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July 5, 2013

VIA RESS

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Re: EB-2012-0451, EB-2012-0433 and EB-2013-0074

Dear Ms. Walli:

Further to Procedural Order No. 4 in the above-captioned matters, enclosed for filing is the evidence of TransCanada PipeLines Limited.

TransCanada appreciates the Board's accommodation in extending the deadline for the filing of TransCanada's evidence to today.

Yours very truly,

Gordon Cameron

Gordon Cameron

cc: All parties via electronic filing

ENBRIDGE GAS DISTRIBUTION INC.
UNION GAS LIMITED

Greater Toronto Area Project
Parkway West Project
Brantford-Kirkwall / Parkway D

EB-2012-0451
EB-2012-0433
EB-2013-0074

WRITTEN EVIDENCE

Of

TRANSCANADA PIPELINES LIMITED

July 5, 2013

1.0 Introduction

This evidence will address TransCanada's involvement in Segment A of the Enbridge Gas Distribution (Enbridge) GTA Project. The evidence begins with a brief review of the evolution of the role of TransCanada's Mainline in natural gas transportation in Ontario and the impact of recent regulatory and commercial changes on that role. The evidence then discusses TransCanada's discussions with Enbridge and Union Gas Limited (Union) regarding the efficient development of natural gas transportation infrastructure in Ontario, and the Memorandum of Understanding (MOU) between TransCanada and Enbridge that resulted from those discussions. Finally, the evidence speaks to the potential impacts of Union's proposed facilities on the existing transportation pipeline infrastructure in Ontario.

2.0 The Evolution of Natural Gas Transportation on the TransCanada Mainline

The TransCanada Mainline was originally conceived as a pipeline to transport Western Canadian Sedimentary Basin natural gas from Empress, Alberta to eastern markets. With the advent of the Alliance and Vector pipelines in 2001 came increased market interest in sourcing gas supply at Union's Dawn Hub and transporting it on the Union and TransCanada systems.

Since 2003, TransCanada has worked to provide eastern market customers with short-haul transportation (e.g. from Dawn) in the most cost effective manner possible. Beginning in 2003 and continuing until 2006, TransCanada was able to provide service away from the Dawn area with a combination of Union Gas M12 service and the exchange of Mainline long-haul service to the Dawn area. By serving these contracts using exchanges, TransCanada was able to provide firm service without adding new facilities to the Mainline, and thus provide the service at a lower cost to all Mainline shippers. There was no required expansion of the Union system for these requests.

In 2006, 2007 and 2010 both TransCanada and Union coordinated the addition of facilities to their respective systems to meet new short-haul requests sourced at Dawn that were destined for markets at Iroquois, the GMi EDA and the Union EDA. In addition, where possible, TransCanada continued to use its existing capacity away from Parkway to meet short-haul requests.

In the winter of 2008/2009, TransCanada determined that it could no longer rely on long-haul nominations to the Dawn/Niagara/Chippawa area to effect the exchanges required to meet some of its short-haul requirements. As a result TransCanada, after discussion with its stakeholders (including Union Gas and Enbridge) at the Tolls Task Force, implemented use of a temporary "must-nominate" service to Dawn ("DOS-MN") and then eventually contracted for firm capacity between St. Clair and Emerson on the Great Lakes Gas Transmission ("GLGT") system along with additional "Dawn to Dawn" service with Union Gas to ensure physical transportation of gas away from Dawn when required. TransCanada's goal—which was achieved with these arrangements—continued to be to provide the service at the lowest possible cost to shippers.

In 2010, TransCanada and Union Gas worked together to facilitate the transportation of Marcellus shale gas sourced at the Niagara receipt point on the TransCanada system to Eastern Canadian markets. TransCanada contracted for Union M12 capacity between Kirkwall and Parkway to transport some of this gas, which began to flow in November 2012.

