National Energy Board
Office national de l’énergie

Reasons for Decision

TransCanada PipeLines Limited

Storage Transportation Service (STS) Modernization and Standardization Application

RH-001-2016

November 2016

Part IV Tolls and Tariffs

Canada

National Energy Board

Reasons for Decision

In the Matter of

TransCanada PipeLines Limited

Storage Transportation Service (STS)
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RH-001-2016

November 2016

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Glossary of Terms and Abbreviations

ARP	Alternate Receipt Point
Board or NEB	National Energy Board
Centra	Centra Gas Manitoba Inc.
CDA	Central Delivery Area
DDA	Distributor Delivery Area
Eastern Triangle	Commences at North Bay, Ontario and extends southward to a point near Toronto, Ontario, and eastward, to a point near Ottawa, Ontario
EDA	Eastern Delivery Area
EGDI	Enbridge Gas Distribution Inc.
EMB	Enhanced Market Balancing
EWC	Excess Withdrawal Charge
FT	Firm Transportation
Gaz Métro	Société en commandite Gaz Métro
GJ/d	Gigajoules per day
GJ	Gigajoules
IQ(s)	Injection Quantity(ies)
IT	Interruptible Transportation
LBA	Limited Balancing Agreement
LDC	Local distribution company
LHFT	Long-Haul Firm Transportation
LTAA	Long-Term Adjustment Account
NCDA	North Central Delivery Area
NDA	Northern Delivery Area

Northern Ontario Line	Commences at Winnipeg, Manitoba and extends eastward to a point near North, Bay, Ontario
PJ	Petajoules
Prairies Line	Commences at Empress, Alberta and extends eastward to a point near Winnipeg, Manitoba
Settlement	2013-2030 Settlement Agreement
SSMDA	Sault Ste. Marie Delivery Area
STS	Storage Transportation Service
STS-L	Storage Transportation Service - Linked
TransCanada	TransCanada PipeLines Limited
TBO	Transportation by Others
Union	Union Gas Limited
WDA	Western Delivery Area
WQ(s)	Withdrawal Quantity(ies)

Recital and Appearances

IN THE MATTER OF the *National Energy Board Act* (NEB Act) and the Regulations made thereunder;

AND IN THE MATTER OF an application dated 18 February 2016 by TransCanada PipeLines Limited (TransCanada), for amendments to the Canadian Mainline Gas Transportation Tariff in respect of Storage Transportation Service, and to eliminate Storage Transportation Service-Linked pursuant to Parts I and IV of the NEB Act, filed with the National Energy Board under File OF-Tolls-Group1-T211-2016-01 01;

AND IN THE MATTER OF National Energy Board Hearing Order RH-001-2016 dated 6 April 2016;

HEARD in Calgary, Alberta on 19-21 September and 23 September 2016;

BEFORE

R. George	Presiding Member
L. Mercier	Member
J. Gauthier	Member

Appearances	Participants	Witnesses
C. K. Yates, Q.C. M. Ducharme	TransCanada PipeLines Limited	D. Schultz A. Harris G. Kuntz M. Wharton J. J. Reed
H. Van Iderstine B. Czarnecki	Centra Gas Manitoba Inc.	L. Stewart N. Kostick M. Drazen R. Mikkelsen
D. P. Langen C. M. Graham	Enbridge Gas Distribution Inc.	L. Lawler A. Welburn
D. P. Langen	St. Lawrence Gas Company, Inc.	
T. Lange	Tenaska Marketing Canada, a division of TMV Corp.	
L. E. Smith, Q.C.	Union Gas Limited	C. R. Shorts J. Gillett G. Habib
D. Audino	National Energy Board	

Chapter 1

Disposition

Over the past five years, market circumstances and tolling on the TransCanada Mainline Pipeline System (Mainline) have evolved significantly. In the RH-003-2011 proceeding, the National Energy Board (Board or NEB) addressed toll increases and the eroding competitiveness of the Mainline and TransCanada PipeLines Limited (TransCanada) was granted tools to better manage its system and respond to changes. In the period following the RH-003-2011 proceeding, extensive litigation and a need for capital investment resulted in the 2013-2030 Settlement Agreement (Settlement) and the RH-001-2014 Reasons for Decision, which further restructured the Mainline and included an update to Mainline tolls for the 2018 to 2020 period. On the horizon is the upcoming segmentation of the Mainline post-2020, which will involve its own challenges as stakeholders confront a comprehensive change to toll design. Further developments on the Mainline may also materialize as TransCanada continues to innovate and respond to new challenges and opportunities. These unique circumstances place shippers in a dynamic environment that requires careful consideration from the regulator.

TransCanada has applied to the Board for approval of amendments to the Mainline tariff in respect to Storage Transportation Service (STS) and Storage Transportation Service – Linked (STS-L) (Application). The changes proposed by TransCanada are intended to modernize and standardize STS, improve alignment between cost causation and cost responsibility, and improve equity among STS shippers and between STS and other Mainline shippers. Centra Gas Manitoba Inc. (Centra), Enbridge Gas Distribution Inc. (EGDI) and Union Gas Limited (Union) opposed the Application, while Société en commandite Gaz Métro (Gaz Métro) did not. However, the Board generally heard from intervenors that the Application was premature and that STS should instead be reviewed comprehensively during the Mainline tolls and tariff proceeding for the post-2020 period.

The Board was not persuaded by TransCanada that the current differences between the non-standard STS contracts constitute unjust discrimination. Given the nature of the service, the geographic location and needs of individual shippers, the Board was not persuaded that the traffic for each STS shipper is carried under substantially similar circumstances and conditions. Further, in the Board’s view, now is not the time to make significant changes to STS, a fundamental service that Local Distribution Companies (LDCs) have relied on for many years, dating as far back as 1975, for seasonal and daily balancing. The prevailing environment in which the Mainline operates is also an important consideration for the Board in determining that the timing of the Application is inappropriate or premature. The Board is of the view that shippers expected a reasonable level of toll certainty and stability as a result of the Settlement and the RH-001-2014 Decision. Shippers made Long-Haul Firm Transportation (LHFT) commitments with the expectation that the provisions of STS would neither change significantly during the transition period to 2020, nor that they would face significant cost increases for STS. Given the upcoming matter of Mainline segmentation, the Board is also of the view that it is unfair and inequitable to STS shippers to impose significant adjustments to their gas transportation portfolios, or to impose significant costs and reductions to flexibility that likely cannot be mitigated.

While TransCanada based the Application on the principles of fairness and equity between shippers, the Board is of the view that in the unique circumstances of the Mainline, fairness and equity also extends between TransCanada and its shippers. Accordingly, the Board does not agree with TransCanada that continuation of the existing STS situation results in service and tolling that are unjustly discriminatory and no longer just and reasonable under the Board's applicable tolling standards and principles. The Board denies TransCanada's application for amendments to STS and STS-L.

R.R. George
Presiding Member

L. Mercier
Member

J. Gauthier
Member

Calgary, Alberta
November 2016

Chapter 2

Introduction and Background

2.1 Overview of the Application and Hearing

On 18 February 2016, TransCanada applied to the Board under Part I and Part IV of the NEB Act for an order approving amendments to the Canadian Mainline Gas Transportation Tariff (Tariff) in respect of STS, and to eliminate STS-L. TransCanada requested the Board render a decision with respect to the Application by 30 September 2016 such that the changes would be implemented 1 April 2017 coinciding with the start of the natural gas storage injection season.

Specifically, TransCanada asked the Board to issue Orders:

- approving the proposed amendments to the Tariff in respect of STS, the elimination of STS-L, and the implementation and shipper election process, as described in the Application;
- revising the Tariff in accordance with Appendix 4 to the Written Evidence of TransCanada filed as part of the Application; and
- granting such further and other relief as TransCanada may request or the Board may consider appropriate.

By letter dated 26 February 2016, the Board invited comments from interested persons on the Application. Six interested persons, 1425445 Ontario Ltd. doing business as Utilities Kingston, Centra, EGDI, Gaz Métro, St. Lawrence Gas Company, Inc. and Union filed comments by the 4 March 2016 deadline, with TransCanada filing its reply on 9 March 2016.

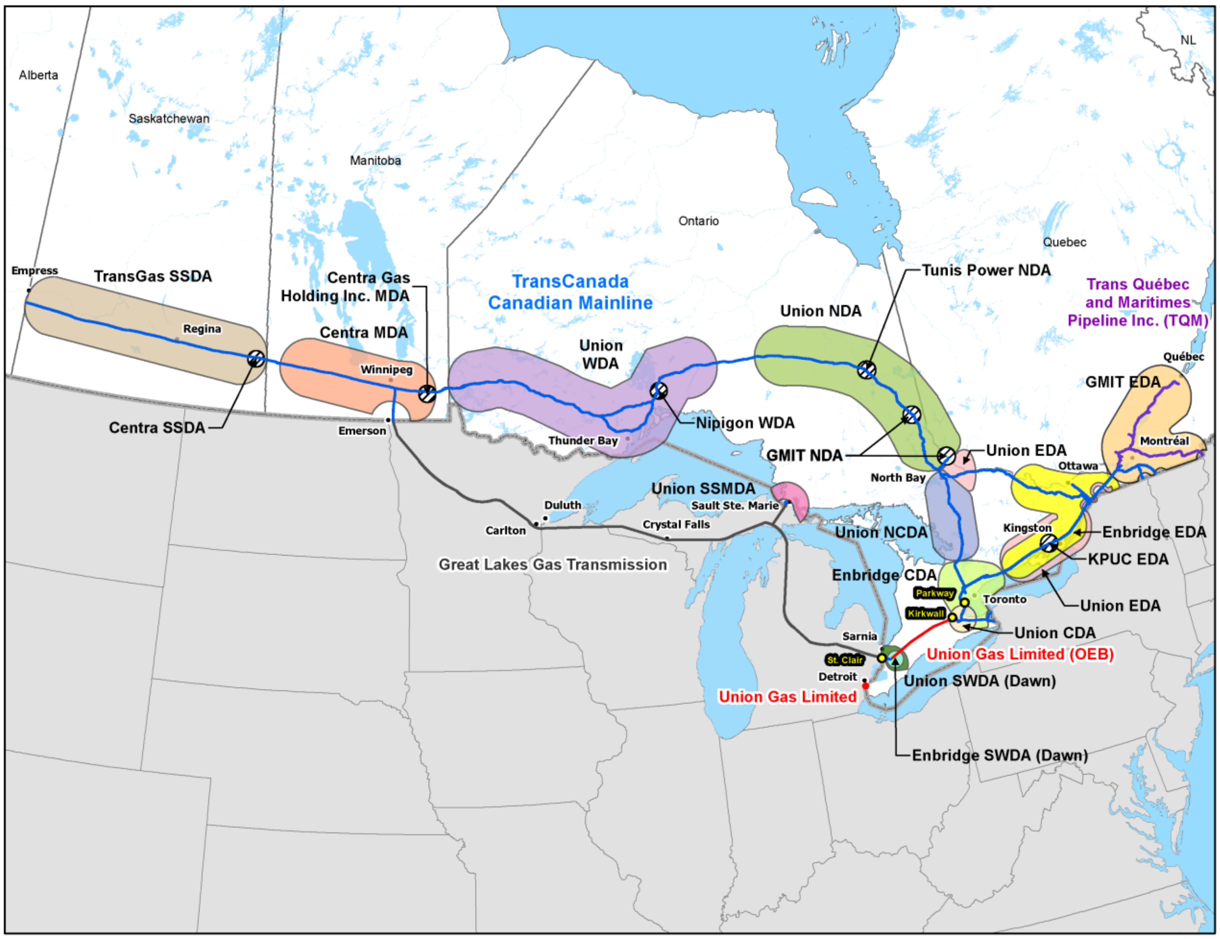
After reviewing the comments received, the Board issued Hearing Order RH-001-2016 on 6 April 2016, setting the Application down for an oral public hearing. The oral portion of the hearing took place in Calgary from 19 to 23 September 2016. The List of Issues for the hearing is found in Appendix I.

