

Canadian Manufacturers & Exporters (“CME”)
Witness Examination Materials
(not already in the record)

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TAB 1

Attachment A
To Letter Dated August 20, 2010
Topics for Discussion at Stakeholder Conference

EB-2010-0199

Below is a list of topics for discussion at the stakeholder conference scheduled for October 7th and 8th, 2010.

Overview of the 2010 Natural Gas Market Review (“NGMR”)

An *overall objective* of this NGMR is to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. The Board intends to assess the impact of changing dynamics in North American natural gas supply markets, particularly due to increased shale gas production at Marcellus, on the Ontario energy sector. The NGMR will look at impacts over the next 3-5 years including the potential impact on prices, services and transportation infrastructure utilization.

A *specific objective* of this initiative is to assess the need, if any, for further regulatory initiatives in response to the impacts identified.

The ICF Market Report provides context for the consideration of these objectives, and Board staff has identified the following specific topics for stakeholder comment at the conference.

Questions:

1. Given the changes identified in the ICF Market Report, what might be the opportunities for Ontario gas market participants (i.e., producers, storage providers, transmitters, distributors, wholesale and retail gas marketers, gas generators, and industrial, commercial and retail users)?

For example, will new gas supply from the Marcellus shale play provide opportunities for innovative and new pipeline and storage services in Ontario? If so, what opportunities might emerge over the next 3 to 5 years and in the longer term?

2. What might be the challenges for Ontario gas market participants?

For example, the ICF Market Report identifies that “[o]ne of the principal concerns about [TransCanada Pipeline Limited]’s declining throughput is whether the resulting higher per unit cost of transportation would lead to continued decontracting of TCPL capacity...” What are the possible consequences of this? Such as:

- a. to Ontario customers in terms of adequacy and quality of service and price;
- b. to Ontario storage providers, transmitters and distributors in terms of the cost of and access to equity and debt capital; and
- c. to others?

Are there other issues and/or concerns that might pose challenges for Ontario energy sector participants?

3. In the Board’s last natural gas review, the Board identified a need to offer utilities the opportunity to apply for pre-approval of long-term supply and/or transportation contracts. On April 23, 2009, the Board issued its Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts (Board File No.: EB-2008-0280). In those guidelines, one of the Board’s requests is that applicants provide “[a]n assessment of retail competition impacts and potential impacts on existing transportation pipeline facilities in the market (in terms of Ontario customers)”.

If, as a result of new gas supply from the Marcellus, new or an expansion of Ontario natural gas pipelines under the jurisdiction of the OEB are proposed, should potential impacts on existing pipeline facilities in the market (in terms of Ontario customers) be considered? If so, why, and what are the implications and/or risks of doing so? If not, why, and what are the implications and/or risks of not doing so?

4. What further action, if any, might the Board undertake on its own or in conjunction with others? Are there areas in which there is need for alignment between the work of the Board and other regulatory agencies? If so, how might that alignment be achieved?

TAB 2



uniongas

A Spectra Energy Company

November 2, 2010

Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

RE: EB-2010-0199 - 2010 Natural Gas Market Review – Submission of Union Gas Limited

Dear Ms. Walli:

On July 13, 2010, the Ontario Energy Board (the “Board”) issued a letter indicating that an assessment of how the natural gas markets in Ontario are responding or adapting to changing market conditions, referred to as the 2010 Natural Gas Market Review (“NGMR”), would take place. The Board assigned docket number EB-2010-0199 to the review.

On August 20, 2010, the Board issued a letter stating that written comments relating to the NGMR were to be provided by November 2, 2010. Attached is the written submission of Union Gas Limited.

If you have any questions, please contact me at 519-436-5476.

Yours truly,

[original signed by]

Karen Hockin
Manager, Regulatory Initiatives

cc: Emily Kirkpatrick (Torys)
EB-2010-0199 Participants

Submission of Union Gas Limited

The North American natural gas market has recently undergone significant changes over a relatively short period of time. These changes have, and will continue to have, far-reaching implications on the Ontario natural gas market. In recent years, the natural gas market has experienced decreased reliance on Western Canadian Sedimentary Basin (“WCSB”) supplies, the emergence of new alternative supply sources and, changes in the physical flow of gas across the country and the province of Ontario. These continuing changes represent both a challenge and an opportunity for the Ontario natural gas market.

To better understand the implications of recent developments in the North American natural gas supply, the Ontario Energy Board (“the Board”) initiated the 2010 Natural Gas Market Review – EB-2010-0199 (“NGMR”) to assess how the natural gas market in Ontario is responding or adapting to changing market conditions. Through the NGMR, the Board had the specific objective of assessing the need, if any, for further regulatory initiatives in response to the changing market for natural gas.

On August 20, 2010, the Board released a report prepared for Board staff entitled *2010 Natural Gas Market Review* (the “ICF Report”), written by ICF International Inc. (“ICF”). The Report provided analysis and insight into the current state of the North American and Ontario gas market, and provided an outlook of the expected state of the Ontario gas market in the future.

On October 7-8, 2010, stakeholders participated in a Stakeholder Conference at which time views on the report, the issues in the Ontario gas market, and the appropriate regulatory response were discussed. Stakeholders were also invited to submit written comments.

The following is the written submission of Union Gas Limited (“Union”). Union’s submission focuses on what it sees as necessary to ensure that the Ontario natural gas

market remains effective and also responds to issues raised during the NGMR Stakeholder Conference by other participants.

I/ EXECUTIVE SUMMARY

The considerable changes experienced in the North American and Ontario natural gas markets represent significant opportunities for the residents of Ontario. Ontario is poised to benefit from the changing dynamics in the market through increased diversity of supply provided by alternatives to traditional WCSB supplies. Ontario continues to benefit from the liquidity of the Dawn Hub which will be further supported through the development of new supply paths into Ontario. The changing operational flows will require re-purposing parts of Union's Dawn-Trafalgar transmission system and has resulted in the potential for gas to flow into Ontario from Union's Kirkwall station for the first time. All of these developments have positive implications for the Ontario gas market.

As with any change however, there are challenges that must be addressed. Chief among these is the physical limitation of the infrastructure between Union's Parkway compression station and TransCanada Pipeline's ("TCPL") Maple station. The pipe connecting Parkway (Union) and Maple (TCPL) is currently at capacity and is a single pipeline connecting robust infrastructure at both ends. This limitation is impeding the flow of gas within the province of Ontario and restricting the services and supply options that can be offered to all parties sourcing supplies and seeking transportation away from Dawn. It also limits the options available to Union's customers in northern and eastern Ontario. Moreover, as the market options for gas supply continue to shift away from the WCSB to other locations, the impact of the Maple constraint will have greater impacts on the ability of consumers to minimize delivered gas costs and will make the expansion of the constraint between Parkway and Maple a priority.

TCPL has historically used a temporary measure that notionally transported gas westerly from Dawn, into Manitoba through the Great Lakes Transmission system and back into

Ontario through the TCPL mainline (“around the horn”). This was done by TCPL using their integrated system and diverting gas destined for Dawn to Parkway. Given the declines in WCSB gas and reduced flows on TCPL, the “notional” option is not available on all days any more. Union worked with TCPL to create a physical option where, starting November 1, 2010, gas can now physically flow “around the horn”. This stop-gap measure, however, is not a long-term solution and physical expansion to relieve the constraint between Parkway and Maple must take place. The “around the horn” strategy is inefficient in that it moves that gas in a flow pattern that is ten times the length of the most efficient method that begins from Dawn to Parkway and beyond.

As we move forward, taking steps to ensure that Ontario continues to have access to Dawn as a liquid hub will also be a key consideration. The liquidity of the Dawn Hub provides Ontario with a cost effective, stable and competitively priced source of gas supply, security of supply through access to multiple supply sources and immediate access to storage. The liquidity of the Dawn Hub also attracts many market participants, helping to facilitate competition. The Dawn Hub has a direct role in setting the price of gas in Ontario and increasingly, setting the price of electricity in Ontario. If Ontario is to have an effective gas market in the future, the liquidity of the Dawn Hub will need to be maintained and grow, if possible.

The market must be allowed to function efficiently and effectively. Participants in the market have been working together to bring new supply and the resultant benefits to Ontario and Ontario’s consumers. The market will seek to create and utilize new alternatives if existing transportation paths are not competitive with other options. The desire to increase the utilization of existing facilities should not thwart the construction of new facilities that result in a lower delivered cost of gas to Ontario consumers. If the Ontario market is not allowed to effectively develop needed transportation options, the market will move the new gas supply sources to the most economical alternative, whether it involves the Ontario gas market or not. If artificial barriers are created that slow or prevent expansions to existing infrastructure, like the constraint between Parkway and

Maple, then the market will find other markets to move the new supplies. For example, a market solution that bypasses Dawn due to infrastructure constraints or toll uncertainty will decrease liquidity at Dawn, and would be a detriment for both Ontario gas consumers and Ontario electricity consumers.

Union is also concerned about the potential impact of any TCPL framework redesign that would lead to short-haul tolls becoming uncompetitive due to the shifting of costs from TCPL long-haul tolls to short-haul tolls. As discussed at the consultation, if short-haul tolls rise significantly the future of the Dawn Hub liquidity could be diminished. It is imperative that the Board, the Ministry (“the Ministry”) and all market participants support the TCPL Mainline Competitiveness Initiative, but work to ensure that short-haul tolls remain competitive

The continued support of market development by the Board is vitally important. The expedited review and decisions on new services introduced to the market provides both price and regulatory certainty. The recent approval of the Dawn to Dawn-TCPL service and expedited issuance of the procedural order for the C1 Kirkwall to Dawn and M12-X proceeding are examples of the Board’s actions in this regard. The continued openness of the Board with respect to alternative forms of regulation, such as that approved in the Dawn Gateway proceeding, shows that Ontario is open to innovative proposals to bring access to additional storage to consumers in Ontario.

II/ KEY REQUIREMENTS FOR AN EFFECTIVE GAS MARKET IN ONTARIO

At the Stakeholder Conference Union provided its view of what is required to ensure support for continued strength of the natural gas market in Ontario. The key requirements for an effective gas market in Ontario are:

1. Maintain and grow Dawn as a liquid market hub
2. Allow the market to continue to adapt
3. Ensure appropriate infrastructure is in place-build Parkway to Maple

4. Continued regulatory support with the current processes in place

MAINTAIN AND GROW DAWN AS A LIQUID MARKET HUB

A market hub is a physical location that is supported by an extensive network of both storage and pipeline infrastructure where many natural gas buyers and sellers can easily transact. Market hubs are also characterized by a high level of competition that ensures price transparency, accurate market signals, diversity of supply options and reliable service. The Dawn Hub possesses these traits and is one of the best market hubs in North America.

Ten major pipelines have interconnections in the Dawn area providing a variety of supply options. This connectivity means that shippers can source natural gas from all major North American supply basins and transport gas downstream to markets in eastern Canada and the north eastern United States, or upstream, to markets in the mid-western United States. The Dawn Hub also features more than 260 PJs of gas storage (including Union and Tecumseh) that is capable of providing services needed by the market including the flexibility to provide natural gas during unpredictable weather patterns and electricity consumption. It is the largest underground natural gas storage area in Canada. Having this much storage in one area provides options, allowing market participants to most effectively balance their energy needs.

Having both transmission and storage infrastructure extensively connected provides reliability and choice. It also provides a common point to transact natural gas with many buyers and sellers, which in turn provides price transparency through accurate market signals. Both the physical and financial activity at the Dawn Hub continues to grow. Today, on average, over 10 PJs per day trades financially via title transfers. This represents over three times the average physical flow of gas at the Dawn Hub.

There are many points outside the Dawn Hub where transactions take place today and will likely continue to take place in the future. Gas currently trades at export/import points like Niagara/Chippawa, Waddington (a TCPL interconnect with Iroquois pipeline

near Cornwall), and also at Parkway to name a few. Although it is expected that the activity at these points will continue with the addition of the new shale plays, it is unlikely they will be major transaction points with high liquidity. This is due to the limited diverse pipeline infrastructure at these points, lack of storage geographically at the transaction point, and overall volume. Dawn remains the most liquid hub in Ontario and among the most liquid points in North America.

Benefits of Dawn as a liquid hub

Overall, a robust and liquid Dawn Hub provides several important benefits which are essential to providing cost effective gas supply to Ontario. It allows access to a cost effective, stable and competitively priced gas commodity. A liquid hub also attracts the participation of many parties which encourages competition and choice. Ontario also benefits from increased security of supply through access to multiple supply sources and immediate access to storage. These benefits are reflected in Ontario consumer's natural gas bills.

In addition to the direct benefits of Dawn liquidity to Ontario consumers' natural gas bills there are also indirect benefits to all Ontario consumers through their electricity bills. The Ontario Power Authority ("OPA") correctly linked the pricing mechanism for gas-fired generation, within the majority of gas-fired generation contracts, to the most liquid point for gas within Ontario, the Dawn Hub. The amount of time that gas-fired generation sets the price of electricity in Ontario has been steadily increasing from 15% (in the May 2008 to April 2009 period) to 23% (in the May 2009 to April 2010 period). As Ontario continues to diminish its reliance on coal-fired power generation, it is possible that this trend could continue. As a result, the liquidity of the Dawn Hub will have a direct impact on all Ontario energy consumers' bills, putting greater emphasis on the need for an effective gas market within Ontario.

Additionally the liquidity and ability to source gas at Dawn can also play an important role in the support of intermittent renewable generation resources such as wind and solar.

A liquid and well connected physical source of gas available on short notice is critical to “firming” intermittent renewable generation so to maintain the reliability and integrity of the power grid.

Preservation of a Liquid Market Hub

An effective gas market in Ontario can only be maintained as long as a liquid market hub is supported and encouraged by Ontario and the Board. As the WCSB declines, new sources of supply will have to be accessed to maintain and grow liquidity at Dawn. The market must be free to access those new supply basins. Infrastructure will have to be in place to allow effective movement of gas to and from the market hub, and the regulatory environment will have to be supportive of market developments.

Competition and market forces are critically important to creating and supporting effective gas markets in Ontario. Within the Natural Gas and Electricity Interface Review (NGEIR), the Board recognized the importance of liquidity at Dawn and endorsed the positive affect that competition has on the gas market.

“The Board concludes that it is in the public interest to maintain and enhance the depth and liquidity of the market at the Dawn Hub as a means of facilitating competition. One way to do this is to encourage the development of innovative services and to ensure access to those services. Choice is the bedrock of competition.” (EB-2005-0551, page 45)

As a result of the NGEIR proceeding that recognized a competitive and effective market exists for storage services, and as a result of the subsequent Board actions, market participants have invested in over 10 BCF of new storage infrastructure over the last three years. This validates that the competitive markets have worked and have enhanced the liquidity of Dawn and the value of Dawn to Ontario. Ontario is fortunate to have the Dawn Hub within its market area – other jurisdictions are trying to create a similar hub.

ALLOW THE MARKET TO WORK AND RESPOND TO CHANGING DYNAMICS

The ICF Report suggests the emergence of new supply basins will continue to impact the flow of gas into, out of, and within Ontario. Specifically, the ICF Report suggests that flows from the WCSB into Ontario will continue to decline and other alternative supplies will fill the void. This view was generally endorsed by the participants of the NGMR Conference.

Union generally agrees with the observations and conclusions drawn from the ICF report. However, Union believes the impacts of new alternative sources of supply are already being felt, and that the impacts will be of greater magnitude and will occur sooner than outlined in the report.

It is essential that the Ontario market gains access to as many new supply sources (conventional or unconventional) as possible to ensure that Ontario consumers are provided with a diverse, secure and economical natural gas supply. If there are barriers added to Ontario's access to new sources of supply, the market will work to provide a solution and take those supplies to other market areas.

FERC recognizes the importance of a natural gas market that is open and competitive. Empire Pipelines recently applied to FERC for a presidential permit to export natural gas from New York State to Ontario (as part of Marcellus supplies being brought to Ontario). In the FERC approval they stated:

"We find that granting the applicant's request for authority to use its existing border facilities for the export, as well as the import, of natural gas will promote national economic policy by reducing barriers to foreign trade and stimulating the flow of goods and services between the United States and Canada, both of which are signatories to the North American Free Trade Agreement". Taken from FERC docket CP10-136-000 issued Sept 16, 2010

The market has responded to the changing supply dynamics in the past and continues to do so moving forward. Examples of market responses include the Dawn Gateway project, open seasons inside and outside of Ontario to provide a path for Marcellus gas to reach the Dawn Hub, new service offerings, and new supply options for northern Ontario. These are described in the following paragraphs.

Dawn Gateway Michigan to Dawn Path

To take advantage of the development of the Rockies Express Pipeline (a new pipeline that brings new supply from the U.S. Rockies basin to markets in the mid west U.S., Northeast U.S. and the Great Lakes region in general), and the need for greater access to emerging shale supply in the Gulf area, and increased access to Michigan storage, multiple pipeline projects emerged to transport gas supplies from Michigan to Dawn. New projects were proposed by TCPL (Dawn Eclipse and Dawn Express), Enbridge (Niagara Gas Link Pipeline), Vector (an expansion of their existing system), and Spectra/DTE – Dawn Gateway.

Market participants have chosen to support Dawn Gateway as the preferred economic and routing option. The Dawn Gateway Pipeline will link DTE's Belle River Mills and Dawn. The Dawn Gateway project was approved by the Board in March of 2010 and is currently on hold waiting for the market dynamics to provide additional support. When in service this pipeline will further add to Dawn liquidity by providing linkages as noted above. Dawn Gateway will benefit the Ontario natural gas market by adding additional supply to Dawn at a time of declining WCSB deliveries to Ontario, and enhancing market liquidity at the Dawn Hub.

The diversity of these projects demonstrates the significant market competition that is addressing the market need for transportation of gas supplies to Dawn. The market has acted in an efficient manner when it comes to choosing the projects that are ultimately successful. Projects hold open seasons to gauge interest and in some cases commit

customers to a project. Competitive projects have come to market and the market response has dictated which will move forward.

Marcellus Shale

In regard to the Marcellus shale, a number of open seasons on both the Canadian and U.S. sides of the border have been supported by shippers. These will jointly create a path between the Marcellus producing region and Dawn for gas to flow back to Dawn as early as the fall of 2011, subject to regulatory approvals, including the Board. As outlined in presentations by both Enbridge and Union, there have been binding open seasons on three U.S. pipelines for transporting gas from the Marcellus producing region to the U.S./Canadian border at Niagara and Chippawa. The following volumes totaling 820,000 Dth/d of capacity or approximately 0.82 Bcf/d have been awarded and contracted on three U.S. pipelines:

- Tennessee Gas Pipeline 150,000 Dth/day to Niagara (2012)
- Empire Pipeline 350,000 Dth/day to Chippawa (2011)
- National Fuel Gas (NFG) 320,000 Dth/day to Niagara (2012)

In addition to the open seasons on U.S. pipeline projects south of the border, Union and TCPL have held open seasons on their transmission systems to allow gas arriving at Niagara and Chippawa to move west into Ontario and to Dawn. TCPL confirmed that their open season saw over 1 Bcf/d of interest and Union confirmed that they had approximately 1.2 Bcf/d of interest in their non-binding open season. In discussions with market participants, it is evident that gas from the Marcellus region will be transported to the liquid trading point of Dawn and much sooner than identified in the ICF report. It is important to note that these parties worked together to coordinate the timing of these open seasons and to reduce confusion in the marketplace.

New Services

To facilitate the movement of Marcellus gas back to Dawn, Union has recently applied to the Board for approval of a firm C1 transportation service that will allow gas to move from Kirkwall to Dawn. Union has also applied for approval of a multi-directional M12 transportation service (“M12-X”) that will allow shippers to move gas between any two of Dawn, Kirkwall and Parkway, in any direction on any day. These services will enhance access to Marcellus supplies and provide flexibility to move the gas into the Dawn Hub, where it can be easily transacted. This re-purposing of the Dawn to Parkway and Dawn to Kirkwall system is necessary to meet the needs of the changing marketplace.

Union also created a new Dawn to Dawn-TCPL service to facilitate the changing market by allowing westerly flow from Dawn to Great Lakes Gas Transmission. The Dawn to Dawn TCPL service is discussed in more detail later in this submission.

New Supply Options

i) North

In northern Ontario the current system portfolio is exclusively made up of WCSB gas delivered via the TCPL mainline. As the TCPL tolls have increased, the supply path from the WCSB to some parts of the North has become more expensive relative to other supply basins. In response, Union is actively working to identify and source other, more economical, supply paths for its northern customers (especially those in the TCPL Northern Delivery Area and the Eastern Delivery Area).

Union will be enhancing the Northern portfolio by adding new supply options. This will be accomplished through Union’s participation in the TCPL open season between Parkway and the TCPL Northern Delivery Area, and Parkway and the TCPL Eastern Delivery Area. The capacity Union is currently seeking will add approximately 20% diversity to the existing Union North system portfolio. Union would like to continue to increase diversity of supply for Northern customers, but this can only be fully

accomplished if new services and competitive short-haul rates are available on TCPL between Parkway and the respective delivery areas, which all must travel through Maple. Thus the expansion of Parkway to Maple is also key to facilitate providing new supplies (and thus potential lower rates) to the North.

