

**Written Reply Evidence of  
TransCanada PipeLines Limited**





















1 as not being helpful to the determination to be made with respect to IT and STFT  
2 pricing.

3 TransCanada and the vast majority of Mainline stakeholders recognize that  
4 compromise is required. The TransCanada Reply Evidence shows the  
5 Settlement/common position reflects an appropriate balance of interests that is  
6 responsive to the current environment, consistent with regulatory principles, is in the  
7 Canadian public interest, and will result in tolls that are just and reasonable.

8 In the sections that follow, TransCanada addresses specific topics and issues raised by  
9 intervenors that oppose the Application.





## 2.1 Toll Methodology and Tolling Parameters

In this section, TransCanada addresses intervenors' criticism of the proposed toll method and tolling parameters proposed in the Application. The four tolling parameters applicable to the 2021-2030 period are:

- Revenue requirement associated with the Eastern Triangle will be separated from the Western Mainline, i.e., costs associated with those particular segments will be assigned to the revenue requirement for those respective segments, and thus will be recoverable independently from one another for the post-2020 period.
- The unamortized Bridging Contribution payable in Eastern Triangle tolls after the end of 2020 will continue to be reflected in the Eastern Triangle segment revenue requirement and amortized for recovery through the end of 2030.
- The LTAA balance at December 31, 2020 will be allocated to the Eastern Triangle revenue requirement for 2021 and beyond, and amortized at the annual Eastern Triangle composite depreciation rate.
- The Board's practice of rolling-in Mainline facilities costs will continue to apply to the regime in which the Eastern Triangle is segmented from the Western Mainline such that the costs of facilities additions in the Eastern Triangle will be rolled-in to Eastern Triangle tolls.

This reply evidence specifically addresses the appropriateness of the proposed rolled-in tolling treatment of new Eastern Triangle facilities and the proposed segmentation of the Eastern Triangle in the post-2020 timeframe in the context of the overall Application. In addition, TransCanada addresses criticism of its cost allocation among segments and responds to Centra's evidence related to stranded costs and a proposed earnings moratorium for the Western Mainline.

## 2.2 Proposed Tolling Treatment for New Eastern Triangle Facilities is Appropriate

Dr. Cicchetti, on behalf of Centra, makes comments on TransCanada's proposed rolled-in tolling treatment of new Eastern Triangle facilities, but it is unclear as to whether or not he supports a different methodology or simply suggests that the tolling treatment for these new facilities be addressed on a case-by-case basis in the future.<sup>27</sup> As discussed in TransCanada's response to information request NEB 2.4, a tolling treatment to recover only the new Eastern Triangle facilities costs does not address the loss of revenue associated with the conversion of long-haul to short-haul that the new build would facilitate, nor does it recognize the integrated nature of the Eastern Triangle facilities.

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<sup>27</sup> See Reed Reply Evidence on behalf of TransCanada, pages 25 – 27.



































1 has been no portion of Mainline natural gas capacity that has been effectively  
2 removed prior to TransCanada obtaining required Board approval. All existing  
3 capacity has been made available pursuant to the availability provisions for FT and  
4 FT-NR services contained in the Tariff.

#### 4.0 PRICING FLEXIBILITY FOR DISCRETIONARY SERVICES

5 The Application proposes the continuation of the PD that was granted by the Board to  
6 TransCanada in the RH-003-2011 Decision with respect to discretionary (STFT and  
7 IT) services.

8 The vast majority of Mainline shippers have not opposed the continuation of PD,  
9 understanding the contribution that PD has made, and will make, to increasing annual  
10 firm contracting and Mainline revenues overall,<sup>63</sup> and recognizing that PD is a  
11 fundamental part of the balance achieved in the Settlement.

12 Only two intervenors, CAPP and Centra, have provided evidence opposing  
13 continuation of the existing PD, with both CAPP and Centra requesting that  
14 TransCanada's PD be limited (or capped) to a set percentage over the FT tolls.  
15 CAPP's pricing discretion proposal also includes, for IT and STFT services, that  
16 TransCanada provide annual advance notice of monthly maximum bid floors, that  
17 TransCanada select, daily, a bid floor up to the monthly maximum, and that capacity  
18 be allocated by way of an auction. In addition, CAPP proposes that the Board require  
19 that TransCanada report certain price, spread, offer and transport data not currently  
20 reported by TransCanada. CAPP and/or Centra ground these requests on the  
21 following assertions in their evidence:

