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**TCPL's 2012-2013 Toll Application**

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**Hearing Order RH-003-2011**

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**MAS Evidence**

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**March 9, 2012**

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1 **I- INTRODUCTORY COMMENTS**

2 Firm secure supply of natural gas at competitive prices is one of the cornerstones of success  
3 for any gas distributor. The recent emergence of new shale gas reserves near Ontario and  
4 Quebec, and elsewhere in North America, has however changed the gas dynamics in  
5 Canada.

6 Most of the conventional production basins located in Canada and the United States have  
7 matured and show production declines. On the other hand, emerging supply gas that comes  
8 particularly from reserves in low-permeability wells and shale gas offer very strong growth  
9 perspectives. Already, on a continental basis, their development more than offsets the  
10 decline in the production of conventional gas. In fact, the exploitation of this non-conventional  
11 gas resource is revolutionizing the North American market right now.

12 Tolls on the TransCanada PipeLines Limited system (TransCanada or TCPL) tolls have  
13 increased substantially over the last few years. As a result, TransCanada is seeing a rapid  
14 and significant decrease in volumes transported by its gas pipeline. The market is reacting  
15 strongly by looking for alternative routes if the trend continues because the pan-Canadian  
16 pipeline is questioning the economical viability transmission route in the long term.

17 On September 1, 2011, TCPL filed an application with the National Energy Board (Board or  
18 NEB) for approval of the Business and Services Restructuring Proposal (Restructuring  
19 Proposal) and Mainline tolls for 2012 and 2013. This Restructuring Proposal by TransCanada  
20 proposes fundamental changes to principles that have sustained the development of the  
21 TransCanada system.

22 **II- MARKET AREA SHIPPERS**

23 Enbridge Gas Distribution Inc. (Enbridge), Gaz Métro Limited Partnership (Gaz Métro) and  
24 Union Gas Limited (Union Gas), collectively the Market Area Shippers (MAS), commonly  
25 reject TransCanada's Restructuring Proposal and have developed an Alternative Proposal  
26 (MAS Alternative Proposal).

27 MAS do not believe that TransCanada has demonstrated that the changes proposed are  
28 likely to address the fundamental issues which are currently impeding competitive tolls on the  
29 Mainline. MAS believe that it would be prudent for the Board to reject the TCPL  
30 Restructuring Proposal in favour of the MAS Alternative Proposal

31 MAS also oppose deferral of costs over the long term for the benefit of low tolls in one  
32 particular year.

1 In reviewing TransCanada’s Restructuring Proposal, and in designing the MAS Alternative  
2 Proposal, the MAS was guided by the following objectives:

- 3 a) Enhance the economic viability of the Mainline in the short and long term;
- 4 b) Achieve a just and reasonable risk and reward allocation for all parties that derive a  
5 benefit from the Mainline over the short and long term;
- 6 c) Achieve a just and reasonable allocation of costs amongst all parties that derive a  
7 benefit from the Mainline; and
- 8 d) Ensure open, transparent and competitive access to natural gas supply and  
9 transportation services.

10

11 Finally, MAS are asking for just and reasonable tolls that are not unduly discriminatory and  
12 are therefore asking the NEB to reject TransCanada’s Restructuring Proposal. MAS retained  
13 four expert witnesses to review the evidence submitted by TransCanada and also to examine  
14 the merits of the MAS Alternative Proposal. Paule Bouchard, from RSM Richter Chamberland  
15 LLP (RSM), provides her expert opinion with respect to TransCanada’s depreciation  
16 proposal. Bruce Henning, from ICF International (ICF), provides his expert opinion to assess  
17 the likely market impact of TransCanada’s Restructuring Proposal and the MAS Alternative  
18 Proposal. Russ Feingold, from Black and Veatch Corporation (B&V), provides his expert  
19 opinion on the toll impact of TransCanada’s Restructuring Proposal and the MAS Alternative  
20 Proposal as well as a review of the appropriateness of certain proposed changes to toll  
21 design. Finally, Dr. Jeff Makhholm, from National Economic Research Associates Inc (NERA),  
22 provides his expert opinion on TransCanada’s Restructuring Proposal and the MAS  
23 Alternative Proposal, with respect to tolling and regulatory principles.

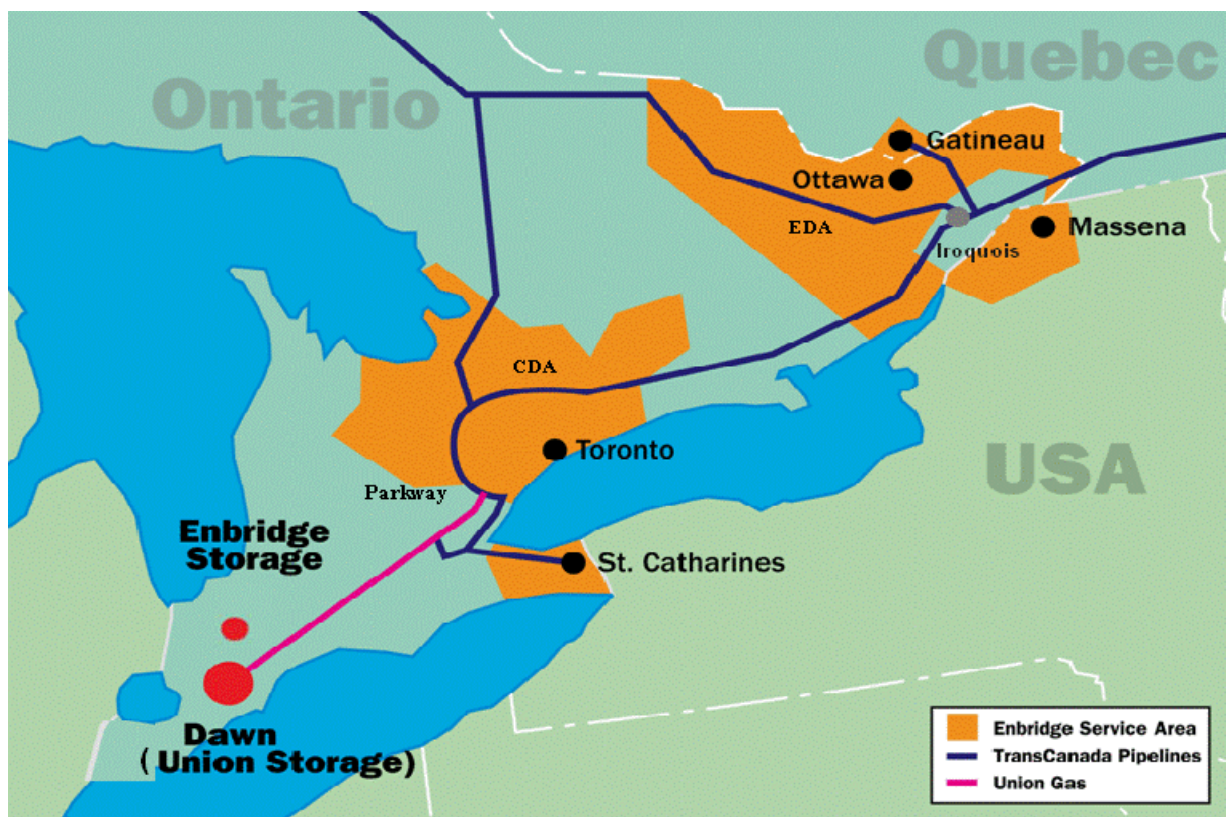
24 **III- MAS AND THEIR GAS DISTRIBUTION ACTIVITIES**

25 **A. ENBRIDGE GAS DISTRIBUTION FRANCHISE AND DISTRIBUTION SERVICES**

26 Enbridge Gas Distribution Inc. (“Enbridge”) is an Ontario corporation with its head office in the  
27 City of Toronto. It is a regulated natural gas distribution utility that carries on the business of  
28 selling, distributing, transmitting and storing natural gas within Ontario.

29 Enbridge provides service to approximately 1.9 million residential, commercial and industrial  
30 customers throughout central and eastern Ontario which includes the Greater Toronto Area,  
31 the Niagara Peninsula, Barrie, Midland, Peterborough, Brockville, Ottawa and other Ontario  
32 communities as indicated in the Figure below.

1 Enbridge holds approximately 1 million GJ/d of Firm Transportation on the TransCanada  
2 Mainline. In addition, Enbridge also contracts for Short-Term Firm Transportation capacity,  
3 which equates to approximately \$73 million of discretionary revenue based on 2012 interim  
4 tolls.



