

**TransCanada PipeLines Limited Response to
Canadian Manufacturers and Exporters Interrogatory #1**

Reference: TCPL Written Evidence, page 6 of 6

TCPL provides the following comment:

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 Ottawa 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.

Request: CME wishes to obtain further information with respect to this comment. To this end, please:

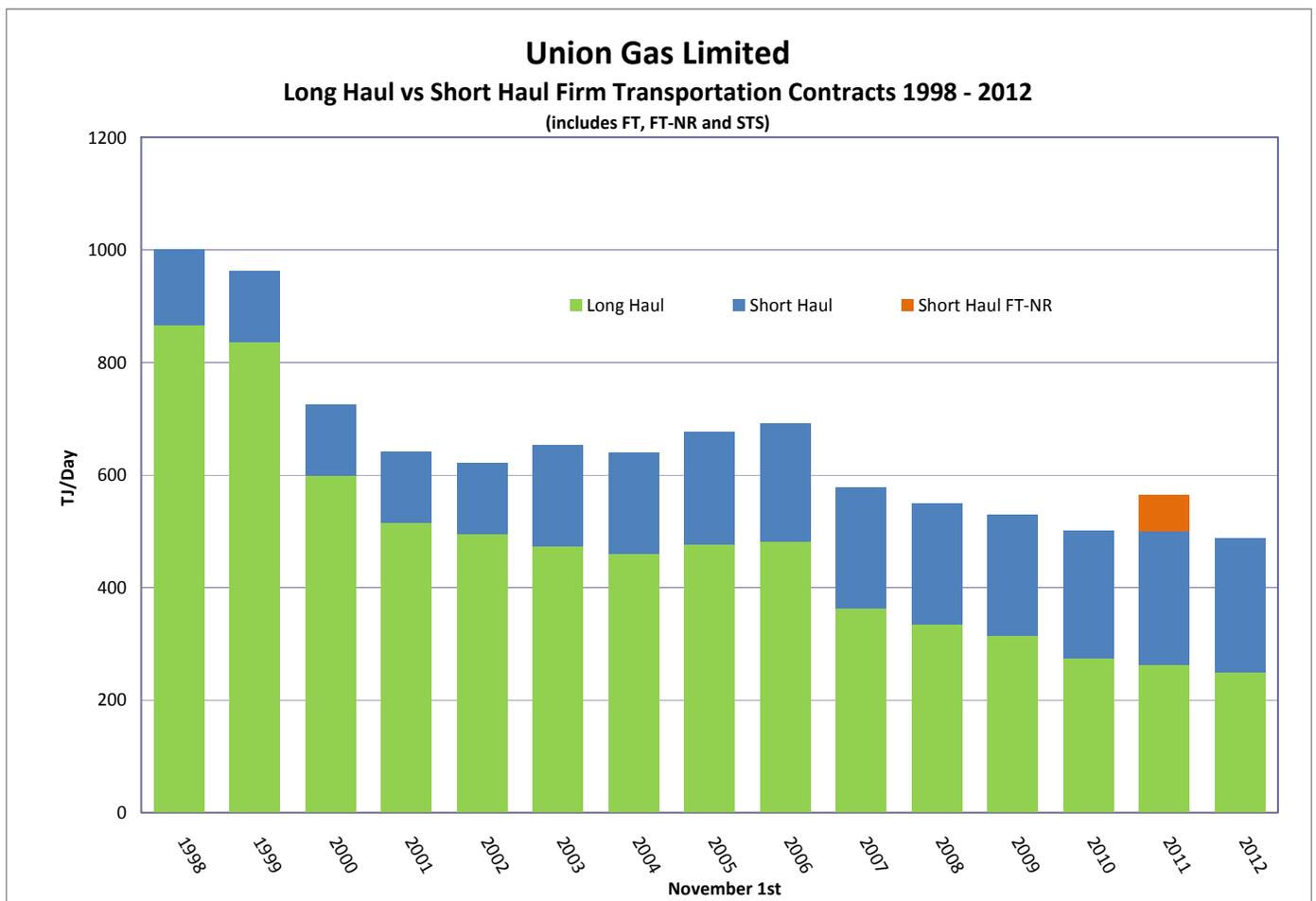
- (a) Provide a further explanation of the history of Union and Gaz Métro decontracting TCPL long-haul capacity and replacing it with short-haul capacity. In doing so, please ensure that you set out the amount of long-haul capacity that has been decontracted and the timeframe over which that decontracting has occurred.
- (b) Provide TCPL's analysis of the potential consequential impact long-term on all TCPL tolls paid by Ontario gas users as a result of TCPL's loss of long-haul revenue. Please identify all assumptions made as part of that analysis.
- (c) Provide TCPL's analysis of the additional cost that Ontario gas users will incur as a result of constructing facilities to accommodate new short-haul capacity. Please identify all assumptions made as part of that analysis.
- (d) Provide TCPL's analysis of the savings that Ontario gas consumers could realize by sourcing more gas through short-haul transportation services. Please identify all assumptions made as part of that analysis.