The Board received nine requests for participation in the hearing, all of which were granted standing to participate at the level requested.

2.2 TransCanada Mainline STS and STS-L

TransCanada owns and operates a high-pressure natural gas transmission system that extends from Empress, Alberta (near the Saskatchewan border) across Saskatchewan, Manitoba, and Ontario, through a portion of Québec, and connects to various downstream Canadian and international pipelines. Figure 2-1 shows a map of the TransCanada Mainline.

Figure 2-1 TransCanada Mainline



Both STS and STS-L are services that provide for transportation to and from a storage location, in conjunction with LHFT service, to help shippers manage both seasonal and daily fluctuations in their market demand.

TransCanada is currently charging tolls pursuant to the RH-001-2014 Decision and Board Order TG-011-2015, which was approved as final for the 1 January 2015 to 31 December 2017 period. No changes to the STS tolls approved in Order TG-011-2015 would be required to implement the changes proposed in the Application.

The existing STS contracts were individually negotiated and often reflect different characteristics of service depending on the particular requirements of the contracting LDC, the location of the market in relation to the location of storage, and other factors.

2.3 Background

RH-003-2011 Decision

The RH-003-2011 Decision was issued in March 2013, after 72 days of oral public hearings. The decision reflected the Board's view that TransCanada bears the responsibility to ensure the Mainline's economic viability, to address the underlying competitive reality it operates in, and to meet market forces with market solutions. TransCanada could not look to the Board to shield it from the risks it was facing but could reasonably expect to have the tools available to allow it to respond to these risks.

Among other things, the RH-003-2011 Decision approved the following:

- Multi-year Mainline Firm Transportation (FT) tolls from 1 July 2013 to 31 December 2017 that were competitive to provide TransCanada with a reasonable opportunity to recover its Mainline costs and to provide toll certainty and stability for shippers;
- A Long-Term Adjustment Account (LTAA) and a Toll Stabilization Adjustment Account that were the only two deferral accounts on a go-forward basis;
- A streamlined regulatory process for the Mainline to address new service and pricing proposals in a timelier manner; and
- The circumstances (off-ramps) that the Board expected would justify a new tolls application for the Mainline before 31 December 2017.

Following the RH-003-2011 Decision, there was uncertainty and tension between TransCanada and shippers over access to the Mainline and Mainline cost recovery. This resulted in a number of litigious proceedings before the courts, the Ontario Energy Board and the NEB. Faced with the potential of years of adversarial litigation, TransCanada, EGDI, Gaz Métro and Union sought to find a solution. On 10 September 2013, these parties reached a Settlement Term Sheet that set out all the material terms of the Settlement. The Settlement runs from 31 October 2013 to 31 December 2030.

RH-001-2014 Decision

On 20 December 2013, TransCanada filed an application for approval of the Settlement it reached with EGDI, Gaz Métro and Union. Following the receipt of comments on the Settlement, the Board found that it could not approve the Settlement as a contested settlement under the *National Energy Board Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs*. Instead, the Board indicated that it was willing to treat the Settlement as a common position of the four parties in a contested tolls application, to which TransCanada agreed.

In November 2014, the Board issued its Decision on TransCanada's application, with reasons to follow. The RH-001-2014 Reasons for Decision were issued in December 2014.

Among other things, the RH-001-2014 Decision approved the following:

- The proposed revenue requirements and rate base components for the 2015 to 2020 period, subject to a review of forecast assumptions for the 2018 to 2020 period;
- The proposed incentive sharing mechanism that has both upside and downside risk for the Mainline on a year-to-year basis, and includes a contribution from TransCanada;
- The proposed treatment of the LTAA as an adjustment account to eliminate any and all variances between the actual and forecast revenue requirement and the actual and forecast revenue during the period 1 January 2015 to 31 December 2020, net of incentive mechanism adjustments;
- The proposed term-up provision that was to come into effect on 30 March 2015 and would be triggered if TransCanada determines that expansion facilities are required with an estimated cost exceeding $20 million;
- The new Enhanced Market Balancing (EMB) service; and
- Segmentation of the Mainline in principle post-2020, such that the Eastern Triangle will be separate from the Northern Ontario Line and the Prairies Line.

<u>2018 to 2020 Toll Application</u>

In the RH-001-2014 Decision, the Board directed TransCanada to consult with all interested parties and to file an application prior to 31 December 2017 for approval of tolls for 2018 to 2020. The Board indicated the application must include the following:

- A review of revenue requirements, including return, income taxes, the annual bridging amount and the LTAA balance, for the 2018 to 2020 period;
- A review of billing determinants, including long-haul contracted quantities to the Eastern Triangle;
- A review of discretionary miscellaneous revenue forecasts for the 2018 to 2020 period; and
- A discussion of any other material changes that would impact the operation of the Mainline for the 2018 to 2020 period.

Chapter 3

Issues

3.1 Injection and Withdrawal Quantity Entitlements

Views of TransCanada

TransCanada proposed that an STS shipper's Injection Quantity (IQ) be limited to 71 per cent of its Withdrawal Quantity (WQ) for any particular STS market. TransCanada stated that the proposed relationship between IQ and WQ will provide STS shippers with the ability to inject the same quantity of gas into the storage location on a firm basis in the summer as can be withdrawn from the storage location on a firm basis in the winter. The standard gas year has five winter months (or 151 winter days) and seven summer months (or 214 summer days), and the 71 per cent was calculated by dividing the number of winter days by the number of summer days in the gas year. The IQ would continue to be subject to the requirement that it cannot exceed the shipper's long-haul contract quantity to a particular market.

TransCanada stated that the proposed relationship between IQ and WQ would provide much needed clarity in the tariff as to what firm injection and withdrawal rights an STS shipper is entitled to, and would more closely match the purpose of STS as a seasonal balancing service.

Mr. Reed, on behalf of TransCanada, stated that the fact there is such wide variation in the ratio of injection-to-withdrawal capability among STS shippers provides certain shippers with much greater flexibility throughout the year relative to other shippers. In addition to how the STS toll is applied, in Mr. Reed's view, it is inconsistent with the Board's no unjust discrimination principle. Mr. Reed submitted that TransCanada's proposal will ensure that all STS shippers are treated in a similar manner in terms of the contractual injection and withdrawal flexibility they are permitted with the service. Mr. Reed indicated TransCanada's proposal would eliminate the existing inconsistency with cost causation in which certain STS shippers benefit from enhanced flexibility but do not bear the costs of that flexibility.

TransCanada considered an alternative ratio of one to one for a maximum IQ to WQ ratio. TransCanada submitted that this alternative ratio is a second best option, because it would result in an annual imbalance in the relationship.

Views of Participants

<u>Centra</u>

Centra stated that TransCanada's proposal does not reflect the reality of LDC storage withdrawal requirements in winter. Centra explained that storage withdrawals are the primary tool of LDCs to respond to day-to-day winter weather variation and corresponding swings in customer consumption. A warm day in winter may correspond with no withdrawal, while a cold day in the same month could require the maximum WQ contractually available to the LDC.

Centra submitted that a reasonable LDC storage withdrawal load factor during winter will vary depending on the severity of a particular winter's weather, but could reasonably range from 20-50 per cent. Compared to TransCanada's proposed ratio, Centra indicated a withdrawal load factor in this range would drive a much different injection/withdrawal ratio in which the WQ would be sufficiently greater than the IQ to allow for flexible withdrawals.

Centra stated that the proposal to fix the ratio between STS shippers' IQs and WQs, despite their individual needs, would result in an increased obligation on the part of TransCanada to provide injection capacity to Centra, even though Centra neither requested nor has a need for it. In Centra's view, the outcome is not only inequitable (being neither fair nor reasonable); it is clearly discriminatory to a west-of-storage STS customer like Centra whose ratio bears no resemblance to the 71 per cent calculation. In Centra's view, it would also result in an illogical and inefficient allocation of injection capacity.

Drazen Consulting Group, Inc., on behalf of Centra, (Drazen Consulting) stated that the 71 per cent ratio is not based on actual operational needs of STS shippers. The operational requirements of the various LDCs are different from each other. The appropriate and cost-effective relationship of injection to withdrawal is determined by several factors, such as the relationship of winter load to summer load, the nature of the LDC's load (for example, whether any is interruptible), operational factors and possibly others. Forcing them all into using a fixed ratio at 71 per cent ignores these differences. In Drazen Consulting's view, each LDC should be allowed to continue to determine the relative amounts of IQs and WQs that fits its load profile.

EGDI

EGDI submitted that its concern with linking the IQ to the WQ is not related to the magnitude of the link, but rather to the incorrect assumptions that are used to create the link and the impact that it has on the reliability and flexibility of STS and its value as a companion service to LHFT. In EGDI's view, the IQ should not be linked to the WQ at any ratio and the existing Mainline Tariff should be maintained.

EGDI stated that the "link", through the 71 per cent injection limit that TransCanada has proposed, is unnecessary and incorrectly assumes a completely seasonal nature of the use of STS by shippers. That is, it incorrectly assumes STS injections and withdrawals are aligned with the summer and winter months in the standard gas year. EGDI provided bar charts demonstrating that STS shippers used injections in the 2015/2016 winter off-season, which was more pronounced for STS shippers downstream of storage.

EGDI submitted that the proposed changes will limit STS shippers to only being able to transport up to 71 per cent of their WQ to the storage location using firm transportation. Any amount of the aggregate LHFT capacity above this threshold will have to rely on discretionary diversions being available during both the summer and winter periods. The firm transportation injections to the storage location will be limited by the contract demand of the WQ of the STS contract and not the contract demand of the LHFT contracts. As a result, increases in LHFT will not result in a subsequent increase in firm transportation injections.

