

**GAZIFÈRE INC.**

**EVIDENCE PREPARED BY  
ENBRIDGE GAS DISTRIBUTION INC.  
WITH RESPECT TO GAS SUPPLY**

**R-3900-2014**

**SEPTEMBER 19, 2014**

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# 1. Qualifications

Q1. Please state your names, business address and current positions.

A1. My name is Ralph J W Fischer. I am Director, Regulatory Special Projects at Enbridge Gas Distribution Inc. (“EGDI”).

I am Jamie LeBlanc. I am Director, Energy Supply and Policy at EGDI.

Q2. Please describe your academic background.

A2. Please refer to our Curriculum Vitae filed at Exhibit GI-2, documents 2.1 and 2.2.

# 2. Introduction

Q3. What is the purpose of this evidence?

On July 4, 2014, the Government of Québec requested that the Régie de l’énergie (the “Régie”) provide an opinion that should include a 2015-2030 forecast of natural gas supply requirements for Québec customers as well as evaluate different options of natural gas supply and natural gas transportation to satisfy these requirements and their impact on natural gas costs and reliability. The Government of Québec required this information from the Régie by December 12, 2014.

On July 18, 2014, the Régie required Gazifère Inc. (“Gazifère”) and Société en commandite Gaz Métro (“Gaz Métro”) to file expert opinions that would be used to assist in responding to the Government of Québec’s request. The following two expert reports were filed with the Régie on September 3, 2014: the “Proposed Energy East Pipeline Project White Paper” by Wood Mackenzie (“Wood Mackenzie Report”) and the “Estimation des besoins pour la période 2015-2030 en gaz naturel au Québec et offre potentielle du territoire” by KPMG-SECOR.

1 This evidence provides an overview of how natural gas is supplied for customers in the  
2 Gazifère franchise and how those supply arrangements are evolving as a result of  
3 significant changes in the natural gas infrastructure across North America.

4 **Q4. Please describe the Gazifère franchise.**

5 A4. The Gazifère franchise is described in Exhibit GI-2, document 1.

6 **Q5. How does Gazifère arrange for natural gas supply in their franchise if they are not**  
7 **connected to any transportation pipelines?**

8 A5. The Gazifère franchise is not directly connected to any upstream transmission  
9 infrastructure. Gazifère does not directly arrange for upstream storage, transportation  
10 and gas procurement on behalf of its customers. Rather, Gazifère contracts with EGDI  
11 as a Rate 200 customer. Rate 200 is an Ontario Energy Board (“OEB”) approved rate  
12 which applies to any natural gas distributor who utilizes EGDI’s distribution network  
13 for the transportation of an annual supply of natural gas to customers outside of the  
14 EGDI franchise area.

15 The EGDI gas supply plan ensures the safe, reliable and cost effective delivery of  
16 natural gas supply to its customers. The overall EGDI gas supply plan includes the  
17 upstream storage, transportation and gas supply to meet demand requirements of its  
18 customers in the Enbridge central distribution area (“CDA”) and Enbridge eastern  
19 distribution area (“EDA”). EGDI’s gas supply plan assumes the Enbridge EDA includes  
20 the Gazifère franchise. Operationally, a portion of the supplies received in the Enbridge  
21 EDA are moved through the EGDI distribution system and from there on Gazifère’s  
22 contractual arrangements with Niagara Gas Transmission Limited (“NGTL”) system  
23 into the Gazifère franchise.

24 Gazifère’s annual gas supply requirements form part of the overall annual gas supply  
25 requirements for EGDI. For the purposes of development of its annual gas supply plan,  
26 EGDI treats Gazifère as a customer and develops an integrated gas supply plan to meet  
27 the requirements of all of its customers, including Gazifère. EGDI’s annual gas supply  
28 plan does not include specific contractual arrangements for Gazifère. The cost of the gas

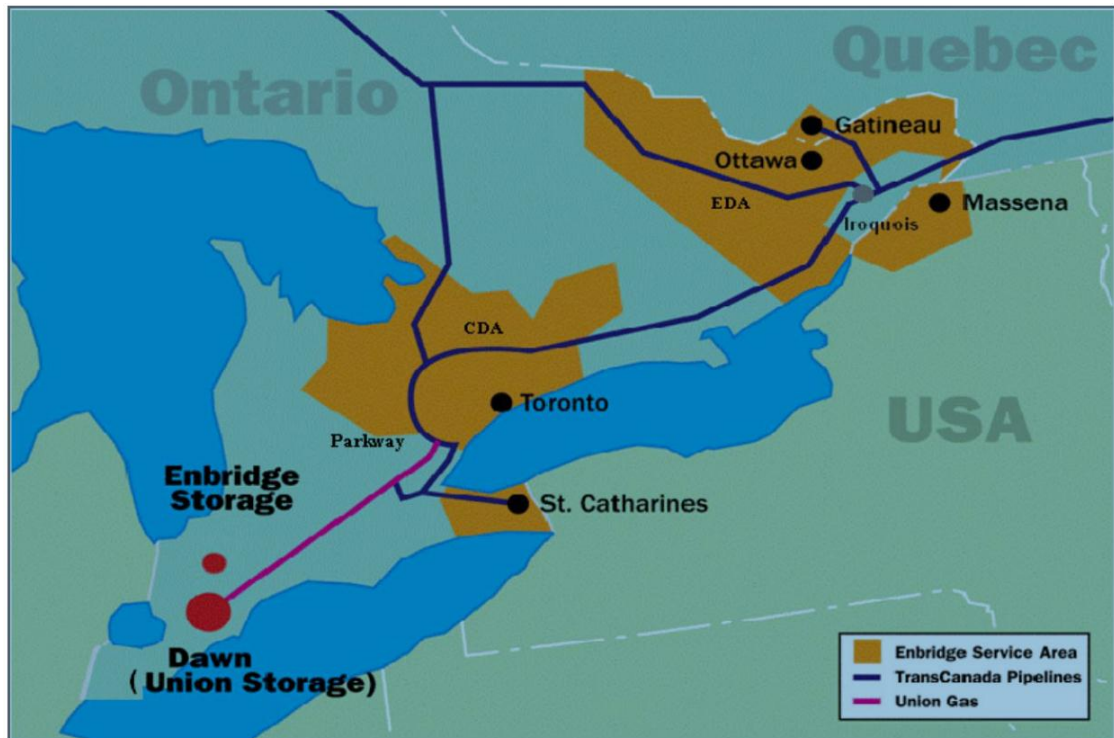
1 supply plan is included in EGDI's rates and is recovered according to an OEB approved  
2 cost allocation and rate design methodology. The costs associated with providing  
3 upstream transportation service and distribution transportation service to Gazifère are  
4 recovered through Rate 200. EGDI applies a postage stamp rate-making approach with  
5 respect to gas supply, transportation and load balancing, whereby costs incurred for all  
6 its customers, irrespective of geographic location, are pooled together for rate-making  
7 purposes.