Although northern customers have been referred to as being “captive” to WCSB supply basins and TCPL long-haul, the changing supply dynamics have resulted in the market working to develop alternative supply paths into northern Ontario.

In addition to Union’s efforts to diversify the North system portfolio, Union notes that a significant portion of the direct purchase customers in the North also have supply options due to the self serve characteristics of the T-service option. Over 80% of all direct purchase volumes (almost 70% of total throughput volumes) for the north customers operate under the T-Service arrangement. These customers choose and control from where they source their supply. Customers can either buy volumes delivered into the zone or buy from a liquid point like Dawn and arrange for transportation to the zone. These customers are constrained only by their own contract arrangements (TCPL capacity that they may have sourced themselves or had assigned from Union) and the unavailability of TCPL short-haul capacity out of Parkway.

ii) South

For Union’s South system portfolio, Union also recently entered the TCPL open season for capacity from Niagara to the interconnect with the Union system at Kirkwall. This will allow Union the ability to add Marcellus gas to the South system gas portfolio.

By entering into open seasons to establish new paths (TCPL Niagara to Kirkwall), building infrastructure to allow for changes in gas flows (Dawn to Dawn TCPL and reversing Kirkwall), working with TCPL on new or expanded services from Parkway and creating new services including M12-X, C1 Kirkwall to Dawn, and Dawn to Dawn TCPL, Union is creating the necessary tools to bring these opportunities to reality.

ENSURE APPROPRIATE INFRASTRUCTURE IS IN PLACE – THE NEED TO BUILD

PARKWAY TO MAPLE

It is also essential to enhance the liquidity of the Dawn Hub by ensuring that the required infrastructure is in place to move gas effectively from the emerging supply basins to Dawn. The Dawn Hub will only be successful in attracting these new supplies and providing benefits to all customers in Ontario if there are economical supply and take-away paths available for suppliers to allow them to move that gas to the markets that require it.

The Parkway to Maple limitation is impeding the flow of gas within the province of Ontario and restricting the services and supply options that can be offered to all parties sourcing supplies and seeking transportation away from Dawn. This includes limiting the options available to Union's customers in northern and eastern Ontario. Customers in Union's North and Eastern areas can be provided with a more diverse gas supply only if the current capacity constraint between Parkway and Maple is relieved. The Enbridge franchise downstream of Parkway and customers in the U.S. Northeast cannot transport their gas from and through Dawn to satisfy their incremental demands or their changing supply paths unless the Parkway to Maple capacity constraint is relieved. With the change in gas flows coming from the Marcellus Shale, there is no other way to serve those customers in a cost-effective manner.

Other entities, such as TCPL and Enbridge, could also benefit from a Parkway to Maple expansion. TCPL could benefit from the growth in demand for service from Parkway through Maple to eastern markets. Enbridge and its customers could benefit from greater supply security and diversity.

TCPL and "Around the Horn"

TCPL has historically relied on the diversity of its integrated system to meet its contractual obligations. The TCPL Pipelines system splits at Emerson Manitoba, with part of the volume flowing on the TCPL Northern Ontario mainline to Parkway (and

points east) and part of the volumes going south of the lakes on the Great Lakes system to Dawn. For example, beginning in 2003, TCPL sold capacity from Dawn to Parkway and points east using the integrated nature of their system. They were able to do this by shifting flows on their system that were otherwise destined to be delivered to Dawn (through the Great Lakes/TCPL system) to markets in Central Ontario and further east using TCPL's Northern Ontario Line. Provided the pipeline is flowing large volumes, this shift of volumes could "notionally" create flow from Dawn to Parkway (or other points east).

However, as exports from Empress on the mainline have decreased, and the resulting deliveries to Dawn have decreased, TCPL can no longer rely on the diversity of their system to meet all of their short-haul obligations from Dawn through the shifting of flows. TCPL required a new transportation service to physically export gas from Dawn backwards on the Great Lakes system. The gas will physically move from Dawn to Emerson Manitoba (on the Great Lakes system) and from Emerson, this gas will be transported on the TCPL Northern Ontario system to Parkway, or points farther east. Ultimately, the gas that was sourced at Dawn will travel over 3,800 km around the Great Lakes to be delivered to Parkway or further to points east. With an expansion of the TCPL facilities between Parkway and Maple, the same gas supplies could travel just 220 km directly from Dawn to Parkway on the Union system. An expansion of Parkway to Maple provides a solution to transporting gas "around the horn".

The Urgent Need to Expand Parkway to Maple

As discussed, with the changing dynamics of gas supply options in Ontario, parties will increasingly look to new sources of gas supplies and new supply at the Dawn Hub. As such, for Ontario customers to benefit, transportation capacity connecting the hub to all Ontario markets will be critical.

The one part of the Ontario infrastructure which is vulnerable is the pipe between Parkway and Maple. Although Union has three large diameter pipelines flowing into

Parkway, and TCPL has two large diameter pipelines between North Bay and Maple, and two additional pipelines between Maple and eastern Ontario, there is only one pipeline between Parkway and Maple. This single pipeline was built in 1958 and is at full capacity which creates a constraint for these new incremental supply sources to flow to markets east from Parkway.

Having a single line connecting Parkway to Maple also creates a security of supply issue as it is a critical supply link to Enbridge, a significant amount of new Ontario power generation, Union North and other markets east. Expanding and reinforcing this system will result in enhanced security of supply, expanded access to new sources of supply for many customers and enhanced liquidity of the Dawn hub, all of which will benefit the entire Ontario market.

TCPL acknowledged during the Stakeholder Conference that, although they have been able to facilitate the provision of gas to Parkway using their existing infrastructure, physical capacity would be required in the future. Union supports this position and submits that the required physical capacity should come in the form of a Parkway to Maple expansion as soon as possible.

Increased transportation requirements from Parkway to Maple may even be required today. Union conducted an open season in 2009 and received over 300,000 GJ/d of interest in new Dawn to Parkway capacity, starting in November 2011. However, as a result of a reverse open season, and the non-renewal of TCPL Dawn to Kirkwall contracts Union had sufficient existing capacity and did not need to expand the transportation facilities between Dawn and Parkway. In conjunction with the new incremental Dawn to Parkway contracts on Union, it is expected that TCPL would have also executed contracts with a Parkway receipt point and an obligation to deliver volume to downstream markets with a similar commencement date. Without an expansion of the Parkway to Maple facilities, Union is uncertain how these contract demands will be satisfied, as capacity was not available from Parkway to downstream points.

TCPL indicated in earlier open seasons that capacity is not available with a receipt point of Parkway or Dawn. The open season document of August 29, 2009 indicated the following under System Segment Capacity:

“No short-haul will be available at this time from the Dawn Area or Parkway. This includes receipts points such as SS. Marie, St. Clair, Dawn, Kirkwall, Niagara, Chippawa and Parkway”.

In addition to the uncertainty of serving transportation demands from Parkway commencing November 1, 2011, TCPL has held an open season (in which Union participated) during the summer of 2010 that included Parkway as a receipt point. Specifics have not yet been made public, however the need to physically build is clear.

The existing single 36” lateral between Parkway and Maple is the backbone of gas moving from the liquid market hub of Dawn and from new supply sources upstream of Dawn to the market east and north of Parkway. It is currently a roadblock to expanding the benefits of Dawn to incremental Ontario market participants and needs to be addressed either by TCPL or other market participants.

CONTINUED REGULATORY SUPPORT REQUIRED

Consideration of Alternate Forms of Regulation/Timely Approvals

Union encourages the Board to continue the timely approval of services in order to allow the market to respond to the changing market dynamics. The continued support of alternate forms of regulation, where appropriate, helps to facilitate innovation and efficiency and helps to strengthen the competitiveness of the Ontario gas market.

Early this year, the Board approved a National Energy Board (“NEB”) Group 2 style regulatory framework for the Dawn Gateway Pipeline. The Board provided an expeditious approval of this project and demonstrated its willingness to consider alternative forms of regulation for this pipeline that had multiple competitors. The approval of the Dawn Gateway project is important to support Dawn liquidity. In addition, the Board was also very timely with its approval of the Dawn to Dawn TCPL

rate during the summer of 2010. Union appreciates the flexibility that the Board has demonstrated. The market also has a favourable view of the timely conclusion of regulatory proceedings since this provides regulatory certainty for new projects and reduces the perceived project risk.

As indicated throughout this submission, it is important that market forces be allowed to work. The market is experiencing unprecedented change, and regulation of assets and policies needs to accommodate these changes. Union encourages the Board to continue to look for ways to provide flexibility in regulation and oversight, to continue to provide timely decisions to regulatory applications and to continue to regulate only what needs to be regulated. These actions will provide market confidence and demonstrate to market participants that Ontario and Dawn are open for business.

In summary, the Board should continue its current practices. The Board has followed its mandate and has the proper level of authority to gauge the necessary impacts on the markets it governs.

Support of Ontario's Competitiveness from the Board and the Ministry

The pricing of transportation services is an important factor in the success of attracting new supplies to Ontario. While the Board has a role in the pricing of transportation services for infrastructure that is wholly within the province of Ontario, TCPL is regulated by the NEB and the pricing of its transportation services also has a significant impact on the cost of transportation and the impacts the success of attracting new supplies to Ontario. As indicated by Union on slide 23 of its stakeholder presentation, transportation of WCSB gas supplies from Empress to Ontario using TCPL long-haul transportation contracts is the least competitive option to land gas supplies for Union's South customers. While long-haul transportation is not a competitive option, TCPL's short-haul transportation services (primarily within Ontario) remain robust and actively contracted.

TCPL is currently working with their shipper group to look for creative ways to address the impacts of declining throughput on the mainline. Union is supportive of this initiative, however wants to ensure that short-haul tolls remain competitive in the market place. Any move that will unduly add costs to these short-haul tolls will make the TCPL short-haul options uneconomic, which will lead to short-haul de-contracting, which will put additional pressure on TCPL tolls. The result may be that emerging supplies will be attracted elsewhere to more cost-effective markets where they can better compete. If TCPL experiences significant decontracting of its easterly short-haul capacity or if the new U.S. sources of supply find alternative markets, the liquidity of Dawn Hub and hence the Ontario market, will be diminished. With this in mind, it is imperative that the Board and the the Ministry work to ensure that cost allocation principles are followed and that no undue costs are allocated to TCPL's short-haul services, which could have negative impacts on all Ontario residents.

III. UNION'S RESPONSE TO THE SUBMISSIONS BY OTHERS

Union will respond to the following issues that were raised by other parties during their presentations:

1. TCPL's use of the "around the horn" solution to serve markets east and north of Parkway and the critical need to expand Parkway to Maple;
2. Consideration of impacts on TCPL or other jurisdictions when new infrastructure proposals are put forth;
3. The need to review the guidelines for new gas transmission projects;
4. The impact on the Parkway obligation of these changing supply dynamics; and
5. The need for incremental regulatory requirements in regard to the gas supply and resource planning actions of the LDC's.

**TCPL'S AROUND THE HORN SOLUTION AND WHETHER A PARKWAY TO MAPLE
EXPANSION IS REQUIRED**

As indicated above, it is Union's view that there is an urgent need to expand capacity between Parkway and Maple. The path between Parkway and Maple is a critical link between the Dawn Hub and markets east and north of Parkway.

As well, expanding the Parkway to Maple path is a solution to volumes currently flowing "around the horn". Union acknowledges that TCPL has traditionally been able to manage any constraints between Parkway and Maple through the use of their integrated system. TCPL's use of the "around the horn" solution, described in detail earlier, is an example of how their integrated system has been used to meet their contractual obligations east of Parkway. However, it is Union's view, given the decline in the WCSB, TCPL cannot continue to rely on its integrated system, and that a physical expansion of the path between Parkway and Maple is required.

Although TCPL would not acknowledge that the capacity between Parkway and Maple is currently constrained (TR. 1, p. 72, lines 19-22), TCPL did acknowledge that based on the recent open season and past open seasons, incremental capacity is required from Dawn to market or from Parkway to market. (TR. 1, p. 75, lines 25-28, p. 76, lines 1-20) Union believes that the required physical capacity should come in the form of a Parkway to Maple expansion to gain the benefits as identified earlier and to meet the needs of the various open seasons where participants have increasing needs at Parkway.

CONSIDERATION OF IMPACTS ON TCPL OF NEW INFRASTRUCTURE PROPOSALS

TCPL and others suggested that as part of the Board's mandate to approve gas transmission infrastructure expansion in Ontario, the Board should consider the impacts on other transmission pipelines in other jurisdictions. Specifically, TCPL requested that the Board consider the impact on its tolls and contracts when considering approval of facilities in Ontario. It is Union's view that the current process relating to approving facilities is sufficient. Union does not support any additional regulatory requirements or

process for the approval of facilities projects than those that currently exist. Further, Union is not aware of any other jurisdiction where the regulator considers the impact of new facilities expansions on existing facilities outside of their jurisdiction. The desire to increase the utilization of existing TCPL facilities in order to reduce the impact on TCPL tolls should not be used to impede the market from acquiring gas supplies at lower costs. To do so would have the effect of increasing gas costs for Ontario consumers compared to the cost of the alternative source of supply.

As part of a facilities application for new transmission facilities, Union must file comprehensive evidence with the Board in support of its application. This evidence includes a summary of the project, a demonstration of market need, an outline of project costs and economics, the construction practices and schedule, environmental assessments and land matters. Before making an application to expand transmission facilities Union undertakes a thorough analysis of alternatives to the proposed facilities. Further, it is only after Union has proven that the market supports the expansion and secured long term transportation contracts that Union moves forward with an expansion proposal.

During the analysis of the requirement for new facilities, however, Union does not consider how parties may adjust their transportation contracts on other pipelines as a result of new contracts with Union. The demand for new facilities can be attributable to several factors including access to a new supply basin, increased natural gas demand for the contracting party, and the desire to reduce the total natural gas costs for the contracting party. Each individual market participant is evaluating the best option for their customers. Union is not able to reliably determine what, if any changes a party contracting for service on the new facilities will make to their natural gas portfolio in the future. In addition, Union cannot reliably anticipate how changes to the contracts will affect upstream and downstream pipelines. Accordingly, Union is not in a position to produce evidence on the impacts of its expansion projects on TCPL or any other pipeline. Existing pipelines, including TCPL, have the right to intervene in Union's facilities proceedings. As such they have the ability to submit interrogatories, cross-examine

Union witnesses, file evidence and argue their position. This ability exists today. In making their determination as to whether or not a facility is in the public interest or not, the Board will consider all the evidence, both by the applicant and by interveners. The onus is on the existing pipeline to bring forward any evidence that it deems relevant to the determination of whether or not a new pipeline facility should proceed.

REVIEW OF GUIDELINES FOR NEW GAS TRANSMISSION PROJECTS

Mr. Rosenkranz, on behalf of ratepayers, recommended that the Board review the guidelines for new transmission projects to ensure that in-franchise customers do not subsidize facilities expansions for ex-franchise services or take on the risk for underutilized facilities. To achieve this, Mr. Rosenkranz proposed the following:

- limit the cost recovery period to the term of the expansion shippers contracts;
- incremental pricing where rolled in rates increase the costs to existing customers;
- and
- make utility shareholders responsible for the cost of unsold capacity.

Mr. Rosenkranz bases these recommendations on three assertions that he believes will necessarily lead to higher costs for natural gas consumers. First, Mr. Rosenkranz asserts that Ontario consumers will pay higher distribution rates if the incremental cost of expansion exceeds the existing Dawn to Parkway transportation rate. Although perhaps intuitive, the assumption that costs to in-franchise ratepayers will increase is simplistic and fails to take into account other changes in revenue requirement, such as depreciation, that will inevitably put downward pressure on rates. To understand the impact on both in-franchise and ex-franchise rates requires undertaking detailed analysis that Mr. Rosenkranz noted he was not required to perform (TR. 1, p. 174, lines 19-21).

Second, Mr. Rosenkranz states that because of uncertainty about future gas flows, there is increased risk that Union's existing transportation assets will go unutilized and new facilities will be stranded. As a result, costs to Ontario customers will rise. In support of

his position, Mr. Rosenkranz provides a quote from Union's 2009 annual report where Union stated that:

"Further, there is risk of continued contraction in the storage and transportation customer base as a result of changes and restructuring within the storage and transportation market"

This statement has been misrepresented by Mr. Rosenkranz. Nowhere in Union's annual report did Union refer to or suggest that it was a contraction in the actual market – only a contraction in the number of market participants. The quote is from the section entitled "Market Risk" and was intended to address the potential risk if there are fewer buyers and sellers. Further, the way to mitigate the risk is to grow the Dawn Hub through the removal of the Parkway to Maple constraint.

Third, Mr. Rosenkranz states that utilities may be incented to over-build transmission facilities to the benefit of their own transmission and unregulated storage business or an affiliate. Further, Mr. Rosenkranz states that as long as transmission costs are included in utility rates, utility shareholders will enjoy the benefits, but assume none of the risks of expanding transmission capacity. Mr. Rosenkranz's statements are without merit. Growth in Union's unregulated storage capacity has a minimal impact on the growth in Union's Dawn-Trafalgar transmission capacity. For example, for each 1 PJ of additional storage space that is added, an average of 12,000 GJ/d (or 1.2% of that space) requires transportation capacity. While market participants have added 10 PJ of new storage at Dawn since the conclusion of the NGEIR proceeding, at best, this supports only 120,000 GJ/d of new transportation capacity, which is approximately 10% of the total 1.2 PJ/d of new capacity that has been added to the Dawn to Parkway system since 2006. The major driver of growth in the Dawn-Trafalgar transmission system is the end-use demands of customers, not storage capacity. The fact that Dawn is an important and highly liquid trading hub with interconnections to various sources of supply means that customers want to transact at Dawn and therefore require Dawn-Trafalgar capacity to move their gas to market. Further, as indicated above any facilities application is supported with extensive evidence including a demonstration of market need. The Board also requires applicants to

conduct a reverse open season prior to an expansion, even though valid contracts are in place. The Board has already developed ways to mitigate the public interest concern of over-building. Accordingly, there is no support for the speculative assertions put forth by Mr. Rosenkranz that Union will build beyond that required by the market.

With respect to tolling of new facilities, Mr. Rosenkranz, in his written submission, seems to advocate that in cases where new transmission facilities to serve ex-franchise demands result in increases to in-franchise rates, utilities should be required to use incremental tolling. In support of that position, Mr. Rosenkranz cites Union's recent approval of the Dawn-Dawn TCPL service where the costs of the facilities are recovered over the 5 year term of the contract in recognition of both the temporary nature of the service, and the fact that the entire capacity was contracted by a single shipper – TCPL. Based on this approval, Mr. Rosenkranz believes that the same approach should be taken to other services that provide services to exfranchise customers.

Union disagrees for several reasons. First, the Dawn – Dawn TCPL service is designed to meet a specific need for a specific customer. If it was anticipated that the service would be used long term, and if there were contractual commitments consistent with a requirement for the service on a long term basis, and if multiple shippers had been interested in the service, Union's rate design would have been more traditional. It is inappropriate to suggest that the approach to the rate design for Dawn – Dawn TCPL should also be used for long term transmission expansions.

The rate impact on existing shippers, in-franchise or ex-franchise, is only one of many considerations that the Board must take into account when considering whether or not a transmission facility should be approved. Further, the question the Board must address, when approving a transmission facility is not “do the proposed facilities result in rate increase?” but rather “do the proposed facilities result in rate increases that are undue relative the other benefits of the project?”. In fact, the Board has approved on many occasions expansions to the Dawn-Trafalgar transmission system in spite of increases to

in-franchise rates. Mr. Rosenkranz, himself, agreed during the Stakeholder Conference that, even at the Federal Energy Regulatory Commission (“FERC”), rate impacts are only one consideration when determining whether or not a transmission facility should be approved under “rolled-in rates. (TR. 1, p. 157, lines 17-28 and p. 158, lines 1-10). FERC policy clearly identifies “system wide benefits” as a rationale for rolled-in rate treatment.¹

Finally, Mr. Rosenkranz suggests that utility shareholders should be “at risk” for the costs associated with expansions to serve ex-franchise markets to ensure that utilities do not recover costs of underutilized capacity from in-franchise customers. Mr. Rosenkranz also states that the capital and operating costs associated with these transmission facilities should be tracked separately in the same way that competitive storage facilities are tracked. As an “at risk” pipeline the rates charged by the utility would necessarily need to include a return commensurate with that risk. In addition, unlike they do today, any benefits associated with the “at risk” facility’s transportation optimization would flow 100% to the utility shareholder. In effect, Mr. Rosenkranz is asking the Board to view ex-franchise transmission facilities as competitive and forebear from traditional rate regulation without any evidence that the transportation market is sufficiently competitive to protect the public interest.

Further, it is important for the Board to note, of the gas transported on Union’s Dawn-Trafalgar transmission system, approximately 70% is used to serve Ontario customer needs. Any mandatory move to incremental tolling could be detrimental to Ontario customers including Enbridge distribution customers and power generators. Further, the tolling methodology could drive decisions of customers where to locate in Ontario.

