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BY EMAIL

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Mr. Alex Harris
Manager
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RE: Gaz Métro Limited Partnership (Gaz Métro)'s comments regarding TransCanada PipeLines Limited (TransCanada) Proposed Eastern Mainline Expansion Project and its Proposed Energy East Project (Energy East)

Mr. Harris,

On May 8 2014, TransCanada submitted a Project Description (PD) for its Eastern Mainline Expansion Project to the National Energy Board (the NEB) in accordance with Section 52 of the *National Energy Board Act* (NEB Act). This Project Description provides a brief summary of the proposed Project and is used by the NEB to initiate pre-application activities such as, the consultation of all stakeholders and interested parties. Gaz Métro wishes to provide its comments and related observations directly to TransCanada as part of this consultation. Gaz Métro does not view this letter as confidential and expects TransCanada to file those comments as part of its application to the NEB for approval of the proposed Eastern Mainline Expansion Project and the proposed Energy East.

First and foremost, there are several pending issues related to the Eastern Mainline Expansion and the Energy East Projects and despite numerous attempts to solve them, TransCanada has not been able to provide any acceptable solution to Gaz Métro which would address those concerns accordingly. Under the current circumstances and given its unique role as an LDC in Québec, Gaz Métro cannot agree to the proposed Projects as they deeply impinge on the development of its franchise and negatively impact the economy of Québec.

<u>The issues with the Project as currently presented</u>

The Eastern Mainline Expansion Project, as contemplated by TransCanada, is part of the comprehensive Energy East application (Energy East) which proposes the transfer of crucial assets of some of TransCanada Mainline facilities to Energy East and the following conversion of those facilities from an existing natural gas pipeline to a crude oil transportation pipeline. In that context, Gaz Métro has no other choice but to voice its profound concerns with any project that proposes to remove a critical section of natural gas pipeline that is currently fully utilized and required by gas users.

The Energy East Project comprises the conversion of the North Bay Shortcut line 2 located between North Bay and Iroquois (near Cornwall) in northwestern Ontario. In order for TransCanada to meet its commercial obligations related to the firm transportation services of natural gas on the Mainline, the Eastern Mainline Expansion Project intends to replace the existing North Bay Shortcut by building up to 370 km of a NPS 36 pipeline loop from the City of Markham to the Township of South Dundas in southeastern Ontario. The Project also includes the construction of related facilities such as compressors.

The North Bay Shortcut and the new proposed facilities are located within the Eastern Ontario Triangle (EOT), the most viable section of TransCanada Mainline. As discussed on many occasions between Gaz Métro and TransCanada, all EOT capacities are currently required to meet the demand of Québec and Ontario consumers, such that no transfer of these essential assets in the EOT should be allowed without the implementation of a viable solution that will satisfy all interested parties and stakeholders.

Gaz Métro is not objected to the Energy East Project, including the transfer of underutilized assets to transport gas that could be to oil transmission assets, as it could have significant benefits on the Canadian economy provided that it is not done at the expense of the eastern Canadian natural gas users. Based on the current Project Descriptions, Gaz Métro cannot support the transfer of used and useful assets on the Mainline which are essential to serve Québec customers. As proposed, both Projects put Gaz Métro's security of supply at risk while greatly impacting and constraining the economic and industrial development of Québec as a whole. Gaz Métro must protect the interests of its existing and future customers and must take all the necessary measures to do so.

If the NEB was to approve the Energy East Project, including the conversion of the North Bay Shortcut line 2 as currently described by TransCanada, the Project should provide sufficient parallel investments to make sure that all natural gas transmission capacities currently offered to the eastern Canadian markets would be maintained, meaning same pipe diameter and capacity. But as of now, the proposed Eastern Mainline Expansion Project does not meet those requirements. As currently presented, the Project will enable TransCanada to meet its firm existing capacity but does not offer the incremental capacity required, as requested on multiple occasions by several natural gas users within the EOT.

One of the issues at stake is TransCanada's determination of actual, mid and long term natural gas demand. Gaz Métro does not accept that firm contracts (and firm requests for such contracts) are the sole basis of TransCanada's assessment of actual and future demand for Mainline services, especially when the mechanisms used to size those firm requirements are flawed. In particular, the timing, structure and manner in which the 2016 New Capacity Open Season (2016 NCOS) was conducted clearly discouraged shippers from committing to take firm capacity, promoting favourable financial terms for Energy East oil shippers to the detriment of existing and future EOT gas shippers. It is Gaz Métro's understanding that the 2016 NCOS presumed that Energy East is a *fait accompli* and by doing so, TransCanada has deliberately imposed highly unjustified financial conditions on gas shippers.

Alternatively, Gaz Métro believes TransCanada should use every contractual information available in conjunction with a broader perspective on the markets it serves so as to forecast more accurately future demand for gas transportation services on the Mainline. This approach will enable TransCanada to offer the required capacities in order to meet the existing and future needs of the eastern Canadian shippers within the EOT.

The Project and its impact on the Québec economy

Given its economic and environmental attributes, the natural gas market is currently booming in Québec while attracting large investments such as IFFCO and major LNG projects. Gaz Métro is also expecting a constant growth in demand within its franchise area in the coming years.

You must also be aware of the Québec Government's preoccupation in that regard which is highlighted in its letter sent to the Board on May 27, 2014. Hence, the Québec Government indicated that ***access to secure, diverse and flexible natural gas supplies at a competitive price is crucial to the realization of major projects in Québec***. The Québec government urged TransCanada to quickly address any remaining issue to secure natural gas supply as it would help Québec achieve its greenhouse gas emission (GHG) reduction targets by promoting the substitution of heavy fuel oil by natural gas, the cleanest hydrocarbon sources of energy.

Access to secure, diverse and affordable gas supplies is such an important economic driver for the Québec Government that it recently requested the Régie de l'énergie (the Régie) to hold a large public consultation aimed at forecasting and defining natural gas supply requirements from 2015 to 2030. Gaz Métro trust that the report resulting from this public consultation will outline the predominant role of natural gas in the energy balance of Québec and that securing its access is surely tantamount to the Government's Energy policy strategy. This consultation will start in September 2014.

The Settlement Agreement, which led to the RH-001-2014 Tolls Application, includes the construction of additional facilities which will provide the EOT with the incremental capacities needed to meet the growing demands of Québec and Ontario. Under the Settlement, TransCanada must build the necessary facilities in order to provide eastern market with open access to new sources of supply following the approval of the RH-001-2014 Application. Gaz Métro wishes to reiterate its support to the RH-001-2014 Application as a Settling Parties to the Settlement Agreement. However, the eastern Mainline Expansion Project and the Energy East Project, as currently proposed, do not meet the needs of eastern Canadian shippers and would be highly detrimental to existing and future EOT gas shippers.

As the main natural gas distributor in Québec, Gaz Métro has to ensure reliable, diverse, affordable and secure natural gas supply for all its existing and future customers. For all the reasons presented above, Gaz Métro has no other choice but to proactively take all necessary steps against projects such as the Eastern Mainline Expansion Project and the Energy East Project that could jeopardize its activities and frustrated its regulatory obligations as an LDC.

We expect that TransCanada will take those comments under serious consideration and will propose acceptable solutions for all eastern Canadian natural gas users, and to the broader benefit of Québec and Ontario economy.

Yours truly,

Patrick Cabana