RÉGIE DE L'ÉNERGIE

AVIS SUR LES APPROVISIONNEMENTS
EN FOURNITURE ET TRANSPORT DE GAZ NATUREL
NÉCESSAIRES POUR RÉPONDRE AUX BESOINS EN
GAZ NATUREL DES CONSOMMATEURS QUÉBÉCOIS
À MOYEN ET LONG TERMES

DOSSIER : R-3900-2014

RÉGISSEURS : **M. GILLES BOULIANNE, président**
M. LAURENT PILOTTO
Mme FRANÇOISE GAGNON

AUDIENCE DU 8 OCTOBRE 2014

VOLUME 3

ROSA FANIZZI
Sténographe officielle

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M. MARC-ANDRÉ LANDRY
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Me RAPHAËL LESCOP
procureur de Union des municipalités du Québec (UMQ).

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L'AN DEUX MILLE QUATORZE (2014), ce huitième (8e) jour du mois d’octobre :

PRÉLIMINAIRES

LA GREFFIÈRE :
Protocole d'ouverture. Audience du huit (8) octobre deux mille quatorze (2014), dossier R-3900-2014. Avis sur les approvisionnements en fourniture et transport de gaz naturel nécessaires pour répondre aux besoins des consommateurs québécois à moyen et long termes. Poursuite de l’audience du sept (7) octobre deux mille quatorze (2014).
LE PRÉSIDENT :
Bon matin mesdames et messieurs. Donc, on va poursuivre avec les représentants de TCPL. Bonjour messieurs, mesdames. Comme on ne vous connaît pas tellement ici à la Régie, les gens de TCPL, j’aimerais ça peut-être que vous vous présentiez avant de démarrer la présentation. Donc, on vous laisse.

TCPL
Stephen Clark
John Dueck

Catharine Davis
Bernard Pelletier
(9 h 05)
Mr. STEPHEN CLARK :
Merci. Bonjour. My name is Stephen Clark, I am responsible for TransCanada's natural gas pipelines located in Canada and in the Northeastern United States. I have accountability for this infrastructure, and obviously the gas pipeline component of our Energy East Project is a significant portion of what we are here to talk about today.

With me is Mr. John Dueck, Mr. Dueck is responsible for our market analysis within the gas pipeline business, and he will be here to help provide some comments to you.

First of all, I would like to thank you for providing the opportunity for us to share TransCanada's views regarding the issues that the Régie has been asked to consider and upon which the Régie will advise the Minister.

I have attended the hearings for the last two days, and it is clear to me that there are a lot of, what we call "urban legends" circulating, a lot of myths, and these legends and myths seem to be based more on rhetoric than on fact. My job today, or our job today is to provide you with facts, because it is only upon the facts that you can advise the Minister. So, as I said a moment ago, I appreciate this opportunity to share some facts with you.

Now this slide provides a bit of an outline of the things we are going to talk about this morning, and I won't dwell on that, I will just move straight into our presentation.

Now this map shows you the, what we call our "Canadian Mainline", and I am going to talk about the gas side of our Energy East Project and what that means, what Energy East means to our business.

What we are proposing to do is to convert approximately three thousand kilometers (3,000 km) of our existing mainline, and this drawing shows you that system. Now the drawing is somewhat misleading because, in fact, there are multiple pipes in the system so, for example, in the Prairies, we are going to transfer one of five, or six existing lines; so there will still be existing gas transmission pipelines left in the Prairies to provide service.

Similarly, through Northern Ontario, which runs from, essentially from Winnipeg to North Bay, we will be converting one continuous line and portions of another line to oil service, and within what we call the "Eastern Triangle", and we will talk about what I mean by the Eastern Triangle in a moment, we are going to convert one of two lines that run across what we call the "North Bay shortcut".

And what that, the North Bay shortcut runs from North Bay here to Iroquois Junction, and there are two pipelines in that right of way but the entire Eastern Triangle is served by a network of pipes that incorporate the balance of the system that is not shown with the dotted line here.

Now, actually, once we convert the gas pipeline, we will be able to meet all of our customers' contractual, all our obligations to serve our customers in all portions of the system, with exception of a slight capacity shortfall in Ontario. And to address that, what we are proposing to do is to construct our Eastern Mainline Project, which will provide additional capacity, additional new capacity, along what we call the "Montreal Line", which essentially runs from Toronto up towards Montreal.

The Energy East Project will convert about three thousand kilometers (3,000 km) of pipeline from gas to oil transmission service and along with that is the shedding of capital and operating and maintenance costs. We are proposing to construct the Eastern Mainline Project to meet our existing contractual obligations, as well as new from gas transmission obligations that have resulted from an open season that we have recently completed.

That will allow us to meet our contractual obligations and the market needs following the transfer, we will be constructing approximately, well subject to approval, we will be constructing approximately five hundred and seventy-five terajoules per day (575 TJ/d) of gas transmission capacity. That is, or we do that through the construction of about two hundred and fifty kilometers (250 km) of new pipeline and the addition of nine (9) compressor units at existing stations. And the capital cost of that project is estimated about one and a half billion dollars ($1.5 G).

So, at the highest level, we are removing three thousand kilometers (3,000 km) of pipeline from gas service, and we are adding back approximately two hundred and fifty kilometers (250 km). We will talk about that in a little bit more detail later on, but I will note that the analysis that you provided to participants in this proceeding considers some of the components of that transfer but not all of them.

And I will tell you that the results that appear to be reached in that analysis overlook a number of these components, and you come up with a very different answer about the financial implications of this project if you consider things like the capital and operating costs that are shed across the whole system. So we will talk about that in a little bit more detail.

Now before we get into the details of my presentation, I would like to share with you a few key messages. And we have been sharing these key messages with our stakeholders over the past year and a half. As we have developed the project, some of the messages have changed slightly but these are, these are the messages that will be contained in our filing with the NEB, that we will be submitting shortly.

So first of all, all of our contracted

customers that have firm gas transmission arrangements with us will continue to receive safe, reliable and cost effective gas transmission service. That includes growth in the market.

One of the urban legends that seems to be circulating is that gas consumers are subsidizing oil, the oil project. In fact, that is not true, and in fact, it is the other way around. TransCanada and our oil, the Energy East oil shippers have agreed and have committed to providing a five hundred million dollar ($500 M), that is half a billion dollar ($0.5 G) contribution to the replacement gas capacity.

If you combine all the financial effects of the removal of that three thousand kilometers (3,000 km), the capital and operating costs associated with that, the addition of the one and a half billion dollars ($1.5 G) worth of capital investment and the operating and maintenance costs associated with that, with the five hundred million dollar ($500 M) contribution, this results in a savings for gas transmission customers of more than nine hundred million dollars ($900 M) on a net present value basis calculated over the next fifteen years.

I will tell you, the actual number is approximately nine hundred and forty-five million dollars ($945 M). And you'll find those details when we file our submissions to the National Energy Board, and I really encourage you to examine those closely because that is where the facts lie.

Now through the course of the conversations that we have had with stakeholders over the last eighteen months, there were some concerns that perhaps we might remove the North Bay shortcut and the capacity from the gas transmission system prior to this replacement capacity being available. And I want to assure you that is not the case, we will ensure that the capacity needed to meet our contractual obligations is in place prior to those assets being transferred to oil service.

Now through the course of our presentation this morning, we are going to describe to you a number of the market dynamics that are inevitabilities. And we have had lots of conversations over the last couple of days about what is going on in the Northeast United States, the emergence of Marcellus gas, all of these sorts of things, so we will be providing you our views on those particular subjects, and we think that, as I say, it is inevitable that a number of events will occur here.

But in the very slim chance that things do not materialize as we expect, I want to provide you our assurance that, in fact, TransCanada is in business to deliver, and we will provide natural gas transportation capacity, and we will build capacity if it is needed due to some unforeseen events in the future. So I want to make sure we are really clear on those key messages.

Now before we dive into the nuts and bolts of the... our presentation here, let me just lay the landscape out for you and provide you a few details. This map shows the eastern component of the pipeline system that we're discussing. Now I mentioned the Eastern Triangle, a few minutes ago. And really, the Eastern Triangle comprises the geography east of North Bay through the system in Québec, and down to Dawn. So it includes volumes of gas coming in at Dawn, the Toronto area, and I want to talk about Niagara and Chippawa, a little bit, here. And then, we get into the geography east of this portion of the system. So the Eastern Triangle is this entire system here. And we'll be talking about the affected area, in a few minutes. And the affected area is really shown within this bubble here. And the reason I want to make the distinction is because the transfer, the North Bay shortcut, impacts our ability to serve the affected here. So, the affected area includes domestic markets within this area, so from east of Toronto through to the eastern most portion of the system, and east of North Bay.

The affected area also includes export points at Iroquois, East Hereford, and a couple of other smaller ones, or a few other smaller ones at places like Napierville and Philipsburg. But the big export points, within the affected area, are Iroquois and East Hereford, which connects to the Portline natural gas transmission system. So I just wanted to point that out to you, so when we have some conversation, a little later on this morning, you'll be familiar with the geographies I'm talking about.

Okay. So let's go back in time, five or six years. Our Canadian mainline system was constructed over the past five decades, and it's been providing service from western Canada to eastern markets, eastern Canadian markets, to markets in the Mid-West, the United States, and into the eastern

Seaboard of the United States.

This map and the arrows on it show the historic gas flow patterns across North America. So you can see a big red arrow going from western Canada into the east and the north-east U.S. You can see gas coming up from the Gulf Coast into those markets as well, over the California. This is the flow pattern that was typical across the continent, when conventional gas production was the predominant source of supply in North America.

About five years ago, the world started to change, and the development of horizontal drilling technologies and fracking technologies allowed shale gas that was previously uneconomic to be produced, to now be economically produced. And what's happened, particularly in the north-east, is the development of the Marcellus and Utica shales, has truly blossomed. This graph shows our view of the historic and expected production from the Marcellus and the Utica, and you can see it is just taken off exponentially. So, we go from two thousand and eight (2008) to today, and the Marcellus and Utica is producing ten Bcf a day (10 Bcf/d).

Now, we'll point out that this

TransCanada's forecast of what's going on. And there doesn't seem to be any doubt about the fact that the Marcellus and the Utica and growing extraordinarily quickly. In fact, Wood Mckenzie and others forecast numbers considerably higher than we have. And I will point out this big red axe on the graph shows you where production hit in twenty fourteen (2014). So it's considerably higher than our forecast. In fact, it's at fifteen billion (15 B) cubic feet a day. That's more than Western Canada is producing today. So, in five or six short years, the Marcellus Utica base has gone from nothing to fifteen Bcf a day (15 Bcf/d).

And as Jen Snyder a couple of days ago, the Marcellus is located just a hop skip and a jump from the markets in the north-east U.S. And gas naturally tries to go to the market that's most proximate to it. Now, we've got a black line on here that shows the demand in the Northeast U.S., and that includes the entire geography through New England, down into New York, and the markets that are proximate to the Marcellus. That black line shows you that, in twenty thirteen (2013), the supply in that area exceeded all the market in that area. And as you can see, the graph climbs to well above that black line. And I want to restate that our forecast is more modest than those that you're hearing from other folks, they are considerably higher. So, if anything, this is a conservative view of what is inevitable in the Marcellus.

Now, yesterday, there was a question from one of the panel members about the Scientific American article, and is this real? I've spent the last twenty (20) years of my career working in the natural gas business across the country. And I've watched what's happened with shales. And I'll use Western Canada as an example, because that's where my previous responsibilities lay. When Western Canada started producing natural gas, fifty (50) years ago, there was approximately two hundred and fifty trillion cubic feet (250 Tcf) of original gas in place that could be economically produced. That number declined over time, as the markets consumed that supply. And if you went back five or six years, you'd find that the expectation was that the remaining gas in place was probably, I don't know, between a hundred and fifty (150 Tcf) and two hundred Tcf (200 Tcf). So, the original gas in place was being consumed. We now have almost a thousand trillion cubic feet (1000 Tcf) or producible gas in Western Canada, because of the technologies that are allowing the Marcellus to produce.

So, I agree with what Ms. Snyder and Mrs Bartos said yesterday. The development of shale gas is an extraordinary phenomenon. It is an inevitability. And we have literally decades and decades and decades of gas supply available in North America now.

So, one of the questions we have to ask is, where is this gas going to go? It will not stay just in that geography, it will push its way to market. I think, Ms. Snyder yesterday mentioned that the gas price in the Marcellus is two dollars ($2), and we know the gas price in the market is higher. So, it will try to make its way to the market values at the most, that's natural economics.

So, what's happening is, that gas is now pushing its way to market. There are enormous numbers of pipeline project that are in development, on the cusp of being realized, that will change those gas flow patterns to a great extent.

Now, this is what... this map is the same one I showed a few minutes ago, but with what we see occurring today. And what you will see is the arrow going from Western Canada to Eastern Canada is much smaller. That's to illustrate the fact that through... from Western Canada to those Eastern markets is falling away. There seems to be a bit of a perception that marketplace in Western Canada is running out of gas. It's not running out of gas, it's just struggling to push its way into the market. In fact, that's why some of those energy projects on the West Coast are being developed.

And if you look at this map, you can see that grey shape, or sorry, the brown shape on the map, now has volumes pushing into the marketplace. And that's the reality that we're dealing with.

So, let me move on a little bit and talk about some of the things that we've seen occurring over the last few years. I mentioned a few minutes ago, on that map I pointed you to Niagara and Chippawa. So, these are what were previously export points, Southwest of Toronto, so down the Niagara Peninsula. Historically, those export points delivered gas into the United States. And you can see from this map the volumes back in the... well, five, six years ago, maybe a little bit further back from that, we were delivering about a billion cubic feet a day (1 Bcf/d) or a thousand (1000) TJs a day into that marketplace.

As that Marcellus gas started to emerge, it displaced the markets that the main line had been serving. So, you can see the throughput at Niagara-Chippawa declining. And in fact, now we have gas coming into Canada from the Marcellus. We recently completed a pipeline project that allows four hundred million cubic feet a day (400 Mmcf/d) or about four hundred (400) TJs a day to come into Canada, rather than the other way around. So, we've seen a swing, where you can see the peak day exports at Niagara-Chippawa for about one and a half Bcf a day (1.5 Bcf/d). We now have four hundred million a day (400 Mmcf/d) coming in.

So, we've had about a two Bcf a day (2 Bcf/d) swing in pipeline flow in the course of six or seven years. And I will tell you that we are currently expanding that route, so that the quantity of gas imported is about to grow. So, this is not speculation, this is happening.

Let me talk a little more about the trends we're seeing on the system today. This is that Iroquois export point, what we call... some people... we call it Waddington. It's really the local export point. So, the deliveries onto the Iroquois pipeline have historically been in the order of about a billion cubic feet a day (1 Bcf/d). But what you can see from this graph is that the market has gone from being base-loaded by the mainline to one where we're providing peaking supply. And in fact, at the moment, Iroquois is not delivering any case to the market place, it's... we're not flowing it there at the moment. We expect to this winter, but you can see the trend.

So, when we go through our analysis and look at what's going on from a geologic point of view and from a market point of view, we expect this trend to look very much like Niagara-Chippawa. We'll talk about that a little bit more with some of the pipeline developments that are unfolding in the Northeast U.S. Now, this graph is a few months old. And in fact, the pace of development has caused us to expect the decline in the throughputs you see in that grey line to actually be accelerating. That grey line is shifting to the left, where we expect it to shift to the left, as we continually monitor the marketplace and look at what's occurring.

So, we fully expect Iroquois to stop delivering gas to the Northeast U.S., or perhaps at a much less level, a lower level. And in fact, we think there's a very good probability it will become an import point. And we'll talk about that a little bit later.

So, all of these things that I've just described to you have caused a shift in flow patterns and a fair bit of turmoil on the mainline and yesterday, you heard a few remarks about some of the challenges that IFFCO has been facing and some of the comments that made about the LDC settlement and I'd like to take just a couple of minutes to talk about some of those things because it helps set the context for some of the things we want you to consider when you're advising the minister.

So, first of all, let's talk about the HR3-2011 decision that the NEB rendered close to a year and a half (1 1/2) ago. What that decision did it recognized the challenge that the mainline was facing and the markets were facing and they rendered the decision that changed the commercial model under which the mainline operates and through the course of that proceeding, we had many, many at far stakeholders advocating the TransCanada should not be allowed to recover the costs of its system. The TransCanada was at risk for recovery and they shouldn't have to pay all the costs of the system. So that hearing was a rather herculean proceeding. We had seventy-two (72) days of oral testimony and I think about twenty thousand (20,000) pages of evidence we had to manage, but it was a very, it was a real turning point for the mainline. So the board actually came out with a decision and what they did was they set from tolls, at numbers that were less than cost. So less than the cost to providing service and this was particularly true in the Eastern Triangle. The toll set in the HR3 decision meant that the Eastern Triangle revenues only covered about two-thirds (2/3) of cost of service in the Eastern Triangle and they said, now we recognize a shortfall here. So what they did is they differed about a hundred million dollars ($100 M) a year of revenue collection to the future and said depending on how things go, you may or may not be able to recover those costs. And they also provided us the ability to price our interruptible service on a, what we call our discretionary services on a market value basis and collectively, that model was what the board gave to us and said, it is your responsibility to make this work. You've got to be competitive, you've got to be, understand your markets and you have... it's your responsibility and if you do not do a good job, you will be disallowed costs. So in that world, we move forward and we heard some comments yesterday about some of the turmoil, particularly in the eastern markets, as a result of that decision. Because the tolls were set below cost, it made it very challenging to recover the cost of the system but it also made us very sensitive about the shifting of volumes that are currently being, at that time, being transported long haul across the continent, to pay a higher toll, being replaced with volumes that were transported short haul and pay a smaller toll. To put that in perspective, for every molecule of gas that converted from long haul to short haul, we lost between two-thirds (2/3) and three-quarters (3/4) in revenue depending of what path we're talking about. So a very significant issue. Now at the same time, the Marcellus volumes were growing and the market place that we want to access those Marcellus volumes. That's what we wanted. More cost effective. I know GMI spent lots of time chatting with you folks about the conversion from western Canadian supply to north-eastern U.S. supply and why that was good for Québec. We understand that but the NEB decision made it very, very difficult for us to actually accommodate that without having a very significant financial implication for the mainline itself.

That led to a number of discussions that we have with LDCs and we got to the LDC Settlement which was essentially a compromise that was reached that allowed us to accommodate what the market wanted but also provided us with a reasonable opportunity to recover our costs. So I would say it was a win-win for everybody and I think that was a real accomplishment because going into that process, the market place was in a lot of turmoil and I'm sure you'll hear from Ms. Rahbar about the turmoil that her constituents within IGUA found because in fact, at the end of the day, IGUA came out and said yes, we've right to sort this out and deal with the turmoil.

So that kind of sets the context a little bit about how we got to where we are and why things are currently where they are. I will come back to talk about the LDC Settlement a little bit later on because there were some remarks made yesterday that are not correct. I'd like to correct the record on that and provide you our points of view on that but I'll leave that until later. So, let's carry on here. Now, well before I go there, I do want to make one remark about the LDC Settlement, and one of the things that was said about the Settlement is that TransCanada has no risk. Well, that is not true.

The Settlement has a term through to twenty thirty (2030), and certainly, it helps manage the risk, but the facilities we are constructing will only be a third of the way through their appreciable life, and to suggest that TransCanada has no risk when the Settlement only addresses the first third of the facilities' life is, I think mischaracterizes things, there is certainly risk there.

On top of that, we have the system that lies west of the Eastern Triangle, so the Settlement only deals with things up to twenty twenty (2020) on that part of the system. But over and above all of that, we still have the test to satisfying the National Energy Board that all the tolls that come out of the Settlement provide, they are set at a just and reasonable level. And the Board has shown that it considers what is competitive when they evaluate just and reasonable tolls.

So when Ms. Brochu described the LDC Settlement as insulating TransCanada from any risk I think is mischaracterization, and I would ask you to keep that in mind when you think about what they are, what the LDCs are asking us to do and what we think is prudent design practice and operation of the system.

So now let's move on a little bit. And on Monday, Ms. Snyder showed a graph of what goes on in the Eastern Triangle, and I think the graph was a bit misleading because it showed physical throughput but it did not discuss the contractual arrangements that result in that flow. So I think it is important that, first of all, we define what firm service is and what discretionary or interruptible service is.

Firm service is an arrangement, a contractual arrangement between us and our shippers where there is an annual contract with renewal rights, we have an obligation to provide service under that contract, and our customers have an obligation to pay the annual toll associated with that service. Sounds pretty straightforward.

Discretionary service, and I put interruptible or IT service on the slide here, is quite different. First of all, we have no obligation to provide that service, it is provided on an "as is where is" basis so to speak. There is no obligation for our customers to use that service, and as a result, there is no obligation to pay for the annual cost of that service, you just pay for what you use. So it is a bit akin to having a hotel room for a night versus renting an apartment for a year, you know, you use the hotel when you want to, you don't, you don't pay for it. So that is the kind of the analogy that I use.

Now TransCanada is a contract carrier, we provide service to those that contract with us on a firm basis, that is our obligation. And our whole business model is driven by firm demand. Those who use interruptible service, they make an educated decision, they make an economic decision, they decide if they want to secure service and guarantee that that capacity is available for them, or they use the pipeline opportunistically, if gas prices are low, they may choose to use gas, if they...

generally, people who use interruptible service have alternatives, that is why they use interruptible service.

So they opportunistically look at what the cheapest fuel is, what, perhaps they have other gas pipelines that they can use from time to time, so they make a season decision; I mean, these are educated counter parties, they understand what they are doing; they make the decision as to whether or not they want to use, to take the opportunity of using interruptible and having flexibility to change their gas supply, or their fuel supply, from time to time.