¹ *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999); Order Clarifying Statement of Policy, 90 FERC ¶ 61,128 (2000); Order Further Clarifying Statement of Policy, 92 FERC ¶ 61,094

RE-EXAMINATION OF DELIVERY POINT OBLIGATIONS

Mr. Rosenkranz suggests that the Board should re-examine delivery obligations of direct purchase customers at Parkway and Empress. Union notes that, at the Stakeholder Conference, the primary concern discussed was with the Parkway delivery obligation.

Union's south direct purchase customers have an obligation to deliver their daily contract quantity ("DCQ") of gas supply at their obligated delivery point. The DCQ is a customer's annual consumption forecast divided by 365. The physical location of the obligated deliveries is dependent on where the customer is physically located and the time they left Union's system portfolio to go direct purchase. Predominantly those points are Empress (for those who have Union deliver their gas to Ontario using its TCPL contracts), Parkway (Union's farthest point east on the south system) or Dawn.

Union's requirement for obligated Parkway deliveries is based on the current facility design and reflects Union's historical reliance on supply from Western Canada and TCPL as the primary delivery option for supplies serving the Ontario market. Historically, Union has relied on obligated Parkway deliveries in designing the Dawn to Parkway transmission system. As a result of the Parkway obligation the Dawn-Parkway transmission system is smaller than would otherwise be necessary to meet peak demand requirements. In other words, if Union did not have, or if Union reduced, the Parkway delivery obligation, additional transmission facilities between Dawn and Parkway would be required. Since Union has utilized the Parkway obligation, the primary beneficiary of having the obligation has been Union's in-franchise customers through lower delivery rates in the Southern operations area. Current rates assume that customers are meeting their Parkway delivery obligation.

To relieve direct purchase customers of the Parkway delivery obligation, Union would either have to expand the Dawn Trafalgar transmission system or use existing capacity if it becomes uncontracted, to make up the shortfall. In either case, in-franchise delivery

rates would need to be increased to recover the costs associated with the additional facilities.

For example, between 2001 and 2004, Union introduced a temporary service option which reduced the Parkway obligation by 20% using a temporary turn back of TCPL capacity. Over the 2001 to 2004 period, in-franchise delivery rates were increased by approximately \$5.5 million dollars per year to recognize the costs of reducing the Parkway obligation. In 2004, Union asked market participants if they wanted Union to build to allow the delivery obligation to remain at Dawn and not to revert back to Parkway. The market did not support the build, and preferred to have the obligation revert back to Parkway. However, since that time, several in-franchise, Union South customers have contracted for their own Dawn to Parkway capacity to individually shift their obligations from Parkway to Dawn. Individual customers have that choice today.

Union does not anticipate any changes to the delivery point obligations at this time. To the extent that there are opportunities to reduce the obligation through turnback or facilities expansion, Union will propose changes to the obligation along with the recovery of the associated costs from the appropriate customer rate classes.

ESTABLISH A RESOURCE PLANNING REQUIREMENT FOR ONTARIO GAS UTILITIES

Mr. Rosenkranz suggests that the Board should require utilities to prepare and file a comprehensive resource plan for review by the Board and stakeholders. According to Mr. Rosenkranz, this resource plan would document the assumptions and the process the utility uses to assess the need for gas supply assets and evaluate available gas supply options. He is also of the view that such a process would give context to requests for pre-approval of long term transportation contracts and that it would also contribute to the simplification of rate cases.

Union does not believe that any new requirements related to resource or gas supply planning is required. Further, it is Union's view that any additional regulatory oversight

will only add to the regulatory burden without any obvious benefit to the Board or ratepayers. The Board has sufficient regulatory processes in place to ensure that the utility gas supply planning process is not resulting in imprudent contracting decisions. For Union, these processes include the requirement to file an Incremental Transportation Contracting Analysis for any new transportation contracts or extension to existing upstream transportation contracts with a term of one year or longer, and the existing guidelines for pre approval of long term contracts that support new natural gas infrastructure, both of which are discussed below. Intervenors and the Board also have the opportunity for a detailed review of utility demands and supply plans at all rate hearings.

In addition to the existing regulatory processes, Union's own annual gas supply planning process is guided by a set of principles that is intended to ensure that customers receive secure, diverse gas supply at a prudently incurred cost. These principles are:

1. Ensure secure and reliable gas supply to the Union Gas service territory.
2. Minimize risk by diversifying contract terms, supply basins and upstream pipelines.
3. Encourage new sources of supply as well as new infrastructure to the Union Gas service territory.
4. Meet planned peak-day and seasonal gas delivery requirements.
5. Deliver gas to various receipt points on the Union Gas system to maintain system integrity.

These guidelines underpin every decision Union makes and do not change from year to year. These principles are also applied independent of the current market conditions. Union returns to these principles each time it makes an evaluation regarding the acquisition of supply or transportation capacity.

Incremental Transportation Contracting Analysis

In accordance with the Board's EB-2005-0520, Settlement Agreement (Union's 2007 rate case), Union is required to file an Incremental Transportation Contracting Analysis for any new or extended upstream transportation contract with a term of one year or longer that form part of Union's system gas supply arrangements. Union is required to file this analysis as part of the evidence filed by Union in the applicable Board proceeding in which it seeks recovery of the cost consequences associated with the upstream transportation contract.

The Incremental Transportation Contracting Analysis includes:

- Union's rationale for entering into the new transportation contract
- All relevant transportation contract parameters including: transportation provider, term, price, receipt and delivery point.
- A quantitative comparison of the landed costs for newly contracted capacity to alternatives reviewed by Union at the time of its decision (a standardized form is provided).
- A quantitative and/or qualitative consideration of additional factors considered relevant by Union that may include, but not be limited to:
 - overall security of supply
 - supply basin diversity
 - contract term diversity
- Pipeline operator diversity
 - pipeline terms and conditions, and record of service
 - monthly demand charge/commodity charge structure

As indicated above, the Incremental Transportation Contracting Analysis is prepared for new or extended capacity on upstream transportation contracts. Existing contracts have already been reviewed and approved by the Board and, as such, the current process requiring Union to prepare the analysis and file it prior to the costs going into rates is

sufficient. If the Board or Intervenors have questions or concerns with the analysis, they are able to ask those questions or voice those concerns in the context of those proceedings.

Pre-Approval of Long Term Upstream Transportation Contracts

As part of the Board's Natural Gas Forum implementation, filing guidelines were developed for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts (EB-2008-0280).

These filing guidelines are used by a utility seeking approval of the cost consequences of long-term contracts prior to the utility entering into a formal agreement.

As part of the filing that applicant must complete the following information:

- Identification of the Applicant
- Needs, Costs and Benefits –a description of the project and the benefits it provides to Ontario consumers. The section also includes an assessment of the landed costs (supply costs + transportation costs including fuel costs) for the new contract compared to the landed costs of the possible alternatives.
- Contract Diversity – a description of the relevant contract parameters (capacity provider, contract length, conditions of service, price, volume and receipt and delivery points) as well as an assessment of how the contract fits into the applicant's overall supply portfolio in terms of contract length, volume and services.
- Risk Assessment – identification of all risks (including forecasting, construction, operating, commercial and regulatory risks). The section is also to include plans on how the risks are to be minimized and allocated between ratepayers, parties to the contract and/or the applicant's shareholder.
- Other Considerations – a description of the relationship and any other conditions, rights or obligations between the parties to the contract and the applicant's parent company and/or affiliates.

- Contract – the contract for which the utility is seeking approval is filed with the application.

Union participated in the recent TCPL new capacity open season and was awarded three new long-term transportation contracts on the TCPL system. Pre-approval of the cost consequences is being sought by Union and the application and evidence has been filed in accordance with these filing guidelines (EB-2010-0300).

These guidelines provide a framework that allows the utility to demonstrate the prudence of its contracting decision. It also provides the necessary evidence and analysis of the full range of reasonable alternatives for the Board to make a decision.

Integrated Resource Plan

At the end of Day 2 of the Stakeholder Conference, Mr. Quinn, on behalf of the Federation of Rental-Housing Providers of Ontario (“FRPO”), requested that TCPL, Union and Enbridge consider preparation of an “integrated system plan” for Ontario that would be useful to the Board when making facility decisions.

Union does not support the development of an integrated system supply plan by TCPL, Union, and Enbridge for a number of reasons and cannot participate. Firstly, future capital expansion ideas or concepts are confidential and proprietary information. TCPL, Enbridge and Union, while customers of each other are also competitors in the marketplace and as such should not be required to share confidential, commercially sensitive information about future projects with a competitor, supplier or customer. It would be unreasonable to require competing companies to act as one entity and share commercially sensitive information amongst themselves and with the market at large. To do so would negatively impact the competitiveness of the market players within Ontario and, subsequently, the Ontario natural gas market itself. Secondly, an integrated energy plan as envisioned by FRPO would require every pipeline and storage operator that is connected to Ontario be at the table and therefore shouldn’t be limited to TCPL, Enbridge

and Union. This is clearly impractical and unnecessary. Finally, even if it were possible to develop such a plan it would largely be an academic exercise of little use or value. It would not be possible to incorporate or anticipate changes impacting the Ontario gas market because of the complexity and continental scope of the changes. Accordingly, the Board would have no certainty that the plan would come to fruition. The only expansions that are definite are the ones that a party has brought forward for approval and has received approval from the Board. In Union's view it is more practical and useful to consider and seek approval of changes to Union's resource plans at the time changes are actually being put forward.

IV/ CONCLUSION

The North American and Ontario natural gas markets have undergone significant changes and this trend is only expected to continue. These changes provide both opportunities, such as diversification and security of supply, as well as challenges, such as the need for additional infrastructure.

As indicated by Union in its presentation at the Stakeholder Conference and throughout this submission it is essential to preserve and grow the liquidity at Dawn in order to maintain a cost effective supply for Ontario consumers. Critical to that goal is the urgent need to expand the capacity between Parkway and Maple which will support increased supply diversity and increase the security of supply for markets east and north of Parkway.

Union is also concerned about the potential impact of any TCPL framework redesign that would lead to short-haul tolls becoming uncompetitive due to cost shifting of costs from long-haul. As discussed, if short-haul tolls rise significantly the future of the Dawn Hub liquidity could be diminished. It is imperative that the Board, the Ministry and all market participants support the TCPL Mainline Competitiveness Initiative, but work to ensure that short-haul tolls remain competitive.

At this time, Union does not see any need for the Board to initiate any significant initiatives, make any changes to existing regulatory processes or increase regulatory oversight of the gas market. It is Union's view that the Board should let the market adapt to the changes in the North American supply dynamics. At the same time, the Board should continue to support the market through timely approvals of new service offerings and facilities. The Board should also continue to support alternative forms regulation such as the recently approved complaint based framework for Dawn Gateway. In general, the Board and the Ministry should continue to support the growth of Dawn and of Dawn liquidity and the growth of incremental supply paths to Ontario.

TAB 3



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November 2, 2010

VIA RESS, E-mail 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
Enbridge Gas Distribution Inc. ("Enbridge")
Ontario Energy Board ("Board") File No.: EB-2010-0199

In accordance with the Board's letter dated August 20, 2010, enclosed please find the comments of Enbridge regarding the above noted proceeding.

This letter has been filed through the Board's Regulatory Electronic Submission System.

Please contact me if you have any questions.

Thank You.

Sincerely,

A handwritten signature in cursive script that reads 'Bonnie Jean Adams'.

Bonnie Jean Adams
Regulatory Coordinator

**ONTARIO ENERGY BOARD
2010 NATURAL GAS MARKET REVIEW**

**COMMENTS OF
ENBRIDGE GAS DISTRIBUTION INC.**

On August 20, 2010, the Ontario Energy Board (the "Board") issued a notice with respect to its review of recent developments in North American natural gas supply markets, the 2010 Natural Gas Market Review ("NGMR"). The notice indicated that a report entitled "2010 Natural Gas Market Review" by ICF International Inc. (the "ICF Report") had been posted on the Board's website. The notice also provided information about a stakeholder conference that would be held by the Board and indicated that, following the conference, stakeholders would have an opportunity to submit written comments to the Board.¹

To assist participants, the Board included with the August 20th notice an outline of topics for discussion at the stakeholder conference (the "Topics List").² According to the Topics List, the overall objective of the NGMR is to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. One such changing market condition referred to in the notice is increased shale gas production at Marcellus. The Topics List stated that the specific objective of the NGMR is to assess the need, if any, for further regulatory initiatives in response to the impacts identified.

The Topics List also set out four questions for discussion at the stakeholder conference. At a general level, these questions raised four subject areas for consideration, namely: (1) opportunities for Ontario gas market participants in light of the changes identified in the ICF Report; (2) challenges for Ontario gas market participants; (3) potential impacts on existing pipeline facilities in the market; and (4) further action, including alignment between the work of the Board and other regulatory agencies.

These are the written comments of Enbridge Gas Distribution Inc. ("Enbridge") submitted in accordance with the August 20th notice. In these comments, Enbridge will provide its views with respect to the conclusions reached in the ICF Report, it will address the four subject areas identified in the Topics List and then it will conclude with its observations relating to the objectives of the NGMR, as set out in the Topics List.

¹ The notice went on to say that such written comments would be due on November 2, 2010.

² Attachment A to the notice of August 20, 2010, "Topics for Discussion at Stakeholder Conference"

The ICF Report

In general, Enbridge agrees with the conclusions expressed in the ICF Report about overall demand and pricing trends for natural gas. Enbridge also agrees with most of the conclusions in the ICF Report about natural gas supply. The notable exception is that Enbridge does not share the view expressed in the ICF Report that, at this time, the Marcellus Shale is not expected to be a major source of gas supply for Ontario.³ Based on the results of recent open seasons, and the potential results of open seasons that are currently in progress, there seems to be considerable interest in moving gas from the Marcellus Shale into Ontario.⁴ Enbridge's view is that Marcellus can be an attractive source of supply for Ontario customers and Enbridge itself is seriously considering this option.⁵

Opportunities for Gas Market Participants

Developments in the sources of supply for the Ontario gas market present a number of important opportunities for gas market participants and, more specifically, for Enbridge and its customers. These opportunities include the following:

(1) Diversification

The availability of gas from new sources such as the Marcellus Shale increases supply diversification. This in turn enhances the security and reliability of gas supply and, everything else being equal, a greater number of sources of supply will result in greater competition, which can result in lower gas prices.

In the case of Enbridge, there is also a connection between diversification and the need for system reinforcement. Enbridge is expecting that it will need to undertake a significant reinforcement of its distribution system over the next few years (necessitated by factors such as aging infrastructure). To the extent that this reinforcement initiative results in increased capacity to move gas away from Parkway, it will have the added benefit of allowing Enbridge to enhance the diversification of its gas supply portfolio, in particular, by taking advantage of Marcellus production. In short, there is an opportunity for Enbridge to explore solutions that will allow it to realize synergies between distribution system reinforcement requirements and gas procurement activities.⁶ These synergies can also benefit the Ontario marketplace by alleviating the identified bottleneck between Parkway and Maple.

³ ICF Report, page 74.

⁴ Stakeholder Conference Transcript, October 7, 2010 ("Oct. 7 Tr."), pages 96-99.

⁵ Oct. 7 Tr., page 99.

⁶ Oct. 7 Tr., pages 99-100.

(2) Producer Activity

As already stated, the results of open seasons that involve bringing Marcellus gas to Niagara/Chippewa show the interest of producers in supplying Ontario markets with Marcellus gas. Enbridge's interest in this supply source is such that it has submitted a bid for capacity from Niagara to the CDA in an open season held by TransCanada PipeLines Limited (TransCanada).⁷ Production from the Marcellus Shale continues to expand and the effect of increased activity by producers should be to reduce prices. This gives rise to an opportunity for Ontario gas customers to benefit from lower prices for gas.

(3) Proximity to Supply

The development of the Marcellus Shale means that participants in the Ontario gas market, such as Enbridge and its customers, are relatively close to an important source of gas supply. This proximity to a major supply source results in benefits and opportunities for the Ontario gas market, because it has the potential to improve deliverability and lower winter price spreads. To put it another way, the availability of market area production can create benefits and opportunities for Ontario gas market participants similar to those that are associated with Ontario's market area storage.⁸

(4) Bio-methane Gas Supply

For many years, Enbridge's gas supply portfolio has included some market area gas production sourced in Ontario, but this local source of supply has declined considerably over the last decade (even from levels that were never large in relation to the size of the overall portfolio). Enbridge believes that there is potential for renewable bio-methane to become a new market area source of supply. While the magnitude of this potential supply source is not yet known, the introduction of bio-methane into the supply portfolio could well offset the decline in Ontario gas production.⁹

Challenges for Gas Market Participants

While Ontario gas consumers have benefitted from low gas prices, they also face the challenge of increasing tolls charged by TransCanada, due to decontracting on the Mainline. The availability of gas from the Marcellus Shale adds upward pressure on TransCanada's tolls, both because Marcellus serves as a market area production source for Ontario gas consumers and because it will reduce exports of gas from Western Canada into the United States.¹⁰

⁷ Oct. 7 Tr., page 99.

⁸ Oct. 7 Tr., page 99.

⁹ Oct. 7 Tr., page 100.

¹⁰ Oct. 7 Tr., page 96.

For its part, Enbridge relies heavily on TransCanada's Storage Transportation Service ("STS") to meet winter demand. STS is a load balancing service that allows Enbridge to take gas away from the market area in the summer and to bring the gas back in the winter when it is needed.¹¹ There are operational characteristics of STS that are not available from other transportation services,¹² but the utilization of this service – at least in a cost-effective manner - is tied to the amount of long-haul capacity held by Enbridge on the TransCanada system.¹³ While replacement of STS with other arrangements poses a short to medium term challenge for Enbridge, STS can, in the longer term, be replaced through a combination of new short haul services and a system reinforcement project that would enhance Enbridge's ability to take gas at Parkway into the distribution system.

In other words, while Enbridge welcomes the diversification and other benefits associated with the availability of gas from the Marcellus Shale, there are additional factors that must be taken into account in Enbridge's gas supply planning. These include operational flexibility and contractual flexibility or optionality.¹⁴ The challenge for gas distributors like Enbridge is to consider factors such as diversification, rising TransCanada Mainline tolls, contractual flexibility and operational flexibility in order to arrive at an optimal gas supply portfolio.

Customer Impacts

As set out above, there are benefits and costs associated with changes in sources of supply for the Ontario gas market. Due to the "postage-stamp" rate-making methodology, there is no differential impact of these changes on gas costs or rates paid by Enbridge's customers. Thus, the net benefits to customers of changing market circumstances can be considered without any need to take into account different impacts depending on geographic location, rate class or customer category.¹⁵

Impacts on Existing Pipeline Facilities

Enbridge notes that increased diversification of gas supply can result in a need for long term contracts to underpin new facilities required to take advantage of diversified supply sources. For Enbridge, the issue then becomes one of whether long term contracts can be preapproved when necessary to support the construction of facilities. In Enbridge's view, the Board has brought clarity to this issue with its Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts (the "Long-Term Contract Guidelines").¹⁶

¹¹ Oct. 7 Tr., pages 108-9.

¹² Oct. 7 Tr., page 119.

¹³ Oct. 7 Tr., page 109.

¹⁴ Oct. 7 Tr., pages 94-5.

¹⁵ Oct. 7 Tr., page 98.

¹⁶ EB-2008-0280.

The scope of the Long Term Contract Guidelines is sufficiently broad to include utilization of existing facilities as one of the factors to be considered by the Board when preapproval of a long term contract is requested. In Enbridge's view, it is not necessary to be more specific at this time about the extent to which potential impacts on existing pipeline facilities should or will be considered when new or expanded pipelines under the Board's jurisdiction are proposed.

Further Action

Enbridge submits that the Board should continue to support gas distributors by recognizing both the role of diversification in good planning and the need to consider diversification together with a number of other factors. More particularly, Enbridge submits that the Board should continue to accept that key factors in the determination of an optimal supply portfolio are an assessment of landed costs, operational flexibility, contractual flexibility and supply diversity.

It is also Enbridge's submission that, while maintaining a focus on conservation, the Board should continue to facilitate construction of new gas infrastructure, such as pipelines, gas-fired electricity generating facilities, and infrastructure associated with the development of renewable sources for gas supply.

During the course of the NGMR, it was suggested that the Board might establish a formalized long term resource planning requirement for Ontario utilities. The province's gas distributors have successfully met the needs of their customers for many years, through periods of dramatically changing circumstances, without any such formalized resource planning requirement. Enbridge submits that there is nothing in the current or anticipated market circumstances that justifies the imposition of this proposed and significant new requirement on utilities, especially in light of the fact that the approach now taken by the gas utilities, and the Board, is one that has stood the test of time.

Enbridge files an annual gas cost budget each year, which identifies the consequences of changes to its gas supply portfolio. The annual identification of changes to the gas supply portfolio and the preapproval process under the Long Term Contract Guidelines together provide appropriate opportunity for consideration of the implications of gas supply portfolio changes.