8 While the Enbridge EDA is served exclusively through higher cost components of the  
9 gas supply plan, customers in the Enbridge EDA benefit as they are charged a postage  
10 stamp rate for upstream transportation costs.

11 **Q6. Please describe the EGDI franchise.**

12 A6. EGDI is an Ontario corporation with its head office in the City of Toronto. As a natural  
13 gas distribution utility in Ontario, it is provincially regulated by the OEB. EGDI is the  
14 largest gas distribution franchise in Canada, providing service to over two million  
15 residential, commercial and industrial customers throughout central and eastern Ontario  
16 which includes the Greater Toronto Area ("GTA"), the Niagara Peninsula, Barrie,  
17 Midland, Peterborough, Brockville, Ottawa, Outaouais via Gazifère Inc., and other  
18 Ontario communities located in the Enbridge EDA and Enbridge CDA, which includes  
19 Niagara Falls as shown in Figure 1.

Figure 1 – EGDI Franchise Map



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3 EGDI does not have access to any significant local natural gas production within its  
 4 franchise (less than 1% of its supply is locally produced). EGDI has held contracts to  
 5 transport natural gas on the TransCanada Mainline since the late 1950s and is the largest  
 6 shipper on the Mainline with approximately 1.4 PJ per day of firm transportation (“FT”)  
 7 contracts from the Western Canadian Sedimentary Basin (“WCSB”), Dawn, and  
 8 Parkway receipt points. The EGDI System has two interconnects with the Union Gas  
 9 Limited (“Union Gas”) system and 40 interconnects with the TransCanada Mainline.  
 10 The majority of the EGDI System is served solely by the Mainline and is captive to the  
 11 Mainline in order to obtain gas supply.

12 EGDI is the fastest growing natural gas utility in Canada and among the fastest growing  
 13 in North America, adding approximately 40,000, predominately temperature sensitive,  
 14 customers per year across its franchise. As a provincially regulated utility it has an  
 15 obligation to attach customers who reside in proximity to its distribution mains. Given  
 16 the absence of local production, EGDI’s ability to fulfil its obligation to serve its

1 customers requires a matching willingness on the part of its upstream service providers  
2 to provide access to natural gas supply.

### 3 4 **3. Changes in Natural Gas Supply Dynamics**

5 **Q7. What changes have occurred that are impacting the dynamics of natural gas**  
6 **supply in North America?**

7 A7. The natural gas infrastructure in North America continues to evolve at a rapid pace,  
8 predominantly as a result of increased production of natural gas from shale supply  
9 basins. The Marcellus and Utica basins are expected to make the US northeast the  
10 largest producing region in the US in 2015<sup>1</sup>. The increase in unconventional production  
11 has coincided with a decline in conventional production from the WCSB. This  
12 phenomenon has occurred across North America and the growing development of  
13 prolific shale supply basins has caused the North American natural gas infrastructure to  
14 evolve from a traditional long-haul transportation system to more of a regionally  
15 focused system.

16 **Q8. How has the change in North America's natural gas infrastructure impacted gas**  
17 **supply for eastern Ontario and Québec consumers?**

18 A8. The rapid development of natural gas production in Marcellus and Utica, combined  
19 with its proximity to eastern Ontario and Québec, has created significant opportunities  
20 to improve upon the diversity, reliability and cost-effectiveness of natural gas supplies.  
21 Eastern Ontario and Québec now have the opportunity to take advantage of supplies  
22 from the Marcellus which "*continues to be the most transformative development in the*

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<sup>1</sup> Wood Mackenzie Report, page 5

1 *North America gas space*<sup>2</sup>. In addition to providing a competitive supply option to the  
2 WCSB, Marcellus and Utica supply can be accessed through short-haul transportation  
3 services, which are significantly cheaper than long-haul transportation services.  
4

#### 5 **4. RH-003-2011 Decision**

##### 6 **Q9. How did the changes in the natural gas supply dynamics impact TransCanada?**

7 A9. Changes in the natural gas supply dynamics across North America had significant  
8 impacts on the TransCanada Mainline and were the catalyst for TransCanada's RH-003-  
9 2011 Application to restructure Mainline services and tolling methodology. The  
10 application resulted in an extensive public hearing process in which the National Energy  
11 Board ("NEB") heard and considered large amounts of evidence from interested parties  
12 with varying and diverging interests. In March 2013 the NEB issued the RH-003-2011  
13 Decision which established a new tolling methodology with fixed tolls for a 5 year  
14 period. This Decision also provided TransCanada with tools such as significant  
15 changes to the pricing of short term and interruptible transportation ("IT") services  
16 offered by TransCanada by granting unlimited pricing discretion for interruptible  
17 services and placing a minimum bid floor for short term firm transportation ("STFT")  
18 services. These new pricing tools were provided to TransCanada to increase revenue  
19 generation and encourage shippers towards the NEB view that "*it is just and reasonable*  
20 *for shippers who need guaranteed access to the Mainline throughout the year to pay for*  
21 *the full annual costs related to the capacity they need.*"<sup>3</sup>

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<sup>2</sup> Ibid.

<sup>3</sup> RH-003-2011 Decision page 127



1           **Q10. How did the increase in pricing for STFT impact EGDI?**

2           A10. Since more than 90% of EGDI’s customers, including Gazifère, use natural gas for  
3           residential and commercial purposes, EGDI’s load is predominantly temperature  
4           sensitive. In order to meet peak demands in an economical manner, EGDI previously  
5           contracted for delivered supply from third parties and STFT in the winter months. With  
6           TransCanada exercising the pricing discretion granted to it in the RH-003-2011  
7           Decision, the economic viability of STFT shifted such that it was more economical to  
8           substitute STFT with annual FT. This shift occurred in EGDI’s 2014 gas supply plan.  
9           Since FT would be displacing a seasonal service and would be utilized at less than  
10          100% load factor, EGDI’s gas supply plan for 2014 contained an amount of unutilized  
11          demand charges (“UDC”).

