TransCanada Pipelines Limited (TransCanada), NOVA Gas Transmission (NGTL), Foothills Pipe Lines Ltd (Foothills) Application for Approval of the Business and Services Restructuring Proposal and Mainline Final Tolls for 2012 and 2013

Hearing Order RH-003-2011

File OF Tolls Group 1 – T211-2011-04-01

MAS Alternative Proposal

March 9, 2012

MAS Alternative Proposal

Q. Please describe the nature of the MAS intervention in this case.

A. The MAS have concluded that TransCanada's Business Services and Restructuring Proposal ("Restructuring Proposal") is not an adequate remedy for the problems facing the Mainline. The MAS are active in this tolls proceeding and wish to participate collectively on a solution that will improve the overall sustainability of the Mainline. Specifically, the MAS are providing an Alternative Proposal that, if adopted, will improve the long-term economic sustainability of the Mainline and yield tolls that are in the public interest.

The MAS Alternative Proposal is the result of a strong consensus arrived at by shippers that have an interest in the current and long-term economic viability of the Mainline. It is important for the Board to note that the MAS collectively serve approximately 3.4 million residential, commercial and industrial customers and hold roughly 46% of transportation contracts on the Mainline which recovers approximately 60% of TransCanada's revenues based on 2012 interim tolls. In short, the MAS distribute natural gas to the largest group of customers utilizing the natural gas transportation services provided by the Mainline and are most directly affected by TransCanada's Restructuring Proposal.

Q. Why have the MAS concluded that TransCanada's Restructuring Proposal is not an adequate remedy for the problems facing the Mainline?

A. TransCanada's Restructuring Proposal does not address the fundamental issue of excess capacity on the Mainline and the associated costs passed onto shippers as a result of this excess capacity. Furthermore, TransCanada's Restructuring Proposal shifts costs from some segments to other segments of the Mainline system at a time when competitive tolls on these other segments of the system are necessary to retain and attract billing determinants and new sources of supply. Finally, TransCanada's Restructuring Proposal seeks to shift recovery of certain costs well into the future. By not addressing the fundamental issue of Mainline cost structure over the near-term, shifting costs around the Mainline system, and deferring certain costs into the future, TransCanada is not addressing the short term or long-term economic viability of the Mainline. This is of particular importance for the MAS. As long-term shippers on the Mainline the MAS have a vested interest in ensuring the economic viability of the Mainline now and in the future.

Q. What are the objectives underlying the MAS Alternative Proposal?

A. The MAS suggest that any effort to solve the issues facing the Mainline must be designed to achieve several primary objectives. These objectives are identified below and described in greater detail in subsequent sections of this evidence:

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

Q. Please describe the elements of the MAS Alternative Proposal.

A. The MAS Alternative Proposal is comprised of the following elements which are explained in greater detail in subsequent sections of this evidence:

1) Term of three years from 2012 to 2014 inclusive. Tolls for this period would be based on TransCanada's approved forecast of cost of service and billing determinants for each year of this term;
2) No shift in accumulated depreciation from the Prairies and Eastern Triangle segments to the Northern Ontario Line ("NOL") segment and instead a shortened economic planning horizon for the NOL segment. The economic planning horizon for this segment would be 2020 with the economic planning horizons for the Prairies and Eastern Triangle segments remaining at 2036 and 2050 respectively as proposed by TransCanada. This will immediately raise depreciation expense and thus the revenue requirement and tolls over the next nine years but considerably reduce tolls post 2020;

3) Removal from the revenue requirement of the equity return associated with the NOL segment from the revenue requirement in each year from 2012 to 2020. This element recognizes that the NOL segment is not, nor is it likely to become, sufficiently utilized during this period. Removal of the equity return on the NOL segment will serve to reduce the revenue requirement for the next nine years;
4) Implementation of an incentive mechanism that allows TransCanada an opportunity to earn back the foregone equity return on the NOL segment via cost savings over the term of the proposal. For cost savings amounts less than a certain threshold TransCanada would not be required to pass these savings onto shippers. However, cost savings greater than the threshold would be shared with shippers;
5) Continued application of the current tolling methodology including, without limitation, the current cost allocation methodology which consists of zonal tolling and the allocation of the costs of TQM transportation by others over all shippers;
6) Additions to the Long Term Adjustment Account would not be permitted. This element will prevent the deferral of current costs for recovery from long-term shippers dependent on the Mainline and thereby reduce intergenerational subsidies;
7) Preservation of the current Mainline services and toll structures, including the Risk Alleviation Mechanism, and discretionary service tolls;
8) Introduction of a new firm bi-directional service and other service enhancements in the form of additional nomination windows. Provision of these services will enhance the current service offerings on the Mainline and enable shippers to use their Mainline contracts more effectively when moving natural gas from source to market; and
9) A contribution from Western Canada Sedimentary Basin ("WCSB") market participants. Producers along with the MAS and other shippers derive a benefit from the Mainline. The MAS believe that accordingly all stakeholders should provide a contribution to ensure the short and long-term economic viability of the Mainline.