We heard yesterday that, you know, the prices last winter were very high. Well, yes, it was the coldest winter in thirty-five (35) years, people are overlooking the winters when it was warm, gas prices were low, and they were able to capture value that firm shippers weren't. So it is balancing, and it is really an optimization that our customers make. That is their decision, it is not, TransCanada doesn't have the responsibility of telling people how to contract, that is a decision that our customers make.

So I come back to, we are a contract

carrier, and we provide service to those that we have an obligation to provide service to.

I want to just touch on one of the things that came out of the RH3 2011 Hearing, and that is the doctrine of no required rights and no required obligation, and as regulators, I expect you are familiar with that phrase. I am not a lawyer, but to me, what it means is, our customers only have an obligation to pay for the costs, or pay the tolls on the system when they actually have a contract with us. And the regulator made that very clear to us that those who do not have a contract with us do not have an obligation to pay.

It also means that the shipper doesn't have rights to capacity they haven't contracted for. So that's the quid pro quo for the, in the no acquired rights and no acquired obligation. And that really is, I think, in my mind, sets, defines what a contract carrier is. So I would like to leave that thought with you because we will start talking about, in a few minutes here, about what contractual rights and obligations our shippers have and what contractual rights and obligations we have, and that factors into where we go from here. So let's talk a little bit about the future. As our

Energy East project started to emerge, as the concept emerged, we had many, many, many conversations with our stakeholders. This is going back as far as two years, and there literally had been dozens and dozens of those conversations. And as the project has matured, we've made press releases, we've explained to the marketplace what we are planning on doing.

And while that process was unfolding, we continuously run what we call open seasons. And open seasons are really the name we give to the process through which our customers contract with us. So, you see, on the screen here, we have three acronyms or three abbreviations. The first one is Daily Existing Capacity Open Season, and that is process that we run every day, to provide capacity to people; and I want to emphasize this is for existing capacity. So if you go back in time, there was lots of capacity available, on the system. Over the last little while, on certain paths, that capacity has been subscribed. We also have another existing capacity open season that happens on a regular basis. It's essentially a mandate, as part of our tarif. And to the extent when the pipeline gets full, we have new capacity open seasons, when the marketplace says : « Yes, we want new capacity. ». So we run our process to solicit market interest and find out what the market truly wants. Through the course of the development of energies, we've been notifying the market what is going on, we ran what we call our twenty sixteen (2016) new capacity open season. We'd notified out stakeholders what we thought the implications of Energy East were, and said : « This is coming. If you would like the service, if you're using interruptible or discretionary services, and you want firm service because you need reliable service, please let us know. » So there's been a extraordinary large amount of communication about that.

So we ran our open season process at the very tail-end of last year and the beginning of this year. And we did get some subscription for service. So we've incorporated that subscription for new service into the design of the Eastern Mainline project, to make sure we are properly sizing that, and determining what the marketing truly needs.

So you've heard a lot of forecasts of what the demand in Québec will be. We've certainly gone through that, Concentric has provided some advise to you, KPMG, Wood Mackenzie. They basically all agree about what the demand was, but we approach this differently. We actually went to the market and asked them, and said : « Okay guys, this is coming; what do you need? » And we got the results. And those results include things like a contract with IFCO. That's incorporated into our Eastern Mainline project design. So when we looked at what the pipeline capacity requirements in the affected area are, we looked at our existing contracts, our existing firm contracts, we looked at the newly contracted firm services, and we looked at the renewal rights, to that each of these contracts contain.

Then we made the conservative assumption that every one of those firm contracts exercised its renewal rights going forward. And we used that as the basis for sizing the Eastern Mainline project, to make sure we could meet our contractual obligations.

Now, there was some comments that the open season was not performed correctly. We'll talk about that a little bit later. But I will tell you, as part of the LDC Settlement, the LDCs were very anxious for some of the projects that you discussed yesterday, things like the Kings North project, and the Van Loop. All of those projects, the LDCs were very anxious to get constructed right away. So we've been trying to accelerate things. And there was a discussion : « Maybe you should hold another open season » We're trying to build our facilities in the most efficient and effective matter, and to minimize the amount of environmental disturbance, and generally you do that by doing things once, rather than by doing them repeatedly. We also have a scheduling requirement with Energy East, and that meant that we move forward and when we ran the new capacity open season for twenty sixteen (2016), we incorporated both the market growth needs, as well as the implications of Energy East.

So, it's interesting to hear now that people are suggesting perhaps we should wait and see how things unfold and all that sort of thing, but I'll leave at that for the moment.

So, when we went through the analysis, we've sized Eastern Mainline project to meet our firm demand, and we also looked at what the actual flows on the system have looked like. And you'll see on our next chart that, in fact, the design that we're putting in place will accommodate firm requirements. But those firm requirements exceed what the market has consumed on a peak day basis, historically and that's inclusive of the coldest winter we've seen. So, when we build the Eastern Mainline Project, it will do a number of things. It will make sure the market need's are met, it will provide access to a variety of reliable supply sources. And as I said earlier, if in fact our predictions are wrong and a number of things all do not occur, TransCanada is still there to provide service and expand the system if it's needed.

Now, I want to get into a little bit more technical detail. This is a bit of a similar chart to the one that I mentioned, that Wood Mackenzie showed earlier. What we've done is we've actually looked at the domestic markets first here. So, let me just walk you through what is this chart is trying to describe.

So, first of all, the red line at the top here is the capacity within the effected area today. So, that's prior to the removal of the North Bay shortcut and the construction of the Eastern Mainline Project. What the brown line below it shows you is what the capacity of the system will be within the effected area once we remove the North Bay shortcut and construct the Eastern Mainline Project. Okay?

So, the capacity on the system will sit just in excess of two point five (2,5)... twenty-five hundred terajoules per day (2500 TJ/d).

Now, this area you see at the bottom of the graph, this pale blue area, is the actual physical flows to the domestic markets within the effected area. I want to draw your attention to the past three years, because what you will see here is portions of that graph are shown as black. And that area describes the volumes that were delivered into those domestic markets on a discretionary service basis. You'll notice that there's really no black here. And that's because, as a result of the RH3 decision, a lot of the markets are firmed up. So, the markets that we serve in the Eastern delivery area, so the markets that we serve to GMI, the markets that we serve in Ottawa, those sorts of things, they're now almost exclusively served under firm contracts.

I do want to pause for a moment here, because we were reviewing our written submissions, and then we realized that there was a slight mischaracterization, and we talked about this. And we described GMI having sufficient capacity to serve its markets and the GMI EDA, which is a portion of that effected area. And that's not quite accurate. What we should have said is, the firm contracts held by GMI and others that serve markets in the GMI EDA are sufficient to meet the markets needs. I just want to draw that distinction, because about a quarter of that market is served by... well, on the TransCanada system are served by somebody other than GMI, so our markets actually contract on us rather than have GMI hold the capacity on the mainline for them. And that may explain some of the things that we heard from GMI later, but we'll come back to that in a minute.

So, let's go back to the graph here. So, what you see here is the peak day requirements in the marketplace. And in fact, on a daily peak basis, the highest number we've seen historically occurred last winter or the winter before last. But certainly, last winter was the most, I guess, the most extensive cold winter we saw.

So, what is available? The capacity that's available to serve markets within the effected area is considerably higher than all the domestic markets, even on the peak day basis. And what we've done is we have sized the Eastern Mainline Project so that the gap between that peak day load, or in fact the peak... the firm contract level that exceeds peak day, combined with the newly subscribed firm transport contracts that came out of the new capacity open season, as well as all the firm contracts serving those export markets, assuming they all renew, are accommodated within that capacity that sits over and above, between the brown line and the domestic load. So, people are saying, "Well, gee, the domestic market might not get served." There is ample capacity there to make sure that that occurs.

Now, let's talk a little bit about our export markets. Now, you'll see in this graph, on the legend on the right side of the chart, those are those export points that I talked about within the effected area. The largest of those are Iroquois and East Hereford. Now, each of those contracts have been in place for some length of time. And what this graph shows you is what we call the expiry profile. So, our firm contracts have a renewal option. And this graph shows you what the current contract level is, it sits just in excess of seven hundred TJs a day (700 TJ/d). But what it does, is it looks forward and says, "What happens if nobody renews those contracts?" And you can see very quickly those contracts fall away to a small portion of that seven hundred TJs a day (700 TJ/d). So keep that in mind when you think about this graph which is the one that I showed you a few minutes ago and when we discussed the Marcellus. The markets that are served by those export points are those ones that are a just a hop, skip and a jump away from the supply and there's an enormous amount of activity going on south of the border that means that those Marcellus volumes will be able to access the market served by things by PNGTS and Iroquois. This map shows a number of the projects that are in development. Some of them are mature and some aren't but if you add up the capacities contained in these projects, you will see the vast... they vastly exceed the volumes of gas that we export from those markets. Now let me just draw your attention to the Constitution pipeline because this is one of the projects that's the most mature of these. So the Constitution pipeline will run from the Marcellus. Marcellus is shown in this brown area on the map. It will deliver gas into a place called Wright which is a bit of a noodle point on the Iroquois system. Now Iroquois runs down into markets in the New York Long Island area and there was some discussion about well, what's going on down there? The bottom line is there are no expansion projects downstream of Wright at this point that would accommodate the growth of the market that Miss Snyder was talking about. So, it is quite possible that the volumes from Constitution will completely back out the volume of gas that Constitution moves back into Canada. And we're expecting to hear a FERC decision on the Constitution project within the next six months or so. We'll see how that unfolds but that's just an example of what's going on down in the north-east U.S. And you can see, there's just a spectrum of projects here and some of them are massive. If you look at the north-east direct project, what we call NED up here, it can grow to a two point two (2.2) bcf a day market. Now I acknowledge that there's some market growth down here but these volumes, the capacities of these pipelines are enormous and what they will do is they'll allow that Marcellus gas to displace the source of supply that has historically served those markets and we'll get into what that means for the mainline in a moment.

I will mention that a number of the anchor shippers on NED are the same shippers that contract with us at those export points and I think you touched on that yesterday a little bit. We see, just to put in the north-east direct project, about three hundred and seventy-five (375) tjs per day of subscription from the same customers that we serve today.

Now, over the course of the conversations I've had with stakeholders, I found that this whole idea of capacity and demand for the capacity a bit overwhelming for folks. I put together a series of slides that kind of depict step-by-step what goes on out there and I'd like to walk you through that because I think it'll help everybody understand what's going on here. So, this graph shows you the capacity in the affected areas today. So it sits at about three point two (3.2) or thirty-two hundred (3,200) tjs per day. I mentioned earlier that we will make sure that we have that new capacity in place and available to serve the market before we actually take the North Bay shortcut and convert it to all service. So, when that occurs, now you know that'll be just before hopefully a very short period of time, that three point two (3.2) or thirty-two hundred (3,200) tjs a day will actually grow by the capacity that we have with the eastern mainline project. So you get up to about thirty-seven fifty (3,750) tjs per day of capacity and then we remove the North Bay shortcut and we come down to the capacity of the system that I described, actually in that brown line on the prior, on that slide a few minutes ago. So that's the capacity that'll be available following the construction of the eastern mainline project and the transfer to the North Bay shortcut.

Now, if you go to November twenty sixteen (2016), which is when those new capacity open season contracts go into service, and if we assume everybody renews their existing firm contracts, the domestic firm contractual within the affected area is described by this, sort of light brown coloured bar. And I want to emphasize that this bar includes the IFFCO contract and the Bécancour contract which exists. It's an existing contract and it's being utilized today. So that shows you what the market as contract today plus the growth of the market as subscribed to and this red area that lies on top on the brown or the kind of... I guess maybe call it pink, is what we've seen has a historic peak up to twenty fourteen (2014). So that's the peak load in that affected area that we see. So you can see in fact the firm contracts exceed the historic peak which means that unutilized capacities are available for discretionary service. So that addresses the domestic load and on top of that, the green area shows what is currently contracted to export markets assuming everything renews. So you can see, they match. So the purpose of this graph is to really demonstrate that we will have capacity in place to meet the market's needs, or the market that has contracted with us for service. And part of our job is to make sure we have the right facilities set in place, we don't want to overbuild because, ultimately, that results in more costs than you would otherwise need, you want the system to be running, functioning at a high-load factor. And really, part of the benefits of this project is that it right-sizes the system.

Now if we go forward in time and think about November twenty seventeen (2017), recall, some of those export contracts can expire prior to that, and frankly we expect that to occur. Now we don't know what the market will do. Interestingly, during the LDC Settlement Hearing, the Northeastern markets said, "Oh! yes, yes, we like having the flexibility to use Canadian source supplier supply source to the mainline."

But in that hearing, we also asked for some changes to our tariffs so we would get better indications of what the market needed looking forward, and we asked for a, what we call a "term-up provision", so to the extent we had opportunities to either, or if we were looking at expanding the pipe or had an opportunity to find other uses for the pipe, we wanted to get a vision of what the marketplace wanted.

And I will tell you, those markets in the Northeast very much resisted any sort of tariff obligation that would allow us to get better insights, they want to preserve as much optionality as possible. And I will leave it to you to speculate as to why you think they want that optionality.

So what I have done here is, I have shown you what we expect is going to happen. We see that emergence of Marcellus growth as inevitable. So what this graph demonstrates is, we anticipate that some of that market, that seven hundred (700) TJs is going to no renew its contracts, and for example, we have said, "Well, perhaps four hundred (400) TJ/d will not renew, it will use Constitution for supply or one of the many other projects."

What that means is, the capacity that was previously contracted on a firm basis will now have some uncontracted capacity, and that uncontracted capacity will be available for any unexpected market growth that chose not to contract with us today.

If we go further forward in time, and I think, Madame Gagnon, you asked about the probability of the south-to-north project going forward, well this is what this graph really illustrates, it illustrates the possibility, or the eventuality that those volumes coming from the Marcellus can actually push back into Canada. And, in fact, we have had customers who were asking for that to occur, we have had people ask for that. But really, until that infrastructure in the States comes to be, I don't think that opportunity is quite ripe.

But one of the things to realize is that if that should occur, and we do frankly expect it to occur in due course, that means you have got a new source of supply pushing its way into that affected area, so you have volumes coming through from Dawn into the affected area, you have volumes coming through North Bay into the affected area, and now you have got a new source of supply coming in through Waddington from Iroquois.

What that does is that functionally increases the physical capacity of the system because you are feeding it from multiple, another source, and to the extent that source of supply lies closer to parts of the market, it means it idles other portions of the system, which expands capacity.

So if you recall the graph I showed you a few minutes ago with some of the export contracts not renewing, we have got capacity of twenty-five hundred (2,500) TJs approximately following the construction of the Eastern Mainline Project, if you have those Waddington imports, and let's just assume they are a couple of hundred (200) TJ/d, all of a sudden, that adds capacity to the system with no capital cost. So now you have got more capacity again on the system, and yet more capacity that is available for potential market growth.

So let's imagine none of these things... well, frankly, let's imagine a world when all of these things don't occur, and I think that is an important distinction, it is all of these things have to not occur, it is not just one of them. If that happens, and if for some unforeseen reason the market needs more capacity, we will build it. But frankly, we think, with an educated point of view, from an educated point of view and looking at what is going on, that is an extremely low probability event.

So what I would like to do is try and wrap up our comments here and leave you with some final remarks. When we look at the Québec marketplace, we have incorporated IFFCO and things like the restart of the Bécancour Power Plant; that is incorporated in our design, we can accommodate that. Setting that aside, the expected growth in Québec is relatively modest, and I think you have seen that consistently from the various experts. The growth is there, it is stable, it is incorporated in the grand scheme of things.

We have designed our Eastern Mainline Project in accordance with a contract carrier business model, which is the one we operate within.

What we are doing here will provide the flexibility that the marketplace is looking for, and at the end of the day, we will have the capacity needed to meet the market's requirements.

Now by removing the costs of that uncontracted capacity across the system, we are able to provide efficiency and lower costs for customers. And we will get into that, I will give you a few remarks on why we believe that is the case and why perhaps it is a different conclusion that you reached in your preliminary analysis. But the bottom line is gas shippers are not subsidizing the oil business, in fact, and see all the way around. There's a half a billion dollar ($0.5 B) contribution being made. And that's a very large number. And it results in an even larger number, in terms of cost savings for our customers.

Now, at the very macro level, people talked about what does this means for price, the price of the commodity in Québec. As I mentioned before, the market is served, is almost exclusively with firm contracts, now, bringing gas in from Dawn. And our people talked yesterday about the price of gas at Dawn and, frankly, it's a very liquid market hub. It's insulated from the peaky nature of what we see in the eastern seaboard. It's not exposed to pipeline constraints. So, there's a much more moderate price environment at Down. And frankly, that's where our customers that have these firm contracts are sourcing the vast majority of their gas from. So I suggest you that this concern about gas price impact is perhaps overstated.

One of the things it's interesting to note is a lot of that Marcellus gas will push its way into Dawn. And if you recall, miss Snyder mentioned yesterday that the gas price in the Marcellus is two dollars ($2) today. To the extent, more that supply pushes into Dawn, those of us who are economist in the room, generally, when you increase supply, the price drops. So I think, in fact, we may see suppression in price, over what might otherwise occur if these events don't happen. So I think we are actually in a place where Québec will see some significant benefits, and to the extent, things like gas comes in at Waddington, and it's coming directly from the Marcellus. There's another opportunity there. So I don't think we're going to see an adverse price impact in Québec. We may actually see an improvement, when compared to all other things being equal.

Now, the energies project alone is going to bring many many benefits to Québec. You'll hear and see when we'll file our energies application; there is a very compelling case there. But I think the gas side of this is a compelling case as well, and then, we're in a happy circumstance where everybody can win. And I think, in fact, when miss Brochu talked about her dreams yesterday, perhaps we can all realize those dreams, and part of this project can help deliver those.

So let's kind of conclude the formal portion of this presentation. I'd like to highlight for you some things that, you know, I'd hoped you to see in your remarks to the Minister. As I said earlier, all customers that have signed contracts with us will get service, no one is going to go short of gas here. Even on a peak day, we've shown that firm contracts exceed the peak day requirements. Québec will have the flexibility that it has longed for. And, in fact, that's an imminent circumstance, here. The capacity will be there, following Energy East, and Québec shippers will benefit from them. So I'll leave my remarks there.

I would like to just come back to a few comments that were raised through the course of the couple of days, just to provide you some, our views on those comments. So, first of all, in your analysis, and I think GMI accurately characterized this yesterday: the LDCs Settlement and Energy East are completely independent. They are not... The LDCs Settlement is independent of Energy East, it's, we're hoping for a decision soon, and it will, you know, assuming we get an approval, it will be there. Energy East is separate and distinct, and that leads me to another issue that was mentioned yesterday, and...

There was a suggestion that in the LDCs Settlement, there was some prohibition on us, pursuing Energy East until the LDCs Settlement had been approved, and people had become used to it. That's not the case. There's no such prohibition. And I will in fact just read to you now a few of the words that are in the LDC's Settlement, and if you want, you can find these remarks, you can find this arrangement on the NEB website; it was submitted as part of our LDC's Settlement filing. It's in our application; it's one of the appendix to our initial application. But I'll just paraphrase and read one of the components to it. It says:

Nothing in this agreement shall restrict the ability of any party to take any action or commence any proceeding or take any position with any governmental...

So nothing in this agreement shall prevent any party taking any position they wish, and it explicitly refers to on Energy East. It also refers to the land matters consultation initiative that the NEB was going through. So there was no, nothing that says we shouldn't follow or pursue Energy East, while the LDCs Settlement is being dealt with. And this is an area when I guess we have a bit of a disagreement. But I encourage you to go back to the contract to read the words, because I think it will make it clear.

We talked about the twenty sixteen (2016) open season, sort of not being understood by shippers or somehow not a true assessment of the market need. I won't go through this with you, but I've got a listing of all the communications with our stakeholders in the general public about Energy East and the implications of what it means. And there are probably in excess of a dozen conversations that we've had, formal conversations we've had with our shippers as well as the general public. We have a forum on the mainline called the TTF, and it really, it's the name for the Tolls Task Force. And it's the forum where we get all our stakeholders together on a regular basis and discuss what's going on. It's a forum through which we try to address issues.

We also have senior level interactions, we have an annual shipper conference with the executive team of our shippers. And I participate in those all the time. They occur, and I know, I can assure you that those conversations and the implications of Energy East were discussed with all our shippers.

So, when we went in the new capacity open season, the actual notice period, the notices clarified that capacity will be scarce, you should firm up. We've had open season notices that advise people in writing that Energy East will remove capacity and they should be aware of that and plan accordingly. So, to say or suggest that the marketplace didn't understand the twenty sixteen (2016) new capacity open season somehow understates what the market really needs. I don't understand that, I don't... I disagree with that.

There was a suggestion that we should run another open season to truly see what the market need is. Well, those sort of things all just delay energy. It's not practical. In the commercial world, you have to react when the market wants it. All the shippers are anxious to move this project forward, and we are trying to accommodate their needs. And I can tell you, I testified in the Mackenzie Valley Pipeline hearings, and we all know what happened due to the delays, and how long that took. And who knows what that meant for the North, but that project is not going forward. So, you know, delays and things that prevent there being clarity as to what opportunities can be pursued mean the projects don't go.

One of the things that was asked of, I believe Mrs. Bartos, was the question about the five percent (5%) in the LDC settlement. And I think there's been perhaps a misunderstanding of what that five percent (5%) really does. During the course of the discussions on the LDC settlement, we had some conversations about no bypass, because that was one of the threats that emerged after the RH3 decision. And we reached an agreement with the LDCs that they would not bypass us and we would not bypass them. Now, it was recognized that there was a possible emergence of biogas, the LDCs that they would not bypass us, and we would not bypass them.

