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Reference: TransCanada Evidence

Preamble: TransCanada listed the following four options as alternatives that would meet Union's requirements at Parkway in an LCU situation:

1. Union can contract for TransCanada's Short Term Firm Transportation Service (STFT) from Empress to Union CDA, thus securing LCU protection at Parkway;
2. Existing TransCanada compression facilities can be moved to the TransCanada system at Parkway in order to provide Union with LCU protection;
3. TransCanada can move existing compression facilities to transport gas from Kirkwall to Parkway in order to provide Union with LCU protection; or
4. The TransCanada and GLGT systems can be used to transport gas from Dawn to Parkway as required.

Request:

(a) Where not previously provided, please provide an estimate of cost savings resulting from the options recommended by TransCanada as compared to Union's LCU proposal.

(b) Please discuss which option TransCanada most strongly recommends and provide the rationale.

Response:

(a) The following table summarizes the cost estimates for Union's LCU component of the Parkway West Project and compares the first year owning and operating costs to estimates of costs for the four TransCanada options:

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Cost Comparison of Alternatives ($ million)					
	Union's Parkway West Proposal[1]	TransCanada's STFT proposal	TransCanada's Parkway compression proposal	TransCanada's Kirkwall to Parkway proposal	TransCanada's Dawn to Parkway proposal[3]
Capital Cost[5]	181	0	130	180	40 - 70
First Year Owning and Operating Cost[5,6]	13.7	0	12.4	16.6	3.4 – 5.7
TBO Cost	0	0	0	0	TBD[4]
Total First Year Cost	13.7	2 - 8[2]	12.4	16.6	TBD[4]
First Year Cost relative to Union's proposal	-	(5.7 – 11.7)	(1.3)	2.9	TBD[4]

Note 1: TransCanada estimated Union's LCU costs based on the Union interrogatory response filed as Exhibit J.B-1-1-2 a) (TCPL measurement at $19 million + common facilities at $55 million + compression facilities at $108 million = $182 million) and from the Union interrogatory response filed as Exhibit J.B-1-7-8 Attachment 2, slide 20 (land and easements at $26 million + connection and header at $29 million + TCPL measurement at $19 million + LCU compression at $107 million = $181 million). The first year owning and operating cost is based on the $16.4 million cost from the Union interrogatory response filed as Exhibit J.B-1-7-8 b) scaled down by the LCU cost of $181 million relative to the total project cost from the Union interrogatory response filed as Exhibit J.B-1-1-2 a) of $217 million.

Note 2: The range of costs for 7 days of STFT is from TransCanada's evidence and includes an allowance for the cost of gas. However, given Union's evidence of compressor reliability in excess of 99%, the odds of Union needing to use the service in any particular year are quite small and thus the costs could be $0 in most years. It should also be noted that TransCanada credits all STFT revenue back to shippers so to the extent that Union pays STFT revenue to TransCanada it lowers the tolls to all TransCanada shippers including shippers that transport gas to Ontario markets.

Note 3: The capital costs for the Dawn to Parkway option includes $20 million for expansions of TransCanada's metering facilities at Dawn and Emerson and the remaining range of capital costs is due to the uncertainty of the Union facilities at Dawn.

Note 4: TBO costs are not known at this time as calculating those costs would require consultations with GLGT that would follow a discussion with Union regarding their interest in this option.

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Note 5: The first year owning and operating costs for TransCanada facilities as a percentage of capital costs are higher than Union's percentage as reflected in the Union interrogatory response filed as Exhibit J.B-1-7-8b. TransCanada is not able to understand the derivation of Union's first year owning and operating costs as a percentage of their capital costs.

Note 6: TransCanada is providing a comparison of First Year Owning and Operating Costs because Union has only provided its first year costs in the Union interrogatory response filed as Exhibit J.B-1-7-8b. A more appropriate analysis would be a comparison of the present value of the owning and operating costs over a 15 to 25 year period should Union make this longer term information available.

