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

ONTARIO ENERGY BOARD

IN THE MATTER OF an application by Enbridge Gas Distribution Inc. for: an order or orders granting leave to construct a natural gas pipeline and ancillary facilities in the Town of Milton, City of Markham, Town of Richmond Hill, City of Brampton, City of Toronto, City of Vaughan and the Region of Halton, the Region of Peel and the Region of York; and an order or orders approving the methodology to establish a rate for transportation services for TransCanada Pipelines Limited;

AND IN THE MATTER OF an application by Union Gas Limited for: an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Parkway West site; an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the Town of Milton; an Order or Orders for pre-approval of recovery of the cost consequences of all facilities associated with the development of the proposed Brantford-Kirkwall/Parkway D Compressor Station project; an Order or Orders for pre-approval of the cost consequences of two long term short haul transportation contracts; and an Order or Orders granting leave to construct natural gas pipelines and ancillary facilities in the City of Cambridge and City of Hamilton.

SCHOOL ENERGY COALITION CROSS-EXAMINATION COMPENDIUM (Joint Panel)

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Counsel to the School Energy Coalition

UNION GAS LIMITED

Undertaking of Mr. Isherwood
To Mr. DeRose

To update analysis with actual tolls.

This analysis is in response to the request for a review of the impact of the Settlement Term Sheet on Union's estimate of the forecast gas cost savings reflected in the pre-filed evidence, as updated August 23, 2013. In preparing the analysis Union has considered the savings in the event the effects of the Term Sheet are approved by the National Energy Board and in the event they are not.

1. Toll Certainty with a Settlement

a) Toll Benefits of the Settlement

i. Reduction in ROE and Financial Contribution by TCPL. Under the Settlement, TCPL will be making two significant contributions. First, TCPL has agreed to an ROE of 10.1% as opposed to the NEB approved ROE of 11.5% – this contribution is estimated at approximately $35M/yr or $210M over the 6 year toll agreement. Second, TCPL has agreed to provide a $20M/yr contribution or $120M over the 6 years. In total, TCPL has agreed to provide $330M in relief. These contributions result in settlement tolls being lower than they otherwise would be under the no settlement scenario.

ii. Segmentation of the EOT. EOT shippers will only contribute to the shortfall resulting from the conversion to short haul for the first six years (although it is amortized over 16 years).

b) Impacts of TCPL Changes on Union Customers

In addition to market access, the settlement provides for toll certainty. In its updated, pre-filed evidence, Union calculated the forecast gas cost savings based on TCPL's compliance tolls to be the $15.4M/yr.

Customers that shift from long haul to short haul will create a revenue deficiency on the TCPL system. Under a cost of service framework, any revenue deficiency would be captured through toll adjustments on the TCPL system. Union has calculated the impact of the toll changes on TCPL as they impact Union's supply costs as follows.

a) Assume all of the revenue impact on TCPL is allocated to the Eastern Ontario Triangle (as of Nov 1, 2016)

- Total Transportation Savings (Long Haul to Short Haul) - $35.7M
- Union's total EOT transportation = 315,000 Gj/d
- Total EOT transportation (all shippers) = 4,500,000 Gj/d
- Union as a percent of total (315,000/4,500,000) = 7%

Therefore, Union System Customers would pay 7% of the $35.7M or $2.5M each year. In this scenario, the $15.4M of annual gas cost savings would be reduced to $12.9M.

b) Assume the revenue impact to TCPL is allocated to all shippers on TCPL

- It is expected that 15 basis points of the 50% increase in short haul tolls will be a surcharge to recover revenue deficiencies on the Prairies and Northern Ontario Line. For the short haul toll from Parkway to the TCPL EDA, a 50% increase represents 12.5 cents/Gj.
- 15 basis points would represent 3.75 cents per Gj for all shippers on the Mainline system. Assuming the conversion from long haul to short haul is the predominate driver of the 3.75 cents, Union has assumed that 3 cents is directly attributable to the conversion cost (there is also some general deficiencies that would be recovered as well and is assumed to be the remainder of the surcharge).
- Union's total capacity on the TCPL system is approximately 530,000 Gj/d (includes long haul, short haul and STS).
- Therefore, the total cost for Union supply would be 3 cents x 530,000 x 365d = $5.8M
- In this scenario, Union's annual gas cost savings would be reduced from $15.4 to $9.6M

In this second example, the 3 cent surcharge recovers not only the impact of Union's 2015 conversion to short haul, but also the short haul conversion costs from all shippers forecast for 2015 and 2016. In recent discussions with TCPL it has proposed allocating the conversion impact to all customers as assumed in this example.

2. Expected Tolls

Path	Compliance Tolls ($/Gj)	Tolls- 45% SH Increase ($/Gj)	Tolls- 55% SH Increase ($/Gj)
Empress to Enbridge EDA	1.62	1.83	1.94
Empress to Enbridge CDA	1.57	1.77	1.88
Empress to Union EDA	1.65	1.87	1.98
Empress to Union NDA	1.32	1.41	1.49
Empress to Union CDA	1.54	1.74	1.85
Parkway to Enbridge EDA	0.32	0.46	0.50
Parkway to Enbridge CDA	0.12	0.17	0.19
Parkway to Union EDA	0.25	0.36	0.39
Parkway to Union NDA	0.36	0.52	0.56
Parkway to Union CDA	0.10	0.14	0.15

Note: For case of 45% increase to short haul tolls, Union has assumed that long haul toll to EOT increases by 13% and all other long haul paths increase by 7%. In the case of 55% increase to short haul tolls, Union has assumed that long haul toll to EOT increases by 20% and all other long haul paths increase by 13%. Although the unit increase in long haul tolls reflected in the above ranges is higher than the unit increase in short haul tolls, the difference is a function of the different recovery periods for the long haul and short haul surcharges (6 years vs.15 years, respectively). Over the settlement period, the toll differential is expected to be approximately the same as the differential in the Compliance Tolls.

3. Toll uncertainty without a Settlement

In RH-003-2011, the NEB-approved two deferral accounts to address TCPL revenue variances. The first, LTAA, had a balance of approximately $300M at the start of 2013. This amount was expected to increase by a fixed amount of $95M per year over the 5 year period (2013-2017). By the end of 2017, the LTAA would have a balance of approximately $800M.

The balance in the second account, the Toll Stabilization Account (TSA), is a function of TCPL's financial performance relative to the throughput forecast approved by the NEB in RH-003-2011. Variances from the forecast (positive or negative on annual revenue) accrue in this account. The TSA therefore reflects throughput forecast risk.

Also relevant to any toll assessment is whether access to Dawn is or is not available. In the event TCPL could not or would not provide access to Dawn during the period (whether because of revenue risk or otherwise), the landed gas of cost in the Ontario EDA would be high (see Undertaking J3.5). In this scenario, the AECO basis (relative to Henry Hub) is expected to increase by approximately 34 cents/Gj – exceeding the impact of the Settlement Term Sheet (an increase of approximately 12.5 cents/Gj).

In the event access is available and provided by TCPL, any shortfall resulting from long haul and short haul conversion in 2015 or 2016 would accrue in the TSA and create further toll uncertainty. In this respect, it is Union's view that Fundamental Risk to the Mainline has not been realized or even if it has, that TCPL would likely not be exposed to material financial risk. In the result, any balance in the TSA would be the shippers' responsibility and the impact reflected in tolls.

UNION GAS LIMITED

Undertaking of Mr. Hockin
To Mr. Quinn

To run DCF analysis with anticipated savings.

The attached DCF filed as Schedule 9-3A has been re-run using gas cost savings of $9.6 million per year (Attachment 1) and $12.9 million per year (Attachment 2) as outlined in Undertaking J4.5. Gas savings are for a period of 15 years in each case. No other inputs have changed. The resulting 30 yr DCF has the following resulting.

Case	Annual Gas Savings ($ Millions)	PI	NPV ($ Millions)
Attachment 1	$9.6	1.01	$1.8
Attachment 2	$12.9	1.13	$27.4

2015
Brantford-Kirkwall Pipeline and Parkway D Compressor
DCF with Estimated Net Impact of Bridging Toll Change

Project Year ($000's)	1	2	3	4	5	6	7	8	9	10
Cash Inflow										
Revenue	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204
Expenses:										
Gas Supply Cost Savings	9,600	9,600	9,600	9,600	9,600	9,600	9,600	9,600	9,600	9,600
O & M Expense	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)
Municipal Tax	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)
Income Tax	(336)	1,023	359	(258)	(791)	(1,254)	(1,656)	(2,005)	(2,309)	(2,574)
Net Cash Inflow	16,973	18,332	17,668	17,052	16,518	16,055	15,653	15,304	15,000	14,735
Cash Outflow										
Incremental Capital	200,069	4,007	-	-	-	-	-	-	-	-
Change in Working Capital	16	-	-	-	-	-	-	-	-	-
Cash Outflow	200,085	4,007	-	-	-	-	-	-	-	-
Cumulative Net Present Value										
Cash Inflow	16,556	33,570	49,172	63,499	76,704	88,916	100,245	110,783	120,611	129,797
Cash Outflow	200,085	203,898	203,898	203,898	203,898	203,898	203,898	203,898	203,898	203,898
NPV By Year	(183,529)	(170,328)	(154,726)	(140,399)	(127,194)	(114,982)	(103,653)	(93,114)	(83,286)	(74,100)
Project NPV	1,807									
Profitability Index										
By Year PI	0.0827	0.1646	0.2412	0.3114	0.3762	0.4361	0.4916	0.5433	0.5915	0.6366
Project PI	1.01									