Now it was recognized that there was the possible emergence of biogas or shale gas within Québec, and that potentially could tie directly into the GMI system. We understand that, so there was a discussion and the five percent (5 %) number was landed on. That doesn't limit how much gas can come onto the system, what it does, it means the first five percent (5 %) can enter the GMI system without paying a toll on mainline; if volumes grow to more than that, then the toll is paid on the mainline. So there is no physical limitation of actually physically how much gas can come on from indigenous sources, if you will.

I would like to talk about IFFCO a little bit because the remarks yesterday suggested that somehow there were huge barriers to entry and that this was difficult for them to manage. The reality is, when you are requiring capacity on a system, the way a tariffed or a regulated pipeline operates is, to the extent there is a new opportunity or an expansion required, the person asking for that service generally backstops the investment or the development of that project in the event they cancel their projects.

I think you heard yesterday from IFFCO that, you know, it is still to be determined if they proceed. So we are moving forward investing money to develop capacity for them, and that is not just within the Eastern Mainline Project, it stretches all the way back down to Dawn with some of the projects that we would, the King's North and the Vaughan loop, etc.

We have to secure, ensure we get those costs covered in the event that that project doesn't move forward, and functionally, the Open Season process and those accountabilities that GMI are commenting on about somehow blunting the market's requirement, that is typically how regulated pipelines work, the open season was run in accordance with our tariff provisions and the precedent agreements that we typically use. So we will see where that goes.

Now yesterday, GMI made some comments about capacity not being ready for, available for three years and how this is, you know, somehow a critical circumstance. GMI goes through a process of looking at what its market needs, that is, we heard from madame Brochu yesterday that they spend a lot of time talking in the marketplace and understanding that. They participated in the 2016 Open Season and did subscribe for more capacity, and now they are saying, "Well, gee...", all of a sudden, this is this new load and, frankly, I don't understand what that has come from, because we just finished the Open Season process earlier this year, and they did subscribe for what they felt the market needs.

Now there is a possibility of what is going on here is, there is a bit of a shuffling of the contracts, and if you recall, I mentioned a few minutes ago that the GMI EDA has sufficient firm capacity to meet the physical requirements that we have seen being delivered on that system historically.

And I speculate that maybe what is happening is, customers within the GMI EDA that have historically used marketers to access gas on the mainline are now saying, "Well, gee, we would like to access the capacity through GMI." So it may not actually be the new load on the system, it just may be a reshuffling of who provides that service on the mainline to that end-use customer. But I am speculating, I am just, I don't have visibility to that.

So I think what I will do is, I will leave it at that, and that will conclude my remarks, but I would be happy to entertain any questions you might have.

M. MARC-ANDRÉ LANDRY :

R. Juste deux secondes, Monsieur le Président, Madame, Monsieur les régisseurs, juste pour vous dire, la modification dont monsieur Clark faisait mention dans nos soumissions, c'est à la page 18, où il faut juste ajuster le texte en conséquence de ce que monsieur Clark vient de vous indiquer.

Et monsieur Clark vous a cité l'Entente de règlement, et juste pour vous permettre de vous diriger plus rapidement, c'est l'article 4.2 du règlement, si jamais vous voulez revoir le texte. Merci.

LE PRÉSIDENT :

Merci, monsieur. Donc, la Régie va donc prendre une pause de trente (30) minutes, on va revoir nos questions et revenir avec des questions pour le panel de TCPL.

SUSPENSION DE L’AUDIENCE

REPRISE DE L’AUDIENCE

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LE PRÉSIDENT :
Rebonjour, Mesdames, Messieurs. Des questions pour vous, les représentants de TCPL, Monsieur Pilotto.
M. STEPHEN CLARK :
A. Excuse me, Mr. Chairman, I apologize but I overlooked one matter I wanted to discuss with you. It's about the scenarios that you had provided to stakeholders. I don't want to interrupt you if you're going to ask me questions, I'm happy to wait, but I want to make sure we share some thoughts about that analysis with you. I'm in your hands.
M. LAURENT PILOTTO :
Q. **[1]** Vous me devancez. C'est exactement les questions... Alors, allez-y.
A. Okay. First of all, the first page of the analysis discusses the benefits that result from the LDC settlement. And as I said earlier, the LDC settlement is a stand-alone arrangement. It has really nothing to do with Energy East and the benefits that come from the LDC settlement will be realized regardless of the outcome of Energy East. So, I'm not sure if there was an impression that somehow they were linked together. That's not true. It's simply a matter of... it's an arrangement that

we have negotiated and we're waiting for board approval of.

Nevertheless, I would like to just make a couple of comments about the first page. And inevitably, the analysis has provided herein embeds some assumptions that we don't know. They were made by whoever provided the analysis or did the analysis.

But the one thing I will point out is we've tried to replicate the analysis and by backcalculating with the tolls from a compliance circumstance with the existing decision or the existing circumstance and settlement tolls that we've applied for, it appears that the benefit is being calculated with the assumption of a basis differential between Empress and Dawn of about ninety cents ($0.90).

In fact, the forward curves today suggest the basis is more like fifty cents ($0.50). And in fact, if you repeat the calculations, and I'm basing this on some assumptions, but if you repeat the calculations, the benefit that comes from the LDC settlement is considerably more and is approximately double the numbers that are contained on this first page. So, that's where I'd like to start, and I'm not sure and if you have any questions. I don't really have much more to share, because I don't know all the assumptions embedded. The only things that I do know are the tolls and the volumes. So, as I say, we did some backcalculation there.

The next comment I'd like to share with you is on page 2, it's your case 1. And it appears the way the analysis has been done as it looks at the Eastern Triangle in isolation. And it also makes some assumptions about the costs of... well, the net book value of the North Bay shortcut or the transfer price, and the capacity and the capital cost of the Eastern Mainline Project. And I will tell you the... or the net book value, or the expected transfer price for... the net book value for the North Bay shortcut, it's about four hundred million dollars ($400,000,000), or it's projected to be at the time of the transfer. And obviously, this morning we talked about the capacity and cost of the Eastern Mainline Project at five hundred and seventy-five TJs per day (575 TJ/d) and one point five billion dollars ($1.5B). So, these numbers, I'm not sure where they came from, they're probably from some... maybe the project description or some of the conversations that we've had with industry, but the numbers that I just described to you are our most recent ones.

But probably more important here is the analysis focuses solely on the capital cost of what will be removed in the Eastern Triangle and what will be constructed in the Eastern Triangle. And as I mentioned earlier today, there are a number of others factors that need to be incorporated into the analysis to get a true assessment or a complete assessment of the value of what we're proposing to do.

To explain this a little bit, I have to go back to the LDC settlement. Within the LDC settlement, there are commitments from the LDCs to maintain a certain amount of their supply on the long haul basis through to twenty twenty (2020). There's also a commitment to a bridging contribution. And that bridging contribution, essentially, helps address some of the costs of the shifting from long haul to short haul. And about eight percent (80%) of that bridging contribution will be born by the Eastern Triangle, if you will. These are real costs that will be reduced as a result of the transfer of the Prairies and Northern

Ontario Line, as well as the reduction of the operating and maintenance costs of the Prairies and Northern Ontario Line.

So, to get a full analysis of the benefits of what we are proposing to do with Energy East, those factors need to be incorporated into the analysis. So, the nine hundred million dollar ($900 M) or the nine hundred and forty-five million dollar ($945 M) number that I've described to you earlier, It incorporates those... the results of the LDC Settlement and the commitments that were made under that agreement and I acknowledge that's subject to a board approval certainly and we're waiting on that but if you combine those considerations with things like the five hundred million dollar ($500,000,000) contribution and the costs, the new, well the updated costs of the eastern mainline project, you come to the nine hundred and forty-five million dollar ($945 M) benefit. As I said, that'll all be contained in our filing that will be submitted, you know, in the coming days. I will tell you that the, that nine hundred and forty-five million dollar ($945 M) benefit is about equally split between Eastern Triangle shippers and the Prairies - Northern

Ontario line. so if you factor all that in, and go through the math, I think you will find that rather than having a negative impact that results from energy, you will find it's a positive impact in terms of savings for the Eastern Triangle. Now, I don't propose to get into all the details in try to do the math. I'm not able to do that on the fly here but that information, as I said, will be in our filing and you'll have a great opportunity to scrutinize that in more detail and if there are further questions, we can certainly deal with those in due course.

As far as case 2 goes, I have to say I struggled a little bit with what this implied and what I took from it was that it suggested those were a scenario where energies would proceed but with the North Bay shortcut staying in the gas service and I wish to emphasize that that's not what we're applying for, that's not what the oil shippers have offered to acquire and frankly, I think a number of the assumptions that seem to be embedded in this assume that in the future, there would still be interruptible volumes going to export markets and that kind of thing. I just don't see that as being a realistic scenario given what we've described earlier today about the Marcellus gas and all the pipeline development south of the border. So I won't spend any more time on discussing case 2 because frankly, this is just not what we're proposing to do but I do observe that if something like a case 2 scenario materialized, it would certainly materially jeopardize the energy's project both from a cost-schedule and frankly, the benefits that gas shippers might realize with energies as constructed. So, I'll leave it at that for case 2 but just I just wanted to share those thoughts with you.

So, I'm not sure if I answered your questions or if you have further questions.

M. LAURENT PILOTTO :

Q. **[2]** No it answers our questions. Thanks.

LE PRÉSIDENT:

Q. **[3]** Bonjour Monsieur Clark et Monsieur Dueck. Je suis resté... j'ai quelques questions effectivement sur votre... dans votre présentation de ce matin relativement, là, à l'acétate numéro 16 pour... These ones? Oh! 15? Donc, je suis resté un petit peu surpris lorsque j'ai vu ce graphique-là, graphique dans lequel vous concluez, là, qu'il va y avoir de la capacité suffisante pour rencontrer les

« peaks » et les nouveaux engagements, si on veut, de ferme et toutes les exportations. Je suis resté surpris parce que j'avais en tête un tableau similaire, un graphique similaire présenté par Wood Mackenzie, madame Snyder, où est-ce que, en fait je ne sais pas si vous avez ce document-là, peut-être pas. C'est celui... je vous vois aller, là. Oui, c'est celui-ci.

Me MARC-ANDRÉ LANDRY :

Slide 11, Monsieur le Président?

LE PRÉSIDENT :

Bonne question. J'ai juste, devant moi j'ai... C'est peut-être celle plus loin où est-ce qu'on compare. Dans le rapport.

Me MARC-ANDRÉ LANDRY :

Quelle page?

LE PRÉSIDENT :

31.

R. Merci beaucoup.

Q. **[4]** Comme vous pouvez voir, Monsieur Clark, c'est pas tout à fait le même graphique. En fait, je comprends que TCPL présente un graphique qui parle du marché domestique tandis qu'ici, dans le rapport de Wood Mackenzie, on parle de l'utilisation, si on veut, des capacités dans la zone EDA. Moi, conclure sur votre graphique, là, de la page 15, qui a de la capacité disponible, j'ai bien de la difficulté avec ça, parce qu'au-delà du bleu, là, que vous avez en deux mille treize - deux mille quatorze (2013 - 2014), il y a des contrats fermes qui sont encore en vigueur avec les LDCs américains, il y a de l'exportation. Moi, ce que je... Avec ces informations-là, je me dis que vos peaks, là, pour la zone, devraient dépasser facilement le deux point six (2,6) Bcf/jour, ou encore même, l'hiver dernier, finir tout près du trois, trois point deux (3.2) Bcf/jour. Est-ce que je me trompe? Est-ce que je comprends bien? Il n'y en a pas de capacité. Ce n'est pas vrai qu'on peut rencontrer de la capacité dans ces circonstances.

R. So you touched on the, probably the most important part of the discussion today. When you look at the graph that Wood Mackenzie has provided, what they have not done is identified how much of the U.S. export is contracted on a firm basis, and how much is contracted on a discretionary basis. They show the total flow. In fact, the firm contracts for all of those use of U.S. exports... If you go back to the graph that I showed you with the renewals, so that was graph 16 in our presentation, the firm contracts sit at about seven hundred (700) Tjs. The flow in excess of that is all under discretionary surface, and that's the important component, and I think we touched on that through the conversations yesterday, when we talked about the peak in power load in the United Stated; they don't sign firm contracts. So the volumes that you see over and above the capacity of the system following the conversion, that volume is flowing on an interruptible basis, has made no commitment to use or pay for the system. As I mentioned earlier, we are a contract carrier, so we are building to meet the market that we're obliged to serve, not for the market that may use us from time to time. And if you recall what's going on with the Marcellus, we expect not only will the interruptible volumes start to use Marcellus directly, but we expect the firm volumes as well.

One of the things that happens when that new infrastructure's built south of the border, to underpin those kind of capital investments, people make firm commitments to use and pay for that capacity. Then, they have a sunk cost obligation, so the probability of them coming back to Canada once they've made that financial commitment to

those new facilities is very slim. Does that answer your question, Mr. Chairman?
Q. **[5]** Thank you.
M. LAURENT PILOTTO :
Q. **[6]** Good morning mister. Good morning again.
R. Good morning, or should I say bon matin?
Q. **[7]** Bon matin, which is a direct translation of good morning.
R. I'm glad I got it right.
Q. **[8]** À la page 2 de votre mémoire, TransCanada décrit quatre moyens qui pourraient permettre de rencontrer une augmentation de la demande. Alors je vais vous laisser le temps de retrouver... Mais, essentiellement, il y a quatre bullets.
R. Excusez-moi, Monsieur. You said page 2?
Q. **[9]** Yes. Or maybe it's in French.
R. Could you describe which section number?
Q. **[10]** It's at the very beginning of the paper, I think it's section 2.4; four bullets.
R. O.K. We have that.
Q. **[11]** Yes. Section 2.4. Donc, vous décrivez quatre moyens qui pourraient permettre de rencontrer une augmentation de la demande; récupération de capacité qui va se décontracter lorsque le marché du nord-est va commencer à utiliser des sources

d'approvisionnement locales; c'est ce que vous venez juste de discuter avec mon collègue; donc, la décontraction qui risque de découler du fait que des U.S. LDC se sont commis pour des capacités fermes sur Constitution ou NED ou tout autre pipeline qui serait construit dans le sud. Vous parlez aussi que - et je trouve ça un peu contradictoire - que PNGTS a un projet d'augmentation de capacité, le projet Sea-to-Sea.

M. LAURENT PILOTTO :

Q. **[12]** Alors est-ce qu'on n'est pas en train de regarder des flux inverses, c'est-à-dire, en même temps qu'il y a des capacités nouvelles qui se construisent au sud, il y a un projet « south-to-north » qui peut renverser le pipeline Iroquois à Waddington, puis PNGTS à l'autre bout qui fait un « open season » pour une augmentation de capacité, c'est un peu... mêlé, tout ça.

Mr. STEPHEN CLARK :

A. I understand, and that is part of the challenge that we have to overcome, it is a very complex business. In fact, the opportunities to bring gas in at Iroquois, or shed export at Iroquois, are not necessarily exclusive of things like sea-to-sea on PNGTS, which would increase exports to the PNGTS markets.

We have talked about how pipelines may be built in the United States. If gas comes in at Iroquois, at Waddington, it is actually downstream of any of the implications of the Energy East conversion. The TQM system, east of Iroquois, well, the mainline inclusive of TQM east of Iroquois is, will be functionally full, and if market growth occurs, there will have to be some construction there in any event, regardless of energy used.

But if the scenario that you describe occurs, it may occur if Constitution gets built and other projects don't go further, it may be easier for gas to come in at Waddington and possibly go through to TQM. So it is possible those kinds of things will occur, it is essentially the market working, the market tries to find the best opportunity, the quickest way to make these things happen.

And it may be difficult for the pipes to get all the way, that last piece into the Boston market, and PNGTS might be, may have an opportunity there, but I know that a number of the projects, or the people who are considering that sea-to-sea are expecting the volumes would come at Waddington. It is their way of getting that Marcellus that last little leg.

But Energy East doesn't change that in any way, and in fact to the extent volumes start to come into Waddington, they may well exceed the needs of that Boston market and then be able to provide service to markets in Québec and Ontario as well. So it is a possibility that those things align and again provide capacity that is needed for the domestic market as well.

Q. **[13]** Vous l'avez évoqué tantôt, puis je ne veux pas revenir ad nauseam là-dessus, mais est-ce que vous avez des indications sérieuses que les clients actuels qui ont réservé, depuis plusieurs années, de la capacité sur Iroquois vont se décontracter une fois que des options, des pipelines concurrents au sud vont être construits, s'ils se construisent?

A. I can't speak with certainty as to what they will do on our system, I have to make a seasoned or an educated judgement based on what I see happening. What I can say is, I know a number of the parties that do transport gas on Iroquois from our system have signed anchoring agreements for the development of those new projects.

So will they completely replace our system with capacity on other pipelines? Probably not the entire volumes. Will they reduce how much they transport on our system? That is my strong expectation. We are at a point where we have to use the information we have available, use our judgement to make a decision as to what, what course of action we should take. We have an opportunity, with Energy East, to deliver significant value to both oil and gas shippers, and we have to make a decision whether we pursue that based on the information we have at hand.

And I guess what I am proposing to you, you know, using a seasoned judgement and the inevitability of what is happening in the Marcellus, I think we are in a circumstance where it makes a lot of sense to pursue this. I mean, we are at a fork in the road, and as Yogi Berra said, "If you reach a fork in the road, take it", and we are at that point, where we have to make a decision one way or another.

And, you know, we talk about speculation, when you look at the risk of certain events occurring, I said the Marcellus is inevitable, and I really mean that word, it is coming. Well, it is already here, and the growth is just continuing, and it is the most economic production basin the producers see in North America.

I mentioned earlier today that I have worked in the Western Canadian Sedimentary Basin for, you know, ten or twenty years, and I can tell you, if there is a commercial opportunity to connect a basin that has a depressed price with a premium market, the marketplace will work, it will find a way to make that happen, and they will do it as quickly as they possibly can.

So it comes back to deciding which fork in the road we take. If we take a look at all those circumstances, we have to make an educated decision. What I am telling you is that we have sized the Eastern Project to meet all their firm obligations, having gone to the marketplace and asked them what they need in the future. So, we've already gone through that process, to make sure we haven't missed anything. And so, here we are, we now have to... have to make that educated decision.

One thing I should mention, if we actually just go to... if we go to the slide that shows the expiry profile. People have to give us two years notice of what they're going to do, so the first expiry is about... is almost upon us. We'll know in the next few weeks what our markets are going to do for expiries two years from now. I expect they're going to renew, because there projects aren't just quite mature enough for them to make that decision. But I expect by the time we get to this time next year, we will certainly be... we'll have better insights as to what the market is going to do. But we've got... we'll see how that all unfolds, but as I say, I think it's an inevitable circumstance.

Q. **[14]** Si je continue dans les « bullets » de votre mémoire 2.4, la deuxième option c'est « Importation de gaz américain dans l'Est du Canada ». Je crois que c'est ce que nos LDC veulent faire. Mais vous... enfin, tout ca repose beaucoup sur la décontraction de Iroquois vers le sud et plutôt la matérialisation du projet South-to-North. Madame Snyder de Wood Mackenzie semblait dire, elle, plutôt, que jamais en période de pointe Iroquois va être complètement décontracté vers le sud. Alors, il y a comme deux positions. Je comprends que vous envisagez que vraiment il y a des bonnes chances que South-to-North se réalise. On a une experte qui nous dit : « Non, non, non, jamais en période de pointe, il y aura toujours du traffic vers le sud. » Et ça change la donne beaucoup pour

Enbridge, Gazifère et Gaz Métro.

A. Yes, I think the... that's a possibility, but the question we have to ask is, will that be done on a firm basis or an interruptible basis? So, today those peak markets don't transport gas on a firm basis, they do it on an interruptible basis, on a opportunistic... in opportunistic circumstances. So, I do disagree with Ms. Snyder because of the nature of the fixed commitments or the firm commitments that people have to make to get those new facilities constructed. I think she acknowledges the new facilities will be constructed. I think she's leaving out of the analysis the fact that they will have made a firm commitment and they will be facing some cost economics to continue to draw gas on a firm basis from Canada.

So, it may be that they, if the capacity was there, they might us it on an interruptible basis, but I don't expect that, and that's part of the reason that I took issue with the case 2 scenario where there was... appeared to be some suggestions that there might be some discretionary revenue that could be earned by serving Northeast U.S. markets, but I think that's just a very unlikely scenario. There's no expansion on the southern end of Iroquois to take Constitution gas to that market. She was talking about market growth, that might mean that there was still... a portion of the new supply going onto Iroquois might be consumed so the net offset into Canada would be smaller than the full capacity of Constitution. At the moment, Iroquois, you know, it fully lies on the southern end on a peak day. It is possible that some of the gas could spill onto it, another interconnecting pipe. But I expect the gas is more likely to flow back into Canada. I know, as I say, we've had customers talk to us about that possibility. And frankly, to make that happen, all we have to do is reverse the flow and a metre at Waddington, so...

Q. **[15]** Finalement, on va parler du troisième volet au point 2.4, « Expansion du Mainline pour desservir le Québec ». Le Québec, et évidemment, l'Est de l'Ontario. On comprend ici que vous parlez de demandes qui doivent être faites avec un préavis de trois ans et qui seront à la charge du demandeur. Y a-t-il dans vos façons de faire, dans ce que vous envisagez pour le futur, des options plus flexibles, des « lead time » plus courts? Est-ce que c'est envisageable?

A. Oh, I'd be happy to think about it. We just need to find a regulator we can coax into giving us approvals very quickly. No, obviously, I'm being a bit silly here.