Q. Why have the MAS selected a three year term for the purposes of the Alternative Proposal?

A. The term of the MAS Alternative Proposal would be effective from 2012 through 2014. The MAS believe that this is the appropriate timeframe required for TransCanada to transition its cost structure and be better positioned thereafter to address the changes in the market for natural gas supply, demand and transportation. Under the conditions outlined in the MAS Alternative Proposal, the three year term addresses the issue of costs related to underutilized assets on the NOL segment while maintaining competitive tolls for those components of the system that are expected to be utilized to a greater extent. In addition, the MAS recognize that procedurally, determination of final tolls for at least 2012 will not occur until later this year. The MAS believe that any tolling solution for TransCanada should be completely in effect for a minimum of two years after the Board has issued a decision. Over the long-term the MAS believe that addressing the costs from which tolls are derived is an important principle that should be applied when determining TransCanada's tolls.

The MAS recognize that certain elements of the Alternative Proposal would require that the specified treatment of particular components of TransCanada's cost of service (e.g. the equity return on the NOL and depreciation expense related to the NOL) extend beyond the 2012-2014 term. The MAS also recognize that, given that the term of the Alternative Proposal includes 2014, it would be necessary for TransCanada to provide cost of service information for that year.

Q. Does the MAS Alternative Proposal include a shift in accumulated depreciation from the Prairies and Eastern Triangle segments to the NOL segment?

A. No. The MAS Alternative Proposal incorporates TransCanada's proposed changes to the economic planning horizons of the Prairies and Eastern Triangle segments but assumes the economic planning horizon for the NOL segment is shortened to 2020. The MAS believe the proposed shift in accumulated depreciation should not be approved by the Board. The proposed shift is not consistent with Generally Accepted Accounting Principles and is not appropriate based on broader public interest policy objectives. Further explanation can be found in the MAS Evidence, in the evidence of Paule Bouchard of RSM Richter Chamberland LLP at Appendix A of the MAS Evidence and in the evidence of Jeff Makholm of National Economic Research Associates Inc. at Appendix D of the MAS Evidence.

Q. If the MAS Alternative Proposal is approved by the Board do the MAS propose that TransCanada also contribute its proposed $25 million corporate contribution?

A. No. Rather than contributing $25 million as a direct reduction to the revenue requirement as proposed by TransCanada, the MAS propose instead that TransCanada's contribution be made through foregoing the equity return on the NOL segment.

Q. Why are the MAS proposing that TransCanada forego the equity return component of the rate base assets related to the NOL segment?

A. The MAS have concluded that, given the circumstances currently facing TransCanada, contributions from all stakeholders are required. To that end the MAS propose that TransCanada, shippers (including the MAS), and WCSB producers should contribute to a solution that lowers tolls, supports toll stability and addresses the cost structure from which tolls are derived.

Q. How would the MAS propose that TransCanada contribute?

A. The MAS propose that TransCanada contribute by foregoing, subject to an incentive mechanism, the equity return on the NOL segment including the impact of income taxes, through to and including 2020. This time frame is consistent with the depreciation treatment proposed by the MAS. In other words, it is proposed that rate base amounts related to the NOL would not be included for purposes of calculating the equity return component of the TransCanada revenue requirement.

Q. How would the MAS propose that TransCanada be permitted to mitigate the impact of this contribution on its overall return?

A. The MAS propose that TransCanada be provided with an incentive to reduce costs and thereby mitigate the impact of its contribution.