2015
Brantford-Kirkwall Pipeline and Parkway D Compressor
DCF with Estimated Net Impact of Bridging Toll Change

Project Year ($000's)	11	12	13	14	15	16	17	18	19	20
Cash Inflow										
Revenue	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204
Expenses:										
Gas Supply Cost Savings	9,600	9,600	9,600	9,600	9,600	1,775	1,775	1,775	1,775	1,775
O & M Expense	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)
Municipal Tax	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)
Income Tax	(2,805)	(3,007)	(3,184)	(3,339)	(3,476)	(1,522)	(1,627)	(1,720)	(1,802)	(1,875)
Net Cash Inflow	14,504	14,302	14,125	13,970	13,834	7,963	7,857	7,764	7,682	7,609
Cash Outflow										
Incremental Capital	-	-	-	-	-	-	-	-	-	-
Change in Working Capital	-	-	-	-	-	13	-	-	-	-
Cash Outflow	-	-	-	-	-	13	-	-	-	-
Cumulative Net Present Value										
Cash Inflow	138,400	146,472	154,057	161,195	167,920	171,603	175,061	178,312	181,373	184,257
Cash Outflow	203,898	203,898	203,898	203,898	203,898	203,904	203,904	203,904	203,904	203,904
NPV By Year	(65,497)	(57,426)	(49,841)	(42,703)	(35,978)	(32,301)	(28,843)	(25,592)	(22,531)	(19,647)
Project NPV										
Profitability Index										
By Year PI	0.6788	0.7184	0.7556	0.7906	0.8235	0.8416	0.8585	0.8745	0.8895	0.9036
Project PI										

2015
Brantford-Kirkwall Pipeline and Parkway D Compressor
DCF with Estimated Net Impact of Bridging Toll Change

Project Year ($000's)	21	22	23	24	25	26	27	28	29	30
Cash Inflow										
Revenue	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204
Expenses:										
Gas Supply Cost Savings	1,775	1,775	1,775	1,775	1,775	1,775	1,775	1,775	1,775	1,775
O & M Expense	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)
Municipal Tax	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)
Income Tax	(1,939)	(1,997)	(2,048)	(2,093)	(2,133)	(2,170)	(2,202)	(2,231)	(2,257)	(2,280)
Net Cash Inflow	7,545	7,487	7,437	7,391	7,351	7,315	7,282	7,253	7,227	7,204
Cash Outflow										
Incremental Capital	-	-	-	-	-	-	-	-	-	-
Change in Working Capital	-	-	-	-	-	-	-	-	-	-
Cash Outflow	-	-	-	-	-	-	-	-	-	-
Cumulative Net Present Value										
Cash Inflow	186,979	189,548	191,977	194,273	196,446	198,503	200,452	202,299	204,050	205,711
Cash Outflow	203,904	203,904	203,904	203,904	203,904	203,904	203,904	203,904	203,904	203,904
NPV By Year	(16,926)	(14,356)	(11,928)	(9,631)	(7,458)	(5,401)	(3,452)	(1,605)	146	1,807
Project NPV										
Profitability Index										
By Year PI	0.9170	0.9296	0.9415	0.9528	0.9634	0.9735	0.9831	0.9921	1.0007	1.0089
Project PI										

2015
Brantford-Kirkwall Pipeline and Parkway D Compressor
DCF with Estimated Net Impact of Bridging Toll Change

Project Year ($000's)	1	2	3	4	5	6	7	8	9	10
Cash Inflow										
Revenue	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204
Expenses:										
Gas Supply Cost Savings	12,900	12,900	12,900	12,900	12,900	12,900	12,900	12,900	12,900	12,900
O & M Expense	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)
Municipal Tax	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)
Income Tax	(1,211)	148	(516)	(1,132)	(1,666)	(2,129)	(2,531)	(2,880)	(3,184)	(3,449)
Net Cash Inflow	19,398	20,758	20,094	19,477	18,943	18,480	18,079	17,729	17,425	17,160
Cash Outflow										
Incremental Capital	200,069	4,007	-	-	-	-	-	-	-	-
Change in Working Capital	11	-	-	-	-	-	-	-	-	-
Cash Outflow	200,080	4,007	-	-	-	-	-	-	-	-
Cumulative Net Present Value										
Cash Inflow	18,922	38,187	55,931	72,296	87,440	101,497	114,581	126,790	138,207	148,905
Cash Outflow	200,080	203,892	203,892	203,892	203,892	203,892	203,892	203,892	203,892	203,892
NPV By Year	(181,158)	(165,705)	(147,961)	(131,596)	(116,452)	(102,395)	(89,311)	(77,102)	(65,685)	(54,987)
Project NPV	27,446									
Profitability Index										
By Year PI	0.0946	0.1873	0.2743	0.3546	0.4289	0.4978	0.5620	0.6218	0.6778	0.7303
Project PI	1.13									

2015
Brantford-Kirkwall Pipeline and Parkway D Compressor
DCF with Estimated Net Impact of Bridging Toll Change

Project Year ($000's)	11	12	13	14	15	16	17	18	19	20
Cash Inflow										
Revenue	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204
Expenses:										
Gas Supply Cost Savings	12,900	12,900	12,900	12,900	12,900	1,775	1,775	1,775	1,775	1,775
O & M Expense	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)
Municipal Tax	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)
Income Tax	(3,680)	(3,882)	(4,059)	(4,214)	(4,350)	(1,522)	(1,627)	(1,720)	(1,802)	(1,875)
Net Cash Inflow	16,929	16,727	16,550	16,395	16,259	7,963	7,857	7,764	7,682	7,609
Cash Outflow										
Incremental Capital	-	-	-	-	-	-	-	-	-	-
Change in Working Capital	-	-	-	-	-	19	-	-	-	-
Cash Outflow	-	-	-	-	-	19	-	-	-	-
Cumulative Net Present Value										
Cash Inflow	158,947	168,387	177,275	185,652	193,556	197,239	200,697	203,948	207,009	209,893
Cash Outflow	203,892	203,892	203,892	203,892	203,892	203,901	203,901	203,901	203,901	203,901
NPV By Year	(44,945)	(35,505)	(26,617)	(18,241)	(10,336)	(6,662)	(3,204)	47	3,108	5,992
Project NPV										
Profitability Index										
By Year PI	0.7796	0.8259	0.8695	0.9105	0.9493	0.9673	0.9843	1.0002	1.0152	1.0294
Project PI										

2015
Brantford-Kirkwall Pipeline and Parkway D Compressor
DCF with Estimated Net Impact of Bridging Toll Change

Project Year ($000's)	21	22	23	24	25	26	27	28	29	30
Cash Inflow										
Revenue	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204	9,204
Expenses:										
Gas Supply Cost Savings	1,775	1,775	1,775	1,775	1,775	1,775	1,775	1,775	1,775	1,775
O & M Expense	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)	(642)
Municipal Tax	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)	(853)
Income Tax	(1,939)	(1,997)	(2,048)	(2,093)	(2,133)	(2,170)	(2,202)	(2,231)	(2,257)	(2,280)
Net Cash Inflow	7,545	7,487	7,437	7,391	7,351	7,315	7,282	7,253	7,227	7,204
Cash Outflow										
Incremental Capital	-	-	-	-	-	-	-	-	-	-
Change in Working Capital	-	-	-	-	-	-	-	-	-	-
Cash Outflow	-	-	-	-	-	-	-	-	-	-
Cumulative Net Present Value										
Cash Inflow	212,615	215,185	217,613	219,909	222,082	224,140	226,089	227,935	229,686	231,347
Cash Outflow	203,901	203,901	203,901	203,901	203,901	203,901	203,901	203,901	203,901	203,901
NPV By Year	8,714	11,283	13,712	16,008	18,181	20,238	22,187	24,034	25,785	27,446
Project NPV										
Profitability Index										
By Year PI	1.0427	1.0553	1.0672	1.0785	1.0892	1.0993	1.1088	1.1179	1.1265	1.1346
Project PI										

UNDERTAKING J6.X

UNDERTAKING

On Hearing Day 2 (September 13, 2013)[1] and Hearing Day 3 (September 16, 2013)[2], the Joint Panel committed to provide an indicative impact of the Settlement Term Sheet with TransCanada. On Hearing Day 4 (September 17, 2013)[3], Union committed to provide the impact through Undertaking J4.5 and Enbridge committed to respond to the same request on Hearing Day 6 (September 26, 2013)[4], however no separate undertaking number was assigned. The following response is provided on behalf of Enbridge.

RESPONSE

This response provides an indicative impact of the Settlement Term Sheet with TransCanada. Impacts of the Settlement Term Sheet include an increase in transportation costs as a result of higher TransCanada tolls and a decrease in transportation costs as a result of access to short haul transport to the Enbridge EDA, made possible as a result of the settlement.

The estimated range of toll impacts provided by TransCanada is a 45% to 55% increase in short haul tolls and a 13% to 20% increase in long haul tolls to the Enbridge Franchise.

Based on the range of toll impacts provided by TransCanada the impact on tolls for transportation service utilized by Enbridge are as follows:

[1] Refer to Hearing Day 2 (September 13, 2013) transcript at page 120, line 28 to page 121, line 7.
[2] Refer to Hearing Day 3 (September 16, 2013) transcript at page 127, lines 4 to 16.
[3] Refer to Hearing Day 4 (September 17, 2013) transcript at page 54, line 22 to page 55, line 21.
[4] Refer to Hearing Day 6 (September 26, 2013) transcript at page 63, lines 10 to 17.

Witnesses: J. Denomy
M. Giridhar

$/GJ	Compliance Filing Toll	13% Increase in Long Haul & 45% Increase in Short Haul	20% Increase in Long Haul & 55% Increase in Short Haul
Empress to Enbridge CDA	1.57	1.77	1.88
Empress to Enbridge EDA	1.62	1.83	1.94
Dawn to Enbridge CDA	0.24	0.34	0.37
Dawn to Enbridge EDA	0.44	0.63	0.68
Dawn to Iroquois	0.42	0.61	0.65
Parkway to Enbridge CDA	0.12	0.18	0.19
STS to Enbridge CDA	0.12	0.18	0.19
STS to Enbridge EDA	0.32	0.47	0.50
Parkway to Enbridge CDA SN	0.13	0.19	0.20

The annual increase in gas costs from the range of tolls provided above relative to the compliance tolls and using the October 2013 QRAM gas supply portfolio is shown below and ranges from $50M to $68M. The bridging contribution accounts for approximately 1/3rd of the impact on gas costs with the remaining impact accounting for cost recovery of the Eastern Ontario Triangle.

