ORIGINAL
N.H.P.U.C. Case No. DG 11-250
Exhibit No. #100
Witness Michael E Hachey
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Reference:

Application, Section 3, page 3.

Preamble:

TCPL notes: "*Over the past five years, long-haul transportation contracts out of the WCSB have declined by about 70% while short-haul contracts from points in Ontario have increased by about 25%. This loss in billing determinants has put upward pressure on Mainline tolls.*"

The loss of long-haul throughput over the five years referenced by TCPL coincides with the term of the 2007-2011 Settlement Agreement with stakeholders entered into in 2007. A loss of 70% of a company's market share is significant for any corporation.

Request:

a. When did TCPL first become aware that the loss of long-haul throughput would reach a material level?

b. Did TCPL have any indication when it entered into the Settlement Agreement that there was a reasonable risk that throughput would decline from then current levels?

c. Please provide copies of TCPL's annual TSO throughput studies for each year from 2001 to the latest study.

d. Were the higher toll levels a contributing factor to Mainline contract nonrenewals over the last 5 years?

e. From 2001 through to the current period, please provide a list of all the individual contracts that were not renewed, showing the original contract term, contract demand volumes, and receipt and delivery points.

f. From the time that TCPL first became aware of the risk of a decline in throughput, to the current period; list all material actions taken by TCPL to mitigate the loss of throughput.

g. Please provide a list of the new FT contracts or renewed FT contracts (including receipt and delivery points and contract demand volume) that were the direct result of the mitigating actions taken by TCPL, where such customers would not have otherwise contracted new or renewed an existing contract and for each contract identify the mitigating action and the basis for concluding that the contract resulted therefrom.

h. TCPL notes that while there was a 70% loss of long-haul transportation, there was a corresponding 25% increase of short-haul contracts. Of the new short-haul contracts, what volumes were previously flowing under long-haul contracts?

i. For those shippers who converted from long-haul to short-haul, what specific efforts did TCPL employ to retain the shippers as long-haul shippers?

Response:

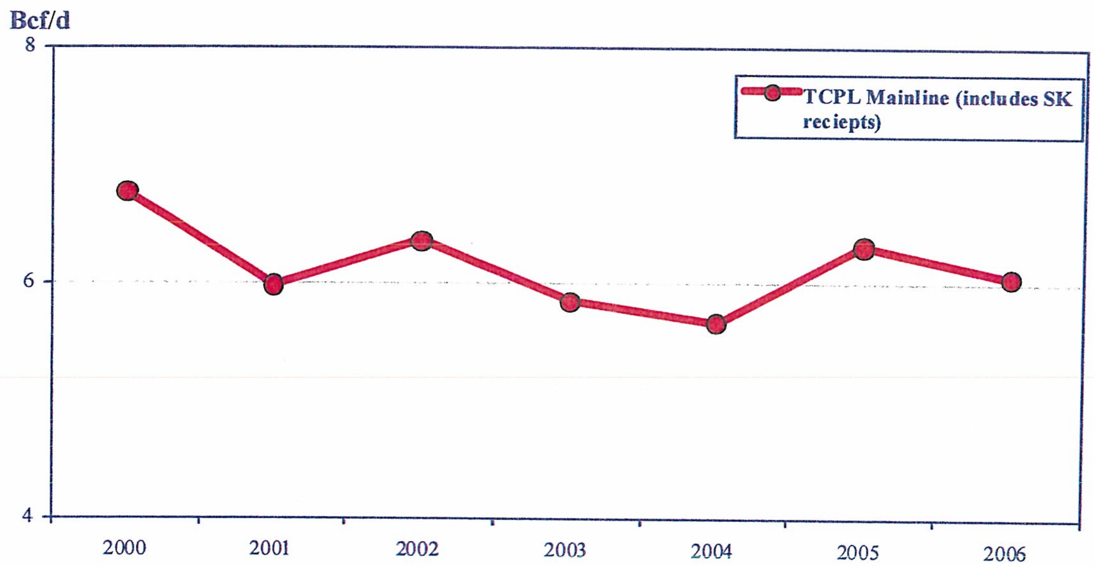
TransCanada disagrees with the suggestion in the Preamble that the Mainline has lost 70% of its "market share". The quote specifically states that "long-haul transportation contracts out of the WCSB have declined by about 70% while short-haul contracts from points in Ontario have increased by about 25%." No conclusion can (or should) be reached concerning the market reach of the Mainline on the basis of this statement alone.

(a) and (b):

There was no specific date when TransCanada became aware of the risk of a material reduction in throughput, as there were a number of contributing factors that evolved over time.

When the 2007-2011 Settlement was reached in early 2007, Mainline Western Receipts were stable, as shown in the Figure below.

Mainline Western Receipts, 2000-2006



The year-over-year decrease in throughput in 2007 was not substantially different from that experienced in 2003 and 2004 from which throughput recovered fully in 2005. In 2007, Mainline Western Receipts averaged 5.7 Bcf/d. In 2008 average Mainline Western Receipts were still in excess of 5 Bcf/d.