12          **Q11. Did the RH-003-2011 Decision impact EGDI and Eastern Canadian markets in**  
13          **any other way?**

14          A11. When EGDI pursued the possibility of constructing incremental short-haul capacity,  
15          TransCanada was firm in its position that they would not construct incremental short-  
16          haul capacity as there were no assurances that the costs of the new facilities, or that the  
17          loss of revenue due to the change in billing determinants, could be recovered from  
18          shippers. TransCanada’s unwillingness to provide incremental short-haul capacity was  
19          primarily a result of the RH-003-2011 Decision where the NEB concluded that “[i]t is  
20          TransCanada’s responsibility to ensure that the Mainline is economically viable”<sup>4</sup> and  
21          that “TransCanada must not look to regulation to shield the Mainline from its  
22          fundamental business risk. It must address the underlying competitive reality in which  
23          the Mainline operates.”<sup>5</sup>. The NEB further stated that “TransCanada is not compelled

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<sup>4</sup> RH-003-2011 Decision page 3

<sup>5</sup> Ibid

1 *by statute to provide service to customers in any area*<sup>6</sup>. TransCanada’s actions  
2 following the RH-003-2011 Decision to prevent incremental short-haul capacity in the  
3 Eastern Ontario Triangle (“EOT”) lead to a number of complaints being filed with the  
4 NEB by the Local Distribution Companies (“LDCs”) in Québec and Ontario and  
5 generated significant market uncertainty to the detriment of all Mainline stakeholders.

6 In an attempt to mitigate the growing market uncertainty, EGDI, Gaz Métro, Union  
7 Gas, and TransCanada entered into negotiations which resulted in changes to EGDI’s  
8 EB-2012-0451 Leave to Construct Application for the GTA Project (“GTA Project”), a  
9 commitment by TransCanada to construct new infrastructure through the King’s North  
10 Connection Pipeline Project (“King’s North”) and the additional looping facilities from  
11 the King’s North interconnect on the Mainline to Maple, and a Settlement Agreement  
12 between EGDI, Gaz Métro, Union Gas, and TransCanada. The Settlement Agreement,  
13 which is currently before the NEB, comprehensively addresses market access in  
14 conjunction with a tolling framework and facilities expansions.

## 15

## 16 **5. EGDI’s GTA Project and TransCanada’s King’s North**

## 17 **Project**

18 **Q12. Describe the GTA Project.**

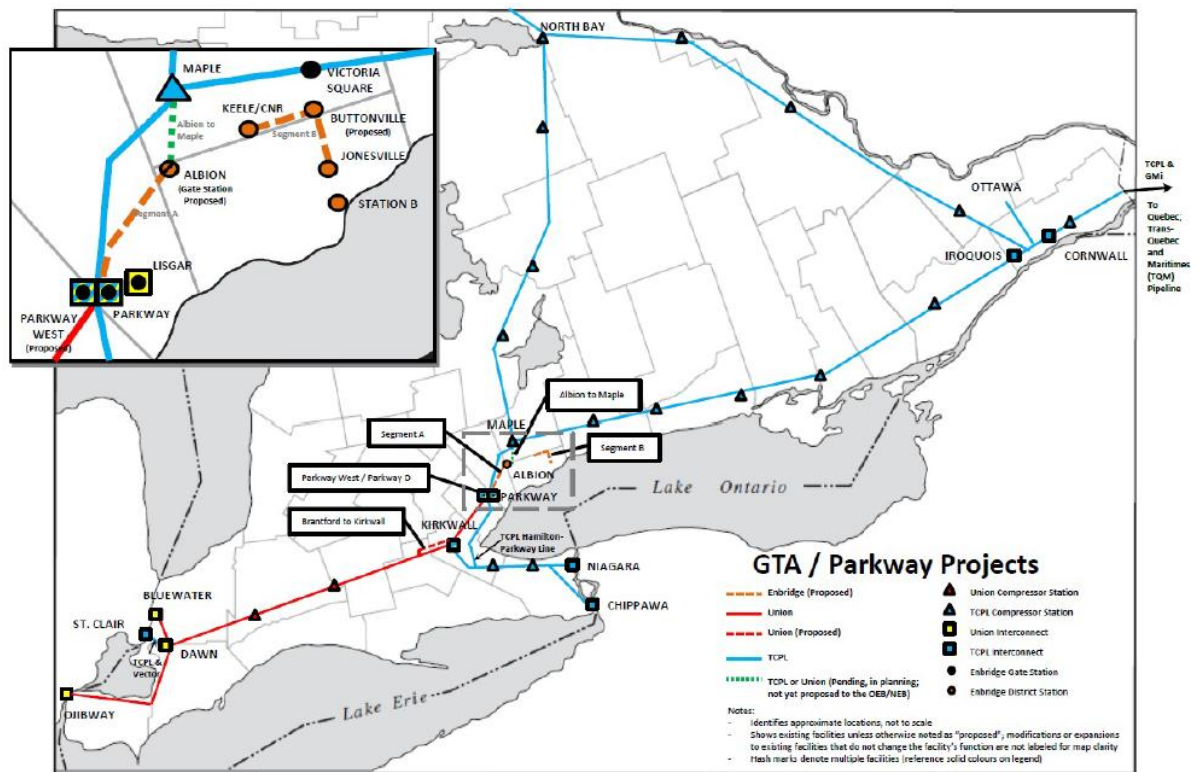
19 A12. The GTA Project was filed by EGDI with the OEB on December 21, 2012 as a leave to  
20 construct (“LTC”) application that was originally intended to reinforce the EGDI  
21 distribution network within the GTA for the purposes of supporting future customer  
22 growth for the period of 2015 to 2025, eliminating constraints within the distribution  
23 network, and to provide GTA customers with increased access to emerging supply  
24 basins in the US northeast and Dawn. The GTA project will involve the construction of

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<sup>6</sup> Ibid., page 38

1 two segments of pipeline and associated facilities. Segment A is 27 km of pipeline that  
 2 will run in and around the town of Milton, the City of Mississauga and the City of  
 3 Toronto. Segment B is 23 km of pipeline that will run in and around the City of  
 4 Vaughan, the City of Markham, the City of Toronto and the Town of Richmond Hill.  
 5 Both Segment A and Segment B are illustrated in Figure 2.