- (e) Provide TCPL’s analysis of the impacts, set out in (b) and (c) in comparison to the savings set out in (d). Please identify all assumptions made as part of that analysis.

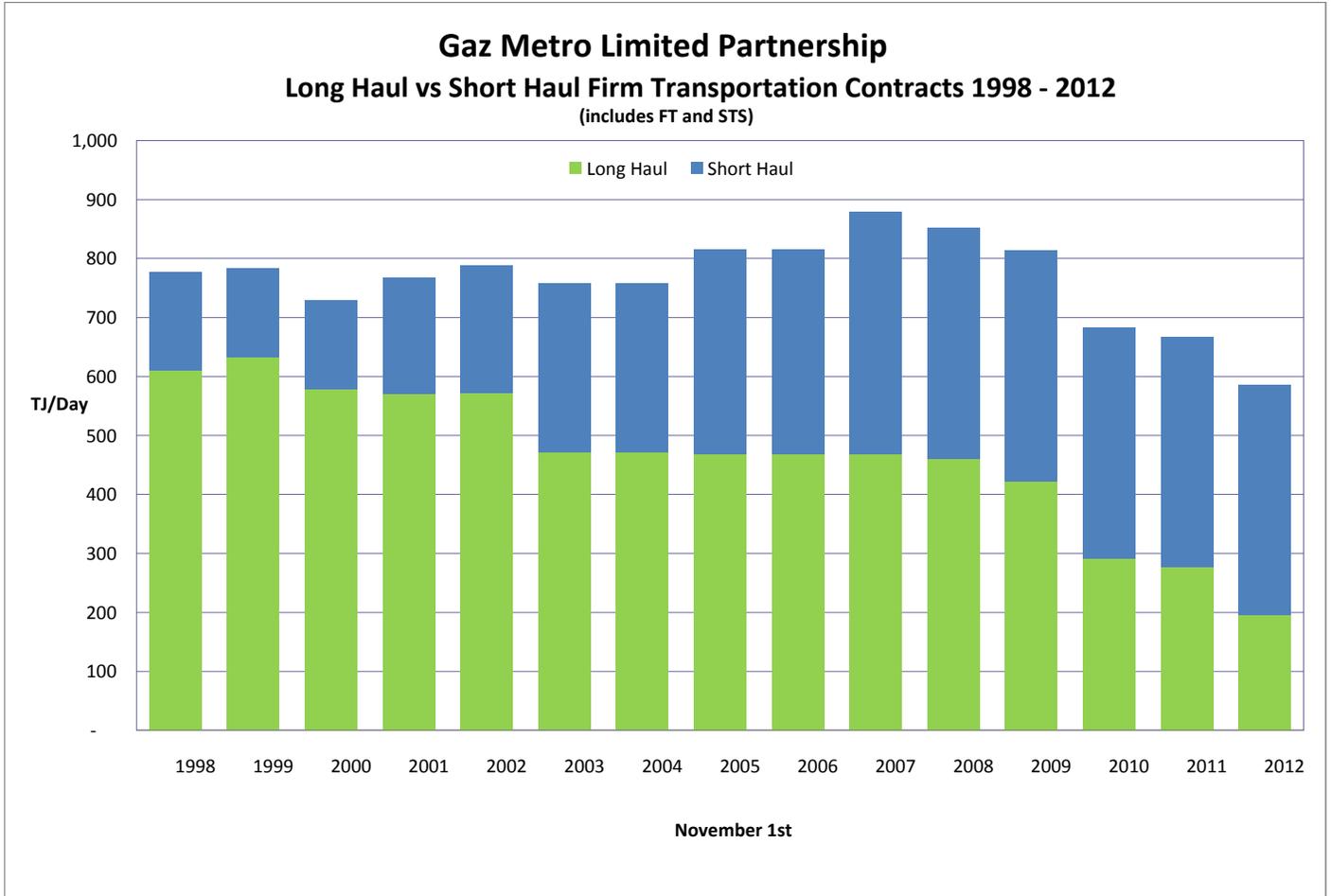
Response:

- (a) Prior to 1999, the Mainline was the primary service provider to eastern Canadian markets. The Mainline was highly utilized and largely contracted for long-haul service. A structural change occurred in 2000 when the Alliance and Vector systems were brought into service. The systems provided an alternative route for WCSB gas to reach eastern markets serviced by the Mainline. The existence of this alternative route allowed Union Gas, GMi and Enbridge to progressively replace long-haul service with short-haul service. Union contracting history is shown in Graph 1, and GMi in Graph 2.

CME - Graph 1



CME - Graph 2



Union's contracted long haul capacity declined from 865,772 GJ/d in 1998 to 250,031 GJ/d in 2012, while Gaz Metro's long haul contracts declined from 609,370 GJ/d in 1998 to 195,327 GJ/d in 2012.

The same information is shown in Table 1 and 2 below.

CME – Table 1

Union Gas Limited FT, FT-NR and STS (GJ/d)			
	Short Haul	Long Haul	Short Haul FT-NR
1998	135,077	865,772	
1999	125,620	836,770	
2000	125,620	599,377	
2001	125,620	516,076	
2002	125,620	495,711	
2003	180,770	473,556	
2004	180,770	460,125	
2005	200,770	475,961	
2006	210,770	481,875	
2007	215,770	362,132	
2008	215,770	333,793	
2009	215,770	313,800	
2010	226,321	273,913	
2011	237,913	262,504	64,000
2012	237,913	250,031	

CME – Table 2

Gaz Metro FT and STS (GJ/d)		
	Short Haul	Long Haul
1998	167,192	609,370
1999	151,174	631,671
2000	151,174	577,661
2001	196,174	571,254
2002	216,453	571,254
2003	286,453	472,027
2004	286,453	472,027
2005	346,453	467,954
2006	346,453	467,954
2007	411,453	467,954
2008	391,174	460,356
2009	391,174	422,093
2010	391,174	292,301
2011	391,174	276,124
2012	391,174	195,327

The development of major new supplies from the Marcellus Shale gas formation, combined with the reversal of flow at the Niagara Falls border point to allow Marcellus imports onto the Mainline, has given Union, GMi, and other shippers further opportunity to replace long-haul with short-haul.

- (b) As stated in the reference, TransCanada expects that approximately \$150 million per year of lost revenue to the Mainline will occur as a result of Union and Gaz Métro decontracting long-haul service and replacing it with short-haul service, assuming current tolls are in effect. Please see the table below for the calculation.

All else equal, the impact this lost revenue will have on Mainline tolls paid by Ontario gas users is that tolls will ultimately increase. The revenue deficiency would accrue in the TSA deferral account which could be recovered from Mainline shippers when that account is disposed of at the conclusion of the fixed toll period.