3.0 Events in 2012

In 2012, while TransCanada was preparing for a new open season to test interest in transporting additional Marcellus shale volumes to market via Niagara and Chippawa, Union Gas and Enbridge Gas Distribution ("EGD") proposed their "Parkway Extension" project to bypass the TransCanada Mainline between Parkway and the Maple compressor station. The Parkway Extension project came as a surprise to TransCanada. Union was aware that TransCanada was preparing an open season to attract Marcellus shale volumes and that TransCanada wanted to coordinate that open season with Union. However, TransCanada proceeded with its open season as originally planned and offered expansion capacity away from Parkway. Union and Gaz Metropolitain (Gaz Métro) bid successfully into TransCanada's open season.

TransCanada initially proposed to have the facilities to provide this service available for a 2014 in-service date, but subsequently amended the in-service date in the Precedent Agreements to 2015 because TransCanada was in discussions with Enbridge to coordinate our respective expansions, and Enbridge had delayed the in-service date of its facilities. Also, the revised in-service date of the TransCanada expansion was realistic in light of TransCanada's experience (with its 2012 expansion) with the challenges of adding pipeline infrastructure in built-up areas of Ontario.

At the same time, TransCanada participated in Union's EB-2011-0210 proceeding. The purpose of TransCanada's intervention was to explore the necessity of Union's proposed Parkway West compressor, which Union indicated was to provide Loss of Critical Unit (LCU) protection to M12 shippers delivering gas through Parkway. TransCanada stated in its evidence that more dialogue was needed with Union in this regard so that the best solution for Ontario gas consumers could be found. The OEB concurred with TransCanada in its Reasons for Decision, and suggested that Union, Enbridge and TransCanada should all be having more coordinated discussion with regards to infrastructure in Ontario:

> *The Board is concerned with the apparent lack of cooperation and consultation between Union, Enbridge and TCPL that came to light in this proceeding. The Board is concerned that this may have adverse consequences for Ontario ratepayers – result in higher rates and costs than would otherwise be the case, contribute to the uneconomic bypass of existing natural gas infrastructure, create asset stranding, encourage the proliferation of natural gas infrastructure, and lead to the underutilization of existing natural gas infrastructure.*
>
> *The Board agrees that the consideration of the Parkway West facilities requires a wider perspective. The Board therefore encourages Union to engage TCPL, Enbridge and shippers in a consultative process, the purpose of which is to jointly consider the need for the Parkway West project, explore reasonable alternatives (including the repurposing of existing facilities) in order to maximize the benefit to Ontario ratepayers. The result of this*

process would then be filed with Union's Leave to Construct application for the Parkway West facilities.

4.0 TransCanada and Ontario LDC coordination

Subsequent to the EB-2011-0210 proceeding, TransCanada, Enbridge and Union met several times to discuss the optimal infrastructure requirements to serve the Greater Toronto Area ("GTA") market and eastern markets downstream of Parkway.

Enbridge's intention prior to discussions with TransCanada was to build Segment A directly from its connection with Union at Parkway and into the Enbridge franchise area. Prior to discussions with Enbridge, TransCanada's intention had been to expand for the requests received in its May 2012 new capacity open season by building facilities between Parkway and Maple. In an effort to collaborate and build the most efficient expansion to meet market needs, TransCanada and Enbridge came together to discuss joint ownership of Segment A to provide both economic and environmental benefits. Union also had discussions with TransCanada and Enbridge and all three companies subsequently met to coordinate the expansion of this infrastructure.

Through those discussions, it was agreed that TransCanada and Enbridge would collaborate on the infrastructure to serve the GTA and markets downstream of Parkway, which led to the development and execution of the MOU. It was also agreed that Union would construct the Parkway West compressor for loss of critical unit protection and such further compression as might be needed to meet new firm contractual requirements.

TransCanada intended to utilize its share of capacity on the new Segment A and new TransCanada facilities from Albion to west of Maple (TransCanada's King's North project) to satisfy the capacity requirements in the precedent agreements with Union and Gaz Métro.