The issue of long term utility resource planning was brought forward in the context of the Board's consideration of the Long Term Contract Guidelines, but the Board did not see fit to impose a resource planning requirement in that proceeding.¹⁷ Indeed, the Long Term Contract Guidelines adequately address issues such as portfolio content and compatibility and this is yet another reason why a long term resource plan is unnecessary. Further, a long term resource plan would include many elements that would not actually be acted upon by the

¹⁷ EB-2008-0280 Filing Guidelines.

utility and these elements would inevitably become irrelevant to the utility's procurement portfolio.¹⁸

It was also suggested during the course of the NGMR that Enbridge, Union Gas Limited (Union) and TransCanada could work together to prepare integrated system plans for the Board's consideration.¹⁹ Enbridge does not support this suggestion. Enbridge, Union and TransCanada have competing interests and, joint development of an integrated system plan by these companies potentially would mean disclosure of information that is commercially sensitive and confidential. The sharing of information that would otherwise be confidential would impede the marketplace and it is not reasonable to expect that a process based on sharing of confidential information by companies with competing interests would be effective or productive. Even if an integrated system plan were to be produced in this manner, the plan would be of little value, because, as stated above, the outcome invariably would be that parts of the plan would not be acted upon.

Concluding Observations

The overall objective of the NGMR is to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. The specific objective is to assess the need, if any, for further regulatory initiatives. As elaborated on in these comments, Enbridge believes that, to date, Ontario natural gas markets have been adapting to changing market conditions and that, given the Board's existing approach to gas supply planning and pre-approval of long term contracts, no further regulatory initiatives are needed at this time. When new infrastructure projects are brought forward to the Board, Enbridge submits that the fact that any particular project addresses multiple objectives – such as safety, reliability and security of supply from increased diversification – should be viewed with favour by the Board.

¹⁸ For example, a long term plan prepared five years ago probably would have projected that LNG would be an increasingly important source of gas supply, but this has not proved to be the case: Oct. 7 Tr., pages 168-9.

¹⁹ Stakeholder Conference Transcript, October 8, 2010, page 85.

TAB 4



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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

**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:

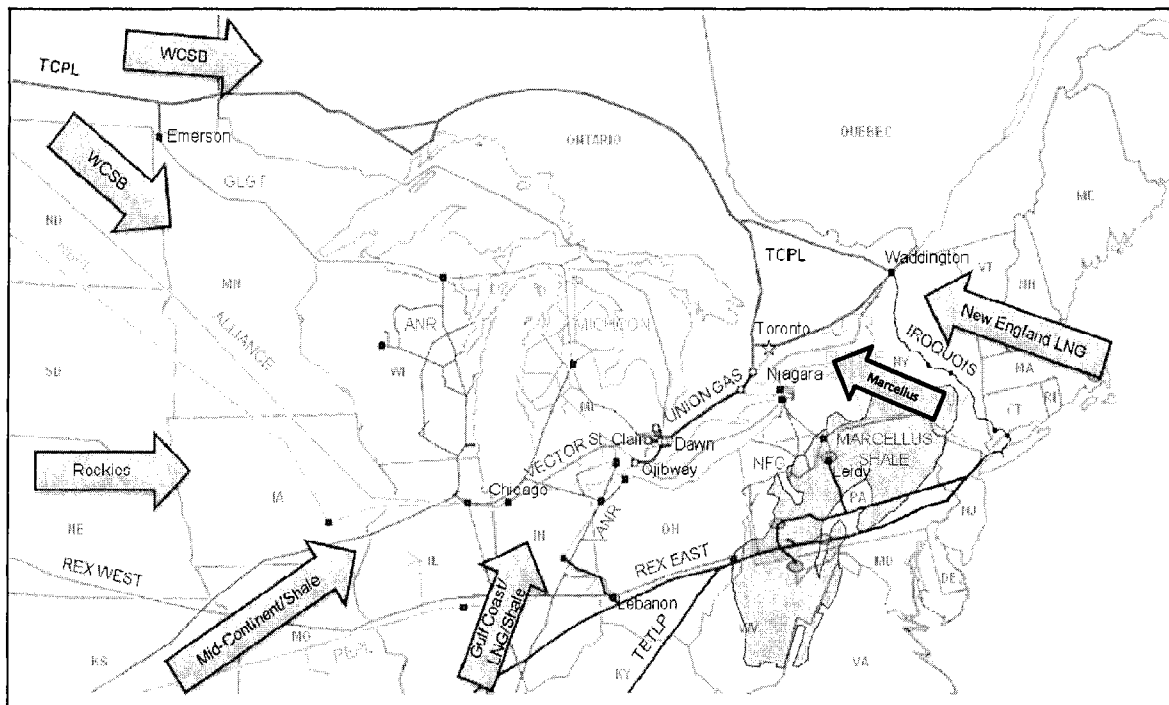
- Section I reviews how Ontario has benefited historically from access to a variety of natural gas supplies; explains that the Province is well positioned to benefit from expansion of Marcellus and other new gas supplies; and describes the role TransCanada had and will continue to play in ensuring Ontario's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

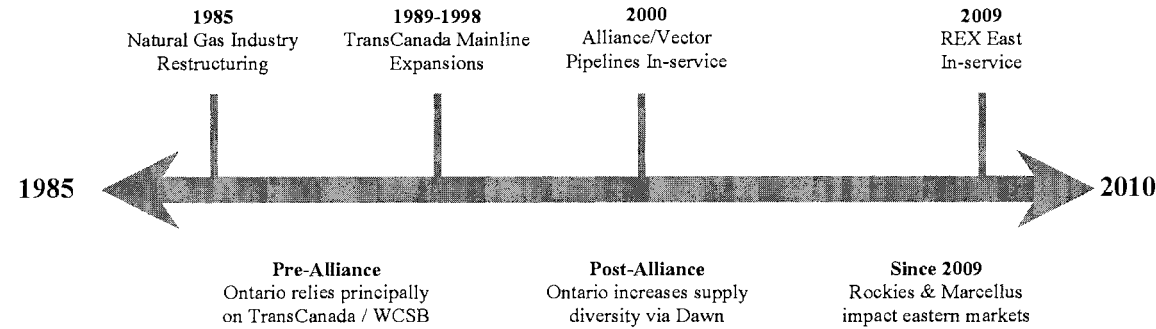


[Source: Union Gas]

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.

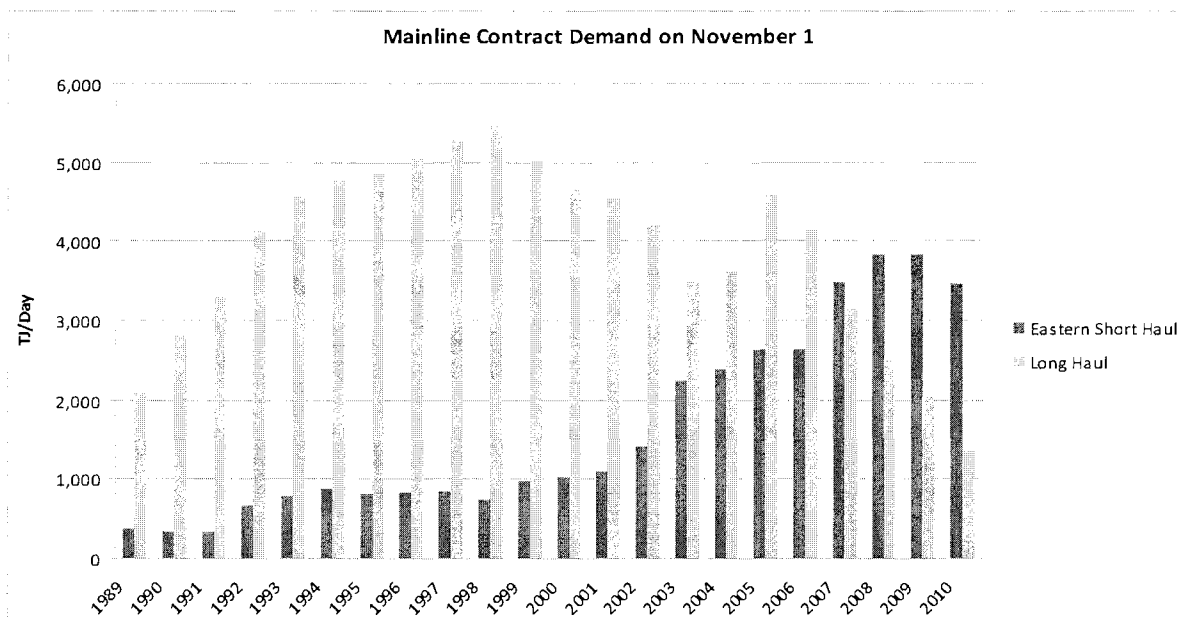
Alliance and the downstream Vector Pipeline entered service in late 2000, directly connecting Ontario to the Chicago Hub and expanding the Province’s access to Gulf Coast and Midwest U.S. gas supplies, as well as to WCSB supplies, via this new delivery path. Subsequent expansions by Vector and other 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

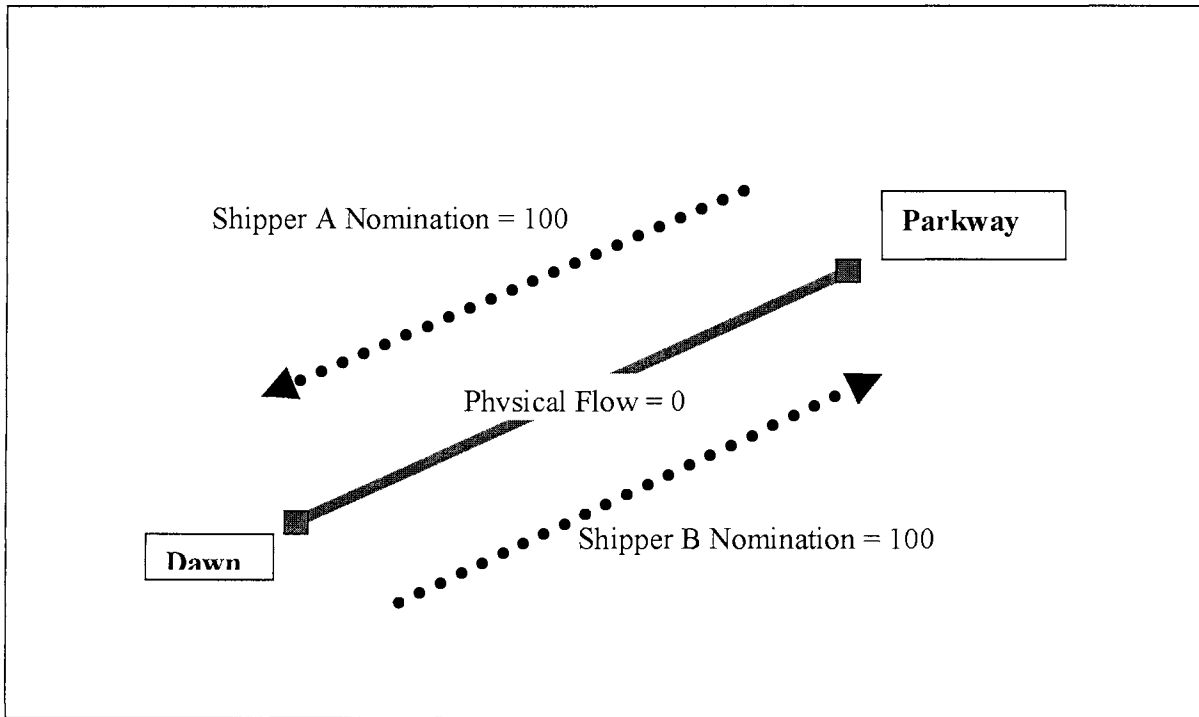
The trend in annual contracted capacity depicted in Figure 3 clearly highlights the flexibility of TransCanada's Mainline system. Over this period, TransCanada's traditional long-haul contracted capacity rose from 2,000 to over 5,000 TJ/day from 1989 to 1998 driving major expansions to the TransCanada 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

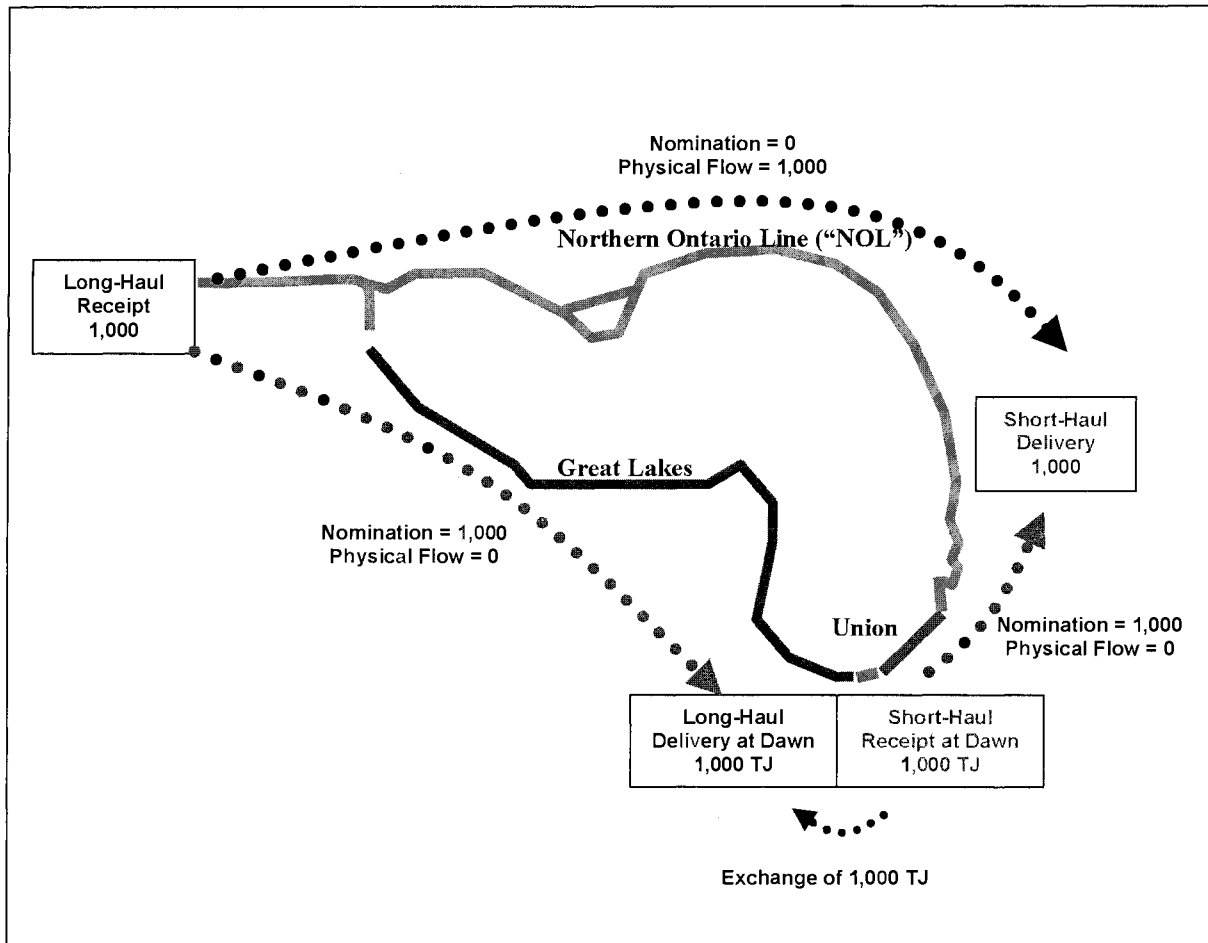
from Customer B at Dawn and delivers it to Customer A at Dawn. Via this “exchange”, no gas is physically transported and both customers receive their requested service.

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 optionality² 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's Gas Potential Committee

² Source: TransCanada

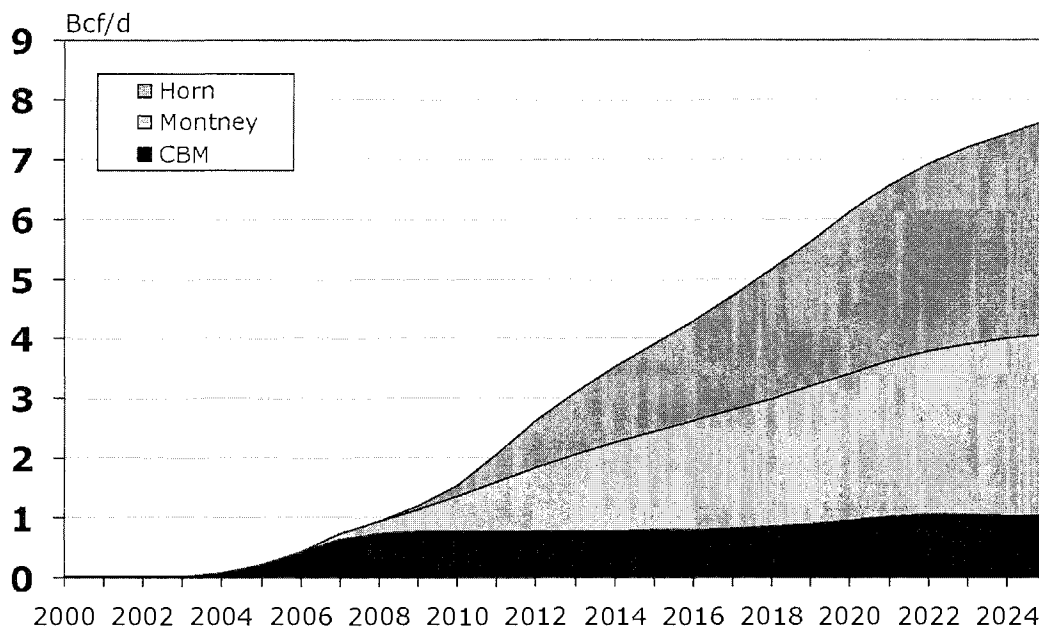
Figure 6 highlights that over the last couple of years, WCSB remaining potential reserves have increased from just over 100 TCF of conventional reserves to somewhere between 234 and 314 TCF with the emergence of unconventional supplies. Economic access to unconventional WCSB gas resources, particularly 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

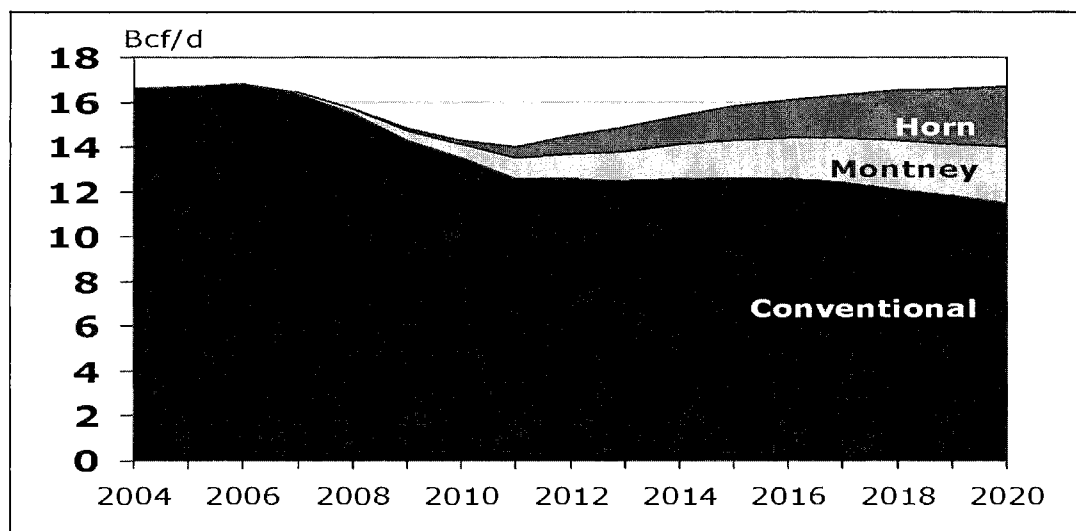


TransCanada forecasts that the Montney and Horn River shales will serve more generally as a stimulus for the renewal of total WCSB production. Specifically, TransCanada believes that the extension of pipeline infrastructure into the British Columbia shale areas and the application of new technology to 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.

