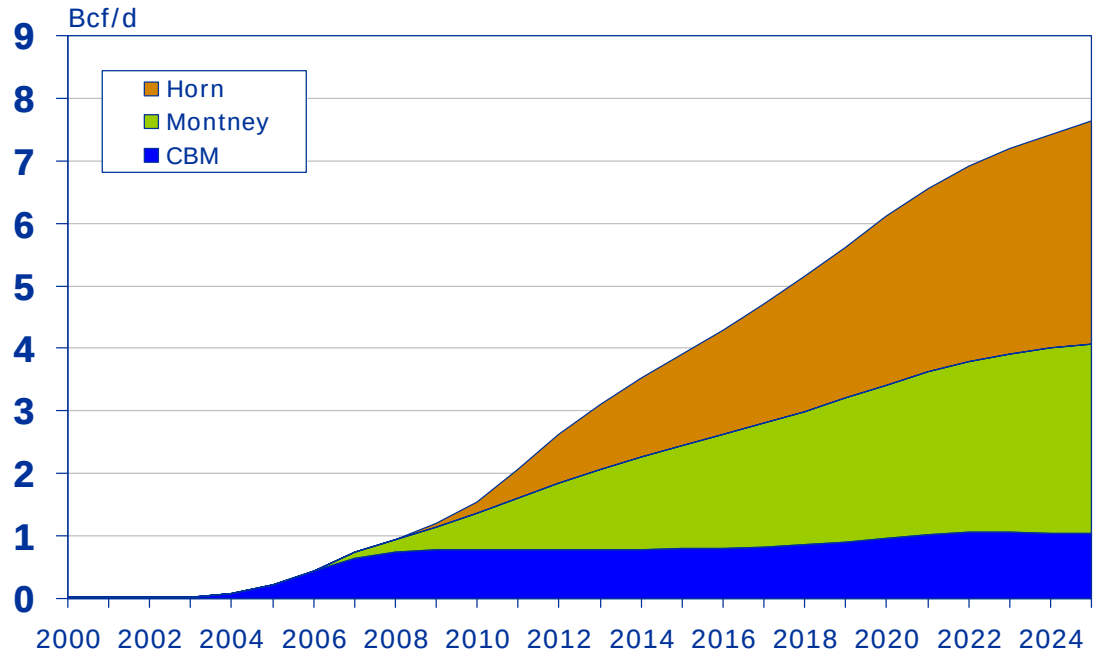
Figure 6 highlights that over the last couple of years, WCSB remaining potential reserves have increased from just over 100 TCF of conventional reserves to somewhere between 234 and 314 TCF with the emergence of unconventional supplies. Economic access to unconventional WCSB gas resources, particularly the Montney and Horn River shales and CBM resources, has vastly expanded the ultimate potential of the WCSB. The British Columbia shales in particular have captured significant industry attention as leading continental shale plays (see Figure 7).

Figure 7: Key Characteristics of some Canadian and U.S. Shales

	Barnett	Haynesville	Marcellus	Horn River	Montney
Depth (ft.)	6,500 – 9,000	10,500 – 13,500	3,000 – 8,500	6,500 – 13,000	5,000 – 10,000
Thickness of Shale (ft.)	100 – 500	200 – 300	50 – 250	300 – 600	300 – 500
Total Organic Content (%)	3.0 – 7.0	3.0 – 5.0	3.0 – 12.0	3.0 – 10.0	2.5 – 6.0
Original Gas in Place (Bcf / Section)	50 – 200	150 – 250	50 – 150	130 – 320	60 – 150
Recovery Factor (%)	20 – 40	20 – 40	20 – 40	20 – 40	20 – 40
Est. Ultimate Recovery (Bcf / Well)	1.0 – 4.0	4.5 – 8.5	2.2 – 4.1	3.0 – 9.0	2.0 – 6.0

Figure 7 shows that the Horn River and Montney shale plays compare favorably with their more publicized U.S. counterparts in terms of depth, thickness, total organic content and estimated ultimate recovery per well. The Horn River has a thickness and ultimate recovery per well that compares favorably to the other shale deposits that have been discovered to date. Although not indicated in Figure 7, the cost of development of the WCSB shales is also comparable to the U.S. counterparts. TransCanada believes that the new technologies being developed and deployed for shale gas can also be applied successfully to CBM resources in the WCSB, and as a result forecasts total unconventional WCSB production to reach approximately 4 Bcf/day by 2015 (see Figure 8).

