LETTER DECISION

File OF-Tolls-Group1-T211-2017-04 01
13 December 2018

To: All Parties to Hearing Order RH-001-2018

TransCanada PipeLines Limited (TransCanada)
Application for Approval of 2018 to 2020 Mainline Tolls
RH-001-2018 Reasons for Decision

This letter provides the reasons for decision in respect of TransCanada's 2018-2020 Mainline toll application.

1. Background

In the RH-001-2014 Reasons for Decision, the National Energy Board (Board) approved the components of the Mainline 2013-2030 Settlement Agreement (Settlement) reached between TransCanada and its three largest customers, Enbridge Gas Distribution Inc. (EDGI), Union Gas Limited (Union) and Énergir, L.P. (Énergir), formerly known as Gaz Métro Limited Partnership. In that decision, the Board approved the toll design for the TransCanada Mainline System (Mainline) for the 2015 to 2020 period but directed TransCanada to file an application for approval of 2018 to 2020 Mainline tolls by 31 December 2017.

On 8 December 2017, TransCanada reached an agreement with the three parties to the Settlement regarding tolling matters for the 2018 to 2020 period. Details included in this agreement were shared with interested parties in one-on-one meetings and presented to the Mainline Tolls Task Force (TTF). The majority of the TTF subsequently supported the tolling approach contained in the agreement.

On 18 December 2017, TransCanada applied, pursuant to Parts I and IV of the *National Energy Board Act* (NEB Act) and certain directives in the RH-001-2014 Reasons for Decision and Order TG-010-2014, for approval of tolls for 1 January 2018 to 31 December 2020 and associated approvals (Application). TransCanada indicated that one or more parties did not support the Application and intended to present alternatives or actively oppose the matter before the Board.

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On 8 January 2018, the Board issued a letter soliciting comments from interested persons on the Application and on how to hear the Application. Comments were received from Advantage Oil & Gas Ltd. (Advantage), Alberta Department of Energy (ADOE), Bellatrix Exploration Ltd., Canadian Association of Petroleum Producers (CAPP), Canadian Natural Resources Limited, Centra Gas Manitoba Inc. (Centra), EGDI, Encana Corporation, Énergir, Industrial Gas Users Association, Jupiter Resources Inc., Ministère de l'Énergie et des Ressources naturelles du Québec, Modern Resources Inc. (Modern), Peyto Exploration and Development Corp. (Peyto), Repsol Oil & Gas Canada Ltd., Union, and Westbrick Energy Ltd. (Westbrick). TransCanada submitted reply comments on 24 January 2018.

On 16 February 2018, the Board solicited comments from interested persons on the List of Issues. By 26 February 2018, comments were received from Advantage, ADOE, CAPP, Centra, Énergir, Explorers and Producers Association of Canada (EPAC), Modern, Peyto and Westbrick. TransCanada submitted reply comments on 1 March 2018.

The Board established a public hearing process to consider the Application and issued a hearing order on 16 March 2018. The process included opportunities for Intervenors to ask two rounds of information requests to TransCanada and file written evidence. Written evidence was filed by two parties, CAPP and Centra. The process also included an opportunity to submit a letter of comment by 18 July 2018. Letters of comment were received from Alberta Northeast Gas Limited (ANE) and EPAC.

TransCanada filed its written argument on 25 September 2018, Intervenors filed their arguments on 2 October 2018 and TransCanada filed its reply argument on 9 October 2018, which concluded the proceeding.

Figure 1 shows a map of the TransCanada Mainline.

Figure 1: TransCanada Mainline

2. Issues

TransCanada filed the revenue requirements, rate bases and supporting schedules for 2018 to 2020 tolls. TransCanada explained that the revenue requirements and rate bases had been updated using a consistent approach to that used in the RH-001-2014 Compliance Filing for 2015 to 2017 tolls (Compliance Filing), and that the 2018 revenue requirement is based on TransCanada's 2018 budget.