Union

Union stated that the proposed fixed relationship between IQ and WQ means that if Union contracts for WQs that are required to meet peak day demands in the winter, it may end up with too few injection rights to properly balance deliveries to a Distributor Delivery Area (DDA) when the summer demands are dramatically lower. The result is less flexibility for Union to inject long-haul supply into storage to balance the DDA and raises the potential for increased Limited Balancing Agreement (LBA) fees. As a result of these proposed reductions in STS attributes, Union submitted that its ability to balance its DDAs in Union North is impaired.

TransCanada's Reply

According to TransCanada, a defined relationship between IQ and WQ is clearly required to ensure equitable provision of STS. The debate should be what this relationship should be – not whether there should be one. TransCanada stated that central to much of the opposition to establishing a relationship between shippers' IQs and WQs are the arguments that the various LDCs have different needs, that IQs and WQs were contracted for in the past at levels that best suited their needs, and that additional IQ was not requested. These points all relate to the expected usage of STS, but fail to acknowledge or justify on a principled basis the difference in firm service entitlements that are caused by the current lack of a defined relationship between the IQ and WQ.

TransCanada acknowledged that the LDCs may have different storage withdrawal and injection requirements for various DDAs. However, in TransCanada's view, it does not follow that these different usage requirements should translate into different firm injection and withdrawal service entitlements on the Mainline with no consistency among STS shippers. TransCanada stated that the proposed 71 per cent ceiling on the IQ is not based on usage but rather on each STS shipper's firm entitlement on the system. Alternatively stated, the proposed IQ ceiling is a firm service entitlement that is commensurate with the firm WQ to which the STS toll would be applied.

TransCanada clarified that it is not proposing a fixed ratio between the IQ and WQ. Rather, TransCanada is proposing a ceiling for the IQ (that is, the IQ cannot exceed 71 per cent of the WQ or the long-haul contract quantity the STS shipper holds). STS shippers will choose their entitlement, and choose the degree to which they use it day-to-day as part of a portfolio. TransCanada stated that it does not believe that a shipper's utilization rate of third-party storage capacity should be a determining factor for the firm STS injection entitlement in relation to the firm STS withdrawal entitlement.

3.2 Application of the STS Toll

Views of TransCanada

TransCanada proposed to apply the STS toll for all STS contracts to the WQ. Currently, the STS toll is applied to the IQ for STS markets that have historically been deemed upstream or west of storage. TransCanada stated that establishing one consistent tolling treatment for the same service will be equitable and non-discriminatory, ensure greater consistency among shippers, and make the service more cost-based commensurate with the service received. TransCanada submitted that applying the STS toll differently depending on the storage location results in transportation cost advantages for some STS shippers relative to others, for the same underlying service.

TransCanada submitted that distinguishing the tolling treatment by the relative location of storage is no longer appropriate. Mainline flow patterns have changed, and determining which location is upstream or downstream of another location is difficult and subjective. As well, the physical direction of flow is not currently a relevant differentiator for the tolling of any other Mainline transportation service.

TransCanada stated that it is the WQ that is the relevant quantity to consider for tolling purposes, not the IQ. The WQ reflects the capacity required by STS shippers to meet peak winter demand, and this is the peak capacity TransCanada has to ensure is available for use by those shippers on a firm basis. Since the capacity required to provide this peak STS service is the same as that needed to provide FT service between the same receipt and delivery points, TransCanada stated that users of this capacity should pay the same toll that similarly-situated shippers pay, consistent with the cost-based/user-pay tolling principle. Additionally, it is the withdrawal capacity that is in higher demand on the system (that is, capacity from Parkway, Dawn and Emerson to market locations) compared to the injection capacity, as there is currently no capacity available for annual firm service on any of the existing STS withdrawal paths. TransCanada stated that this demonstrates that the WQ is the more relevant STS quantity, and that applying the STS toll to the WQ is consistent with allocative efficiency and the promotion of proper price signals.

Mr. Reed submitted that by changing the tolling such that all STS shippers pay tolls that reasonably reflect the cost of the facilities they utilize (that is, the toll will reflect the cost of providing the additional deliverability to that shipper from the designated storage point to a defined market), there will be efficient price signals for shippers to contract for and relinquish capacity. Mr. Reed stated that consistent application of the STS toll also ensures that there are no competitive distortions created between shippers as a result of the existing misalignment of cost causation and cost responsibility.

TransCanada proposed that all STS service be subject to an Excess Withdrawal Charge (EWC) of 25 per cent of the applicable STS toll, which is the charge currently applied for markets that are downstream of storage. The current charge for markets that are upstream of storage of 125 per cent of the applicable STS toll would no longer apply.

TransCanada also proposed that the abandonment surcharge be applied to the WQ, since the STS Contract Demand will be defined as the WQ.

Views of Participants

Centra

Centra submitted that it does not support TransCanada's position that it must be able to charge 12 months on the WQ even though this path is only firm for five out of 12 months. In Centra's view, accepting this rationale means accepting that it is equitable for an STS shipper to be overcharged relative to an FT shipper using the same path, as the STS shipper only gets 41 per cent (151 of 365 days) of the days of firm service on the path as the FT shipper (365 days), plus the FT shipper has more service features and fewer restrictions.

Centra disputed TransCanada's suggestion that STS withdrawal paths are now the higher demand paths rather than the STS injection paths and indicated this is not the case at Emerson. Centra submitted that TransCanada's evidence demonstrates there is significantly greater demand for deliveries to Emerson (the injection path) than there is demand for receipts from Emerson (the withdrawal path). In Centra's view, these facts about demand at Emerson also undermine TransCanada's suggestion that a proper price signal would be to charge STS on the WQ.

Drazen Consulting submitted that the major change in system flow patterns is occurring in the Eastern Triangle. The flow on the Prairies Line remains largely unchanged and is predominantly west to east, from Empress to Station 41. Ninety-six per cent of Centra's load is west of Station 41, so it is physically supplied by gas from Empress at all times. The one portion of the Prairies system where the flow has reversed on occasion is the Emerson Extension (from Emerson to Station 41).

Gaz Métro

Gaz Métro submitted that it believes the existing attributes of STS allow STS users to access transportation capacity for which no toll is applied. Gaz Métro stated that it is of the view that the proposed tariff amendments would promote closer alignment with the fundamental principles of cost-causation/user pay and no acquired rights.

Union

Union stated that TransCanada is proposing to drastically alter how STS is tolled, which results in a significant increase to Union's costs to serve its customers in Union North. Union submitted the Application seeks to apply tolls to WQs for STS paths where tolls were previously applied to IQs. Union further submitted that the proposed annual cost increase to $40 million is due to the new methodology of applying STS and FT tolls to withdrawal volumes that have traditionally had STS tolls applied to IQs.

TransCanada's Reply

TransCanada stated that no parties provided a principle-based justification to continue with the current east versus west treatment regarding the quantity to which the STS toll is applied. TransCanada stated that applying the STS toll to the WQ will remove transportation cost advantages currently enjoyed by some STS shippers relative to others, and result in the same underlying service being tolled on the same basis for all STS shippers.

TransCanada asserted that the fact that WQs help meet peak requirements, not IQs, applies equally whether a market is located east or west of the storage location. In TransCanada's view, applying the STS toll to the WQ will better recognize the relationship between winter peak needs on the Mainline and cost causation. It will also result in all STS shippers paying an STS toll commensurate with the annual costs of Mainline capacity required to meet this winter peak demand. TransCanada submitted the current STS situation in which the STS toll is applied to the IQ for certain STS contracts results in firm, peak demand capacity that could otherwise be utilized as FT service at the annual FT toll being sold effectively at a discount. In TransCanada's view, this outcome is not consistent with the objective of allocative efficiency and does not send the appropriate price signal to the market when only certain shippers are receiving a discount on firm, peak demand capacity.

TransCanada submitted that the primary concern expressed by Centra relates to charging the STS toll on the WQ for twelve months when this path is firm for five months of the year. This position ignores that STS also provides next to firm withdrawals in the seven summer months, firm transportation rights on the injection path in the seven summer months, and next to firm injection rights during the five winter months.

3.3 STS Balances

Views of TransCanada

STS Balances and the accompanying EWC were implemented in April 2005. TransCanada submitted that the intent of STS Balances and EWC was to provide an incentive for STS shippers to contract for appropriate amounts of long-haul contract quantities for STS injection purposes in order to meet winter withdrawal requirements at STS markets. TransCanada submitted that STS Balances can be thought of as injection and withdrawal paper balances, measured in gigajoules (GJ). STS Balances do not necessarily reflect the actual physical volume of gas in storage.

TransCanada indicated that STS Balances are tracked at the STS shipper market. STS Balances represent the difference between cumulative STS injections and cumulative STS withdrawals. TransCanada defined STS injections to include the aggregate of the shipper's scheduled injections, injection overruns, diversions made by the shipper to its storage location off of its long-haul contracts, and certain IT and Short Term Firm Transportation quantities. STS withdrawals were defined to include the aggregate of the shippers' scheduled withdrawals and withdrawal overruns transported from the storage location to the STS market.

STS Balances do not reset annually and are not capped. However, STS Balances cannot be less than zero GJ. If an STS Balance reaches zero GJ, additional withdrawals incur the EWC. The EWC is equal to 25 per cent of the applicable STS toll for markets that are downstream of storage, and 125 per cent of the applicable STS toll for markets that are upstream of storage.

TransCanada identified two issues with the current structure of STS Balances. Primarily, not all STS markets have an individual STS Balance. Secondly, there is no limit on the size of STS Balances under the existing STS Balance calculation.

TransCanada submitted that not all STS markets have an individual STS Balance and instead share an STS Balance with one or more other market. In TransCanada's view, the sharing of STS Balances provides an incentive for shippers to hold less long-haul contract quantity to markets with higher long-haul tolls, since shippers can instead rely on injections or diversions made from markets with lower long-haul tolls to fill the shared STS Balance.

To ensure all STS shippers are treated more equitably, TransCanada proposed that all STS markets have an individual STS Balance. In TransCanada's view, individual STS Balances will incent shippers to hold an appropriate amount of long-haul contract quantity to each STS market.

TransCanada submitted that since the introduction of STS Balances in April 2005, the calculation of STS Balances has allowed for the accumulation of very large balances. In TransCanada's view, large STS Balances could allow STS shippers to continue to nominate STS withdrawals for multiple years while holding as little as one gigajoule per day (GJ/d) of long-haul contract quantity. As an example, TransCanada submitted that one STS Balance is so large that it would take that shipper up to 15 winter seasons to fully draw down the STS Balance if it nominated its Daily Withdrawal Quantity at a 100 per cent load factor every winter day and made no long-haul contract injections into storage. For remaining shippers, the STS Balance would take up to three winter seasons to draw down to zero.