Figure 8: WCSB Unconventional Production

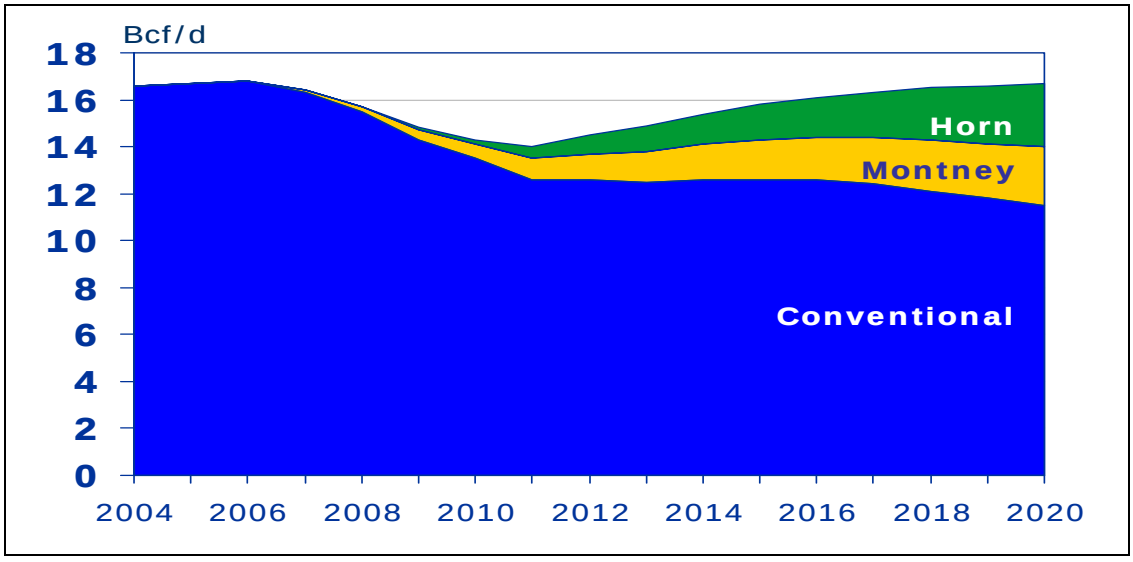


TransCanada forecasts that the Montney and Horn River shales will serve more generally as a stimulus for the renewal of total WCSB production. Specifically, TransCanada believes that the extension of pipeline infrastructure into the British Columbia shale areas and the application of new technology to existing resource plays (e.g., tight gas) will halt the recent decline in WCSB

production through 2015 (see Figure 9). Recent Alberta royalty changes could further enhance conventional drilling.[3]

TransCanada is developing several major projects that will connect significant new supplies to its Alberta System. TransCanada is developing two pipeline projects to access growing shale gas production in British Columbia. The Groundbirch project will access the Montney reserves while the Horn River project will access the Horn River reserves. TransCanada expects to place the Groundbirch pipeline in service this month and is targeting a 2012 in-service date for the Horn River project. TransCanada has received requests for additional service in the Horn River and Montney (Groundbirch) areas. These new requests are expected to result in the need for further extensions and expansions of the Alberta System. TransCanada forecasts flows from northeast British Columbia to be in excess of 5 Bcf/d by the end of the decade. Looking further ahead, TransCanada continues to actively pursue the attachment of Northern Gas to its existing system.

Figure 9: WCSB Total Production (Bcf/day)



[3] TransCanada's view that WCSB conventional production will stabilize at about 12 Bcf/day through 2015 stands in contrast to that portrayed in ICF's "2010 Natural Gas Market Review" prepared for the OEB: "Conventional gas production in Western Canada is expected to continue declining, and gas demand in for Alberta for oil sands projects is expected to continue increasing. This is expected to cause TransCanada's mainline flows to continue decreasing." [page 11].

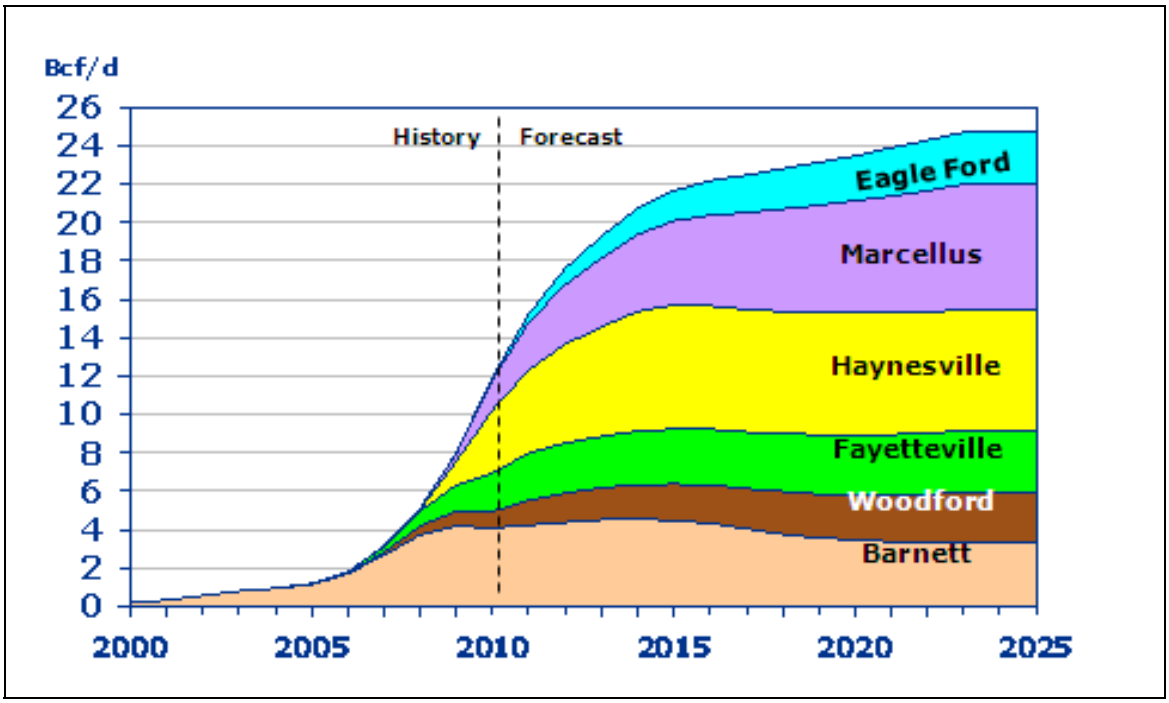
TransCanada forecasts that total WCSB production (i.e., conventional and unconventional) will be approximately 14 Bcf/day in 2011 and then rebound to a level of 15.8 Bcf/day by 2015 and 16.5 Bcf/d by 2018, a level similar to recent peak supply levels reached in 2006-2008. TransCanada's WCSB shale production forecast is supported by recent producer demand for additional pipeline capacity. TransCanada has contracts for volumes that start at approximately 200 MMcf/d in 2010 and increase to approximately 2.5 Bcf/day by 2014 from the Montney and Horn River shales. Producers are committing to firm demand charges that are underpinning TransCanada's planned pipeline expansions serving British Columbia shale production. The WCSB remains a vital and critically important supply source for Ontario markets.