- 22 • PD allowed TransCanada to set bid floors for discretionary services which  
23 amounted to an "economic withholding" of capacity from IT and STFT shippers.  
24 Because TransCanada's discretionary services did not face sufficient competitive  
25 constraints, this alleged "economic withholding" reduced CAPP members'  
26 netbacks to NIT in the July 1–October 1, 2013 time period (and may again in the  
27 future) and caused a disconnection between gas prices at certain downstream  
28 trading hubs connected to the Mainline and other North American trading hubs,  
29 resulting in "inefficient" utilization of the Mainline and "disruptive" tolls;
- 30 • Regardless, PD is no longer justified as the proposed settlement returns the  
31 Mainline to a cost of service model (eliminating TransCanada's risk of cost  
32 recovery) and is not consistent with regulatory objectives of price stability and  
33 predictability;

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<sup>63</sup> See, for example, ANE Revised Evidence, Q&A 48, pages 30-33. [A62000]

- CAPP's and Centra's proposed caps on TransCanada's discretionary pricing will not prompt migration from FT to discretionary services or unreasonably reduce Mainline revenues; and
- CAPP's proposal to provide notice by February 15 of the previous gas year of the monthly maximum bid floors and additional data reporting related to TransCanada's discretionary services will further enhance competition for TransCanada's discretionary services.

TransCanada, Mr. Reed and Dr. Carpenter demonstrate through reply evidence that the CAPP and Centra proposals are without merit and not in the public interest. The reply evidence establishes that:

- TransCanada's use of pricing discretion did not result in "economic withholding" or exercise of market power
- the secondary market, including diversions, and firm recourse tolls, provide sufficient economic discipline
- TransCanada's use of pricing discretion did not determine netbacks to NIT
- TransCanada's use of pricing discretion did not impact downstream commodity prices
- TransCanada's use of pricing discretion is to the benefit of Mainline shippers, and is consistent with the public interest and applicable tolling principles.
- the continuation of pricing discretion is warranted in light of the risks that will be assumed by TransCanada under the Settlement
- intervenor proposed limits on pricing discretion should be rejected
- CAPP's data reporting proposals are unjustified and unnecessary
- continuation of pricing discretion is in the Public Interest.

#### **4.1 TransCanada's Use of Pricing Discretion Did Not Result in "Economic Withholding" or Exercise of Market Power**

CAPP asserts that TransCanada's use of PD amounts to an "economic withholding" of discretionary gas transportation capacity. CAPP's expert witness, Dr. Orans, defines "economic withholding" as follows:

Efficient use of a pipeline occurs when short-term prices are set at levels to maximize the flow of gas from low to high cost markets; a pipeline thus encourages economically efficient flows if it offers interruptible transportation service at a cost between its variable cost and value of transportation in a competitive market. Whenever short-term prices for





























1 instances in which disconnects occurred between supply and market areas since 2002.  
2 These previous disconnects occurred due to many factors as did the disconnect  
3 experienced this past winter. Therefore, Centra's claim that high market area prices  
4 were isolated to Mainline Points or those interconnected with the Mainline, and a  
5 result of PD, are unfounded.