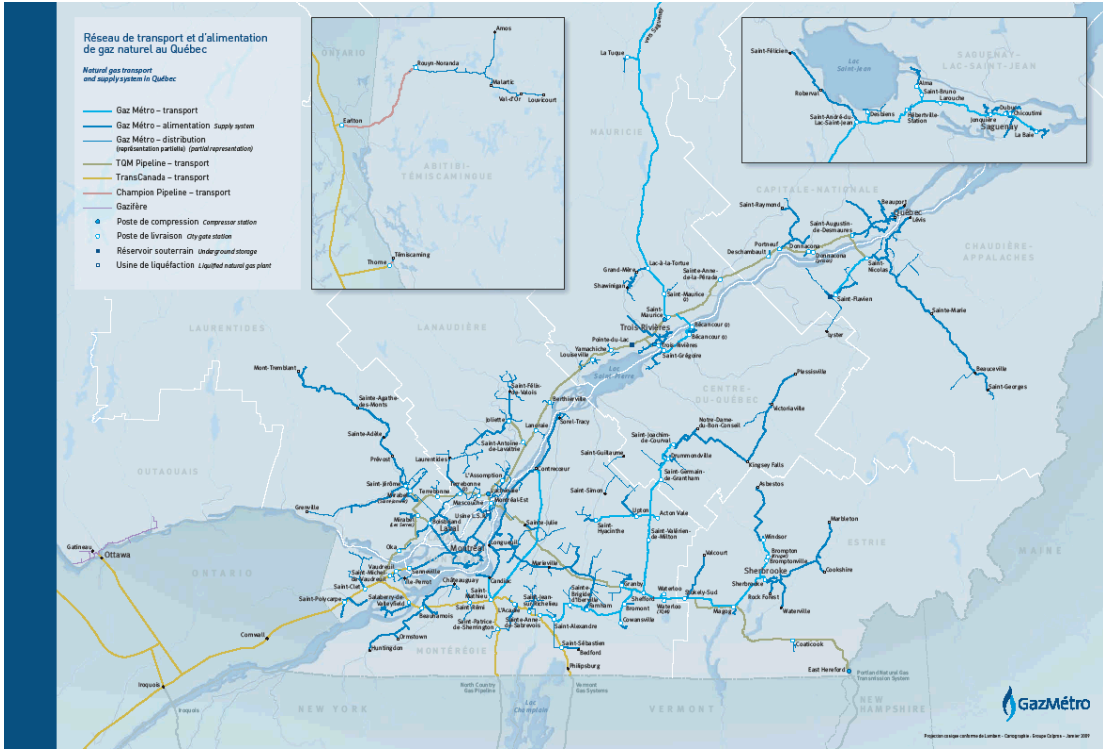
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7 **GAZ MÉTRO FRANCHISE AND DISTRIBUTION SERVICES**

8 Gaz Métro's distribution activity is regulated by the Régie de l'énergie. Gaz Métro's  
9 distribution system serves about 300 municipalities in Québec and is comprised of over  
10 10 000 km of pipeline of various dimensions. Gaz Métro presently serves more than 180 000  
11 customers, comprised of over 2 000 industrial customers, over 50 000 commercial customers  
12 and more than 130 000 residential customers who consume more than 5 400 million m<sup>3</sup>  
13 of natural gas per year.

14 For both the Northern and Southern Zones, Gaz Métro's distribution network is exclusively  
15 supplied by facilities wholly owned by TransCanada. In addition, a large portion of Gaz  
16 Métro's distribution network is only connected to Gazoduc Trans Québec & Maritimes Inc

1 (TQM) facilities and must absolutely be supplied through the TQM system. The map below  
 2 shows a graphic representation of the Gaz M tro system and its interconnection with  
 3 TransCanada’s integrated system.



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6 **C. UNION GAS FRANCHISE AND DISTRIBUTION SERVICES**

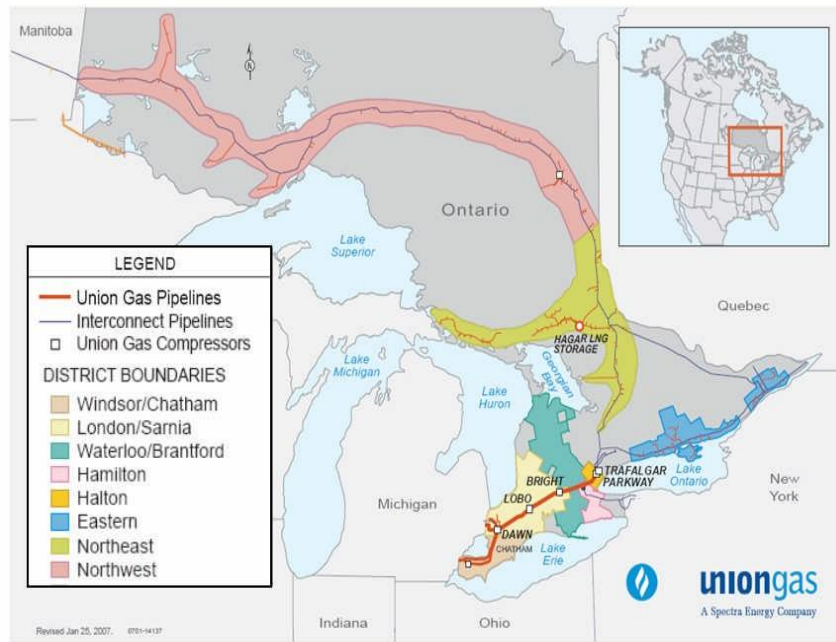
7 Union Gas is an Ontario Corporation with its registered head office at the City of Chatham in  
 8 the Province of Ontario. Union is a regulated public utility that conducts an integrated natural  
 9 gas utility business, combining the operations of purchasing, storing, transporting and  
 10 distributing gas for customers in its franchise areas as well as storing and transporting natural  
 11 gas for others.

12 Union serves 1.3 million residential, commercial and industrial customers throughout  
 13 Northern and South Western Ontario. Union relies exclusively on TransCanada to provide  
 14 service to its northern and eastern Ontario customers.

15



# Union Gas Limited



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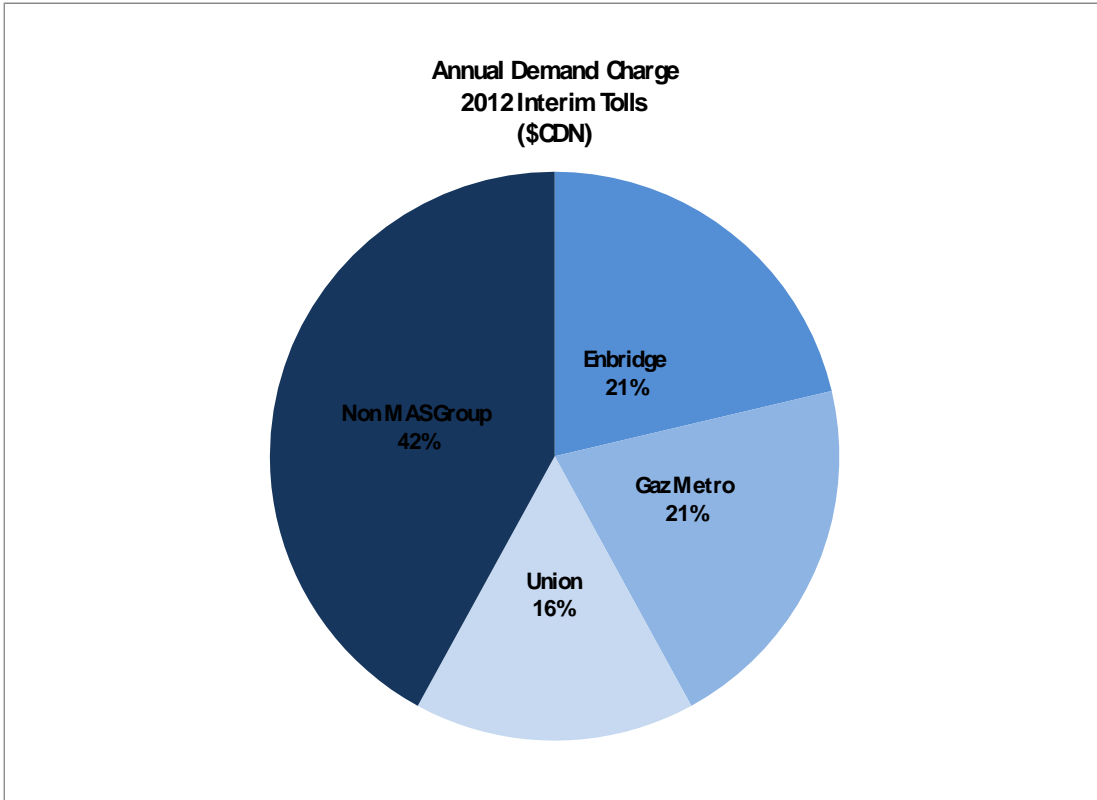
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## 4 **D. MAS FRANCHISES**

5 All three MAS members are physically connected to the TransCanada Mainline and must rely  
6 on TransCanada's services to meet their customers' gas needs. As a result, MAS consider  
7 that all three LDCs are captive shippers of TransCanada's system.

8 The following chart shows the percentage of the TransCanada Mainline cost of service that is  
9 paid by MAS:



1

2 Moreover, despite the favourable competitive situation of natural gas presently, MAS remain  
 3 very attentive to the fluctuations in the customer invoice, with delivered natural gas prices  
 4 being the predominant factor for all customers in different markets.

5 **IV- TRANSCANADA'S PROPOSAL**

6 **1. Please describe TCPL's Restructuring Proposal.**

7 TransCanada introduces its evidence by describing the recent and dramatic changes in the  
 8 business environment of natural gas supply, demand and transportation in North America.

9 TransCanada expands on the various significant issues that impact the long term economic  
 10 viability of the Mainline. The current set of circumstances is used by TransCanada to justify  
 11 significant changes to its depreciation methodology, toll design and services offered to  
 12 shippers. These changes are supported by TransCanada based on the need to enhance the  
 13 competitiveness of the Mainline and the WCSB. TransCanada's Proposal includes significant  
 14 changes to its depreciation methodology, toll design and Mainline services and pricing.

15 TransCanada also proposes the extension of the Alberta system.

1

2 **B. DEPRECIATION**

3 **1. Please explain TransCanada's depreciation proposal?**

4 TransCanada describes its Depreciation Proposal as a “review of its overall approach to  
5 Mainline depreciation, taking into consideration established depreciation and regulatory  
6 principles, and the overarching objective of improving the long term economic viability of the  
7 Mainline and the WCSB”.

8 TransCanada is proposing to update the economic planning horizons of the Prairies segment  
9 to 2036, of the Northern Ontario Line segment (NOL) to 2025 and of the Eastern Triangle  
10 segment to 2050. In addition, TCPL is proposing to reallocate accumulated depreciation  
11 amongst the segments.