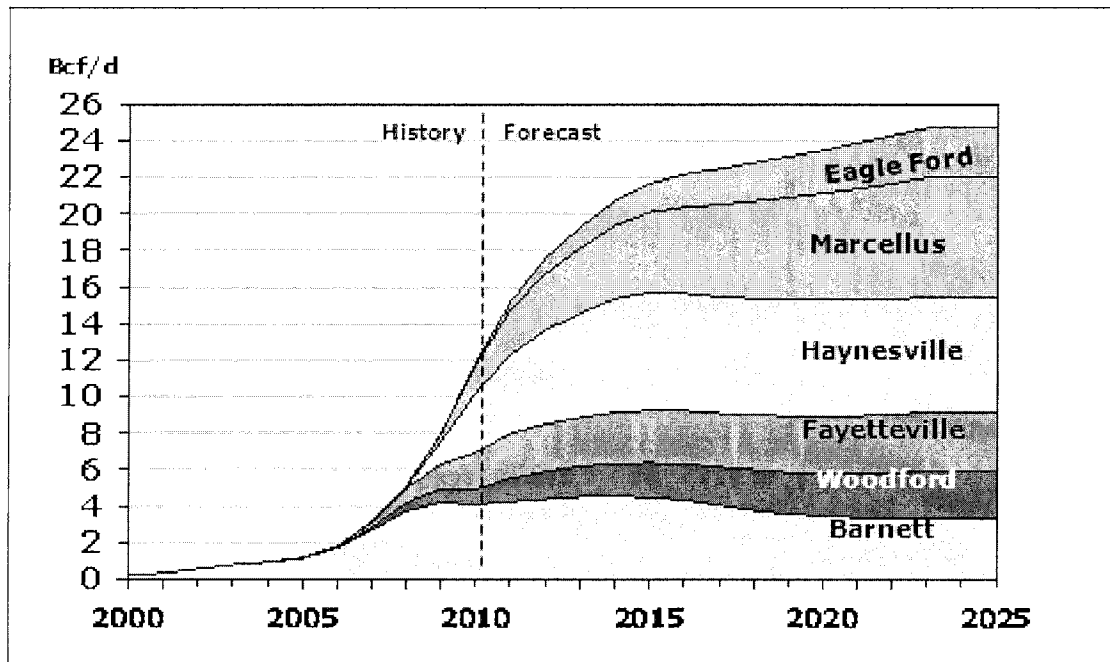
TransCanada's WCSB shale production forecast is supported by recent producer demand for additional pipeline capacity. TransCanada has contracts for volumes that start at approximately 200 MMcf/d in 2010 and increase to approximately 2.5 Bcf/day by 2014 from the Montney and Horn River shales. Producers 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/Chippawa⁵ and, potentially, Waddington.⁶ Figure 11 depicts TransCanada forecast volumes at Niagara over

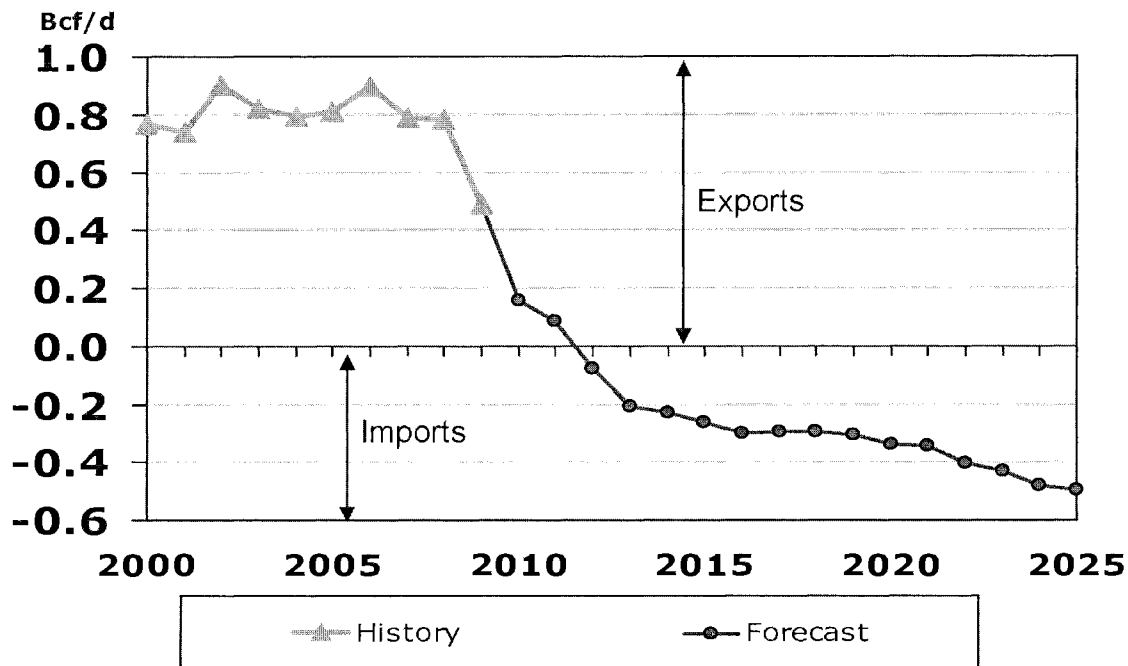
⁴ TransCanada forecasts a continued need for LNG supplies to “fill the gap” between supply and demand particularly in the power generation sector, but LNG imports are projected to remain flat until post-2020.

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



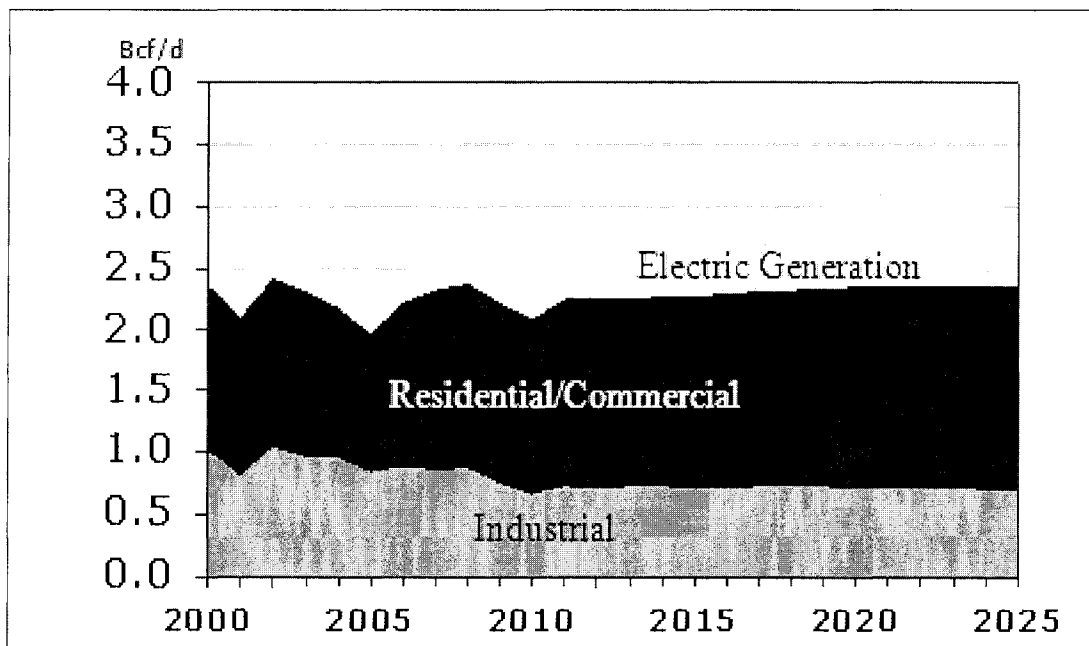
In the case of the major Midcontinent and Gulf Coast shale resources, TransCanada expects that a surge of shale supplies accessible to U.S. Midcontinent and Midwest pipelines will serve to enhance gas supply liquidity at downstream market locations, most significantly for Ontario gas consumers at Dawn. 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

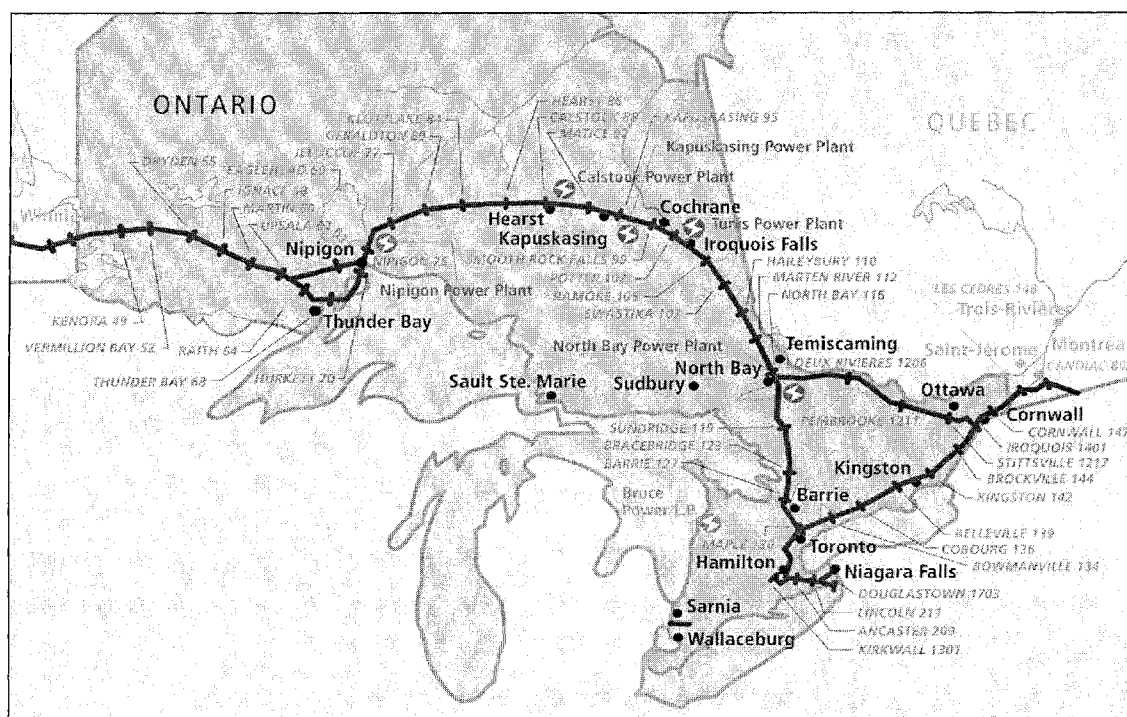


TransCanada forecasts total provincial demand to grow by approximately 240 MMcf/day or 9% by 2015 from 2009 levels. Ontario gas demand growth is dominated by the power generation sector which is expected to increase by 180 MMcf/day or 55% by 2015 as Ontario continues to phase out coal-fired generation. 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

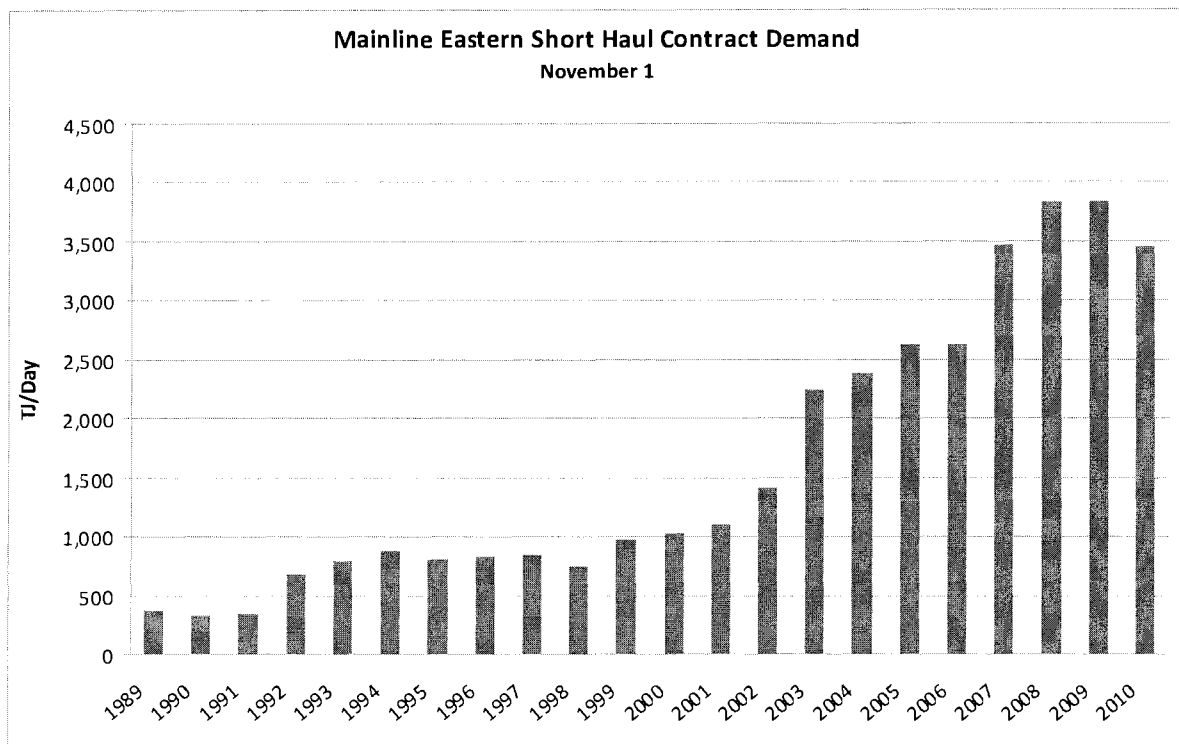


In addition to providing an extensive physical footprint in Ontario, TransCanada's existing pipeline system has both the physical capacity and operational flexibility to offer a variety of

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

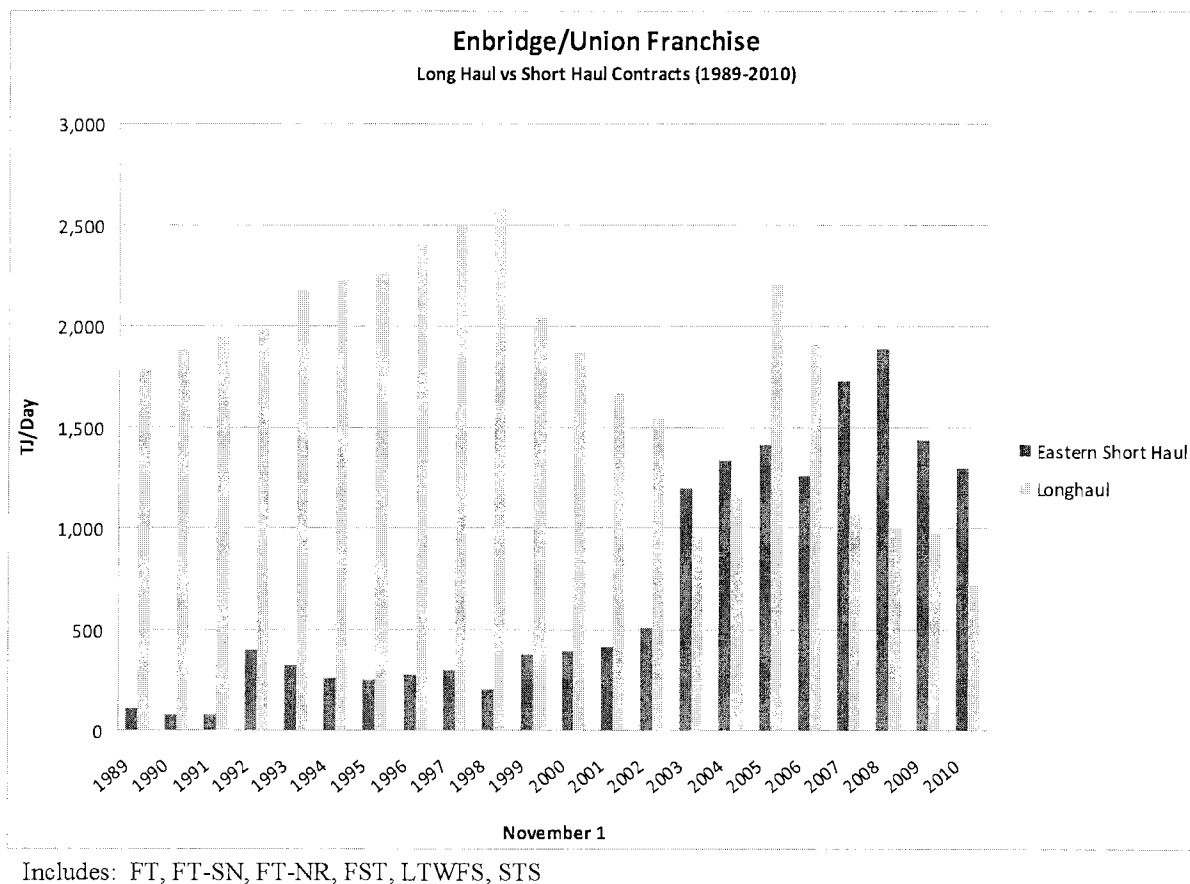
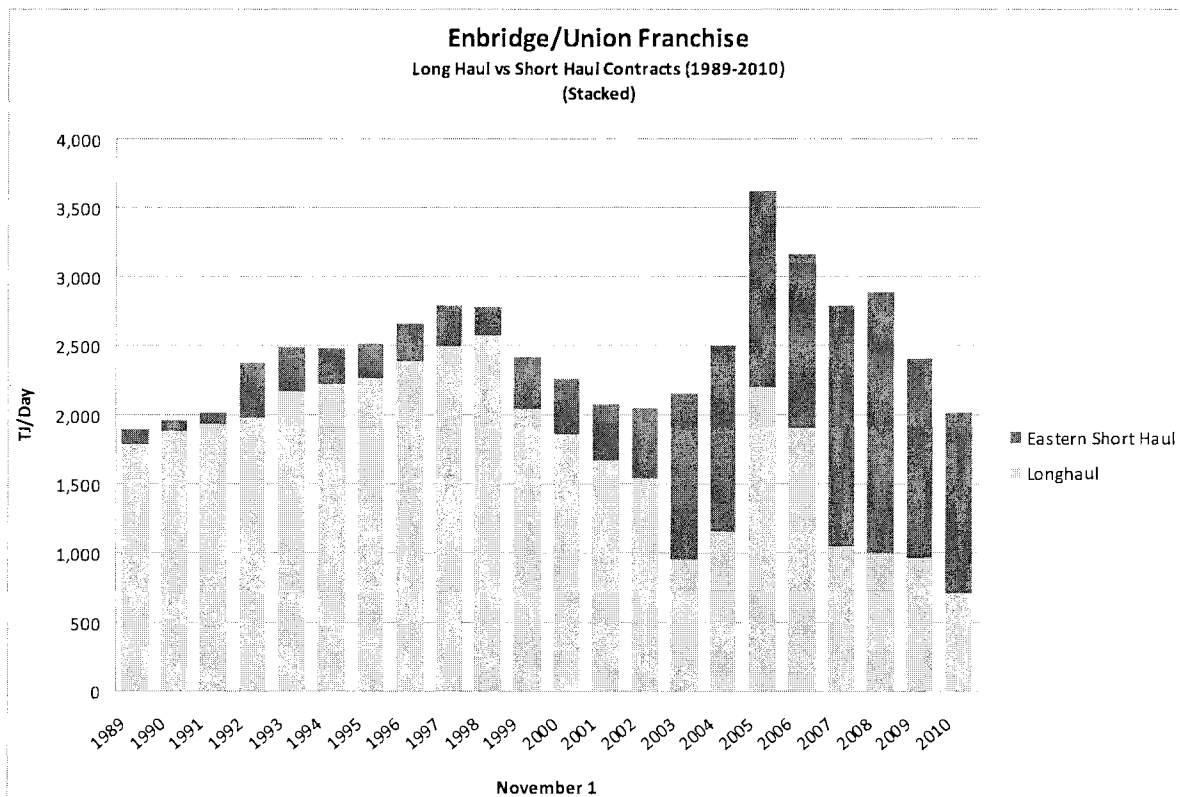


Figure 16 : Union and Enbridge Franchise Mainline Contract Demand (Stacked)



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 infrastructure⁸ 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.

TAB 5



TransCanada

In business to deliver

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December 9, 2010

Filed Electronically

National Energy Board
444 Seventh Avenue S.W.
Calgary, Alberta
T2P 0X8

**Attention: Ms. Anne-Marie Erickson
Secretary of the Board**

Dear Ms. Erickson:

**Re: TransCanada PipeLines Limited ("TransCanada")
NOVA Gas Transmission Ltd. ("NGTL")
Application for Approval of Mainline Interim 2011 Tolls and Alberta System 2011
Interim Rates**

Enclosed for filing with the National Energy Board ("Board") is an Application by TransCanada and NGTL for approval of interim 2011 tolls for services on the Mainline system ("Mainline Interim 2011 Tolls") and interim 2011 rates, tolls and charges for services on the Alberta System ("Alberta System Interim 2011 Rates") and associated tariff amendments, to be effective January 1, 2011.

The proposed Mainline Interim 2011 Tolls and Alberta System Interim 2011 Rates are based on an agreement supported by a number of parties, including the Canadian Association of Petroleum Producers (the "Agreement"), that represent a broad cross-section of stakeholders. It contains components that affect the determination of the revenue requirements on each of the Mainline and Alberta System during the period 2011 to 2013. These components are inextricably linked, and consequently, TransCanada and NGTL have filed a single application that addresses the resulting interim tolls and tariff amendments on each system.

TransCanada and NGTL intend to file an application in early 2011 for approval of the Agreement and the consequent determination of final tolls for the Mainline and the Alberta System. However, TransCanada and NGTL are prepared to continue working collaboratively with any stakeholders that may have outstanding concerns during this interim period.

- * TransCanada and NGTL believe it is both appropriate and important to establish the interim tolls at levels that are reflective of the Agreement pending the Board's receipt and ultimate determination of final 2011 tolls for each system. Implementation of the proposed interim tolls enables parties to immediately realize the benefits to be achieved through the Agreement.

TransCanada and NGTL recognize that the time available to adjudicate this Application and establish interim tolls for January 1, 2011 is short. However, TransCanada and NGTL were only in a position to bring this Application following a significant stage of their collaborative processes that occurred earlier this week. TransCanada requests that the Board establish an expeditious process to determine the Application.

Yours truly,

[Original Signed by]

Kristine L. Delkus
Deputy General Counsel
Pipelines and Regulatory Affairs

cc: Tolls Task Force, RH-2-2004 List of Parties, Mainline Shippers, Alberta System Customers, and Tolls, Tariff, Facilities and Procedures Committee.