TransCanada forecasts that growth in WCSB production, in conjunction with new pipeline infrastructure (e.g., Ruby and Bison), will also reverse the recent decline in TransCanada Mainline flows. Current Mainline receipts at Empress are below the level experienced twenty years ago and are less than 50% of the all time high of 7.0 Bcf/day in 1999. Over the next 10 years, TransCanada projects Empress receipts climbing to and remaining at approximately 4 Bcf/day.

U.S. Shales Outlook

Mirroring its WCSB shale gas production outlook, TransCanada forecasts strong and sustained growth in U.S. shale gas production. As shown in Figure 10, TransCanada forecasts nearly 22 Bcf/day of shale production by 2015 from just six major U.S. shale plays. In the case of the Marcellus, TransCanada forecasts production to climb from 360 MMcf/day in 2009 to 4.38 Bcf/day by 2015.

Figure 10: Forecast Production for Key U.S. Gas Shales



TransCanada forecasts the rapid expansion of U.S. shale supplies will significantly impact existing regional gas markets. In the case of the Marcellus, favorable production costs and geographic advantage will allow shale supplies to displace some proportion of higher cost conventional supplies from the U.S. Gulf Coast, Rockies and WCSB.[4] Displacement of Gulf Coast, Rockies and WCSB supply by shale gas will trigger changes in regional pipeline flows. Gas that just recently entered eastern markets via REX East may be displaced west into the Chicago market, while shale supplies will enter Ontario via reverse flows at Niagara/Chippawa[5] and, potentially, Waddington.[6] Figure 11 depicts TransCanada forecast volumes at Niagara over

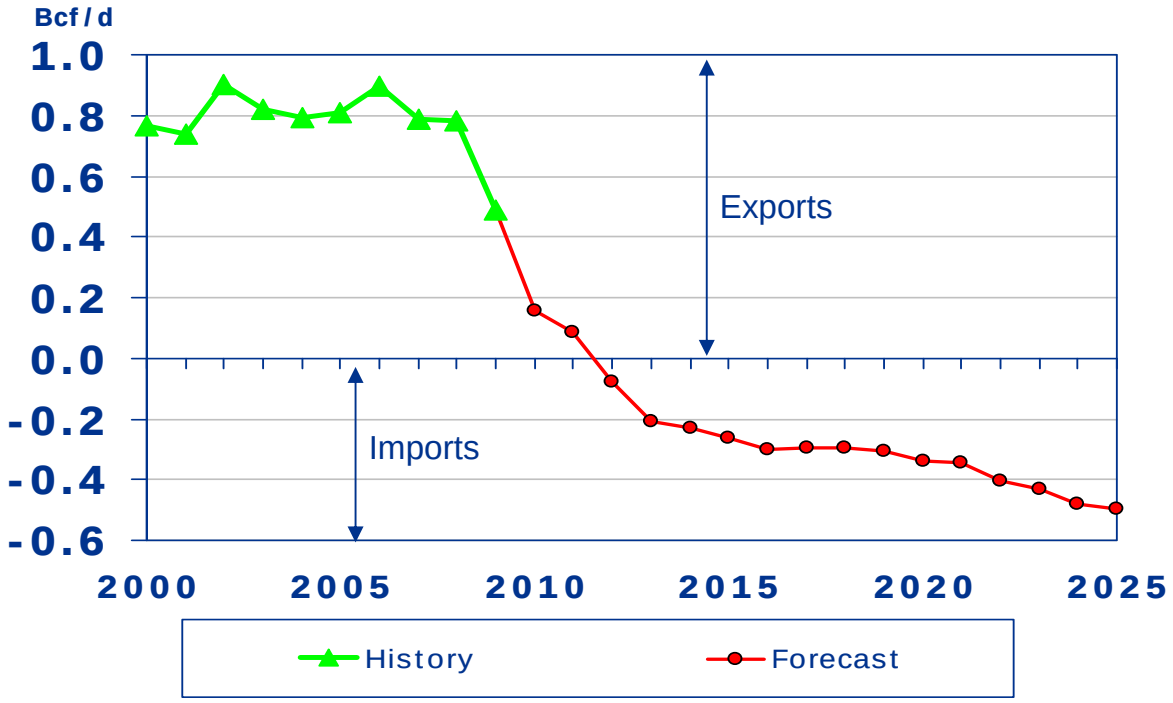
[4] TransCanada forecasts a continued need for LNG supplies to "fill the gap" between supply and demand particularly in the power generation sector, but LNG imports are projected to remain flat until post-2020.

[5] TransCanada recently completed open seasons with market commitments for approximately 1 Bcf/day of transportation service with receipt at Niagara or Chippawa. U.S. pipelines report similar strong market interest with Tennessee (150,000 Dth/day at Niagara), National Fuel (320,000 Dth/day at Niagara) and Empire (350,000 Dth/day at Chippawa) all completing recent open seasons.

[6] In February of this year, Empire Pipeline Inc. filed an application with the FERC to amend its existing Presidential Permit to export gas from Canada to the U.S. to also permit use of its cross border facilities to export gas from the U.S. to Canada. Iroquois Gas Transmission System L.P. filed a similar application with the FERC in May 2010. The FERC approved both applications on September 16, 2010.

the next few years. As shown, by 2015 TransCanada is anticipating receiving significant flows of gas into Ontario at Niagara on an annual average basis.