Q. Please explain the concept of the incentive mechanism.

A. The MAS propose that, if in any of the years over the term of the MAS Alternative Proposal TransCanada is able to reduce costs related to Operations, Maintenance & Administration ("O&M") and the cost of debt capital below amounts approved by the Board in this proceeding, then 100% of such savings would accrue to the benefit of TransCanada up to a maximum value equal to 50% of the foregone equity return on the NOL segment for that year. Cost savings exceeding 50% of the foregone NOL segment equity return would be shared equally between TransCanada and shippers with the shippers' share being applied to reduce tolls via the Short-Term Adjustment Account.

Q. Have the MAS estimated the amount of O&M and debt costs that would be the threshold contained in the incentive mechanism?

A. Yes. The basis for comparison and calculation of cost savings for O&M and capital debt costs would be the total of TransCanada's Board approved O&M and capital debt costs for each of the years from 2012 to 2014 inclusive. From TransCanada's filing and subject to Board approval, the amounts related to each of these elements for 2012 and 2013 are outlined in Table 1. The MAS assume that comparable information for 2014 would be provided by TransCanada:

Table 1: Illustrative Sharing Threshold

$ millions	2012	2013
O&M	$174.5	$173.8
Debt Costs	$258.5	$247.4
Benchmark Board Approved Cost	$433.0	$421.2

Q. How would the cost savings be applied to reduce tolls?

A. The MAS propose that the incentive mechanism operate as follows: Savings amounts would be calculated only when the actual O&M and debt capital costs are lower than the Benchmark Board Approved Cost amounts in a particular year. For O&M plus debt capital cost savings up 50% of the NOL segment return TransCanada would not include any amounts in the Short-Term Adjustment Account. For savings amounts greater than 50% of the NOL segment return TransCanada would record, as a credit to the Short-Term Adjustment Account, 50% of the difference between 50% of the NOL segment return and the actual amount saved. This calculation apportions 50% of amounts greater than 50% of the NOL segment return to the account of TransCanada and 50% of the amounts greater than 50% of the NOL segment return to the revenue requirement for disposition in subsequent test years via the Short-Term Adjustment Account.

To be clear the MAS would expect that none of TransCanada's cost savings would be permitted to come at the expense of system integrity or reliability. TransCanada would have to itemize and justify cost savings for each year at the TTF and may be subject to further scrutiny by the Board if the justification is deemed to be inadequate.

The amounts provided in Table 1 and herein discussed are for illustrative purposes only and would ultimately be determined based on the Board approved amounts and actual amounts incurred for each of these cost categories. If in any given year TransCanada's O&M and capital debt costs are greater than the Board approved amounts for that year, then any savings in the subsequent years would be calculated net of the amounts greater than the Board approved amounts from the prior year.

Q. The MAS have concluded that contributions from all stakeholders are required. What contribution would shippers make?

A. Shippers would contribute by continuing to bear throughput risk and the risk of cost variances. In addition, shippers would contribute by bearing the higher cost of depreciation arising from the shortened economic planning horizon for the NOL segment. To facilitate the incentive mechanism and in order for shippers to retain throughput risk and risk related to variance on costs, the MAS propose that the Short-Term Adjustment Account be retained but with several changes.

Q. What changes do the MAS propose in respect of the Short-Term Adjustment Account?

A. Included in the Short Term Adjustment Account would be variances related to throughput and all cost variances other than those related to O&M and capital debt cost savings. O&M and capital debt cost savings in excess of the 50% threshold discussed above would also be included subject to the incentive mechanism.

Q. Why should disposition of the Short-Term Adjustment Account occur over a rolling three year period?

A. The MAS propose that the Short-Term Adjustment Account be disposed of over a rolling three year period beginning in 2013 in order to limit the deferral of variances to a shorter time frame. The MAS believe that the three years is an appropriate period of time over which to assess the effectiveness of the incentive mechanism and to provide TransCanada with a reasonable opportunity to adapt and respond.

It is important that TransCanada be well-positioned to respond to future market changes. Extending the disposition of the Short-Term Adjustment Account beyond the three year rolling period is inconsistent with that objective. Further, longer disposition periods increase the occurence of intergenerational cross subsidies which is unfair to long-term shippers.

Q. Do the MAS support TransCanada's proposed toll design changes?

A. No. The MAS recommend that, subject to the changes suggested by the MAS, the toll design changes proposed by TransCanada not be implemented and that the current toll design methodology be maintained for the test years from 2012 to and including 2014.