Enclosure

National Energy Board

IN THE MATTER OF the *National Energy Board Act*, R.S.C. 1985, c. N-7, as amended, and the Regulations made thereunder;

AND IN THE MATTER OF an Application by TransCanada PipeLines Limited for approval of Interim 2011 Tolls and associated amendments to the Canadian Mainline Gas Transportation Tariff pursuant to Section 19(2) and Part IV of the *National Energy Board Act*;

AND IN THE MATTER OF an Application by NOVA Gas Transmission Ltd. for approval of Interim 2011 Rates, Tolls and Charges and associated amendments to the Alberta System Gas Transportation Tariff pursuant to section 19(2) and Part IV of the *National Energy Board Act*.

APPLICATION FOR APPROVAL OF MAINLINE INTERIM 2011 TOLLS AND ALBERTA SYSTEM INTERIM 2011 RATES

December 9, 2010

To: The Secretary
National Energy Board
444 Seventh Avenue S.W.
Calgary, Alberta
T2P 0X8

1.0 APPLICATION

1. TransCanada PipeLines Limited (“TransCanada”) and NOVA Gas Transmission Ltd. (“NGTL”) apply to the National Energy Board (“NEB” or “Board”) pursuant to s. 19(2) and Part IV of the *National Energy Board Act*, R.C.S. 1985, c. N-7 (“NEB Act”) for approval of:
 - interim tolls for services on the TransCanada Mainline (“Mainline Interim 2011 Tolls”) and associated amendments to the Canadian Mainline Gas Transportation Tariff (“Mainline Tariff”), effective January 1, 2011; and
 - interim rates, tolls and charges for services on the TransCanada Alberta System (“Alberta System Interim 2011 Rates”) and associated amendments to the Alberta System Gas Transportation Tariff (“Alberta System Tariff”), effective January 1, 2011.

2.0 BACKGROUND

2. TransCanada is a federally-incorporated Canadian corporation and a “company” as that term is defined in the NEB Act.
3. TransCanada owns and operates a high-pressure natural gas transmission system that extends from the Alberta border across Saskatchewan, Manitoba, Ontario, and through a portion of Québec, and connects to various downstream Canadian and international pipelines (“Mainline”). The Mainline interconnects with the Alberta System near the Alberta/Saskatchewan border at Empress, Alberta.
4. The Mainline is subject to regulation by the Board.
5. TransCanada is currently operating under a multi-year negotiated Mainline settlement, for the five-year period commencing January 1, 2007 and ending December 31, 2011 (the “Mainline 2007-2011 Settlement”), as approved by the Board in Order TG-06-2007

and amended by Order TG-01-2008. The Mainline 2007-2011 Settlement defines how the Mainline Net Revenue Requirement will be determined annually during the term.

6. TransCanada currently provides Mainline services under 2010 Final Tolls approved by the Board in Order TG-06-2009, issued December 22, 2009.
7. TransCanada has an established joint industry task force, the Tolls Task Force (“TTF”), whose membership is comprised of a wide cross-section of the natural gas industry, including representatives of the producing, marketing, brokering and pipeline segments of the industry, provincial governments and local distribution and industrial end-use customers. The TTF is a forum for the discussion and where possible the collaborative resolution, of issues related to the tolls, tariffs and operations of the Mainline.
8. NGTL is a wholly-owned subsidiary of TransCanada and is a “company” as that term is defined in the NEB Act.
9. NGTL owns an extensive natural gas transmission system comprised of approximately 24,000 km of pipeline and associated compression and other facilities in Alberta and northeast British Columbia (“Alberta System”). TransCanada operates the Alberta System under a service agreement with NGTL.
10. The Alberta System is subject to regulation by the Board.
11. On August 12, 2010, the Board issued Reasons for Decision RHW-1-2010 and Order TG-04-2010 approving the Alberta System rate design methodology and terms and conditions of services, Alberta System Tariff amendments and the transition mechanism arising from the Rate Design and Services Review Settlement, as described in NGTL’s Alberta System Rate Design, Services and Integration Application (NEB File OF-Tolls-Group 1-N081-2009-06 01) (the “Rate Design and Integration Application”).
12. On September 24, 2010, the Board issued Order TG-05-2010 approving the 2010-2012 Alberta System Revenue Requirement Settlement (the “Alberta System Revenue

Requirement Settlement”). The Alberta System Revenue Requirement Settlement specifies that Alberta System Interim 2011 Rates will be calculated based on the forecast 2011 revenue requirement or the 2010 revenue requirement, a forecast of firm transportation contract demand quantity and throughput, and the approved rate design in place at the time.¹

13. NGTL currently provides services under final 2010 rates, tolls and charges approved by the Board in Order TG-06 2010 (“Alberta System Final 2010 Rates”) issued on October 19, 2010. The Alberta System Final 2010 Rates expire December 31, 2010.
14. NGTL has an established joint industry working group, the Tolls, Tariff, Facilities and Procedures Committee (“TTFP”), that facilitates the efficient and timely exchange of information among involved parties and that proactively addresses and attempts to collaboratively resolve issues related to the tolls, tariff, facilities and operating procedures of the Alberta System.

3.0 BUSINESS ENVIRONMENT

15. In recent years, firm contract levels and overall throughput on the Mainline have decreased significantly and tolls have increased significantly. Over the past five years, Mainline long-haul contracted volumes have decreased by approximately 70%. While costs have also decreased over this period, they have decreased at a slower rate. As a result, the Eastern Zone 100% load factor Firm Transportation (“FT”) Toll has increased from \$0.9350/GJ in 2006 to \$1.6381/GJ in 2010 and the Southwest 100% load factor FT Toll has increased from \$0.8015/GJ in 2006 to \$1.3644 in 2010. This increase and greater volatility in tolls is primarily attributable to the reduction of firm long-haul contracted quantities and reduced throughput.
16. Mainline toll increases have negatively impacted the competitiveness of the Mainline in providing access between the Western Canada Sedimentary Basin (“WCSB”) gas

¹ Alberta System Revenue Requirement Settlement Application, Attachment 2, Settlement, Paragraph 2(C), page 4.

production and various markets served by the Mainline. A number of factors have had and continue to have an impact on Mainline tolls, and the competitiveness of the Mainline, including:

- competition from new sources of supply that compete with the WCSB in serving markets traditionally served by the Mainline, such as shales (particularly Marcellus shale), Rockies gas and liquefied natural gas;
- declines in WCSB production due to a number of factors including low gas prices;
- development of new pipeline infrastructure in response to the development of new sources of supply;
- lower than previously anticipated gas demand in eastern markets resulting from the continuing global economic downturn;
- increased gas demand within the WCSB;
- competition for existing and incremental WCSB supply;
- ongoing uncertainty related to the Mackenzie and Alaska pipeline projects;
- a shift in contracting practice on the Mainline from FT service towards Interruptible Transportation (“IT”) and Short-Term Firm Transportation (“STFT”) services; and
- a shift in contracting practice on the Mainline away from long-haul transportation towards short-haul transportation services.

17. This business environment provided the context for comprehensive discussions between TransCanada, NGTL and their stakeholders about potential actions to reduce total transportation costs and improve overall competitiveness and long-term viability of the Mainline.

4.0 DISCUSSIONS WITH STAKEHOLDERS

18. TransCanada has been engaged in comprehensive discussions at the TTF regarding the business environment since 2008, driven by the toll increases and volatility experienced at that time.
19. The TTF recognized the importance of developing tangible solutions for increasing throughput and revenue, and reducing costs on the Mainline in Resolution 10.2009, reached in November 2009. This resolution was filed in support of TransCanada's application for approval of 2010 Final Mainline Tolls, approved through Order TG-06-2009 on December 22, 2009, and included the following provision:

TransCanada has initiated a consultative process within the TTF to revisit its rate design, business model and suite of services with the goal of developing tangible solutions for increasing throughput and revenue and/or reducing costs on the system in order to reduce tolls. TransCanada will develop and present to its stakeholders in Q1 2010 a comprehensive Mainline Competitive package including tariff, service, and business model changes with the objective of reaching a settlement on the package. It is expected that the consultation process will proceed during 2010, with TransCanada filing a comprehensive package for approval with the National Energy Board ("NEB") by the end of Q3 2010.

20. Consistent with this commitment, TransCanada held discussions with its stakeholders on various toll design, service and business model concepts for the remainder of 2009 and into 2010. The various concepts discussed focused on options to reduce the overall toll level and provide shippers with toll and service stability and certainty using means that would be sustainable over the long term. At the end of March 2010, TransCanada presented a comprehensive proposal to the TTF.
21. NGTL also commenced discussions in March 2010 through the TTFP and with the Alberta System Customer Advisory Council concerning aspects of TransCanada's proposal affecting the Alberta System.

-
22. Throughout 2010 TransCanada and NGTL continued discussions with their respective stakeholders. However, despite extensive consultations that concluded on December 7, 2010, an agreement supported by all parties through the collaborative processes of the TTF and TTFP could not be achieved.
 23. TransCanada and NGTL do however have significant support from a broad cross section of stakeholders, including the Canadian Association of Petroleum Producers (“CAPP”) for a proposal spanning the 2011-2013 timeframe (“2011-2013 Agreement”).
 24. The 2011-2013 Agreement is comprised of provisions specific to the Mainline, which are described in Attachment A1 (the “Mainline Components”) and provisions specific to the Alberta System, which are described in Attachment A2 (the “Alberta System Components”). The Mainline Components and the Alberta System Components are inextricably linked in that implementation of the 2011-2013 Agreement requires simultaneous implementation of both the Mainline Components and the Alberta System Components. The Mainline Components and the Alberta System Components are further discussed below in Section 5.0 of this Application. TransCanada has also committed to continue working with its stakeholders on the development of further long-term solutions for the Mainline.
 25. TransCanada and NGTL intend to file an application for approval of the 2011-2013 Agreement in early 2011. That application will provide the evidentiary basis to support approval of the 2011-2013 Agreement and resulting final 2011 tolls, including comprehensive information related to the business environment, a description of the negotiation processes and further detail about the rationale for and expected consequences of the specific Alberta System Components and Mainline Components. However, TransCanada and NGTL are prepared to continue working collaboratively with any stakeholders that may have outstanding concerns during this interim period.
 26. TransCanada and NGTL believe it is important that Mainline Interim 2011 Tolls and Alberta System Interim 2011 Rates that reflect the applicable components of the

2011-2013 Agreement are implemented effective January 1, 2011. Implementation of the proposed tolls and rates now enables parties to immediately realize the benefits of the 2011-2013 Agreement.

5.0 2011-2013 AGREEMENT

5.1 MAINLINE COMPONENTS OF THE 2011-2013 AGREEMENT

27. Major aspects of the Mainline Components that relate to the proposed Mainline Interim 2011 Tolls are summarized below and address:

- Revenue Requirement, including: depreciation; the Alberta System Mainline Surcharge (hereinafter referred to as the “Mainline Surcharge”); Operations, Maintenance and Administration (“OM&A”) Costs; Adjustment Accounts; and Aggregated Components;
- Regulatory Amortization;
- Toll Design;
- Services; and
- Mitigation.

28. A Mainline Open Season is contemplated as part of the Mainline Components, as described in Attachment A1. However, the Open Season does not affect the proposed Mainline Interim 2011 Tolls.

Revenue Requirement

29. The Mainline Revenue Requirement for the term of the 2011-2013 Agreement is defined in Section 1 of the Mainline Components. The Revenue Requirement will be determined annually based on a forecast of each component.

Depreciation

30. Depreciation costs will be determined in accordance with Section 1.1 of the Mainline Components. The accumulated depreciation transfers shown in the table below will be

made to the following Mainline segments as at January 1, 2011, provided however that the total Mainline accumulated depreciation will not change.

Prairies Segment	Northern Ontario Line Segment	Eastern Triangle Segment	Net Mainline System Impact
-\$969 million	+\$1643 million	-\$674 million	\$0

31. The depreciation rates for each category within segmented transmission plants will be set as shown in the table below, while depreciation rates for other assets will remain unchanged from the rates presently in effect under the Mainline 2007 -2011 Settlement.

Category	Prairies Segment	Northern Ontario Line Segment	Eastern Triangle Segment	Mainline Composite
Land Rights	2.25%	0.94%	1.03%	1.24%
Mains	2.59%	0.92%	0.75%	1.37%
Compression	3.88%	2.09%	3.33%	2.95%
Metering	2.99%	0.0%	2.31%	2.35%

Mainline Surcharge

32. As defined in Section 1.2 of the Mainline Components, NGTL will collect on behalf of the Mainline a surcharge of \$135 million in 2011 and \$185 million in each of 2012 and 2013, on gas received on the Alberta System, which will be credited to the Mainline Revenue Requirement. A Mainline Surcharge Deferral Account will be established to capture variances between the total amounts collected and the annual amount specified in Section 1.2 of the Mainline Components. The balance incurred will be carried forward and included in determination of the Mainline Surcharge the following year. A refund of the Mainline Surcharge would take place pursuant to the provisions of Section 1.2 of the Mainline Components.

OM&A

33. Pursuant to Section 1.3 of the Mainline Components and in accordance with the terms of the Mainline 2007-2011 Settlement, any variance between actual OM&A costs incurred and the amounts established for toll-making purposes for the years 2010 and 2011 will be shared equally (50/50) between shippers and TransCanada. Shippers' share of forecast OM&A savings for 2011 will be included in the 2011 Revenue Requirement.

Adjustment Accounts

34. As described in Section 1.4 of the Mainline Components, two adjustment accounts will be established and included in the Mainline rate base: a Long Term Adjustment Account and a Short Term Adjustment Account.
35. The Long Term Adjustment Account will be amortized at the Mainline composite depreciation rate and will include the items specified in Section 1.4.1 of the Mainline Components. The Short Term Adjustment Account will be amortized at 20% per year and will include the items specified in Section 1.4.2. Any balance in the Short Term Adjustment Account in excess of \$500 million will be recovered in the following year.

Aggregated Components

36. As defined in Section 1.5 of the Mainline Components, the Revenue Requirement will include as a single line item the aggregate of Return on Equity, Depreciation, Income Tax, and OM&A (collectively referred to as the "Aggregated Components"). The total variance between the actual and forecast Aggregated Components in each year will be recorded in the Aggregated Components Deferral Account. The variance for each of the Aggregated Components will be calculated consistent with Section 1.5(c) of the Mainline Components.

Regulatory Amortization

37. Three new deferral accounts are proposed to be established as defined in Section 2.1 of the Mainline Components:
- Aggregated Components, which will record total variances to the aggregated components;
 - Mainline Surcharge, as described above; and
 - Overhead Recovery, which will record any reduction in OM&A for 2011 due to the capitalization of overhead (any such reduction was recorded in the OM&A deferral account in 2010).
38. As noted in Section 2.1 of the Mainline Components, the existing Return deferral account will only be used to record variances to debt return based on a 60% deemed debt component of the Mainline capital structure.
39. As provided in Section 2.3 of the Mainline Components the existing Depreciation, Income Taxes, and OM&A deferral accounts will be held in abeyance during the term of the 2011-2013 Agreement.
40. Section 2.2 of the Mainline Components also defines the treatment of carrying charges during the term of the 2011-2013 Agreement.

Toll Design

41. Certain toll design changes are proposed to be implemented effective January 1, 2011, as defined in Section 3 of the Mainline Components.
42. Toll zones currently used for the tolling of long-haul domestic deliveries will be eliminated and tolls for such deliveries will reflect the distance to the load centre of individual distributor delivery areas ("DDA").

-
43. Components of the Revenue Requirements will be allocated to energy and energy-distance as detailed in Section 3(b) of the Mainline Components, using one of the following three allocation methods:

- ratio of rate base;
- 50% energy, 50% energy-distance; and
- the weighted-average ratio of other costs.

Costs will no longer be allocated to variable transmission and the commodity component of tolls will be eliminated.

44. The following toll design simplifications are also proposed to be implemented effective January 1, 2011:

- use of the shortest distance of haul for all distance calculations for all tolls and fuel rates for all services;
- determination of load centres based on metered flows into DDAs over the base year annual period;
- elimination of the distinct TransGas tolling methodology and of the East-West differential for all applicable services; and
- amendments to Balancing Fee provisions of the Mainline Tariff to refer to the Empress to KPUC EDA toll instead of the Eastern Zone Toll.

Services

45. As described in Section 5 of the Mainline Components, the following services are proposed to be terminated effective January 1, 2011:

- Long-Term Winter Firm Service ("LT-WFS");
- Firm Service Tendered ("FST");

-
- Firm Backhaul Transportation (“FBT”); and
 - Interruptible Transportation Backhaul (“ITB”).

46. LT-WFS and FST are no longer offered on the Mainline and there are no remaining contracts under either service. Service currently offered under FBT and ITB services will be available to shippers under FT, STFT and/or IT services.

Mitigation

47. As described in Section 9 of the Mainline Components, the tolls for FT, Firm Transportation – Short Notice (“FT-SN”), Storage Transportation Service (“STS”), and Storage Transportation Service – Linked (“STS-L”) Services for the paths listed in Appendix IV of the Mainline Components are proposed to be the lesser of the toll generated by the Mainline toll design, including the provisions of Section 3 of the Mainline Components, or the toll listed in Appendix IV of the Mainline Components.

5.2 ALBERTA SYSTEM COMPONENTS OF THE 2011-2013 AGREEMENT

48. The Alberta System Components that affect the calculation of the proposed Alberta System Interim 2011 Rates are the proposed treatment of Alberta System Foreign Exchange and the Mainline Surcharge.

Foreign Exchange

49. NGTL will convert its United States (“U.S.”) debt to Canadian debt, which is expected to result in a Foreign Exchange gain. This gain, less associated taxes, will be applied to the Foreign Exchange Amortization Account and will be amortized over the years 2011 through 2013. The amount that will be included in the Alberta System Revenue Requirement for 2011 is forecast to be \$32 million, plus related income tax.

Mainline Surcharge

50. As previously described, NGTL will collect on behalf of the Mainline a surcharge on volumes of gas received on the Alberta System for the years 2011 through 2013. Based on an amount of \$135 million and the 2011 forecast of throughput, the Mainline Surcharge for 2011 will be \$1.43/10³m³/d. This surcharge will be applicable to volumes received by the following services: FT-Receipt, FT-Receipt Non-Renewable, FT-Alberta Points to Point; IT-Receipt, Load Retention Service ("LRS"), LRS-2 and LRS-3.
51. The Alberta System Components also provide for specific depreciation rates for 2012 and 2013, as described in Attachment A2. This aspect of the Alberta System Components does not affect the proposed Alberta System Interim 2011 Rates.
- 6.0 MAINLINE INTERIM 2011 TOLLS AND ALBERTA SYSTEM INTERIM 2011 RATES**
52. The purpose of this Application is to establish tolls for the Mainline and rates, tolls and charges for the Alberta System, effective January 1, 2011, on an interim basis pending the Board's disposition of an application by TransCanada and NGTL seeking approval of the 2011-2013 Agreement and resulting final 2011 tolls and rates.
53. The Board has jurisdiction under subsection 19(2) of the NEB Act to set tolls on an interim basis. In exercising its power to issue interim orders pertaining to tolls, the Board has historically emphasized that a decision to approve interim tolls does not amount to a ruling by the Board as to the merits of any case presented by an applicant or by interested parties in an application to set final tolls.²
54. TransCanada and NGTL submit that establishing interim tolls for the Mainline and Alberta Systems that are reflective of the components of the 2011-2013 Agreement

² For example, National Energy Board letter decision dated 30 December 2003 and Order TGI-10-2003, TransCanada PipeLines Limited B.C. System, Interim Rates and Charges effective 1 January 2004 and Amendments to the B.C. System Gas Transportation Services Documents Tariff ("2004 BC System Interim Tolls Decision"); and National Energy Board Cover Letter to Order TGI-07-2003 dated 18 December 2003 pertaining to an Application by TransCanada PipeLines Limited for approval of Mainline interim tolls effective 1 January 2004 ("2004 Mainline Interim Tolls Order").

represents an appropriate level of interim tolls during the period that the Board adjudicates the merits of the 2011-2013 Agreement.

55. Once final 2011 tolls are determined TransCanada and NGTL intend to seek Board approval to adjust for the difference between the final and interim tolls proposed in this Application effective January 1, 2011. In other words, ultimately the tolls for 2011 will reflect final approved tolls effective January 1, 2011.

6.1 CALCULATION OF MAINLINE INTERIM 2011 TOLLS

56. The Mainline Revenue Requirement used to determine the Mainline Interim 2011 Tolls was determined in accordance with the applicable Mainline Components. The resulting 2011 Interim Gross Revenue Requirement is \$1,234 million. TransCanada forecasts that Miscellaneous Revenue will be \$301 million, resulting in a Net Revenue Requirement of \$932 million.
57. The FT toll from Empress to the Union SWDA under the Mainline Interim 2011 Toll is \$1.2336/GJ.
58. In accordance with the provisions of the Mainline Components, all costs and revenues will be treated on flow through basis. As previously described above, OM&A variances will be shared equally (50/50) between shippers and TransCanada in 2011.
59. TransCanada provides in Attachment B1 detailed schedules supporting the 2011 cost components of the interim revenue requirement.
60. TransCanada provides in Attachment B2 TransCanada's toll design explanatory.
61. TransCanada provides in Attachment B3 a listing of the Mainline Interim 2011 Tolls for all services, based on the interim Revenue Requirement and TransCanada's forecast of 2011 contracts and throughput.
62. Amendments to the Mainline Tariff are necessary to give effect to the Mainline Components for the purpose of establishing the Mainline Interim 2011 Tolls.