Figure 11: TransCanada Niagara Gas Flows



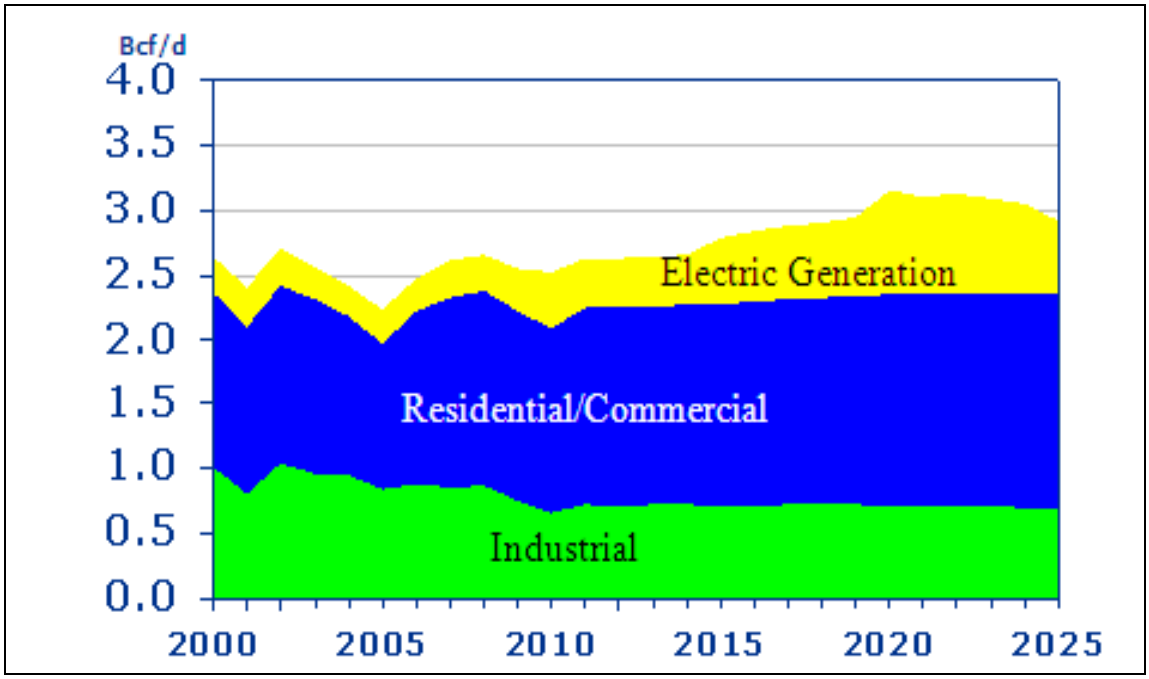
In the case of the major Midcontinent and Gulf Coast shale resources, TransCanada expects that a surge of shale supplies accessible to U.S. Midcontinent and Midwest pipelines will serve to enhance gas supply liquidity at downstream market locations, most significantly for Ontario gas consumers at Dawn. TransCanada's U.S. pipelines have been active in ensuring market access for these emerging U.S. supplies. ANR Pipeline ("ANR") has substantially expanded its interconnect capacity to Midcontinent shale production and can now access 5 Bcf/day from the various new sources that can reach Dawn through existing capacity as well as future potential expansions. Both ANR and Great Lakes have pursued expansions into Dawn, i.e., the Dawn Express and Dawn Eclipse projects, respectively. These projects were not sufficiently subscribed at the time but may be required in the future as the market continues to evolve. Beyond the major Midcontinent shale plays, Great Lakes is currently pursuing the connection of the emerging Collingwood and Utica shales in Michigan. It is difficult to predict where new

supply sources may develop or whether emerging supply will continue to grow as robustly as it has over the last three years, but TransCanada's network of pipeline facilities within upstream and downstream of Ontario is well situated to serve the needs for all Ontario consumers regardless of where supply may come from in the future.

Ontario Gas Demand Outlook

Figure 12 shows several years of Ontario actual annual demand for natural gas by end use segment and TransCanada's current long-term demand forecast.

Figure 12: Ontario Gas Demand – Actual and Projected



TransCanada forecasts total provincial demand to grow by approximately 240 MMcf/day or 9% by 2015 from 2009 levels. Ontario gas demand growth is dominated by the power generation sector which is expected to increase by 180 MMcf/day or 55% by 2015 as Ontario continues to phase out coal-fired generation. Residential and commercial demand is projected to increase 6% by 2015 as efficiency gains largely offset market expansion. Industrial demand will climb back from the significant reductions of the past two years but remain well below 2009 actual levels through 2015.

TransCanada System Flexibility

TransCanada's gas supply and demand forecast encompasses many assumptions regarding future market conditions.[7] In a market environment marked by considerable uncertainty, TransCanada's existing pipeline system offers Ontario significant gas supply optionality and operational flexibility. As shown in Figure 13, TransCanada's system extends for 3,250 km in Ontario, delivering gas to Ontario consumers at a total of 164 delivery points. TransCanada currently delivers gas to power generators and utilities throughout most of the Province and can flexibly serve new gas-fired generation at multiple locations.

