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November 15, 2013

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Filed electronically

Attention: **Ms. Kirsten Walli**
Board Secretary

Dear Ms. Walli:

Subject: **Enbridge Gas Distribution Inc. (EGD) – Greater Toronto Area Project (GTA)**
Union Gas Limited (Union) – Parkway West Project
Union – Brantford-Kirkwall/Parkway D Compressor Station Project
OEB File Nos: EB-2012-0451, EB-2012-0433, and EB-2013-0074
TransCanada PipeLines Limited (TCPL)
Final Written Submission

Further to Procedural Order No. 13 in the above-captioned matters, enclosed for filing is the Final Written Submission of TransCanada PipeLines Limited.

Sincerely,
TransCanada PipeLines Limited

Original Signed by

Catharine Davis
Vice President
Pipelines Law

Enclosure

ENBRIDGE GAS DISTRIBUTION INC.
UNION GAS LIMITED

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

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

FINAL WRITTEN SUBMISSIONS

OF

TRANSCANADA PIPELINES LIMITED

November 15, 2013

TransCanada supports each of the three applications before the Board: Enbridge's GTA Project, Union's Parkway West Project and Union's Brantford-Kirkwall / Parkway D project.

TransCanada believed that these projects made sense when the Memorandum of Understanding (MOU) between TransCanada and Enbridge was part of the overall undertaking. TransCanada did not believe that the projects made sense in the absence of the MOU. The settlement agreement between TransCanada and the Eastern LDCs (Settlement) has restored the substance of the MOU and added a number of critical elements, all of which allow TransCanada to support the Union and Enbridge projects because they are part of the timely and orderly growth of Ontario's natural gas infrastructure.

There does not appear to TransCanada to be any significant debate about the need, size and timing of the Union projects. To the extent that there is debate about the Segment A portion of Enbridge's GTA Project, the Settlement allows TransCanada to support Enbridge's submissions regarding the need, size and timing of Segment A. The Settlement provides for the immediate commencement of work on the expansion of the Parkway-to-Maple corridor, supporting prompt construction of Segment A. The Settlement also requires the continued expansion of the corridor; indeed, TransCanada will soon be posting a New Capacity Open Season for 2016 expansion, and it is required under the Settlement to accommodate future requests for short haul firm service in the EOT. These immediate and future expansions provide support for Segment A as an NPS 42 pipe, ensuring that the most efficient facilities are constructed in the first instance to minimize the risk of other additional facilities being required in the future that will result in higher overall costs.

TransCanada has been investing in Ontario and supplying Ontario with natural gas for over 55 years. In the past several years, TransCanada has expanded in Ontario so that Ontario gas users have been able to obtain more gas from Dawn and Niagara.[1] A further TransCanada project with those goals was just about to commence when the National Energy Board (NEB) issued its RH-003-2011 Decision.[2]

The RH-003-2011 Decision made many important and useful changes to TransCanada's tariff and tolls and has improved TransCanada's economic viability by increasing firm contracting levels.[3]

But the RH-003-2011 Decision brought in several important changes that reduced or eliminated TransCanada's enthusiasm for investing capital in Ontario and elsewhere, or improving the ability of the Eastern LDCs to get gas from the sources that they and their customers want to access through Dawn and Niagara.

First, the RH-003-2011 Decision fixed tolls for five years with no allowance for toll increases if TransCanada invested incremental capital[4]—capital that must be invested if the Eastern LDCs are going to be able to have increased access to Dawn and Niagara. If a way to increase the tolls were to be found, it would have had to be through relatively expensive incremental tolls for the very services the Eastern LDCs were seeking.

Second, the RH-003-2011 Decision created large mandatory annual revenue deferrals for the Mainline, together with the potential for a further huge deferral balance at the end

[1] Written Evidence of TransCanada Pipelines, July 5, 2013, TCPL_IntervenorEVD_20130705, pp.1-2
[2] Ibid, pp.3-4, 5
[3] Transcript Vol. 8, p.47
[4] Ibid 1, p.5

of the five year term.[5]

TransCanada believes that it would have recovered all of those deferrals eventually, and the RH-003-2011 Decision said that this would be the default position. The LDCs agreed that this would be the likely result.[6] However, the Decision also made it clear that if, when it came time to dispose of the deferral balances, circumstances for the Mainline were dire enough, TransCanada might not recover those amounts, or not all of them.[7]

This was not an atmosphere in which TransCanada was prepared to increase the deferred amounts by investing further capital, let alone to do so for projects that would reduce revenues through facilitation of service from Dawn and Niagara at about an 8:1 revenue reduction ratio per unit transported.[8] Under the RH-003-2011 fixed toll model, it simply did not make sense for TransCanada to make investments that would increase cost deferrals. Absent a different tolling regime that would better align costs and recovery of costs for short-haul transportation, TransCanada was unable to partner with the LDCs in providing access to the new sources of supply that the LDCs want to access.