TransCanada proposes that the Tariff amendments be in effect pending the Board's disposition of the application for approval of the 2011-2013 Agreement.

63. These Mainline Tariff amendments reflect the implementation of the following aspects of the Mainline Components effective January 1, 2011:

- elimination of toll zones;
- elimination of FST, IBT, LTWFS and FBT services;
- elimination of commodity toll;
- elimination of the East/West differential;
- amendment to the balancing fee provision in General Terms and Conditions ("GTCs") to refer to Empress to KPUC EDA instead of the Eastern Zone Toll; and
- amendment to the GTCs to include definitions for the Mainline Surcharge and NGTL

64. A summary of the Mainline Tariff amendments and black-line copy of the affected pages illustrating the amendments are provided in Attachment B4. A clean copy of the affected sections is provided in Attachment B5.

65. The Tolls schedules provided in Attachment B3 reflect the implementation of the Mainline Components applicable to Mainline Interim 2011 Tolls.

6.2 CALCULATION OF ALBERTA SYSTEM INTERIM 2011 RATES

66. The Alberta System Interim 2011 Rates have been calculated pursuant to the provisions of the Alberta System Revenue Requirement Settlement and the applicable Alberta System Components for 2011 and are based on the following components:

- a 2011 interim revenue requirement of \$1,079.6 million, determined as follows:

Item	\$ million
2010 Settlement Revenue Requirement	1,183.6
Forecast 2010 Deferrals	(59.0)
Forecast Foreign Exchange Amortization and Related Income Tax	(45.0)
Interim 2011 Revenue Requirement	1,079.6

- forecast 2011 contract demand quantities and throughput as provided in Attachment C1; and
 - NGTL's existing rate design methodology and transition mechanisms as approved by the Board in Order TG-04-2010.
67. An illustrative rate calculation representing fully-transitioned rates is provided in Attachment C2. The transition mechanism calculation for year two and a summary of the Distance of Haul results underpinning the rate calculation for Group 1 and Group 2 delivery points are provided in Attachment C3. The table of Alberta System Interim 2011 Rates is provided in Attachment C4.
68. Amendments to the Alberta System Tariff are necessary to give effect to the Alberta System Components for the purpose of establishing the Alberta System Interim 2011 Rates. NGTL proposes that the Alberta System Tariff amendments be in effect pending the Board's disposition of the application for approval of the 2011-2013 Agreement.
69. The proposed amendments to the General Terms and Conditions and certain Rate Schedules in the Alberta System Tariff are required to enable NGTL to collect the Mainline Surcharge. Specifically:
- a definition for the Mainline Surcharge must be added to the General Terms and Conditions of the Alberta System Tariff;

-
- the existing Surcharge definition in the General Terms and Conditions of the Alberta System Tariff must be revised to include the Mainline Surcharge; and
 - the Rate Schedules for LRS service, LRS-2 service and LRS-3 service must be amended to include a provision to enable the Mainline Surcharge to be collected with these services.
70. A summary of the Alberta System Tariff amendments and black-line copy of the affected pages illustrating the amendments are provided in Attachment C5. A clean copy of the affected sections is provided in Attachment C6.
71. The table of Alberta System Interim 2011 Rates provided in Attachment C4 reflects the inclusion of the Alberta Components applicable for 2011.

7.0 ALTERNATIVE INTERIM TOLLS AND RATES

72. It is TransCanada's strong belief that the Board should approve the Mainline Interim 2011 Tolls and the Alberta System Interim 2011 Rates as proposed. However if the Board is not prepared to approve the Mainline Interim 2011 Tolls and the Alberta System Interim 2011 Rates, TransCanada and NGTL seek in the alternative approval of the interim tolls and rates, effective January 1, 2011, for each of the Mainline and Alberta System as described below.

7.1 ALTERNATIVE MAINLINE INTERIM TOLLS

73. TransCanada proposes that alternative Mainline interim 2011 tolls be established using the existing toll design on the following basis ("Alternative Mainline Interim 2011 Tolls"):
- a revenue requirement derived in accordance with the terms of the Mainline 2007-2011 Settlement and Order TG-06-2009;
 - 2011 billing determinants; and
 - disposition in 2011 of the cumulative forecast of 2010 Deferrals.

-
74. The resulting interim Gross Revenue Requirement would be \$1,974 million. TransCanada forecasts that Miscellaneous Revenue would be \$319 million, resulting in a Net Revenue Requirement of \$1,655 million.
75. The 2011 Interim Eastern Zone 100% load factor FT Toll would be \$2.91/GJ and the 2011 Interim Southwest Zone 100% load factor FT Toll would be \$2.45/GJ under the Alternative Mainline Interim 2011 Tolls.
76. Implementation of a new deferral account is proposed for Overhead Recovery to record any reduction in OM&A for 2011 due to the capitalization of overhead ("Overhead Recovery deferral account"). Any such reduction was previously recorded in the OM&A deferral account.
77. The schedules supporting the Alternative Mainline Interim 2011 Tolls are provided in Attachment D1.
78. No tariff changes are required to implement the Alternative Mainline Interim 2011 Tolls.

7.2 ALTERNATIVE ALBERTA SYSTEM INTERIM RATES

79. NGTL proposes that the alternative Alberta System interim 2011 rates, tolls and charges be established pursuant to the provisions of the Alberta System Revenue Requirement Settlement ("Alternative Alberta System Interim 2011 Rates").
80. The Alternative Alberta System Interim 2011 Rates would be based on the following components:
- the 2011 interim revenue requirement determined as follows:

Item	\$ million
2010 Settlement Revenue Requirement	1,183.6
Forecast 2010 Deferrals	(59.0)
2011 Interim Revenue Requirement	1,124.6

- forecast 2011 contract demand quantities and throughput as provided in Attachment C1; and
 - NGTL's existing rate design methodology and transition mechanisms, as approved by the Board in Order TG-04-2010.
81. An illustrative rate calculation representing fully-transitioned rates reflective of the Alternative Alberta System Interim 2011 Rates is provided in Attachment E1. The related transition mechanism calculation for year two and a summary of the Distance of Haul results underpinning the rate calculation for Group 1 and Group 2 delivery points are provided in Attachment E2. The resulting table of Alternative Alberta System Interim 2011 Rates is provided in Attachment E3.
82. No tariff changes are required to implement the Alternative Alberta System Interim 2011 Rates.

8.0 RELIEF REQUESTED

83. TransCanada and NGTL request an Order of the Board approving, effective January 1, 2011:
- Mainline Interim 2011 Tolls as set out in Attachment B3;
 - amendments to the Mainline Tariff as set out Attachment B4;
 - Alberta System Interim 2011 Rates as set out in Attachment C4;
 - amendments to the Alberta System Tariff as set out in Attachment C5;

-
- Approval of the Mainline deferral accounts set out in Section 2.1 of the Mainline Components; and
 - such further and other relief as TransCanada or NGTL may request or the Board may consider appropriate.
84. In the alternative, TransCanada and NGTL request an Order of the Board approving, effective January 1, 2011:
- Alternative Mainline Interim 2011 Tolls as set out in Attachment D1;
 - Alternative Alberta System Interim 2011 Rates as set out in Attachment E3;
 - Implementation of the Overhead Recovery deferral account; and
 - such further and other relief as TransCanada or NGTL may request or the Board may consider appropriate.

Respectfully submitted.

Calgary, Alberta
December 9, 2010

TransCanada PipeLines Limited
NOVA Gas Transmission Ltd.

[Original Signed by]

Kristine Delkus
Deputy General Counsel
Pipelines and Regulatory Affairs

Communications relating to this Application should be directed to:

Carolyn Shaw
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December 16, 2010

FILED ELECTRONICALLY

Ms. Anne-Marie Erikson
Secretary
National Energy Board
444 – 7th Avenue S. W.
Calgary, Alberta
T2P 0X8

Dear Ms. Erikson:

RE: TransCanada PipeLines Limited (“TransCanada”) and NOVA Gas Transmission Ltd. (“NGTL”) Application for Approval of Mainline Interim 2011 Tolls and Alberta System 2011 Interim Rates (“Application”)

Enbridge Gas Distribution Inc. (“EGD”) is both a long-haul and short-haul shipper on TransCanada’s Mainline system, currently holding firm transportation (“FT”) contracts with a total capacity of more than 1 million GJ/day – representing approximately 20% of all TransCanada FT contracts. EGD is the largest natural gas distributor in Canada, serving approximately 1.9 million customers in Ontario, and adding another 40,000 customers annually. EGD is dependent upon the Mainline system to supply its customers. EGD’s distribution system interconnects with TransCanada’s Mainline in approximately forty locations. EGD therefore expects to remain a Mainline shipper for the foreseeable future.

We have the following comments regarding the Application.

The Application, based on a 2011-2013 proposal (the “Proposal”) that TransCanada expects to file in early 2011, proposes a reduction in long-haul tolls and an increase in short-haul tolls relative to current tolls for EGD. TransCanada’s 2011 proposed interim FT toll for Empress to the Enbridge CDA is \$1.3544/GJ (at 100% load factor), and assumes every element of the yet-to-be filed Proposal is accepted. As the alternative, TransCanada suggests a toll of \$2.9055/GJ for the same transportation path using the existing toll design and assuming full disposition of deferral accounts. In comparison, the current toll is \$1.6381/GJ.

While EGD appreciates TransCanada’s efforts to propose toll methodologies that will improve the competitiveness of the Mainline, and provide short term toll adjustments through the deferral of costs and other short term contributions, there is further work to be done to improve the longer term aspects and implications of the Proposal. EGD remains hopeful that such improvements can be negotiated and will result in broader shipper support of TransCanada’s efforts.

In light of the above, EGD submits that approval of the Application on an interim basis is premature. A more comprehensive examination of the short and long term consequences, and

specifically the impact of the significant deferral of costs proposed, is needed. Additional time is also required for EGD and other shippers to obtain and assess further information regarding the Proposal.

EGD favours maintenance of the current toll on an interim basis as the least prejudicial toll option pending further review of the Proposal. Approval of the current tolls on an interim basis, instead of the Application, would reduce the likelihood of significant toll impacts in the event that all elements of the Proposal are not accepted.

In summary, we respectfully request that the Board maintain Mainline system tolls at the level approved in Board order TG-06-2009 on an interim basis until stakeholders can more fully examine the impacts of the Proposal. Maintenance of the current toll strikes the best balance between shipper/ratepayer impacts and TransCanada's need to recover costs while stakeholders are negotiating a more widely accepted settlement.

Please direct any correspondence regarding the Application to EGD's representatives as follows:

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Senior Legal Counsel, Regulatory
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Yours very truly,



Tania Persad
Senior Legal Counsel, Regulatory

cc: Jennifer Scott, Senior Legal Counsel, TransCanada PipeLines Limited



uniongas
A Spectra Energy Company

December 17, 2010

National Energy Board,
444 7th Avenue S.W.,
CALGARY, Alberta.
T2P OX8
ATTN: Anne-Marie Erickson

Dear Ms Erickson:

RE: TransCanada PipeLines Limited (TCPL) Application for Mainline and Alberta System 2011 Interim Tolls

Union Gas Limited ("Union") is responding to TCPL's Application for Mainline and Alberta System 2011 Interim Tolls dated December 9, 2010.

Union serves 1.3 million residential, commercial and industrial customers throughout Northern and South Western Ontario and holds over 500,000 GJ/d of long and short haul Mainline capacity which represents approximately 15% of the Mainline revenue. Union was an active participant in TCPL's Tolls Task Force ("TTF") and the discussion on various issues encapsulated under the headline of "Mainline Competitiveness". It was Union's understanding that the intent of these discussions was to develop a sustainable solution to address the threat of escalating tolls and provide greater toll certainty and stability.

Union did not support this proposal at the TTF because it does not adequately address certain key needs and concerns that were raised by eastern market participants. The specific concerns expressed by Union included firstly, the proposed toll methodology changes which would shift the burden of long haul costs to short haul service paths and, secondly, the failure of the proposal to provide sustainable long term solutions. Similar views were expressed by others who were unable to support the proposal.

While Union commends TCPL's efforts to address the underutilization of its mainline system and escalating tolls, Union does not believe interim tolls should be established based on a contested settlement. TCPL's alternative proposal reflecting an Eastern Zone toll of \$2.91/GJ is also inappropriate for establishing interim tolls as it sets tolls at an uncompetitive level and

therefore conflicts with the efforts of the Mainline Competitiveness negotiations that are still underway.

Union would therefore recommend that TCPL's interim 2011 tolls be fixed at a level equal to the existing 2010 final tolls. In our view, the existing 2010 tolls reflect a neutral basis for fostering continued negotiations with a view to achieving a toll settlement with broader industry support. Alternatively, if the National Energy Board is concerned that existing tolls will result in an unacceptable level of deferred costs that cannot be addressed through negotiations, Union recommends that interim tolls be fixed as proposed by TCPL excluding the toll methodology changes referred to above.

Union is committed to working with TCPL and industry stakeholders and looks forward to continued timely and inclusive negotiations that will yield a long term industry solution that is more broadly accepted.

Regards,

Original Signed by

UNION GAS LIMITED.

Patricia Planting,
Manager, Upstream Regulation.

cc: Ms. K Delkus – TransCanada PipeLines



December 10, 2010

Filed Electronically

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National Energy Board
444 Seventh Avenue S.W.
Calgary, Alberta T2P 0X8

Attention: Ms. Anne-Marie Erickson, Secretary
of the Board

Dear Ms. Erickson:

**Re: TransCanada Application for Approval of Mainline and Alberta System
Interim Tolls for 2011**

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The Canadian Association of Petroleum Producers strongly supports the TransCanada application for 2011 interim tolls for the Mainline and NGTL¹ based on the settlement agreement supported by CAPP and a number of other parties who represent a broad cross section of Mainline stakeholders by geography and nature of business.

The issue is Mainline competitiveness and the settlement agreement addresses this issue. TransCanada has for a long period of time worked with stakeholders to identify ways to ensure the Mainline can continue to provide competitive access for supply to markets served by the Mainline. The focus of these discussions has been the need to lower Mainline tolls below the severely uncompetitive level they would be under the existing cost allocation and toll design (the status quo level) and to provide toll certainty and stability. The Mainline is a critical link to key markets. It is the largest gas pipeline in Canada and connects western Canadian supply to multiple distant markets. It is crucial that tolls be reduced from the status quo level and stabilized to ensure economic access between supplies and eastern markets.

¹ There is an implementation issue regarding the NGTL surcharge. Certain LRS shippers consider that it is inappropriate for the surcharge to apply to LRS volumes. This matter will require adjudication by the Board in due course. Different producers may have different views on this specific matter and that will come out in the course of events. Approval of interim tolls is without prejudice to this issue as well as any other issues that may go to hearing. However, producer support for the Mainline settlement agreement is strong and CAPP supports the approval of Mainline and NGTL interim tolls based on the settlement agreement as filed by TransCanada.

It is not in the public interest, in CAPP's respectful view, for the Mainline to enter 2011 at the status quo toll levels whether that is the current 2010 \$1.65/GJ² or the \$2.91/GJ that would be the result of the existing toll design for 2011. To do so would leave the Mainline in an uncompetitive position and knock the Mainline by default out of competition that is now ongoing in markets traditionally served by the Mainline.

It is in the public interest to improve the competitiveness of this critical link to key markets now: it is in the public interest to approve on an interim basis the tolls that result from this settlement.

The Mainline situation is unprecedented in Canada. All stakeholders have been called upon to recognize the changed circumstances and to contribute. Producers have been asked, and have voluntarily agreed on a without prejudice basis, to contribute to stabilizing the Mainline situation. The producer contribution amounts to half a billion dollars over the three year term of the settlement agreement. Producers believe that all stakeholders must share in the solution. TransCanada itself, under the settlement agreement, is prepared to adopt other extraordinary measures required to achieve these toll levels. These extraordinary measures proposed by TransCanada are, along with other settlement components that appropriately reflect the changing patterns of use of the Mainline, essential elements of the toll reduction package made possible in the settlement agreement. These cost allocation and toll design changes have support from a broad cross-section of Mainline stakeholders. This has been a co-operative effort.

The cost allocation and tariff changes are ancillary to and necessary for the main objective of implementing on an interim basis significantly lower tolls starting January 1, 2011. There can be no interim toll reduction without interim approval of these ancillary cost allocation and tariff changes. While it is the norm for the Board to adopt interim tolls derived from the established cost allocation and toll design methodologies having regard to contract levels and estimated discretionary revenues, and while TransCanada has included this as an option albeit not the option it proposes, tolls at this level would send entirely the wrong signal to the marketplace and do nothing to assist the Mainline at a critical time.³ The Board has jurisdiction to order interim tolls and that carries with it the authority to approve on an interim basis necessary ancillary cost allocation and tariff changes to give effect to the interim tolls.

² The 2010 toll would have been much higher if TransCanada had not agreed to a one time deferral to future periods of about \$120 Million (\$80 Million plus income taxes).

³ The other possibility for interim 2011 Mainline tolls of carrying forward the existing Mainline 2010 tolls into 2011 on an interim basis would leave the Mainline with tolls far too low to recover its usual cost of service with its means of recovering those costs entirely up in the air for an extended time; would leave the marketplace in a continued state of uncertainty; and would, as discussed further in this letter, assist any who may wish nothing more than for the Mainline to be uncompetitive. The Board should also recall that the 2010 toll level was only achieved with about a \$120 Million one time cost deferral by TransCanada.

The settlement agreement will reduce Mainline tolls on many paths as compared to the status quo level and no shipper would face a higher toll than the status quo. The settlement tolls are less than or equal to status quo tolls for all routes. In 2011 the Mainline toll from Empress to Toronto is reduced by \$1.56/GJ from the status quo \$2.91/GJ; the Empress to Dawn toll is reduced by \$1.22/GJ from the status quo \$2.45/GJ; the Niagara to Iroquois toll is reduced by \$0.21/GJ from the status quo; Dawn to GMi is reduced by \$0.35/GJ from the status quo. These are, in aggregate, huge toll reductions and Canadian consumers will enjoy huge savings overall compared to the status quo.

The extraordinary nature of the situation faced by the Mainline is the central issue for the Board's consideration of this interim toll matter. An uncompetitive Mainline results in the disconnection of eastern markets and western Canadian supplies and a Mainline that is significantly stranded. Perhaps there are parties who might find that quite acceptable from a private interest perspective (one would hope not) but, when the Board has before it a settlement agreement supported by the pipeline and a substantial number of stakeholders that seeks to address the competitiveness issue, the public interest militates in favour of interim tolls at the settlement agreement level.

The Board is aware of, and its staff monitored, the Ontario Energy Board 2010 Natural Gas Market Review proceeding this year. The OEB commissioned a study by ICF that was posted on the OEB website and was provided to those following the process.⁴ It appears to be the conclusion of ICF⁵ that, looking out to

⁴ OEB proceeding EB-2010-0199 Shortcut to:
[http://www.oeb.gov.on.ca/OEB/Industry/Regulatory+Proceedings/Policy+Initiatives+and+Consultations/2010+Natural+Gas+Market+Review+\(RP-2010-0199\)/2010+Natural+Gas+Market+Review+\(RP-2010-0199\)](http://www.oeb.gov.on.ca/OEB/Industry/Regulatory+Proceedings/Policy+Initiatives+and+Consultations/2010+Natural+Gas+Market+Review+(RP-2010-0199)/2010+Natural+Gas+Market+Review+(RP-2010-0199))

The July 13, 2010 letter initiating the proceeding identifies the following questions:

"Through this Review the Board will consider, for example, what might be the implications of increased shale gas production?

Will it change the flow pattern of natural gas? If so, will this increase the need for new pipeline services and routes and reduce the attractiveness of others?

Will it impact the price of natural gas in Ontario arising from incremental supply and a potential increase in pipeline and storage facilities?

Are there any regulatory implications? Is there a need for greater inter-jurisdictional regulatory alignment?

Are there risks that, if realized, will change the outlook for shale gas (e.g., potential environmental issues that may impact shale gas exploration and development)?"

The OEB August 20, 2010 letter issuing the ICF study contains, in Attachment A, a further elaboration of these question by OEB staff. This includes an interest in the opportunities presented to Ontario consumers by new supplies such as the Marcellus gas supplies over the next 3 – 5 years as well as the longer term. The lack of competitiveness of the Mainline because of high tolls identified by ICF is also identified as an issue by OEB staff.