TransCanada proposed to limit the size of each shipper's STS Balance at individual STS markets such that it could not exceed the shipper's aggregate contracted STS daily WQ for that market, multiplied by 151 days (the number of winter days in a standard gas year from November 1 to March 31). In TransCanada's view, the proposed limit is reasonable as it would allow a shipper to withdraw its full WQ every day during the winter period without being exposed to any EWC, provided the STS shipper had previously injected this quantity of gas. TransCanada emphasized that no STS shipper has ever nominated its full WQ each day of the winter period and argued that this demonstrated that the proposed limit would be sufficient to allow STS shippers to meet their market requirements. Additional details were provided by TransCanada as to how STS Balances would continue to be calculated and the impact the implementation date would have on the STS balances.

Given the request in the Application to standardize the STS toll to the WQ for all STS markets, TransCanada submitted there is no need to apply a different EWC depending on market location. TransCanada proposed that all STS services be subject to an EWC of 25 per cent of the applicable STS toll.

TransCanada submitted it considered an alternative to the proposed STS Balances calculation, where each shipper's STS Balance was reset to zero every year at the start of the summer injection season (April 1). This would allow STS shippers to build-up an appropriate amount of injections in their STS Balances during the summer season for their expected use of withdrawals in the upcoming winter season, and would also ensure that STS Balance levels remain reasonable. While this alternative would be acceptable, TransCanada submitted it would reduce the ability to balance injections and withdrawals over more than one year.

Views of Participants

<u>Centra</u>

Centra's STS contract allows for shared STS Balances between the Manitoba Delivery Area and the Saskatchewan Southern Delivery Area. Centra submitted that TransCanada's proposal to limit Centra's STS Balance to 32,557,714 GJ (215,614 GJ/d x 151 days) would eliminate more than half of Centra's cumulative balance of 73,041,565 GJ, despite Centra accruing this balance under the Mainline Tariff. Centra opposed TransCanada's proposal to limit STS Balances, arguing that STS Balances accrued to shippers under the Mainline Tariff would be reduced after-the-fact, contrary to the general prohibition against retroactive ratemaking. In Centra's view, retroactive adjustments are inappropriate and should not be approved.

Drazen Consulting supported Centra's position that TransCanada's proposed STS changes constitute single issue ratemaking. Drazen Consulting described single issue ratemaking as inefficient and burdensome, and as a method for the utility to generate extra income beyond the amount considered in general toll applications. Moreover, in Drazen Consulting's view, single issue ratemaking ignores the relationship of the various components of cost-based toll-making and it ignores other toll issues that may be as or more significant. In Drazen Consulting's view, the $50 million a year in increased revenues would have had a material impact on tolls in RH-003-2011 or RH-001-2014, and would have therefore been factored into determining the balance of risks between TransCanada and its shippers.

In response to TransCanada's example that one shipper's balance is so large that it would take approximately 15 winter season to fully draw down that STS Balance, Centra submitted that this was an overstatement of the potential problem. Centra emphasized that TransCanada's example is unique because only one location shows a balance of such a high magnitude, while the rest of the STS markets range from less than one year to less than three years.

<u>EGDI</u>

EGDI submitted that like other STS shippers, it had accumulated an STS Balance at each of its markets by holding FT contracts from Empress, nominating an IQ to storage, and by paying the STS demand charge. EGDI submitted that part of the rationale for committing to and holding a portfolio of LHFT contracts on the Mainline was the ability for EGDI to contract for companion STS, with its current flexibility, including the ability to accumulate and carry forward STS Balances. In EGDI's view, as a companion service to LHFT, STS enhances the value of contracting for long-haul transportation, which is offset by the fact that it is the most expensive transportation option in EGDI's gas supply plan. The RH-001-2014 commitment to hold long-haul transportation was made, in part, because of EGDI's ability to utilize the cumulative STS Balances through to 2021.

EGDI submitted that TransCanada's concern that permitting the accumulation of large STS Balances could allow STS shippers to continue to nominate STS withdrawals for multiple years, while holding as little as 1 GJ/d of LHFT, does not manifest in any substantive form in advance of 2021. EGDI indicated that the vast majority of shippers currently holding a cumulative STS Balance either hold substantial contract quantities of long haul-firm transportation to at least the end of 2020 or are effectively captive to long-haul firm transportation. EGDI highlighted the fact that STS Balances have been in place for 11 years and to date, the "1 GJ scenario" has not materialized.

EGDI submitted that STS Balances have an intrinsic future value that is equivalent to the STS EWC. EGDI submitted that the intrinsic value of its STS Balance is approximately $27 million.

Overall, EGDI submitted that STS is a companion service to LHFT and it incents holding LHFT. In EGDI's view, the current STS Balance formula and lack of STS Balance limit is an attractive attribute to holding LHFT. If an STS Balance limit is approved and TransCanada is permitted to terminate any existing accumulated STS Balances above that limit, EGDI submitted that Enbridge Central Delivery Area (CDA) STS Balance would reach zero in early 2019. At that point, while continuing to hold significant LHFT and companion STS contracts, EGDI would, at a minimum, start incurring EWC.

EGDI submitted that should the Board approve some or all of TransCanada's proposed changes, accumulated STS Balances should be grandfathered through at least 2020. In EGDI's view, this approach would permit STS shippers with existing STS contracts, and who have existing accumulated STS Balances, to continue to have those balances available for use until the end of 2020. This approach is consistent and fully aligns with each of EGDI, Union and Gaz Métro having committed to significant LHFT quantities through to the end of 2020. Any new STS contracts entered into following the decision on the Application could be subject to the STS Balance limit as proposed.

Gaz Métro

Gaz Métro submitted that it is not impacted by the proposed limits to STS Balances because its current STS Balance is approximately at the limit being considered by TransCanada. Gaz Métro also submitted that given the relocation of a portion of its supply structure to Dawn as of 1 November 2016 and the decrease in its LHFT capacity, injection potential will be limited, and as a result, the retention of an STS Balance that exceeds the limit being considered by TransCanada will be unlikely in the future.

Union

Union shares an STS Balance between the Union Northern Delivery Area (NDA), Union Western Delivery Area (WDA), Union North Central Delivery Area (NCDA), and Union Sault Ste. Marie Delivery Area (SSMDA).

Union submitted that the wide range of weather-based demand can result in one DDA being unable to build up an appropriate balance in a season, while another DDA may have more of an STS Balance than is required. Sharing STS Balances ensures that even if one DDA is not able to build up a balance during a season, another DDA can provide an offset to allow Union to better manage costs by avoiding EWC. Union submitted that the elimination of shared STS Balances proposed by TransCanada will impair its ability to manage costs and avoid EWC. One DDA standing on its own may not be able to maintain a positive balance, while another DDA may build a balance that it does not require.

TransCanada's Reply

In response to Union's position on the merits of sharing a single STS Balance between four DDAs, TransCanada replied that the sharing of an STS Balance between multiple DDAs is inconsistent with the nature of STS as a service that allows for gas to be withdrawn to a market if the gas was previously injected via long-haul service held to that same market.

In TransCanada's view, Union's admission that injections from some DDAs can currently provide an "offset" for a lack of injections at other DDAs suggests that Union is holding less long-haul contract quantity to some of its STS markets than it needs. TransCanada emphasized that the proposal to limit STS Balances will ensure that shippers' abilities to contribute to the STS Balance at each of their STS markets is commensurate with their levels of long-haul contract quantity.

In response to EGDI's submissions that proposed STS Balances will subject EGDI to incur EWC at the Enbridge CDA, TransCanada submitted that this potential was related more to EGDI's own contractual decisions and assumptions regarding management of STS Balances. TransCanada's proposed STS Balance limits for the Enbridge CDA and Enbridge Eastern Delivery Area (EDA) are approximately 43 Petajoules (PJ) and 12 PJ respectively, which in TransCanada's view are more than sufficient for EGDI's STS markets, as they are higher than EGDI's past actual and future forecast annual withdrawal requirements. Accordingly, the proposed STS Balance limits should not prevent EGDI, or any other STS shipper, from building sufficient STS Balances to avoid the payment of the EWC.

TransCanada indicated it was opposed to grandfathering STS Balances above the proposed limits because in its view, the limits are sufficient for a shipper to withdraw its full WQ every day in winter as long as the shipper previously injected this quantity of gas. TransCanada further submitted that the grandfathering of STS Balances as proposed by EGDI would have the same effect as denying implementation of the proposed limits and would be a violation of the 'no acquired rights' principle. TransCanada emphasized that STS Balances do not represent physical gas, but rather gas that was delivered to another consumer instead of being put into storage.

Mr. Reed disagreed with Centra's position that limits to STS Balances represents retroactive, single-issue ratemaking. Mr. Reed submitted that TransCanada was establishing prospective service terms for the prospective use of STS and that TransCanada's proposed modifications to STS would not apply a toll or collect revenue for the provision of prior service.

In response to EGDI's argument that STS shippers should be able to retain their STS Balances because they were paid for through STS demand charges, TransCanada submitted that past payment of tolls were for transportation service received during the period for which these tolls were paid and should not entitle shippers to future benefits. Emphasizing the no acquired rights principle, TransCanada indicated that STS shippers should not be shielded from changes to STS because they paid STS tolls in the past. Similarly, rather than retaining credit for long-haul service held in the past, STS Balance levels should be adjusted to align with current STS and LHFT contracts held by STS shippers.

In response to EGDI's suggestions that the current STS Balance formula and lack of STS Balance cap is an attractive attribute to holding LHFT, TransCanada submitted that this assertion is not supported by EGDI's own contracting decisions, which shows declining long-haul contract quantities to the Enbridge CDA alongside its intended continuation of full STS withdrawal usage.

During cross-examination, Mr. Reed clarified that given that most shippers are approaching or at the proposed STS Balance cap, the implementation of the changes to STS Balances taking place in April 2017 or at any other time would not make much difference in terms of STS Balances.

3.4 STS Pooling

Pooling is a non-standard and complex STS feature applicable only to certain Union and Gaz Métro contracts. The feature is not found in the Mainline Tariff but is instead written within the Union STS contract and two of the four Gaz Métro STS contracts.

Pooling allows a shipper to use its unutilized STS contract quantities at an STS market (or markets) for transportation to/from another STS market (or markets) on a daily basis. In effect, pooling allows a shipper to transport firm quantities over and above its contracted IQ or WQ at a particular STS market by redirecting quantities from one or more markets. There is currently no additional toll or charge applied for this flexibility.

Views of TransCanada

TransCanada stated that pooling rights are firm in the applicable season and, therefore, TransCanada must ensure that it is able to meet the firm obligations at each of the applicable pooled markets in case the shipper decides to nominate pooled quantities to any of these markets on a given day. This increases the Mainline's firm delivery obligations to these pooled markets.

Mr. Reed stated that the existing STS pooling features are inconsistent with the "no unjust discrimination" and "cost-based/user-pay" principles in that Union and Gaz Métro are afforded pooling flexibility through their STS contracts, but pay the same STS tolls as other STS shippers without such flexibility.