$ Millions	Total TCPL Transportation Costs October 2013 QRAM	13% Increase in Long Haul Tolls, 45% Increase in Short Haul Tolls	20% Increase in Long Haul Tolls, 55% Increase in Short Haul Tolls
	234.7	284.1	302.3
Difference Relative to October 2013 QRAM		49.5	67.7

The average annual decrease in gas supply costs resulting from the ability to displace 170,000 TJ/d of long haul transport to the Enbridge EDA with short haul transport in 2016 is estimated to be approximately $49 million per year. This expected benefit was calculated using TCPL Compliance Filing Tolls, an average Empress to Dawn basis differential of $0.51 /GJ and 100% utilization of long haul capacity.

The table below shows the annual average expected gas supply benefits for Enbridge's ratepayers arising from the GTA Project over the 2015 to 2025 timeframe for a range of basis and utilization scenarios.

Witnesses: J. Denomy
M. Giridhar

Annual Average GTA Project Benefits Calculations for Current Base Case - Basis and Utilization Scenarios @ Compliance Filing Tolls - 2015-2025				
$ Millions		**Average Empress-Dawn Basis = 0.51 $/GJ**	**Average Empress-Dawn Basis = 0.92 $/GJ**	**Average Empress-Dawn Basis = 1.50 $/GJ**
Enbridge CDA				
Long Haul Load Factor = 100% (January to December)	System Gas	109	62	(2)
	Direct Purchase	64	39	5
	Total	173	101	3
Long Haul Load Factor = 42% (November to March)	System Gas	138	119	92
	Direct Purchase	64	39	5
	Total	202	158	96
Long Haul Load Factor = 25% (December to February)	System Gas	145	134	118
	Direct Purchase	64	39	5
	Total	210	173	122
Enbridge EDA				
Long Haul Load Factor = 100% (January to December)	System Gas	49	21	(15)
Long Haul Load Factor = 42% (November to March)	System Gas	65	53	38
Long Haul Load Factor = 25% (December to February)	System Gas	69	62	53
Grand Total				
Long Haul Load Factor = 100% (January to December)		222	122	(12)
Long Haul Load Factor = 42% (November to March)		267	211	134
Long Haul Load Factor = 25% (December to February)		279	235	175

Enbridge has not updated the benefits resulting from the GTA Project using the range of indicative tolls provided by TransCanada. While the unit increase in long haul tolls underpinning this range is higher than the unit increase in short haul tolls, these increases are based on a six year surcharge recovery for long haul vs. a fifteen year surcharge recovery for short haul. Over the term of the settlement the differential in tolls is expected to be approximately the same as the differential in compliance tolls.

The combined benefits of the GTA Project and the term sheet are substantial and far exceed the increase in short haul and long haul tolls resulting from the term sheet under all but the scenario where Enbridge uses all its contracts at a 100% load factor and the basis differential between Alberta and Dawn is $1.50 or more.

As noted in evidence, 100% utilization is an unrealistic assumption given that Enbridge operates its distribution system at approximately 30% utilization factor. In addition, Enbridge has not included upstream arrangements necessary to meet growth in peak demand. The absence of short haul supply will result in ever decreasing utilization of long haul transport increments resulting in a transfer of wealth from Enbridge rate payers to other shippers on the TransCanada system. Enbridge has or is in the process of firming up approximately 260 TJ/d of long haul transport in lieu of previously contracted STFT for 2014. Enbridge would note that while the determination of final Mainline tolls were based on an average throughput from Alberta they did not explicitly incorporate firming up of Enbridge's 2013 peak day demand or growth in Enbridge's peak day demand over time.

Witnesses: J. Denomy
M. Giridhar

Finally, the basis differentials reflected in the table do not reflect changes in Marcellus basis relative to Alberta. Enbridge notes that at TGP Zone 4 Marcellus, a trading point in the Marcellus formation, gas is currently trading at approximately $2.00 /GJ, a discount of $0.55 relative to AECO in Alberta. Enbridge's analysis has assumed that Marcellus basis would trade above Alberta basis.

Witnesses: J. Denomy
M. Giridhar

NATIONAL ENERGY BOARD

IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder;

AND IN THE MATTER OF an Application by TransCanada PipeLines Limited pursuant to Part I and Part IV of the National Energy Board Act for approval of Tariff Proposals;

AND IN THE MATTER OF National Energy Board Hearing Order RH-001-2013.

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

APPLICATION FOR APPROVAL OF TARIFF PROPOSALS

June 2013

I INTRODUCTION

1. TransCanada PipeLines Limited (TransCanada) hereby applies to the National Energy Board (Board or NEB) under Part I and Part IV of the *National Energy Board Act*[1] (Act), and pursuant to the Board's letter decision dated June 11, 2013,[2] for an order approving amendments to the Gas Transportation Tariff (Tariff) of TransCanada's mainline natural gas transmission system (Mainline) to:

    a. implement modifications to the terms applicable to Diversions and Alternate Receipt Points (ARPs);

    b. eliminate the overrun feature of Storage Transportation Service (STS);

    c. remove the prescriptive Tariff language pertaining to the timing and duration of Short Term Firm Transportation (STFT) and Short Term Short Notice (ST-SN) open seasons; and

    d. amend the renewal provisions associated with firm Mainline services[3] with respect to situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets.[4]

    Collectively, the amendments to the Tariff proposed herein are referred to as the "the Tariff Proposals."

2. In support of this application (Application), TransCanada provides and relies on the information contained in the Application, including the attached appendices, and any additional information that TransCanada may file, as directed or permitted by the Board.

3. TransCanada is a "company" as that term is defined in the Act. TransCanada owns and operates the Mainline, which is a large-diameter pipeline system extending from the Alberta border through Saskatchewan, Manitoba and Ontario to Québec, with various connections at the international border.

4. The Tariff Proposals are brought forward in response to the Board's decision in the proceeding held pursuant to hearing order RH-003-2011[5], and in particular to the new regulatory regime and tolling model mandated by the RH-003-2011 Decision (Decision Model). The Tariff Proposals are required to enable TransCanada to

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[1] *National Energy Board Act*, R.S.C., 1985, c. N-7, as amended.
[2] Board Letter Decision dated June 11, 2013 concerning *TransCanada's 1 May 2013 Application for Review and Variance*. File OF-Tolls-Group1-T211-2013-01 01 (Review Decision).
[3] Firm Transportation (FT); Storage Transportation Service (STS); Storage Transportation Service Linked (STS-L) Firm Transportation - Short Notice (FT-SN); and Short Notice Balancing (SNB).
[4] If the Board is unwilling to approve these revisions on a generic basis, TransCanada submits that it must, at a minimum, permit application of those provisions as a case specific measure in relation to the Energy East project, as detailed in the Application.
[5] *National Energy Board Reasons for Decision TransCanada PipeLines Limited, NOVA Gas Transmission Ltd., and Foothills Pipe Lines Ltd., RH-003-2011, Tolls and Tariff*, March 2013 (RH-003-2011 Decision).

effectively utilize the tools provided by the Board's RH-003-2011 Decision, and to meet the objectives of the RH-003-2011 Decision to maximize revenues over the multi-year fixed toll period.

5. Details of the Tariff Proposals and their justification are provided below, along with background information on the RH-003-2011 proceeding and Decision that is relevant to the Application.

II BACKGROUND TO THE APPLICATION

6. On September 1, 2011, TransCanada, NOVA Gas Transmission Ltd. (NGTL) and Foothills Pipe Lines Ltd. (Foothills) applied to the Board for approvals designed to implement a proposed restructuring of the services on the Mainline, the TransCanada Alberta System, and the TransCanada Foothills System, and for orders fixing and approving tolls for the transportation services provided on the Mainline between January 1, 2012 and December 31, 2013 (Restructuring Proposal). NGTL and Foothills were co-applicants with TransCanada because their tolls would have been affected by part of the relief requested in the application. The Restructuring Proposal was considered in the proceedings held pursuant to hearing order RH-003-2011.

7. On March 27, 2013, the Board issued the RH-003-2011 Decision in respect of the Restructuring Proposal.

8. In the RH-003-2011 Decision, the Board *inter alia* fixed multi-year tolls for the Mainline at what it considered to be a competitive level, provided TransCanada with pricing discretion for short-term services, approved an incentive mechanism, and approved TransCanada's proposed changes to the Mainline toll design and services. The Board denied other TransCanada proposals, including the Alberta System Extension, the proposed reallocation of accumulated depreciation, and the proposed treatment of costs for transportation services on the Trans Québec & Maritimes Pipeline. The Board also established a streamlined regulatory process for the Mainline to address new service and pricing proposals in a more timely manner.

9. TransCanada was directed by the Board in the RH-003-2011 Decision to file a compliance filing by May 1, 2013,[6] and did so. TransCanada's compliance filing was approved by the Board on June 11, 2013.[7]

10. The Decision Model establishes a multi-year fixed Firm Transportation (FT) toll from Empress, Alberta to Dawn, Ontario[8] of $1.42/GJ and requires that all other firm transportation tolls be derived proportionately in accordance with the relative

[6] *National Energy Board Order TG-002-2013*, page 3, paragraph 5.
[7] *National Energy Board Order TG-006-2013*.
[8] Specifically to the Union SWDA.

distance that gas is transported from the $1.42/GJ toll (the Fixed Tolls). The Decision Model requires the capitalization into rate base (through the Long Term Adjustment Account or LTAA) of a significant portion of the annual Mainline costs during the multi-year fixed-tolls period. Variations between the Revenue Requirement as reduced by contributions to the LTAA (Adjusted Revenue Requirement) and actual revenues are tracked in a deferral account (the Toll Stabilization Account or TSA), any balance in which is to be disposed of at the end of the multi-year period.