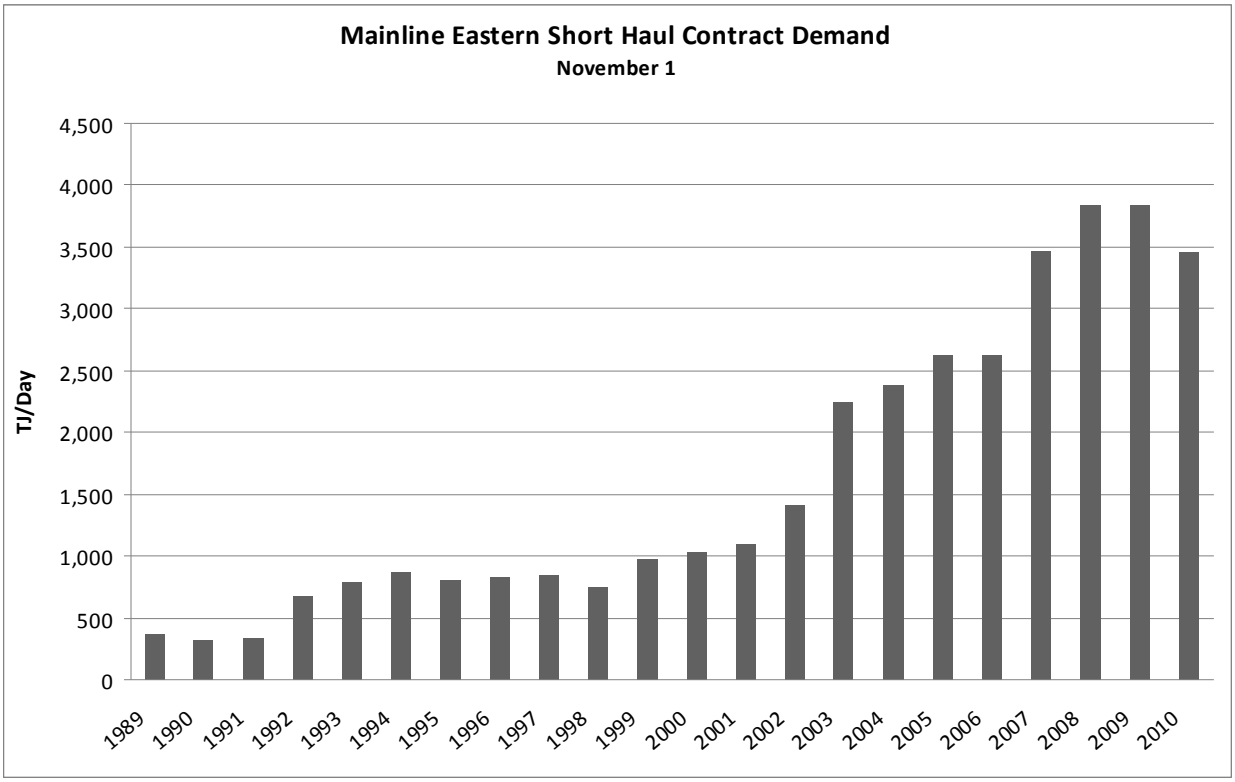
Figure 13: TransCanada Footprint in Ontario

In addition to providing an extensive physical footprint in Ontario, TransCanada's existing pipeline system has both the physical capacity and operational flexibility to offer a variety of

[7] Evidencing the uncertainty associated with certain market assumptions is the decision by Ontario in October of this year that TransCanada's 945 MW gas combined cycle Oakville Generating Station was no longer needed and the Council of Canadians' presentation at the Stakeholder Conference discussing potential regulatory challenges that could impact future development of the Marcellus and other shale gas resources.

services in response to existing and new market requirements. For example, as shown in Figure 14, TransCanada has accommodated the growing market interest in using TransCanada's integrated system for short-haul transportation service over the past ten years.