Q. What changes to toll design is TransCanada proposing?

A. The proposed changes include:

- The elimination of toll zones;

- Changes to cost allocation;
- The allocation of TBO costs for capacity on the TQM system;
- Changes to the methodology for determining delivery pressure tolls;
- Other revisions and simplification in toll design; and
- The use of Long-Term and Short-Term Adjustment Accounts.

Q. What concerns the MAS about those proposals?

A. The MAS contend that toll design is not the real problem facing TransCanada. Rather, it is the cost structure from which tolls are derived that underlies the dramatic increase in tolls on the Mainline. This problem will continue, and worsen, if TransCanada does not reduce the costs that it seeks to recover from shippers.

TransCanada's proposed toll design changes will not reduce costs but rather allocate costs differently to different shippers. In fact, the TransCanada toll design proposal continues to defer a substantial component of costs well into the future. Moreover, given the uncertainty surrounding TransCanada's proposal, there can be no assurance that throughput will materialize to permit recovery of both current and deferred costs and reduce the cost burden on long-term shippers in the future. TransCanada will be in a better position to develop and implement comprehensive, and competitive, changes to its toll design after it rectifies its cost structure.

Q. Do the MAS have other concerns with TransCanada's proposed toll design changes?

A. Yes. The TransCanada toll design proposal departs in a significant way from the principles upon which Mainline tolls have been based for many years and which shippers have used to develop their contracting decisions and supply portfolios.

Q. What approach would the MAS recommend?

A. Over the short-term the Board and stakeholders should focus on a solution that 1) improves the competitiveness of TransCanada's cost structure and 2) retains and attracts billing determinants to those segments of the Mainline that are expected to be utilized given the changes in the business environment of natural gas supply, demand and transportation. It is the view of the MAS that TransCanada's current toll design supports the latter objective and in conjunction with the changes proposed by the MAS in the Alternative Proposal supports the former objective as well.

Q. Why are the MAS of this view?

A. TransCanada expects the trend of a shift from long haul contracting to short haul contracting to continue. Maintaining competitive short haul tolls when contracting practices are shifting towards paths of shorter haul will serve to attract billing determinants to these paths. Changes in toll design that would make short haul tolls less competitive would have the opposite effect.

Q. But won't tolls increase if the MAS Alternative Proposal were to be adopted?

A. No. In the short-term tolls under the MAS Alternative Proposal are directionally similar to the tolls in TransCanada's Restructuring Proposal. Beyond 2020 tolls will be lower. Tolls under the MAS Alternative Proposal would be lower on average over the long-term due to reductions in TransCanada's revenue requirement.

Q. What is the rationale for maintaining the current tolling methodology versus TransCanada's proposed toll design changes?

A. The specific rationale for maintaining the existing toll design can be found in the MAS Evidence and the evidence of Russell Feingold at Appendix C of the MAS Evidence.

Q. What changes to the current toll design do the MAS recommend?

A. The MAS propose that TransCanada not be permitted to add costs to the 2010 Adjustment Charge Account (which TransCanada is now calling the Long-Term Adjustment Account) and that the Short-Term Adjustment Account be amortized over a rolling three year period beginning in 2013.

Q. Why do the MAS propose no cost additions to the Long-Term Adjustment Account?

A. The main challenge for TransCanada over the near term relates to its cost structure. That challenge will not be overcome, and the public interest will not be served, by TransCanada deferring costs for recovery in the future. Specifically, deferring $100 million of the 2012 revenue requirement would create long-term intergenerational inequities. TransCanada acknowledges this problem in its response to Ontario Round 1 Information Request #14:

> *"TransCanada acknowledges that the proposed Short-Term and Long-Term Adjustment accounts, which do not recover costs in the year immediately following the year in which the costs were incurred, is not traditionally preferred. All else being equal, adjustments accounts in a rate regulated environment are generally established to minimize inter-generational recovery effects. However, due to the toll instability that has occurred on the Mainline in the past few years that has contributed to the decline in contracted capacity, TransCanada believes that recovering the costs in the Short-Term and Long-Term Adjustment accounts in this instance is appropriate. As discussed by Mr. Reed in the Application, Appendix C4, page 101, "[w]hen viewed in the context of an approximate $6.2 billion dollar rate base as noted in Section 2.2 of the Application, I do not find the proposed levels to be troubling in terms of their inter-generational cost effects."*

Q. Are the MAS opposed to the adjustment accounts per se?

A. No. The MAS accept that shippers should retain throughput and cost of service risk over the short-term in order to allow TransCanada to transition through the changes in the business environment for natural gas supply, demand and transportation that it is experiencing. However, as shippers dependent on the Mainline over the long-term the MAS believe that further additions to the Long-Term Adjustment Account will impact the long-term competitiveness of the Mainline and should not be permitted. Adding costs to the Long-Term Adjustment Account will also do nothing to address the immediate concern of establishing a competitive cost structure for TransCanada. Further, additions to the Long-Term Adjustment Account will only burden shippers who remain on the Mainline and lead to increased intergenerational subsidies.