11. The Decision Model will only allow TransCanada to earn the Adjusted Revenue Requirement if the Mainline generates substantially more revenue than is forecast to be generated by existing FT contracts. In particular, to earn the Adjusted Revenue Requirement, the Mainline will have to generate more revenue by increasing contracted levels of FT services and/or generating a significant amount of revenue from interruptible transportation (IT) and STFT services. In order to allow TransCanada to encourage FT contracting, and provide the opportunity to derive maximum revenues from IT and STFT contracting, the Decision Model gives TransCanada significant pricing discretion (subject to the requirements of the NEB Act) to set the bid floors for IT and STFT.

12. On May 1, 2013, concurrently with its compliance filing to the RH-003-2011 Decision, TransCanada filed an application for review and variance of the RH-003-2011 Decision (Review Application). Among other relief, the Review Application included Tariff amendments that are required for effective implementation of the Decision Model. The Tariff amendments proposed in the Review Application included:

    a. modifications to the terms applicable to Diversions and ARPs;
    b. elimination of the overrun feature of STS Service;
    c. removal of Tariff language pertaining to the timing and duration of STFT and ST-SN open seasons; and
    d. amendments to the renewal provisions associated with firm Mainline services implementing an Early Long Term Renewal Option procedure with respect to situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets.

13. In addition, on May 9, 2013, TransCanada filed Tariff amendments pursuant to paragraph 60(1)(a) of the Act that pertained to the Mainline renewal provisions. The amendments contained in that filing retained the existing renewal rights with the qualification that TransCanada may decline to renew a contract if a shipper:

    (i) seeks to exercise the renewal option earlier than seven months prior to the termination date of its existing contract; or

(ii) requests a renewal term of more than one year from the termination date of its existing contract.[9]

14. On May 22, 2013, the Board suspended the May 9, 2013 Tariff amendments and also suspended the existing renewal provisions insofar as they:

- allow the renewal of contracts for terms of greater than one year; and
- allow shippers to provide more than seven months' notice of renewal.[10]

15. On June 11, 2013, the Board dismissed the Review Application.[11] The Board deemed the part of TransCanada's Review Application requesting variances to the Mainline tariff as a separate application pursuant to Part IV of the Act. The Board further determined that it would hear the merits of those proposals pursuant to the streamlined procedure set out in the RH-003-2011 Decision. The Board directed TransCanada to re-file that part of the Review Application dealing with tariff proposals by June 17, 2013 and specified that TransCanada may make any necessary amendments to that material and file supplementary material in support of the tariff proposals as it sees fit.[12]

16. In accordance with the Board's June 11, 2013 Review Decision, this Application includes a re-filing of portions of the Review Application relevant to the Tariff Proposals. TransCanada also confirms as directed[13] that it is seeking approval of both amendments to the Mainline renewal provision discussed above: those originally filed through the Review Application and those filed pursuant to paragraph 60(1)(a) on May 9, 2013.[14]

III REQUIRED TARIFF AMENDMENTS

17. As noted, the RH-003-2011 Decision granted TransCanada the flexibility to increase and decrease bid floors for short-term services[15] to give TransCanada the opportunity to encourage FT contracting and capture market opportunities for short-term services as they arise from time-to-time. This flexibility is the means by which the Board has chosen to provide TransCanada with an opportunity to recover prudently incurred costs, given that Mainline firm tolls have been fixed for a multi-year period below the cost of service level for that period.

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[9] TransCanada *Canadian Mainline Gas Transportation Tariff Filing - Tariff Amendments effective May 9, 2013* (May 9, 2013 Tariff Filing)

[10] Board Letter dated May 22, 2013 concerning *TransCanada's 9 May 2013 Tariff Amendment Filing.* File OF-Tolls-Group1-T211-2013-01 01 (Renewal Provisions Suspension Decision)

[11] Board Letter Decision dated June 11, 2013 concerning TransCanada Review Application. File OF-Tolls-Group1-T211-2013-01 01. (Review Decision)

[12] *Ibid*, page 2.

[13] *Ibid.*

[14] *Ibid.* See also TransCanada's letter to the Board dated May 24, 2013 concerning the May 9, 2013 Tariff Filing.

[15] For STFT, the discretion is limited to set bid floor at the FT toll or higher (RH-003-2011 Decision, page 129).

18. A number of Tariff provisions that were appropriate in the previous toll model are no longer appropriate under the Decision Model. The Tariff provisions in question effectively allow shippers to continue to use the Mainline in the way they have in the past, limiting TransCanada's ability to encourage FT contracting or capture short-term market opportunities.

19. Specifically, the following changes are necessary in order for TransCanada to have the tools necessary to ensure that the revenue recovery risk mitigation provided through pricing flexibility of discretionary services has an opportunity to be effective:

    a. Diversions and ARPs should only be available within the primary contracted path; and

    b. the Overrun feature of STS should be eliminated.

20. Further, the prescriptive Tariff language pertaining to the timing and duration of STFT and ST-SN open seasons must be eliminated in order for TransCanada to have an opportunity to effectively capture market opportunities when they arise outside of the window currently specified in the Tariff.

21. These amendments will benefit Mainline shippers by providing a properly functioning market with more appropriate market signals and minimizing exposure to future cost deferrals through the LTAA and TSA.

22. Finally, amendments to the Mainline Tariff renewal provisions are required in order to provide certainty on long-term firm shipper obligations in situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets. These amendments were originally proposed in the Review Application and in the May 9, 2013 filing pursuant to section 60(1)(a) of the Act. They work together to provide TransCanada with the ability to enhance long term contracting and contribute to rationalization of infrastructure and system costs, which ultimately benefit all shippers.

23. In the event the Board is unwilling to approve the proposed revisions to the existing renewal provisions on a generic basis, TransCanada requests that the Board, at a minimum, permit application of the provisions as a case specific measure in relation to TransCanada's anticipated Energy East Pipeline Project (Energy East).

24. The Tariff revisions required to implement these proposals are provided in Attachment 1.

A. Modifications to Diversions and ARPs

25. Diversions and ARPs are features of FT, Non-Renewable Firm Transportation (FT-NR), Multi-Year Fixed Price (MFP) and Firm Transportation Short Notice (FT-SN) services. A shipper who has a contract for these services can utilize

Diversions and ARPs as part of its nominations for transportation. Diversions and ARPs have a service priority above IT service and, in certain circumstances, are available at the same firm priority level as STFT service.[16]

26. Diversions currently can be nominated to delivery points that are either upstream or downstream of the contracted delivery point, but not upstream of the contracted receipt point. ARPs currently can be nominated from receipt points that are downstream of the contracted receipt point, but not downstream of the contracted delivery point.[17] Generally, only Diversions and ARPs that result in a greater distance of haul are subject to a toll, which is based on the difference between the toll for the longer nominated path and the contracted path. This toll is only paid for the days the ARP or Diversion features are utilized.

27. The current Diversion and ARP provisions encourage shippers to contract for the shortest primary path available and change their receipt and/or delivery points outside of the contracted path on days when they wish to access alternate supply or markets than those applicable to their firm contract, subject to available capacity.

28. The existing Diversions and ARPs were appropriate under traditional cost of service regulation where shippers' tolls reflected the full cost of providing service. Any loss in discretionary revenue as a result of shippers using these mitigation features ultimately flowed back to shippers collectively, such that the cost and accountability for these features were appropriately aligned. However, under the Decision Model, the loss in discretionary revenue from these features will result in larger cost deferrals in the TSA mechanism created in the Decision Model. Since tolls are fixed for a multi-year period, these features will contribute to the risk of under-recovery of the pipeline.

29. Accordingly, TransCanada proposes to revise the ARP and Diversion Tariff provisions to continue allowing ARPs and Diversions, but only within a shipper's primary contracted path.[18] Continuation of in-path ARPs and Diversions will provide shippers with flexibility to receive and deliver gas at alternate points within the path that they have reserved and reflects the demand charge they pay for that capacity.

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[16] As per Section XV Impaired Deliveries of the General Terms and Conditions of the Mainline Tariff, Diversions or ARPs that increase flow through a capacity 'bottleneck' relative to the primary contracted path have a service priority below firm. However, Diversions and ARPs that do not increase flow through a capacity bottleneck are treated at the firm priority level.

[17] For areas such as the Eastern Triangle, TransCanada's current practice has been to group certain receipt locations together and deem them to be valid ARPs for a given primary contracted path. The grouped points do not necessarily fall strictly within a shipper's contracted path in the Eastern Triangle. For example, St. Clair and Union Dawn are currently valid ARPs for contracts with a Parkway receipt. TransCanada posts a list of valid ARP points on its website for applicable contracted paths, and updates this list from time to time. See Attachment 2 for the list of eligible Diversion and ARP points that are expected to be in effect following the implementation of the changes proposed in this Application.

[18] ARPs and Diversions will be available to all eligible points between the primary receipt point and the primary delivery point along the path used to determine the toll between these points, which is described in the RH-003-2011 Decision, Section 7.7, pages 111-113.

30. TransCanada is proposing to eliminate out-of-path ARPs and Diversions because continuation of the existing Tariff provisions would provide the ability for shippers to circumvent the applicable IT and STFT pricing regime for discretionary transportation for which they have chosen not to make a firm contract commitment. Under the current ARP and Diversion provisions, shippers are charged only the differential between their contracted path's FT toll and the FT toll that would have attached to the path used through the ARP or Diversion. As such, that toll will typically be less than the applicable IT toll for the same path, particularly in light of the pricing flexibility the Board granted TransCanada for IT and STFT services in the RH-003-2011 Decision. In addition, while Diversions and ARPs are discretionary features, the Tariff provides that these features receive a higher priority than IT service. Higher priority and lower tolling may have been appropriate under traditional cost of service but it is no longer appropriate under the Decision Model where cost recovery is dependent on TransCanada's ability to derive large amounts of discretionary revenues.

