November 4, 2014

Mr. Russell K. Girling
President and CEO
TransCanada Corporation
450 – 1st Street, S.W.
Calgary, AB
T2P 5H1

Dear Russell,

Thank you for your proposal dated October 29, 2014 which was endorsed by Energy East shippers, to resolve the concerns that the eastern LDCs have discussed on numerous occasions with you since the project was announced in the spring of 2013. We wish to reiterate below the key principles that we have consistently communicated which need to be addressed in any negotiated settlement and in particular how the most recent offer made by TransCanada falls substantially short relative to our key principles for settlement.

Background

As you are aware, many attempts were made particularly over the last year to address concerns raised by the eastern LDCs but no resolution has been reached to date. Meetings and discussions were held as recently as late summer of this year between the parties in a last ditch effort to come to an agreement whereby the eastern LDCs would be in a position to support EE, culminating in a senior level meeting in Calgary on October 20, 2014 . The key principles that the eastern LDCs required to be addressed in a settlement were reiterated by the eastern LDCs at that meeting, resulting in what we believe was a commitment by TransCanada to develop an offer that would effectively address those concerns and remove the issues from public debate.

The eastern LDCs are prepared to support the Energy East project subject to the key principles being met, and appreciate the significant economic benefits that the project could bring to the Canadian economy. We have no issue with the redeployment of Prairies and Northern Ontario Line (Western Mainline) assets to Energy East. However, the North Bay Shortcut (NBS) in the Eastern Triangle is fully utilized and is expected to remain fully utilized during cold winter days. This is why the LDCs have agreed to pay for the cost of the NBS/Eastern Triangle for the next 15 years, regardless of usage, in the 2013-2030 Settlement Agreement. The reality is that the LDCs need this segment to ensure gas supply is delivered to their customers. In addition, the LDCs have an obligation to ensure that their customers' needs are served including access to supply and transportation at a reasonable cost. The key principles communicated by the LDCs of capacity and rate neutrality and conditions for support of the transfer of the NBS to the Energy East Project were designed to ensure those customer interests were preserved.

The context for the principles is the 2013-2030 Settlement Agreement, currently before the NEB, pursuant to which TransCanada committed to provide market access on a non-discriminatory basis to all shippers on the Mainline in return for assurances of cost recovery. These assurances were provided by way of the Eastern LDCs committing to cover revenue shortfalls in the Western Mainline assets until 2020, not bypassing the Eastern Triangle and paying its costs until 2030 irrespective of usage. The LDC commitment to support costs on the Western Mainline was in exchange for TransCanada's commitment to facilitate market access to new and emerging supply sources closer to LDC markets. The LDC commitments regarding the Eastern Triangle were in exchange for TransCanada's commitment to make investments to provide service to all shippers in the Eastern Triangle on a non-discriminatory basis going forward. The price of non-discriminatory market access resulting from these commitments was an increase in short haul tolls of 52%.

<u>The 3 Key Principles for Settlement on Energy East</u>

1. Maintain sufficient capacity to meet demand on the Eastern Triangle

A key principle is that access to capacity should not suffer as a result of Energy East. As described above, the Eastern Triangle is fully utilized in the winter by domestic and export markets. TransCanada's plan to replace only 575 TJ/d of the 1200 TJ/d eliminated as a result of the transfer of the NBS will leave eastern markets underserved. It is our firm belief that the recent 2016 open season which TransCanada is using as a basis to establish future capacity requirements understates true demand.

Some shippers were shut out of a process due to onerous terms (15 year term and financial backstopping liabilities associated with replacing capacity built in the nineties with current cost); others were unwilling to participate in an open season that was based on a yet to be confirmed tolling arrangement under the 2013 – 2030 Settlement Agreement or were simply not aware that it was their last chance to firm up services before TCPL's proposed transfer of assets to the Energy East project.

Many of the LDCs industrial and institutional customers procure their supply from suppliers that do not currently have firm renewable capacity on the Mainline. Further, as a result of their existing interruptible supply arrangements many industrial customers in Ontario and Quebec were unable to consume natural gas for up to two months this past winter at prices as high as those experienced in the US North East market. Many of these customers are seeking to receive the competitively priced reliable supply they have historically received on the TransCanada Mainline prior to this past winter by migrating to firm service.