Q. Please explain.

A. The MAS recognize that TransCanada's proposed deferral of $100 million of 2012 cost of service will, all else equal, reduce tolls in the short term. However, given the uncertainties related to throughput on the Mainline, there is no assurance that billing determinants will materialize in the future. As a consequence, shippers that are dependent on the TransCanada system over the long-term would bear the risk of recovery of any costs included in the Long-Term Adjustment Account. That risk should not be exacerbated by increasing the amount of costs deferred in the Account. Deferral of a component of 2012 cost of service will increase future tolls beyond what they would otherwise be and thereby adversely impact the long-term sustainability of the Mainline. This is of particular concern for those shippers, including the MAS, that are reliant on the Mainline over the long-term because, simply stated, it is long-term shippers that could be left to bear the deferred costs.

Q. If it should not be permitted to defer costs then how should TransCanada ensure the long-term competitiveness of the Mainline?

A. TransCanada should focus on recovering costs while billing determinants remain on the system. Further, TransCanada should focus its primary efforts on reducing costs as this will have a material impact on the long-term competitiveness of the Mainline.

Q. Do the MAS have any other suggestions that would assist TransCanada in ensuring the long-term competitiveness of the Mainline?

A. Yes. The MAS suggest that TransCanada retain the Risk Alleviation Mechanism ("RAM") and offer new services in order to meet the changing needs of its shippers in an ever evolving market. By being proactive and adapting its services to meet the needs of shippers TransCanada would be able to attract more shippers to its system or prevent shippers from seeking suitable natural gas transportation services elsewhere. Rationale for retaining RAM can be found in the MAS Evidence.

Q. What type of new services would the MAS propose TransCanada develop?

A. The vast bulk of TransCanada's revenue requirement is recovered over markets served by local distribution companies (including the MAS). TransCanada should be cognizant of this and offer these shippers services that are responsive to their needs. In particular, local distribution companies have previously requested a bi-directional service for short haul transportation in order to facilitate their load balancing requirements. The MAS suggest that TransCanada develop and offer this type of service.

Q. Please describe the MAS proposal for a bi-directional service.

A. The principle characteristics of this service can be summarized as follows:

- Stand alone service that allows a shipper to transport its contract quantity to/from a designated receipt/delivery point or area;
- Minimum contract term of one year for existing capacity;
- Renewable on an annual basis with six months renewal notice;
- Thirteen nomination windows; and
- Priced at a 10% premium to the FT toll.

Q. How do the proposed bi-directional service attributes and pricing compare to existing Mainline services?

A. Table 2 provides a comparison of TransCanada's Storage and Transportation service, Firm Transportation Short Notice service and the proposed Firm Bi-Directional service. The proposed Firm Bi-Directional service is intended to address a gap in the services currently offered on the Mainline. While Storage and Transportation Service ("STS") and Firm Transportation Short Notice service ("FT-SN") provide some nomination flexibility, neither of these services provide shippers with firm bi-directional capability. In addition STS is only available if tied to a Firm Transportation contract.

Table 2: Comparison of TransCanada Storage Transportation Service, Firm Transportation Short Notice Service & Proposed Firm Bi-Directional Service

Attributes	Storage	Firm Transportation	Proposed Firm Bi-

	Transportation Service	**Short Notice Service**	**Directional Service**
Long Haul Firm Transportation Contract Required	Yes	No	No
Storage Contract Required	Yes	No	No
Renewal Rights	Yes	Yes	Yes
Term	Minimum 1 year	Minimum 1 year	Minimum 1 year
Diversion & Alternate Receipt Points	No	Yes	No
Risk Alleviation Mechanism	Yes	No	No
Assignments	No	Yes	Yes
Nomination Windows	8 - Timely window firm. Subsequent windows are best efforts	96 – Capacity is reserved as firm for all 96 windows	8 – Timely window is firm. Subsequent windows are best efforts
Maximum Hourly Requirement	5% of contract demand	5% of contract demand	5% of contract demand
Year Round Firm Service	No	Yes	Yes
Receipt Point	All	All	All
Delivery Point	Distributor Delivery Area, All	All	All
Toll	Storage and Transportation service toll	10% premium to applicable firm transportation toll	10% premium to applicable firm transportation toll