The Waddington example is a good example of an opportunity that could be done very quickly, because you don't have to increase the pipe size, you're just bringing a new supply in at a new location. So, all we have to do is reverse the metre there, which is something that could be done very easily. So, there are, in that circumstance, it would be something that we could do promptly. The bottom line is it takes three years to build new facilities if there's a green field, and it requires a section 52 application from the NEB. That's just the nature of the business we're in today.

I do observe, though, that all the experts have forecasted a relatively stable growth in the one to two percent (1-2%). Now, IFFCO takes a long time to develop, so... Our business is not one where we put pipeline capacity in place before someone is committed to use it. So we don't build pipe hoping that somebody might come along and utilize it. If a company like IFFCO or some, you know, IFFCO too came along. It takes them a long time to build their facilities as well; it's not the kind of thing where you just snap your fingers and industrial facility suddenly is there. They have a long lead time in development process they have to go through as well. So, it's a matter of these things working in parallel. We've already got what we think is the organic growth in the residential and commercial markets addressed in our forecasts. What we're talking about is some unforeseen step change, and the leap time for that kind of a step change to occur, I think, is consistent with the three year cycle to build new facilities.

Q. **[16]** Merci. Maintenant, je vous amène à la page 3, bien j'espère que c'est la page 3... En fait, on va parler du neuf cent quarante-cinq millions (945 M), parce qu'à la page 13, il était mentionné sept cent cinquante millions (750 M), calculated to December deux mille trente (2030). Et ce matin, vous avez parlé de neuf cents, même neuf cent...

R. I'm sorry, sir.

Q. **[17]** Yes?

R. Could you just tell me which section of the document?

Q. **[18]** It's section 4.3.3, page 13.

R. Yes sir.

Q. **[19]** Donc, on parle de net presumed value de sept cent cinquante millions (750 M). Ce matin, vous parliez de neuf cent quarante-cinq (945). Pouvez-vous juste faire le point là-dessus?

R. Yes. I think we owe you an apology, here. When we were preparing this document, it was a little while ago, and we've been refining the analysis, and up until we had confirmed our analysis and had our filing getting close to complete, we were giving ourselves some slack to make sure we hadn't any miscalculations in the analysis. So, up until the last few weeks, we've been talking about in excess of seven hundred and fifty million dollars ($750 M) in our public disclosures. We... As I say, we're getting very close to filing our application now, and the numbers have all been refined and checked and all that sort of thing, and the number is now... We say publically in excess of nine hundred million dollars ($900 M), but the number will be nine hundred and forty-five million (945 M) when we file. So, this should actually say nine hundred and forty-five (945), in excess of nine hundred (900).

Q. **[20]** So, on va vous inviter la semaine prochaine; ça va être rendu à un milliard (1 B)?

R. Well, if we can find a sharper pencil, perhaps.

Q. **[21]** On parle donc de neuf cent quarante-cinq millions (945 M); ça, c'est la valeur actuelle nette des bénéfices associés au projet. Comment ça, c'est... Je sais, ce matin, vous avez dit très clairement, - en tout cas pour vous, c'est très clair - il y a deux trucs complètement séparés: le Settlement d'un côté, le projet Énergie Est de l'autre. Mais, forcément, ces deux projets-là, enfin, c'est deux situations-là s'impactent, particulièrement le projet Énergie Est doit impacter ce qui a découlé de l'entente. Est-ce que je me trompe?

R. I think the best way to think about this is we've based our analysis on the assumption that the LDCs Settlement is approved, in a manner that's consistent with our application. So, we went to the NEB, we actually filed that application almost a year ago, now, and we're expecting a decision in the next, well, the Board gave an indication they may be in early November, well, we hope. Because we've got support from, well support or non-opposition from the majority of our shipping community, and I would say it was a large portion of our shipping community; then we've had our colleagues from the LDCs with us, in front of the NEB testifying, all supporting the application. We're cautiously optimistic we're going to get approval as we've sought.

Energy East has been developed over the course of the last two years and, obviously, it's a very complicated project, and has a lot of details. So we had to make a decision and, when we were doing all our analysis and assessing all the benefits, and what we have done is we've made the assumption that the LDCs Settlement will be approved. So the numbers that are contained in our submissions and that will be contained in the filing are all predicated on the, based on the assumption the LDC Settlement will be approved. Now, if the LDC Settlement is not approved, well, we have some more complexity to deal with and I don't know what that circumstance looks like because, frankly, the work we have been doing is based on that assumption.

Q. **[22]** Je veux juste être bien sûr de bien comprendre. Dans le Settlement, il y avait, il y a une entente autour du retrait d'un certain nombre d'actifs, dans le mainline, particulièrement dans la partie ouest du mainline. Quand vous arrivez avec Énergie Est, il y a encore d'autres actifs qui sont retirés. Non?

A. Non, I'm afraid that's not correct. The LDC Settlement does not address any Energy East or the eastern mainline project in any way. They're completely separate. The LDC Settlement is an arrangement that addresses some of the challenges that came from the RH3-2011 decision, it's the arrangement that allows us to make sense of putting investment in the Eastern Triangle. Remember the Marcellus volumes have been growing on the LDCs and have been anxious for those supplies to be available and the Eastern Triangle, the capacity coming in from Dawn is full today. So there's no way for the markets in eastern Canada access any more north-east U.S. supply unless we built some facilities and that's what things like the Kings North project is all about and the Vaughn connector, the Enbridge's segment A project union's expansion through the Dawn. But those are all independent of Energy East and in fact, they'll be used to grow the volumes coming in from the north-east. That's what the LDC Settlement accomplishes and we talked about some of the other... Actually, it's where there is a no bypass provision and all sorts of things. So, I think the best place to think about energy is to say that's the foundation of the business environment for the mainline and for the LDCs today. And again, I agree that this is subject to the NEB approving it. So now we go to Energy East. Energy East is a completely separate arrangement and what we are proposing to do is the transfer of the assets on the Prairies, northern Ontario line and the North Bay shortcut. It is one project. So there's no splitting of the transfer to, there are no suggestion that the LDC Settlement is what causes some of the assets to be transferred and Energy East is the other components of Energy East but the transfer for Energy East. It's all three of those components is contained within Energy East by itself on a standalone basis.

LE PRÉSIDENT :

Q. **[23]** Pour... peut-être une précision, Monsieur Clark. Dans l'entente LDC-TCPL, je comprends que c'est séparé. On ne parle pas des mêmes projets, mais dans cette entente-là, on s'est entendu pour faire supporter en partie par LDC des coûts reliés au pipeline existant, là, de l'ouest canadien au

Québec, et donc, c'est des coûts échoués, donc ça avait une valeur... on devait établir ces coûts-là en fonction de la valeur des actifs. Si dans Énergie Est on désalloue certains coûts, comme il est proposé, ça a un impact sur l'entente. On ne parle plus des mêmes coûts. J'ai peut-être mal compris le mur entre les deux projets, là, mais il me semble qu'il y a un certain lien.

A. Let me see. Let's go... Under the LDC Agreement, let's talk about that by itself, what the LDCs have agreed to do is they have agreed to a toll increase within the Eastern Triangle so that the Eastern Triangle now recovers its own cost and they've agreed to keep a certain amount of their supply, a modest amount of the supply on long haul, and they have agreed that they will pay a portion of any cost shortfall on the mainline across the Prairies and northern Ontario. That is what we call a bridging contribution, that is shared amongst all our shippers, but the majority of it goes to the Eastern Triangle. And the tolls have been established on that basis.

To the extent there is a variance around the revenues that are collected, if there is a surplus, or a shortfall, that goes into the deferral account, and that deferral account goes to the Eastern Triangle. To the extent we remove costs, the collections will be proportionally greater than they would have always been because the costs have gone down as a result of the transfer of the assets.

Maybe a better, a simpler way of saying it is, the costs will drop if Energy East proceeds, and to the extent the costs drops and there is an over-collection, that over-collection becomes a benefit for the LDCs.

Now there is a resetting of rates contemplated in twenty eighteen (2018) in the Settlement, and that helps address the Energy East circumstance. The bottom line is that, through the LDC Settlement, the LDCs have agreed to cover the costs of the Triangle and a portion of the costs across the mainline. To the extent those costs drop, the LDCs will benefit from a reduction in those costs.

M. LAURENT PILOTTO :

Q. **[24]** Et ces bénéfices-là sont inclus dans votre évaluation, votre nouvelle évaluation de neuf cent quarante-cinq millions (945 M$) ou ne sont pas pris en considération pour l'instant?

A. Yes, they are taken into consideration.
Q. **[25]** O.K.
A. When we did the analysis, we looked at the contracting behaviours that the LDCs have committed to, what we expect to occur, and that has been incorporated into that calculation. And that is why when we talked earlier about your case 1 analysis, what... part of what was missing was the benefits from the reduction in costs associated with the transfer of the Prairies and Northern Ontario line.
Q. **[26]** O.K., c'est plus clair.
A. I hope so, and I... I am not convinced I have accomplished what I set out to do.
Q. **[27]** De toute façon, on comprend que d'ici quelques jours, vous allez déposer votre dossier à l'ONE et toutes les réponses vont être là?
A. Well, I... I was meeting with the IGUA Board of Directors last week, and we had a similar conversation, and our colleagues over here at IGUA will be able to confirm that I used the phrase, "All will be revealed."
Q. **[28]** Une question qui ne sera sûrement pas facile à répondre mais, et je sais que ce n'est pas votre proposition, mais si le Eastern Mainline Project devait construire une capacité de un virgule deux

(1,2) BCF plutôt que point six (0,6), quels seraient les coûts supplémentaires, selon vous? Là, tantôt...
A. Excuse me, could you repeat the question?
Q. **[29]** Oui. D'abord, je veux préciser une chose, j'ai compris de votre présentation ce matin que le projet Énergie, pas Énergie Est, le projet Eastern Mainline, c'est un investissement d'environ un point cinq milliard (1,5 G$), est-ce que...
A. That is correct.
Q. **[30]** That is correct. Et votre proposition, c'est qu'il y ait un ajout à la base de tarification du Triangle de l'Est de, je vous laisse dire le chiffre?
A. Uh-huh... How the calculation of the benefits, as I say, will be, it will be described in the application, but what is occurring is, we are removing approximately one billion dollars ($1 G) in the rate base across the entire system. What will occur is, the purchase price will be appro... will be the net book value of the transferred assets, so the billion dollars ($1 G) approximately, plus five hundred million dollars ($500 M), which is the contribution from the oil shippers as well as TransCanada.

So there will be essentially a gain on sale of the assets, we will be investing one point five billion ($1.5 G) in the Eastern Triangle, so the rate base will go up by the one point five billion ($1.5 G), the rate base of the North Bay Shortcut that is removed is about four hundred million dollars ($400 M), so there will be a net increase in rate base of about one point one billion ($1.1 G), but the five hundred million dollar ($500 M) contribution will be used to offset that.

And the accounting details are all contained in the document, because there are all sorts of things like CC, capital cost allowance implications for income taxes, different depreciation horizons, a number of components like that. And then, you factor in the savings that result from the operating and maintenance that is no longer needed with the transfer of the three thousand kilometers (3,000 km) of asset and when you go through all of those calculations and look at the actual cost of service on the present value basis, that's how you get to the nine hundred and forty-five million dollars ($945M) saving. So, we've calculated that through to twenty thirty (2030) and applied the discount rate that's in...

or the cost of capital that's in the settlement to get that calculation.

So, it's quite a complex calculation when you get right down to it. It's not as simple as just looking at the rate base in the Triangle and say, "Well, it's going down by four hundred million ($400 M)." We've increased the rate base by one point five billion ($1.5 B) with the construction of the Eastern Mainline Project and then you take into account the five hundred million dollar ($500 M) contribution. You have to go through a more comprehensive analysis that looks at what the operating costs savings are and what commitments the LDCs have made to the Prairies and Northern Ontario and the benefits they see as the result of the transfer of those assets as well.

Q. **[31]** Je veux revenir sur, encore une fois sur l'entente avec les LDC. Il est clair que dans cette entente-là, il y a la construction du petit tronçon King's North, mais qui est très importante. D'abord, est-ce que, compte tenu du fait que la décision de l'ONE n'est pas encore rendue, quelle est la projection du moment de réalisation de ce projet, King's North?

A. Well, the King's North project is already before the NEB for approval. That's section 58 application, so it should move more quickly than a section 52 application. We're hoping we can have that in service by late next year. But we're still waiting on approval, and you know, these things, they're hard to predict. So, that is our timeline for that. We have other projects that are upstream of the effected area, that are still needed to bring volumes in to the Montréal line, that allow more volumes to come in. And Union and Enbridge have to construct their projects as well.

So when we developed the LDC settlement, it was essentially a collaboration to build the required infrastructure, so all these pieces have to fit together to some degree.

Q. **[32]** Donc, le premier (1er) novembre deux mille quinze (2015), c'est encore possible? Ou pas du tout?

A. I'd have to go back. I don't know the answer off the top of my head. I'd have to go back to our project management people. I'm afraid I just, I don't have that information.

Q. **[33]** Et est-ce qu'on comprend bien que le projet Énergie Est ne pourra se faire que si et seulement si le projet King's North est réalisé?

A. I think it's reasonable to say that the Energy East Project and the Eastern Mainline Project are predicated on additional capacity being constructed between Dawn and what we call our Maple Compressor Station, which is located just north of Toronto. So, all of these pieces, it is essentially a plan buildup to accommodate the market's needs. So, if King's North didn't go, I think we'd have a bottleneck that we'd have to address. So, I can't say what would happen if King's North wasn't approved, but I think the OAB approvals of things like Enbridge's Segment A Project and the Union build, some of those projects are conditioned upon us getting approval to proceed with King's North. So, as I say, there's a bit of a jigsaw puzzle of pieces that weave together here, that are needed to... but I mean, that's part of the coordinating planning that comes out of the LDC settlement.

Q. **[34]** Merci. Dans la construction de tout projet, il y a toujours des « overruns ». Ca risque d'être le cas dans la cas de King's North, dans le cas de Eastern Mainline aussi. Comment seront assumés les coûts supplémentaires, qui les supportent? Est-ce que c'est un « full roll-in » dans la base de tarification?

A. Yes, I mean, the cost of the Eastern Mainline Project will go into rate base and one of the reasons that we've agreed to make the five hundred million dollar ($500M) contribution is to help manage that risk for our customers. At the end of the day, we are a cost of service pipeline, and there's a considerable headroom available to make sure people are all better off. And at the end of the day, though, the NEB is the determinant of what our tolls are. They have to determine that tolls are just and reasonable, and we have to demonstrate that we've been prudent. And so, where I get to make sure people are all better off. At the end of the day, though, the NEB is the determinant of what our tolls are. They have to determine that tolls are just and reasonable, and we have to demonstrate that we've been prudent. And so, where I get to, at the end of the day, is that that's the business model that we have, that's the structure that we operate within, and to the extent there are some cost overruns. As I say, there's quite a bit of headroom available within the calculations that would insure that there is a benefit for our customers. Even if some overruns occur.
Q. **[35]** Vous avez entendu Gaz Métro hier qui parlait

d'interfinancement. Ce matin, vous avez dit que c'est le contraire, c'est-à-dire que c'est... l'interfinancement est dans l'autre sens. J'aimerais ça que vous expliquiez un peu plus votre position, ou enfin, la divergence de vues?

A. I'm sorry, there's no translation coming through here. Okay.

Q. **[36]** Est-ce que... Oui?

A. Could you repeat the question? I didn't hear any of it.

Q. **[37]** Yes. I'm just wondering if there's translation. Oui? Bon. Alors, ma question, vous avez entendu Gaz Métro hier qui parlait d'interfinancement du gaz vers les « oil shippers ». Vous avez mentionné ce matin que c'est plutôt l'inverse, que c'est les « oil shippers » qui vont subventionner ou interfinancer les « shippers » de gaz. Qui dit vrai?

A. Of course I am. The information that I provided you today is our best estimate of the benefits. No one can guarantee what the costs will be. I have to give you an educated opinion. This will all be a matter of scrutiny before the National Energy Board, and I'm sure there will be lots of people who have an opinion on that. At the end of the day, people have to assess what is in the public interest, that's sort of the benchmark test the regulator has. And they'll look at both sides of this from an oil point of view and a gas point of view.

We've been working with our stakeholders to try and find a way to keep everybody happy, and that's frankly proven very difficult. And that's one of the reasons, well, that is the reason why this five hundred million dollar ($500M) contribution is being made. That's half a billion dollars ($0.5B). And that's not an insignificant amount of money. That's a very generous contribution and frankly, if I look at the analysis in the absence of the five hundred million dollars ($500M), I think the public interest test would still be met. So, what are oil shippers and are corporations decided to do is to make a contribution to try and make that an easier decision for everybody.

So, when we talk about cross-subsidization, the fact that TransCanada and the oil shippers have put that five hundred million dollars ($500M) on the table, I think is a demonstration that they are actually subsidizing what could actually be accomplished in the absence of that contribution.

Now, that's obviously a matter of opinion, and everybody will have their view on it, but it is a significant amount of money. And you know, the nine hundred and forty-five million dollars ($945M) is a big, a big saving for our gas shippers.

Q. **[38]** Vous le savez parce que je me souviens que TCPL était un des intervenants dans ce dossier-là de Gaz Métro il y a quelques années, où la Régie a autorisé le déplacement du point principal d'approvisionnement de Gaz Métro de Echo à Dawn. Vous avez sûrement souvenir de ça. Les décisions que la Régie a pris à cette époque-là, c'était dans l'environnement réglementaire qui existait à ce moment-là. En venant modifier les règles du jeu dans le Triangle de l'Est, en augmentant la base de tarification, je comprends qu'il y a des réductions de coûts qui viennent avec ça, mais vous êtes conscient que TCPL est en train de changer le « ballpark figure » des approvisionnements des distributeurs de l'Est?

A. As a result of Energy East?

Q. **[39]** Oui.

A. Yes. Yes. So, Energy East should reduce the cost, so, you know, we talked about the benefits on the first page of your analysis, the result from the settlement. And I think you had a sixty-three million dollar ($63M) benefit for the EDA market. What I'm suggesting to you is that the costs, or the savings will be even greater with Energy East. So, we're not increasing the costs for Eastern Canada or essentially reducing the benefit that the settlement has brought. We are actually increasing the benefits, because the costs to serve the market will come down. And that will be, that will flow through the shippers.

Q. **[40]** Merci. Et une dernière question. Votre procureur, maître Landry, nous a écrit une lettre dans laquelle il se faisait le porte-parole de vos propos, dans laquelle il disait : « On aimerait ça pouvoir contre-interroger ou déposer notre mémoire plus tard parce que tout le monde va être contre nous. » C'est à peu près ce que vous avez écrit dans votre lettre et tantôt, vous avez évoqué le fait qu'un deuxième « open season », ce n'est pas ce que vous envisagez parce que ça va créer des délais.

Je me pose la question : dans la mesure où c'est réaliste de penser que tout le monde est contre vous, est-ce qu'il n'y aurait pas lieu d'essayer de calmer le jeu peut-être en réouvrant l'« open season » ou en essayant de... de trouver un arrangement avec les « shippers »?

A. Well, frankly, we have been attempting, we have had extensive conversations with the shippers, and despite that, we have been unable to find common ground. And as I say, that is why we have offered the five hundred million dollar ($500 M) contribution. We will have other open seasons in the future, but if we say we are going to slow down Energy East and wait and see what comes out of an other open season, that just delays the opportunity and, as you know, all shippers are anxious to get their product to market, and they want to try and get this process moving forward as quickly as possible.

We believe we have thoroughly assessed what the market needs, and we can now be in a position to make that educated decision. What I see happening here is, with the suggestion of a second open season, people are sort of, they want to retroactively reach back in time and say, "Well, gee, I want... I want something that I...", for whatever reason, but we just don't see why that would be a reasonable thing to do.

We have notified the market exhaustively and provided the opportunity for the market to speak. So it just seems like it is an idea that would delay something that is very important, for not just all shippers but for all of Canada. I mean, the refining complexes here in Québec stand to benefit from this sort of thing. So, essentially, having a reexamination of all of this that we have just completed seems completely un-necessary.

M. LAURENT PILOTTO :

Merci.

INTERROGÉS PAR Mme FRANÇOISE GAGNON :

Françoise Gagnon, pour la Régie.

Q. **[41]** Good morning, Mr. Clark and Mr. Dueck. Moi, je vais vous envoyer à la page 26 du mémoire de Enbridge. Enbridge... je peux juste pour l'expliquer... Je vais procéder, en le disant, vous allez pouvoir vous remettre dedans.

Enbridge fait référence à un communiqué de presse que TCPL a émis au mois d'août deux mille treize (2013), qui annonce que le projet Énergie Est pourra transporter un point un million (1,1 M) de barils de pétrole par jour, avec neuf cent mille (900 000) barils de pétrole de capacité, le contrat long terme.

Alors c'est une différence d'à peu près vingt pour cent (20 %) qui est de capacité non ferme, qui peut être utilisé par d'autres « shippers ». Alors pourquoi les contrats fermes pour le pétrole ne correspondent pas à cent pour cent (100 %) de la capacité du pipeline alors que c'est le contraire pour le gaz?

Mr. STEPHEN CLARK :

A. Oil pipelines operate on a different business model than gas pipelines. Gas pipelines are contract carriers, oil pipelines are common carriers, so you often see, in the newspapers... well, I should back up here. What a "common carrier" means, or when the regulator approves carriage in that fashion, what they do is, they say, "Okay, the people who have contracted for capacity...", and they may contract for long term, they typically do on oil pipelines, oil pipelines have to have some additional capacity to provide service to markets from time to time.

But the business model is a different one, and the returns and the business structure is quite different from a contract carrier. And that twenty percent (20 %) is meant to address the differences in the business models.