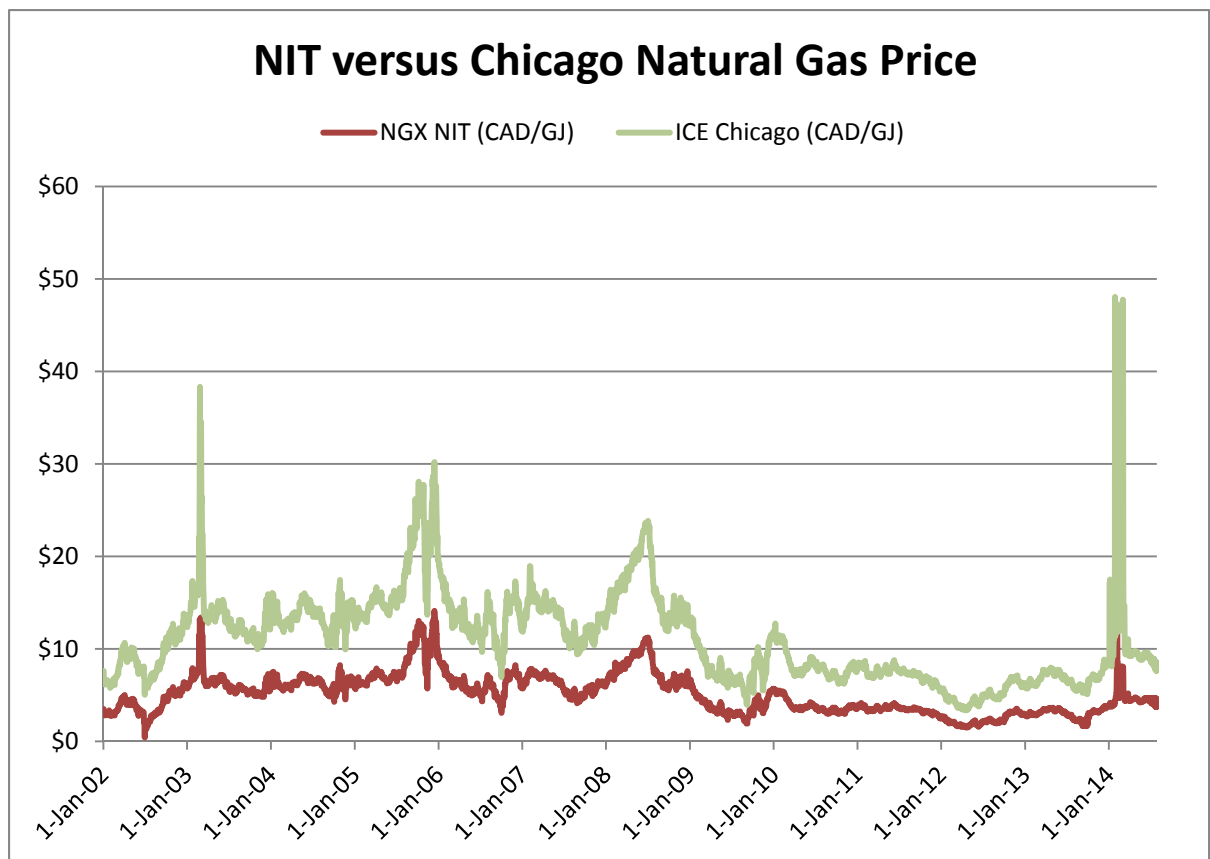


Figure 10: NIT – Chicago Basis Differential – 2002-2003 Winter























1       The Board also directed TransCanada to again consult with shippers at a later date,  
2       based on experience with this reporting in the context of PD. TransCanada believes  
3       that this consultation process should first occur before it can be determined whether  
4       any change to the current reporting is warranted, and before any change is  
5       contemplated by the Board.

**4.9   Continuation of Pricing Discretion is in the Public Interest**

6       The TransCanada Reply Evidence, the Carpenter Reply Evidence and the Reed Reply  
7       Evidence show clearly that the continuation of PD as authorized in the RH-003-2011  
8       Decision is in the public interest and will result in just and reasonable tolls.  
9       Acceptance of the CAPP or Centra proposals would reduce the Mainline's ability to  
10      optimize overall revenues and to capture value (when present) to the benefit of all  
11      Mainline shippers, neither of which is justified by the public interest as a whole.

## 5.0 CONCLUSION

1 The conclusion that the Board should draw from TransCanada's evidence is that the  
2 criticisms of the Settlement and the Application that are advanced in the intervenor  
3 evidence are irrelevant, are without merit, and are unpersuasive. Further, the  
4 proposals advanced by the intervenors should be rejected.

5 The TransCanada Reply Evidence, viewed in the light of the other evidence filed in  
6 this proceeding, should lead the Board to recognize that the tolls and tariff terms  
7 sought in the Application will provide the stability and predictability such that  
8 shippers can have timely access on agreeable terms to the services that the market  
9 demands, including services that require investments by the Mainline, without  
10 negatively impacting revenues generated on the Mainline. The terms sought in the  
11 Application will facilitate both the growth and rationalization of Mainline capacity  
12 while providing TransCanada with a reasonable prospect that it will recover its  
13 investment, with a risk/reward return incentive mechanism that aligns the interests of  
14 the Mainline and its stakeholders. The Board should conclude that approval of the  
15 Application will maintain the careful balance achieved, support these important  
16 public interest considerations, and will result in just and reasonable tolls.

## **Appendix 2.1**

### **Tab 1 for 2015**











Appendix 2.1, Tab 1: 2015 Firm Billing Determinants and Revenue		2015 Firm Billing Determinants (GJ/d)		2015 Energy Distance (GJ*km/year)		2015 Revenue (\$)		
Path	km Post	Currently Known Contracts <sup>1</sup>	Application	Currently Known Contracts <sup>1</sup>	Application	Currently Known Contracts <sup>1</sup>	Application	Variance
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1 Grand Total		5,926,593	6,007,828	2.49E+12	2.60E+12	\$1,838,758,206	\$1,905,336,466	-\$66,578,260

<sup>1</sup> Current contracts based on data compiled August 6, 2014

## **Appendix 2.1**

### **Tab 2 for 2016**









## **Appendix 2.1**

### **Tab 3 for 2017**









## **Appendix 2.1**

### **Tab 4 for 2015**











Appendix 2.1, Tab 4: ANE 2015 Firm Billing Determinants

Path		km Post	ANE 2015 Firm Billing Determinants (GJ/d)	ANE 2015 Energy Distance (GJ*km/year)
(a)		(b)	(c)	(d)
1	Grand Total		6,324,746	2.91E+12

## **Appendix 2.2**

### **2015 - 2017 Revenue Forecast Under ANE Proposed Tolls and TransCanada Firm Billing Determinant and DMR Forecast**