12 TransCanada claims that the accumulated depreciation within each segment is not aligned  
13 with the service value consumed for these segments. The NOL is the largest in terms of net  
14 book value while it has the shortest remaining economic planning horizon, set at 2025 based  
15 on TransCanada's depreciation study, assuming the Restructuring Proposal.

16 Specifically, TransCanada proposes to reallocate accumulated depreciation such that less of  
17 the existing total amount of accumulated depreciation is assigned to the Prairies and Eastern  
18 Triangle segments and more is assigned to the NOL segment.

19 TransCanada proposes to reallocate accumulated depreciation based on consumed service  
20 value of the NOL segment, based on the total throughput since the NOL segment went into  
21 service and the throughput forecast until 2025. TransCanada is estimating that 83.6 % of total  
22 throughput to be transported on the NOL segment has already flowed.

23 With total gas plant in service at \$5.3 billion, TransCanada estimated that the NOL  
24 accumulated reserve should be \$4.4 billion of accumulated depreciation while the amount  
25 currently on the books is \$3.2 billion. TransCanada concludes that it must reallocate \$1.2  
26 billion of accumulated depreciation from other segments, to the NOL.

27 TransCanada uses the relative accumulated depreciation balances for both the Prairies (\$2.1  
28 billion) and the Eastern segments (\$1.4 billion) to determine each segment's contribution.  
29 The Prairies segment will absorb approximately 60% of the total amount reallocated (\$720  
30 million) and the Eastern Triangle segment approximately 40% (\$480 million).

1           **2. Do MAS agree with TransCanada's Depreciation Proposal?**

2   No. MAS oppose TransCanada's proposal to reallocate \$1.2 billion of accumulated  
3   depreciation between segments.

4   MAS reject TransCanada's Depreciation Proposal for the reasons provided by its experts  
5   RSM and NERA as the proposed shift:

6   (a) does not satisfy applicable statutory requirements and appropriate regulatory and  
7   tolling principles;

8   (b) is without any foundation, given relevant US and Canadian regulatory precedents,  
9   and is inconsistent with reasonable regulatory depreciation practices for rate making;

10   (c) does not comply with Canadian and US Generally Accepted Accounting Principles  
11   (GAAP); and

12   (d) is not in the public interest.

13           **3. Please explain why MAS believe that the reallocation of**  
14           **accumulated depreciation does not satisfy applicable**  
15           **statutory requirements and appropriate regulatory and**  
16           **tolling principles.**

17   MAS' evidence, supported by NERA, demonstrates that TCPL's Depreciation Proposal is  
18   essentially an exercise: (1) to transfer rate base to the Prairies and the Eastern Triangle  
19   segments, (2) to push the cost collection of the transferred rate base into the future and  
20   (3), to shift responsibility for the risk of unused capacity of the Mainline away from  
21   TransCanada and toward the shippers at the ends of the Mainline.<sup>1</sup>

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<sup>1</sup> See, generally, the Expert Report and Direct Testimony of Jeff D. Makhholm.

1           **4. Do you have any comments concerning available**  
2           **precedents regarding the proposed reallocation of**  
3           **accumulated depreciation?**

4     In the direct evidence of Mr. Sullivan<sup>2</sup> and in response to IR-250 of Gaz Métro, TransCanada  
5     invokes the Kern River and William cases as well as a number of decisions from State  
6     regulators<sup>3</sup> in order to support the proposed reallocation of \$1.2 billion in accumulated  
7     depreciation.

8     The MAS experts, RSM and NERA, have carefully reviewed these decisions. On the basis  
9     of this review, we conclude that none of these decisions support TransCanada's proposed  
10    transfer of \$1.2 billion of accumulated depreciation in the circumstances alleged by  
11    TransCanada.<sup>4</sup>

12    In addition, TransCanada and Mr. Sullivan have omitted important FERC precedents<sup>5</sup> that  
13    clearly contradict TransCanada's Depreciation Proposal.<sup>6</sup> A review of these precedents has  
14    been performed by NERA from a regulatory standpoint.

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<sup>2</sup> TransCanada's Application, Part C, Appendix C3: Prepared Direct Testimony of Barry E. Sullivan, at p. 54 of 62.

<sup>3</sup> TransCanada's Response to Gaz Métro 2-50, at p. 2 of 3 and Attachment 2.-50.1.

<sup>4</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A70 and ff.; Expert Report and Direct Testimony of Paule Bouchard, at Q4.

<sup>5</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A74 and ff.

<sup>6</sup> Sections 5 and 56 of the NEB Gas Pipeline Uniform Accounting Regulations (SOR/83-190) indicate that:

Every Group 1 company shall

(a) keep separate books of account in Canada in a manner consistent with  
generally accepted accounting principles; [...]

(2) Where the amount is material, accumulated depreciation applicable to the assets in one depreciation group shall not be transferred by a company to another depreciation group without the approval of the Board.

1           **5. Please explain why MAS believe that the reallocation of the**  
2           **accumulated depreciation does not comply with GAAP.**

3 It appears from RSM's analysis that TransCanada's proposed change of useful life estimates  
4 for its Mainline segments is not the result of a change in accounting principle, a correction of  
5 an error or an actual movement of PP&E in service. It is a response to a change in  
6 circumstances, to continuing economic trends and a recent shift in usage and contracting  
7 practices on the Mainline and it is designed to retrospectively and materially adjust the net  
8 book value of underutilized assets.

9 Based on RSM's analysis of TCPL's Depreciation Proposal, MAS agree with the position that  
10 rate-regulated entities, such as TCPL, are subject to GAAP and its conceptual framework and  
11 that a highly material \$1.2 billion reallocation of accumulated depreciation between Mainline  
12 segments does not comply with both Canadian and US GAAP. RSM recognizes that  
13 exceptions are allowed if ruled by the NEB, but does not believe, like MAS, that such a ruling  
14 is in the public interest in this circumstance.

15 GAAP are widely recognized and relied upon by the financial community for purposes of  
16 ensuring reliability and comparability of financial information. This fact, in and of itself, or  
17 when combined with the other serious flaws affecting the Depreciation Proposal discussed  
18 above,<sup>7</sup> strongly opposes any endorsement by the NEB of such inconsistency pursuant to  
19 Section 56 of the Gas Pipelines Uniform Accounting Regulations.<sup>8</sup> Compliance with GAAP is  
20 in the public interest.

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<sup>7</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A64 and ff.

<sup>8</sup> Sections 5 and 56 of the NEB Gas Pipeline Uniform Accounting Regulations (SOR/83-190) indicate that:

Every Group 1 company shall

(a) keep separate books of account in Canada in a manner consistent with generally accepted accounting principles; [...]

(2) Where the amount is material, accumulated depreciation applicable to the assets in one depreciation group shall not be transferred by a company to another depreciation group without the approval of the Board.

1           **6. Please explain why MAS believe that the reallocation of**  
2           **accumulated depreciation is not in the public interest.**

3 Notwithstanding any debate concerning the content or breadth of the notion of public interest,  
4 it cannot be in the public interest to approve a measure that contradicts sound tolling  
5 principles and objectives,<sup>9</sup> that results in unjust and unreasonable risk, reward and cost  
6 allocation and that it is not in compliance with GAAP.<sup>10</sup>

7 Moreover, it cannot be in the public interest to fix tolls by giving effect to a measure  
8 incorrectly presented as a depreciation measure. The basis, namely the notion of “consumed  
9 service value” is not reflective of reasonable regulatory depreciation practices for rate-  
10 making.<sup>11</sup> Moreover, its true purpose is to shift responsibility away from TransCanada toward  
11 captive shippers and to protect TransCanada from the risk associated with excess capacity.<sup>12</sup>

12       **C. TOLL DESIGN**

13           **1. Are the toll making changes that are proposed by**  
14           **TransCanada in its application warranted in the current**  
15           **circumstances?**

16 TCPL’s proposed toll design changes will not reduce costs but rather allocates costs  
17 differently to different shippers. As a result, TransCanada is not solving the fundamental  
18 issue by focusing on changes to its tolling methodology. TransCanada is proposing to  
19 abandon the tolling principles upon which the system was built and upon which parties have  
20 relied in the past to base their contracting decisions. The gas transportation facilities existing  
21 today are linked to these tolling principles. The Board and the stakeholders must focus  
22 instead on an enduring solution rather than attempting to divide too many costs by too few  
23 billing determinants. TransCanada has not demonstrated that changes to its tolling

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<sup>9</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A64 and ff.

<sup>10</sup> Expert Report and Direct Testimony of Paule Bouchard, at Q2

<sup>11</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A85.

<sup>12</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A67.

1 methodology will provide an enduring solution but rather prefers to present a two year  
2 postponement of the real problem. MAS, are opposed to these changes.

3

4 **2. Should any changes be made to the tolling methodology at**  
5 **this time?**

6 While MAS cannot assume that a tolling methodology is set in stone, the current  
7 methodology has served the pipeline and its ratepayers well over the years and it appears to  
8 the MAS that time and effort invested in the current process should not be discarded as the  
9 Board considers the merits of an enduring solution. The current level of flows on the Mainline  
10 are not the result of the cost allocation, the calculation of distance or zonal tolling but rather  
11 they are the result of the level of tolls on the Mainline and the available supply from the  
12 WCSB which itself faces competition from new production basins.

13 Moreover, TransCanada has the burden of proof to demonstrate the positive long-term  
14 impact of its proposed toll design changes. However, TransCanada has failed to provide  
15 sufficient evidence to demonstrate that the proposed change in toll-design would improve the  
16 long-term sustainability of the Mainline. In TCPL's response to CAPP 200 TransCanada  
17 admits that it has not made long term projections nor has analyzed other scenarios.