6 Figure 2 – Map of GTA Project<sup>7</sup>



7  
 8 Q13. What changes were made to the GTA Project to facilitate the need for incremental  
 9 short-haul capacity?

10 A13. As part of discussions between EGDI and TransCanada to relieve the capacity  
 11 restrictions between Parkway and Maple, EGDI agreed to increase the size of Segment  
 12 A from NPS 36 to NPS 42, so that it could be operated as a joint distribution station and

<sup>7</sup> EB-2012-0433, EB-2013-0074, EB-2012-0451 Decision and Order, Appendix B

1 transmission pipeline. Segment A provides 800 TJ per day of distribution capacity to  
2 service in-franchise customers and at the same time provides 1,200 TJ per day of  
3 transmission capacity from a new gate station called Parkway West, to a new metering  
4 station on Albion Road in Toronto.

5 **Q14. What is the status of the GTA Project?**

6 A14. In January 2014, the OEB released its Decision and granted leave to construct the GTA  
7 Project. The OEB noted that “*Segment A and the Parkway Gate Station alleviate a key*  
8 *transmission bottleneck, enable switching from long haul to short haul transportation*  
9 *services, and provide efficiency and optimization benefits through shared transportation*  
10 *and distribution use*”<sup>8</sup>. The GTA Project has a projected in-service date of November 1,  
11 2015.

12 **Q15. Describe the King’s North project.**

13 A15. King’s North is a new natural gas transmission pipeline that will be constructed and  
14 operated by TransCanada, subject to NEB approval. The pipeline will consist of  
15 approximately 11 km of NPS 36 pipeline that connects the Albion meter station on  
16 Segment A of the GTA Project with TransCanada’s line 200-2 near Maple as illustrated  
17 in Figure 3.

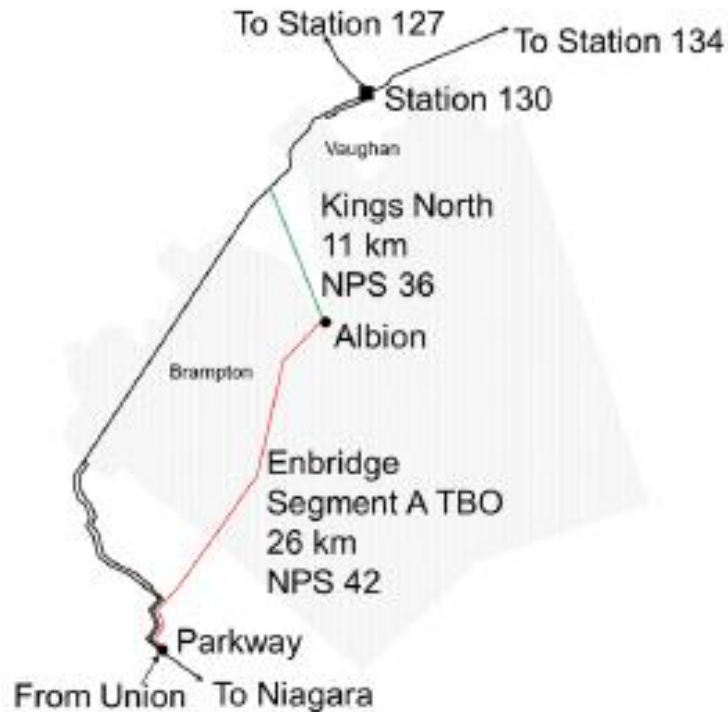
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<sup>8</sup>EB-2012-0433, EB-2013-0074, EB-2012-0451 Decision and Order, Page 41 and 42

1

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Figure 3 – Map of King’s North<sup>9</sup>



3

4

**Q16. What is the status of King’s North?**

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A16. TransCanada filed a facilities application for King’s North in August 2014 and is waiting for a procedural order from the NEB. The expected in-service date of King’s North is November 1, 2015.

6

7

8

**Q17. How does the GTA Project and King’s North provide for incremental short-haul capacity?**

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A17. TransCanada is proposing to utilize Segment A of the GTA Project through a Transportation by Other (“TBO”) arrangement with EGDI. This TBO arrangement on

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<sup>9</sup> TransCanada’s King’s North Connection Pipeline Project Application, page 3-9, Figure 3-2

1 Segment A, combined with King’s North, will create a partial loop of the TransCanada  
2 Mainline between Parkway and Maple, and will provide the capacity necessary to  
3 support current incremental demand for short-haul services within the EOT.

4 Although the GTA Project and King’s North provide for the physical capacity required  
5 for incremental short-haul services, they do not resolve the concerns that TransCanada  
6 has about being provided a reasonable opportunity to recover the costs of the new  
7 facilities and the loss of revenue due to the projected decrease in long-haul billing  
8 determinants. In order to address these concerns, EGDI, Gaz Métro, and Union Gas  
9 (collectively the “MAS”) entered into negotiations with TransCanada that culminated in  
10 a Settlement Agreement that was executed on October 31, 2013.

## 11

## 12 **6. Settlement Agreement between TransCanada and MAS**

### 13 **Q18. Describe the Settlement Agreement.**

14 A18. The Settlement Agreement was executed on October 31, 2013 and was amended on  
15 November 15, 2013 and December 13, 2013. It is the result of a series of negotiations  
16 and compromises between TransCanada, MAS, and Mainline stakeholders to provide a  
17 new tolling methodology and fixed tolls over the period 2015-2020 with certain tolling  
18 parameters to be incorporated into toll design post 2020. The Settlement Agreement  
19 establishes a framework for the efficient development of natural gas infrastructure on  
20 the Mainline across Canada and comprehensively addresses market access in  
21 conjunction with a tolling framework and facilities expansions.

22 The Settlement Agreement was filed with the NEB pursuant to Parts I and IV of the  
23 National Energy Board Act, and the National Energy Board Guidelines for Negotiated  
24 Settlements of Traffic, Tolls and Tariffs (“Settlement Guidelines”) on December 20,  
25 2013 (“Settlement Application”). A number of concerns were raised by various  
26 stakeholders related to the settlement process that was used to establish the Settlement  
27 Agreement. As a result, the NEB provided for a comment period to permit stakeholders  
28 an opportunity to comment on the treatment of the Settlement Application. Following

1 the conclusion of the comment period, the NEB acknowledged “*that the Settlement is*  
2 *the result of significant work and negotiation by the parties. It is also a step forward in*  
3 *addressing capacity issues in the Eastern Ontario Triangle, a concern voiced in many*  
4 *of the comments received*”<sup>10</sup> but indicated that too many shippers were not represented  
5 in the negotiations. The NEB indicated it was prepared to consider the application as a  
6 contested tolls application outside of the Settlement Guidelines.

