TRANSCANADA PIPELINES LIMITED

ORIGINAL
N.H.P.U.C. Case No. DE 11-250
Exhibit No. #113
Witness Michael E Hachey

BUSINESS AND SERVICES RESTRUCTURING AND MAINLINE 2012 – 2013 TOLLS APPLICATION

PART B:
BACKGROUND

Section 3.0:
Business Environment

SEPTEMBER 1, 2011

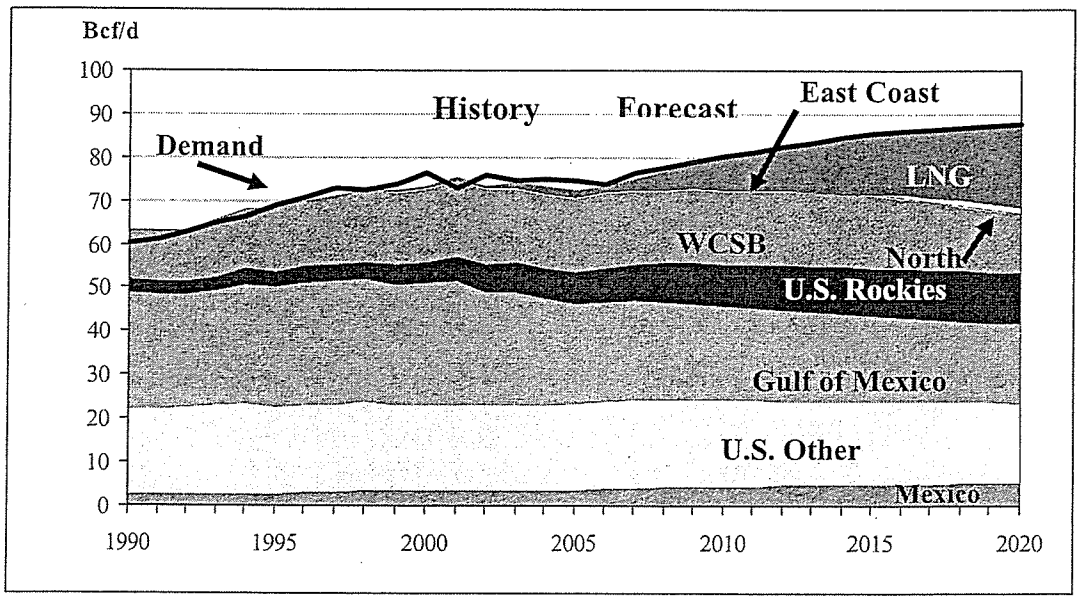
3.0 BUSINESS ENVIRONMENT

3.1 Introduction

This section describes the business environment in which TransCanada's Pipeline Systems operate, the unprecedented changes in North American supply and demand fundamentals over the past few years, and the effects of these changes on Mainline contracts, throughput and tolls.

As recently as 2007 there was a strong consensus that gas supply in the US Lower 48 states was in long term decline. At the same time, based on optimistic views of gas use in power generation, demand forecasts were relatively robust. The combination of declining domestic supply and growing domestic demand led to the conclusion that large increases in gas imports into North America would be required. TransCanada's expectation for the North American supply and demand balance in 2007 was reflected in TransCanada's 2007 annual forecast, which is shown in Figure 3-1.

Figure 3-1: TransCanada 2007 Annual Forecast – Base Case



Source: TransCanada 2007 Annual Corporate Forecast Base Case.

supply has not been sufficient to result in high levels of utilization of both the Alliance pipeline and other pipelines transporting gas out of the WCSB. The Mainline experienced its highest level of Western receipts at 201 $10^6m^3/d$ (7.1 Bcf/d) in 1999, and has not again reached this level of utilization since the Alliance pipeline went into service in December, 2000. Post Alliance, pipeline capacity out of the WCSB has exceeded WCSB exports, and as WCSB exports declined over the 2000-2010 period, a significant share of the decline has been borne by the Mainline.

3.3.2 Rockies, Shale and LNG Supply

New sources of supply for Eastern Canada and the US Northeast are displacing WCSB supply that has traditionally been transported on the Mainline to those markets. The main new sources of supply are Marcellus Shale production and Rockies gas, newly connected through the Rockies Express pipeline and its interconnects.

3.3.2.1 US Shale Gas

US shale gas production has quickly emerged from being a virtually unnoticed supply source to a major source of supply. As recently as 2007, typical North American supply forecasts included an insignificant contribution from US shale gas. By contrast, TransCanada currently forecasts US shale gas production will reach about 30 Bcf/d by 2020, at which point it will represent 35% of North America supply. Others have forecast higher US shale supply.[11] Such rapid change is unprecedented; new sources of gas supply typically have tended to evolve and mature over many years. Figure 3-4 below depicts the location of North American Shale gas basins.

[11] At the time of comparison in the first quarter 2011, Cambridge Energy Research Associates was forecasting 34 Bcf/d of US shale production (January 2011), and Wood Mackenzie was forecasting 32.7 Bcf/d of US shale production (April 2011 Long Term View). At the time of comparison in the first quarter 2011, PIRA Energy Group did not forecast production from all of the six key shale plays, missing the Eagle Ford, but its total for five shale basins in 2020 was 27.6 Bcf/d, some 1.6 Bcf/d higher than the comparable TransCanada forecast for five key shale basins of 26.0 Bcf/d.

The Marcellus US shale play is closest to eastern markets traditionally served by the Mainline. It is a large shale play, with gas production expected to grow from approximately 31 $10^6m^3/d$ (1.1 Bcf/d) in 2011, to close to 241 $10^6m^3/d$ (8.5 Bcf/d) in 2020. The emergence of US shale gas has allowed US domestic production to satisfy a greater portion of US domestic demand. This includes domestic markets in the US Northeast that have traditionally been served by Canadian gas transported on the Mainline. As Marcellus gas seeks markets, it is expected that it will also supply some demand in Eastern Canada. The extent to which WCSB gas is displaced out of the US Northeast and Eastern Canada markets is uncertain and depends on, among other things, the amount of production growth in the Marcellus and the nature and extent of new infrastructure that is built in the US Northeast and Eastern Canada.