18 *“TransCanada declines to provide the financial forecast information to reflect*  
19 *the Restructuring Proposal from 2018 to 2035 on the grounds that the*  
20 *request is unreasonable. The time, effort and expense involved in the*  
21 *preparation of a response are not warranted by the probative value of the*  
22 *result.»*

23 *Please refer to the Application, Section 12.0 for the 2012 to 2013 financial*  
24 *forecast for the Restructuring Proposal.*

25 *Please refer to the following tables for the 2014 to 2017 financial forecast*  
26 *information for the Restructuring Proposal. TransCanada completed only a*  
27 *two year forecast (2012 and 2013) in its most recent annual budget cycle.*  
28 *The information for 2014 to 2017 includes high level assumptions. All figures*  
29 *are in (\$million) unless otherwise stated.” (at pages 1-4)*



1 **D. CHANGE IN TOLL METHODOLOGY DESIGN**

2 **1. Please summarize the MAS' assessment of TCPL's**  
3 **proposed changes to the Toll Methodology?**

4 TCPL proposes a number of changes to the Mainline toll design under the guise of revisions  
5 and simplifications to its current toll structure. Specifically these include:

- 6 • Changes to the classification of costs as energy and energy-distance related,
- 7 • Elimination of the commodity charge and recovery of costs in the reservation  
8 charge,
- 9 • Use of the shortest distance for tolls calculations on all receipt/delivery paths,
- 10 • Determine load centres for each Distributor Delivery Area ("DDA") based on  
11 the metered flow in the DDA over base year, and
- 12 • Distance calculations for STS and STS-L services.

13 Overall, these cost allocation changes have the impact of reducing tolls for longer hauls  
14 (those greater than approximately 800 km) and increasing the tolls for shorter hauls (those  
15 less than approximately 800 km). For example, the 2011 applied-for annualized Empress to  
16 Eastern Zone toll is \$2.45/GJ. TCPL has calculated that assuming these changes alone, the  
17 Empress to Eastern Zone would have been \$2.17, a decrease of \$0.28/GJ. Shorter hauls,  
18 such as Dawn to the Enbridge CDA would see an increase of about \$0.05/GJ from \$0.284/GJ  
19 to \$0.336/GJ<sup>13</sup>

20 MAS believe that TCPL's proposed cost allocation changes listed above which result in  
21 shifting costs from long haul to short haul paths are not appropriate and/or justified.

22 **2. Please explain why the MAS believe that these changes are**  
23 **not appropriate and/or justified?**

24 Simply, MAS does not believe that toll methodology is the cause of TCPL's competitiveness  
25 concerns. The fundamental problem with the Mainline's competitiveness is that current  
26 throughput cannot sustain the Mainline's cost structure. The existing toll methodology has  
27 been in place for many years and has been tested by the Board and accepted by the

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<sup>13</sup> TransCanada's Application, Part C, Section 7.0: Toll Design Proposals, at pp. 23-24 of 49.

1 marketplace in making contracting decisions and remains relevant today. TCPL has not  
2 provided any compelling case that supports changes to its current toll design methodology.

3 TCPL has also indicated that long haul flows will be restored in the coming years once  
4 western shale supplies are in production.<sup>14</sup> A shift in cost allocation assumptions at this time  
5 therefore appears premature and contrary to TCPL's expectations that the recent de-  
6 contracting of long haul is a short term concern and will be restored once western shale  
7 supplies are attached.

8 MAS further note that most of these points were reiterated by Black & Veatch and ICF, along  
9 with other concerns they identified, from their respective evaluation of TCPL's Restructuring  
10 Proposal.

11 **3. Please summarize the concerns expressed by Black &**  
12 **Veatch and ICF regarding TCPL's proposed toll**  
13 **methodology changes.**

14 The full details of Black & Veatch's and ICF's evaluation of the TCPL's toll methodology  
15 changes can be found in the expert evidence of Russell Feingold, appendix C, and Bruce  
16 Henning, appendix B, respectively. However, a summary of these concerns as noted by MAS  
17 include:

- 18 i) High tolls, not the methodology, are the problem. This point is supported and  
19 addressed in the evidence of Russell Feingold [page 10 and Bruce Henning  
20 [pages 5-6.
- 21 ii) As discussed in the expert evidence of Russell Feingold, [pages 12-13],  
22 "TCPL has not provided any empirical evidence, operational support, or  
23 demonstrated benefit that its proposed method establishes a more appropriate  
24 relationship between cost causation and cost responsibilities for shippers  
25 served on its pipeline system."
- 26 iii) TCPL has failed to establish any meaningful relationship between cost  
27 causation and cost responsibility under its proposed cost classification  
28 methodology as stated by Russell Feingold. [page 16 ]

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<sup>14</sup> TransCanada's Application, Part D, Appendix D1: Written Evidence of Paul R. Carpenter, at p. 38.

- 1           iv)       “Taken in isolation, the shift in costs from long-haul shippers to short-haul  
2                   shippers would also result in an unnecessary increase in gas costs to  
3                   consumers in Ontario and Quebec relative to the costs to consumers in the  
4                   absence of the shift in costs” as stated by Bruce Henning [page 10]
- 5           v)       “The shifting of costs from long-haul shippers to short-haul shippers has the  
6                   potential to reduce the utilization of the eastern end of the TransCanada  
7                   PipeLine System to shippers, without increasing the utilization of long-haul  
8                   Mainline capacity to any appreciable degree, and without improving the long-  
9                   term outlook for TransCanada rate stability” as stated by Bruce Henning [page  
10                  10]

11

12   **E.    TQM TBO ALLOCATION**

13           **1.    Please explain TransCanada’s TQM allocation proposal.**

14    In addition to the facilities that it owns and operates itself, TransCanada also uses  
15    transportation by others (TBO) to offer its services. TransCanada currently has three  
16    agreements for TBO services, with Great Lakes Gas Transmission (GLGT), Union and Trans  
17    Québec Maritimes (TQM). Historically, costs associated with these contractual entitlements  
18    were included in TransCanada’s cost of service and then recovered through all Mainline tolls.

19    Historically, the GLGT, Union and TQM TBOs have been considered integrated to  
20    TransCanada’s system, and the costs associated therewith have always been rolled-in to  
21    TransCanada’s cost of service and recovered through all Mainline tolls. TransCanada now  
22    proposes to treat the TQM TBO costs differently, while continuing to provide integrated  
23    service across the Mainline and the GLGT, Union and TQM TBOs, and while continuing to  
24    roll-in only the GLGT and Union TBOs costs.

25    More precisely, TransCanada proposes to allocate the TQM TBO costs (net of delivery  
26    pressure costs for East Hereford delivery pressure facilities) to any transportation that  
27    originates from, or is delivered to, locations on the TQM system, including receipts from or  
28    deliveries to a newly created GMIT TQM EDA and East Hereford, and receipts from Sainte-  
29    Geneviève de Berthier. According to this proposal, Mainline tolls to and from points on the  
30    TQM system will reflect the Mainline system average costs for transportation on the Mainline

1 system up to the TQM interconnect point of Les Cèdres, plus a TQM charge. The calculation  
2 of the TQM charge would reflect known or forecast TQM TBO costs as well as a forecast of  
3 firm billing determinants and discretionary revenues for services that use only the TQM  
4 system.<sup>15</sup>

5 TransCanada attempts to justify this proposal based on the need “to be as competitive as  
6 possible across the pipeline and within its various sub-markets, which means eliminating  
7 cross-subsidies inherent in the existing toll design in order to reduce the potential for the  
8 Mainline to be bypassed”.

9 TransCanada also justifies the change to eliminate this specific TBO from the common cost  
10 pool by the fact that TQM shippers now use more short-haul as stated by TransCanada  
11 under Section 7, Toll Design page 30:

12 *“the fact that a majority of contracts for the GMIT EDA and East Hereford are*  
13 *no longer long haul contracts, warrant a change to the current treatment of*  
14 *TQM TBO costs. In the current circumstances of the Mainline, it is no longer*  
15 *appropriate to continue assigning the cost of the TQM system to all Mainline*  
16 *shippers, when only select locations utilize the TBO capacity, and those*  
17 *deliveries are using less of the Mainline”<sup>16</sup>*

18 **2. Do MAS agree with TransCanada’s proposed TQM TBO**  
19 **Cost Allocation?**

20 No. MAS oppose the proposed TQM TBO Cost Allocation because it will result in tolls that  
21 are not just and reasonable while being discriminatory and it will result in different tolls being  
22 charged in the greater Montreal area market, under substantially similar circumstances and  
23 conditions, for traffic of the same description carried over the same route under substantially  
24 similar circumstances and conditions. The full details of NERA’s evaluation of TransCanada’s  
25 proposed TQM TBO cost allocation can be found in the expert evidence of Dr Jeff Makhholm  
26 at appendix D.

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<sup>15</sup> TransCanada’s Application, Part C, Section 7.0: Toll Design Proposals, at page 26 of 49.

<sup>16</sup> TransCanada’s Application, Part C, Section 7.0: Toll Design Proposals, at p. 30 of 49.

1                   **3.       What are the origins of the TQM System?**

2       TransCanada proposed integrating the TQM System in GH-4-79. TransCanada has since  
3       consistently defended its position of the tolling treatment including their Application for adding  
4       on Gros Cacouna receipt points as recently as in Hearing RH-1-2007.

5       The TQM Pipeline has always been considered for ratemaking purposes as being an integral  
6       part of the TransCanada system. The territory served by the TQM system was included in the  
7       Eastern Zone by TransCanada and all delivery points on that pipeline are described as  
8       delivery points in the TransCanada tariff. All shippers desiring to transport gas from the  
9       TransCanada system towards these delivery areas have contracted directly with  
10      TransCanada for these services. The compression required in order to transport the gas on  
11      the TQM System was, until 1998, entirely supplied by TransCanada, which is principally the  
12      case today in light of the addition of compressors at Lachenaie and East Hereford in 1998 to  
13      supply gas to PNGTS. TransCanada controls the flow of gas on the TQM pipeline and the  
14      cost of all additional installations on the pipeline. This includes the under-water installation of  
15      the pipeline crossing between St-Augustin des Maures and Saint-Nicolas and the extension  
16      towards PNGTS from Lachenaie to East Hereford. These have been included for ratemaking  
17      purposes in the TransCanada cost of service as was the initial cost for the TQM pipeline. This  
18      network is fully integrated with the TransCanada network since all operational issues in  
19      regard to activities on the TQM network including operational control, maintenance, planning,  
20      technical support, engineering as well as all administrative services have been managed by  
21      TransCanada since January 1st, 2003.