7 On April 14, 2014, TransCanada confirmed that it wished to proceed with the  
8 Settlement Application as a common position of the parties to the Settlement  
9 Agreement.

10 **Q19. Describe the purpose of the Settlement Agreement.**

11 A19. The purposes of the Settlement Agreement are defined therein as follows: :

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<sup>10</sup> NEB Letter dated March 31, 2014

- 1 a) to provide greater certainty with respect to the efficient development of natural  
2 gas infrastructure in Canada, specifically in Ontario and Québec ,  
3 acknowledging that TransCanada and the LDCs, as the largest shippers on the  
4 Mainline System, have agreed to cooperate to ensure the interests of the LDCs'  
5 customers and all other Mainline Shippers are served in an equitable manner;
- 6 b) to provide for the development of future infrastructure on the Mainline System,  
7 the Enbridge System, the Gaz Métro System and the Union System to meet their  
8 evolving gas market and customer needs in a coordinated, reliable and cost  
9 effective manner;
- 10 c) to optimize use of existing natural gas transmission infrastructure of the  
11 Mainline System, Enbridge System, the Gaz Métro System and the Union  
12 System to meet the capacity and reliability needs of current and future shippers  
13 and customers in a reliable and cost effective manner;
- 14 d) to provide a reasonable opportunity for TransCanada to recover its existing and  
15 future cost of service on the entire Mainline System while providing just and  
16 reasonable tolls for Mainline Shippers; and
- 17 e) based upon gas transportation requests from market participants, to use best  
18 efforts, subject to TransCanada determining the project is economical and not  
19 being obligated to deviate from the utilization of prudent cost management  
20 practices during project execution to facilitate the natural gas market's desire for  
21 supply diversity and the ability of such markets to access supply of natural gas  
22 located close to their markets on a timely basis while continuing to contribute to  
23 ensure reliability and the recovery of costs for existing natural gas pipeline  
24 infrastructure by the Parties.

25 **Q20. What benefits will Gazifère customers derive from approval of the Settlement**  
26 **Application?**

27 **A20.** The most significant benefit from the Settlement Application for Gazifère is the creation  
28 of a framework that will enable development of incremental short-haul services on the



1 TransCanada Mainline. This includes the construction of King's North and the  
2 additional looping facilities from the King's North interconnect on the Mainline to  
3 Maple, which would complete the partial loop on the TransCanada Mainline which will  
4 enable incremental short-haul FT from Dawn, Niagara, and Parkway to the Enbridge  
5 EDA. These short-haul services will reduce reliance on WCSB supplies transported via  
6 long-haul service and are critical to accessing cost effective supply for eastern Canada  
7 while providing the benefits of supply security and supply diversity.

8 The costs associated with the new natural gas infrastructure combined with reduced  
9 billing determinants from the replacement of long-haul services with short-haul services  
10 will result in upward pressure on the Mainline revenue requirement and reduction in  
11 billing determinants, resulting in an increase to Mainline tolls. The Settlement  
12 Application reflects this upward pressure with an increase in long-haul tolls to the EOT  
13 of 18%, short-haul tolls in the EOT will increase by 52%, and all other tolls will  
14 increase by 12%. When these toll increases are considered in combination with the  
15 ability to displace long-haul services from the WCSB with lower cost short-haul  
16 services from Niagara, Dawn, and Parkway, Wood Mackenzie estimated that eastern  
17 Canadian consumers will save an average of CDN \$0.66 per decatherm ("Dth") per  
18 day<sup>11</sup> on the landed cost of natural gas at a 100% load factor. Due to the seasonal  
19 demand profile of consumers in the EGDI and Gazifère franchise areas, transportation  
20 contracts cannot be utilized at a 100% load factor. When the landed cost analysis was  
21 conducted at an 80% load factor, the savings increase by an additional CDN \$0.25 per  
22 Dth per day<sup>12</sup>. Since EGDI's distribution system has traditionally operated at an  
23 approximately 30% load factor, the savings would be even greater.

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<sup>11</sup> Wood Mackenzie Report, page 27

<sup>12</sup> Ibid.

1 Q21. **What would be the impact to Gazifère if the Settlement Application is not**  
2 **approved?**

3 A21. If the Settlement Application is not approved, MAS would work with TransCanada to  
4 evaluate the reason for decision and determine if an amended application could be  
5 agreed to and filed. Should an amended application not be agreed upon or approved, it  
6 is unlikely that TransCanada will proceed with the construction of King's North and the  
7 Mainline environment would remain unchanged. The only transportation services that  
8 would be offered to eastern Ontario and Québec consumers would be long-haul from  
9 the WCSB which could be complicated as a result of TransCanada's proposed Energy  
10 East Pipeline Project ("Energy East"). This would be an untenable situation for EGDI  
11 and would require alternative supply arrangements to be evaluated.

## 13 **7. TransCanada's Proposed Energy East Pipeline and** 14 **Eastern Mainline Projects**

15 Q22. **Describe Energy East as proposed by TransCanada.**

16 A22. On March 4, 2014, TransCanada filed a project description for Energy East with the  
17 NEB and subsequently provided a presentation on Energy East on August 14, 2014 as  
18 part of the OEB Energy East Consultation. Energy East involves the construction and  
19 operation of a 4,500 kilometer oil pipeline system from Hardisty, Alberta to Saint John,  
20 New Brunswick. The oil pipeline will be capable of transporting 1.1 million barrels of  
21 crude oil per day and is scheduled to be in service by the end of 2018.

22 Energy East will involve the acquisition and conversion of existing gas facilities on the  
23 TransCanada Mainline from Burstall, Saskatchewan to Iroquois, Ontario to oil service  
24 and construction of new facilities in Québec and New Brunswick. Approximately 3,000  
25 kilometers of Mainline facilities are proposed to be transferred. These facilities include:

26 a) Prairies Section – Line 100-4

27 b) Northern Ontario Line – Line 100-4 and a portion of Line 100-3

1 c) North Bay Shortcut – Line 1200-2

2 Construction of Energy East would be premised on TransCanada obtaining NEB  
3 approval pursuant to section 74 of the NEB Act to transfer the facilities described above  
4 and converting those assets to oil transmission. Approximately 1,500 kilometers of new  
5 pipeline facilities would also be constructed.