Now what you see happening in the oil business these days is, where there is a shortage in oil pipeline capacity, the customers that have the base contracts that, eighty percent (80 %) of it, they have access to that, and people who weren't original subscribers, they get apportioned on the remaining twenty percent (20 %). So you end up in a circumstance where IT service may be allocated amongst those who would like to use it, or if people aren't there to use it, then the pipeline, their returns are reduced. But it is a different business model, and the difference is between contract carriage and common carriage.

Q. **[42]** Okay, thank you. But I have a last question. Vous avez dit bientôt que TCPL va déposer le projet Énergie Est, juste avoir une idée, avez-vous une date ou c'est, est-ce que ça va être d'ici la fin du mois d'octobre?

A. I am not going to give you a precise date because it has been proven wrong, but I think I can say with confidence it will be by the end of October.

Mme FRANÇOISE GAGNON :

Merci beaucoup.

LE PRÉSIDENT :

C'est tout?

Mme FRANÇOISE GAGNON :
Oui. Ça fait le tour de mes questions.
INTERROGÉS PAR LE PRÉSIDENT :
Q. **[43]** Peut-être, Mr. Clark, une autre question, concernant effectivement, encore une fois, le graphique de la page 15 de votre présentation. J'ai compris votre réponse mais je voudrais juste être sûr que j'ai... que j'ai bien saisi, là.
Vous m'avez parlé que la portion bleue, à la base de ce graphique-là c'était pour de la capacité ferme. Je voudrais savoir si cette capacité ferme-là inclut les capacités réservées par les Américains, les LDCs américains, sur une base ferme?
R. Okay. So we need to walk through this again. The area here - sorry, I've had too much coffee, I can tell -, this area is what is required, this is the physical deliveries, within the affected area, to Canadian markets.
Q. **[44]** To Canadian markets.
R. So Québec and Ontario, in that affected area, the map that I showed you earlier today, Okay?
Q. **[45]** Okay.
R. What this amount of capacity allows to be served is the new firm contracts within Canada, and all of

the firm contracts to export markets that are currently contracted, so that's that seven hundred Tjs a day (700) we talked about, on the expiry profile. And that gap assumes all of those contracts to renew. So, with Energy East and Eastern Mainline project, we will be able to serve firm load in Canada, and that firm contract load actually exceeds the peak day that we've seen historically, the new firm contracts in the domestic markets, and all of our export firm contracts. Okay?

Q. **[46]** Dernière question, Monsieur Clark. Wood Mackenzie et Gaz Métro ont souligné ou indiquent que les contraintes de capacité qu'entraînera le projet Énergie Est auront pour effet de faire augmenter le prix du gaz naturel en période de pointe. Je sais, vous avez parlé un peu, là, des impacts sur le prix à Dawn; vous avez parlé de Dawn comme un marché protégé. Mais j'aimerais vous entendre sur l'impact du projet, en période de pointe, sur les prix à Dawn, sur les prix à Echo, et l'autre point de marché, là, Waddington. Donc, quel sera l'effet de ces impacts sur les distributeurs de la zone EDA?

R. Well let's start with Dawn, because that's the market that is used principally by eastern Canada now, or certainly will be, as the transition from long haul short haul is implemented. Dawn is served by many pipelines. Let me... No, it's not going to be very helpful. So, if we look at this map, Dawn is located in this area right here. And there are pipelines that come in from all over the continent into that hub. And a lot of those supply points are not affected by the weather that causes prices to escalate here. Those markets have, today, they try to pull volumes in, but because these new projects haven't been constructed yet, they compete with one another, because they don't have, a lot of them don't have firm contracts. But Dawn is insulated from that, because it has ample supply to come in. There is storage at Dawn and... So the market dynamics are very different. They have gas supply that can be accessed from mid-continent, from western Canada, from the Gulf coast, from across the continent. So, if you look at the typical basis differentials between Henry Hub which is in Louisiana, and so the benchmark price point in North America, and it's a supply hub. So it's insulated from a lot of those market, circumstances. Dawn typically trades at a slight premium to Henry Hub. Echo, in western Canada, trades at a bit of a discount. And we talked a little bit about your analysis in the LDCs Settlement. The basis differential between Echo and Dawn is about fifty cents ($0.50), if you look at the forward curves.

Because these are supply hubs, Dawn tends to be insulated from those market circumstances downstream, because they're at the end of the pipe. The map or the graph that we were just looking at showed you, shows everybody having contracted firm now, virtually everybody. And those contracts, virtually, they all go back to Dawn or Echo. So that's where the market buys its supply. I mean, it has the opportunity to buy on a spot market, it has the opportunity to buy on a forward market, it can hedge, there's all sorts of things they can do. They can put gas in their storage. A lot of our customers put gas into storage. In the summer time when prices are low and they bring it out, in the winter time when prices tend to float up a bit. In the LDC Settlement hearing, the LDCs themselves testified that Dawn is a very liquid hub, and as a result, there is confidence in the pricing.

Now Waddington right now, which is located right here, because there is lots of excess capacity, sometimes, the price of Waddington can spike up and people tend to move their volumes to markets there. Once the supply comes in from the Marcellus, if it comes in on Constitution, all of a sudden, you have now got a big supply pushing into that market price, and I think what we will see is a suppression in Waddington. But frankly, no one is buying gas at Waddington today to serve the market because the flow isn't coming that way.

So I think, directionally, with the emergence of Marcellus gas and that they were betting towards twenty-five (25) BCF a day or more being produced in the Marcellus, recall that volume has to push its way into a market to consume it, and when you add that supply, it tends to push prices down. So I think that is what we will see.

If Waddington becomes an import point because of Constitution or another pipeline pushing gas back into Canada, I think you will start to see the Waddington price come down because it will now be pushed out of the market by that cheaper two dollar ($2) Marcellus gas that Ms. Snyder talked about.

LE PRÉSIDENT :

Donc, Mr. Clark, Mr. Dueck, la Régie vous remercie pour votre participation à cette audience. Et on va donc passer à la partie lunch, et on devrait être de retour à une heure trente (1 h 30), avec l'ACIG. Merci encore, messieurs.

Mr. STEPHEN CLARK :

Thank you for your time.

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

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(13 h 35)

LE PRÉSIDENT :

Rebonjour, mesdames, messieurs. C'est maintenant le tour de l'ACIG. Bonjour, Madame Rahbar, Madame Gervais, prêtes à procéder?

Mme LUCIE GERVAIS :

Oui.

LE PRÉSIDENT :

On vous écoute.

ACIG

Lucie Gervais

Shahrzad Rahbar

Dre SHAHRZAD RAHBAR :

Bonjour, Monsieur le Président, Madame, Monsieur les régisseurs. Je m'appelle Shahrzad Rahbar, je suis la présidente de l'ACIG. C'est la première fois que je m'adresse à vous malgré que l'ACIG est une intervenante régulière devant la Régie. J'ai avec moi madame Lucie Gervais, conseillère principale Réglementation pour nous, qui va m'aider à répondre à vos questions, si nécessaire.

Je vous remercie de prendre le temps de nous entendre aujourd'hui, nous apprécions grandement l'opportunité de pouvoir contribuer à votre réflexion sur la suffisance de l'approvisionnement et du transport de gaz naturel pour le marché québécois.

Si vous permettez, je vais maintenant poursuivre en anglais puisque c'est plus facile pour moi de parler en anglais.

Good afternoon all. I appear before you towards the end of your deliberations wondering what else I can add. The good news is that yesterday, Mr. Tournier eloquently shared the challenges facing new industrials... new industrial development in the province to take advantage of the proximity to the new shale finds.

What I hope to do today is shed some light on the impact of the current gas market developments on existing industrials in the province, who account for roughly half the gas volume used in the province, without divulging commercially sensitive information about member operations. On that note, my presentation is going to be... remain high-level and devoid of graphs, or numbers, or financial information. Nevertheless, I do have a brief deck to anchor my remarks.

Before starting, I wanted to make one correction to actually yesterday's transcript. Mr. Tournier, I think it is page 114, line 10, when Mr. Tournier talked about the Settlement Agreement, he noted that IGUA was a party to the Settlement - we were not party to the Settlement, the Settlement was agreed and reached between TransCanada and the three Eastern utilities. Just for correction of record.

Now, so my remarks are going to be brief and kind of around three big buckets. So IGUA has been around for some time, and we are regular intervenors. I am not going to read what is on my slide, I just wanted to take a minute to tell you how large industrials use gas in the province.

As I said, about fifty percent (50 %) of the gas in the province is used by the large industrials, many of whom rely very heavily on the secondary market to source supply capacity or a mix of supply and capacity. The reason behind that is, since market deregulations, since the Halloween Agreement of the mid-eighties, there has been a secondary market vibrant and active in the province. For the best part of the past decade, the mainline system has operated with too much capacity, or excess capacity well in excess of market demands. And the secondary market services have evolved within that reality.

So with that, just by way of context, we heard from the experts of the opportunities that new technology has opened for shale gas and tight oil extraction. For Canada, as a major both consumer and exporter of energy, this is a huge deal. The energy landscape is changing, our single customer for both our oil and gas has been the United States, they have found vast supplies of their own.

And for us in Québec, it means that for the first time in a long long time, we are very favourably situated in close proximity to the large gas supply that is also trapped and looking for markets to go.

On our oil site, the demand projections are increasingly, the demand for our oil will come not from our friends in the U.S., but from the developing countries. Hence the major push at a national level to get our energy resources to tidal waters. That's the extend of my remark on oil, which I know very little about.

So, on the shale gas side, fair to say that the market has been really turned on its head. Within five years, we have gone from being about to run out of gas to being blessed with excess gas, and wanting to get it to export market. Rust states like Michigan, Pennsylvania and Ohio have managed to capitalize on the new shale finds, to turn their economies around. Michigan is experiencing double digit economic growth. Pennsylvania has seen new jobs added in. Ohio has seen petrochemical industry.

You would think that Ontario and Québec, with close proximity, will also be working on capitalizing on access to shale gas. We heard much about the industrials and the LDCs looking at accessing a shale supply from Dawn; there's a reason. Absolutely. This could be fueling, no pun intended, economic development along the lines that we have seen in the U.S. states. And also, the new energy landscape means for us, as a country, we're seeing changing trade patterns for both oil and gas, as well as changing of flow patterns. So, that was the really good news, very excited, new supply and potentially access to more gas, reliable, and at a cost-competitive price.

The problem is the network we have today in place, Mr. Clark so eloquently described as evolved over a number of decades, and it's largely optimized for the supply picture we have seen in the continent before. So, infrastructure needs to catch up to the new supply reality. And this involves, in our view, two sides of the same coin. On one hand, you find stranded assets, as we've been seeing in the main line. On the other hand, you find bottlenecks in the system, as we have focused on in the Eastern Triangle, and experts and speakers about, about New England markets.

So one challenge is the pipeline needs to be optimized, and we have two issues to deal with, both stranded assets and bottlenecks.

Other, I think, challenge about the changes that we're seeing is that our policy and regulations are also optimized for stable market conditions. For fifty (50) years, we have had systems that were growing incrementally, that were no major replumbing if you like, of the pipeline structure, and our systems are equipped to that.

Couple of things are staggering about the change that we're seeing. One is the pace of change is faster than ever before. We're seeing supply picture turned completely within a mere five years. That has not happened in this industry ever. And the scale of change that we're seeing transcends jurisdictional boundaries. I'll take a little bit more about that.

We've been involved in a series of hearings before this Board, the Ontario Energy Board, and the National Energy Board, that all attempt to deal with either parts of the stranded asset issue, or removing of the bottlenecks. I feel a little bit schizophrenic 'cause I'm having the same conversation with three different boards, within three different slices. And, at none of them do we ever to talk about the actual elephant. You know a piece, one of the conversations is focusing on the tail, the other one's focusing on the hear. They're all valid, but no one is actually talking about the world has changed, how do we make this work? And it can't be: it’s good for me, but it's bad for you. It's a new reality, we all need to hang this together in a way that we can benefit, as a province and as a nation, from this new proximity and this new vast resource that we've been able to unlock.

So, getting the transition right is important, because it attracts jobs, and grows the economy, along the lines we've seen in the U.S., and unfortunately are yet to see in Québec or Ontario.

Proximity to this huge supply of gas should be fuelling an industrial revival. After hearing Mr. Tournier yesterday, I should revise the words that I had put into place for this, I mean, it is not easy in the situation that we have to do this because, again, our systems aren't geared to, we are in the midst of a big change, how do I capitalize on this? We are, in my mind, not minding the big picture.

And, of course, mismanaging the transition is a costly lost opportunity. The IFFCO case is a very public one, so the numbers are bandied around and everyone knows about them. What this Board and policy makers don't often hear is industrial investment that doesn't happen, no large industrial will come and tell you, "I meant to invest, but I am not now, I am taking it to somewhere else in the world. I will just tell you about the investment that has happened in the jurisdiction."

But there is a lot of investment that is sitting on the wall or walking away because of uncertainty in our markets. So mismanaging the transition is costly and it’s a lost opportunity.

And again, as we ponder the new emerging infrastructure needs, we should be cognizant that once you put infrastructure in place, this is very expensive piping, it is not going to be renewed on a daily basis, you are fixing flow patterns and investment and trade patterns for decades to come. So it needs the deliberation... it needs deliberation from that lens as opposed to a very discrete specific proposal in front of us. Which is quite challenging in a regulatory hearing, in a consultation, I am taking liberties and taking you to places that we normally don't go in hearings.

So how have the large industrials found this transition process, I should say, painful and unduly turbulent transition. We -- this is large industrials, energy intensive operations, my members come from mining, pulp & paper, petrochemicals and metals, typically in remote areas, depressed economies that heavily rely on the employments. - So potential access to reliable cheap energy is quite an attraction for expansion. So with the new shale finds, I guess the industrials are really looking forward to see some new life bred into industrial investments. Instead, we went into this period where the pipeline majors fought, and unfortunately continued to fight, vigorously. There was a flurry of regulatory activities around the NEB, OEB, and the Régie since two thousand and ten (2010), we do have a list somewhere of how many hearings have been heard on different facets, it is a long list.

And, of course, whilst all the... and it wasn't only a flurry of regulatory activity, we even have, we had lawsuits at provincial courts, so meanwhile, as a large industrial where you have your operations and you are wondering, "Am I going to get my supply, how is this going to be sorted out?" So for the first time in, since our formation, that is over forty (40) years, IGUA is preoccupied with security of supply as well as transportation costs of moving energy around.

The good news is, different parts have been addressed, the Settlement Agreement aims at removing the bottlenecks, of course NEB approval is pending, and who knows where that goes, the Ontario Energy Board has approved construction projects and, of course, this Board has approved moving the supply for Gaz Métro from Empress to Dawn.

Energy East aims at addressing the stranded asset issues, there is continued conflict amongst the pipeline majors, I think it is, the good news is that both provinces have consultations under way and are paying attention.

On the whole, I think it is fair to say that for us, for large industrials, this has been very painful, and costly and unsettling to markets. I take you back, or I bring you back to how the markets have reacted to this. The secondary market is where a good chunk of industrial supply is sourced from, the market is opaque, so transactions are not visible to you, they are not even visible to anyone, they are not visible to me, they are visible to the consultation parties and how prices get set and so on again, in Canada at least.

Capacity is allocated, none of that is transparent in our market. In the U.S., you have more visibility on capacity, transactions in the secondary market. So, in the case of us, this was my caveat of, this is opaque so, my facts you can take or my comments you can not take to the bank, 'cause I'm giving you my best estimate, based on what I can see, which is very little.

But I can tell you that my members experiences jumps in prices, when the severe confrontation between the pipeline majors was going on. Nothing had changed on the physical structure. Nothing much had changed on the advanced side. But the secondary market prices on certainty, the only way it knows, it prices it, and there was a premium to be paid, and industrials paid that premium. So, we... When the Settlement agreement went to the National Energy Board, we went in there and essentially said the same thing, said we're not going to comment on every aspect of this agreement, but what we can tell you is this is preferable to the costly chaos that we saw, 'cause we don't want to see a repeat of last winter's prices. And it wasn't this last winter's Settlement went before that.

The market started factoring in on certainty and industrials see that. Most of the industrials are in cyclic businesses. All their cycles are not at the same time up and bottom. In this province, you know where pulp and paper sits. Is this the best time to be experiencing really uncertain prices on energy? I would hazard a guess and say not.

So, what do these people who create a whole bunch of jobs and are the lifeline of several of our remote communities need? Not terribly difficult. They need access to reliable and competitively priced energy to survive, compete internationally, and fend-off threats of rationalization.

You heard from Mr. Tournier that he was shocked to realize that, for example, we price transportation not based on postage stamp, but the way we do. I guess there must be places in the world that have postage stamp rating for energy access, but we're not one of them. But these very specifics of how we deal with regulated pipelines in our particular jurisdiction is not necessarily :

a) universal in the rest of the world

b) something that people who are not in this business are keenly aware of, or follow on a daily basis.

It's a cost. It's an input cost. It needs to be managed. It's a big input cost. It's not their life. It's an input cost. We'd recognize that changing the architecture of the gas system across the continent is not trivial, and entails major costs. However, we do expect that the transition should occur in a manner to benefit the markets and help markets take advantage of the new finds, not be detrimental to the same market that we want to grow.

So, security of supply should not be a threat, when Québec for the first time finds itself this close to this much gas. Unfortunately, we're having the conversation today because it is. And to us, it's a few anomalies that I'd like to draw your attention, on this transition process.

One. We don't seem to be focusing even on how do we capitalize on this proximity for economic development. We're looking at managing continental, regional energy shift through a slice, through jurisdictional or regulatory lands. So it's a bit restrictive, in our mind, it has led to the piecemeal regulatory hearings that I mentioned.

It's oblivious to the impact of these changes to the secondary markets.

I mention the secondary markets because they are part of the way the end-users of gas source gas, in our provinces, although it's normally totally not in the view of the regulator. It is important because it is reacting, and that impacts the cost that the large industrials are paying. So, not capitalizing... Sorry, I missed one of my points, I'm going back to my first point. Not focusing on this proximity to shale gas and how we can capitalize on it at a granular level, reflecting on what we've seen in the past couple of days, could lead us to low-balling future demand. Projections accurately account for residential commercial growth at the rate of one, shy at two percent (2 %) per year. And that's what the models show. You saw from all of the experts what happens when you throw in one IFFCO in there, she shape of that curve and the slope of the demand curve starts changing. So, by not factoring in, we could be low-balling demand.

My second point on the granular level: what is the down side of this very restrictive jurisdictional regulatory slice to look at the huge picture? Downside for Québec is really painful to the large industrials. Second remark is: we've seen a bunch of projections on where demand is going, and there was consensus amongst the experts and/or credible witnesses than me on how pipelines operate, that New England markets don't seem to be having firm demand, need supply. Nevertheless, they run their electricity system. So, secondary market players or connected to that market are pricing for meeting New England demand. Whether it is firm or non-firm, or whether it is within our boundary or outside of our boundary, fact of life is, secondary market players who firmed up on the system are pricing for that market. So Quebec industrials sourcing supply off of the secondary markets are seeing a premium today, not in two thousand and sixteen (2016), not in two thousand and seventeen (2017).

I give you an example. Sarnia sits almost right on top of Dawn, industrials in Sarnia are seeing twenty, thirty percent (20 - 30 %) premium on what they could get on price, landed price, from last winter. Nothing has changed basically, pipelines are all in place, no new demand has come on, but the secondary market is factoring in New

England demand. So I don't profess to be an expert on why our prices are tied in, on why the secondary market prices are tied into the New England demand, but they seem to be very much tied into New England demand.

So in our view, we have got an unfortunate balance between threat and opportunities from the big continental change on supply. We are depriving ourselves of the opportunities by not having an active plan for attracting investment to take advantage of this proximity, and we are exposing our existing large industrials to the threats.

A couple of comments on Energy East. Again, they are not really profound comments or anything you haven't heard before. We were enthusiastic about the concept of the project, a couple of reasons -- it leverages Canadian energy resources to strengthen the industrial base in Canada.

This is something that IGUA is passionate about and we have been advocating for in front of all provincial governments and the federal government. It brings life to the petrochemical industry in Canada, in Eastern Canada and in this province, and of course it is vastly valuable to the gas side because it repurposes underutilized gas assets.

We do have concerns about the specifics. We have absolutely no issue with the transfer upstream of the North Bay shortcut, that is clearly underutilized and the sooner it is repurposed, the better off the gas markets are. The issue is with capacity and cost implications of repurposing the North Bay shortcut, and for us, it raises two issues, both capacity and cost; we do realize that they are related, but they carry different weights in our mind.

On the capacity short fall, and I am not a lawyer, maybe I should have said potential capacity short fall is a concern, because I really don't know if we have a capacity short fall or not. What I do understand is that TransCanada's proposal amounts to roughly a twenty percent (20 %) net reduction in capacity available in the Eastern Ontario Triangle.

I am concerned that future demand is based on FT contracts because of the comments I meant earlier about the potential foreseen growth and because the secondary market, and I really don't know if the secondary market volumes are in there or not. The really worrying thing for us as users is the huge daily difference between what demand is needed to serve the market.

The fact that the projections are as different as what, with one another as they are is a huge concern. As best as we could tell, the key difference between the projections seems to be what happens to the export markets. Again, we are users on the system, we are not experts, you have heard from the experts, but how to reconcile vastly two different views of the world from people in the same business is disconcerting for us.

So in the absence of consensus, and this much difference between the two parties, we are kind of saying, "What happens if we're short on capacity?" Some people can be running on heavier oil as back-up fuel, is that something we really want to do? From a pricing perspective, far too expensive, from an environmental and missions perspective, that some of my members are subject to, again, not desirable at all.

So, for us, we very much recognize that excess capacity is costly, this is not something that we advocate, we have spent the past forty (40) years actually intervening in front of this Board and other boards purely to make sure that systems are rightly sized, and we don't impose excess cost on the system, so we realized that, but being short on capacity is detrimental, okay? So we are concerned, and it's because we see this huge difference. Again, the work potential should have been there.