Withdrawal Pooling

While the primary goal of the Application is to standardize STS transportation, TransCanada stated that it recognized that withdrawal pooling has historically been relied on by Union and Gaz Métro to meet their market requirements, and is prepared to grandfather this non-standard flexibility in the limited circumstances of the existing contracts. However, TransCanada is of the view that continued access to additional firm transportation rights at no additional costs would result in unjust discrimination. Therefore, TransCanada proposes that those parties that benefit from this service pay a surcharge above the base STS toll that is commensurate with the unique service optionality withdrawal pooling provides, if they wish to retain this flexibility.

Withdrawal Pooling Surcharge – Gaz Métro

Gaz Métro's STS contract provides for 216,174 GJ/d of WQ from Parkway to the GMIT EDA. In addition, Gaz Métro can pool up to 29,000 GJ/d of this quantity to serve the GMIT NDA. For any amount of pooling Gaz Métro elects to retain in the election process, TransCanada proposes to apply a pooling surcharge. The proposed surcharge is $0.3979 GJ/d, which is equal to the STS toll from Parkway to the GMIT NDA, less the fixed-energy portion of tolls for all Eastern Triangle short-haul tolls (that is, $0.5308 - $0.1329 GJ/d).

To the extent Gaz Métro elects to retain all of its existing withdrawal pooling rights to the NDA, the annual increase in costs for Gaz Métro would be approximately $4.2 million.

Withdrawal Pooling Surcharge – Union

Union's STS contract provides for 154,872 GJ/d of WQ from Parkway or Dawn to five different markets. In addition, Union is allowed to pool quantities to the NCDA and NDA above the WQs at these markets. The pooling feature therefore allows Union to withdraw up to 109,748 GJ/d above its WQ to the NCDA and up to 75,077 GJ/d above its WQ to the NDA, subject to not exceeding 123,452 GJ/d in total to the SSMDA, NCDA, NDA and EDA.

The proposed surcharges depend on the path the pooling quantities would travel. To the extent that Union elects to retain all of its existing pooling rights to the NDA and NCDA, the annual increase for Union would be approximately $12.6 million. TransCanada noted that, by comparison, separate contracts to the NCDA and NDA for the applicable pooling quantities would result in an additional cost of $26.4 million.

Injection Pooling – Union

Union's injection pooling specifies that if any IQ at the Union NDA, EDA and WDA is not utilized on any day during the summer, the unutilized quantity can be nominated on the day for injection from the Union NCDA. Union's injection pooling rights from the NCDA to its storage location is capped by Union's LHFT to the NCDA – currently 10,095 GJ/d.

Union's injection pooling allows for firm injection rights for the NCDA above the contract IQ applicable to the NCDA. TransCanada stated that this is inconsistent with the proposals in the Application that a shipper's firm long-haul injection ability for its market be established in relation to the shipper's WQ at that market to which the STS toll is applied. Injection pooling also allows Union the functional ability to transfer STS Balance quantities between multiple markets. In TransCanada's view, this transferring ability is inconsistent with the proposal in the Application that each STS market have an individual STS Balance that can only be filled on a firm long-haul basis through the Injection Rights applicable to that market.

To address these concerns, TransCanada proposed to eliminate injection pooling for Union. TransCanada stated that this proposal would ensure that firm long-haul injection rights for a market cannot exceed the contract IQ for the same market, and STS Balance quantities cannot be functionally transferred from one STS Balance to another.

Concerning the magnitude of the proposed surcharges, TransCanada stated that a factor of 0.5 could be applied to the withdrawal pooling surcharges in the first year of implementation as a transition measure, with the full proposed pooling surcharges in effect thereafter. TransCanada stated that it is prepared to offer shippers that currently have withdrawal pooling rights the ability through the shipper election process to re-allocate their existing STS contract WQs amongst their pooled markets, subject to certain provisions.

Views of Participants

Gaz Métro

Gaz Métro submitted that the proposed Tariff amendments would promote closer alignment with the fundamental principles of cost-causation/user pay and no acquired rights. Gaz Métro indicated that it does not oppose TransCanada's application.

Gaz Métro stated that, if the Board approves the pooling surcharge proposal, it would have to determine whether to retain this option and, where applicable, the required quantities. If the pooling option was not retained, Gaz Métro would have to ensure that it has the supply needed to meet ongoing peak daytime demand, separately for each market (the EDA and the NDA). Gaz Métro stated that it has not completed its analyses with respect to the distribution of total STS capacity (216,174 GJ/day) between the two markets (EDA and NDA) if the pooling option is not retained. The capacities required for each market would be established, where necessary, once the target date for implementation of the new STS service is set, such that all of the supply tools that would then be contracted and the needs of each market can be considered.

Union

Union stated that TransCanada's proposals, including pooling surcharges, would result in a significant increase to Union's costs to serve its customers in Union North. If the Application is approved as filed, Union's costs would increase from $16 million for STS to between $40 and $52.6 million per year (an increase of between 250 per cent and 330 per cent, respectively). The cost increase attributable to withdrawal pooling is $12.6 million (a 79 per cent increase to current STS costs). Further, the elimination of injection pooling would result in a reduced ability for Union to balance gas delivered to its DDAs and limits its ability to avoid Unutilized Demand Charges on long-haul contracts.

Union submitted that the proposed pooling surcharge constitutes a change in tolls for service that is currently in effect. Imposing this new toll is not consistent with current Board Order TG-011-2015 that already sets tolls that are just and reasonable, not unjustly discriminatory and that are final.

According to Union's witness, Ms. Habib, the proposed surcharge is not consistent with the Board's principles for just and reasonable tolls. She stated that TransCanada did not provide evidence demonstrating the magnitude of the cost associated with the additional obligations to provide withdrawal pooling. While TransCanada requested that there ought to be a price for the provision of pooling, in her view, there can be no verification as to whether the surcharge proposed is reflective of the cost of its provision, and hence is just and reasonable.

Ms. Habib stated that it appears that the elimination of certain STS provisions, such as withdrawal pooling, may require the addition of new facilities suggesting that the withdrawal pooling feature of service may actually allow for more efficient use of the existing capacity.

Union stated that, while it was unable to identify specifically what it would submit during the proposed STS election process, if TransCanada's application were approved as filed, it would likely elect to turn back much of its STS withdrawal pooling rights in order to reduce or avoid the newly-created surcharge proposed by TransCanada. Union would then re-allocate a portion of the STS withdrawals for the Union SSMDA to the Union NDA and Union NCDA to meet the design day requirements in those areas. As a result, the higher proposed annual cost for STS would potentially be reduced to $38.1 million (from $52.6 million).

TransCanada's Reply

TransCanada disputed Ms. Habib's evidence that the Application constitutes a change in tolls as a result of the addition of withdrawal pooling surcharges. TransCanada stated that its position is that none of the tolls that were made final by Order TG-011-2015 would be amended as a result of the Application. The addition of a new toll or surcharge is not a change in tolls, but merely an update similar to the addition of tolls applicable for a new receipt point.

TransCanada also disputed Ms. Habib's assertion that it did not provide evidence demonstrating the magnitude of the cost associated with the additional obligations to provide withdrawal pooling. TransCanada reviewed its evidence on the rationale for the surcharges and how the provision of withdrawal pooling represents an opportunity cost in the form of lost revenue. TransCanada noted that to provide STS and withdrawal pooling, it relies on the same integrated facilities it uses to provide FT, Firm Transportation-Short Notice, EMB and any other standard service on the Mainline. The toll for all these services is based on integrated system average costs, which are reflective of the costs of providing these services. TransCanada submitted that the Board has concluded that the FT tolls are cost-based and reflective of the cost of providing the service, and are just and reasonable, and there is no regulatory requirement that a surcharge can only be applied in cases where facilities or costs are discretely distinguishable.

Lastly, TransCanada stated that there can be no doubt that a cost is actually incurred such that the current provision at no cost is clearly not consistent with the principles of cost-based/user-pay and no unjust discrimination that underlie the Board's assessment of just and reasonable tolls. In contrast, TransCanada's proposed surcharge methodology is specifically structured to reflect the flexibility provided and is also based on integrated system average costs, which is an approach that has continuously been found to yield just and reasonable Mainline tolls by the Board.

3.5 STS Overrun Tolling

Views of TransCanada

TransCanada submitted that STS allows for overrun on both injections and withdrawals in excess of the shipper's contracted IQ and WQ. For tolling purposes, the STS daily equivalent toll is applied to all overrun quantities withdrawn or injected. In terms of priority of service, overrun competes with Interruptible Transportation (IT) service based on price.

STS is the only Mainline service that has an overrun feature that allows shippers to transport quantities in excess of contract quantities. Shippers who rely on other Mainline services, such as FT service, do not benefit from access to overrun and must rely on other services such as IT to meet needs in excess of firm contract quantities. IT service is tolled based on a completely different methodology, and may be sold at bid prices above the daily equivalent FT toll.

In recognition of the discretionary nature of STS overrun, TransCanada proposed that the STS overrun toll be subject to a 25 per cent premium over the daily equivalent STS toll.

TransCanada also proposed a Tariff "clean-up" in relation to the STS overrun charge applicable to the Union SSMDA. Currently, the applicable overrun toll for the SSMDA is equal to the STS toll to the NDA instead of the SSMDA. TransCanada submitted that this is a holdover from the SSMDA and NDA being previously part of the Northern Zone. As with all other markets, the STS overrun toll premium for the SSMDA would be equal to 25 per cent of the applicable STS toll to that market.

TransCanada submitted that it considered two alternatives to the proposed 25 per cent tolling premium for STS overrun. The first was to eliminate the STS overrun feature, which would align STS to all other Mainline firm services that do not provide entitlement to transport gas in excess of the contract quantity. The second would be to establish the tolling of STS overrun on the same basis and at the same priority as IT service, as both STS overrun and IT are intended to meet non-firm, intermittent needs.

Views of Participants

No participants expressed any concerns with the proposed tolling for STS Overrun.

TransCanada's Reply

TransCanada did not provide reply evidence for the proposed tolling for STS Overrun.

3.6 One Injection and Withdrawal Location and One Market Location per STS Contract

Views of TransCanada

TransCanada proposed that each STS contract has one market location; and, one injection location that is the same location as the single withdrawal location. Currently, several STS contracts specify multiple withdrawal locations, injection locations and/or market locations.

TransCanada stated that STS contracts specifying multiple withdrawal locations have resulted in additional Transportation by Others (TBO) costs to provide this optionality, without any offsetting revenue. For example, Parkway and Kirkwall are both firm withdrawal locations for the Enbridge EDA STS market. TransCanada explained that this requires that it hold Union TBO capacity between Kirkwall and Parkway such that EGDI can withdraw from Kirkwall on a firm basis, despite the applicable STS toll to the EDA not reflecting the additional distance of haul between Kirkwall and Parkway.

TransCanada submitted that adopting a common injection and withdrawal location and a single market location per STS contract would better align the contracting and tolling of STS with that of other Mainline firm services. It would also be more consistent with the nature of STS as a seasonal balancing service to provide shippers the opportunity to inject gas at a storage location in the summer, and to withdraw that gas from that storage location in the winter. Additionally, it would simplify, standardize and provide greater transparency in the Tariff and contract structure of STS.