22                   **4.       Has TransCanada always considered TQM as being part of**  
23                   **the integrated system?**

24      TransCanada has confirmed that in the past it has always considered TQM as being part of  
25      the integrated system and as such as has always included TQM's cost in their revenue  
26      requirement.

27                   *“Confirmed, with the exception of miscellaneous revenues derived by TQM*  
28                   *associated with the sale of TS, SGT and BGT services.” (GMI-TCPL\_48.1)*

29  
30      Evidently, this is further reinforced by the fact that TransCanada is in full control of TQM's  
31      operations

32                   *“Trans Québec & Maritimes Pipeline Inc. acquires services pertaining to the*  
33                   *operation, maintenance, administration and construction activities related to*

1           the TQM pipeline from TQM Services Limited Partnership pursuant to a  
2           service agreement that became effective January 1, 2003 and remains in  
3           effect unless one of the parties provides a termination notice to the other.  
4           Also since January 2003, TQM Services Limited Partnership has been  
5           acquiring certain services from TransCanada, including maintenance,  
6           surveillance and engineering services for the TQM pipeline.” (GMI-TCPL-  
7           48.9)

8  
9       TransCanada has justified including TQM’s cost of service in their revenue requirement as  
10      confirmed by TransCanada in their Written Evidence of the Application for Gros Cacouna,  
11      page 34, lines 18 to 24 and page 35, lines 1 to 2:

12           *“However, as addressed in Section 2 and further addressed in Section 4, the*  
13           *Integrated System is not operated as separate components, but as a network*  
14           *on which total receipts are balanced with total deliveries across the*  
15           *Integrated System. The additional Mainline facilities and TQM service will*  
16           *form part of the Integrated System. This integrated operation of the system*  
17           *does not support the disintegration of costs and tolls as contemplated by the*  
18           *alternative toll methodologies. Also, the Board has consistently found that*  
19           *rolled-in tolling is appropriate and generates cost-based tolls that reflect the*  
20           *user/pay principle, as further outlined in Section 4.”*

21  
22      The TQM system and the TransCanada system are operated and coordinated by  
23      TransCanada as if they were one single pipeline<sup>17</sup>, in order to meet total system requirements  
24      on a least-cost basis. The amounts of nominated receipts and deliveries on both systems are  
25      balanced as a whole each gas day, allowing for optimization of the entire system, and  
26      resulting in efficiencies, such as fuel cost savings. Since shippers have no other alternative  
27      but to operate in this way, TransCanada confirms that they optimize their Mainline pipeline by  
28      utilizing the TQM pipeline. In the NEB Decision RH-1-2007 on page 13 it states:

29           *“The integrated design requires that gas transportation operations of TQM be*  
30           *coordinated with that of the Mainline.”*

31  

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<sup>17</sup> See also TransCanada’s Response to Gaz Métro 2-54, at p. 4 of 4.

1 This is further supported by the fact that TransCanada receives all nominations for the TQM  
2 system and balances the zone as a whole and not in separate parts. In the NEB Decision  
3 RH-1-2007 it was stated on page 23:

4 *“To support its application, TransCanada submitted that the Gros Cacouna*  
5 *extension would be part of the Integrated System, that its gas supplies would*  
6 *be commingled, and that the additional TQM TBO service would be used in*  
7 *conjunction with all of its existing Mainline and TBO service, including the*  
8 *GLGT, Union and TQM capacity, in order to provide the cross-system*  
9 *services that shippers have requested from TransCanada. TransCanada also*  
10 *submitted that the rolled-in methodology is the most appropriate approach for*  
11 *its Integrated System.”*

12

13 All shippers transporting gas to delivery points located on the TQM system contract directly  
14 with TransCanada, and these delivery points are included in the TransCanada tariff.  
15 TransCanada has confirmed that this will continue to be the case in the future and that such  
16 shippers will “continue to utilize the existing Mainline integrated approach for practices such  
17 as contracting, nominations, and billing.”<sup>18</sup>

18 TransCanada affirms that they will continue to operate exactly as they do presently as is  
19 presented in the direct evidence of Mr. John J. Reed on page 93, lines 6 and 7:

20 *“The TQM TBO will remain unchanged; it is the treatment of the TQM TBO*  
21 *costs for toll design purposes that is proposed to be changed.”*

22

23 Presently, TransCanada operates and balances the system requirements as a whole,  
24 including TQM, which benefits all shippers by having fuel cost savings. This is clear in the  
25 NEB Decision RH-1-2007 page 24 where it states:

26 *“Also, the total amounts of nominated receipts and deliveries on the*  
27 *Integrated System are balanced as a whole each gas day, allowing for*

---

<sup>18</sup> TransCanada's Application, Part C, Section 7.0: Toll Design Proposals, at pages 26 and 27 of 49.

1 optimization of the entire Integrated System and resulting in efficiencies such  
2 as fuel cost savings.”

3

4 **5. How does the new proposed way of looking at TQM TBO**  
5 **align with TransCanada’s previous way of looking at TQM**  
6 **TBO?**

7 Previously, during the 2007 Gros Cacouna Application, TCPL stated on page 35, lines 3 to  
8 10:

9 *“TransCanada considers Alternatives 1, 2, and 4 to be unjustly*  
10 *discriminatory. Because they have either partial roll-in of the TQM system or*  
11 *stand-alone tolling of the TQM system, they cause transport from the Receipt*  
12 *Point to be tolled differently than transport from other receipt points in the*  
13 *eastern market area. This is unjustly discriminatory since shippers utilizing*  
14 *short-haul service from existing receipt points would have a competitive*  
15 *advantage relative to shippers transporting gas from the Receipt Point for no*  
16 *other reason than different tolling methodologies.*

17 *TransCanada affirms that a stand-alone tolling of the TQM System is unjustly*  
18 *discriminatory since shippers utilizing short-haul service from existing receipt*  
19 *points would have a competitive advantage relative to shippers transporting*  
20 *gas from the receipt point due to different tolling methodologies.”*

21

22 In the NEB Decision RH-1-2007 on page 27 it was stated:

23 *“TransCanada submitted that each of the alternative toll methodologies*  
24 *involved separating the Integrated System for tolling purposes and this*  
25 *separation was not consistent with the operational reality of the system. As*  
26 *outlined previously, TransCanada argued that the Integrated System is not*  
27 *operated as separate components and that the additional Mainline facilities*  
28 *and TQM service would form part of the Integrated System.”*

29

30 In its application under Part C: Business and Services Restructuring Proposal, Section 7.0:  
31 Toll Design, page 30, lines 1 to 6 state:

32 *“The current business environment and the fact that a majority of contracts*  
33 *for the GMIT EDA and East Hereford are no longer long haul contracts,*



1                   warrant a change to the current treatment of TQM TBO costs. In the current  
2                   circumstances of the Mainline, it is no longer appropriate to continue  
3                   assigning the cost of the TQM system to all Mainline shippers, when only  
4                   select locations utilize the TBO capacity, and those deliveries are using less  
5                   of the Mainline.”

6  
7 TransCanada clearly states that their tolling treatment is based on factors other than tolls  
8 being just and reasonable. TransCanada seems to be putting aside the historical arguments  
9 used in the past to justify their treatment of TQM TBO and states that due to a decrease in  
10 long haul contracts, TransCanada will now abandon past decisions and principles which  
11 governed the inclusions of TQM's costs in the TransCanada revenue requirement. This  
12 reasoning by TransCanada implies that assets that are primarily used to serve a short-haul  
13 demand should be tolled according to a strict cost causation/user pay principle relating only  
14 to the facilities actually used for that service. If TransCanada wanted to adopt this ratemaking  
15 philosophy and forego the rolled-in principle then short haul paths in the East should not  
16 include any costs for the facilities in the either the Prairies segment nor the Northern Ontario  
17 Line since they do not use those facilities and therefore should not pay for them. Following  
18 this line of thought, the costs associated with facilities that are no longer used should not be  
19 recuperated from any shippers since it would go against the user pay principle when applied  
20 to a physical facilities level. The obvious inconsistency of TransCanada's approach for other  
21 parts of its integrated system is a clear indication of a discriminatory approach in their  
22 application of rate making principles in their proposal.