The other issue for us is the potential of cross-subsidization. My members are large industrial operations. They're large users of all forms of energy. So, most of my large gas users are also large oil users, and are large electricity users. We don't have a fuel preference. We do believe that it's much cleaner and much more efficient to keep the two markets separate, and insure no cross-subsidization between one market and the other one.

So, is our definition of additional cost consistent with the business reality of a contracted pipe, versus a utility that has an obligation to serve and the fact that they need to connect, then serve us? I really leave that to yourselves. I see total disconnect between one business model and the other one. And as a user at the end of the pipe, it's really disconcerting. So the guy next to me is obligated to serve me, but the one who serves him has absolutely no obligation to serve him. So, to us, this dissonance is a bit worrying.

But the very simplistic interpretation of IGUA version of what cost means is -- please don't make me pay more for the service I was having; if you give me a better service, then we can talk about it. But don't take my service away or don't give me the same service at a higher cost. So, I'll leave you with that.

Next one, please. So, we again are delighted to have the opportunity to provide some input to yourselves, and perhaps some recommendations to the Québec government.

On Energy East, we're really glad that the province is paying attention. We think the user perspective, having a coherent user perspective from the province at the National Energy Board is very helpful. So we appreciate that. Think we would hope that the two consuming provinces will find a way to align their messaging around the National Energy Board table. Again, we are involved in the Energy East hearings in Ontario, and also in the Ontario gas market review. So, our understanding is that the markets have much in common. We would hope that they would coordinate.

We hope that the province would seek assurances that there's sufficient pipeline capacity in place, to meet current and future demand. And, of course, we would like to see discouraging for any cross-subsidization between one market and the other. On the gas market transition, we hope that province would contemplate having a roadmap for economic development, based on the proximity to this new shale supply. We hope that, again, we could collectively find a way to empower regulatory agencies to collaborate, where the scope of projects go beyond traditional jurisdictional boundaries. Not suggesting it's easy, I'm suggesting we should at least turn our minds into addressing it.

And as last one, again, it sort of straddles with the provinces presence around the NEB, beyond Energy East. I think we need enhanced gas market transparency. In the United Stated, the FERC has market oversight powers and collects market transaction data and market capacity data that we don't in Canada. And, as we've been struggling to get our heads around what is actually happening around the markets, lack of transparency, at least for us, has been a deterrent. So we hope that we could convince the province to also recommend that the NEB should consider oversight capabilities similar to FERC that would help bring more transparency to the market.

With that, I thank you for your time, and I'm happy to answer any questions.

LE PRÉSIDENT :

Merci, Madame Rahbar. La Régie a quelques questions pour l'ACIG, Madame Gagnon?

INTERROGÉES PAR Mme FRANÇOISE GAGNON :

Q. **[47]** Good afternoon, Mrs. Rahbar, et Madame Gervais. Je vais faire référence à votre mémoire à la page 13, vous dites que l'ACIG est préoccupée par la possibilité d'une pénurie de capacité de transport à court terme, que ça peut mettre en péril la sécurité des approvisionnements de ses membres. Alors est-ce que vous êtes d'accord avec la précision de la demande fournie par les experts, qui était de l'ordre d'à peu près un point cinq pour cent (1,5 %), là, sur l'horizon? Quand je parle des experts, nos experts qu'on a eus dernièrement.

Mme LUCIE GERVAIS :

R. Alors vous parlez de la demande ou de la prévision de la demande, O.K., parce que le commentaire était plus à l'effet de la pénurie, finalement.

On a... On ne peut pas déterminer quelle est la demande alors on ne s'inscrit pas en faux avec les prévisions de la demande, mais on ne peut pas dire on est entièrement d'accord parce qu'on, je veux dire, la détermination de la demande va venir avec... la croissance de la demande va venir avec tous les bons, tous les bons outils qui vont se placer avec un approvisionnement à prix économique et stable, va faire que la demande, on souhaiterait, va augmenter.

Présentement, on ne s'inscrit pas en faux avec la prévision comme telle, mais on souhaiterait avoir un scénario plus favorable, en autant qu'on ait les outils et, en fait, l'accès au marché à des prix compétitifs, on oserait, on souhaiterait, finalement, et IFFCO est un exemple, on aimerait qu'il y ait plus d'IFFCO qui s'implantent au Québec.

Et donc de commenter sur la demande comme telle, ce qu'on souhaite, c'est qu'elle soit à la hausse, dans le sens que ce qui est prévu présentement, bien, on souhaiterait même une plus grande demande. À ce moment-ci, la préoccupation et

le commentaire...
Q. **[48]** Les experts avaient prévu à peu près un point cinq pour cent (1,5 %), disons, un point cinq à deux (1,5 - 2,0 %), là, durant la période, là, est-ce que vous êtes un peu en accord avec ça... non...
R. On n'est pas en désaccord. On n'est pas en désaccord, mais je, on... je peux vous dire qu'on est en accord, mais dans le sens que, par définition, si on n'est pas en désaccord, sauf que ce qu'on souhaiterait, c'est qu'elle soit plus grande, finalement, en bout de ligne.
Dre SHAHRZAD RAHBAR :
A. If I may add, we actually attempted to verify whether we can come up with an alternate estimate for industrial demand, because the one point five to two percent (1.5 - 2.0 %), I think, we have no qualms with it for residential, commercial, we have watched gas markets and that is what they have been doing.
We attempted to see if there was any data available on the marketplace that looked at what happens when you have this major new shale find, even look at Ohio, Pennsylvania and see if there was a correlation, if there was a report out there that would attempt or would help us characterize

what one should expect for, from having this proximate new supply in place.

There wasn't anything readily available on the marketplace. We understand that Industry Canada has commissioned a study that is expected to be released some time by year-end, and they weren't quite sure what quality would be out of that, but they are attempting to estimate what might happen with industrial demand on their various scenarios. But nothing was out there.

We also attempted to survey our own members and ask them to share their investment plans, and of course ran across, "This is commercially sensitive data that we would not be willing to share." So in the absence of that, it is very difficult to comment. There are no qualms that it is very accurate for commercial/residential other than we have our reservations, if an industrial revival happens, we don't have any concrete facts to offer in front of you.

Q. **[49]** O.K. Alors je reviens à ma question de la pénurie, l'ACIG est préoccupée par la pénurie de capacité de transport. Alors est-ce que la pénurie à laquelle vous faites référence porte sur le transport fourni directement par certains de vos membres, ou c'est celui qui est fourni par Gaz Métro?

LUCIE GERVAIS :

R. En fait, c'est la pénurie pour...

Dre SHAHRZAD RAHBAR :

R. We both, and we have seen a change. So, before the transition process was in full swing, and we got the majors fighting, a good chunk of our members held direct capacity on TransCanada. As the market started transitioning, and the transition process became a little too messy, I'd say in Québec, a lot of our members have turned back, a lot of my members have turned back to Gaz Métro for capacity. And the reason for that has been, as I mentioned: these companies are not in the gas business and staying on top of the transition issues was just purely too costly.

There is a cost associated with turning back to Gaz Métro. If somebody else is assuming risk on your behalf, they're going to be charging for it. Even your very friendly distribution company who you trust. So, from a commercial perspective, my members did their balances, and figured out they'd sooner pay the premium, and have Gaz Métro manage the risk on their behalf, rather than them trying to figure out their way through this maze.

When this transition is over, a new pipeline infrastructure emerges, and we go into stable flow patterns, will many of the large industrials go back? Probably. Let's have the conversation when we get there. So it's a change, it's a big change. I've seen that shift in Québec in big time. Most of my members have turned back to Gaz Métro for supply. I think maybe two or three may still hold some capacity directly on TransCanada, but for the bulk of their capacity, they've turned to Gaz Métro. Anything to add?

Mme LUCIE GERVAIS :

Non. Je crois que vous avez... Non, je... Est-ce que ça a répondu à votre question?

Mme FRANÇOISE GAGNON :

Q. **[50]** Oui. Merci. À la page 14 de votre mémoire, vous dites que les consommateurs industriels de gaz ont toujours été actifs sur le marché secondaire, pour sécuriser leur approvisionnement. Alors, veuillez élaborer et préciser l'impact de cet effritement-là du marché secondaire sur les membres de L’acig.

Mme LUCIE GERVAIS :

R. Essentiellement, madame Rahbar vient d'expliquer les changements, l'incertitude. Donc le marché secondaire est beaucoup plus dispendieux qu'il l'était, parce qu'il est plus difficile également, à obtenir, et il n'est pas nécessairement ferme. On a vu les prix sur le marché secondaire l'an dernier, l'hiver dernier - bien sûr, c'était un hiver froid - mais les clients qui étaient interrompus et qui allaient sur une base pour éviter une interruption, cherchaient du gaz d'appoint, trouvaient des prix très très élevés, et ils ont témoigné devant la Régie en juin dernier. Justement, le témoignage était : ça, c'est quand on en trouvait parce que souvent, il n'y en avait pas.

On entend Gaz Métro dire à la fois à la Régie, à la fois à l'Office National de l'Énergie, qu'il est difficile de trouver de l'approvisionnement. Les membres de l'ACIG sont dans la même situation. Un approvisionnement sur le marché secondaire est très difficile à trouver, présentement. Il n'y a pas une ligne à la porte. Il n'y a pas une rangée à la porte, là, une ligne d'attente de fournisseurs qui veulent fournir, finalement, pour ce gaz-ci. Donc les options sont limitées, et les coûts sont élevés, et présentement, la situation, là, on n'est pas dans le dossier d'appro, mais la situation devient inquiétante si on ne peut pas rencontrer la demande de la clientèle. Et je crois que madame Rahbar veut ajouter.

Dre SHAHRZAD RAHBAR :

Of not divulging information, but let me share with you a couple of experiences that my members have had. One member went to the secondary market as he normally does, to buy gas for next year, and was told that there's no capacity to supply him. He'd never had that, in many many decades of operation, I think this particular person who was in a purchasing position has been there for around a decade. So I got the call: “What's going on?”. I talked to the pipeline majors; you know : “Do you have any systems down?”, “Have you taken any capacity out of the system?” "No, pipelines are operating fine, no compressors are down." "Has anything happened on your system, have you seen a huge new demand come in?", "No." So demand side is stable, the actual infrastructure is stable, secondary markets say, "I'm not selling." Of course, that is not what the customer says, I may be hanging onto my price, I don't know, but he could not source supply.

So there are very strange things happening in the secondary market today about securing gas for this upcoming winter that, as a humble engineer, I really have a hard time understanding, because the physical infrastructure hasn't changed, and the demand hasn't really moved up, but the supply at some location isn't available, and when it is available, it is priced, I would say, closer to what one would expect to get at the Northeast U.S. markets than on typically Canadian market.

Again, this is anecdotal, I am sharing with you an example of one member, the secondary market is very opaque, I really don't know how it reacts.

Mme FRANÇOISE GAGNON :

Q. **[51]** Thank you. À la page 16 de votre mémoire aussi, vous dites que :

> ... plusieurs clients interruptibles de Gaz Métro ont opté pour un service continu, puisque ce scénario est devenu économiquement rentable et nécessaire au maintien de leur compétitivité.

Alors est-ce que l'ACIG suggère que des capacités excédant la demande ferme soient disponibles en période de pointe pour répondre aux clients interruptibles?

A. Good question, a difficult one, and not an easy answer too. We support right sizing, but we also recognize transition issues. We have come from about a decade of huge excess capacity on the system. Secondary market services have been developed for that condition. We are going to be evolving to a different condition, which is going to be either capacity constrained or right-sized, depending on whose view of the world you ascribe to, but everyone agrees there is not going to be huge amounts of excess capacity.

Do you do that with a flick of a switch, which is the way we seem to be wanting to do it -- very detrimental to industrial use, markets cannot react to their supply planning reality with one regulatory decision. The Settlement Agreement, for example, recognized that addressing the cost anomaly for the period up to twenty twenty (2020) is going to be hard on rates, so expand it over some period of time.

I would say, transitioning from excess capacity to right-sizing should be managed in a manner that the end-users don't end up becoming unduly burdened to the extent that they may impact or hamper their ability to operate.

So I am not advocating for perpetual excess capacity on the system because it is costly, but what I am saying is, today, coming from decades of excess capacity, saying FT and only FT is where I am going to go is going to mean industrials are likely going to have a very very hard time adjusting.

Q. **[52]** Et comment devraient être alloués ces coûts-là pour la capacité supplémentaire... excédentaire, excusez?

A. Again, very good question. I have watched this industry for upwards of two decades, the markets always pay. The question is do they pay today, and how quickly they pay. So I think, really, if we transition in an orderly manner, markets will adjust, and markets eventually pick up the cost. Again, it is a question of timing, and how much.

I think my advocating for keeping huge excess capacity on the system, no, it is costly, we would like to say right-sizing on systems, not huge amounts of excess capacity. And eventually, the markets will pay, the question is, don't make them pay today at one go for all of the ills of the past decade, that is going to be very harsh.

Q. **[53]** O.K. Et ma dernière question ce matin : TCPL disait qu'il avait mis tout le monde en branle pour informer les « shippers », là, puis il avait même mis sur son site internet les membres qui ont participé, alors il a mis de l'information sur son site puis il a dit qu'il a eu une douzaine de communications. Alors est-ce que vos membres ont participé à ça?

A. So... I am looking for words because, of course, TCPL's business model says, "He who is a shipper on my system is a customer", okay? The end-use customer that buys off of the secondary market or is on system gas is opaque to TCPL. So Mr. Clark was accurate, they have shared this information of the TTF.

Have all our members really paid attention? I would have to be honest and say no, because a good chunk of them, as I said, buy monthly off of the secondary market. A few still hold capacity on TCPL, they have taken notice, but has all of the Québec industrials noted the changes, do they really understand what the change is and what the difference between a contract carrier and da...

da... da... da... is? No.

So this, they turn to us to give them advice, we have been trying really hard to tell them, "The world that you knew, it is coming to an end, prepare yourselves", the secondary market though is opaque and reacts in a way that it does. So TransCanada has put the information out there, has it been internalized by Québec industrials? I am afraid not, not as much as one would hope so.

Mme FRANÇOISE GAGNON :

Thank you very much.

INTERROGÉES PAR M. LAURENT PILOTTO :

Q. **[54]** Good afternoon. Laurent Pilotto for the Régie. Mrs. Rahbar, one question for you, but I won't go through that question, because... je vais y aller en français, parce que vos propos étaient très clairs.

Je pense que votre vision du marché m'apparaît claire. Et effectivement, quand vous parliez de l'éléphant tantôt, je pense c'est exactement ça. En fait, je réfère beaucoup, puis je référais à Gaz Métro hier à propos d'il y a dix (10) ans, et les « stranded costs » auxquels tout le monde a dû faire face, les tarifs de transport qui ont augmenté de façon importante, ce qui a créé en même temps l'émergence d'un marché secondaire très actif, parce qu'il y avait de la surcapacité. Et vous mentionnez dans votre présentation un point important à la slide 10, vous dites :

> Future demand is solely based on firm contract, while we know that the existing capacity is fully utilized.

J'ai un doute là-dessus. Enfin, à la suite de ce qu'on a lu, de ce qu'on a entendu ici, je ne suis pas certain que toute cette capacité existante est pleinement utilisée, puis il faut faire attention, ne pas utiliser l'hiver deux mille treize - deux mille quatorze (2013 - 2014) comme une référence; tout le monde le sait, on était tous dans le vortex, il faisait froid et tout le monde voulait du gaz. Mais il y a probablement de la surcapacité encore dans le système, ce qui permet au marché secondaire d'être encore actif et d'assurer une certaine fluidité des échanges, mais comme vous l'avez dit, il y a comme un changement de paradigme, il y a un switch qui est arrivé dans le marché, entre autres provoqué par la décision de l'ONE en deux mille onze (2011).

Alors, j'aimerais vous entendre là-dessus.

Je ne suis pas convaincu, personnellement, que ce que vous dites est vrai, c'est:

> [...] while we know that the existing capacity is fully utilized.

Je ne suis pas certain de ça.

Dre SHAHRZAD RAHBAR :

R. Thank you for noting that, and let me share with you where that point comes from. I know that, of my members who roughly use one petajoule per year (1 PJ/y), a hundred petajoules per year (100 PJ/y), own the two or three hold direct capacity on TransCanada. Okay? The others source supply from the secondary market. And the secondary market isn't only the excess capacity, I think, if you look at contracted capacity on the mainline, you will see, in addition to the utilities, you have the large players, large gas marketers, holding firm capacity. These are the people who sell to the markets, and who sell to the Ontario market, the Québec market, and the U.S. market, and other markets. So, again, secondary market is quite opaque to me, as best as I could decipher, it behaves like most markets. The eighty-twenty (80/20) rule applies; few very large players hold most of the capacity and then, there's a whole bunch of smaller niche players that hold capacity and optimize. So, it's only excess capacity that we're talking about. I think marketers hold FT, but because system as a whole is being right-sized or excess capacities being shed, they're pricing differently. I don't know.

What I can tell you is when my members went out to seek supply or capacity, it wasn't available. Was it going to the Northeast U.S.? According to our experts, I'm not a bit wiser and yes, it must be going somewhere else, 'cause it... Obviously, domestic demand is lower than... We have excess capacity for meeting domestic demand, but contracts, I don't think, differentiate between domestic and export. I don't know much, how many of my members are being supplied, and from the versions, from the export points to meet domestic demand, again, secondary market is opaque. So, is that capacity fully utilized? You may be right, it may not be fully utilized. I don't know. That's the really sad reflection. But what I do know is the changes are translating to much higher costs for industrials who are sourcing gas on the secondary market, I don't know why.

M. LAURENT PILOTTO :

Thank you.

INTERROGÉES PAR LE PRÉSIDENT :

Good afternoon.

Q. **[55]** Une petite question, vous venez de parler un peu d'exportation, justement, dans votre mémoire, à la page 14, on parle effectivement des exportations, vous dites, là, au milieu de la page 14, l'avant-dernier paragraphe :

> Nous comprenons que l'écart important entre l'estimation de TransCanada quant aux besoins pour répondre à la demande par rapport à celle des distributeurs, provient de leurs estimations différentes des capacités qui sont requises à l'exportation.

Et vous concluez :

> [...] l'ACIG n'est pas convaincue de la justesse de la démonstration faite par TransCanada à cet égard.

Est-ce que vous pourriez peut-être élaborer sur... sur les estimations, justement, de capacités requises à l'exportation?

Dre SHAHRZAD RAHBAR :

A. Sure. I think the intent of... the intent of that paragraph was very much that middle bullet I have on this slide, we see the difference, the big difference between the utility projections and TransCanada. And we know, for example, the utilities, when they firmed up on their open season, they had not been in front of the Régie to know if they should firm, if they can firm up on behalf of the large industrials.

So if you were to ask me today, "Have the utilities firmed up for large industrial volumes?", I don't know, the answer would be no, most of them haven't because they could only firm up for people they had on system gas because neither of the three Eastern utilities had their regulator's blessing to go and expose system gas customers to capacity obligations for people who are not on system gas.

So they, the industrial capacity hasn't been contracted by the utilities as best as I can tell. Secondary market has firmed up, I don't know whether that secondary market capacity is going to go to export or it is going to serve the domestic market. From the intent, from what I am seeing, it is going to serve whoever pays for it, and whoever pays higher. And what I learned about the New England market prices leads me to believe that they will be able to pay a higher price than your typical Québec industrial would like to be paying for gas.

Utilities obviously flow the gas through their system, so they know what are the total volumes that they flow, who holds capac... who holds the contract for that is something I can't unfortunately really comment on, because most of it is opaque.

LE PRÉSIDENT :

Q. **[56]** Peut-être une dernière question. De quelle façon l'estimation de cette, de ces capacités requises pour l'exportation, ça a un impact pour les membres de l'ACIG?

A. I'm sorry, I don't quite understand, you mean restrictions on export or?

Q. **[57]** Pas les restrictions, mais la demande ou les besoins de capacité pour l'exportation.

A. So if I understand the question, as my colleague explained it to me, it hinges on what happens to export markets, right? If the six hundred (600) remains on the system, if the demand is there, if the export markets don't leave, if the export demand doesn't leave the system, then we are going to be short on capacity. If the export market does leave the system, we are going to be, we are going to end up with an oversized system.

And we debated this amongst our membership a lot. When we... and it is not in our memoir because we didn't land on anything, I am just sharing with you some of the considerations we did, so it was, one of the considerations was, this is excess capacity, but it is cheap excess capacity because most of it has been appreciated. So from, if we wanted to buy six hundred (600) extra capacity today and build, we have an inclination if five seventy-five (575) was available, one and a half billion dollars ($1.5 G), that is the cost.

The total remaining rate base out of this excess capacity in the currently, even if we end up keeping the excess capacity, is relatively cheap excess capacity, compared to being short. So we didn't land on anything, but those are the kinds of, those were the kinds of considerations that we have. And cost is one thing, but being short of capacity, I think, has got operational ramifications that go way beyond the energy cost impact to members.

I don't know if that answered the question?