Figure 14: Ontario Short-haul Firm Transportation Service

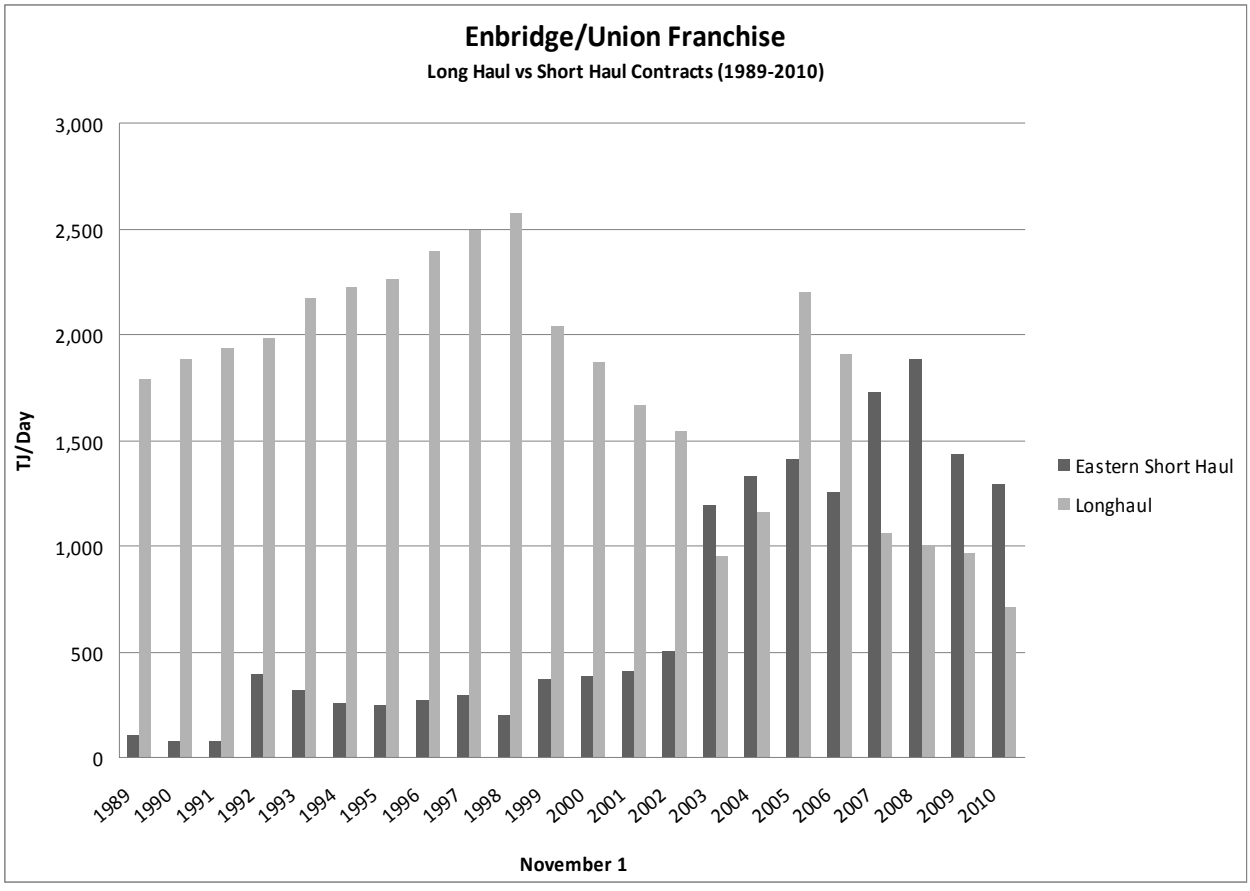


Includes: FT, FT-SN, FT-NR, FST, LTWFS, STS

Over this period the volume of short-haul contracts has grown to more than 3,500 TJ/day. Through a combination of physical expansions, innovative services and the use of exchanges, TransCanada has provided unrestricted access to and from Dawn and other locations in the most cost effective manner while minimizing capital expenditures and the resulting transportation costs for Ontario consumers. TransCanada intends to continue to provide unrestricted access to all points on its system to meet the changing needs of the market. With the ability to deliver gas to Ontario sourced from the WCSB via the Mainline, from Dawn/Union, or from Niagara/Chippawa, TransCanada's integrated system provides significant gas supply and operational flexibility.

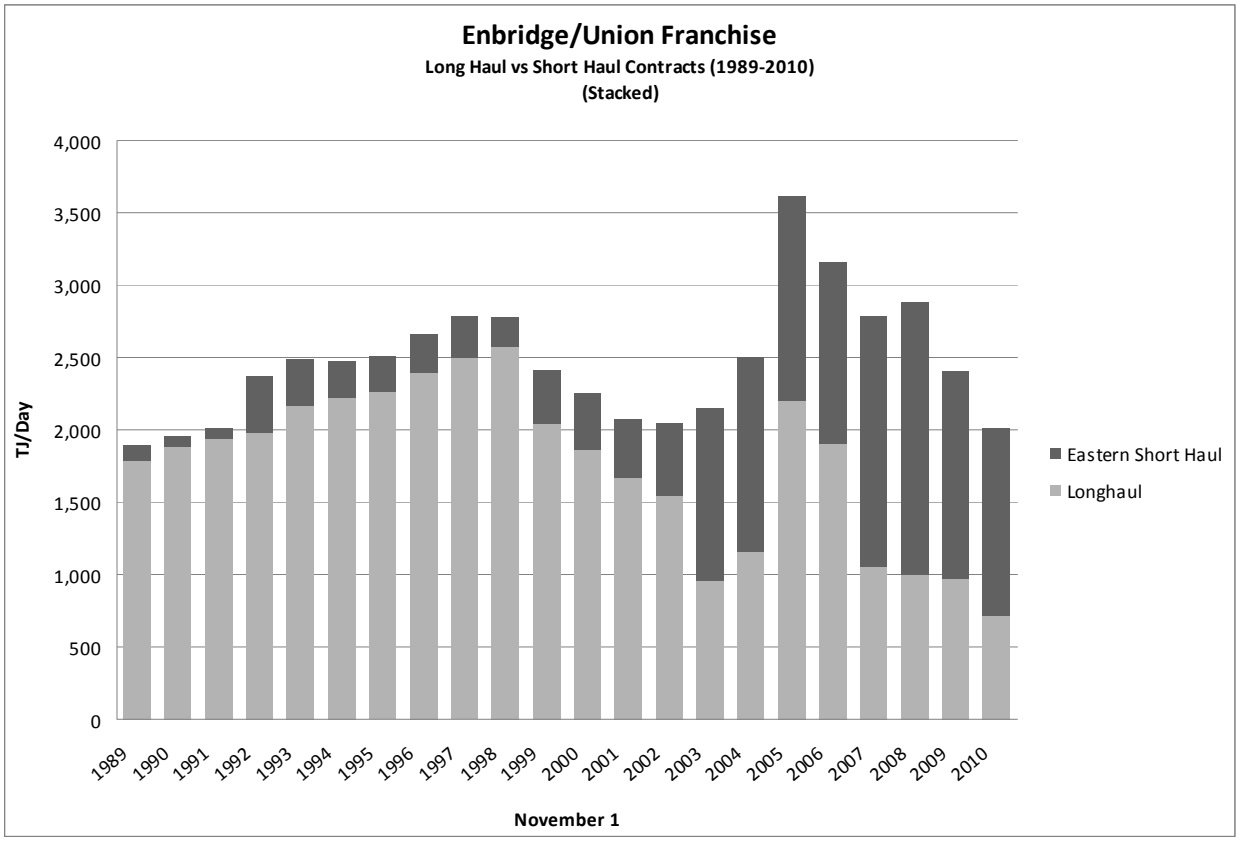
The Stakeholder Conference focused particular attention on the issue of declining TransCanada Mainline flow and rising tolls. In that session TransCanada explained that it has implemented significant cost savings over the past decade, including a reduction in annual Operation and Maintenance ("O&M") costs from $179.6 million in 2000 to $154.9 million in 2010, a nearly 14% reduction despite inflation over this period. TransCanada's total costs that need to be collected annually fell by more than 40%, from almost $3 billion/year to just $1.75 billion/year over the same period. However, cost reductions have not been sufficient to fully offset the dramatic drop in Mainline flows and billing determinants over this period. Mainline decontracting by Ontario shippers has contributed to the reduction in long-haul flows and toll increases. Figure 15 and 16 depict Enbridge's and Union's decontracting of Mainline long-haul capacity in favor of short-haul capacity since 1998.