TransCanada's position is that Union, Enbridge and TransCanada should jointly assess LCU facility requirements at Parkway and thoroughly review all of the alternatives to identify the optimal solution. Further, such analysis should be based, in part, on the present value long term owning and operating costs, as opposed to only the first year Owning and Operating Costs.

(b) Based on the information available at this time, and prior to a proposed joint analysis of the various options with Union and EGD, TransCanada recommends the STFT option. This option is available immediately, requires no capital investment, and is the lowest cost solution.

TransCanada's Parkway compression proposal or Kirkwall to Parkway proposal may have merit in the context of TransCanada's current and planned expansions. The Kirkwall to Parkway option has extra merit beyond LCU protection because: (1) it enhances the reliability of deliveries to Bronte and Burlington because those volumes could come from either Parkway or Kirkwall, and (2) it could provide operating benefits to Union by increasing the deliveries via Kirkwall. Accordingly, this could be the preferred option even if it had a slightly higher cost. Before TransCanada can make a definitive recommendation for a solution, a collaborative analysis of the options with Union and Enbridge is required.

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Reference: TransCanada Evidence

Preamble: TransCanada noted that Union has proposed major capital expenditures for compression facilities at TCPL (Parkway), citing the reliability of service into the TransCanada system as the reason for these facilities. Union also proposed major capital expenditures for a duplicate tie-in to the Enbridge Gas Distribution system at Parkway, again citing the reliability of service as the rationale for these expenditures. TransCanada noted that it is prepared to work with Union to develop alternative options to those suggested by Union which would address Union's reliability concerns at lower overall costs. TransCanada stated that until this consultation takes place, Union and the Board, cannot have confidence that the best solution for Ontario gas consumers is being proposed.

Request:

(a) Please confirm that TransCanada is suggesting that the Board delay a decision on the noted capital projects at this time.

(b) When does TCPL propose that this consultation be held and when would the results / proposals from the consultation be provided to the Board? Would this consultation be between Union and TransCanada only, or would other interested parties be invited to join the discussion?

(c) Has TransCanada ever undertaken discussions/negotiations with interested parties in developing its capital expenditure plans? If so, please provide examples of the nature and the results of those discussions.

Response:

(a) Confirmed. TransCanada has proposed 4 alternatives to Union's Parkway West proposal and there are several potential inter-related infrastructure expansion projects that propose additional capacity downstream of Parkway under various stages of development, including Union's Parkway Extension Project, EGD's GTA Reinforcement project, the facilities that will result from TransCanada's recent transportation capacity open season, and the facilities that might result from Union's transportation capacity open season.

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Accordingly, consultation among the parties and a coordinated review of these inter-related projects are necessary in order to ensure economically prudent long-term capital investments.

Also, in the Union interrogatory response filed as Exhibit J.B-4-3-2, Union states that it plans a LTC Application for Parkway West Headers in Q3/Q4 2012, and, in the Union interrogatory response filed as Exhibit J.B-1-7-8, Attachment 1, page 15, Union states in its April 2012 presentation on Parkway West that it will "Consider early filing for OEB approval". It is unclear at this stage if and when Union will apply to the Board for LTC approval and what facilities it may seek LTC approval for. EGD has stated that it intends to file for LTC approval for its GTA Reinforcement project late this year.

(b) TransCanada believes the consultations could begin immediately. These consultations would involve TransCanada, Union and EGD meeting to discuss the requirements followed by an engineering analysis. It is expected that the group would be able to report back to the Board within two to three months. Input from other parties would be welcome.

(c) Yes, TransCanada discusses facility plans with stakeholders through the Tolls Task Force. In that forum, shippers and interested parties are welcome to provide suggestions on improvements or alternatives to TransCanada's capital expenditure plans. TransCanada is also required to make facility applications to the NEB for the addition of facilities at which point interested parties have an opportunity to provide input on the proposed and alternative facilities as applied for by TransCanada.