LE PRÉSIDENT :
It's alright. Pas d'autres questions?
M. LAURENT PILOTTO :
Non.
Mme FRANÇOISE GAGNON :
Non.
LE PRÉSIDENT :
Donc la Régie n'aura pas d'autres questions, Madame Rahbar, Madame Gervais. Merci de votre participation.
Dre Shahrzad Rahbar :
R. Merci.
Mme LUCIE GERVAIS :
R. Merci.
LE PRÉSIDENT :
Je pense qu'on va prendre peut-être un cinq minutes pour laisser le temps aux gens de Gazifère et d'Enbridge de prendre place. Cinq minutes.
SUSPENDION DE L'AUDIENCE
REPRISE DE L'AUDIENCE
____
(14 h 50)
GAZIFÈRE
Lise Meloche
Jean-Benoit Trahan

Jamie Leblanc
Ralph J.W. Fischer

LE PRÉSIDENT :
Bonjour, Maître Tremblay.
Me LOUISE TREMBLAY :
Bonjour, Monsieur Boulianne. Bonjour, Madame et Monsieur les régisseurs. Si vous me le permettez deux petites secondes, c'est juste que les représentants de Enbridge et de Gazifère ont préparé un document qui va supporter leur présentation. Je veux simplement le verser officiellement au dossier. Il va porter la cote CGI-0010. Merci.

CGI-0010 : Document préparé par Enbridge et Gazifère

LE PRÉSIDENT :
Merci, Maître Tremblay. Bonjour aux représentants de Gazifère, Enbridge. À vous la parole.
Mme LISE MELOCHE :
R. Alors, bonjour Monsieur le Président, Monsieur et Madame les régisseurs. Je me présente, Lise Meloche, directrice générale de Gazifère. C'est

avec un grand intérêt que je me présente devant vous aujourd'hui au nom de Gazifère.

La présentation se fera en deux temps. D'abord, je résumerai la position de Gazifère, et par la suite nos collègues d'Enbridge aborderont de manière plus détaillée la problématique pour laquelle nous sommes ici aujourd'hui.

Gazifère est un distributeur de gaz naturel établi depuis plus de cinquante-cinq (55) ans dans la région de l'Outaouais, offrant une énergie respectueuse de l'environnement à coût abordable pour les consommateurs de la région.

Bien que l'ensemble de la consommation de la clientèle de Gazifère soit maginale, relativement, en termes de volume distribué au Québec, l'impact du gaz naturel est très important dans notre région. En effet, avec plus de quarante mille (40 000) clients, Gazifère dessert une grande partie de la population et des commerces et industries de la région. À ce titre, il est important de noter que notre grande industrie régionale utilise la gaz naturel, que la grande majorité de nos commerces et institutions utilisent le gaz naturel, et que près de un ménage sur trois de la ville de Gatineau utilise la gaz naturel, principalement pour se chauffer et pour l'eau chaude.

Les coûts du service de gaz naturel constituent donc un élément très important dans notre région, et ces coûts ont un impact économique significatif et indéniable.

C'est dans ce contexte que s'inscrit notre intervention dans le présent dossier. En effet, étant donné toute la turbulence qui entoure les modifications des pipelines gaziers au Canada, découlant de la nouvelle réalité gazière nord-américaine, Gazifère est inquiète de l'impact qu'aurait une hausse des coûts sur la population, les industries, les commerces et institutions qu'elle dessert, ainsi que de cet impact sur son potentiel de croissance future.

Gazifère est un utilisateur de longue date du réseau de TCPL pour le bénéfice de ses clients. L'entreprise est captive de ce réseau. En effet, Gazifère s'approvisionne via les installations de transport de Enbridge Gas Distribution en vertu du tarif 200. Or, ce tarif tient compte des coûts de transport d'Enbridge, mais également de ceux de TCPL, l'unique fournisseur de transport en amont de la zone EDA de EGD, soit la région de l'Est de l'Ontario et de la franchise de Gazifère.

En conséquence, toute hausse du coût du service de TCPL aura nécessairement un impact à la hausse sur le coût du service de Gazifère. De plus, cette situation de captivité ne peut être atténuée en ayant recours à des moyens d'entreposage ou de production de gaz naturel situé dans la franchise de Gazifère, puisque de tels moyens n'existent pas ou ne sont pas anticipés, les ressources n'étant tout simplement pas présentes.

Nous considérons donc que l'avis que la Régie soumettra au ministre dans ce dossier est critique pour la desserte à coût raisonnable de la clientèle desservie par Gazifère et pour sa croissance future. Nous considérons qu'il est d'une grande importance que les décisions à venir n'affectent pas négativement la clientèle gazière du Québec, et plus particulièrement la clientèle desservie par Gazifère dont nous représentons ici les intérêts.

Maintenant, j'aimerais simplement prendre un moment pour partager avec vous ma réflexion sur les témoignages entendus dans cette salle depuis lundi.

Ce que nous pouvons tous convenir, c'est que l'environnement gazier en Ontario, au Québec et le Nord-Est américain subit des incertitudes importantes depuis quelques années. On le voit avec le projet d'Iffco, on le voit aussi avec les efforts importants mis en place par les trois distributeurs gaziers que sont Union, Enbridge et Gaz Métro. Ce regroupement veut dire beaucoup de choses, et il faut surtout en retenir un élément important : le problème touche le Québec, l'Ontario et le Nord-Est américain, et la solution doit tenir compte de l'impact du projet Énergie Est sur tous les marchés desservis pas le Triangle de l'Est.

Cela étant dit, Gazifère effectue tous les efforts nécessaires pour assurer l'accès au gaz naturel à prix compétitif pour se faire, Gazifère, via Enbridge, participe activement aux différents processus réglementaires et autres, pour trouver des solutions aux difficultés en cours. Dans cette période d'incertitude et de turbulence pour l'industrie du gaz naturel au Québec, Gazifère continuera d'utiliser tous les moyens pour accomoder et aider ses clients, tout en faisant croître son marché et tout en desservant sa clientèle de manière responsable et efficace. J'aimerais maintenant céder la parole à monsieur

Jamie Leblanc et Ralph Fischer, qui vous parleront de manière plus spécifique des enjeux entourant l'approvisionnement gazier pour Gazifère et le Québec. Merci de votre attention.

Q. **[58]** Merci Madame Meloche. Vous allez vous présenter, à savoir qui est monsieur, parce que je ne ai pas connus. Monsieur Leblanc et monsieur Fischer, bienvenue à la Régie.

Mr. RALPH J.W. FISCHER :

R. Yes. Fischer, actually. So we will almost start off. Thank you very much, Mrs Meloche. So my name is Ralph Fischer. This is my very first appearance before the Régie. I have been with Enbridge Gas distribution the last three and a half years, primarily in regulatory roles. My title is director of regulatory special projects. Prior to coming to EGD, in Toronto, I was with Enbridge in Calgary, on liquids pipelines. So my main experience is on the crude oil side, working with Enbridge primarily. Prior to joining Enbridge, actually, my history is one I rejoined Enbridge. I actually started with the predecessor company for Enbridge, which was called Interprovincial Pipeline, out of university. But in between that, I did have the opportunity to work for most of the major oil and gas transmission in Canada, in fact, all of them I think. TransMountain Express Pipeline, which are oil-crude carriers, as well as TransCanada Pipelines.

Mr. JAMIE LEBLANC :

R. My name is Jamie Leblanc. I'm the director of energy supply and policy at Enbridge Gas Distribution. I've been in that role for about two years now. Actually, my previous role is now Lise's position, so I also know a little bit about the Québec market, and I have been here a couple of times before you, and I've spent the last ten (10), eleven (11) years with Enbridge and in the industry, generally.

Mr. RALPH J.W. FISCHER :

So with that, I would like to be begin. Thank you very much. Thank you very much, Mister President, board members, and for the opportunity being able to talk about our view on energies in particular. We have a very brief presentation. We're just covering off some of the highlights in this presentation, in terms of what that was provided in our evidence. Ad this very first slide is an attempt to try to focus on what the key messages we think were in that evidence. And we've heard a lot of this over the last three days, so I will go somewhat quickly through it. So, clearly, the Eastern Triangle or Eastern Ontario Triangle, the current capacity of that is three point two Pj/d (3.2 Pj/d). And it is currently fully utilized. I believe all the evidence, both from TransCanada and the two experts agreed with that. Wood Mackenzie; they forecast a continued full utilization of that capacity. And we'll talk a little bit more about the details of that, and why that is the case. Now, this is on a peak-day winter basis. As we know, TransCanada is proposing to put the forty-two (42) inch line, so-called North Bay shortcut, but in North Bay in Iroquois, into oil service. The capacity of that line is one point two Pjs per day (1.2 Pj/d), which alone is about forty percent (40 %) of the capacity in the Eastern Ontario Triangle.

Their proposal, however, is matched with the project they're calling the Eastern Mainline project, which is a project that would provide five hundred and seventy-five Tjs per day (575 Tj/d) of new capacity, Producing the shortfall in capacity from forty percent (40 %) down to twenty percent (20 %). Nonetheless, there is still a shortfall of twenty percent (20 %), if they pursue the plans that they're talking about publicly at this point.

TransCanada, as you heard this morning with Mr. Clark, and I think it's been said numerous times by Concentric as well; TransCanada is building only for firm capacity. And that really is the core issue that we have with them, that, when it comes to energy is, we'll get on some of the details on why, and a large part of it has to do with the conduct of the twenty sixteen (2016) new capacity open season. And mister Leblanc will get into some of the details of that in further on our presentation.

And finally, at a high level point, the result of building only for firm capacity in the Enbridge EDA is that sixteen percent (16 %), if we were looking at twenty fifteen (2015) gas supply requirements, about sixteen percent (16 %) of the Enbridge EDA demand would be at risk of not getting supply and/or suffering cost consequences that may result from that.

So my next slide is a familiar slide, I think Mr. Clark had a similar one this morning, it is the Energy East Project. The two big check marks are consistent with what I think Gaz Métro is saying, as well as what I heard IGUA saying an hour or so ago, we have no difficulty at all with respect to repurposing the Prairie and Northern Ontario line segments, the Western segments of the pipeline system, they are clearly well under-utilized today and expectations are that that will continue.

The issue is where the red question mark is, and that is the North Bay Shortcut, that is the line between North Bay and Iroquois. That is part of the Eastern Triangle, and that is three point two (3.2) Pj/d of capacity that is currently fully utilized on a winter peak-day basis.

So my next slide has three charts, and these charts come from the Wood Mackenzie study. And so, it just kind of reinforces the comment I just made, so the left chart is the utilization on the Prairie section, and drawn in light gray is the capacity of those sections after they are repurposed to oil service. So clearly, the capacity, even with repurposing both in the Prairie section and the Northern Ontario section, is well above the expected utilization of those segments.

The story, however, is different in the right graph. So that is the EDA historical and forecast view, Wood Mackenzie's forecast view. So the green line is the current capacity, the three point two (3.2) Pj/d So on a historic basis, you know, we can even look back at the very cold 14/15 winter -- which I couldn't believe, I moved back to Toronto three years ago, I didn't know it got that cold, I know it gets that cold in Calgary but it was unbelievable but...

So the 14/15 winter, but even prior to that, you can see in this graph that the peak days, peak day winter demands were not that dissimilar from that very cold winter. And on a forecast basis, Wood Mackenzie is forecasting continued effectively full utilization on a peak day basis for the near term foreseeable future.

And there is a couple of reasons for that. You know, in Wood Mackenzie's study, they do forecast imports at Waddington, a reduction in exports at Waddington, with the result, as a result of new Northeast pipelines, I think specifically Constitution, which is in their forecast. So the volumes moving through Waddington go down once that pipeline is assumed to be constructed in their forecast.

But it is more than made up, well made up almost exactly by growth in the domestic markets in their forecast, both in Eastern Ontario and in Québec. And also, they have a view of growth in, basically to the maximum capacity of PNGTS. So the combination of those things is really what is filling any gap that might have existed if Constitution is built in the time frame that they have assumed and that there is an effective pull-back in some export volumes at Waddington.

So my next slide, there's a couple of graphs again. Now, these slides you saw this morning, actually. They come from TransCanada's evidence. And, you know, Mr. Clark made a point of talking about these slides. So, I'm using these slides with perhaps a little bit different perspective. We've drawn a couple additional lines on his charts here.

So, when he was going through these slides, he focussed quite a bit, I think, on the stair step red line, just to back up perhaps. So, the left-hand slide is looking at deliveries through Niagara-Chippawa and the right-hand slide is looking at deliveries through Waddington to Iroquois.

And so, on the historic basis that he's... that they're showing here, there's a step decline in terms of average, average deliveries. And he described a similar step wise reduction in average deliveries through Waddington as well. And then, he... or TransCanada, I guess, is suggesting that you look at that pattern in Niagara-Chippawa, it looks like there's a similar pattern beginning through Waddington, maybe the result is going to be the same, where you will get to a point where there are little or no exports to those points. And in fact, potentially imports as it's presently occurring at Niagara-Chippawa.

What we have done is we've added the green dotted line to each of those charts. So, and that kind of illustrates a very different story in terms of these two delivery export points. The dotted green line in the left chart is clearly decreasing over that historic period, to the point where, on a peak day basis, even there are no volumes that are being exported through Niagara-Chippawa. Contrast that with deliveries through Waddington, that dotted green line, on an historic basis, has not shifted one iota from what it has over the historic period, over those six or seven years.

So, I was just going to turn over the presentation to Mr. Leblanc. He's just going to speak for the next two slides. I've jumped ahead one, and he'll go back to the other one in a moment.

Mr. JAMIE LEBLANC :

R. Yes, it's funny, in the last-minute preparation, you change how you want to talk to something. So, I've actually started with my second slide and I'll revert to my first slide after. Last-minute.

So, thanks again for having us here. We hope that our information will help you with your mandate to speak to the ministry.

So, what I want to do with this first slide is actually give the board a bit more insight in the information around firming up of capacity. And so, what this is and what I'm going to discuss is, this is what I would call a snapshot of the supply demand balance sheet for the Eastern Delivery Area for Enbridge Gas Distribution. So, the Eastern Delivery Area includes Gazifère, because we look at that area, we serve it as a whole, and not Gazifère separately from the Ottawa market, but as a whole.

So, Enbridge meets the peak day demand in the EDA by developing a gas supply plan that is based on the parameters approved by the Ontario Energy Board. And that, as you can see in this table, that supply plan includes various different supply methods. So, of course, a large amount of it is either long haul or short haul firm. We also factor in Ontario T customers that supply their own capacity. We factor in curtailment, so those are the folks that we can ask to turn off when the weather gets really nasty. And we also carry a small... an amount of peaking supply. And because of the way our market is, and our market is very, what we call peaky, because we have a lot of winter heating demand, it makes more sense for us to have a bit of peaking supply rather than supply our system with all firm, at least it has historically. So, I just gave you a little oversight on that.

What I'd like to now go to is, in January, we bid into TransCanada's new capacity open season, and we did so to make sure that we had the firm capacity that we needed to meet the needs of our gas supply plan. And in June, recognizing that the two thousand sixteen (2016) new capacity open season was looking like perhaps our only opportunity to firm up our capacity needs, Enbridge signed the precedent agreement with TransCanada, and firmed up its requirements, even despite very high financial back-stopping requirements that

TransCanada insisted on imposing on those who signed up. What we have since realized, however, is that the others, so when I'm talking about others, I'm talking about the curtailment, the peak in supply in the Ontario T customers supplies have not necessarily firmed up. And they're a part of our supply picture too. So, based on these numbers, we fear as much as sixteen percent (16 %) of our peak day demand may not be underpinned by firm TransCanada capacity. We think this, because over the last couple of months, as the market has sort of come alive to some of these issues, about half of the curtailable amount you see there has to return to firm, added at the earliest point possible.

Over the last couple of months also, a number of the Ontario T servers customers have come back to us and said: « We would like to come back to distributor transportation capacity. You know, we don't, we don't, we can't sign the new capacity open season, with the primers it had, we need to come back to you, we need you to provide transportation for us. So we're starting to see... I think Gaz Métro saw it earlier... I'm not sure exactly why, but we're starting to see that same trend. It's been accelerating over the last couple of months, of people coming back to us, saying: « We don't have transportation. Can you help us? »

So all that, you know, makes us question whether or not the peaking supply that we've relied on historically, even has firm backing or will have firm backing into the future.

So, just before I move on, there was a couple of discussions today and maybe yesterday, about pricing and I'm not an expert in markets, I'm learning. I have experts that work for me. But I wanted to just give a couple of points. So, we have a bit of experience with purchasing gas on the secondary market. Our peaking supply, the way that works, is we do an RFP. People say: « Yes, we'll supply you. You call us the days you need it, and we'll sell you gas. » But the price is going to be... the price we could have otherwise got it for at Iroquois. So, that's sort of how it works.

So we have a sense of what the secondary market was facing. And this is anecdotal, there's a lot of things going on, but last winter, when the demand was twenty percent (20 %) higher than it was in the previous winter, which I will call a more normal winter, the price that we paid for peaking on average, diverting gas destined for New England markets, diverting gas to our franchise, was an average of over thirty-eight dollars ($38) a Gigajoule. You want to compare that to a year previous? The price we paid on similar peak days, but in a more normal market where there wasn't a twenty percent (20 %) lack of demand, we paid about eighteen dollars ($18). So, you know, anecdotally, when you have twenty percent (20 %) less or more demand, or who knows, maybe twenty percent (20 %) less capacity, prices certainly will react. We saw it double. It's anecdotal, but anyway...

On a more, you know, stepping away from the anecdotal for a moment, though, when we buy gas for peaking supply, we are competing with the New England market, for that gas. So we have to pay enough to divert that gas from those markets, and those markets are some of the most expensive in North America right now.

And so, imagine the Triangle with much less capacity, and having to buy a whole lot more of that gas, and trying to divert a whole lot more gas from going to the New England market and you can get a sense of the types of cost that people who are relying on, discretionary, are going to start to face, if you start to reduce the amount of capacity that's going into the area served by the Triangle. So with that, I will move to my first slide. You will have to bear with me a little bit, I did add a few notes based on this morning's presentation to try to give another perspective on a couple of things, but I will try and be efficient here.

So TransCanada has been very clear, they maintain their position that firm contracts are the only basis for determining the capacity requirements on the Eastern Triangle of their Mainline system. I would ask the Board to consider what potentially their motivation is in working in that way. I won't comment on their motivation, I just ask you to consider it.

I will give you our motivation though, because I know it. I am interested in defending the needs of our gas supply customers, I don't make any money selling natural gas to my customers, I pass it on at cost. What my duty is to our customers is to try to get them gas at the best price possible, so that is my motivation, just in case you are wondering.

So with that, TransCanada maintains that its position that firm contracts are the only basis in determining capacity, despite the fact that they were provided guidance from the National Energy Board on this subject. And I am going to read that, it is actually on page 25 of our evidence, but I will read it because it is interesting. So this guidance was given to TransCanada last fall, and then this, early this year, after having this guidance, they performed their 2016 New Capacity Open Season, so they knew the expectations of the NEB when they did that. And this is what they say,

> We do not expect that firm contracts are TransCanada's only source of information about future demand for Mainline services. It is our view that TransCanada has other sources of information that can be used to inform its management of the Mainline. We have confidence that TransCanada tracks historical and current Mainline utilization trends; understands the market including prices, supply and demand developments; is well informed of existing and proposed infrastructure; and generally knows

> the nature of its shippers' businesses, among other things. We expect TransCanada to use the greater contractual information provided by this decision, in conjunction with information from other sources, to manage the Mainline and make reasonable and informed estimates and projections about the future demand for Mainline transportation services.

That doesn't say "firm contracts only", just, at least, that is not my interpretation of it.

So TransCanada, after that, has maintained its position in the face of expert evidence that you have heard here. They, you know, Mr. Fischer just talked a little bit about the Wood Mackenzie reports, they have maintained that stance in the face of direct information from customers that you have heard from here, and I am sure they heard from many times since they asked us to sign precedent agreements. And they have maintained that position despite what the distributors have been saying or acting on behalf of those customers.

We believe, as others have already discussed, that the conditions under which that

TransCanada offered its 2016 New Capacity Open Season were too onerous and, as a result, repressed the market by, from firming up its full and real capacity needs.

And I had not intended to get into this next little part until I heard Mr. Clark this morning, and I thought it was important to add something here. You know, he talked a couple of times about giving market players lots of notice, lots of knowledge, you know, telling them, you know, what is changing in the market and, so I thought it was interesting so I looked back and just, because I had been involved in some of this, and I noted that this was not the first time that we have seen TransCanada repress the market from firming up their needs. You know, we actually agree with what TransCanada indicated this morning about the March two thousand thirteen (2013) decision. It was significant. It changes the market quite a lot.

And what's interesting is that in that same month, and long before the market understood, you know, the new rules and how it will affect them, and what was even going on, TransCanada declared all uncontracted capacity in the Eastern Triangle that could impede its Energy East Project as non-renewable. They presumed, I can only presume that they presumed that before they had described the project to anyone of filed anything in front of the National Energy Board, they had presumed that that project was going to occur, and they held aside existing capacity and would not allow customers to have it on a renewable basis.

As a result, the market was prevented at the time from making decisions to firm up existing capacity, and under terms of existing capacity in their tariff, which are much less onerous than the ones that were found in the two thousand sixteen (2016) New Capacity Open Season. In fact, for existing capacity, you have to, in order to maintain renewable rights, you only have to firm up for two years at a time, versus fifteen (15). And you don't have to sign any financial backstopping agreements in order to have that, so... The market wasn't able to take advantage of the existing capacity. They only had the option to sign up for new capacity with onerous terms.

So, I guess, we believe that on the basis of firm contracts alone, as TransCanada has carried out its assessment, the Eastern Triangle will be short of capacity. It could be as much as six hundred Tjs a day (600 Tj/d) or twenty percent (20%) of the current capacity of the Eastern Triangle. In fact, we think it is closer to the six hundred (600) than not. But no one really knows, because TransCanada won't offer capacity in a manner that we think allows the market to really declare the real intentions and needs.

And with that, I'm going to turn it back over to Mr. Fischer to clear things up.

M. RALPH J.W. FISCHER :

A. So, this is our concluding slide, the last slide of our presentation. It really just reiterates some of the main points that I hope we've made over the last five or ten (10) minutes here.