TransCanada stated that in practice, STS shippers rely almost exclusively on one storage location for both injections and withdrawals, such that no significant impact is expected from this change.

Views of Participants

EGDI

EGDI stated that it has the ability under its STS contracts to make withdrawals from multiple withdrawal locations per market (Kirkwall and Parkway) versus a single withdrawal location per market. In the future, if STS only allows for one withdrawal location per market, EGDI will have to contract with Union and incur additional gas supply costs for transportation capacity between Kirkwall and Parkway to maintain the flexibility provided by the current STS. Changes to both these non-standard attributes have the effect of reducing the flexibility and the value of STS for EGDI.

TransCanada's Reply

TransCanada submitted that only EGDI specifically addressed this proposal, stating that the change would reduce its flexibility and that the requirement to have one withdrawal location (that is, Parkway) would leave EGDI supply stranded at Kirkwall for which it would have to contract for incremental Union capacity to mitigate.

TransCanada stated that EGDI confirmed that since 2011, it has minimally used the Union Southwest Delivery Area as a secondary injection location, as the vast majority (94 per cent) of EGDI's STS injections have occurred at Parkway (that is, Union CDA). Further, EGDI confirmed that it has not used Kirkwall as a withdrawal location whatsoever between January 2011 and June 2016. Despite EGDI not having used Kirkwall, TransCanada explained that it was required to hold sufficient Union TBO capacity to account for EGDI's firm entitlement. Further, this additional feature was provided at no additional cost to EGDI. In TransCanada's view, this is another example of the unreasonable cross-subsidization that TransCanada is seeking to eliminate with the Application.

3.7 Standardized Priority Periods

Currently, the start and end dates applicable to the firm injection and withdrawal periods in the year differ among STS shippers. Some contracts (for example, those of Centra and Union) already define the firm injection period and firm winter withdrawal period in a manner that aligns with the traditional gas year definitions (that is, April 1 to October 31 for summer injections and November 1 to March 31 for winter withdrawals). However, other contracts (those of EGDI and Gaz Métro) allow firm injections year-round and firm withdrawals until April 15.

Views of TransCanada

In TransCanada's view, it is not equitable that some shippers receive firm injections all year while others only receive firm injections in the summer for the same service. For simplicity and consistency among all STS shippers, and to reflect the seasonal nature of STS as a firm service for summer and winter balancing, TransCanada proposed to standardize and align the seasonal firm priority periods for injections and withdrawals for all STS contracts.

The proposed standardized firm priority periods will match the traditional gas year definitions of summer and winter, as follows:

- STS Injections will be firm in the summer (April 1 to October 31) for all STS contracts; in the winter (November 1 to March 31), injections will be at a priority just below firm services but above non-firm diversions and alternate receipt points (ARPs).
- STS withdrawals will be firm in the winter period for all STS contracts; in the summer, withdrawals will be at a priority just below firm services but above non-firm diversions and ARPs.

In TransCanada's view, this change will have a minimal impact on STS shippers. For those shippers who currently have year-round firm injections, they will continue to have firm summer injections, while any IQs in the winter would continue to be highly reliable since they would be treated at a priority just below firm.

TransCanada stated that, while injections and withdrawals can and do occur in "off season" months, the five winter months usually experience net storage withdrawals and the seven summer months usually experience net storage injections.

TransCanada submitted that the proposal to standardize the seasonal priority periods for injections and withdrawals aligns with the seasonal nature and purpose of STS as a firm service for summer and winter balancing. In TransCanada's view, it is reasonable that injections be firm in the summer to ensure STS shippers can meet their storage requirements, while withdrawals be firm in the winter to ensure STS shippers can meet their peak winter delivery requirements at their STS markets. Both injections and withdrawals can continue to be used in the applicable "off seasons" at a priority immediately below firm service but above all other nominations.

TransCanada stated that it believes that IQs nominated in the winter to Parkway would continue to have a very high likelihood of being scheduled since winter injection nominations into the storage location would run counter to the predominant nominations on the system in the winter, which are out of the storage location to the market areas.

Views of Participants

EGDI

EGDI submitted that STS should not have a different priority based on what season or month, the service is used. EGDI stated that for it and the majority of shippers and STS injection volumes, STS injections are currently firm all year, not just during the summer period.

Additionally, EGDI submitted that TransCanada incorrectly assumes that STS injections and withdrawals are aligned with the summer and winter months in the standard gas year when it is apparent that shippers use the flexibility afforded by the current STS to regularly make "off-season" injections and withdrawals.

Gaz Métro

Gaz Métro does not oppose the Application. It stated that it should be able to mitigate potential impacts of the Application so that they do not substantially affect gas supply, despite the loss of operational flexibility.

Gaz Métro noted that restricting STS firm withdrawal service to the period November 1 to March 31 would impact its supply. It indicated during the first 15 days of April, the period during which STS is currently firm, Gaz Métro needs STS to meet demand. Under the new STS, the service would become discretionary during this period, but would come second in priority to firm service. Gaz Métro is of the view that the order of service priority for STS withdrawal should be such that ad hoc needs can be met in most cases. If TransCanada did turn down a first-window nomination, Gaz Métro submitted that it will be able to adjust its tools within the franchise. Once its options are exhausted, Gaz Métro could find itself with a volume imbalance and thus exposed to penalties under the LBA. Gaz Métro did not quantify the potential financial impact of this change, but anticipates only a minimal impact, where applicable.

Restriction of the firm injection service to the period April 1 to October 31 would have little impact on Gaz Métro. Because the injection capacity is tied to LHFT capacities, which will be lower as of 1 November 2016, Gaz Métro stated that it should only have to use injection service occasionally during the winter for the NDA, and should not require it at all for the EDA.

TransCanada's Reply

TransCanada submitted that EGDI's ability to make off-season injections will continue under its proposal, although at a service priority immediately below firm. TransCanada provided a table to show that since 2011, every single GJ of STS nominated by EGDI as an injection to Parkway (Union CDA) in the winter months has been authorized, including those injection nominations that are currently not firm in the winter. TransCanada stated this confirms that winter injection nominations to Parkway at a priority just below firm but above non-firm diversions have historically been highly reliable, such that the proposed alignment in seasonal priority periods is highly unlikely to affect EGDI's ability to deliver gas to its storage location in the winter.

3.8 Elimination of STS-L

Views of TransCanada

STS-L is a separate Mainline service from STS that was implemented in 2005. STS-L is similar to STS, but allows for the long-haul transportation to the STS-L shipper's market to be held by other shippers. STS-L was intended to address issues arising from LDC unbundling whereby non-LDC shippers were increasingly the parties holding LHFT contracts to the markets.

As no shipper has ever contracted for STS-L, TransCanada proposed to eliminate STS-L service from the Mainline suite of services. As there are no current or prospective STS-L shippers, in TransCanada's view, elimination of the service will have no impact.

Views of Participants

No participants expressed any concerns with the proposed elimination of STS-L.

TransCanada's Reply

TransCanada did not provide any reply evidence regarding the proposed elimination of STS-L.

3.9 Incentive Earnings

Views of TransCanada

TransCanada submitted that, under the incentive mechanism approved in the RH-001-2014 Decision, the additional revenue associated with the proposed changes to STS would flow through to the account of shippers, net of any incentive earnings to TransCanada resulting from changes in revenues in 2017.

TransCanada stated that in the RH-003-2011 Decision, the Board approved an incentive mechanism and found that an incentive based on total net revenues was most appropriate at the time. The Board also observed that there are many potential ways to maximize revenues and reduce costs and found that TransCanada was in the best position to determine where to do so most effectively and efficiently and that an incentive based on total net revenues would incent TransCanada to appropriately focus its efforts where it would best achieve results. TransCanada stated that through the Application, TransCanada seeks to make changes to the Tariff for STS that form part of its effective management of the Mainline. TransCanada is, therefore, of the view that the actions it is taking through the Application fall within the types of initiatives for which the Board approved the current incentive mechanism.

TransCanada submitted that, assuming implementation of the Application as proposed on 1 April 2017 and the annual revenue impact ranging from $33 to $49.8 million, the impact in 2017 would be between $24.8 and $37.4 million. These figures can be considered an upper bookend since they assume the complete retention of all STS entitlements. The majority of any additional revenue in 2017 would be expected to go to the account of shippers. Once tolls are rebased for the 2018-2020 period, the impact would be reflected in the 2018-2020 Mainline tolls.

TransCanada stated that if the Board concludes the Application does not represent an initiative that is consistent with the intent of the approved incentive mechanism, it could direct an adjustment to the incentive earnings in 2017 to remove the STS revenues impact resulting from the Application.

Views of Participants

Centra

Centra stated that the Application proposes to create a financial advantage to TransCanada in the midst of the 2015-2020 fixed tolls period on the Mainline. TransCanada proposes to increase its earnings from 1 April 2017 to 31 December 2017 and to prospectively shift its post-2020 risk to STS shippers on the Western Mainline.

EGDI

EGDI stated that it is not appropriate for TransCanada to effectively profit from it unilaterally making fundamental changes to a service on the heels of the RH-001-2014 Decision. EGDI does not believe that the changes to services as proposed in this Application are what the Board intended when it approved TransCanada's incentive mechanism. In EGDI's view, any incremental revenue generated as a result of any approved changes to STS should flow to shippers on the Mainline and not to TransCanada.

EGDI submitted that the intent of the Mainline Settlement Agreement was to fix the methodologies for determining the Mainline revenue requirement and tolling during the fixed toll period, including those for existing services and the new services contemplated in that Agreement. The incentive sharing mechanism forms part of this fixed tolling methodology and for that reason was not intended to apply to incremental revenues generated through changes to existing Mainline services during the fixed toll period.

In EGDI's view, the incentive mechanism was not intended to incent TransCanada to fundamentally erode an existing service's value during a period intended to provide toll stability while creating a windfall for itself. This is particularly the case given the additional cost to shippers arising from the proposed changes to STS were not considered in the RH-001-2014 proceeding and could have been considered at that time.

Union

Union stated that the incremental revenue associated with the proposed changes to STS does not arise from TransCanada attracting incremental firm contracting, as the Board had intended it to be in RH-003-2011 and RH-001-2014. Rather, in Union's view, TransCanada is simply proposing to alter the tolling and attributes of an existing service and impose greater costs on existing shippers. Union submitted the eligibility of any incremental revenue derived from this Application must be reviewed to ensure consistency with the purpose outlined in the RH-001-2014 Decision.

TransCanada's Reply

TransCanada stated that as long as the STS election process occurs in advance of the 2018 to 2020 toll review, the billing determinants and the effect of implementation could be considered in the review of tolls for this period and reflected in the forecast of the net revenues underlying the incentive mechanism for that period. Accordingly, the only period where any additional STS revenue would be net of incentive earnings to TransCanada is the portion of 2017 after implementation.