23  
24 As to how the contracts will be modified from this new structure, TransCanada has stated:

25  
26                   *“The total quantity currently contracted for delivery to GMIT EDA will be split*  
27                   *between GMIT EDA and GMIT TQM EDA based on allocations determined*  
28                   *by the shipper and TransCanada. The current transportation contracts will*  
29                   *require amendments reducing the quantity for delivery to GMIT EDA with*  
30                   *corresponding new contracts for delivery to GMIT TQM EDA. The quantities*  
31                   *for the amended and new contracts will equal the existing contracts.*  
32                   *TransCanada's invoices will reflect the amended and new contracts and will*  
33                   *be billed in the same manner as is done today. Please refer to the*  
34                   *Application, Section 7.0, pages 48-49. “ (GMI-TCPL-48.4)*

35

1 Distributors that are supplied by the integrated TransCanada system must ensure that they  
2 limit their withdrawals from the system to the nominated quantities within tight tolerance  
3 levels. In order to respect the TransCanada requirements, distributors must make use of their  
4 load balancing assets to bridge the gap between customers' actual consumption on a daily  
5 basis and the nominated quantities on the pipeline. By splitting the GMI EDA into two distinct  
6 zones, TransCanada would also impose on Gaz Métro the obligation to load balance these  
7 two distinct zones on a stand-alone basis. Gaz Metro will find itself with the obligation to load  
8 balance two different zones while its in-franchise load balancing tools, namely the  
9 underground storage sites located at Saint-Flavien and Pointe-du-Lac and its liquefied natural  
10 gas plant located on the island would be located in totality, or partially in the case of the LNG  
11 plant, within the proposed new GMI-TQM zone. While MAS feel that it is important to ensure  
12 that a distributor stays within tolerance in order to ensure the safe operation of the system  
13 while meeting the needs of its customers, it also believes that it must have the tools to bridge  
14 the gap between the pipeline requirements and the reality of a customer's fluctuating  
15 demand. TransCanada's proposal would deprive Gaz Métro of the assets it requires to meet  
16 its tariff obligation towards TransCanada by driving a wedge between customers' fluctuating  
17 demand and the assets required to respond to that demand fluctuation.

18           **6. Can TransCanada continue to serve the Québec markets**  
19           **without the use of the TQM TBO?**

20 No. While some portion of Gaz Métro's distribution network is supplied by facilities wholly  
21 owned by TransCanada, a large portion of Gaz Métro's distribution network is only connected  
22 to TQM facilities and must absolutely be supplied through the TQM system. Of course, in  
23 order to get the gas supply to these locations, it is the integrated system of both  
24 TransCanada and TQM that is required. Without both systems interacting, it would be  
25 impossible to bring gas to GMI's distribution network in regions like Quebec City, Trois-  
26 Rivières or the Saguenay. These regions are not connected together by distribution lines but  
27 by the transmission facilities of TQM.

28 TransCanada has contractual commitments to serve Québec markets. The way  
29 TransCanada fulfills their obligations is by contracting on TQM. The decision makers for TQM  
30 are TCPL employees. The question remains that if TCPL were not owners of the TQM  
31 system, would the treatment be the same? Why should proprietary rights influence how TCPL  
32 tolls their customers? When addressing proprietary rights Mr. Reed of Concentric answered  
33 the following at CAPP question 42 (a):

34

1                    *“Mr. Reed does not believe that either the corporate ownership (NGTL vs.*  
 2                    *TransCanada) or the labels “Alberta System” and “Mainline” are dispositive of*  
 3                    *how costs should be aggregated or allocated. TransCanada’s proposal treats*  
 4                    *all of the costs in the defined supply area (the Alberta Extension) that are*  
 5                    *required for export of WCSB gas to markets as being in a common pool,*  
 6                    *regardless of the ownership distinction. On this basis, charging “Mainline”*  
 7                    *costs to the supply area are appropriate” not needed, and likely inflammatory*  
 8

9                    Therefore, the costs of TQM should also be considered as a common pool as TransCanada  
 10                    operates them as a common pool.

11                    **7. Explain why MAS believe that TransCanada’s proposed**  
 12                    **TQM TBO Cost Allocation will result in tolls that are not just**  
 13                    **and reasonable.**

14                    MAS submit that the historical rationale for integrated tolling is still warranted by the current  
 15                    facts and circumstances As such, the implementation of the proposed TQM TBO Cost  
 16                    Allocation, as it constitutes an unjustified departure from this rationale, will result in tolls that  
 17                    are not just and reasonable.

18                    The following table shows the effect of the proposed TQM TBO Cost allocation in isolation,  
 19                    for some receipt and delivery points on the TQM system according to TransCanada’s  
 20                    evidence<sup>19</sup>, using status quo tolls as a baseline. The very significant increase in tolls clearly  
 21                    demonstrates that the resulting tolls are not just and reasonable

22

	Status Quo 2012 toll without proposed TQB TBO Cost Allocation (\$/GJ)	Status Quo 2012 toll with proposed TQM TBO Cost Allocation (\$/GJ)	Difference (\$/GJ)	Difference (%)

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<sup>19</sup> TransCanada’s Response to NEB 2.23b at page 2 of 2.

Empress to GMIT TQM EDA	2.585	2.950	0.365	14.12%
Empress to East Hereford	2.944	2.950	0.007	0.24%
Dawn to GMIT TQM EDA	0.753	0.958	0.205	27.22%
Dawn to East Hereford	0.907	0.963	0.056	6.17%
St-Genevieve to GMIT TQM EDA	0.145	0.316	0.171	117.93%
East Hereford to GMIT TQM EDA	0.288	0.316	0.028	9.72%

1

2 The increase in the cost of transportation on the TQM system will be highly prejudicial to  
3 TQM customers. MAS submit that TransCanada's proposed TQM TBO Cost Allocation is  
4 discriminatory and of a prejudicial nature.

5 **8. Explain why MAS believe that the proposed TQM TBO Cost**  
6 **Allocation will result in different tolls being charged in the**  
7 **greater Montreal area market, for traffic of the same**  
8 **description carried over the same route under substantially**  
9 **similar circumstances and conditions.**

10 The Island of Montréal, which represents approximately a third of Gaz Métro's market, is  
11 currently supplied through three meter stations on the integrated TransCanada system. Two  
12 of these stations, Boisbriand and Montréal-East, are located on facilities owned by TQM and  
13 the third meter station, Senneville, is located on facilities owned directly by TransCanada. A  
14 fourth meter station, Saint-Mathieu, is located on facilities directly owned by TransCanada  
15 and will once again supply the Island of Montreal after Gaz Métro completes required  
16 maintenance and does remedial work on a pipe connecting the south-shore network to the  
17 island of Montréal.

18 While all these meter stations serve the same market, they would do so at different prices  
19 under TransCanada's proposal. For instance, the implementation of the proposed TQM TBO

1 Cost Allocation will result, for the path of Dawn to the new GMIT TQM EDA, where the  
2 Boisbriand station will be located, in a toll of 0.749\$/GJ<sup>20</sup>, whereas the toll for the path of  
3 Dawn to the new GMIT EDA, where Saint-Mathieu will be located, will only be 0.481\$/GJ.<sup>21</sup>  
4 This is to say that the toll for the Boisbriand station will be nearly 50% higher than the toll for  
5 the Saint-Mathieu station, although said stations are respectively located 45.28 km and 53.81  
6 km away from Saint-Lazare.<sup>22</sup>

7 This goes against the sound ratemaking principle of the law of one price cited by Mr. John J.  
8 Reed in Appendix C4, page 39, lines 16 to 18:

9 *Adhere to the "law of one price," i.e., provide one price across all market participants*  
10 *for the consumption and production of an individual good or service*

11 The problem is not limited to the island of Montréal itself. MAS view the greater Montréal area  
12 as one market. The north-shore, south-shore and the island itself would be treated differently  
13 by TransCanada under their new proposal while all those local businesses that are gas users  
14 are in direct competition with one another.

15 Dr. Makhholm, having reviewed the Board's standards for assessing undue price  
16 discrimination under section 62 of the Board Act, concludes that "such pricing differentials  
17 would indeed violate these standards."<sup>23</sup>

18 **9. What is your conclusion with respect to TransCanada's**  
19 **proposed TQM TBO Cost Allocation?**

20 TransCanada's proposed TQM TBO Cost Allocation is a measure that seeks to simply shift  
21 the costs associated with the TQM system to the customers directly using said system,  
22 without actually addressing the problem of the Mainline competitiveness. TransCanada has  
23 not adduced any compelling evidence or arguments to justify the Board in departing from its

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<sup>20</sup> TransCanada's Response to Gaz Métro 2-23, at p. 3 of 4.

<sup>21</sup> TransCanada's Response to Gaz Métro 2-23, at pp. 3-4 of 4.

<sup>22</sup> TransCanada's Response to Gaz Métro 2-23, at p. 3 of 4.

<sup>23</sup> Expert Report and Direct Testimony of Jeff D. Makhholm at A100.

1 historical tolling integration of the TQM system, especially in view of the prejudice that such  
2 measure would cause to TQM's customers, including. MAS consider that the acceptance of  
3 such a measure by the Board is without justification and represents an increased risk for  
4 Eastern shippers in the future that the Board should not allow.

5 **F. TOLL ZONES**

6 **1. Please explain TransCanada's proposed elimination of**  
7 **zones.**

8 TransCanada proposes to eliminate the use of toll zones and instead to toll domestic long  
9 haul transportation on the basis of the load centre of individual DDAs.<sup>24</sup>

10 **2. Do MAS agree with TransCanada's proposed elimination of**  
11 **toll zones?**

12 No. MAS oppose the proposed elimination of toll zones, essentially because it will result in  
13 tolls that are not just and reasonable, as it constitutes an unjustified departure from the  
14 historical rationale for the existing zonal toll structure for domestic deliveries.

15 **3. What reasons justified the creation of zonal tolling?**

16 Zones have existed for over 40 years and TransCanada has justified the existence of zones  
17 for reasons which are still valid today:

18 *"2. RH-3-82 TransCanada proposed to extend the Eastern zone to Quebec*  
19 *City in this proceeding. Supporting reasons included:*

20

- 21 • *This is consistent with the minister's policy statement outlined in the*  
22 *RH-4-81 report.*
- 23 • *There are geographical and economic similarities between Montreal*  
24 *and Quebec City.*
- 25 • *The Eastern zone is a unified energy market with competitive*  
26 *alternatives priced uniformly throughout the Eastern zone.*

---

<sup>24</sup> TransCanada's Application, Part C, Section 7.0: Toll Design Proposals, at p. 6 of 49.