Figure 15: Union and Enbridge Franchise Mainline Contract Demand



Includes: FT, FT-SN, FT-NR, FST, LTWFS, STS

Figure 16 : Union and Enbridge Franchise Mainline Contract Demand (Stacked)



Includes: FT, FT-SN, FT-NR, FST, LTWFS, STS

While future supply shifts and shipper decontracting will likely continue to impact Mainline utilization and tolls, TransCanada is actively seeking to enhance the competitiveness of the Mainline while continuing to provide reliable gas transmission services to the Ontario market. One such effort involves an on-going initiative to restructure the Mainline rate design, business model and services that has been underway for over a year. TransCanada is hoping to achieve an industry settlement on this initiative in the near future, but plans to submit an application to the National Energy Board by year end whether current settlement negotiations are successful or not. TransCanada's application will include proposals designed to enhance the competitiveness of Mainline service, increase toll certainty and offer new services to shippers.

III. POLICY RESPONSES TO GAS MARKET CHANGES

In a letter dated August 20, 2010 issued in this proceeding, the Board set forth four questions intended to guide discussion at the Stakeholder Conference:

1. Given recent and anticipated natural gas market changes, what are the opportunities for Ontario gas market participants?
2. What challenges to gas market participants do these changes present?
3. If new gas infrastructure under the jurisdiction of the Board is proposed, should the Board consider its potential impacts on existing pipeline facilities?
4. What further action, if any, might the Board undertake on its own or in conjunction with others?

Sections I and II of this report provide TransCanada's perspective on the first two of the Board's questions. TransCanada believes that recent and anticipated market changes present Ontario gas market participants with the opportunity to benefit from new gas supply options including rapidly expanding shale production in British Columbia, the Marcellus, the major U.S. Midcontinent areas and Eastern Canada (Utica). Ontario's supply optionality is not limited to the new shale plays, however. TransCanada continues to provide Ontario with direct access to the WCSB, where TransCanada expects total production to increase to 15.8 Bcf/day by 2015, a level similar to recent peak supply levels reached in 2006 - 2008. TransCanada's integrated system serves most Ontario demand centers and provides an economically efficient option to provide access to many of the new developing gas plays while avoiding the need to build costly new infrastructure. TransCanada notes that decontracting and supply shifts are reducing Mainline utilization and increasing tolls, but Ontario market participants have an opportunity to address these challenges and enhance the competitiveness of the Mainline through on-going confidential stakeholder discussions focused on restructuring the Mainline rate design, business model and services.

The remainder of this Section provides TransCanada's perspective on the Board's final two questions that address the Board's policy responses to recent and forecast gas market changes.

If new gas infrastructure under the jurisdiction of the Board is proposed, should the Board consider its potential impacts on existing pipeline facilities?

TransCanada strongly suggests that the impact on existing pipeline facilities and the ability of existing infrastructure to serve Ontario gas demand needs to be a primary consideration in the Board's determination of whether to approve new infrastructure. In some cases new infrastructure can have a negative impact on Ontario consumers. As explained in this submission, new competing pipelines and sources of supply have resulted in lower Mainline long-haul flows (i.e. gas flows from Alberta to Eastern Canada and the Northeast U.S.) and higher Mainline short-haul flows (i.e. gas flows from Dawn to Eastern Canada and the Northeast U.S.). Mainline tolls are set by dividing the cost of service by the total billing determinants, i.e., the product of contracted volumes and distance traveled. Thus, under cost-based toll regulation, decontracting long-haul capacity and falling throughput results in higher Mainline tolls.

Figure 17 provides an illustrative example of how falling Mainline utilization impacts tolls.

Figure 17: Toll Sensitivity to Reduced Long-haul Volumes

Path	500 TJ/d Reduction in Long Haul to CDA (toll increase in ¢/GJ)	500 TJ/d Reduction in Long Haul and 500 TJ/d Increase in Short Haul Niagara to CDA (toll increase in ¢/GJ)
Empress to Union CDA	30	28
Empress to Enbridge CDA	30	28
Empress to GMi EDA	30	28
Dawn to Enbridge CDA	3	3
Dawn to Enbridge EDA	7	7
Dawn to Union CDA	3	3
Dawn to Union EDA	6	5
Annual Revenue Impact on Ontario Customers	$79 million	$72 million

Figure 17 estimates the impact on TransCanada tolls of: (i) offloading 500 TJ/day of long-haul Mainline capacity; and (ii) converting 500 TJ/day of long-haul Mainline capacity to short-haul capacity. Offloading that volume of long-haul increases the cost of the existing infrastructure to remaining Ontario customers by $79 million each year, and converting that volume of long-haul to short-haul increases the cost by $72 million per year to Ontario consumers alone. This equates to a 30¢/GJ and 28¢/GJ, respectively, increase in Empress to CDA or EDA transport costs. This impact does not include the cost of new infrastructure, which would be an additional cost to Ontario consumers that also needs to be recovered.