CME - Table 3

Shipper	Path	GJ/d	Current Toll (\$/GJ/Month)	Annual Revenue
Gaz Metro	Empress to GMI EDA	(232,048)	52.601	(146,472,457)
	Empress to GMI NDA	(15,327)	40.883	(7,519,275)
	Parkway to GMI EDA	232,048	12.528	34,885,447
	Parkway to GMI NDA	15,327	10.387	1,910,384
				(117,195,901)
Union	Empress to Union EDA	(57,831)	50.201	(34,837,936)
	Empress to Union NDA	(10,000)	40.057	(4,806,810)
	Parkway to Union EDA	57,831	7.618	5,286,630
	Parkway to Union NDA	10,000	10.889	1,306,704
				(33,051,412)
Total				(150,247,313)

- (c) To accommodate additional short haul, the additional Mainline revenue requirement is expected to be approximately \$38 million per year. This is composed of an additional \$12 million per year for TransCanada's portion of cost associated with its transportation on Segment A as well as additional \$26 million per year for the owning and operating costs associated with the Kings North Expansion and Maple Compression that has a total capital expenditure of approximately \$170 million.

- (d) Please refer to CME 1 Attachment 1A pages 1 and 2 for TransCanada's analysis of the impact to Union Gas on behalf of Ontario gas consumers, by sourcing more gas through short haul transportation services. TransCanada has provided two analyses with different basis differentials between Empress and Dawn, using \$0.92 as Union did in its calculations, and \$1.50 which reflects recent values. This demonstrates the effect the basis differentials can have. Generally, the higher the basis differential, the lower the savings realized by sourcing gas through short haul transportation.

Please refer to CME 1 Attachment 1A pages 3 and 4 – for the analysis as it applies to Gaz Metro.

- (e) Overall, TransCanada finds that the costs to provide short haul service that is replacing long haul service significantly outweigh the benefits, especially when these markets are currently being served with infrastructure in place. The net result of adding duplicative infrastructure can only result in increased costs to consumers in the long run. TransCanada's analysis (using the basis assumptions used by Union) shows that there would be a net cost increase of \$153 million to consumers over the long run.

Please refer to CME 1 Attachment 1B for details of the impact calculation.

Transportation Impact for Union from Switching from Long Haul to Short Haul

		GJ/d	Current FT Toll (\$/GJ/month) effective July 1, 2013	Annual Toll Charge
Empress	Union EDA	57,831	50.201	34,837,936
Empress	Union NDA	10,000	40.057	4,806,810
Long Haul Total				39,644,746
Parkway	Union EDA	57,831	7.618	5,286,630
Parkway	Union NDA	10,000	10.889	1,306,704
Short Haul Total				6,593,334
Union's Savings from toll difference				(33,051,412)

Empress Gas Price:	6.11	US\$/MMbtu (as provided in Union evidence)
Dawn Gas Price:	7.09	US\$/MMbtu (as provided in Union evidence)
Empress versus Dawn gas price differential:	0.98	US\$/MMbtu (as provided in Union evidence)
Exchange rate:	0.987	Cnd\$/US\$ (as provided in Union evidence)
Mmbtu to GJ conversion factor:	1.0551	GJ/Mmbtu (as provided in Union evidence)
Empress Gas Price	5.716	Cnd\$/GJ
Dawn Gas Price:	6.633	Cnd\$/GJ
Empress versus Dawn gas price differential:	0.917	Cnd\$/GJ

Union's Annual Gas Supply Cost Increase:	22,698,063	Cnd\$
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Union's M12 rate from Dawn to Parkway (1) 0.091 \$/GJ

Additional transport cost to Union from Dawn to Parkway	2,253,007	Cnd\$
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(1) M12 rate as provided in Union's Evidence in Schedule 10-6

Union's Net Position - excluding fuel (- is savings / + is cost)	(8,100,342)	Cnd\$
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Fuel differences:

		GJ/d	Fuel Ratio % (2)	Gas Price (Cnd\$/GJ)	Annual Fuel Charge
Empress	Union EDA	57,831	2.07%	5.716	2,493,486
Empress	Union NDA	10,000	1.58%	5.716	330,330
Long Haul Total					2,823,816
Dawn	Union EDA	57,831	0.96%	6.633	1,343,225
Dawn	Union NDA	10,000	1.11%	6.633	269,590
Short Haul Total					1,612,815
Union's Savings from fuel difference					(1,211,001)