31. For example, a shipper contracting for FT service on the St. Clair to Union SWDA path only pays a demand charge representative of a 20 km distance of haul. Using the existing Diversion feature, that shipper has the ability to divert to multiple out-of-path points as far away as 1,000 km further east on the system at a higher priority than IT, and only pays the FT toll difference between the contracted and nominated paths. Similarly, a shipper contracting for FT service from Empress to the TransGas SSDA only pays a demand charge representative of a 434 km distance of haul, but can divert downstream all the way to East Hereford, which is located 3,402 km from Empress, at a higher scheduling priority than IT. Out-of-path Diversions and ARPs therefore confer near-firm access to capacity for which shippers do not pay the full year's cost.

32. Retaining out-of-path Diversions and ARPs would maintain a significant incentive for shippers to contract for FT on very short paths that do not reflect the actual markets or supply sources shippers intend to access. Indeed, ARPs and Diversions have increasingly been used in this fashion by parties to obtain preferential access to more lucrative paths without having to pay for that access year-round. Between April 1, 2012 and March 31, 2013, shippers used out-of-path diversions on short-haul FT contracts[19] every single day, with aggregate Diversion quantities being authorized for as much as 221 TJ on a single day.

33. Extensive use of out-of-path Diversions also occurred last year with shippers diverting large quantities of gas to Iroquois and East Hereford. From April 2012 to March 2013, an average in excess of 185 TJ/d was diverted to these two locations. Diversions to these two points from all eligible contracts reached over 540 TJ/d during the period.

[19] Defined herein as FT contracts with primary receipt points of either St.Clair, Union Dawn or Kirkwall and primary delivery points of either Union SWDA, Niagara or Chippawa.

34. As illustrative examples detailed in Table 1 below show, the foregone annual Mainline revenue from a shipper who chooses to contract FT for 100 TJ/d on the St. Clair to Union SWDA path and divert to East Hereford for 30 days per year instead of contracting for annual FT of 100 TJ/d from St. Clair to East Hereford is approximately $18 million. The foregone annual Mainline revenue from a shipper who chooses to contract FT for 100 TJ/d on the Empress to TransGas SSDA path and divert to East Hereford for 30 days per year instead of contracting for annual FT of 100 TJ/d from Empress to East Hereford is approximately $51 million.[20]

Table 1: Illustrative Revenue Impact of Shortest Haul FT with Diversions Versus Full Path FT

Path	Daily Equivalent Toll ($/GJ)	Quantity (GJ/d)	Days	Revenue ($)
FT: St. Clair to Union SWDA	0.0958	100,000	365	3,496,700
Diversion to East Hereford	0.5400	100,000	30	1,620,000
Total				5,116,700
FT: St. Clair to East Hereford	0.6358	100,000	365	23,206,700
Annual Revenue Difference				(18,090,000)

Path	Daily Equivalent Toll ($/GJ)	Quantity (GJ/d)	Days	Revenue ($)
FT: Empress to TGas SSDA	0.3073	100,000	365	11,216,450
Diversion to East Hereford	1.5178	100,000	30	4,553,400
Total				15,769,850
FT: Empress to East Hereford	1.8251	100,000	365	66,616,150
Annual Revenue Difference				(50,846,300)

[20] Tolls used are RH-003-2011 Compliance Tolls effective July 1, 2013, as approved by Order TG-006-2013. The toll for the diversion is the difference in the daily equivalent FT toll between the contract path (either St. Clair to Union SWDA or Empress to TransGas SSDA) versus the diverted path (either St. Clair to East Hereford or Empress to East Hereford). All tolls above exclude the applicable delivery pressure charge at East Hereford.

35. Absent the proposed modifications, these practices of contracting for very short paths and using out-of-path ARPs and Diversions are expected to increase due to the elimination of RAM and the implementation of pricing flexibility for IT and STFT. Implementing the proposed Tariff modifications to Diversions and ARPs will better align the benefits and accountability for costs associated with the flexibility these features provide to firm shippers. Out-of-path Diversions and ARPs provide priority access to service that is unrelated to the contracted path and are therefore inconsistent with the Board's view that shippers with low utilization rates who truly require guaranteed access to the Mainline should pay for the full year's reasonable cost of the capacity they contract.[21]

36. Eliminating the ability to use Diversions or ARPs outside of the primary path will encourage customers who require service to contract on a firm basis for the path they truly require while still providing them with a reasonable means of mitigating unutilized demand charges (UDCs). FT shippers will still have the ability to mitigate UDCs by receiving or delivering gas at alternate points within the path of their firm contract. Further, FT shippers will have the ability to transport gas to their primary receipt point or away from their primary delivery point using IT and STFT services. The proposed changes will also ensure TransCanada has an opportunity to generate an appropriate level of discretionary revenue from shippers who seek to transport gas outside of their contract primary path on a short-term intermittent basis to or from a location that has high value.

37. Rather than eliminating out-of-path Diversions and ARPs, as proposed herein, TransCanada contemplated modifying the incremental daily demand charge for Diversions and ARPs. Under such an alternative, Diversions and ARPs would retain their current priority over IT, but if an incremental charge were required as a result of a Diversion or ARP, the incremental charge would be the IT bid floor in effect[22] for the applicable incremental path,[23] as opposed to being based on FT tolls as is currently the case. While such an alternative modification would be superior to the existing approach, allowing Diversions and ARPs only within the primary contracted path is more appropriate for several reasons:

- it encourages FT contracts on the primary path where shippers have firm requirements;
- it allows for competition on a fair and equal basis for daily discretionary market and supply opportunities outside the primary path by avoiding a situation where Diversion or ARP shippers have priority access to certain paths at the IT bid floor over IT shippers who bid above the bid floor;

[21] RH-003-2011 Decision, page 140.
[22] For simplicity, only the IT bid floor in effect at the Timely Nomination Window would be used for purposes of charging Diversions and ARPs regardless of which nomination window within the particular Gas Day the Diversion or ARP was scheduled.
[23] The incremental path is that which falls outside of the contracted path. For example, if a shipper holds an FT contract from Empress to Union NDA, and has been scheduled a Diversion on that FT contract to deliver to Iroquois, the applicable incremental path for which the IT bid floor in effect would be charged is from the Union NDA to Iroquois.

- it provides additional competition for daily discretionary capacity, as a shipper previously seeking out-of-path ARPs or Diversions will now have to bid for STFT and IT capacity outside its primary contract path;
- consistent with the RH-003-2011 Decision, it provides TransCanada with a greater opportunity to generate incremental IT and STFT revenues, particularly during periods when there may be significant transportation value in certain paths; and
- it can be implemented more quickly and without system upgrades.

38. The Tariff revisions required to implement the applied for modifications to ARPs and Diversions are included in Attachment 1. The list of eligible ARP and Diversion points for applicable contract paths will continue to be posted on the TransCanada website, and updated from time to time. For information purposes, the list of eligible Diversion and ARP points that are expected to be in effect following the implementation of the changes proposed in this Application is included as Attachment 2.

B. Elimination of the Overrun Feature under STS

39. TransCanada proposes to eliminate STS overrun, which is a feature of STS that allows STS shippers to deliver gas in excess of their Contract Demand Quantity either for storage withdrawals or injections depending on the location of the storage and market. Excess delivered quantities under STS overrun are charged the applicable STS Daily Demand Toll on a usage basis.

40. STS overrun and IT service are treated within the same service priority level and ranked based on applicable toll. When the STS overrun toll is equal to or higher than the IT toll, the priority of STS overrun is higher than IT. When the STS overrun toll is lower than the IT toll, the priority of STS overrun is lower than IT. However, unlike IT, STS overrun also provides access to the additional nomination windows associated with STS.

41. Since STS overrun is tolled at the STS Daily Demand Toll, STS shippers are incented to rely on STS overrun to the greatest extent possible to meet any incremental demand exceeding their Contract Demand Quantity at their contracted delivery point in situations where the IT toll is higher to that point.

42. STS is the only Mainline service that allows a shipper to transport quantities in excess of contracted quantities. To the extent STS shippers have greater balancing requirements for which they require additional nomination windows, it is reasonable that they should contract for greater quantities of STS and pay the applicable demand charges throughout the year. To the extent STS shippers have a short-term use for discretionary services, it is reasonable that they should compete for access to that capacity on an equivalent basis, both in terms of toll and priority of service, with IT and STFT shippers.

43. In the past five years, there has been minimal use of the STS overrun feature, which demonstrates that elimination of the feature will not have any significant negative impact on existing STS shippers. However, TransCanada expects that going forward, the STS overrun feature would be utilized significantly more than it has been in the past by shippers trying to avoid potentially more costly STFT and IT tolls.

44. Elimination of the STS overrun feature will ensure that shippers with firm balancing requirements contract and pay annual demand charges for the capacity they require. This is consistent with the Board's views that shippers with low utilization rates who truly require guaranteed access to the Mainline, should pay for the full year's reasonable cost of the capacity they contract.[24] In addition, elimination of the STS overrun feature will also ensure that shippers with more intermittent balancing requirements have the same access to capacity, participate in the competitive bidding process, pay the same toll, and have the same service priority as other STFT and IT shippers seeking to procure capacity.