- 1 • *Public interest is best served by providing pricing incentives in the*  
2 *region of the TQM extension.*
- 3 • *The RH-1-72 Decision acknowledged that regard for public interest*  
4 *may of necessity involve consideration of competitive factors.”*  
5 *(NEB\_TCPL\_2.19 at page 2)*

6  
7 The reasons underlying the application mentioned above are still legitimate today because  
8 there are still geographical and economic similarities between Montreal and Quebec City,  
9 public interest is still best served by offering competitive prices on the TQM system and it is  
10 still a unified energy market. Furthermore, the major underlying reason historically is that,  
11 without the Eastern Zone, shippers in Québec would be at a commercial disadvantage  
12 compared to shippers in Ontario.

13 In response to NEB 2.19, page 3, under GH-3-86, it was stated:

14 *“The Board recognizes that the existing Eastern Zone dimensions were*  
15 *established in the light of past economic, political and investment decisions*  
16 *made to achieve objectives which at the time were developed in the public*  
17 *interest of the country. In the Board’s view, the setting of Eastern Zone tolls*  
18 *on the basis of allocating the costs, principally embedded costs equally to all*  
19 *users in the Eastern Zone continues to be just and reasonable and in the*  
20 *public interest.”*

21  
22 MAS understand that TransCanada has not filed evidence that invalidates this rationale and  
23 therefore oppose the change in the current toll design.

24 **4. Explain why MAS declare that the proposed elimination of**  
25 **toll zones constitutes an unjustified departure from this**  
26 **historical rationale for the existing zonal toll structure for**  
27 **domestic deliveries.**

28 TransCanada has failed to provide sufficient evidence to demonstrate that the proposed  
29 departure from this historical rationale for the existing zonal toll structure would improve the  
30 long-term sustainability of the Mainline.

31 Moreover, MAS have also asked Dr. Makhholm from NERA to review relevant Board  
32 precedents discussing the historical rationale for the existing zonal toll structure on the  
33 Mainline for domestic deliveries. In his Expert Report and Direct Testimony, Dr. Makhholm

1 shows that this methodology was established to address special considerations and  
2 circumstances that had application in the domestic market, such as practicality and ease of  
3 administration, and that the Eastern Zone dimensions were established in the light of past  
4 economic, political and investment decisions made to achieve objectives which at the time  
5 were developed in the public interest of the country. Dr. Makhholm also shows that the Board  
6 has consistently held that the existing zonal toll structure for domestic deliveries is  
7 appropriate for similar geographical and market areas.<sup>25</sup>

8 **G. GREAT LAKES' RIGHT-SIZING**

9 **1. What is the MAS' assessment of TCPL's use of TBO?**

10 TCPL utilizes services on other pipelines to provide an integrated service to its customers  
11 that include not only the use of TCPL's own pipelines, but also pipelines of other companies.  
12 The use of these other pipelines is referred to as Transportation By Others (TBO) and its  
13 costs are embedded in TCPL's total cost base and therefore recovered from its customers in  
14 tolls. In the east, TCPL currently holds capacity on Great Lakes Gas Transmission Company  
15 (GLGT), Union Gas Limited (Union) and TQM for this purpose. As the GLGT and Union  
16 contracts expire, TCPL has the option to renew, alter or discontinue the use of these TBO  
17 contracts going forward, and must do so in accordance with TCPL's commitments to its  
18 shippers who require the use of TBO paths. The contracting need for TQM TBO and its  
19 appropriate treatment for toll design have been addressed separately in Section IV E of this  
20 evidence.

21 TCPL estimated that its total costs for these TBO contracts is \$169 million in 2012 and \$139  
22 million in 2013 (Part E, Attachment 12.1, Tab 2) prior to assignments. These costs represent  
23 approximately 10% of TCPL's gross revenue requirement and therefore contribute to a  
24 significant degree to the tolls charged to customers.

25

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<sup>25</sup> Expert Report and Direct Testimony of Jeff D. Makhholm, at A110.



1           **2.     What is the MAS' assessment regarding TCPL's use of**  
2           **GLGT TBO for forward haul transport?**

3           The forward haul capacity required on the GLGT system is used by TCPL to meet its  
4           obligations to customers for the Sault St. Marie, the Southwest (Dawn) Delivery  
5           Areas and to a small extent the exports at Niagara and Chippawa.

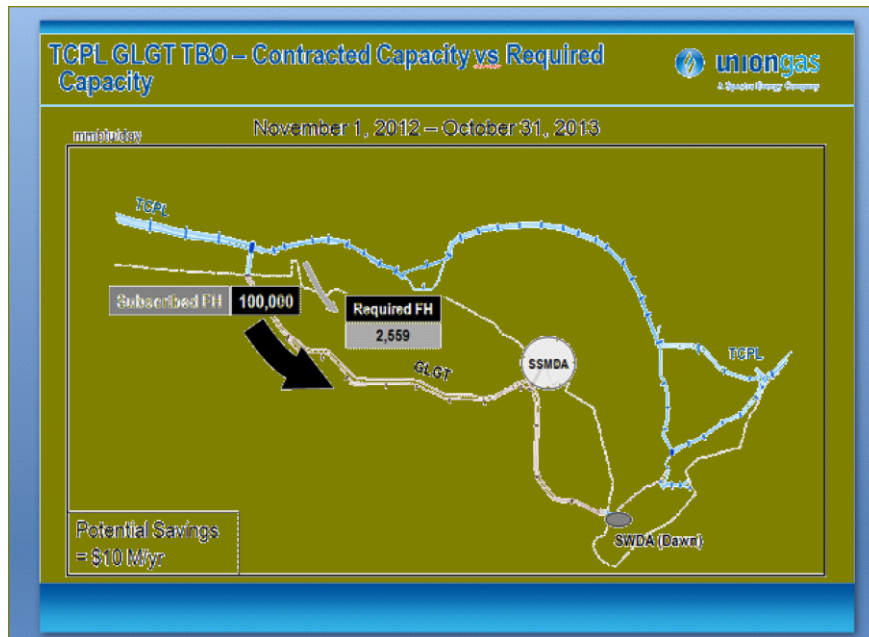
6     For January 1 – October 31, 2012, TCPL holds a total of 698,727 MMBtu/d of GLGT forward  
7     haul capacity. According to TCPL's January, 2012 CDE Report, TCPL's delivery obligations  
8     to its customers in Sault St. Marie, Niagara and Chippawa total 27,986 MMBtu/day. Had  
9     TCPL "right-sized" their capacity on GLGT for 2012, they would have only contracted for  
10    27,986 MMBtu/day effective November 1, 2011 to October 31, 2012. Decontracting 659,741  
11    MMBtu/day would have removed \$57 million of unnecessary costs.



12

13

14     According to the same TCPL CDE Report, TCPL's delivery obligations to its customers in  
15     Sault St Marie, Niagara and Chippawa are further reduced to only 2,559 MMBtu/day as of  
16     November 1 2012. It is our understanding that TCPL has given GLGT notice to reduce its  
17     forward haul on GLGT to 100,000 MMBtu/day effective November 1 2012. TCPL has again  
18     over contracted on GLGT for the period post November 1 2012 and has added approximately  
19     \$10 million of unnecessary costs to the Mainline.



1

2 In TCPL’s response to APPrO IR #2.4, TCPL states that “*The contracted amount of Emerson*  
 3 *to St. Clair capacity is required to maintain a direct, low cost connection to the most liquid hub*  
 4 *in Eastern Canada, to provide operational flexibility to meet requirements at the Union*  
 5 *SSMDA and the Union SWDA, and to provide the opportunity to capture short-term*  
 6 *revenue opportunities at the Dawn market, which lowers tolls for all mainline shippers.*”

7 MAS are of the view that TCPL should not be taking a speculative market position with the  
 8 risk borne by the shippers and instead, should contract only for TBO capacity that matches its  
 9 requirement to service firm customer commitments. If TCPL wishes to contract for  
 10 incremental capacity to pursue market opportunities, MAS believes it should be outside of the  
 11 Mainline’s cost of service.

12 **3. What conclusions does MAS make regarding “right-sizing”**  
 13 **TCPL’s GLGT TBO for forward haul contracts?**

14 MAS conclude that the prospective cost savings available to TCPL for over contracted  
 15 forward haul capacity on GLGT is approximately \$57 million for 2012 and \$10 million for  
 16 2013. These savings could have been realized by TCPL “right-sizing” its TBO capacity on  
 17 the GLGT system. MAS supports TCPL contracting GLGT TBO capacity only to the extent it  
 18 matches TCPL’s commitment to its customers.

1           **4.     What is the MAS’ assessment regarding TCPL’s use of**  
2                           **GLGT TBO for back haul transport?**

3 TCPL relies on the GLGT system to move gas from Dawn back to Union Sault St. Marie, as  
4 well as Dawn to Emerson (Manitoba). Currently TCPL holds 473,727 MMBtu/d of back haul  
5 capacity on GLGT for gas years 2012 and 2013. According to TCPL’s January, 2012 CDE  
6 Report, TCPL’s delivery obligations to its customers in Sault St. Marie account for 33,194  
7 MMBtu/d for both 2012 and 2013 gas years. The balance of TCPL’s back haul capacity,  
8 440,533 MMBtu/day is used to move gas back from Dawn to Manitoba (Emerson) whereby it  
9 interconnects with TCPL’s Mainline, and then transported across the NOL to North Bay  
10 where it connects to the Eastern Triangle. The purpose of the “around the horn” activity is to  
11 facilitate a constraint that exists between Parkway and Maple as TCPL has sold more service  
12 through this point than can be physically delivered.