⁵ CAPP cites ICF not because CAPP endorses the ICF study per se but because the study is very specific to Mainline competitiveness and issues and implications of an uncompetitive Mainline given various assumptions or scenarios; the OEB commissioned the study and it is being used to inform OEB policy; and it has been discussed by market participants who are concerned with the

the future, the Mainline will not be a competitive long haul path to western Canadian supplies and that the Mainline will lose market share continuously while demand for natural gas in markets served by the Mainline grows. This is their conclusion even when increased supplies could be available to the Mainline in western Canada.⁶ Increased western Canadian supplies would, it seems on the ICF analysis, be absorbed into other markets served by other pipelines or the supply in western Canada would balance with an increase in new supplies offset by declines in existing western gas. In other words, an uncompetitive Mainline causes western Canadian supplies to seek alternate markets or to rationalize down to the available economic exit capacity from the basin. This is just basic economics applied to their assumption that the Mainline will not be competitive. It is, however, a consequence the Board should seriously consider when assessing this application for interim tolls. Excessively high Mainline tolls have serious consequences and the settlement tolls seek to mitigate this while a long term solution is pursued that supports the ongoing competitiveness of the Mainline. Conversely a competitive Mainline is a positive signal for the growth of western Canadian gas supplies.

In that regard, while development of new gas supplies in western Canada has lagged that in the U.S. and the market has seen some decline in western Canadian production, the economically recoverable western Canadian gas resource has never been greater and growth in supplies is expected in the coming years.⁷ Development of this gas depends on the existence of economically attractive pipeline capacity. The Mainline is capable of providing economic access to markets, but not at uncompetitive toll levels.

The OEB proceeding also demonstrates the interest of many parties in accessing U.S. sources of gas and in pursuing infrastructure projects that would increase the access to U.S. gas supplies while increasingly stranding Mainline long haul capacity. The OEB staff questions were very pointed in regard to the interest in increased access to U.S. gas supplies. OEB staff pressed forward with this line of questions even after ICF had provided their study to the OEB showing that U.S. supplies other than Marcellus would enter to meet growing Ontario demand. OEB

issue of Mainline competitiveness and who are presently very interested in alternative sources of supply.

⁶ ICF p.63, Exhibit 47

⁷ In its presentation to the OEB (available via the shortcut provided in a previous footnote to this letter) TransCanada has increased its view of the ultimate potential of the WCSB to include substantial unconventional gas. TransCanada's UP estimate is now in the range of 403 – 483 Tcf (slide 12). This is largest ever estimate of WCSB potential and reflects the impact of new technology to a resource that was previously not recognized as economically recoverable. TransCanada also provides data that shows that Horn River and Montney compare favourably with U.S. shale gas plays. With new Montney and Horn River supplies, TransCanada expects western Canadian supply to return to 2006 levels in the second half in this decade (slide 13). CAPP would understand this TransCanada supply view to rest on an expectation that the Mainline will be competitive.

staff and many other participants were focused on the opportunity presented by the Marcellus gas supplies being developed such a relatively short distance away.⁸

For some time the trend in the east has been increasingly to use⁹ the Mainline for short haul transportation on TransCanada, in particular from Dawn, while shedding long haul. For a number of years the growth in eastern short haul was slow and the long haul continued to predominate and hence to carry the great bulk of the costs of the system. However, there was a very marked and distinct change in the pattern of use in 2008 from long haul to short that began the acceleration of the Mainline toll levels¹⁰ seen in 2009 and into 2010 and now to extraordinarily higher levels in 2011 on a status quo basis. In 2008 long haul use decreased markedly, while there was a corresponding sharp increase in eastern short haul. This was repeated in 2009 with a further reduction of long haul and a corresponding increase in eastern short haul. By 2010 the historic situation had reversed: long haul no longer dominated and instead the eastern short haul represented the majority of service on the system. The assumptions underpinning cost recovery for the Mainline, and hence cost allocation and toll design, have been eroding gradually albeit imperceptibly for years. Beginning in 2008 the erosion sharply accelerated and the traditional assumptions are no longer valid. This is reflected in the excessively high long haul tolls that fall out of the status quo cost allocation and toll design.

At the root of the Mainline competitiveness issue is the recent game changing growth in U.S. gas supplies after years of decline. This growth, which includes the expansion of Rockies gas east but especially growth from the new shale gas plays, is impacting several long line pipelines in North America. The Mainline faces long term challenges to achieve competitiveness. These involve difficult questions, but the present interim toll application presents in substance one issue for the Board: the need to act now with interim tolls to put in place tolls that stabilize the Mainline tolls at a critical time. There is an immediate need for a clear signal to the market that the Mainline will be a competitive link to western Canadian supplies.

⁸ The OEB staff questions have been noted in a previous footnote. The transcripts of the proceeding are a matter of public record and available from the OEB at no charge. Presentations by parties are available on the OEB web page the shortcut to which is in a previous footnote to this letter. Union Gas for example made it clear in its presentation that the Mainline is not a competitive option under the current toll methodology (slide 12); that the market response will involve increased U.S. gas supplies in particular Marcellus; and the many projects to bring Marcellus gas supplies into Mainline traditional markets are listed (slide 21).

⁹ This discussion of changing patterns of use is based on comparison of receipts which because of discretionary services capture more information on use than firm contracts although an examination of firm contracts would also point to the fact that the traditional assumptions in Mainline cost allocation and toll design are no longer valid.

¹⁰ The recession also had an impact on demand for all Mainline services during this time but the shift in contracting fundamentally alters the assumptions underlying Mainline cost allocation and toll design.

The settlement agreement is not a long term solution. It is a bridge to allow TransCanada time to get its house in order. The settlement agreement reflects the desire of CAPP to work with TransCanada and with other stakeholders on a long term solution. CAPP's alternatives were to litigate or to settle. CAPP does not view litigation as constructive in the present circumstances where the game changing effects of new U.S. supplies are of recent origin; where the understanding of shale gas potential is continuing to improve; where there continues to be considerable uncertainty in the timing and scope of recovery of natural gas demand; where the impacts on the Mainline are so significant; and the changes needed are so substantial. CAPP's decision to settle to create the room for constructive dialogue in no way reflects a view that producers or NGTL shippers accept any responsibility for Mainline costs. CAPP members are not pleased with this settlement. However, litigation is seen in the present circumstances as a less desirable alternative. Litigation works against the need to stabilize the Mainline and the need to work collaboratively to improve the competitiveness of the Mainline for the longer term. Approval of the Mainline and NGTL interim tolls at the settlement levels is needed for the same reason.

It was at the end of March that TransCanada included an NGTL component into the proposal tabled at the Mainline TTF. CAPP strongly objected to a proposal being tabled with Mainline stakeholders that had never been discussed or tabled with the NGTL TTFP. TransCanada then proceeded to engage the NGTL TTFP. Some Mainline stakeholders made it clear to CAPP that they viewed the NGTL issue – if not the entire Mainline competitiveness issue – as a producer issue for producers to address. Producers did address the NGTL issue and have, without prejudice and with the recognition that this was part of a package, settled with TransCanada.

CAPP agreed with TransCanada that changes are necessary to realign cost recovery and other aspects of the Mainline business model in light of the changed patterns of use of the system. At the same time, CAPP made it clear to TransCanada that, while it recognized the need for changes to Mainline cost allocation and toll design, CAPP respected the opportunity of other stakeholders to further negotiate and resolve the details with a view to a full industry settlement. The cost allocation and toll design changes proposed by TransCanada at the end of March to the Mainline stakeholders at all times continued to be processed through the Mainline TTF. Mainline stakeholders have had many months to offer their alternatives if they did not like what TransCanada proposed at the end of March.

CAPP notes that there is an implementation issue regarding the NGTL surcharge. Certain LRS shippers consider that it is inappropriate for the surcharge to apply to LRS volumes. This matter will require adjudication by the Board in due course. Different producers may have different views on this specific matter and that will come out in the course of events. Approval of interim tolls is without prejudice to this issue as well as any other issues that may go to hearing. However, producer support for the Mainline settlement agreement is strong and CAPP supports the

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approval of Mainline and NGTL interim tolls based on the settlement agreement as filed by TransCanada.

With regard to the possibility of imposing interim tolls at a level higher than the settlement level for the Mainline and NGTL, this would in CAPP's respectful view undermine the value of the settlement. There is no point in a producer commitment to contribute to the Mainline 2011 revenue requirement if the toll level for much of the year is at a higher level. The market will operate at the toll level that is currently being paid. It is not realistic to think that retroactive toll adjustments can unwind this. The prospect of retroactively altering the tolls for past transactions will further undermine market confidence in the Mainline. As noted above, as well, the higher toll would simply be the wrong signal at a very critical time for the Mainline when eastern markets have been looking at excessively high Mainline long haul tolls while new sources of supply are actively knocking on the door.¹¹ An uncompetitive Mainline is not in the public interest while a competitive Mainline enhances competition. Not only is this agreement a 'package deal' that rests on the usual expectation that the Board will treat it as a package, it is a package that comes to the Board at a critical time for the Mainline. CAPP entered into this agreement because of the extraordinary circumstances of the Mainline and, if approval of the interim tolls based on the settlement is seen as extraordinary, then it would be in keeping with what is called for in this circumstance.

Approval of the TransCanada application for interim tolls is without prejudice to any issue that will be heard by the Board. The Board recognized this principle in its June 12, 2002 letter to Group 1 Pipelines issuing the Guidelines for Negotiated Settlements of Traffic, Tolls, and Tariffs. The Board recognized that it could be in the public interest to allow provisions of a contested settlement to take effect on an interim basis while the Board convened a hearing to consider the settlement in its entirety. CAPP respectfully submits that this principle should guide the Board in the present case: a case for which there is no Canadian precedent and that involves a settlement with unprecedented measures to reduce and stabilize Mainline tolls in the face of an alternative which is simply not in the public interest.

In conclusion CAPP strongly supports the application for interim tolls based on the settlement agreement reached with CAPP and many other parties who represent a cross section of Mainline stakeholders by geography and nature of business.

¹¹ Perhaps others may say that approval of the interim tolls will likewise mean that as a practical matter any final order of the Board that differs from the settlement agreement proposals cannot in practice be unwound retroactively. However, as between approving the lower tolls contemplated by the settlement and not approving those tolls, the public interest weighs in favour of lower tolls.

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Yours very truly,

LAWSON LUNDELL LLP

(Signed) *Lewis L. Manning*

Lewis L. Manning

LLM/reh

cc. Jennifer Scott, Senior Legal Counsel, TransCanada PipeLines Limited

Nick Schultz, Vice President, Pipeline Regulation, and General Counsel,
CAPP

Greg Stringham, Vice President, Markets and Oil Sands, CAPP

TCPL TTF and NGTL TTFP members

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TAB 7

National Energy
Board



Office national
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Files OF-Tolls-Group1-T211-2010-04 01 and
OF-Tolls-Group1-N081-2010-05 01
23 December 2010

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Dear Ms. Shaw, Ms. Scott, and Mr. Pelletier:

**TransCanada PipeLines Limited (TransCanada) and
NOVA Gas Transmission Ltd. (NGTL)
Application for Approval of Mainline Interim 2011 Tolls and
Alberta System 2011 Interim Rates (the Application)**

The National Energy Board has received TransCanada and NGTL's 9 December 2010 Application, as well as subsequent letters of comment from several interested parties and TransCanada and NGTL. The attached Order TGI-04-2010 sets the current Mainline tolls as interim, effective 1 January 2011, and sets the Alberta System rates at the alternative levels described below, on an interim basis effective 1 January 2011.

As has been stated in the past, the Board establishes interim tolls without an extensive examination of substantive issues and a decision to approve interim tolls is, in no way, a ruling by the Board as to the merits of any case presented by an Applicant or by interested parties to set final tolls. In light of the limited filings in an application to set or amend interim tolls, absent compelling evidence to the contrary, interim tolls are normally established in a manner that aligns with the Board's most recent decision which relates to a company's final tolls.

With respect to the Application, the Board recognizes the current unusual circumstances and notes that there has been no indication that any party's first choice would be to set Mainline interim tolls at the "Alternative" levels put forward in the Application. The Board is of the view that Mainline interim tolls set at such levels are not in the public interest at this time.

.../2

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The Application proposes interim tolls and tariff changes that are associated with significant changes to the established Mainline toll design and method of allocating costs. The Mainline Surcharge on the Alberta System would also be a significant change. The Board is of the view that it is not appropriate for such fundamental changes to be implemented on an interim basis in the face of significant opposition.

Given the Board's above views respecting the "Alternative" Mainline interim tolls and the applied-for interim tolls, the Board has decided to set current Mainline tolls as interim, effective 1 January 2011. Since no parties have indicated opposition to the Alternative Alberta System interim tolls, and since they reflect the continuing transition to the toll methodology approved in RHW-1-2010, the Board has decided to set the Alberta System interim rates, effective 1 January 2011, equal to the Alternative Alberta System Interim 2011 Rates contained in Attachment E3 of the Application. The attached Order implements these decisions.

The Board notes the significant efforts to reach resolution of these difficult issues and encourages continued efforts to collaboratively address these matters through negotiations with all parties.

TransCanada and NGTL are directed to serve a copy of this letter and attached Order on all their interested parties.

Yours truly,

for 

Anne-Marie Erickson
Secretary of the Board

Attachment



ORDER TGI-04-2010

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

AND IN THE MATTER OF an application filed with the National Energy Board (Board) by TransCanada Pipelines Limited (TransCanada) and NOVA Gas Transmission Ltd. (NGTL) dated 9 December 2010 for approval of Mainline Interim 2011 Tolls and Alberta System 2011 Interim Rates, and for related changes to their respective tariffs, pursuant to sub-section 19(2) and Part IV of the Act under Files OF-Tolls-Group1-T211-2010-04 01 and OF-Tolls-Group1-N081-2010-05 01.

BEFORE the Board on 22 December 2010.

WHEREAS TransCanada and NGTL filed an application dated 9 December 2010, seeking approval for interim 2011 tolls and related tariff changes;

AND WHEREAS TransCanada and NGTL have an opposed agreement regarding the tolls and tariffs of both the Mainline and the Alberta System (the 2011-2013 Agreement);

AND WHEREAS the applied-for interim tolls are based on the 2011-2013 Agreement;

AND WHEREAS the Board has considered TransCanada and NGTL's application and subsequent submissions by interested parties and TransCanada and NGTL, and has decided to set current Mainline tolls as interim, effective 1 January 2011, and to set the Alberta System interim rates, tolls, and charges, effective 1 January 2011, equal to the alternative levels contained in Attachment E3 of the 9 December 2010 application;


IT IS ORDERED, pursuant to subsection 19(2) and Part IV of the Act, that:

1. TransCanada's current tolls, which were made effective under Toll Order TG-06-2009, be made interim effective 1 January 2011, pending any future amending Orders and/or final Order by the Board concerning TransCanada's 2011 tolls.
2. NGTL's current tolls, which were made effective under Toll Order TG-06-2010, be terminated as of the end of the day on 31 December 2010.

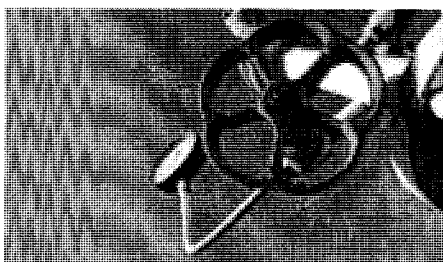
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3. NGTL's Alternative Alberta System Interim 2011 rates, tolls, and charges, contained in Attachment E3 of the Application, be implemented effective 1 January 2011 on an interim basis pending any future amending Orders and/or final Order by the Board concerning NGTL's 2011 tolls.

NATIONAL ENERGY BOARD


for
Anne-Marie Erickson
Secretary of the Board

TAB 8



TransCanada moves to halt 'death spiral' in gas shipments

Nathan VanderKlippe

Calgary— From Friday's Globe and Mail

Published Thursday, Dec. 09, 2010 6:56PM EST

Last updated Friday, Jan. 14, 2011 3:12PM EST

TransCanada (TRP-T37.15-0.25-0.67%) is giving up \$550-million in revenue as it seeks to arrest a "death spiral" in tolls on one of its most important pipeline networks.

In the face of continued steep declines in Canada's natural gas (NG-FT4.510.091.94%) production, the company has proposed substantial - and controversial - changes to the way it collects pipeline tolls, slashing the amount it charges on its massive eastbound Mainline system and raising rates on its Alberta network.

The moves come as TransCanada grapples with the dramatic shifts in North American gas supply. The energy industry's new-found ability to tap enormous pools of shale gas in places like Pennsylvania has brought a surge in U.S. domestic supplies and wreaked havoc with the Mainline system by both hurting prices - and therefore the economics of Alberta gas - and displacing some of the need for supply from Western Canada.

TransCanada has agreed to delay collection of some past revenue it is due and give back nearly all of the toll increase it imposed last year, in hopes that it can preserve a long-term business model for the half-century-old Mainline system. As a result, the company will forego \$550-million in revenue over the next three years, but says it will recover that money over time.

In doing so, it hopes to halt a "death spiral," an industry term that describes how rising tolls can hurt gas production - which can in turn spur even higher tolls.

"We feel that it is important for us to ensure that the pipeline remains competitive," said Steve Pohlod, vice-president of the commercial east division for TransCanada.

The deal will see Mainline tolls drop by 25 per cent, effective Jan. 1, 2011. To compensate, TransCanada will collect 12.5 per cent more in tolls on its Alberta system, which feeds the oil sands and other gas pipelines owned by competitors. TransCanada has secured the agreement of the Canadian Association of Petroleum Producers for the new structure, which has now been submitted to the National Energy Board for approval.

The changes are controversial, with some industry players accused TransCanada of shifting costs from those who buy gas in Ontario and Quebec to those who produce it in the West.

"It seems like a very inappropriate transfer of costs from the people who signed a contract to ship on TransCanada to the Alberta producers," said John Rossall, chief executive officer of ProspEx Resources Ltd., a small gas producer. He called on TransCanada to shoulder even more of the burden itself, predicting industry pushback in coming months.

Alan Boras, a spokesman for gas giant Encana Corp., however, called it a "step in the right direction" that "moves tolls closer to competitive numbers."

TransCanada's problems stem largely from falling gas production, which has resulted in lower volumes and a kind of reverse economy of scale that has increased the toll for every gigajoule - the unit of energy upon which rates are based - sent through the Mainline pipe.

Since 2007, Canadian gas output has fallen by 13 per cent. That tumble has come amidst a long decline for the Mainline system, which after running at peak capacity in the late 1990s, is now more than half empty.

The result has been substantial hardship for companies that move natural gas on its lines, and who have for the past year seen a huge chunk of their gas sales revenues eaten up by tolls. In late 2009, TransCanada raised the Mainline toll by 38 per cent, to \$1.64 per gigajoule (GJ), on gas moving the systems' entire length. For most of 2010, prices for Alberta gas have hovered just below \$4 per GJ - meaning those tolls alone ate up more than 40 per cent of income for producers shipping the length of the Mainline. That's a major hit to an industry that has already been forced to curtail some production on weak prices and has watched many of its remaining wells teeter on the edge of losses.

And it could have been far worse: Had TransCanada not made changes, tolls would have climbed to \$2.45 per GJ - a move that could have forced higher-cost gas companies to stop producing.

"If the Mainline was suddenly uncompetitive, we're basically going to have to shut in three billion cubic feet a day of gas" - or 21 per cent of current Canadian output - "and nobody wants to do that," said Chad Friess, an analyst with UBS Securities.

The new toll structure "is good news," he said. "\$1.23 is actually fairly competitive against some of the other export pipelines."

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TAB 9



TransCanada rethinks bid to revamp gas tolls

NATHAN VANDERKLIPPE

CALGARY— From Wednesday's Globe and Mail

Published Tuesday, Jan. 18, 2011 6:33PM EST

Last updated Tuesday, Jan. 18, 2011 6:34PM EST

TransCanada Corp. (TRP-T37.14-0.26-0.70%) is re-examining its bid to shake up the way it charges companies to transport natural gas across Canada, after having an initial application slapped down by the National Energy Board.

“We’re basically evaluating all of our options, but at the same time we’re continuing to dialogue with all of our shippers,” John Van der Put, vice-president of market development for TransCanada, said in an interview on Tuesday.

“Depending on the outcome of those discussions, we may or may not make changes to the proposal that’s been put before the board.”

Faced with declining throughput and soaring tolls on its Mainline system, which brings western gas to eastern markets, TransCanada has proposed a major change to the way it collects tolls. The result would be lower rates on the Mainline, but higher rates on short-haul pipeline networks that gather and distribute gas in Alberta and Ontario.

Those increases have prompted a mixed reaction. Oil-and-gas companies have been largely supportive, while some electricity generators in Ontario have warned they could be put out of business by the hike.

Mr. Van der Put argued that Ontario gas buyers will face even higher tolls if TransCanada’s doesn’t go through with its restructured tolls, and uses instead its previous rate calculations.

“The tolls on all paths inherent in our proposal are lower and, in some cases, substantially lower,” he said. “We strongly believe that what we proposed in early December, in our 2011 interim tolls applications, is a proposal that’s in the collective best interests of TransCanada and our shippers.”

In a recent ruling, the National Energy Board declined to accept the interim application, citing the “significant opposition” to it. However, it left open the door to TransCanada to apply for a final toll with its restructured rate proposal. The company intends to make that final

application in coming months, but must first decide whether to alter the proposal to mollify opponents – or to conclude that what it has is good enough.

“We certainly have sympathy for ensuring that our tolls are as low as possible,” Mr. Van der Put said. “That’s what we’ve been able to achieve in our proposal.”

TransCanada (TRP)

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