It is also common practise for TransCanada to discuss facility solutions with interconnecting pipelines in order to arrive at the lowest cost solution for providing transportation. Indeed, all long-haul expansions of the TransCanada system have been based on cost-benefit analyses that examined the relative costs and benefits of facilities additions versus capacity on the Union and GLGT system. Five more examples are:

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Pressure Charge Service

One example of TransCanada consultations with interconnecting pipelines would be discussions involving the potential for a downstream pipeline to contract for TransCanada's pressure charge service. TransCanada and the downstream pipeline consult on whether the lowest cost solution to increased downstream requirements is the addition of downstream facilities or the addition of (typically compression) facilities on the TransCanada system so that the lowest cost facility solution is constructed. Many of these discussions have occurred over the years. A recent completed example is the installation of a 3rd compressor at Station 1703 to provide an increased pressure to the Empire State Pipeline at Chippawa.

Dawn Reversal and GLGT St. Clair to Emerson Capacity

As a result of long haul FT non-renewals on the TransCanada system, TransCanada was in a position where additional firm capacity from Dawn was required in order to meet firm receipt obligations from Dawn. TransCanada identified two facility options to meet the requirement: (1) Union TBO from Dawn to Parkway plus construction of facilities on TransCanada's system downstream of Parkway or (2) TBO on Union to TransCanada's system at Dawn and TBO on the GLGT system from St. Clair to Emerson. TransCanada undertook discussions with both Union and GLGT around what quantity of service might be available at what cost. After consideration of the economics of the two options including operating costs, TransCanada chose the lower cost GLGT St. Clair to Emerson option, thus eliminating or deferring the need to construct capital facilities between Dawn and the Maple compressor. As a result, Union developed a new C1 (Dawn to Dawn-TCPL) service, made the necessary facility changes at Dawn as noted at Exhibit G1, Tab 1, page 9 of 15, lines 7 to 10, and TransCanada contracted for the amount of capacity that Union made available. TransCanada also contracted for service on GLGT and made metering modifications at Dawn and Emerson to meter the physical flow reversal at those locations.

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Ottawa Expansion

Another example is a collaborative effort between TransCanada and Enbridge which resulted in the proposed Enbridge "Ottawa Reinforcement Pipeline". TransCanada has had discussions with Enbridge over a number of years regarding the best way to meet increasing demand at Ottawa through the two major delivery points off the TransCanada system. The two companies shared information on facility requirements and hydraulic impacts of the various options, choosing in the end, a solution that results in the least total combined facilities.

Petawawa Meter Station

Enbridge and TransCanada also collaborated on a least cost solution for the connection at Petawawa which saved Enbridge from having to install approximately 19 km of pipeline within their distribution network and thus avoid building through a sensitive area.

NGTL and ATCO Pipelines Collaboration

In Alberta, there are examples of TransCanada's wholly-owned subsidiary, NGTL, which owns the Alberta System pipeline, working together with ATCO Pipelines to develop lower cost solutions to meeting customer requirements. In one instance, NGTL has reversed a compressor unit at its Torrington compressor station to eliminate the need for a section of loop on the ATCO system at approximately one half of the cost. Another example is that NGTL was able modify its operations to effect an increase to the delivery pressure at one of its major interconnections (Inland Sales) with ATCO for several years to defer the requirement for ATCO to build new facilities to meet the demand growth in the Edmonton area. During those intervening years, an alternative facility solution was eventually identified that has a significantly lower cost than what was originally contemplated by ATCO.

Deferring capital costs until they are needed is an important aspect of minimizing capital expenditures, both because of (1) the absence of owning and operating costs during the years of deferral and (2) the ability to choose optimal facilities at the time the expansion is needed, given the known requirements of the expanding pipeline and the configurations of interconnecting pipelines at that date.