The LDCs have reiterated that a new open season, available to all users of the Eastern Ontario Triangle is required to assess demand on the Eastern Triangle after the NEB issues a decision on the 2013-2030 Settlement Agreement. This new open season would permit all customers to sign up for replacement capacity under reasonable terms and conditions and on a non-discriminatory basis. In addition, the LDCs have reiterated that TransCanada must replace a modest amount of spot (or discretionary) capacity for shippers who are unable to commit to long term contracts.

TCPL would have the benefit of the term up provision from the 2013-2030 Settlement Agreement to ensure all current shippers on the EOT were committed to using their existing capacity in the future and thereby prevent an overbuild of capacity. We were of the view that TransCanada committed to come back with a process that could satisfy these requirements.

2. Ensure Eastern LDCs and their customers do not pay more as a result of Energy East

A second key principle is that Eastern LDCs and their customers should not pay more in any year as a result of Energy East. The Eastern LDCs note that the NBS line currently has a net book value of approximately 400M and a full capacity replacement pipeline would cost in excess of $2B.

At our meeting on October 20, the LDCs accepted that rate neutrality would factor in the net book value of the NBS and savings relative to the redeployment of western assets for the period until 2020.

3. Terms and Conditions of Support for the Energy East Project

The LDCs agreed to support the transfer of the NBS to the Energy East Project in return for capacity and rate neutrality as defined above. The LDCs would retain the right to intervene on the transfer price for the NBS asset unless TransCanada and the LDCs could agree on an equitable sharing of the benefits of redeploying the Western Mainline.

<u>TransCanada's Proposal and the 3 Key Principles</u>

At the October 20 meeting, the parties agreed that they would work diligently towards executing a term sheet to be filed with the TransCanada Application in the next ten days.

We received a draft term sheet from TransCanada subsequently and provided a counter on certain elements on October 23, encouraged that an agreement was close at hand (the last version is appended to this letter). It was therefore with great disappointment that we now see in your October 29 letter that TransCanada has further removed or modified a number of terms that were offered in the term sheet dated October 23, 2014. Your proposal fails to meet any of the principles we agreed to work towards at the October 20 meeting, as explained further below.

1. Maintain sufficient capacity to meet demand on the Eastern Triangle

TransCanada's proposal is to conduct a supplementary open season only for *domestic* shippers and imposes a requirement that subscribing parties demonstrate that the load to be served is *a new and enduring gas market.* The LDCs have communicated quite clearly that some of the capacity shortfalls pertain to existing customers and existing load. It is not clear how currently and historically served industrial and institutional customers in the LDC markets can demonstrate their loads are new and enduring. The proposal also does not address the capacity needs of other new or existing shippers on the Eastern Triangle who will be subject to the higher 2013-2030 Settlement tolls predicated on non-discriminatory market access, nor does it provide for a modest amount of spot capacity to shippers who cannot contract for long term firm contracts. By catering to only a specific segment of the current market, TransCanada's proposal would continue to understate true demand, thereby violating the principle of capacity neutrality relative to a situation where the Energy East Project does not exist.

2. Ensure Eastern LDCs do not pay more as a result of Energy East

TransCanada's proposal is to restrict rate neutrality to loads that qualify under the open season described as new and enduring domestic gas markets. TransCanada goes further to say that it is prepared to build replacement capacity for all domestic (ie. those domestic markets that do not meet the test of "new and enduring") and export shippers to the account of gas shippers rather than the Energy East Project. However, this requirement that gas shippers bear the capital cost risk resulting from replacement of capacity that would exist absent Energy East will result in higher tolls than otherwise. To reiterate, export and domestic demand is currently being served with existing historically depreciated assets, for which the LDCs have already provided an assurance of cost recovery through tolls for the long term. In our view TransCanada's proposal is not rate neutral, increases the price of non-discriminatory market access which was negotiated in the 2013-2030 Settlement Agreement *and* requires gas users to subsidize oil users on Energy East.

3. Terms and Conditions of Support for the Energy East Project

Based on the offer letter and filed application, you have effectively advised us that the natural gas pipeline that today is fully used and useful and serves in excess of 3.6 million customers is being transferred from gas service and is now dedicated to the Energy East Project. More striking is that your proposal further advises the LDCs that it is now our responsibility to pay the incremental costs of building the new natural gas pipeline to replace the capacity that we already have. On behalf of those customers, we cannot and do not accept this premise at all.