C. Tariff Requirements for STFT Open Seasons

45. TransCanada's current posting requirements for STFT and ST-SN services are stipulated in the Tariff. For each of these services, TransCanada is required to post available capacity for five Banking Days (as defined in the Tariff) during the following periods:

    (a) During the period of January 1-15 for the Summer Period (April 1 to October 31) and during the period of July 1-15 for the Winter Period (November 1 to March 31);

    (b) During the period of January 16 - 31 for the individual monthly blocks of the Summer Period (April 1 to October 31) and during the period of July 16 – 31 for individual monthly blocks of the Winter Period (November 1 to March 31).

46. If some or all of the available short-term capacity has not been allocated at the end of the posting period, TransCanada may continue to post available short-term capacity on a daily basis.

47. These open season requirements are unnecessarily prescriptive and may inhibit TransCanada's opportunity to maximize STFT and ST-SN revenue. For example, if storage levels in the Dawn area are extremely high in January, there may be very little interest in summer STFT or ST-SN capacity in light of an expectation of storage inventory levels also being very high at the end of the summer season. As a result, there would be little demand in January to transport gas to Dawn during the summer. In such instance, if TransCanada was to hold an open season in January, there would be limited market interest unless the toll was quite low. From a revenue standpoint, it would be more appropriate to defer such open season until a time

[24] RH-003-2011 Decision, page 140.

when market interest is higher, as may be the case depending on changes in storage levels that may occur throughout the remainder of the winter. Similarly, in situations where storage levels in the Dawn area are low in December, demand for summer injections would likely be high such that it would be appropriate to hold an open season prior to January for available summer capacity.

48. The RH-003-2011 Decision granted TransCanada pricing flexibility in setting the bid floors for discretionary services, and stated that it is TransCanada's responsibility to compete and manage the pipeline.[25] The prescriptive nature of the open season provisions of the STFT and ST-SN toll schedules will inhibit TransCanada's ability to react to changes in market conditions in a timely and effective manner. As such, TransCanada seeks to modify the timing and duration requirements of the existing STFT and ST-SN open season processes such that all STFT and ST-SN open seasons will match the process for the existing daily open season.

49. In addition, the current requirement to post capacity for five-day periods creates a "blackout period" where TransCanada would be restricted from making changes to the bid floors for the STFT and ST-SN services. In commodity markets, decisions must be made quickly as market conditions and the value of associated gas transmission service change constantly. Allowing shippers five days of flexibility to decide whether, or at what level, to bid constrains TransCanada's ability to react to changing market conditions, and thus impedes the Mainline's opportunity to utilize the pricing flexibility the Board granted in the RH-003-2011 Decision.

50. Accordingly, TransCanada proposes to revise the Mainline Tariff to replace the five day posting period requirement with a period to be determined by TransCanada, but no less than seventeen consecutive hours from the time of posting. On certain paths where there is not significant demand or market forces play a lesser role, longer posting periods may be offered. Once bid floors are established for an open season, TransCanada will not change the bid floors during the open season.

D. Changes to Renewal Provisions

51. The existing renewal provisions associated with firm Mainline services[26] give a shipper the unilateral option to automatically extend the existing term of its contract for a period of one year by providing notice to TransCanada at least six months before the termination date that would otherwise prevail under the contract (Renewal Provisions).

52. The existence of the Renewal Provisions and the associated call option therefore create an obligation on the part of the pipeline to be in a position to provide service beyond the contract period.

[25] RH-003-2011 Decision, page 128.
[26] FT, STS, STS-L, FT-SN, and SNB.

53. This ongoing obligation is inconsistent with the Board's determination that "[s]hippers' costs and benefits do not extend beyond a contract under which service was requested and made available."[27] As such, continuation of the existing Renewal Provisions that impose costs on the pipeline and confer benefits on shippers beyond the contracted term is inconsistent with the Board's tolling principle of "no acquired rights or obligations."[28]

54. While elimination of all renewal provisions would be justified on the principles invoked by the Board in the RH-003-2011 Decision, TransCanada is seeking to maintain renewal provisions in most situations, but believes that amendments are necessary to better align costs and benefits between the pipeline and shippers in the current environment.

55. In the past, TransCanada has attempted unsuccessfully over a number of proceedings to remove or change the Renewal Provisions in an effort to encourage longer-term shipper commitments to the Mainline.[29]

56. In the RH-4-93 Decision, the Board expressed the view that because volumes then under short-term contracts had remained stable, and TransCanada had continued to apply for expansions, there was no justification to change TransCanada's contract renewal policy.[30]

57. However, since that time, circumstances have significantly changed. Average remaining contract terms on the Mainline have declined dramatically, from approximately eight years to approximately three years. The majority of firm contracts are now up for renewal annually, creating a situation in which TransCanada does not know the extent to which shippers are committed to using the Mainline, and on what paths. The existing Renewal Provisions provide no opportunity for TransCanada to understand whether it will have firm contracting on the Mainline more than six months in advance, clearly making it extremely difficult for purposes of longer-term planning.

58. In the RH-003-2011 Decision, the Board recognized that the fundamental risk facing the Mainline had increased and is expected to remain high for the foreseeable future.[31] The Board also acknowledged that with the implementation of the multi-year fixed toll approach, it expects higher variability risk for the Mainline because cash flows will be more dependent on the accuracy of TransCanada's throughput

[27] RH-003-2011 Decision, page 78.
[28] *Ibid.*
[29] *National Energy Board Reasons for Decision TransCanada PipeLines Limited, GH-5-89, Volume 1, Tolling and Economic Feasibility,* November 1990 (GH-5-89 Decision), page 30; *National Energy Board Reasons for Decision TransCanada PipeLines Limited, RH-4-93, Tolls,* June 1994 (RH-4-93 Decision), pages 59-61; *National Energy Board Reasons for Decision TransCanada PipeLines Limited, GH-3-96, Facilities,* November 1996 (GH-3-96 Decision), page 22; *National Energy Board Reasons for Decision TransCanada PipeLines Limited, RH-1-97, 1997 Tolls & FST Conversion Proposal,* September 1997 (RH-1-97 Decision), pages 1-2.
[30] RH-4-93 Decision, pages 59-61.
[31] RH-003-2011 Decision, page 164.

forecast.[32] The Board further recognized that materialization of the Case 1 throughput forecast is not without risk, and that these risks may include natural gas commodity price volatility, production costs in competing basins, diversity of supply considerations for eastern consumers and decisions to pursue supply-pushed bypass projects. The Board recognized that TransCanada has limited influence over some of these risks but that it expects TransCanada to be proactive in managing these risks.[33] It also clearly stated that the responsibility for the viability of the Mainline rests with its owner.[34]

59. The existing Renewal Provisions that provide shippers with a unilateral call option for a short-term contract renewal of a single year upon only six month notice frustrates the Mainline's ability to assess customer needs and the facilities it requires to provide firm service over the long term.

60. In light of the significantly changed circumstances, increased risks faced by TransCanada, and the expanded responsibilities created by the RH-003-2011 Decision, TransCanada urges the Board to approve two amendments to the Renewal Provisions.

61. First, TransCanada requests that the Board amend the existing Renewal Provisions to incorporate the Early Long Term Renewal Option, which will assist TransCanada in understanding a shipper's commitment to use the Mainline and determining long-term firm contractual requirements in situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets, and will contribute to the efficient development of energy infrastructure, the rationalization of the system, and is in the public interest.

62. Second, TransCanada's request that the Board amend the existing Renewal Provisions providing TransCanada with the discretion to decline certain contract renewals is related to the Early Long Term Renewal Option. It gives TransCanada limited discretion to decline contract renewals in situations where shippers seek to renew for a term greater than one year or more than seven months in advance of expiry. The proposed discretion is justified in order to prevent shippers from circumventing the possibility that TransCanada will invoke the proposed amendments to the Renewal Provisions related to situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets. As such, the discretion is required on an ongoing basis, as the need to invoke the proposed provisions is not limited to a single situation.

63. Finally, in the event the Board is unwilling to approve these revisions to the existing renewal provisions on a generic basis, TransCanada requests that the Board, at a minimum, permit application of those provisions as a case specific measure in relation to the Energy East project. In the absence of a generic Early Long Term Renewal Option, TransCanada submits it is in the public interest to allow the

[32] *Ibid.*
[33] RH-003-2011 Decision, page 25.
[34] RH-003-2011 Decision, page 77.

proposed amendments to the Renewal Provisions to be invoked on a case-specific basis in this circumstance.

1. Early Long Term Renewal Option

64. The existing Renewal Provisions' exceedingly short renewal term (one year) and notice period (six months prior to existing termination date) are insufficient to allow TransCanada to determine the most efficient means of meeting its customers' firm requirements over the longer term, including situations where TransCanada is:

- contemplating the addition of new facilities to meet new service requests;
- contemplating significant maintenance or integrity expenditures required to maintain existing facilities, and associated capacity, in-service; or
- assessing opportunities to re-deploy Mainline assets.

65. Under the current Renewal Provisions, TransCanada must assume that existing shippers with more than six months left on their contracts will, in fact, renew those contracts each and every year, year over year. As such, the existing Renewal Provisions create the significant potential for a devil's bargain: (i) spend significant capital to maintain or extend the life of existing facilities, construct new facilities and/or acquire Transportation by Other (TBO) capacity on other systems to maintain existing firm capability, or meet incremental needs beyond its existing contracted capacity, and then face the possibility of non-renewals and associated under-recovery of costs; or (ii) forego opportunities to compete for new business, reduce costs or re-deploy assets to other uses such as oil service, but still face the possibility of near-term non-renewals and under-recovered costs.

66. While TransCanada is required to assume full contract renewals for planning purposes, actual renewals have frequently been well below that level. As of the April 30, 2013 renewal deadline TransCanada faced the risk of non-renewal of as much as 1,870 TJ/day, of which 96 percent was renewed. Renewals in the prior ten years have, however, frequently been at much lower percentages. In these years, annual renewals have ranged from 52 percent to 90 percent of eligible quantities.