6 **Q23. Describe the Eastern Mainline Project as proposed by TransCanada.**

7 A23. The Eastern Mainline Project is characterized by TransCanada as replacement capacity  
8 for some, but not all, of the capacity removed from the EOT segment upon the transfer  
9 of the 42” pipeline in the North Bay Shortcut to Energy East. The pipeline will add 575  
10 TJ per day of capacity that will only meet existing firm requirements and those new  
11 commitments resulting from the 2016 New Capacity Open Season (“2016 NCOS”).

12 The Eastern Mainline Project will involve the construction of approximately 250  
13 kilometres of 36 inch loop and associated compression along the Montreal Line  
14 between Maple, Ontario and Montreal, Québec.

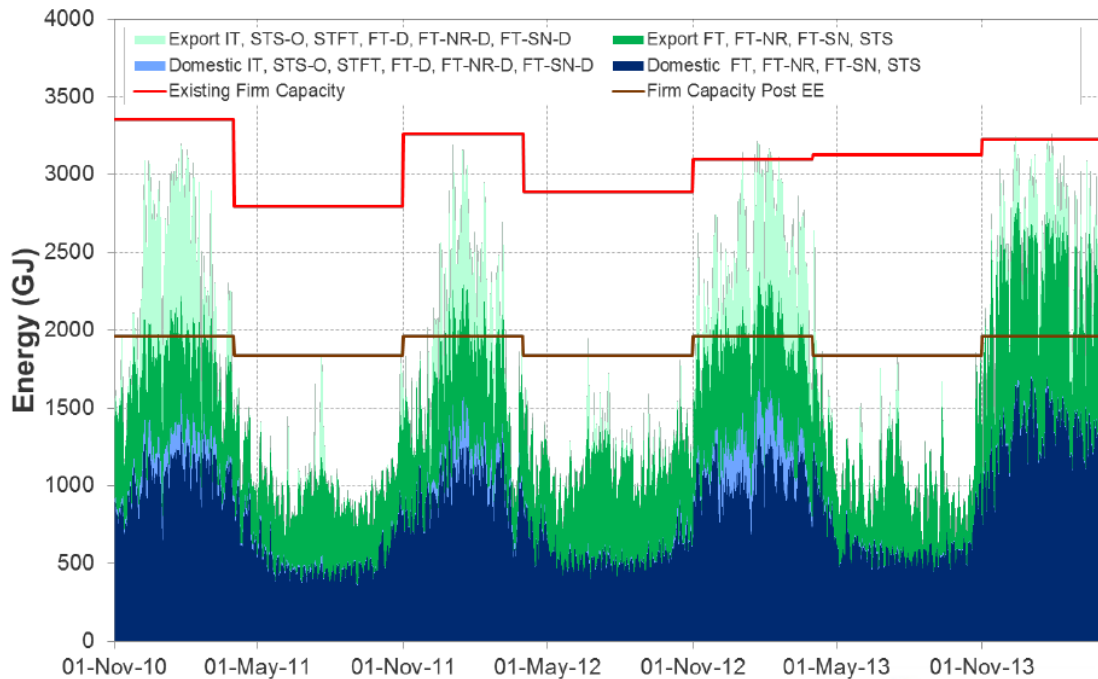
15 **Q24. In the absence of Energy East and the transfer of the North Bay Shortcut 42” line**  
16 **from gas to oil service, please summarize the implications for future deliverability**  
17 **of natural gas to Gazifère’s franchise area.**

18 A24. As illustrated in Figure 4, the current transportation capacity within the EOT is  
19 sufficient to meeting existing demand. Provided that the Settlement Application is  
20 approved by the NEB and King’s North is constructed by TransCanada, a framework  
21 will have been put in place that would permit the construction of additional natural gas  
22 infrastructure required to meet any future incremental demand.

23 Should the Settlement Agreement not be approved and subsequent discussions with  
24 TransCanada and resulting applications to the NEB do not result in the construction of  
25 King’s North, then EGDI will evaluate the alternatives necessary to provide safe,  
26 reliable, and cost effective supply for its customers (including Gazifère). EGDI  
27 anticipates that one such alternative would include, but is not limited to, the

1 construction of facilities that would provide the necessary capacity to access supply  
2 basins that would contribute to a reliable, diverse and economical supply portfolio.

3 Figure 4 – EDA Flows vs. Capacity<sup>13</sup>



4  
5 **Q25. How has Energy East created challenges for EGDI's gas supply?**

6 **A25.** The gas supply challenges that may be created by Energy East are directly related to the  
7 transfer of natural gas facilities on the TransCanada Mainline to oil service.

8 For segments of the TransCanada Mainline that are not fully utilized to provide  
9 transportation services, such as the Prairies and Northern Ontario Line (“NOL”), the  
10 transfer will create benefits such as lower rate base and increased competitiveness of  
11 TransCanada Mainline tolls without any significant impact to services that are being  
12 offered. EGDI has no issue with the potential transfer of the western segments of  
13 TransCanada's Mainline to oil service as long as short-haul access is provided.

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<sup>13</sup> 2014 IGUA Spring Seminar May 26-29, 2014, Energy East presentation by TransCanada

1           However, for the remaining EOT segment, the situation is much different because all  
2           service, both short-haul and long-haul, require this segment to remain in service.

3           Natural gas facilities in the EOT are fully utilized (as shown in Figure 4) to meet the  
4           winter peak load demands in Ontario, Québec, and portions of the United States  
5           northeast through firm services such as FT and discretionary services such as STFT and  
6           IT, as illustrated in Figure 4. When EGDI sought to replace the STFT that was  
7           contracted for in previous years with FT, the only service TransCanada offered in the  
8           Existing Capacity Open Season that was announced on March 25, 2013 (“2015 ECOS”)  
9           to distributor delivery areas (“DDAs”) and export points in eastern Ontario and Québec,  
10          was non-renewable FT (“FT-NR”). This service has similar attributes to FT service but  
11          does not contain renewal rights. In this instance renewal rights were not granted past  
12          November 1, 2015. In subsequent open seasons, the capacity to eastern Ontario and  
13          Québec continued to be restricted to FT-NR although the term was extended to October  
14          31, 2016. TransCanada had in effect reserved all discretionary capacity in the EOT for  
15          Energy East without providing any reasonable opportunity for shippers to adjust their  
16          transportation portfolios following the changes to the TransCanada Mainline that  
17          resulted from the RH-003-2011 Decision.