TransCanada became increasingly aware of the risk of material throughput reductions by 2009, as the REX pipeline was commissioned and began to serve markets that were previously served by the Mainline, and as shale development took hold in the U.S., as a recession reduced the demand for gas, as throughput continued to decline. In 2009, TransCanada commenced collaborative efforts directed at achieving lower and more stable Mainline tolls, as described in the Application, Section 1.0, page 6, line 12, to page 7, line 17.

c. Flow forecasts that have been made available to the TTF have been included in Attachments APPrO 9c-1 to APPrO 9c-13. Past throughput studies filed with the NEB are a matter of public record and can be found in the records of Board proceedings RH-4-2001, RH-1-2002, RH-2-2004, and RH-1-2008.

d. TransCanada expects that higher tolls have contributed to lower Mainline throughput, although it should be noted that the loss of volume began before tolls increased as a result of factors outside of TransCanada's control. TransCanada expects that lower tolls achieved through the Restructuring Proposal will result in an increase in throughput relative to the Status Quo.

e. For long term firm contract expiries from 2008 through current please refer to the Contract Expiries report on TransCanada's website by selecting "Canadian Mainline System" and the "CDE Report" link under "Reports."

For years prior to 2008, TransCanada has not maintained detailed contract expiry reports. To provide relevant information on historic expiries, aggregate expiry reports for 2003 – 2007 are available on TransCanada's website. The Mainline Firm Contracts Renewal reports can be accessed by going to the Mainline Firm Contract Renewals Archive link located as noted above. TransCanada has also provided a graph of historic aggregate Expiry profiles 2004 – 2011 in Attachment APPrO 9e.

TransCanada does not maintain historic expiry reporting within its systems at an individual contract level for expiries prior to 2008. TransCanada also does not maintain original term for contracts within its systems, as the end dates are overridden on contract renewal.

f. Please refer to the Application, Section 2.0, page 7 of 30, line 7 to page 23 of 30, line 5 and to the response to NEB 1.1(c), for a discussion of TransCanada's actions to address increased competition. These actions include:

- the transfer of assets from TransCanada to TransCanada Keystone Pipeline GP Ltd., which faced significant shipper opposition;[1]
- TransCanada's request for discretion in IT and STFT pricing, which was opposed by stakeholders and was denied by the Board;[2]
- the creation of the Southwest Zone, approved by the Board;[3]
- the North Bay Junction application for a new receipt and delivery point, approved by the Board (RH-3-2004);
- a biddable Non-Renewable Firm Transportation service (FT-NR) for term-limited blocks of capacity, approved by the Board;[4] although the biddable aspect was later overturned following a review and variance application by CAPP;[5]

[1] National Energy Board Reasons for Decision MH-1-2006.
[2] National Energy Board Reasons for Decision RH-1-99.
[3] National Energy Board Reasons for Decision RH-1-2002, Chapter 8.
[4] National Energy Board Reasons for Decision RH-2-2004 – Phase I, pages 25 to 29.
[5] National Energy Board Reasons for Decision RH-R-1-2005.

- the application for Firm Transportation-Short Notice and Short Notice Balancing services, approved by the Board with the exception of the tolling proposal for Short Notice Balancing;[6]

- TransCanada expanded its suite of services through introduction of a more flexible Short Term Firm Transportation (STFT), Capacity Release (CR), Enhanced Capacity Release (ECR), Parking and Loans (PALS), and Multiple Handshakes and Pooling (MHPS) - STFT and MHPS were both litigated at the Board;[7]

- TransCanada implemented market responsive bidding processes for IT, LTWFS and STFT, discretionary pricing for MHPS, and negotiated prices and terms for PALS;

- in RH-1-2002 the Board approved increasing the floor price for IT service from 80% to 110% of the 100% load factor FT service toll;

- TransCanada introduced FT-RAM service in an attempt to encourage FT contracting by providing credits for unabsorbed demand charges. While TransCanada is now seeking to discontinue the feature in light of its current negative impacts on the Mainline, the implementation of FT-RAM had its genesis in an effort to encourage FT contracting; and

- recent unsuccessful collaborative efforts from 2009 to 2011 directed at achieving lower and more stable Mainline tolls, as described in the Application, Section 1.0, page 6, line 12, to page 7, line 17.

TransCanada has also successfully managed Mainline costs, as discussed in the Application, Section 2, line 13, to page 24, line 2.

g. Customers do not generally inform TransCanada of the reasons they are entering into contracts, so TransCanada cannot determine which contracts were entered into as a result of specific initiatives. TransCanada believes that its actions taken to motivate contracting on the Mainline have resulted in greater contracting than would have otherwise occurred.

h. Each year many contracts of various amounts commence and expire with many shippers of record. As a result it is not possible for TransCanada to assess which volumes are now contracted as short haul that were previously contracted as long haul. While some of the increase in short haul contracts can be attributed to incremental demand, it is clear the majority is associated with a shift from long haul to short haul contracting.

[6] National Energy Board Reasons for Decision RH-1-2006, page 57.
[7] Board File Numbers 4775-T1-1-5 and 4775-T1-1-7, respectively.

i. TransCanada has not typically targeted specific shippers in its efforts to respond to competition. Of those initiatives discussed in the response to f, the creation of the SWZ and NBJ and the implementation of RAM are examples of efforts designed to make long haul transportation more competitive.