So, the first point being that the North Bay-Iroquois is expected to be full, at full capacity during peak periods for the foreseeable future. And as I mentioned earlier, from the Wood Mackenzie evidence, even assuming Waddington imports start sometime in the next few years, growth in the domestic markets, and increased exports to PGNT... PNGTS more than make up for the loss that Wood Mackenzie is forecasting.

Converting the North Bay shortcut forty-two inch (42") line to oil service and replacing that with their proposed five hundred and seventy-five Tjs per day (575 Tj/d) Eastern Mainline Project capacity will result in a twenty percent (20%) loss in current capacity in the EOT.

Our opinion is that replacement capacity in the EOT should not be determined solely on the results of the twenty sixteen (2016) NCOS, and as discussed by Mr. Leblanc.

And finally, replacement capacity in the EOT, from Enbridge's perspective, should be the same as the capacity that exists currently. And to emphasize the very last part of the sentence, with no cost consequences to mainline shippers.

And Mr. President, that concludes our formal presentation. I have a few additional comments to make regarding the two cases that were handed out on Monday. If it's appropriate to do that now, I could do that now, or later.

LE PRÉSIDENT :

Go ahead.

M. RALPH J.W. FISCHER :

Okay. In a way, it kind of keeps off that last point that I was just making, the cost consequences point. In terms of the three pages, the first page we have no particular comments to make about that.

We have not had the time to redo that math. You know, clearly, the evidence that we have filed as part of the settlement application you know, shows, you know, very strong landed cost benefits, as a result of opening up that market access that the Settlement application will allow to occur. So we haven't verified those numbers, but clearly, there's a major benefit that will accrue to Québec and eastern Ontario customers as a result of that. In terms of case one; case one doesn't deal with this, but it's a related concept. I only bring it up because mister Clark brought it up this morning as well. So, in their evidence, they did talk about a net present value of seven hundred and fifty million dollars ($750 M) of recrew to Mainline shippers. And again, it's somewhat mysterious, how they arrived at that number. I know we're waiting with bated breath for the application to be filed, because now we know it's going to be nine hundred and forty-five million dollars ($945 M), and maybe a billion ($1 B) next week, but we know they're going to have that in there, and they're going to explain it in full detail how they arrived at that, so, at this point in time, it's a bit of a mystery, but I'll make one comment on that, and it's a cautionary note, with respect to that, and that is that... you know in their evidence they do say that it's looking at the net present value through to twenty-thirty (2030), and it's related to case 1, because case 1 kind of explores the impact of the rate base increase that would result, and if an analysis is only done to twenty thirty (2030), what happens after twenty thirty (2030)? You know, assuming that the asset is depreciated longer than twelve (12) years, there will be a rate-based remaining of the incremental rate-base add, post twenty-thirty (2030), that's someone's got to pay for. And so we'll be interested to see how they deal with that. But if the analysis only looks through the end of... through twenty thirty (2030), it's not taking into account, you know, the cost consequence beyond twenty thirty (2030) of remaining rate-base, associated with incremental additions to rate-base.

Mr. JAMIE LEBLANC

Just before it continues on and I'm not an expert on this either, but my past life, I'm an accountant, and I have some experience in tax and accounting, things like that, and he did mention this morning, mister Clark mentioned this morning

CCA and tax benefits, and I'd suggest that probably, isolating your analysis to the few years of the analysis is a good way to do it, because CCA tax shield on new assets works very well to shield the company from taxes in the first few years of purchasing an asset, but, you know, looking at an asset on a very short period, when it has a life of, you know, forty years I think is done on purpose I guess, it's the way I would say it, and I won't go further than that.

M. RALPH J.W. FISCHER :

Thank you mister Leblanc. So back to case 1, in terms of what case 1 was trying to do, the six hundred million dollar ($600 M) net addition to rate base, which is referenced in this case, it appears to us to be about the right number in terms of what TransCanada is talking about today, i.e. a one point five billion dollar ($1.5 B) Eastern Mainline projet. Mister Clark talked about a four hundred million dollar ($400 M) net book value that would get transferred over to the Energy East project, that would offset that one point five (1.5), plus they're making this generous five hundred million dollar ($500 M) contribution, which he describes as very significant, but so is the six hundred million dollars ($600 M) add, which is an even bigger number, to rate base. But anyway, you net those one point five (1,5), less the five hundred million dollar contribution ($500 M), less the four hundred million (400 M), a net book value transferred to the oil project, you get six hundred million (600 M), so I think that kind of lines up with their proposal is currently. So it's just a couple of observations or comments that we would make on that. Are there any scenarios where that number could be a bigger one, and I think there are a few. The first one being, of course, is that from our perspective, the five hundred and seventy-five Tjs per day (575 Tj/d) is not enough capacity, where we think capacity should be the full one point two Pj/d (1,2 Pj/d). I'm not sure... I think there was a question this morning to mister Clark on what a full build-out would cost. I don't recall what his answer was, but it's likely to be in excess of two billion dollars ($2 B). But, you know, it's not six hundred million (600 M), it's going to be a bigger number, if and when they build to the capacity that we feel is required to be replaced, in the event that they put the North Bay shortcut forty-two inch (42'') line into oil service.

Just two additional comments I would make on that, on the rate base add, is that TransCanada assumes that the transfer and the Energy East project will be in service in twenty seventeen (2017). I'm not sure if it's the end of the first quarter, or in mid-twenty seventeen (2017). But twenty seventeen (2017) is the time frame that they're assuming that that will occur, as far as I know. But, to the extent that that gets delayed, and again, there was some discussion on that this morning too, you know, projects sometimes get delayed, sometimes costs increase even if they're not delayed, but so, if it is delayed, there's a couple of things that could happen if it gets delayed beyond that twenty seventeen (2017) time frame. One is the net book value, that four hundred million dollars ($400 M) that mister Clark was talking about this morning. It becomes a smaller number, because of, you know, that asset gets depreciated. And so, that credit that we're talking about becomes a smaller number every month, every year it gets delayed. So that's one thing.

And the other thing is the one point five billion dollar ($1.5 B) price tag for the five hundred and seventy-five (575), probably goes up, but chances are, you know, most... you delay something, inflation alone would potentially cause that to happen, so those are the couple of comments that I would have on case 1, just some insights that we had when we looked at it, very quickly.

In terms of case 2, we don't really have any specific comments on that, other than to say that, you know, any loss in building determinants that may occur due to reduction in exports at Waddington. Our view is that, you know, that will happen whether Energy East occurs or not. And so, you know, to single that out as an event alone I think really needs to be considered whether Energy East occurs or not. So that is really the only comment we have on case 2.

Mr. JAMIE LEBLANC :

I will just add just one little thing on that. Because you're, regardless if, which ever way it goes, building determinants will go away. The folks that are left paying the bill are the utilities and the people that we serve, and I would rather pay for a four hundred million dollars ($400 M) existing pipe than a one point whatever billion new capacity pipe if I am left holding the bag.

LE PRÉSIDENT :

Donc, messieurs, dames, la Régie va prendre une pause de quinze minutes, on va aller revoir nos questions et on vous revient à quatre heures moins quart (3 h 45).

SUSPENSION DE L'AUDIENCE

REPRISE DE L'AUDIENCE

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INTERROGÉS PAR M. LAURENT PILOTTO :

Q. **[59]** Bon après-midi. Ma première question, on va utiliser votre « slide » numéro 6. Alors, j'ai vu ce que... la petite ligne verte que vous avez rajoutée, ainsi que le commentaire :

> Capacity is required for winter peak load, not yearly average.

On est d'accord. Mais est-ce que la position d'Enbridge, est-ce que vous proposez que la capacité dans le Triangle de l'Est soit maintenue pour répondre à la demande en pointe, notamment celle qui est attribuable au « peaker » de la Nouvelle-Angleterre. Quand on regarde sur le graphique, surtout le graphique de droite, qu'on voit les très hauts « peaks » des périodes d'hiver, on en a discuté hier amplement avec les experts, les expertes, je devrais dire. Alors, est-ce que c'est la proposition de Enbridge?

Mr. JAMIE LEBLANC :

A. I guess I would answer it in this way. Reduction of capacity in the Triangle, if a number of customers in that zone are served by discretionary and secondary markets, a reduction of capacity in that market is not going to be... the result of that is not going to be just in the New England market, it's going to be to those customers using discretionary services, who are having to attract that gas other than the New England market. And so, when you reduce the capacity, you're going to increase pressure on the market, and the prices are going to go up.

So, we believe that, you know, the system is highly utilized. No system is full every day, it's just not the way it works. We believe it's highly utilized, it will continue to be highly utilized, so we do not believe there's any reason to reduce the capacity because it is highly utilized and it will be in the future.

Q. **[60]** Mais comme je l'ai mentionné hier, ma lecture du marché, dans sa situation actuelle, c'est que, parce que nous avons beaucoup de capacité excédentaire dans notre marché, ça laisse de la place à des gens qui sont là juste... les « fly-by-night » qui viennent juste pour des courtes périodes, mais qui créent une pression très forte à la hausse sur les prix dans les périodes de pointe. Si on réduit la capacité excédentaire, ces gens-là vont aller jouer ailleurs ou vont jouer sur d'autres formes d'énergie?

A. I guess if the transition of the market can be done in a way that all customers can be served by... their needs can be served and they're not going to be subjected to the... the whim of that market, then, you know, right-sizing, maybe there is some difference. But our view right now, our best view says that the market needs that capacity. You know, should another opportunity for folks to firm up in some way and for us to make sure that there's enough capacity for everyone in the market, maybe we'll know better. But our best view right now is that the market is sized, it has developed and is sized to meet the demands that are there today.

Q. **[61]** Vous devancez une autre question que j'avais. À la page 9, dans vos conclusions. Donc, vous venez de l'exprimer. La position d'Enbridge semble être que la capacité actuelle dans le Tiangle est suffisante et pleinement utilisée, et donc, devrait être maintenue telle quelle. Puis je n'embarquerai pas sur la question de with no cost consequences, ça, c'est une autre question. Vous aurez l'occasion de débattre de ça devant l'ONE. Mais, sur la capacité, on a entendu la position de Gaz Métro hier, qui semblait montrer une ouverture au right-sizing. On a entendu tantôt les représentants de l'ACIG, qui semblent aussi avoir une ouverture pour un right-sizing. Est-ce que ça influence votre position?

R. I think that the market gets a fair opportunity to be right-sized, and a clear right-sizing that takes under consideration the real needs of the market, then, you know, I, too, think that there may be opportunities to right-size, we don't know yet.

Q. **[62]** On va prendre la slide 8. À la Régie, nous avons depuis de nombreuses années des audiences très actives avec Gaz Métro sur les plans d'approvisionnement. Mais notre habitude, c'est d'avoir devant nous un LDC qui tente de satisfaire l'ensemble de ses besoins, à la pointe, dans les conditions d'hiver extrêmes, avec des approvisionnements fermes. Là, on apprend de votre mémoire, et de votre position, que Enbridge ne couvre pas nécessairement pas tous ses besoins à la pointe par des outils fermes. Est-ce que ça fait longtemps que vous pratiquez ce sport extrême?

R. I'm going to tell people I'm in extreme sports now. It's partially to do, I mentioned earlier the nature of our franchise. It's very peaky. It has very high difference in demand in the summer versus the winter. And, for those very coldest days, it is more economic for us to contract for peaking supply, rather than hold firm transport for the entire year, and it's an approach that's been, that the Ontario Energy Board has approved and endorsed, and expects us to use. So, the way we do this is we do an RFP into the market, for typically, what we call bullets of peaking supplies. And what we get from the market is, ''Okay, yes, on ten days, throughout the year, you can call us up, and we'll take our supply that's destined for the U.S. market, and we're going to give it to you. You're going to pay us what we would have gotten in the New England market.''

And so, even if last year, at thirty-eight dollars ($38), an average price, to hold firm capacity in buying that gas at Echo would have cost about sixty-three dollar ($63), effectively cost sixty-three dollars a Gigajoule, so even in an extreme winter, it made sense for us to use the peaking... What I fear is a market... You know, we rely on just a little, on a very few days. What I fear is a market that is heavily reliant on that secondary market, and what that could do to prices. So, yes, we do use it on those very coldest days, to take that, just those top peaks of weather.

Q. **[63]** O.K. Puis ne le prenez pas mal, là, c'était juste une joke. Nous sommes juste surpris, mais je suis certain que si vous le faites, c'est parce qu'il y a une réalité, il y a une rationnelle économique de le faire. Et donc, une stratégie d'approvisionnement comme la vôtre repose sur un marché secondaire très fluide et très actif?

R. That's right. And I would just say that, given what we know about firm contracts or all that they're going to be served, at least, that's the current view. If we would have the opportunity today, knowing what we know today, we would probably firm up that capacity, 'cause we're no longer as comfortable as we were in the past. And we would explain to our regulator, the OEB in that way is that it has worked for us in the past, but we probably have to firm it up in the future, not because of economic reasons but for reliability

reasons.
Q. **[64]** Le sport est devenu trop extrême?
A. Exact.
Q. **[65]** Une dernière question concernant notre petit distributeur québécois, Gazifère. On comprend que Enbridge est le seul et unique fournisseur de gaz de Gazifère et, en fait, Madame Meloche, ce n'est pas parce que je ne veux pas que vous répondiez mais parce que ça concerne votre fournisseur, notre question, c'est : si Enbridge n'a pas la capacité pour répondre aux besoins de tous ses clients, y compris les interruptibles et ceux qui adhèrent au service T, qui voudraient revenir au service continu du distributeur, notre compréhension, c'est qu'il va avoir un arbitrage à faire. Or, parmi les clients d'Enbridge, il y a un client qui s'appelle Gazifère, notre préoccupation, c'est est-ce que Gazifère va être servie en premier?
A. In all aspects of serving Gazifère, we treat Gazifère the same as any and all of our customers, actually in our entire franchise. The way we serve Gazifère is through a postage stamp supply that is applicable to the Toronto area, the Ottawa area and Gazifère. So Gazifère actually benefits from that, because they are in the most expensive area to

serve, the Ottawa region is more expensive to serve than the Greater Toronto area.

But yet, we use a postage stamp so today, they benefit from the averaging of all of our customers combined. And very much in the same way, if there are additional costs to serve our entire franchise, and including Gazifère, then they would share in the implications of that. That is how we have always served Gazifère, I think it has been a real benefit to Gazifère in the past, and I think it will continue to be a benefit in the future. But, yes, we would see Gazifère, you know, to proportionately participate in whatever the changes in gas supply costs for them, along with the rest of our customers.

M. LAURENT PILOTTO :

Merci. Je n'ai pas d'autres questions.

INTERROGÉS PAR LE PRÉSIDENT :

Q. **[66]** Moi, je réfère surtout à la réponse dans votre mémoire, c'est la réponse 37, qui concerne les capacités de transport; 37, page 26 de 28, et surtout la dernière partie de cette réponse-là où, dans mes mots, là, Gazifère dit qu'il y a seize pour cent (16 %) des besoins de capacité de transport reposaient sur les clients qui fournissent leur propre transport, puis également sur le marché secondaire.

La question est la suivante : est-ce que Enbridge est en mesure d'approvisionner toute sa demande continue en période de pointe, c'est-à-dire demande continue plus la demande des clients qui prennent le service de transport du distributeur?

Mr. JAMIE LEBLANC :

A. Things are changing rapidly, we continue to be able to serve our customers. We are here, and we are at the NEB, and we will be wherever else we are needed to do whatever we can to make sure that the right decisions are made around Energy East so that our customers will have the capacity and the service they need going forward. I guess that is how I would answer.

Q. **[67]** O.K. Est-ce qu'on comprend bien que les clients qui fournissent leur propre service de transport n'ont pas participé, là, à l'appel de TCPL, l'appel d'offres de TCPL, n'ont pas soumissionné à l'appel d'offres de TCPL?

A. I don't know, I don't think we know who all necessarily filed are in the offers, I could be wrong on that but I don't know. But I do know, if you look at TransCanada's CDE report, that, at least right now, the only... the only... except for about a thousand (1,000) Gj/d, the only company that holds firm transportation to the Enbridge EDA is Enbridge Gas Distribution. I don't know whether the customers have heard the call and have done something, but I know many of them have come to us. I know they didn't all do it, because I know many of them have come to us, I don't know if some of them have but I know many have not firmed up. I guess this is how I would say it.

M. LE PRÉSIDENT :

Une dernière question. En fait, c'est quoi les obligations de Enbridge vis-à-vis ces... Monsieur Trahan?

M. JEAN-BENOÎT TRAHAN :

R. Bien, peut-être juste un petit mot là-dessus. On a soumis dans le dossier tarifaire qu'il y avait trente-sept (37) personnes qui étaient en Ontario T Service. Il y en a trente-deux (32) à l'heure actuelle qui cherchent à s'en venir chez nous. Donc, le mouvement est vraiment présent.

LE PRÉSIDENT :

Q. **[68]** Est-ce qu'il y a, concernant justement le retour de ces clients-là, qui fonctionnent en transport puis qui veulent maintenant utiliser le transport de Enbridge ou de Gazifère, c'est quoi les conditions? Est-ce qu'il y a des conditions de service? Quelles sont les conditions de service, en fin de compte, de Enbridge?

R. Ce que je peux vous dire c'est... je vais laisser répondre après monsieur Leblanc, mais à la base, il y a une évaluation qui est faite à savoir s'il y a de la disponibilité pour les prendre. Donc, il y a vraiment un travail qui est fait, autant pour les gens de chez Gazifère que pour les gens de chez Enbridge pour décider si ces gens-là peuvent revenir sur notre transport, et donc si on a la capacité de les accompagner. Donc, c'est comme ça que c'est fait, de manière plus précise. Je ne sais pas si monsieur Leblanc peut répondre là-dessus.

Mr. JAMIE LEBLANC :

A. As far as we're concerned, we have an obligation to serve customers if it's profitable from a distribution system to do so. And then, we have an obligation, then, when they do ask for a service to go out and get them gas. So, from an Ontario T point of view, so, if someone is on Ontario T and they ask to go to Western T, so ask for our distribution or our transportation, if we say no, they have the option, because we are the supplier of last resort, to say, "Okay, if you will not give me Western T, give me system supply." So, they... we really have no option but to take the Ontario Ts back if we can serve them economically from the distribution system. They're already on it, so we can do that.

For curtailable customers, there's a further test. We have to look at whether we can serve them in peak conditions economically. So can we serve them today? Maybe. We'll decide that. If not, we'll look, is it economic for us to spend the money to reinforce our system to serve them? Or do we have to ask them to contribute to that cost in order to be able to be served. But we can't refuse them based on transportation. We can only refuse them based on distribution constraints.

M. JEAN-BENOÎT TRAHAN :

R. Si je peux ajouter un petit mot là-dessus encore. On a parlé de turbulences dans le marché, et on se demandait, j'entendais différentes petites choses qui tournaient autour de comment le marché réagit. Dans les gens qui reviennent, il y en a que c'est des « shippers » qui reviennent, donc c'est des gens qui, leur business c'était de vendre du transport, et ces gens-là sont maintenant tellement apeurés par ce qui se passe autour d'eux qu'ils préfèrent laisser leur entreprise, une partie de leur entreprise, de laisser tomber cet aspect-là.

Donc, quand on parle de turbulences, comme économiste, quand tu regardes ça puis que tout le monde se sauve, puis que tout le monde essaie d'aller en dessous du parapluie, bien c'est parce qu'il doit y avoir un problème dans le marché, là. On a entendu parler les gens de TCPL de « reshuffling ». Les gens font juste se repositionner.

Alors, je vous dirais, quand tous les as du jeu vont tous sur le même bord, là, puis ici quand je parle des as du jeu, c'est les gens, c'est les « shippers », c'est les plus grands connaisseurs du marché, les industriels qui ont travaillé pour avoir le « unbundling » et d'essayer d'aller chercher les opportunités dans le marché, quand tous ces gens-là s'en vont se cacher en dessous du parapluie, quelque part il doit y avoir une turbulence certaine dans le marché.

Mr. JAMIE LEBLANC :

A. Just one other thing I'll add. I didn't mean to sound so negative, I guess maybe, in my answer. I mean, from my point of view, serving those customers is good for Québec, it's good for Ontario, it's good for the country. We don't want to hold back service to those customers. We want them to benefit like all the other customers that are on gas like them, from the same benefits of natural gas, so to hold back service because our service is being threatened, it doesn't make sense, and that we too, to the extent we possibly can, want to make sure that customers get the service they want, so that they can compete and they have the advantage of natural gas the same as everybody else in the market.

LE PRÉSIDENT :

Merci. La Régie n'aura pas d'autres questions. En fait, il nous reste, Madame Meloche, Monsieur Trahan, Monsieur Fischer, Monsieur Leblanc, à vous remercier pour votre participation. J'ai trouvé très enrichissante la participation des gens de l'autre province. J'ai bien aimé, j'ai appris des choses et c'est très enrichissant pour nous autres.

Écoutez, ici ça met fin à l'audience dans le cadre du dossier Avis au ministre. Il ne me reste en fait qu'à remercier tous les participants pour leur excellente collaboration à ce débat-là. Nos échanges vont définitivement nous aider à réaliser notre mandat. J'aimerais également remercier la greffière, nos sténographes et également les gens qui ont travaillé à la traduction continuelle, pour leur excellent travail. Là-dessus, merci beaucoup et à la prochaine.

AJOURNEMENT DE L'AUDIENCE

SERMENT D'OFFICE

Je, soussignée, **ROSA FANIZZI**, sténographe officielle, certifie sous mon serment d'office que les pages qui précèdent sont et contiennent la transcription fidèle et exacte des témoignages et plaidoiries en l'instance, le tout pris au moyen de la sténotypie, et conformément à la Loi.

Et j'ai signé,

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ROSA FANIZZI