TransCanada and Enbridge intended to have joint ownership of Segment A. Ultimately, however, it was decided that the same result could be achieved more practically if Enbridge built and owned Segment A and charged TransCanada an amount equal to what would have been TransCanada's ownership equity contribution, but in the form of a long term transportation contract. This avoided the complication of having two regulators responsible for the same facilities. The intention remained that this would be an Enbridge / TransCanada project, with access to the facilities being provided by TransCanada using its portion of the capacity on Segment A to serve eastern markets in a fair, non-discriminatory way. As noted in Schedule D of the MOU, the contractual arrangement between TransCanada and Enbridge was to replicate as much as was commercially practicable, the same commercial effect as if Segment A was jointly owned by the parties.

It was never the intention of the parties for Enbridge to become a transmission provider in the normal sense. Enbridge will use its space on the line solely for local distribution purposes. The TransCanada portion of capacity on Segment A will be used by TransCanada to meet its contractual obligations to transport gas for its customers.

In this regard it is important to note the following distinction between the contractual and operational features of the MOU. Contractually, TransCanada will deliver gas to Enbridge at Bram West (the inlet to Segment A). However, operationally, Segment A will act as a loop of the TransCanada Mainline between Parkway and Maple, with a physical delivery to Enbridge at Albion. The flows onto Segment A will be controlled by TransCanada.

As noted above, TransCanada was initially proposing to construct facilities in the Parkway to Maple corridor (looping around Brampton and / or Vaughan) to meet its contractual and operational requirements. Through the MOU, the same operational benefits accrue to TransCanada without the need for duplication of facilities. That is, TransCanada's capacity on Segment A, when combined with the Albion to Maple (King's North) TransCanada expansion, acts as a loop of the TransCanada system.

Through the construction and normal operation of Segment A and TransCanada's King's North expansion, Segment A will act as an integrated portion of the TransCanada system with no requirement for nomination, flow measurement or other methods of control, of the TransCanada portion of the flow. The pipeline flow on Segment A will vary based on Enbridge's daily nominated requirements at Bramwest and the operation of other portions of the TransCanada system and will be as a result of a hydraulic balance between TransCanada's existing Parkway to Maple Line and Segment A. Under design day conditions,TransCanada will be utilizing its full allotment of the capacity (50%) to meet its contractual obligations. Notwithstanding the above, for maintenance requirements and safety circumstances Enbridge will have the ability to interrupt the flow on Segment A through valves, while communicating and working with TransCanada as the specific circumstance requires.

TransCanada will not be able to "nominate" service as it would, for example, with Great Lakes or Union TBO. Gas will simply flow on Segment A past Albion, depending on flows and pressures, as if Segment A were a loop of the Mainline's Parkway to Maple line (or part of such a loop, as it will be when TransCanada builds north from Albion in its King's North expansion).

5.0 The National Energy Board's RH-003-2011 Decision

In March of 2013 the National Energy Board ("NEB") issued its decision on TransCanada's 2012-2013 Mainline tolls application (the "RH-003-2011 Decision"). The RH-003-2011 Decision, which was issued after the MOU was entered into, was not expected by TransCanada, and made it important to TransCanada and its shippers that TransCanada achieve the long term net revenue projections on which the tolls set in the RH-003-2011 Decision are based.

The RH-003-2011 Decision fixed all of the Mainline firm service tolls for the (approximately five year) period from 2013 to 2017 (the "Fixed Tolls Period"). The tolls were fixed at levels that will not recover the costs that TransCanada incurs during the Fixed Tolls Period. Instead, TransCanada was ordered to defer approximately $700 million of Fixed Tolls Period costs by adding them to rate base.

The RH-003-2011 Decision also established a deferral account (the "Toll Stabilization Account" or "TSA") to track variations between TransCanada's actual net revenue and the estimated net revenue for each year of the Fixed Tolls Period. A positive balance in the TSA at the end of the Fixed Tolls Period will be applied to reduce future tolls. A negative balance in the TSA will be recovered from TransCanada's shippers unless this would cause a realization of "fundamental risk" on the Mainline. In this latter case, TransCanada's ability to recover any of the Mainline revenue requirement (from existing rate base or post-RH-003-2011 Decision capital investment) will come under review by the NEB.