67. The existing Renewal Provisions are particularly unfair to the pipeline under the Decision Model. Because the Board has now fixed TransCanada's FT tolls at a level significantly below what otherwise would recover Mainline costs during the period in which those costs are incurred, the risk of under-recovery and the threat of future disallowance have increased.

68. The risk of under-recovery is increased further still for added capital investments undertaken during the multi-year fixed toll period, since the RH-003-2011 Decision

did not address the recovery of the cost of new infrastructure in tolls.[35] It is therefore all the more incumbent upon TransCanada to prudently manage this risk.[36]

69. Depending on the incremental need to be met in a given expansion scenario, the time required to design new facilities, obtain all necessary approvals to construct and operate those facilities, purchase materials, and ultimately construct those facilities can take three years or longer. However, as noted, the Renewal Provisions provide existing firm service contract holders with substantial and unprecedented flexibility through the right to renew, or not, existing contracts on only six months prior notice, for as little as one year.

70. For example, TransCanada could determine there is a need to construct additional facilities arising from new service requests and must assume that existing shippers will renew their contracts based on the existing renewal provisions where shippers have a unilateral right to renew each year with as little as six month notice. However, after construction has commenced on the new facilities, TransCanada could then receive notice of non-renewal of substantial quantities under existing contracts, such that the existing capacity would have otherwise been available to meet incremental demands of the expansion shippers (possibly in the very year the expansion facilities would be placed into service). In this circumstance, if TransCanada would have known that existing shippers would choose not to renew their contracts beyond a certain date or dates, TransCanada could have reduced the size of the facilities constructed (and the construction costs, landowner and environmental disturbance, and ongoing maintenance and retirement costs associated with such a build). Moreover, if TransCanada had known the non-renewal dates and volumes, it could have considered alternatives to, or in combination with, building that were more cost effective and/or required less landowner and environmental disturbance, such as TBO arrangements, in order to meet the expansion shippers' needs until the non-renewed capacity becomes available.

71. Such an outcome materialized during TransCanada's pursuit of its 1999 expansion in the GH-3-98 Application. TransCanada's original 1999 Facilities Application filed on April 29, 1998 forecast firm requirements for November 1, 1999 of 273.8 MMcf/d. The first of two revisions was filed on July 22, 1998. This revision reflected a reduction in forecast firm requirements to 208 MMcf/d, composed of a reduction in Union Gas' service request of 38 MMcf/d and a net reduction of 27.8 MMcf/d of capacity related to a TransCanada offer for shippers to relinquish capacity made in May of 1998. In addition, in July 1998, TransCanada made a request to shippers for early notice of renewal intentions for contracts expiring November 1, 1999 to minimize the risk of overbuilding facilities. No shippers indicated an intention to relinquish capacity. On August 21, 1998 TransCanada filed the second revision, reflecting the removal of the Kirkland Lake project and

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[35] TransCanada intends to work with its shippers to determine acceptable mechanisms for capital additions during the five year fixed-rate period.
[36] RH-003-2011 Decision, page 45.

CoEnergy project volumes amounting to 140 MMcf/d. Forecast firm requirements for November 1, 1999 were reduced to 133.7 MMcf/d.[37] Over October and November of 1998, TransCanada had further communications with customers and again there were no indications of intent to non-renew contracts.[38] In 1998, long haul contracts on the Mainline totaled 7,297 TJ/d. In 1999, total firm long haul contracts on the Mainline (despite the facilities expansion) dropped to 6,898 TJ/d. Two years later, in 2001, long haul contracts had decreased 1,415 TJ/d to 5,483 TJ/d.

72. It should be emphasized that TransCanada currently takes steps to determine whether shippers will voluntarily make an election that could reduce the need for new facilities. This includes holding a turn back open season after each new capacity open season, as required by the Mainline Tariff. These processes have not typically been successful, as illustrated by the example above with respect to the 1999 expansion. A shipper who has the right to one-year renewal on six month notice has no incentive to turn back capacity that it does not expect to need when asked to voluntarily do so. To the contrary, the shipper has an incentive to keep its free option open and only inform TransCanada of its intention to non-renew when necessary (i.e., at or very close to the deadline for contract renewal).

73. The existing Renewal Provisions could also impede the pursuit of beneficial opportunities to re-deploy Mainline assets by overstating the need to retain or replace facilities to continue to meet Mainline firm requirements. Having greater certainty regarding shippers' contracting intentions ensures efficient investment of capital, regardless of who ultimately bears the costs as a result of TransCanada's next tolls hearing.

74. The re-deployment of underutilized Mainline assets benefits TransCanada and its shippers by reducing both capital and O&M costs while retaining firm billing determinants. Indeed, re-deployment of Mainline assets has been endorsed by the Board in the past[39] and encouraged by the Board in the RH-003-2011 Decision.[40]

75. TransCanada understands that shippers value the existing Renewal Provisions because of the significant flexibility those provisions currently provide. However, in order to align the benefits of, and accountability for, the consequences of the Renewal Provisions in the Board's mandated multi-year fixed toll approach in the RH-003-2011 Decision, changes to the Renewal Provisions are now essential in those situations where significant investment is contemplated or where opportunities to re-deploy assets arise. Those consequences include the potential for

[37] *National Energy Board Reasons for Decision TransCanada PipeLines Limited, GH-3-98, Facilities*, November 1998 (GH-3-98 Decision), section 2.2, page 4.
[38] *TransCanada PipeLines Limited 2001 and 2002 Tolls and Tariff Application*, Hearing Order RH-1-2001, TransCanada Reply Evidence, page 17.
[39] See RH-003-2011 proceeding, Exhibit B-5-7, Section 2.0: TransCanada Pipeline Systems, pages 15-17 for examples.
[40] RH-003-2011 Decision, page 44.

substantial overbuilding or undercollection of costs, and impeding materially beneficial opportunities to reduce costs and tolls by re-deploying Mainline facilities.

76. For these reasons, TransCanada urges the Board to approve an amendment to the Renewal Provisions, as further described below, to be effective only in situations where TransCanada is considering major expenditures, such as new capacity additions, significant maintenance requirements, or assessing opportunities to re-deploy substantial existing assets.

77. In such situations, TransCanada would provide all existing firm contract holders[41] whose contracts are in an area where such a major expenditure or re-deployment opportunity is contemplated with an option either to (i) extend their contracts to a minimum term not to exceed 10 years for long haul paths and not to exceed 15 years for short haul paths to be determined by TransCanada giving consideration to the parameters of the opportunity before it to avoid costs or reduce facilities; or (ii) continue their existing contracts, subject to annual renewals up to the Final Renewal Termination Date, after which date the capacity would be able to be utilized by TransCanada to reduce expansion facilities, costs, or to re-deploy facilities to another purpose. Such extension would commence on the expected in-service date of the opportunity contemplated (defined in the proposed Tariff amendments as the "Final Renewal Termination Date"). Shippers choosing to extend their contracts long term would retain their renewal rights under the existing Renewal Provisions. The proposed Tariff amendments to the Renewal Provisions are shown in Attachment 1, in the Toll Schedules for FT, STS, STS-L, FT-SN and SNB services.

78. For the purposes of this proposed process, long haul contracts will be defined as any contract that has a receipt point west of Emerson and a delivery point east of Emerson. Short haul contracts will be defined as those whose receipt point is Emerson or a point east of Emerson.

79. A maximum 15 year extension for short haul paths is in line with terms generally required in the industry from shippers requesting new capacity that requires new construction. Since long haul contracts contribute more revenues to the system, it is appropriate to allow for a maximum extension period that is shorter than that applicable to short haul contracts (hence, 10 years). Nevertheless, these are maximum limits to any extension that could be requested by TransCanada and TransCanada will select shorter terms when they are appropriate to the circumstances under consideration.

80. The minimum contract term length for long haul and short haul shippers will be specified in any notice providing shippers with the Early Long Term Renewal Option. In its selection of the appropriate term length, TransCanada will consider the circumstances of the potential expenditure, including: the amount of the

[41] Shippers with contracts for FT, STS, STS-L, FT-SN, and SNB.

potential additional expenditure; the period over which expenditures or cost savings will occur; the period over which any additional capital expenditures will be depreciated; the remaining facilities costs to be recovered on the same system segment; the term of any contractual commitments underpinning the potential additional expenditures; the tolls associated with contracts on that system segment; the degree to which competition exists and is expected to exist on that segment; and, if applicable, potential cost savings from the re-deployment of assets.

81. Application of the amended Renewal Provisions is appropriately limited to those shippers whose contracted capacity, if not renewed, could be utilized beneficially to reduce costs or facilities. In addition, shippers who choose not to exercise the Early Long Term Renewal Option could nonetheless continue to annually extend their contracts, albeit only up to the date the capacity is scheduled to be put toward the expansion, cost savings or re-deployment opportunity. In expansion scenarios, for example, this period during which a shipper could continue to utilize its capacity could span three years or longer.

2. Discretion to Decline Certain Contract Renewals

82. For the same reason that TransCanada requires the ability to require shippers to elect whether to renew their contracts long term—that is, efficient management of Mainline assets—TransCanada seeks discretion to decline certain contract renewals under the existing Renewal Provisions that would prompt unnecessary construction or impede re-deployment by tying-up facilities for a short term when TransCanada is pursuing a long-term opportunity to re-deploy those facilities.