Based on the full year impacts, the revenue impact for nine months in 2017 would be $22 million or less assuming implementation on 1 April 2017, of which approximately ten per cent would be expected to flow to the account of TransCanada if incentive earnings were to apply.

3.10 Timing, Implementation and Fairness

Views of TransCanada

TransCanada requested that the Board render a decision with respect to the Application by 30 September 2016. TransCanada proposed to implement the changes contemplated in the Application on 1 April 2017, aligning with the start of the summer injection season.

As soon as practical following issuance of the Board's decision, TransCanada submitted it would initiate an election process for STS shippers. STS shippers would be provided with election form(s) outlining their existing STS contract details and their applicable choices to be made in the election process relating to STS contract quantities, STS Balances and storage locations. TransCanada stated it would provide shippers with at least 60 calendar days to make elections and return their election forms. The election form would also define the default election that will apply in the event an STS shipper does not return an election form by the deadline.

During the election process, TransCanada submitted that should STS shippers wish to increase their WQ or their long-haul contract quantity, such additional service will be made available through existing and new capacity open season processes. No changes to current STS contract end dates would be permitted as part of the election process. TransCanada indicated that allowing early termination of STS contracts would be inappropriate and inconsistent with the accountability requirements reflected in existing STS contract terms. However, TransCanada would consider requests for early termination placed in the context of a turn-back open season, if such requests reduced the need for incremental facilities and/or TBO capacity. TransCanada also noted that it held such an open season in the context of new service requests placed in the 2016 New Capacity Open Season but did not receive any early termination requests from STS shippers.

TransCanada stated that during the election process, shippers who have a shared STS Balance among multiple markets would be given the opportunity in the election process to allocate their existing shared STS Balance quantities among applicable STS markets, subject to the STS Balance limits associated with the WQs applicable at each market. Any existing STS Balance in excess of proposed limits would terminate on the implementation date. Shippers whose STS contracts specify multiple storage locations would be given the choice to elect the single withdrawal location and matching injection location they wish to retain in their STS contract(s). Shippers could request that different STS contracts be created should they wish to retain access to more than one storage location for a particular STS market.

TransCanada advised that the Tariff defines conversion rights from STS to EMB service and these would continue to be available on an ongoing basis, independent of the election process.

Given that the EMB service has the same service priority as STS withdrawals, there would be no capacity issues for conversions of STS WQs to EMB service.

As part of the election process, TransCanada submitted that it would issue a one-time 25 calendar day STS to FT conversion process. This would be followed by a five-day evaluation period at the end of which shippers will be informed of the results of the conversion process.

Regarding pooling, TransCanada submitted that the election process would give Gaz Métro and Union the option to retain or reduce the quantity subject to withdrawal pooling, with any retained pooling rights subject to surcharges payable year-round on a demand basis. Withdrawal pooling flexibility that was relinquished could not subsequently be re-acquired at a later date.

To the extent Gaz Métro and Union would prefer to acquire separate standard STS contracts to each market currently served through withdrawal pooling rights, rather than keep their current pooling rights, such incremental service would be made available through the standard existing and new capacity open season processes.

TransCanada submitted that the changes proposed to the tariff will improve equity among STS shippers and between STS and other Mainline shippers. TransCanada stated that the proposed amendments will result in STS becoming a transparent, fair and equitable service.

Views of Participants

Centra

Centra submitted that tolling methodologies for Mainline services should remain unchanged during the 2015-2020 fixed tolls period. Centra opposed TransCanada's proposed implementation date of 1 April 2017 on the basis that the proposed changes in the Application are not consistent with the promise of toll stability provided in the RH-001-2014 Decision.

Centra indicated that the future construct of the Western Mainline will significantly impact the economics of Centra's storage and related transportation options. Considering the breadth of changes that are likely to be considered in the upcoming Mainline segmentation proceeding, STS will undoubtedly be affected. As a result, Centra submitted that the Application is doing little more than making parties aware of STS features and characteristics that may be revisited in the short-term. Centra submitted that STS should be reviewed in the context of what will follow the 2015-2020 fixed tolls period on the Mainline.

Centra indicated that the Application raises a number of serious concerns, including that the toll certainty and stability established in RH-003-2011 and RH-001-2014 would be disrupted, the 2015-2020 fixed tolls period would be set aside by allowing a tolling methodology change to STS during the period, the balance of interests struck in RH-003-2011 and RH-001-2014 would be altered, single-issue ratemaking would be encouraged, STS changes would be made within the midst of future uncertainty involving Mainline segmentation post-2020, and that STS balances would be reduced after-the-fact, contrary to the general prohibition against retroactive ratemaking. Centra submitted that its total Mainline costs would increase by $11 million annually or 27 per cent if the Application were approved. Drazen Consulting stated that contrary to TransCanada's claim of discrimination and inequity, no STS shipper or non-STS shipper has expressed concerns regarding existing STS arrangements.

EGDI

EGDI opposed TransCanada's proposed implementation date for the changes to STS, including the timing and conversion options.

EGDI submitted that while TransCanada indicates it had concern with STS developing over the 2011 to 2014 time period, it did not include any changes, let alone fundamental changes, to STS in the application leading to the RH-001-2014 Reasons for Decision. EGDI stated that the RH-001-2014 Decision is premised on a portion of the Mainline transitioning from LHFT to short-haul firm transportation and transitioning from an integrated toll design to segmented toll design. EGDI submitted that the application leading to the RH-001-2014 Decision was itself premised on a planned transition where EGDI and other eastern based LDCs committed to specified significant volumes of LHFT during the transition period of 1 January 2015 to 31 December 2020. In EGDI's view, the subject matter of the Application is premature, and TransCanada should not be proposing any substantive changes to a Mainline service that are not supported by shippers until the 2021 Mainline toll application, which coincides with the expiry of EGDI's RH-001-2014 commitment.

To the extent that all or a portion of the proposed changes to STS are approved by the Board, EGDI submitted that those changes that are approved should be appropriately transitioned to come into effect when the RH-001-2014 commitment expires at the end of 2020. EGDI submitted that this is necessary to allow those STS shippers that have negotiated LHFT commitments with TransCanada to properly transition their gas transportation portfolios.

EGDI proposed that should the Board substantially approve the Application as filed, including the implementation date of 1 April 2017, existing STS attributes should be grandfathered to assist in mitigating anticipatory transitional costs. EGDI submitted that the Board can direct TransCanada to change the date upon which the termination of existing accumulated STS Balances is to occur, permitting shippers with existing STS contracts and who have existing accumulated STS Balances to continue to have those balances available for use until the end of 2020.

Union

Union submitted that TransCanada's proposed implementation plan does not allow for sufficient time and flexibility for Union to make appropriate adjustments to its gas supply portfolio. Given the fact that Union is required to provide two or more years of notice to make adjustments to other transportation contracts, and three years or more to request incremental capacity requiring expansion facilities, Union submitted that a longer, more flexible transition process is required to ensure that Union does not hold redundant or economically inefficient contracts in its portfolio.

Union submitted that the most appropriate time for a review of STS is during the Mainline tolls and tariff proceeding for the period post-2020, thus preserving the period of toll stability expected from the Mainline Settlement Agreement and the RH-001-2014 Decision. Union stated that its total firm Mainline costs would increase by $36.6 million annually or approximately 30 per cent if the Application were approved.

Union also submitted that it had executed the term-up of its entire STS contract on 28 May 2015 as required by TransCanada. As a result, the end date of Union's STS contract is now 31 October 2022. Union submitted that TransCanada has now applied to drastically change STS, and seeks to hold Union to the recent contract term for diminished service on each separate contract whether, in view of the fundamental changes, it is no longer required by Union.

Given the fact that TransCanada and its shippers are in what was referred to in the RH-001-2014 proceeding as a transition period – an orderly transition from the traditional integrated system to a segmented one – Ms. Habib submitted that now is the wrong time to be proposing changes to STS. Furthermore, Ms. Habib expressed that in her view, the purpose and intent of the 2018 to 2020 tolls review did not necessarily envision, as part of its scope, changes to STS as proposed in the Application.

Ms. Habib submitted that commitments to STS are only reasonable when the new terms on the Western Mainline and Eastern Triangle are understood. In Ms. Habib's view, introducing changes now is premature, disruptive and contrary to a desirable objective of regulatory certainty. Ms. Habib submitted that, in her view, there is no question that the Board has the discretion to approve tariff changes at any time during contract terms; however, from a public interest and fairness perspective, she submitted now is not the time for the Board to exercise its discretion to approve significant changes to STS.

Finally, Ms. Habib submitted that, in her view, a 30 per cent increase in total transportation costs in the case of Union is significant and that it is reasonable to expect that more time will be required than TransCanada's proposed implementation date to afford Union with the opportunity to adjust its transportation and gas portfolios to minimize negative impacts.

TransCanada's Reply

TransCanada disagreed with the positions of interveners that the implementation date of 1 April 2017 was too soon. TransCanada stated it recognized that changes to STS result in the need for LDCs to reconsider their portfolios and make elections, but emphasized that regulated services are subject to change when warranted, and noted that shippers had sufficient notice that change was likely. TransCanada stated that certainty and stability were relative terms in RH-001-2014, and they were not a promise there would be no further changes.

TransCanada submitted that should the Board believe a longer election process or implementation timeline was warranted, the Board could mandate such an approach while still ensuring implementation in 2017, such that the outcome of the election process could be considered in the review of tolls for the 2018 to 2020 period. TransCanada submitted that the applied for implementation date of 2017 was a reasonable date because it coincided with the summer injection season, but other dates could also be accommodated.

In general, TransCanada submitted that it was of high importance that the election processes be completed in advance of the toll review period for 2018 to 2020 tolls. In TransCanada's view, the consequence of delaying the implementation date was that the STS service would continue to be unjust and unreasonable and would perpetuate unjust discrimination and improper price signals.

Mr. Reed disagreed with the positions of participants that the Board should defer changes until post 2020. Mr. Reed submitted that participants had not offered a reasonable basis to delay implementation of the proposed changes and that the views regarding the uncertainty of future toll design and commercial framework of the Mainline do not support the delay. Mr. Reed emphasized that neither pipelines nor shippers have perfect knowledge of future changes and both must adapt. Delaying implementation, in Mr. Reed's view, perpetuates the inequity in TransCanada's service structure.

TransCanada acknowledged that for 2021 and beyond there may be further changes to STS; however, in TransCanada's view, the possibility of these changes has no impact on the proposed STS modifications at this time.

TransCanada submitted that in general, some transitory measures were considered, but were not included in the Application. Primarily, the cost increases for certain shippers reflect the removal of cross subsidies that these shippers enjoy. Secondly, TransCanada submitted that it does not believe the increases expressed by participants resulted in rate shock because they only represented a small fraction of the impacted LDCs' overall gas supply and transportation costs.