In order for a shipper to achieve firm bi-directional service on the Mainline under the current suite of services offered by TransCanada the shipper is required to maintain two separate Firm Transportation contracts; one from point A to point B and another from point B to point A. Each contract is priced the same and paying twice for the same path is not competitive.

Q. Why are the MAS requesting bi-directional service at this time?

A. The MAS believe that any means that may enable TransCanada to enhance the value and competitiveness of contracting on the TransCanada system should be explored. A critical component to achieving this objective is the development of new services that address the needs of the market.

The MAS members continue to seek safe, reliable and competitive alternatives to serve their customers. The ability to transport natural gas bi-directionally on a firm annual or, at a minimum, a firm seasonal basis allows the MAS members to use their Mainline contracts more effectively to move natural gas from its supply source to its market area and/or storage. STS is the closest service to what the MAS require. However, STS is a "tied" service in that it is only available if the shipper holds long haul Mainline capacity.

Offering competitively priced and valued services that respond to the market's needs would better enable TransCanada to adapt to the ever-evolving marketplace for natural gas supply, demand and transportation.

Q. Are there any other service enhancements that the MAS would propose TransCanada offer?

A. Yes. One other enhancement that would enable shippers to better serve their markets would be the provision of additional nomination windows on firm services.

Q. Please explain this concept.

A. When asked why additional nomination windows are not offered to shippers TransCanada, in response to Gaz Metro Round 1 Information Request #61.5 provided the following rationale:

"Firm Shippers have the right to nominate for service at each of the four NAESB cycles (and at the additional STS nomination windows for STS contracts). Nominations under firm service contracts have the highest priority entitlement to all available capacity at each nomination window. Any available capacity that is not required to meet nominations under firm contracts is allocation to discretionary service nominations.

TransCanada operates as a "no bump" pipeline. This means that any nomination scheduled and confirmed for the start of the Gas Day cannot be "bumped" by a nomination under a higher priority service contract at an intra-day nomination window. This affords all Shippers, suppliers and consumers the certainty that a scheduled nomination will not be bumped or terminated part way through the Gas Day unless there is a declaration of Force Majeure.

Shippers who require reserved capacity throughout the day may contract for FT-SN service."

The MAS recognize that FT-SN is currently offered by TransCanada. However, this service is presently offered only to customers that have separate meters at the Distributor Delivery Area level. The MAS suggest that TransCanada could offer reservation of capacity to all Firm Transportation contract holders rather than just holders of FT-SN contracts.

Q. Does TransCanada's operation of the Mainline as a "no bump" pipeline preclude the provision of additional nomination windows?

A. No. When asked if the possibility of "bumping" Interruptible Transportation service had been examined TransCanada provided the following answer in response to Gaz Metro Round 1 Information Request #61.4:

"Yes.

a) In theory, bumpable IT could improve the value of FT service by allowing FT nominations placed in windows after the Timely window to replace, or "bump out", previously scheduled IT service. However, given the amount of available capacity on

> *the Mainline, bumpable IT would likely not have a material benefit to the value of FT service at this time."*

TransCanada contends that the provision of extra nomination windows to Firm Transportation contracts is not possible because the Mainline is operated as a no bump pipeline. However, TransCanada also indicates that with the excess capacity available on the Mainline the introduction of bumpable services to facilitate the additional nomination windows would not add any value for firm shippers. These positions are clearly at odds. The MAS believe that the introduction of additional nomination windows for Firm Transportation contracts would greatly enhance TransCanada's service offerings and would not constrain TransCanada's ability to operate the Mainline. Given the load balancing requirements of the MAS additional nomination windows for Firm Transportation contracts would be a service enhancement valued by the MAS (and potentially other shippers as well).