18          For EGDI, this was of critical importance since there are no assurances that it will be  
19          able to meet its statutory obligation to provide natural gas services for approximately  
20          25% of the demand in the Enbridge EDA when the FT-NR contracts expire. This  
21          concern was later addressed in a new capacity open season offered by TransCanada and  
22          discussed in more detail below.

23          **Q26. Are there any other implications of Energy East and the Eastern Mainline Project**  
24          **that will impact the cost and access to gas supplies for EGDI and other gas**  
25          **customers?**

26          A26. Yes. There are several other implications of Energy East that are of concern to EGDI.  
27          They include:

28                  a) rate base and cost impacts to the EOT including transfer costs and replacement  
29                  costs; and

1                   b) proposed replacement capacity that is less than half of that being removed and  
2                   transferred from gas to oil service.

3                   **Q27. What are the rate base and cost impacts that you refer to, as you currently**  
4                   **understand from TransCanada’s proposal?**

5                   A27. TransCanada is proposing to increase the net rate base in the EOT by a minimum of  
6                   approximately \$600 million with the addition of the proposed Eastern Mainline Project,  
7                   including a proposed \$500 million “contribution” from TransCanada, resulting in  
8                   increases in revenue requirement including cost of capital, income taxes and  
9                   depreciation. This amount will be much greater if replacement capacity is increased  
10                  from what TransCanada proposes and what EGDI believes is required to ensure that  
11                  existing and future growth in gas demand can be supplied. Further, net rate base will  
12                  also increase if the timing that TransCanada has assumed with respect to construction of  
13                  the replacement facilities and transfer of assets is delayed, as the net book value of  
14                  assets removed will decrease and the cost of replacement facilities will likely increase.

15                  **Q28. TransCanada proposes to replace less than half of the capacity it is removing from**  
16                  **the North Bay Shortcut for oil service. What are the implications for shippers that**  
17                  **did not contract for capacity in the 2016 NCOS?**

18                  A28. Despite EGDI’s actions in securing firm short-haul capacity, a significant amount of  
19                  peak day demand is provided by third parties that cannot or will not sign up for 15 year  
20                  terms. Peak day demand for the EDA includes direct purchase and peaking supplies. In  
21                  addition, industrial customers currently subject to curtailment may also eventually seek  
22                  firm contracts. Lastly, future growth requirements need to be accommodated in  
23                  assessing capacity requirements which are not currently contracted. All of the above  
24                  volumes represent approximately 16% of peak day demand in the Enbridge EDA.  
25                  Gazifère will bear a share of any physical capacity constraints or cost blow outs  
26                  resulting from capacity constraints as these costs are recovered, in part, through  
27                  Rate 200.

1           **Q29. Describe the historical flows versus capacity available in the Eastern Ontario**  
2           **Triangle and comment on the implications for future gas deliverability.**

3           In Chart 38 of the Wood Mackenzie Report and as shown in Figure 4 above, it is clear  
4           that peak winter demand in the EDA and downstream markets, on a historical basis,  
5           have exceeded EOT capacity every winter shown. In other words, current EOT  
6           capacity, which includes the 42” North Bay Shortcut line which TransCanada proposes  
7           to transfer to oil service, has been fully utilized during peak conditions. Unless peak  
8           winter demand were to erode for some reason in the future, it makes no sense to replace  
9           capacity transferred to oil service at any less amount than what currently exists.

10          **Q30. What is the expectation for the future utilization of capacity in the EDA and**  
11          **downstream markets?**

12          A30. Wood Mackenzie forecasts in the Wood Mackenzie Report, in Table 10, future peak  
13          flow demand for the EDA and downstream markets of between approximately 3,200  
14          and 3,400 mmcf/d through 2022. This compares to the 3,270 mmcf/d peak day flows that  
15          Wood Mackenzie indicates for the 2013/2014 winter.

16          **Q31. What do you conclude from Wood Mackenzie’s assessment of historical and future**  
17          **peak day flows?**

18          A31. EGDI concludes that current EDA capacity is fully utilized on a winter peak day flow  
19          basis, and that this will likely continue to be the case for the foreseeable future, even if  
20          new pipeline capacity is constructed in New England. The analysis completed by Wood  
21          Mackenzie underscores the need for any replacement capacity that would be required  
22          due to the transfer of the North Bay Shortcut line to Energy East to be equal to the  
23          capacity removed – 1.2 PJ per day instead of the 575 TJ per day proposed by  
24          TransCanada.

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## **8. TransCanada’s 2016 NCOS**

**Q32. Did EGDI bid for capacity in the 2016 NCOS?**

A32. Yes, EGDI bid for firm short-haul transportation service to the Enbridge EDA in TransCanada’s 2016 NCOS that was offered between November 29, 2013 to January 15, 2014. TransCanada advised that it will provide EGDI with capacity through a subsequent loop of the Mainline between the King’s North interconnect and the Maple compressor station after the King’s North Project is complete. The capacity is required to meet the needs of Ottawa gas customers and Gazifère through short-haul service and as a result of TransCanada reserving existing capacity on the EOT for oil shippers on Energy East.

**Q33. When did EGDI execute a Precedent Agreement (“PA”) and what terms was TransCanada imposing?**

A33. In June 2014, TransCanada required each shipper to execute PAs and Financial Assurances Agreement (“FAA”). The PAs and FAAs that shippers were compelled to execute imposed upon each shipper an estimated liability limit (ELL) associated with project development costs in the event that service is never provided. This estimated liability was arrived at by including the cost of the expansion facilities required to meet the short-haul access and the replacement facilities between Toronto and Montreal as a result of Energy East. EGDI questioned the inclusion of replacement facilities, specifically the Eastern Mainline Project, prior to the transfer application being heard. TransCanada response was that the process did not allow for changes to the PA or the deadline for execution, and that TransCanada’s right to collect liabilities would be subject to the NEB ruling.

**Q34. How is TransCanada using the results of the 2016 NCOS?**

A34. By assuming that approval of the Energy East asset transfer application is a foregone conclusion, TransCanada is using existing firm transportation, and the results from the



1 2016 NCOS, which require long term commitments, as the only means by which it is  
2 determining the capacity needs for the EOT. This approach is very misleading as it  
3 misconstrues real demand. The timing, structure and manner in which the 2016 NCOS  
4 was conducted clearly discouraged shippers, such as direct purchase, EGDI peaking  
5 service providers, and interruptible customers, from committing to take capacity.