In response to shifts in continental gas supply sources, TransCanada has provided short-haul services. While this has facilitated greater access to Dawn and other market locations, it has contributed to the reduction in billing determinants and higher tolls. Higher Mainline tolls, therefore, are a cost associated with the transition to new market conditions.

Ontario is in a situation where it must balance the benefits associated with increased access to competitive new gas supply choices with the transition costs associated with maintaining the pipeline infrastructure that enables such choices. TransCanada's system provides Ontario significant gas supply optionality. As discussed in the Stakeholder Conference, TransCanada believes that preserving and enhancing optionality is an appropriate policy for Ontario as it faces significant gas supply and demand uncertainty over the next decade or more. However, while it pursues its gas supply options, both existing and new, the Board should recognize and be cognizant of the transition costs resulting from this pursuit. TransCanada believes that the most economically and environmentally efficient way to facilitate access to new sources of supply such as Marcellus shale gas is through existing infrastructure[8] and that the Board should consider both the use of and the impacts on existing infrastructure as primary considerations in determining whether to approve new facilities. Doing so has several potential benefits: (i) lower tolls through mitigation of loss of billing determinants; (ii) minimize the total cost of Ontario gas infrastructure; (iii) eliminate the risk of building underutilized new facilities; and (iv) eliminate environmental costs associated with new facilities.

[8] For example, TransCanada has 1.2 Bcf/d of low cost Niagara to Kirkwall and Chippawa to Kirkwall capacity available with minimal system enhancements.

What further action, if any, might the Board undertake on its own or in conjunction with others?

In response to natural gas market uncertainty, TransCanada suggests that the Board's policy focus should encompass a range of considerations. At the Stakeholder Conference, TransCanada suggested several policy objectives, including the following:

- Maintain benefits enabled by access to a wide variety of gas supplies for Ontario consumers;
- Ensure that access to Canadian supplies is not compromised; and
- Maximize use of existing infrastructure where appropriate.

Harmonization of regulatory policy with other jurisdictions was also discussed at the Stakeholder Conference. That discussion referenced other jurisdictions that have recognized a need to discuss and address energy policy and infrastructure development issues on a regional/multi-jurisdictional basis. For example, the New England Conference of Public Utilities Commissioners, Inc. ("NECPUC") is an entity comprising the utility regulatory bodies in New England that "provides regional regulatory assistance on matters of common concern to the six New England states."[9] NECPUC provides an informal forum for state regulators to get together to discuss the impacts that their decisions have on each other. TransCanada reiterates that Ontario's decisions regarding utilization of the Mainline affect other shippers both upstream and downstream and, similarly, Ontario is affected by others' decisions.

TransCanada also suggested at the Stakeholder Conference that the Board needs to consider the allocation of the costs and benefits associated with new gas supply options. As has been pointed out by others in this proceeding, the costs and benefits resulting from access to gas supply optionality are not distributed equitably throughout Ontario. For example, Northern Ontario gas consumers are reliant on Mainline gas deliveries. Under cost of service ratemaking, these consumers face increased tolls for existing service as long-haul decontracting causes Mainline throughput to fall. Meanwhile, other consumers have the ability to avoid paying for Mainline services while enjoying the benefits associated with more competitive gas supply choices. Similarly, as explained by Association of Power Producers of Ontario in its presentation at the Stakeholder Conference, gas-fired power generators sell energy based on a Dawn price index,

[9] See: http://www.necpuc.org/

but have limited ability to recover TransCanada toll increases. Thus, when gas-fired generation sets the wholesale electricity price, all electricity consumers enjoy the benefits of Dawn gas pricing, but generators fail to recover fully their actual delivered cost of gas.

TransCanada believes the public interest is best served when regulators seek to balance the benefits of new supply options with the transition costs associated with maintaining supply optionality and service reliability across all consumers. The regulated energy sector provides numerous examples of regulators authorizing recovery of transition costs associated with market changes driven by regulatory policy. In the electric industry restructuring process of the 1980s and 1990s, regulators both in Canada and the U.S. devised mechanisms that provided utilities an opportunity to recover the embedded costs of electric generation investments that were deemed to be unrecoverable in a new competitive market environment. Likewise gas industry restructuring in the mid-1980s, included regulatory tools designed to allow pipelines recovery of above-market costs of long-term gas purchase contracts they entered into during the previous era of government-determined gas commodity prices. As in previous similar instances, the Board may need to address the allocation, collection and possible amortization of the costs of transition to the evolving gas market to ensure equitable treatment for all Ontario market participants.

TransCanada also suggests that undertaking periodic integrated resource planning ("IRP") as discussed at the Stakeholder Conference may be helpful in ensuring that gas facilities are planned, developed and utilized in the most economic fashion across the Province. TransCanada believes that a properly structured IRP approach will promote greater transparency in the gas supply portfolio and infrastructure investment decisions by Ontario's regulated utilities and facilitate the Board's timely assessment of the full impacts of these decisions. TransCanada suggests that the utilities should fully describe and justify all gas supply contracting practices and infrastructure investments in the context of IRP proceedings.

Ongoing change and market evolution in Ontario is a virtual certainty, but the nature and timing of that change is not. Possibilities span a wide spectrum including Mainline flow reversal to serve Northern Ontario, to the complete refill of the Mainline with WCSB shale supply growth and the connection of Northern Gas. As this market transformation unfolds, TransCanada

believes that its existing pipeline infrastructure remains critical to meet the future needs of Ontario consumers. TransCanada appreciates the opportunity to participate in this stage of the Board's review of natural gas developments in the Ontario market.