The Eastern LDCs cannot support Energy East based on your proposal, which in our view is without precedent in the regulatory arena. We fundamentally disagree with the notion that TransCanada has sold an existing and fully utilized gas pipeline to Energy East, that despite requiring cost recovery of the same asset from gas shippers until 2030 under the Settlement Agreement existing gas shippers must now bear the cost of replacing this fully utilized pipeline and that TransCanada would seek NEB approval to transfer the asset based on these dictated terms.

<u>Conclusion</u>

TransCanada has since filed its Energy East application before the NEB in which it has described significant economic benefits for eastern gas shippers in the order of $500M, in conjunction with the 575 TJ/d replacement capacity. It is the view of the LDCs that TCPL's net present value estimate of $500M in the east will be severely negative in the eastern markets and will be eroded by higher gas costs and the cost to build the capacity required by the market.

Your NEB application and your current proposal fall short of a solution that assures Eastern Triangle shippers a safe, reliable and equivalently priced service to what they currently enjoy. In the meantime, we are bound to continue to serve our customers and inform our stakeholders of the expected negative economic and reliability impacts of TransCanada's currently filed Energy East Project.

Finally, at the October 20 meeting we were asked if we would fully support your building a completely new line between North Bay and Montreal for oil transport. We unequivocally support that proposal and would do so publicly today. Such a new build would without a doubt be best for the current natural gas customers and for achieving support from all Canadians for TransCanada's Energy East project.

Please feel free to disclose the contents of this letter or the attached term sheet.

With our best regards,

Sophie Brochu	Steve Baker	Glenn Beaumont

Copies to:

Murray Edwards, Chairman, Canadian Natural Resources Limited
Brian Ferguson, President & CEO, Cenovus Energy Inc.
Rich Kruger, Chairman, President & CEO, Imperial Oil Limited
Richard Masson, CEO, APMC
Lorraine Mitchelmore, President, Shell Canada Limited
Steve Williams, President & CEO, Suncor Energy Inc.

LDC / Energy East Settlement Regarding Use of North Bay Short Cut

Draft Term Sheet

Version 10_24_2014

Item	Terms and Conditions

Capacity	• TransCanada will hold a new open season ("2017 NCOS") to solicit new capacity for ~~domestic~~ all shippers that use the ~~using~~ EOT ~~markets~~ after a positive NEB decision on the Settlement Agreement, using the approved NEB tolls
	    ○ Contracts bid into the open season will be binding
	    ○ The 2017 NCOS will commence following receipt of an acceptable NEB Decision on the LDC Settlement. The 2017 NCOS closing date will be no earlier than 30 days following receipt of the Decision.
	
	• The "Replacement Facilities" to be constructed will equal the "Firm Replacement Capacity" consisting of:
	    ○ the current firm requirements,
	    ○ *plus* the current 2016 NCOS open season results,
	    ○ *plus* the 2017 NCOS,
	    ○ *less* any additional volumes that do not renew,
	    ○ *less* any firm transportation service~~s~~ obligations that can be met using alternative commercial arrangements *(the commercial arrangements cannot be less reliable than physical capacity).*
	
	• TransCanada will construct additional facilities to accommodate "Discretionary Capacity" of 8% of the Firm Replacement Capacity.
	
	• Maximum capacity of the Replacement Facilities inclusive of any discretionary capacity will not exceed 1200 TJ/d.
	
	• If Energy East does not proceed, TransCanada will not construct the Replacement Facilities but will honor the Transportation Service Agreements executed by shippers and TransCanada pursuant to the 2017 NCOS.

Cost Neutrality	• This clause is subject to Energy East and the Eastern Mainline Project being approved and constructed • Capital required for the Replacement Facilities will be added to the Eastern Triangle rate base • TransCanada and Energy East will ensure that, based on the final costs of the Replacement Facilities, there will be no difference in the annual cost of service in the Eastern Triangle in any given year to 2040, when compared to the case in which Energy East did not proceed, all other things being equal