6 **Q35. Why is it not appropriate for TransCanada to use firm contracts to determine**  
7 **future gas pipeline capacity requirements?**

8 A35. As previously discussed, many gas shippers were dissuaded from making firm  
9 commitments in the 2016 NCOS due to the onerous conditions placed on shippers by  
10 TransCanada. The assumption that firm contracts are the only basis for determining  
11 capacity requirements is not valid and if allowed to stand, will understate the total  
12 demand for natural gas in eastern Ontario and Québec. . The NEB in its RH-003-2011  
13 Decision agreed with these conclusions when it stated “*We do not accept that firm*  
14 *contracts are TransCanada’s only source of information about future demand for*  
15 *Mainline services. It is our view that TransCanada has other sources of information*  
16 *that can be used to inform its management of the Mainline. We have confidence that*  
17 *TransCanada tracks historical and current Mainline utilization trends; understands the*  
18 *market including prices, supply and demand developments; is well informed of existing*  
19 *and proposed infrastructure; and generally knows the nature of its shippers’ businesses,*  
20 *among other things. We expect TransCanada to use the greater contractual information*  
21 *provided by this decision, in conjunction with information from other sources, to*  
22 *manage the Mainline and make reasonable and informed, estimates and projections*  
23 *about the future demand for Mainline transportation services”<sup>14</sup>.*

24 EGDI strongly opposes any attempt by TransCanada to reduce the scope of any  
25 potential Eastern Mainline Project based solely upon existing firm contracts and  
26 additional firm requirements resulting from the 2016 NCOS.

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<sup>14</sup> RH-001-2013 Decision, page 30

1 Q36. **With respect to TransCanada’s proposed Eastern Mainline Project, how much**  
2 **replacement capacity will it provide and what shortfall, in EGDI’s opinion, would**  
3 **result in terms of meeting future gas demand in eastern Ontario, Québec and the**  
4 **US northeast.**

5 TransCanada proposes to construct only 575 TJ per day of replacement capacity on the  
6 Mainline, less than half of the capacity removed. As discussed, Wood Mackenzie is not  
7 forecasting any significant change to peak day flows for the EDA and downstream  
8 markets and as a result, the potential resulting capacity shortfall in the EOT would  
9 approximate 600 TJ per day out of a current capacity of 3,200 TJ per day or 20% of  
10 existing capacity.

11 In contrast, TransCanada issued a news release on August 1, 2013 announcing that  
12 Energy East would be moving forward as a 1.1 million barrel per day oil pipeline with  
13 approximately 900,000 barrels per day of firm, long-term contracts. This equates to  
14 approximately 20% of non-firm capacity being reserved for other Energy East shippers,  
15 whereas a similar percentage of non-firm capacity is proposed to be removed from the  
16 Mainline for natural gas shippers.

17 Q37. **Please describe the potential impact to gas supply for Gazifère if the supply**  
18 **shortfall described above is realized.**

19 A37. The potential impact to gas supply for Gazifère is that any natural gas supplies that rely  
20 on discretionary services will likely not be available on peak winter days. Although  
21 EGDI expects to utilize existing renewable FT contracts and new FT contracts as a  
22 result of the 2016 NCOS to provide service for their customers (including Gazifère),  
23 approximately 16% or 105 TJ per day of the Enbridge EDA winter peak supply  
24 portfolio will rely on supplies from customers who have procured their own supplies  
25 directly and delivered services from third parties. Unless these third party supplies were  
26 contracted for in the 2016 NCOS, which is not EGDI’s understanding, then the  
27 discretionary capacity that was previously relied on by these third parties will no longer  
28 be available.

1           **9.       Conclusion**

2           **Q38.   Please summarize the main opportunities and threats to Québec, and Gazifère**  
3           **specifically, with respect to the future access of gas supplies?**

4           A38.   EGDI has participated in open seasons that will provide it with future firm capacity to  
5           meet its immediate expected gas supply needs in the EDA, including that of Gazifère.  
6           However, EGDI’s firm commitments do not include gas supply requirements for  
7           peaking supplies, direct purchase and curtailment customers. TransCanada proposes to  
8           replace the 42” North Bay Shortcut line to be transferred to oil service with capacity  
9           equal to firm commitments only, less than half of current EDA and downstream markets  
10          demand. The 2016 NCOS prevented many shippers from contracting firm capacity due  
11          to the requirement to make long term commitments with onerous liability provisions.  
12          As a result, the firm commitments understate the true future demand in the EOT and  
13          downstream markets. Replacement capacity any less that what is currently available  
14          will likely result in interruptible customers being exposed to increased service  
15          interruptions in the future and firm industrial customers facing increased difficulties in  
16          procuring capacity unless they are subsequently able and willing to sign long-term  
17          contracts and underpin the construction of substantially more expensive capacity than  
18          what exists currently and is contemplated to be removed from gas service.

19          Wood Mackenzie expects no significant change to future peak winter demand in the  
20          EDA and downstream markets which historically has resulted in the full utilization of  
21          available EDA capacity.

22          It is clear to EGDI that if capacity is removed from the EOT, it needs to be replaced on  
23          a like-for-like basis and at no additional cost to EOT shippers.

24          EGDI will seek remedies on behalf of its customers, including Gazifère, with the NEB  
25          to direct TransCanada to take steps to ensure that there will be no adverse impacts on  
26          gas customers resulting from Energy East.

1           **Q39. What does EGDI believe that the NEB should direct TransCanada to do?**

2           A39. EGDI believes that TransCanada should be required by the NEB to do the following to  
3           ensure no detrimental impact to customers in eastern Ontario and Québec from Energy  
4           East:

- 5                     1. declare that TransCanada cannot use the 2016 NCOS results in the Energy East  
6                     proceeding for the purpose of determining the amount of replacement capacity  
7                     required in the EOT resulting from Energy East;
- 8                     2. direct TransCanada to construct replacement capacity at least equal to the  
9                     capacity that TransCanada proposes to remove from the North Bay Shortcut, or  
10                    not permit TransCanada to transfer any portion of the North Bay Shortcut to  
11                    Energy East; and
- 12                    3. ensure that any incremental cost of appropriately sized replacement capacity is  
13                    not borne by Mainline shippers.

14           **Q40. Does that conclude your evidence?**

15           A40. Yes, it does.