The TSA relies on a forecast of throughput on the Mainline for the Fixed Tolls Period. Long term throughput forecasts come with a substantial possibility of variances between the forecasts and actual throughput, and if there is a negative variance in throughput there could be a negative balance in the TSA when the time comes for its disposition.

The RH-003-2011 Decision has had a major impact on the terms under which TransCanada is able to invest in new facilities on the Mainline, for several reasons.

First, the NEB held that TransCanada's investments in the Mainline were not protected by a "regulatory compact" or other regulatory principle that entitled TransCanada to a reasonable opportunity to recover the Mainline's costs. The NEB said that it had the authority to, and would if appropriate, disallow TransCanada's recovery of its prudently incurred costs. As noted, this would apply to future investments as well as existing rate base.

Second, tolls will be fixed from 2013 to 2017, so (absent an exception being made by the NEB) there will be no way to adjust tolls during that period so as to recover any costs associated with new facilities. The estimates that the NEB used to set the benchmark net revenues for the period did not include any amount for new facilities. Accordingly, any costs not recovered in tolls that are incurred constructing new facilities during this period would have a negative impact on the TSA balance and thus increase the possibility that the NEB will disallow some part of TransCanada's future revenue requirements.

As a result of the RH-003-2011 Decision: (1) TransCanada requires greater assurances than it has had in the past that it will recover its investment in any new facilities and its existing rate base from customers; and (2) TransCanada must recover its investment in the Mainline in a way that does not exert a negative pressure on the TSA balance and, by doing so, put the recovery of the entire Mainline revenue requirement in issue.

One consequence of the RH-003-2011 Decision is that TransCanada decided not to build facilities to serve the 2012 open season precedent agreement with Gaz Métro or the service request from Union, given that those arrangements were entered into under the pre-RH-003-2011 Decision regime, when TransCanada believed that the National Energy Board would at least give TransCanada a reasonable opportunity to recover its prudently incurred costs.

Despite the disincentives to invest in new capacity on the Mainline that arise from the RH-003-2011 Decision, TransCanada is in discussions with the eastern LDCs to find a way to expand TransCanada's capacity in the Eastern Triangle in a manner that meets the incremental requirements of the LDCs while providing TransCanada with a reasonable expectation that it will recover its existing and future investments. In addition to discussions with the eastern LDCs, TransCanada has recently posted a new capacity open season for short-haul and long-haul capacity to eastern markets. TransCanada will invest capital in the Mainline as long as doing so does not expose the company to increased risk that it will not recover its revenue requirement.

TransCanada intends to apply to the NEB by the end of 2013 for approval to construct the interconnections required to accommodate Segment A of Enbridge's GTA Project and the facilities associated with TransCanada's King's North Project.

6.0 Item 14 of the OEB Filing Guidelines

Item 14 of the OEB Filing Guidelines on the Economic Tests for Transmission Pipeline Applications states:

> "Any project brought before the Board for approval should be supported by an assessment of the potential impacts of the proposed natural gas pipelines on the existing transportation pipeline infrastructure in Ontario, including an assessment of the impacts on Ontario consumers in terms of cost, rates, reliability, and access to supplies."

TransCanada is providing the following comment in support of this guideline.

> The decision of Union and Gaz Métro to decontract TransCanada long-haul capacity and replace it with short-haul capacity has two major impacts on Ontario gas users. The first major impact is that TransCanada loses substantial long-haul revenue—approximately $150 million—with a potential consequential impact long-term on all TransCanada tolls paid by Ontario gas users. The second major impact is that Ontario gas users incur additional costs as a result of constructing facilities to accommodate the new short-haul capacity. TransCanada will continue to analyze these impacts in comparison to the savings that Ontario gas consumers could realize by sourcing more gas through short-haul transportation services.