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	• The calculation of any required set off in Eastern Triangle annual costs will be determined for each year to 2040 upon the confirmation of the final costs of the Replacement facilities For clarity, TransCanada will: • Determine the final cost of the Replacement Facilities, • Forecast the annual cost for Eastern Triangle shippers to 2040 under two scenarios; one with and one without the impacts of Energy East and the Eastern Mainline Project. All costs will be incorporated in these analyses such as the Bridging Contribution, fuel, property taxes, pipeline abandonment costs etc., under a consistent set of assumptions, • Determine the difference in annual Eastern Triangle cost between these two scenarios which will determine an annual adjustment amount (either positive or negative) that will be applied to Eastern Triangle shipper costs following the implementation of the Eastern Mainline Project for each year. This annual cost adjustment will result in actual costs billed to Eastern Triangle shippers being no different than as would have been in the case where Energy East and the Eastern Mainline project did not proceed. • This calculation will be a one-time analysis that will be completed within 6 months of the determination of the actual cost of the Replacement Facilities.
LDC Support	Notwithstanding the Conditions Precedent of this term sheet, the LDCs will, from the date of executing this Term Sheet: • not oppose the Energy East Project and the Eastern Mainline Project • contact stakeholders that have been personally notified by the LDCs of their opposition to Energy East and advise those parties that a settlement term sheet has been agreed to by the LDCs and Energy East The parties agree that the term sheet will not be confidential and can be shared with stakeholders once executed by all parties~~, however TransCanada will determine when and how the term sheet will be provided to the NEB.~~ Upon filing of the Energy East application: • LDCs will not oppose or seek to delay Energy East or Eastern Mainline Project in any regulatory proceedings, but

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	• LDCs may make representations challenging the Net Book Value basis for the acquisition price of the transferred gas pipeline assets
LDC Support Option	TransCanada and LDCs to discuss principles that will move LDCs' position regarding Energy East from non-opposition to positive support.
Development Cost Risk	Energy East will be responsible for capital cost expenditures related to the Replacement Facilities in the event that National Energy Board approvals for Energy East and the Eastern Mainline project are not received.
Financial Assurances	The 2017 NCOS will be for binding 15 year contracts for capacity with financial assurances for the lesser of full term full toll or the shipper's prorated share of the actual costs incurred or committed in developing the Eastern Mainline Project to the date of termination of its shipping agreement.
Nature of Term Sheet **Definitive Agreements**	The executed term sheet is binding on TransCanada, LDCs and the Energy East shippers who are signatories to this term sheet and binds these parties to negotiate in good faith the final definitive agreements consistent with the terms described in this Term Sheet. This Term Sheet shall become effective upon the execution by Energy East shippers necessary to underpin the Energy East Project, as determined by Energy East, of a Term Sheet that is consistent with the terms reflected in this document. Definitive Agreements between the LDCs and TransCanada that are materially consistent with this Term Sheet will be executed by no later than November 30, 2014. This condition may be waived by mutual agreement of the parties. Contract Amendments between TCPL and Energy East shippers to be executed no later than November 30, 2014. This condition may be waived by mutual agreement of the parties. Except for TransCanada's agreement to honor requests for capacity under the 2017 NCOS, the obligations of TransCanada, the LDCs, and the Energy East Shippers under the definitive agreements will be subject to NEB approval of the Energy East Project and the Eastern Mainline Project, both applications as amended by TransCanada following the execution of the definitive agreements to reflect any changes to those projects required by those agreements, and the NEB approval of any tariff changes

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	or any other filing required to effect those agreements, on satisfactory terms. The signatories of this document agree that they will support approval by their respective Board of Directors and other parties of the Definitive Agreements that will be produced in accordance with this Executed Term Sheet. This Term Sheet will terminate upon the earlier of the execution of the Definitive Agreement~~s~~s or November 30, 2014, unless otherwise extended by mutual agreement of the parties.
Energy East Filing	TransCanada will file the Energy East project on or before October 30, 2014 together with a copy of this Executed Term Sheet and ~~letter~~ advising the National Energy Board that TransCanada, Energy East and the LDCs are working toward ~~have reached a tentative agreement to resolve concerns associated with the transfer of the NBSC and that active negotiations to reach definitive agreements with the LDCs and Energy East Shippers are continuing. The letter will note that upon conclusion of the~~ Definitive Agreements.~~, TransCanada will notify the NEB and will outline the substance and schedule for provision of any required amendments to the application.~~

Mis en forme : Retrait : Gauche : 0,5", Sans numérotation ni puces