Q. What is the position of the MAS regarding TransCanada's Alberta System Extension proposal?

A. As discussed above the MAS support the principle that all parties who benefit from the Mainline should make some contribution toward lowering Mainline tolls. This contribution must be enduring for a period of time at least equal to the term of the MAS Alternative Proposal. The Alberta System Extension is consistent with that principle, however, the MAS take no position on whether this is the preferred way to achieve such a contribution from WCSB producers.

Q. Can you please provide context for this principle?

A. In response to IGCAA Round 1 Information Request #29 TransCanada states:

> *"The proposed changes to the Alberta System are required as part of the Restructuring. Absent approving the Alberta System Extension, Alberta System shippers would derive substantial benefits from the balance of the Proposal without making a direct contribution."*

Furthermore, in response to NEB Round 1 IR #2.8 TransCanada states:

"...while producers currently contract for virtually no capacity on the Mainline and the Foothills System, the total infrastructure of the TransCanada Pipelines Systems was put in place over the course of decades to serve the needs of producers. The premise of the facilities expansion, supported by producers, was that increased capacity out of the WCSB was in the Canadian public interest and would be utilized to transport WCSB gas to markets over the economic life of the infrastructure. Further, producers persuaded regulators to approve shorter term contractual commitments for the recovery of the cost of the infrastructure. Those costs – prudently incurred to provide producers with market access – must now be recovered in current and future tolls despite the absence of continuing contractual commitments from those who urged TransCanada and the Board to approve the investment in the infrastructure on the basis of current and future need."

The MAS hold a large portion of all Mainline contracts and pay a majority of the Mainline revenue requirement which includes the costs of facilities originally put into service to provide market access for producers. Many producers currently do not make a direct contribution to the Mainline revenue requirement in the form of holding Firm Transportation contracts with TransCanada.

Q. If the NEB does not approve the Alberta System Extension proposal do the MAS have any recommendations for the Board?

A. Yes. The MAS recommend that, if the Alberta System Extension is not approved, other mechanisms be explored to ensure that all parties that derive a benefit from the Mainline make a fair and appropriate contribution.

Q. Have the MAS determined the toll impact of the Alternative Proposal?

A. Yes. Black & Veatch developed a toll model which replicates as closely as possible the tolls proposed by TransCanada under its Restructuring Proposal. This model was then used to compare the tolls that would result from implementing the MAS Alternative Proposal to the expected tolls under TransCanada's Restructuring Proposal. This analysis was carried out to 2025 in order to assess short-term and long-term impacts of the MAS Alternative Proposal.

Details on the toll model, assumptions and conclusions can be found in the evidence of Russell Feingold at Appendix C of the MAS Evidence.

Q. What do the MAS conclude regarding the toll impacts of the Alternative Proposal?

A. Over the short term the MAS Alternative Proposal results in tolls that are comparable to the tolls proposed by TransCanada. Over the long term the MAS Alternative Proposal results in tolls that are on average lower than the tolls under the TransCanada Restructuring Proposal.

Q. Have the MAS considered the impact of the Alternative Proposal on throughput?

A. Yes. ICF has evaluated the market impacts of the MAS Alternative Proposal and TransCanada's Restructuring Proposal. Details on the market impact can be found in the evidence of Bruce Henning at Appendix B of the MAS Evidence.

Q. What do the MAS conclude regarding the market impact of the TransCanada Restructuring Proposal?

A. Over the long term, TransCanada's proposed changes to toll design and cost allocation will harm natural gas customers in Ontario and Quebec and will reduce the utilization of the eastern segment of the TransCanada system. In addition, the proposed changes will not increase the utilization of long haul transportation on the TransCanada system to any great degree. In contrast to the MAS Alternative Proposal, the TransCanada Restructuring Proposal does very little to address the fundamental problem of costs that are too high to recover through tolls that are reasonable in both the short and long-term.

Q. How does the MAS Alternative Proposal address the four objectives set out earlier in this evidence?

A. The MAS Alternative Proposal addresses the four objectives by:

- managing the problem of high costs directly over the short term by accelerating depreciation on the NOL;

- removing the deferral of costs over the long term thereby limiting intergenerational subsidies;
- maintaining long standing tolling principles through maintenance of existing toll design principles; and
- ensuring that all stakeholders contribute through higher tolls in the short-term, direct contributions and providing incentives for TransCanada to reduce costs.

The MAS Alternative Proposal creates a balanced allocation of costs and future risks in a manner that will allow the Mainline to better adapt to the dramatic changes in the business environment for natural gas supply, demand and transportation in North America.