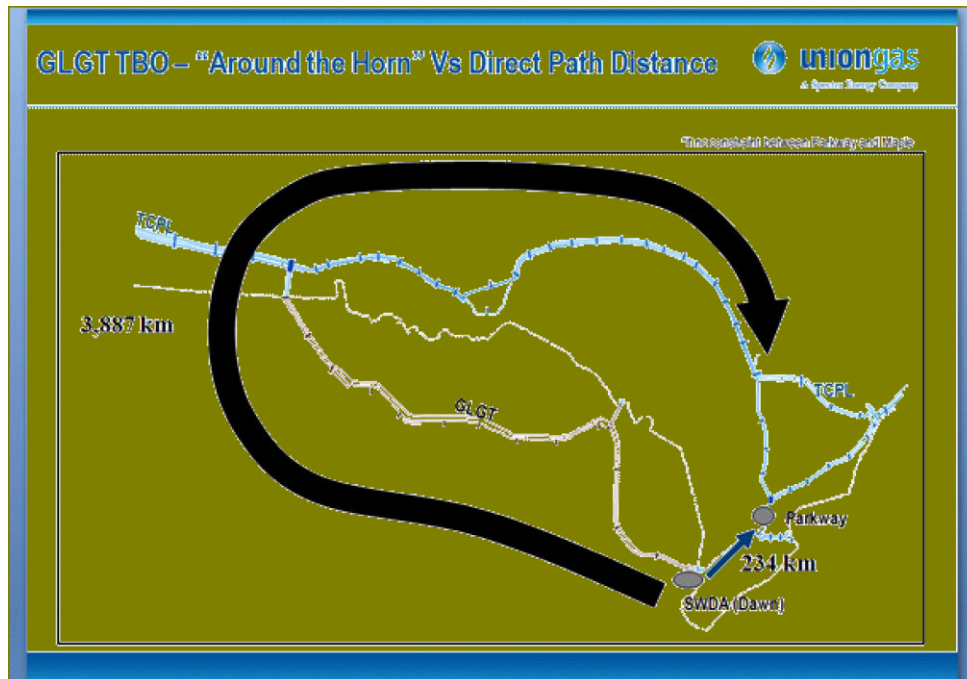
13 Previously TCPL was able to meet its obligations through displacement (by offsetting its  
14 westerly flows with its easterly flows so that the net amount of gas flowing from Parkway to  
15 Maple was lower).

16 However, due to the decrease in easterly flows on TCPL’s system, the available offset is  
17 smaller and TCPL may not be able to meet the needs through displacement. This requires  
18 TCPL to contract with Union Gas, a service that physically moves the gas from Union Dawn  
19 to Dawn TCPL. It is then transported to St. Clair on TCPL and then on GLGT and “around  
20 the horn”. The “around the horn” path undermines the efficient movement of gas around and  
21 through Ontario.

22 The more logical path to flow the gas from Dawn to Parkway directly presents a potential  
23 savings in the distance of flow (approx 3,600 km) as well as in-kind fuel and unaccounted for  
24 gas. If the Parkway to Maple path was expanded to alleviate this constraint, 440,533  
25 MMBtu/d of GLGT back haul capacity would no longer be required and gas would  
26 presumably flow in a more efficient fashion from Parkway through Maple to eastern markets.

27 TCPL’s proposed Eastern Mainline Expansion will not provide the full required relief of the  
28 constraint as it is sized to accommodate only new customer contracts that were received in  
29 its recent open season. Further expansion through this corridor is required to fully and  
30 efficiently meet the current customer demands on this path.

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**5. What conclusions does MAS make regarding “right-sizing” TCPL’s GLGT TBO for back haul contracts?**

The MAS Group recommends that TCPL consider the efficient movement of gas on its system and act on opportunities to reduce distance of haul and the GLGT TBO contract costs for the benefit of its ratepayers.

**H. MAINLINE SERVICES INCLUDING RAM**

**1. Why does MAS propose retaining RAM?**

MAS believes that RAM provides a unique tool for Mainline long haul FT shippers to mitigate their risk of unutilized demand charges and differentiates TCPL from other pipelines. The continued and escalating use of RAM credits as provided in Figure 8-5: Contracting Behaviour of 2010 Top Five RAM Users of this Application, demonstrates the market’s use and reliance on RAM as a value-added FT service attribute.

RAM underwent extensive review prior its acceptance as a permanent service feature. This history can be summarized as follows:

- FT RAM was first approved as a pilot for a 1 year period effective Nov 1 2004

- 1       • Subsequently was renewed as a pilot on annual basis
- 2       • STS RAM was introduced as a pilot for a 2 year period effective Nov 1 2007
- 3       expanding the application for RAM and value placed by the market on this service
- 4       feature
- 5       • TTF approved FT RAM and STS RAM as a permanent tariff feature on Jan 7 2009
- 6       (NEB approval received March 27, 2009).

7       In light of the extensive period of review which RAM underwent prior to its approval  
8       as a permanent service feature it is premature to eliminate it only 2 years later. From  
9       a shipper's perspective, its elimination is also contrary to TCPL's stated objective of  
10      providing greater toll certainty, stability and competitiveness for Mainline shippers.

11                   **2.      How does MAS respond to TCPL's claim that RAM has**  
12                   **not encouraged more long haul contracting?**

13      The absence of more long haul contracting should not be mistaken as a deficiency in the  
14      effectiveness of RAM. Rather, declines in long haul contracting since 2007 were driven by  
15      volatile and escalating annual toll changes and access to new natural gas supplies in close  
16      proximity to consuming markets. The market has responded to the pure economics of holding  
17      long haul pipe when more cost effective supply options were available.

18      Retaining the status quo for RAM now is more important than ever to provide Mainline  
19      shippers market and service stability.

20                   **3.      How does MAS respond to TCPL's claim that eliminating**  
21                   **RAM will increase annual discretionary revenue in the**  
22                   **range of \$50 - \$150M?**

23      TCPL reported that \$440 million of RAM credits were applied by Mainline shippers in 2010.<sup>26</sup>  
24      These applied credits demonstrate the value of RAM to Mainline shippers who make use of  
25      the RAM feature. Clearly the value of these RAM credits are material to Mainline shippers  
26      who use RAM and far exceeds any potential derived calculation that eliminating RAM *may*

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<sup>26</sup> RH-003-2011 Section 8 Mainline Services and Pricing Proposal page 25 line 3.

1 increase annual discretionary revenue that would otherwise lower Mainline tolls. TCPL has  
2 added only \$50 million of discretionary revenue to reflect their recommendation to eliminate  
3 RAM, so this appears to be a poor trade-off.

4 **4. What is TransCanada proposing to modify regarding its**  
5 **discretionary pricing?**

6 As part of its proposal to modify Mainline services and pricing proposals, TransCanada seeks  
7 to modify the pricing of IT, STFT and ST-SN services as follows:

8 a) by raising the level of the IT service bid floor to 160% of the FT toll and the STFT  
9 service bid floor to either 140%, 150% or 160% of the FT toll depending on the term  
10 of the STFT contract;

11 b) by introducing flexibility that would allow TransCanada to lower the bid floors to a  
12 level no lower than the FT toll;

13 c) by changing the bid mechanism for STFT service to reflect the percentage of the FT  
14 toll in effect at the time service is provided, rather than the current fixed bid price  
15 mechanism that reflects the FT toll at the time a bid for STFT service takes place;  
16 and

17 d) by implementing the same changes for ST-SN service as are proposed for STFT  
18 service, with the exception that the bid floor and bid mechanism will be based on the  
19 FT-SN toll rather than the FT toll;<sup>27</sup>

20 **5. What is TransCanada proposing for its Multi-year fixed**  
21 **price service (MFP)?**

22 TransCanada proposes a new MFP service that is similar to FT service except that the  
23 applicable tolls are set in advance for periods ranging from three to five years. MFP tolls will  
24 be based on the cost of service but, unlike FT tolls, they will be set based on a forecast of the  
25 costs, revenues, and billing determinants for each year of the MFP contract.

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<sup>27</sup> TransCanada's Application, Part C, Section 8.0: Mainline Service and Pricing Proposals, p. 1 of 39.

1 TransCanada would have the discretion to determine the length and paths for which to offer  
2 the MFP service. Finally, “variances between forecast and actual MFP service revenue will  
3 be treated like variances for all other firm services and be recorded in a revenue deferral  
4 account for subsequent disposition.”<sup>28</sup>

5

6 **6. What is MAS position on TransCanada’s proposed changes**  
7 **to services and pricing?**

8 MAS oppose TransCanada’s proposed changes to services and pricing. MAS believe that  
9 any proposed solution should focus on addressing the underlying issue of TransCanada’s  
10 cost structure. The proposed changes to services and pricing are not required and in fact,  
11 may detract from increasing the Mainline competitiveness. TransCanada has not  
12 demonstrated that the proposed changes will provide an enduring solution.

13 Moreover, TransCanada is required to demonstrate the positive long-term impact of its  
14 proposed services changes. However, TransCanada has failed to provide sufficient evidence  
15 to demonstrate that the proposed changes would improve the long-term sustainability of the  
16 Mainline. MAS, therefore, oppose the MFP and the proposed changes to its discretionary  
17 pricing.

18 **I. CONCLUSION ON TRANSCANADA’S PROPOSAL**

19 **1. What are the final conclusions of MAS concerning**  
20 **TransCanada’s Restructuring Proposal?**

21 MAS believe that, while the proposed reduction in tolls is commendable, the changes  
22 proposed do not adequately address the underlying issue of TransCanada’s cost structure.  
23 As a result, MAS believe TransCanada’s Restructuring Proposal is not a sustainable solution  
24 for the short or longer term and should therefore be rejected by the Board.

25 **2. Do the MAS have an Alternative Proposal to TransCanada’s**  
26 **Restructuring Proposal?**

<sup>28</sup> <sup>28</sup> TransCanada’s Application, Part C, Section 8.0: Mainline Service and Pricing Proposals, p. 34 of 39.

1 Yes. The MAS have developed an Alternative Proposal for the Board's consideration.

2 **3. Does this conclude the MAS evidence?**

3 Yes.

4

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