(2) TCPL 2012 Actual Annual Average fuel ratios. The fuel ratio from Dawn is the sum of Union's Dawn to Parkway fuel ratio + Mainline's Parkway to market fuel ratio

Union's Net Position - including fuel (- is savings / + is cost)	(9,311,343)	Cnd\$
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Transportation Impact for Union from Switching from Long Haul to Short Haul

		GJ/d	Current FT Toll (\$/GJ/month) effective July 1, 2013	Annual Toll Charge
Empress	Union EDA	57,831	50.201	34,837,936
Empress	Union NDA	10,000	40.057	4,806,810
Long Haul Total				39,644,746
Parkway	Union EDA	57,831	7.618	5,286,630
Parkway	Union NDA	10,000	10.889	1,306,704
Short Haul Total				6,593,334
Union's Savings from toll difference				(33,051,412)

Empress Gas Price	3.000	Cnd\$/GJ
Dawn Gas Price:	4.500	Cnd\$/GJ
Empress versus Dawn gas price differential:	1.500	Cnd\$/GJ

Union's Annual Gas Supply Cost Increase:	37,137,473	Cnd\$
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Union's M12 rate from Dawn to Parkway (1)	0.091	\$/GJ
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Additional transport cost to Union from Dawn to Parkway	2,253,007	Cnd\$
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(1) M12 rate as provided in Union's Evidence in Schedule 10-6

Union's Net Position - excluding fuel (- is savings / + is cost)	6,339,068	Cnd\$
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Fuel differences:

		GJ/d	Fuel Ratio % (2)	Gas Price (Cnd\$/GJ)	Annual Fuel Charge
Empress	Union EDA	57,831	2.07%	3.000	1,308,716
Empress	Union NDA	10,000	1.58%	3.000	173,375
Long Haul Total					1,482,091
Dawn	Union EDA	57,831	0.96%	4.500	911,325
Dawn	Union NDA	10,000	1.11%	4.500	182,906
Short Haul Total					1,094,231
Union's Savings from fuel difference					(387,859)

(2) TCPL 2012 Actual Annual Average fuel ratios. The fuel ratio from Dawn is the sum of Union's Dawn to Parkway fuel ratio + Mainline's Parkway to market fuel ratio

Union's Net Position - including fuel (- is savings / + is cost)	5,951,208	Cnd\$
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Transportation Impact for Gaz Metro from Switching from Long Haul to Short Haul

		GJ/d	Current FT Toll (\$/GJ/month) effective July 1, 2013	Annual Toll Charge
Empress	GMI EDA	232,048	52.601	146,472,457
Empress	GMI NDA	15,327	40.883	7,519,275
Long Haul Total				153,991,732
Parkway	GMI EDA	232,048	12.528	34,885,447
Parkway	GMI NDA	15,327	10.387	1,910,384
Short Haul Total				36,795,830
GMI's Savings from toll difference				(117,195,901)

Empress Gas Price:	6.11	US\$/MMbtu (as provided in Union evidence)
Dawn Gas Price:	7.09	US\$/MMbtu (as provided in Union evidence)
Empress versus Dawn gas price differential:	0.98	US\$/MMbtu (as provided in Union evidence)
Exchange rate:	0.987	Cnd\$/US\$ (as provided in Union evidence)
Mmbtu to GJ conversion factor:	1.0551	GJ/Mmbtu (as provided in Union evidence)
Empress Gas Price	5.716	Cnd\$/GJ
Dawn Gas Price:	6.633	Cnd\$/GJ
Empress versus Dawn gas price differential:	0.917	Cnd\$/GJ

GMI's Annual Gas Supply Cost Increase:	82,778,278	Cnd\$
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Union's M12 rate from Dawn to Parkway (1) **0.091** \$/GJ

Additional transport cost to GMI from Dawn to Parkway	8,216,561	Cnd\$
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(1) M12 rate as provided in Union's Evidence in Schedule 10-6

GMI's Net Position excluding fuel (- is savings / + is cost)	(26,201,063)	Cnd\$
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Fuel differences:

		GJ/d	Fuel Ratio % (2)	Gas Price (Cnd\$/GJ)	Annual Fuel Charge
Empress	GMI EDA	232,048	2.07%	5.716	10,005,159
Empress	GMI NDA	15,327	1.65%	5.716	528,148
Long Haul Total					10,533,306
Dawn	GMI EDA	232,048	1.18%	6.633	6,606,884
Dawn	GMI NDA	15,327	1.08%	6.633	400,523
Short Haul Total					7,007,406
GMI's Savings from fuel difference					(3,525,900)

(2) TCPL 2012 Actual Annual Average fuel ratios. The fuel ratio from Dawn is the sum of Union's Dawn to Parkway fuel ratio + Mainline's Parkway to market fuel ratio

GMI's Net Position - including fuel (- is savings / + is cost)	(29,726,962)	Cnd\$
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Transportation Impact for Gaz Metro from Switching from Long Haul to Short Haul

		GJ/d	Current FT Toll (\$/GJ/month) effective July 1, 2013	Annual Toll Charge
Empress	GMI EDA	232,048	52.601	146,472,457
Empress	GMI NDA	15,327	40.883	7,519,275
Long Haul Total				153,991,732
Parkway	GMI EDA	232,048	12.528	34,885,447
Parkway	GMI NDA	15,327	10.387	1,910,384
Short Haul Total				36,795,830
GMI's Savings from toll difference				(117,195,901)

Empress Gas Price	3.000	Cnd\$/GJ
Dawn Gas Price:	4.500	Cnd\$/GJ
Empress versus Dawn gas price differential:	1.500	Cnd\$/GJ

GMI's Annual Gas Supply Cost Increase:	135,437,813	Cnd\$
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Union's M12 rate from Dawn to Parkway (1) 0.091 \$/GJ

Additional transport cost to GMI from Dawn to Parkway	8,216,561	Cnd\$
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(1) M12 rate as provided in Union's Evidence in Schedule 10-6

GMI's Net Postion - excluding fuel (- is savings / + is cost)	26,458,472	Cnd\$
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Fuel differences:

		GJ/d	Fuel Ratio % (2)	Gas Price (Cnd\$/GJ)	Annual Fuel Charge
Empress	GMI EDA	232,048	2.07%	3.000	5,251,246
Empress	GMI NDA	15,327	1.65%	3.000	277,200
Long Haul Total					5,528,447
Dawn	GMI EDA	232,048	1.18%	4.500	4,482,510
Dawn	GMI NDA	15,327	1.08%	4.500	271,739
Short Haul Total					4,754,249
GMI's Savings from fuel difference					(774,197)

(2) TCPL 2012 Actual Annual Average fuel ratios. The fuel ratio from Dawn is the sum of Union's Dawn to Parkway fuel ratio + Mainline's Parkway to market fuel ratio

GMI's Net Postion - including fuel (- is savings / + is cost)	25,684,274	Cnd\$
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Overall Impact of Shorthaul Transportation replacing Long Haul Transportation on the Mainline

(\$ Millions/year)		
Mainline Annual Revenue Impact	from long haul replaced by short haul (1)	(150)
(- is lost revenue / + is additional revenue)	EGD's Parkway to Bram West Contract (2)	26
Mainline Annual Cost of Service Impact	for Kings North Facilities (3)	(26)
(- is cost / + is savings)	for Mainline transport on Segment A (4)	(12)
Union Cost Impact (- is cost / + is savings)	Empress / Dawn basis differential \$0.92 (5)	9
	Empress / Dawn basis differential \$1.50 (5)	(6)
Net Impact (+ benefit / - detriment)	Empress / Dawn basis differential \$0.92	(153)
	Empress / Dawn basis differential \$1.50	(168)

(1) see response to CME 1 (b)

(2) in accordance with the MOU, TransCanada will see incremental revenues from Parkway to Bram West of \$26 million/year based on current tolls (800 TJ/d X \$0.0875/GJ X 365 days)

(3) annual cost of service impact is approximately 15% of (i) the King's North capital cost of \$120 million and (ii) additional \$50 million of capital required for compression at Maple.

(4) the annual cost of TransCanada's transportation contract on Segment A with EGD

(5) see response to CME 1 (d)