In addition, the evidence of the LDCs was that the RH-003-2011 Decision made them sensitive to the fact that, while they have a franchise and an obligation to serve, TransCanada does not have a franchise or an obligation to serve.[9] As you heard from

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[5] Written Evidence of TransCanada Pipelines, July 5, 2013, TCPL_IntervenorEVD_20130705, p.5
[6] Technical Conference Transcript, pp.33-34
[7] Ibid 5
[8] Ibid 5, Transcript Vol. 8 p. 47
[9] Technical Conference Transcript p.5; Transcript Vol. 5, p.97; Transcript Vol. 8, pp.47 and 54.; Transcript Vol. 9, p.51 and p.53

the LDC witnesses, that fact puts the LDCs in an untenable position. They had an obligation to serve existing and growing markets and no reasonable way to get gas from all of the basins from which they wished to source it.[10]

This put TransCanada and the Eastern LDCs in a stalemate that became characterized by a halt to the expansions that would give the Eastern LDCs greater access to supplies via Niagara and Dawn, and by a blizzard of distracting and paralyzing litigation.[11] It also made the gas transportation and distribution industries in Eastern Canada very unstable and uncertain. Industries could not or likely would not locate in Eastern Canada or grow or switch fuels when the gas infrastructure expansion process was mired in disputes and uncertainty.[12]

TransCanada made it clear, in its June New Capacity Open Season, what it expected shippers to pay for new transportation on new capacity in the Eastern Triangle, and the shippers made it clear that they were not prepared to pay it. The Eastern LDCs made it clear that they would construct the infrastructure if TransCanada would not, and TransCanada made it clear that they would not interconnect with such infrastructure and so there was no point in it being built.

TransCanada did not enjoy being in this position. TransCanada is in the business of transporting gas and, as noted, has been providing service for Ontario gas users for over 55 years. TransCanada wanted to get onto terms with its shippers that allowed TransCanada to return to its modern role of bringing Ontario its gas supply from both

[10] Technical Conference Transcript, p.4-5; Transcript Vol. 5, p.97; Transcript Vol. 6, p. 161; Transcript Vol.8, p.54
[11] Transcript Vol. 8, p.47; Technical Conference Transcript, p.4
[12] Technical Conference Transcript, p.5; Transcript Volume 8, p.54

the WCSB and more proximate gas sources such as Marcellus shale.[13]

The Settlement offers clear benefits to Ontario. In addition to providing the market access and tolling benefits described earlier, the Settlement requires financial contributions from TransCanada to its shippers in two ways: a reduced return on equity and an annual $20 million reduction in the Mainline revenue requirement through TransCanada shareholder contributions. Shippers in the Mainline Eastern Triangle (unlike shippers on the rest of the system) will have their "bridging contribution," which represents a portion of total system costs incurred in the 2015-2020 time period, spread out over the 16 years to 2030, reducing the rate impact of the Settlement. As of 2021, shippers in the Eastern Triangle will have no responsibility for the costs of the rest of the TransCanada system. TransCanada will have to recover those costs without any contribution from Eastern Triangle shippers who choose not to use paths outside of the Triangle.[14]

Some of the benefits to Ontario are already underway. TransCanada has resumed work on the King's North Connection Pipeline and when that project is complete,[15] it will allow TransCanada to transport the volumes for which Union and GMi bid successfully in TransCanada's May 2012 New Capacity Open Season, with a targeted in-service date of November 1, 2015.[16] TransCanada is also preparing a further New Capacity

[13] Transcript Vol. 8, p.49-50
[14] One exception may be a potential surcharge related to future pipeline abandonment costs and related matters (the LMCI surcharge) currently under consideration by the NEB, the responsibility for which was specifically excluded from the terms of the Settlement.
[15] Subject to TransCanada's receipt of NEB approval
[16] TCPL Undertaking Response J9-5 20131015; Transcript Vol. 8, p.69; Technical Conference Transcript, pp. 35, 97, 170 and 178

Open Season for service commencing November 1, 2016.[17]

The Settlement also demonstrates the Parties' determination to persevere in developing market access to proximate supplies. If a satisfactory approval of some form of settlement is not obtained, the Settlement provides for further discussions about other possible options to construct facilities in the Eastern Ontario Triangle with an in-service date of November 1, 2016.

With the Settlement, all of the Eastern LDCs will have access to both new and traditional gas supplies at traditional rolled-in rates. And the gas transportation industry in Ontario—and the economy it serves—will have the stability that will allow it to grow with new and existing customers. Most importantly for these proceedings, with the Settlement, the Union and Enbridge projects will have timely access to the downstream transportation they require. For these reasons, TransCanada supports the approval of the Union and Enbridge projects.

[17] Transcript Vol. 9, pp. 35, 60, 129; Technical Conference Transcript, pp. 23-24, 70, 95, 99