TransCanada submitted that to the extent that the Board were to conclude that the impact of the Application resulted in rate shock to certain STS shippers, it would be possible to include a transition that resulted in the monetary impact being implemented gradually rather than at once. To smooth the impact for markets previously deemed to be upstream of storage, a factor could be applied in a transition between the current state and the proposed state. A similar approach could be applied to pooling surcharges.

TransCanada stated that applications like the present one are needed from time to time to manage services and address issues that are unlikely to be resolved through negotiation. TransCanada provided several statements that the Board has made, which in TransCanada's view, are in direct contrast to participants' claims that there should be no service changes outside of annual or multi-period tolls applications

Chapter 4

Views of the Board

The Board's mandate in respect of traffic, tolls and tariff matters is set out in Part IV of the NEB Act. Sections 62 and 67 are key provisions within Part IV. Section 62 provides:

> All tolls shall be just and reasonable and shall always, under substantially similar circumstances and conditions with respect to all traffic of the same description carried over the same route, be charged equally to all persons at the same rate.

Section 67 provides:

> A company shall not make any unjust discrimination in tolls, service or facilities against any person or locality.

As the Board has previously noted, not all discrimination is prohibited, but only that which is "unjust". The burden of proving that the discrimination is not unjust lies with the company, as set out in section 68 of the NEB Act. Further, under section 63 of the NEB Act, the Board may determine as questions of fact whether or not traffic is or has been carried under substantially similar circumstances and conditions as referred to in section 62 or whether there is unjust discrimination within the meaning of section 67.

The Board has been given broad discretion to determine whether tolls and tariffs comply with these provisions of the NEB Act. For the reasons that follow, the Board has determined that it does not agree with TransCanada that continuation of the existing STS situation results in service and tolling that are unjustly discriminatory and no longer just and reasonable under the Board's applicable tolling standards and principles.

Tolling Principles

As noted in previous decisions[1], the Board has been guided by a number of tolling principles and key considerations in determining whether tolls are just and reasonable and not unjustly discriminatory. These fundamental tolling principles are no unjust discrimination, cost-based/user-pay, no acquired rights and economic efficiency. The Board has also referenced fairness and equity in past decisions as important factors to be considered under Part IV of the NEB Act. For example, among others, the principles of fairness and equity were discussed in the RH-3-86[2], RH-1-88[3] and RH-2-91[4] Decisions. The Board remains guided by these principles, which are inherent in the Board's exercise of its mandate to set just and reasonable tolls and to

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[1] A summary is found in the RH-1-2007 Reasons for Decision dated July 2007, Chapter 3, pages 21-23.
[2] RH-3-86 Reasons for Decision dated May 1987, Chapter 9, page 56.
[3] RH-1-88 Phase I Reasons for Decision dated November 1988, Chapter 2, pages 7 and 14.
[4] RH-2-91 Reasons for Decision dated June 1992, Chapter 10, page 68.

establish non-discriminatory access to transportation. The Board reaffirms that these fundamental tolling principles and key considerations remain of utmost importance.

The Board notes that TransCanada has not applied to vary the tolls, including STS tolls, which were approved in Order TG-011-2015 and does not take the position that they are unjust or unreasonable, nor that they are unjustly discriminatory. Rather, TransCanada stated that it is the application of these tolls for STS, through the current provisions of the Tariff and the various non-standard STS contracts, that creates unjust discrimination and results in overall costs that are unjust and unreasonable.

Strictly applying the cost-based/user-pay, no acquired rights and economic efficiency principles, the Board acknowledges that in its Application, TransCanada has identified some issues with the current provisions of STS and its tolling. For instance, TransCanada submitted that there are several non-standard and inconsistent differences in contractual rights among STS shippers, some of which may result in inequities between STS shippers and cross-subsidization between STS and other Mainline shippers. However, the TransCanada Mainline is still operated as an integrated system and the Board is of the view that cross-subsidies are inherent in such a system. As the Board stated in RH-3-86:

> The Board agrees that cross-subsidization should be avoided to the extent possible in designing tolls. The Board notes, however, that cross-subsidies are inevitable in an integrated toll design and while their elimination could be a desirable goal, it must be balanced against other principles such as fairness and equity.

<u>No Unjust Discrimination</u>

TransCanada and several individual STS shippers have negotiated customized, non-standard provisions in their STS contracts. The Board understands that the geographic location of market relative to storage and LDC-specific requirements, such as market and load characteristics, were determinative considerations for the non-standard provisions. Given the geography of individual LDC franchises and variances in weather-driven demand patterns, the service is inherently non-standard. The fact that there are variations of STS contracts from the *pro forma* bear testament to the fact that shippers' needs are not standardized and that STS is used differently by STS shippers, depending on their unique needs. In this regard, the Board notes that while adjustments to attributes of service occurred regularly via both *pro forma* and Tariff modifications over the last four decades, the different treatment of STS was never raised as unjust discrimination.

Accordingly, the Board was not persuaded by TransCanada that the current differences among the non-standard STS contracts constitute unjust discrimination. Given the nature of the service and the needs of individual shippers, the Board was not persuaded that the traffic for each STS shipper is carried under substantially similar circumstances and conditions. The Board is of the view that treating differently situated STS shippers equally through the proposed standardization of STS does not necessarily result in those shippers being treated fairly. While TransCanada has identified inconsistencies with the cost-causation/user-pay tolling principles among the contractual differences, the Board has considered these inconsistencies alongside the overall timing in determining fairness and equity of the proposed STS tariff amendments.

Timing, Fairness and Equity

In the Board's view, now is not the time to make significant changes to STS, a fundamental service that the LDCs rely on for seasonal and daily balancing and have relied on for many years in its current form. The prevailing environment in which the Mainline operates is an important consideration for the Board in determining that the timing of the Application is inappropriate. This environment includes the 2013-2030 Settlement Agreement, the RH-001-2014 Reasons for Decision and the approval in principle of segmentation of the Mainline post-2020. While TransCanada supported the Application using the principles of fairness and equity between shippers, the Board is of the view that in the unique circumstances of the Mainline, fairness and equity also apply between TransCanada and its shippers.

As noted above, TransCanada has identified issues with STS that result in the cross-subsidization of costs borne by Mainline shippers. TransCanada asserted that the cross-subsidization is unfair and inappropriate. While the Board is of the view that cross-subsidization should be limited to the extent possible, the Board finds that the proposed tariff amendments result in an outcome that is unfair and inequitable to STS shippers. Fairness and equity are principles inherent in the Board's exercise of its mandate to set just and reasonable tolls and to establish non-discriminatory access to transportation.

Further, the Board is of the view that shippers fairly expected a level of toll certainty and stability as a result of the Settlement Agreement, the RH-001-2014 Reasons for Decision and the current context of the Mainline. The Board finds that the proposed tariff amendments would result in a substantial disruption to the expected toll certainty and stability. For example, total Mainline costs could increase 27 per cent and 30 per cent for Centra and Union, respectively. Although the Board acknowledges that its statutory authority under Part IV cannot be fettered or constrained in any way by contractual arrangements, the Board is of the view that this disruption is unfair and inequitable to STS shippers that made long-haul transportation commitments under certain expectations, some of which cannot be converted or changed until 2020. These shippers made LHFT commitments with the expectation that the provisions of STS would not change significantly during the transition period to 2020, nor that they would face significant cost increases for STS.

While the Board acknowledges that the Settlement Agreement, the RH-001-2014 Reasons for Decision and Order TG-011-2015 do not preclude tariff changes, fairness and equity during this unique transition period are also important considerations when determining whether tolls are just and reasonable and not unjustly discriminatory.

The Board notes that the proposed tariff amendments attempt to align STS more closely to a seasonal balancing service. However, the Board is of the view that STS is more than just a seasonal service and that the eight daily nomination windows provide shippers with daily balancing benefits. The proposed tariff amendments result in a shift from how the service is currently being used by many STS shippers, and as a result of the current Mainline environment, it would be unfair and inequitable to impose these changes on STS shippers at this time.

In addition, the Mainline is on the cusp of transformational changes in the form of segmentation. The Mainline has been tolled on an integrated basis since its inception and segmentation represents a fundamental tolling shift. The Board is of the view that segmentation could likely result in further amendments to STS, to the extent that changes are made to LHFT. Regardless of future changes to STS, segmentation will require shippers to re-evaluate their gas transportation portfolios including LHFT and STS. The Board is of the view that it is unfair and inequitable to STS shippers to impose significant adjustments to their gas transportation portfolios, or to impose significant costs and reductions to flexibility that likely cannot be mitigated, with segmentation on the horizon.

Single Issue Ratemaking

Concerning the issue raised by Centra, the Board did not place much weight on the view that the Application should not be considered because it constituted single issue ratemaking. Clearly, the Board has dealt with single issues in the past and, as noted by TransCanada, it included a streamlined process for new service and pricing proposals in the RH-003-2011 Decision. The Board continues to encourage TransCanada to identify and propose new and innovative service and pricing proposals, as well as cost-cutting initiatives, to manage the ongoing issues facing the Mainline.

Transition to Segmentation

As indicated above, the Mainline is transitioning from a single integrated system to a segmented system post-2020, as approved by the Board in principle in RH-001-2014. During the six-year transition period, tolls were intended to stay relatively stable, subject to the 2018 to 2020 toll review to better reflect up-to-date revenue requirements and billing determinants for those years. To that end, in RH-001-2014, the Board directed TransCanada to consult with all interested parties and to file an application for 2018 to 2020 tolls prior to 31 December 2017. In RH-001-2014, the Board also provided a list of issues that must be included in that application (see Section 1.3.2 of this Decision for further background).

After being designed and operated as an integrated pipeline since its inception, segmentation of the Mainline will result in a fundamental change in how the system is operated and tolled, and the proceeding to consider the issues and impacts on all shippers and stakeholders will be a significant one.

Given the importance of these issues, the Board encourages TransCanada and all stakeholders to hold extensive consultations, with an open and effective exchange of information, well in advance of the formal regulatory process for post-2020 tolls and segmentation.

Also in RH-001-2014, the Board provided a list of several issues related to segmentation that will need to be carefully considered by all parties. These issues include forecast post-2020 throughput levels, potentially stranded assets, appropriate allocation of costs between segments and between energy and energy-distance components of the toll, and post-2020 toll designs and services on each segment. All these issues reinforce the need for long-lead times and thorough consultations prior to the filing of the application for post-2020 tolls.

Decision

The Board denies TransCanada's application for amendments to STS and STS-L at this time.

Appendix I

List of Issues

The Board has identified but does not limit itself to the following issues for discussion in the proceeding:

1. Appropriateness of proposed amendments to the Canadian Mainline Gas Transportation Tariff for STS and STS-L, with regard to any impacts of the proposed changes on the Mainline, including its revenues, other services and tolls.
2. Appropriateness of how to implement any proposed amendments to the Canadian Mainline Gas Transportation Tariff with regard to any impacts of the proposed changes on the Mainline, including its revenues, other services and tolls.