83. With the current levels of under-utilized capacity on the Mainline, shippers virtually never give more than six months renewal notice or renew for a period longer than one year. TransCanada seeks discretion to limit shippers to these renewal parameters so that it can deny a renewal request when it is sought more than seven months prior to the existing termination date or when the renewal is sought for more than one year.[42]

84. Without this change, the purpose of the Early Long Term Renewal Option can be circumvented, such that it would not achieve its purpose. Shippers who anticipate receiving an Early Long Term Renewal Option requiring them to either extend their contract term for up to 10 or 15 years (or lose renewal rights when the capacity serving them is needed) could seek to extend their contract term for, say, three years and force TransCanada to either build new facilities that will be needed only for a very short period or abandon the project for which it was planning to serve an Early

[42] This was the matter of the Renewal Provisions Suspension Decision, in which the Board temporarily suspended the renewal provisions in the Tariff to the extent that they allow the renewal of contracts for terms of greater than one year and allow shippers to provide more than seven months' notice of renewal. The Board also required TransCanada to advise whether it still wished to pursue related tariff amendments, to which TransCanada replied on May 24, 2013 that it did wish to pursue those amendments, and suggested they be considered along with the changes to renewal provisions originally filed in the May 1, 2013 Review and Variance Application.

Long Term Renewal Option. Neither of these outcomes would contribute to the efficient development of energy infrastructure, the rationalization of the system, or the public interest.

85. The only way that TransCanada can prevent this is by having the discretion to decline renewal notices when the notice would put TransCanada and its shippers in this predicament. Shippers whose renewal notices cannot be accepted for the reasons mentioned would, soon after, receive an Early Long Term Renewal Option and have an opportunity to extend their contracts for longer terms or renew them up to the date that the facilities are required.

86. TransCanada would continue to accept all renewal notices received six months prior to renewal and for the usual one year extension. Renewals received more than seven months in advance or for more than one year would also be considered, but their acceptance would be at TransCanada's discretion. TransCanada does not expect to exercise this discretion on paths that are not capacity constrained.

87. The changes sought to the Renewal Provisions ensure that, to the maximum extent possible, shippers will retain the flexibility they desire, while not impeding TransCanada's ability to rationalize its system. The amendments will allow TransCanada to determine the Mainline long term firm capacity requirements and to maximize revenues and reduce costs to the ultimate benefit of Mainline shippers, consistent with the Board's direction in its RH-003-2011 Decision.[43]

88. The RH-003-2011 Decision made it clear that service features that are or become detrimental to the Mainline should be eliminated.[44] The existing Renewal Provisions contribute to outcomes that are generally economically inefficient, and therefore detrimental to the Mainline, as they may encourage the construction of new facilities to serve requirements that it may be able to provide, in whole or in part, with existing infrastructure,[45] or they may impede TransCanada from efficiently re-deploying Mainline capacity. The proposed amendments to the Renewal Provisions are a measured response to these inefficient outcomes.

3. Application of the Proposed Renewal Provisions Specifically in Relation to the Energy East Pipeline Project

89. An example of a situation where the proposed Renewal Provisions would be appropriate is the important opportunity for re-deploying Mainline assets that currently exists through the Energy East Pipeline Project (Oléoduc énergie-est in French).

90. Energy East is a proposed oil pipeline project that consists of construction of new assets and conversion of a portion of the Mainline natural gas pipeline to deliver western crude oil from Hardisty, Alberta to refineries in Eastern Canada, with the

[43] RH-003-2011 Decision, pages 2, 126 and 242.
[44] RH-003-2011 Decision, page 141.
[45] RH-003-2011 Decision, page 220.

potential for future export. The proposed project contemplates new oil pipeline construction in Alberta, Ontario, Quebec and New Brunswick, as well as the conversion of approximately 3,000 kilometres of an existing NPS 42 natural gas pipeline from Burstall, Saskatchewan, to Iroquois, Ontario to crude oil service. Energy East has identified these facilities as those necessary to meet the requirements of the Energy East project.

91. In order to meet service requests by prospective shippers, Energy East has a target in-service date of 2017, with assets transferred from gas to oil service proposed to occur during 2015 and 2016. Also, 2017 corresponds to the time period during which ex-WCSB oil supply pipeline infrastructure is expected to be insufficient to transport Western Canadian oil supply, despite anticipated oil pipeline capacity additions in the short term.

92. TransCanada is planning to seek the permission of the Board to transfer certain of its Mainline facilities to Energy East Pipeline Ltd. for conversion to oil service as part of Energy East in the near future.

93. The proposed amendments to the existing Renewal Provisions would provide TransCanada the ability to determine the extent to which long term firm service capacity contracts will be renewed and result in actual capacity requirements[46] on the Mainline in areas where there is a potential for Mainline firm transportation requirements to exceed capability following the transfer of assets to Energy East. Based on currently available information, TransCanada expects that there will be adequate capability in the Prairies Segment and the Northern Ontario Line Segment to meet future Mainline firm transportation requirements. However, there is a potential, if the existing Mainline firm transportation contracts are renewed, that these contracts may exceed capability in portions of the Eastern Triangle currently served through the North Bay Shortcut. Specifically, firm contracts currently delivering to Cornwall, East Hereford, Enbridge EDA, GMIT EDA, Iroquois, KPUC EDA, Napierville, Philipsburg, and Union EDA (collectively the "Eastern Locations")[47] may exceed, if renewed, the capacity available for firm transportation service after the transfer. If the Board grants the amendments to the Renewal Provisions as a case specific measure in relation to Energy East, the issuance of Renewal Notices under the Early Long Term Renewal Option proposed herein would only apply to these locations.

94. Under the proposed Renewal Provisions, TransCanada expects to notify shippers who hold firm, renewable contracts to the Eastern Locations and require them to either extend their contracts, or renew them on an annual basis only until October 31, 2016, which would be the Final Renewal Termination Date. The required contract extension would be to October 31, 2026 for long haul contracts and October 31, 2031 for short haul contracts, or approximately 10 and 15 years respectively, following the expected transfer of facilities to Energy East. The long-

[46] Requirements for FT, STS, STS-L, FT-SN, and SNB.
[47] Excluding Eastern Locations with a receipt point of Iroquois or a receipt point east of Iroquois.

term extensions of contracts received through the Early Long Term Renewal Option would be conditional on NEB approval of the Energy East Project.

95. While TransCanada believes good cause exists for granting the amendments to the Renewal Provisions described above, if the Board is unwilling to approve these revisions on a generic basis, TransCanada submits that it must, at a minimum, permit application of those provisions as a case specific measure in relation to Energy East. TransCanada submits that the use of the provisions must be authorized in the context of Energy East as being in the public interest.

96. The renewal notification process associated with Energy East will enable TransCanada to obtain a clear understanding of firm gas transportation requirements on the Mainline going forward. It will allow TransCanada to design and construct necessary facilities or implement appropriate commercial solutions[48] in an economically efficient and timely manner. Further, granting this authorization would cause no harm to shippers in and of itself, as any long-term extensions of contracts received through the Early Long Term Renewal Option would be conditional on NEB approval of the Energy East Project.

97. The transfer of Mainline facilities to Energy East will contribute to a reduction in Mainline rate base and revenue requirement and may therefore result in lower tolls beyond the 2013-2017 multi-year fixed-toll period for Mainline shippers. In addition, by facilitating a clear understanding of long term firm requirements, it will allow TransCanada to optimize the provision of service at lower costs by minimizing any necessary replacement facilities. The information resulting from the notification process associated with the proposed Renewal Provisions will also inform the development and implementation of commercial solutions if needed to meet short-term gaps between available capacity and firm requirements. This information will also assist the Board in its public interest determination of Energy East.

98. Energy East will benefit Western Canadian oil producers and Eastern Canadian refineries and industries, and augment government revenues. It will do so in an environmentally conscious manner by minimizing the extent of new pipeline construction through the repurposing of existing infrastructure. It is also responsive to the changing gas supply and demand dynamics in North America that are expected to continue to affect the utilization of the Mainline.

99. These benefits far outweigh the impacts associated with requiring a subset of shippers to determine whether to make Mainline contractual commitments for a longer period than would be required pursuant to the existing Renewal Provisions. Further, these impacts would only materialize if Energy East is ultimately approved and implemented and new gas transportation facilities are required to meet the demand for firm gas service.

[48] Examples of commercial solutions may include offering discount to certain shippers for a lower priority service, early termination of contracts, or changes in receipt point.

IV CONCLUSION

100. The proposed modifications to Diversions, ARPs, STS overrun, and STFT and ST-SN open seasons are necessary to provide TransCanada the ability to utilize the tools granted to it by the Board to achieve positive outcomes for TransCanada and Mainline shippers.

101. The proposed amendments to the Renewal Provisions are necessary to ensure that TransCanada has a clear understanding of long term firm requirements in situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets. As such, they are essential to cost recovery and will facilitate the efficient development of energy infrastructure.

102. If the Board is unwilling to approve the amendments to the Renewal Provisions to be applied generically to future circumstances as they may arise, then TransCanada urges the Board to, at a minimum, approve the application of the amendments to the Renewal Provision in the specific circumstance of the Energy East project. The Canadian public interest calls for expeditious determination of firm gas transportation requirements at the Eastern Locations at the time of the proposed transfer of Mainline facilities to Energy East.

V RELIEF SOUGHT

103. TransCanada requests that the Board issue an order authorizing the revision of TransCanada's Tariff in accordance with Tariff provisions attached to this Application as Attachment 1, so as to:

    a. implement modifications to Diversions and ARPs;

    b. eliminate the overrun feature under STS Service;

    c. revise the Tariff language pertaining to the timing and duration of STFT and ST-SN open seasons; and

    d. amend the Renewal Provisions associated with firm Mainline services with respect to situations of major expenditures, significant maintenance requirements, or opportunities to re-deploy substantial existing assets.

104. In the alternative to 103(d), TransCanada requests that the Board:

    a. Suspend the Renewal Provisions of the existing Tariff at the Eastern Locations to the extent necessary to permit application of the amendments to the Renewal Provisions sought at 103(d) as a case specific measure in relation to Energy East; and

105. In all events, granting such further and other relief as TransCanada may request or the Board may consider appropriate.

All as more particularly described in the Application.

DATED at the City of Calgary, in the Province of Alberta, this 17th day of June, 2013.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

TRANSCANADA PIPELINES LIMITED

Per: ______________________________
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