The majority of the issues in the Application were not challenged by Intervenors. However, the following issues were challenged in intervenor evidence:

- The disposition and allocation of the Long-Term Adjustment Account in the 2018 to 2020 period;
- The appropriateness of continued pricing discretion for Interruptible Transportation (IT) service and Short Term Firm Transportation (STFT) service; and

- The appropriateness of TransCanada's proposed allocation of costs and revenues related to Dawn Long Term Fixed Price (Dawn LTFP) service.

These issues are discussed in the sections that follow.

2.1 Long-Term Adjustment Account (LTAA)

Views of TransCanada

TransCanada submitted that, in the RH-001-2014 Reasons for Decision, the Board approved TransCanada's proposed treatment of the LTAA defined in the Settlement as an adjustment account to capture all variances between the actual and forecast costs and revenues during the period 2015 to 2020, net of incentive mechanism adjustments.

TransCanada submitted that the LTAA balance has grown to approximately $1.1 billion, the increase largely due to incremental billing determinants (BDs) and corresponding revenue from 2015 to 2017. The LTAA Amount component in the revenue requirement consists of amortization, return and income tax associated with the LTAA balance, and is applied to the revenue requirement of each segment based on that segment's ratio of rate base to the overall system. The LTAA Amount is forecast to reduce the revenue requirement by $174 million in 2018, $168 million in 2019 and $162 million in 2020.

TransCanada stated that the Settlement and its approval created an expectation that the LTAA would be amortized based on composite depreciation rates, resulting in toll certainty and stability for all shippers during the 2015 to 2020 period and afterward. TransCanada stated that it is expected to take 46 years for the LTAA to be fully amortized at the proposed total system composite depreciation rate of approximately 3.9 per cent for the years 2018 to 2020 and the Eastern Triangle segment composite depreciation rate of approximately 2.1 per cent for the remaining years.

TransCanada stated that since the treatment of the LTAA, including its allocation at the end of 2020 and the proposed amortization of the LTAA balance, is explicitly defined in Section 12.3 of the Settlement and was approved in Sections 5.1.1 and 5.2.1 of the RH-001-2014 Reasons for Decision, no alternative treatments were considered. Any change to individual parameters of the Settlement, such as the disposition of the LTAA, could upset the balance of gives and takes achieved in the Settlement. In TransCanada's view, accelerating the disposition of a positive balance, while maintaining or postponing the recovery of a negative balance would impose asymmetric risks that were not contemplated in the Settlement and are not reflected in the risk-return framework defined in the Settlement.

Additionally, TransCanada submitted that any further allocation of the LTAA balance during the 2018 to 2020 period would not only be inconsistent with the Settlement but would also negatively impact toll certainty and stability, as it could result in a temporary toll decrease that may not be sustainable beyond 2020.

In TransCanada's view, its proposed 2018 to 2020 tolls result in tolls that continue to promote toll stability and certainty. TransCanada is of the view that the proposed tolls are just and reasonable and not unjustly discriminatory and that timely approval of the Application is in the public interest.

Views of Participants

CAPP

CAPP represents companies, large and small, that explore for, develop and produce natural gas and crude oil throughout Canada. CAPP stated that it generally supports the Application with the exception of the treatment of the LTAA.

CAPP noted that the revenue and throughput forecast that was relied on by the parties in their negotiations and by the Board in its approval of the Settlement proved to be conservative. TransCanada under forecasted by an average of 1.6 billion cubic feet per day (Bcf/d), or $493 million per year, over the 2015 to 2017 period. CAPP stated that discussion during the RH-001-2014 proceeding indicated that, while forecasts are understood to be imperfect, the expectation was that the LTAA balance in 2018 would be small.

CAPP stated that, for the Western Canada Sedimentary Basin (WCSB) to continue to compete for its historically traditional Canadian and United States (U.S.) markets, tolls must be as competitive as possible. The continued long term deferral of over a billion dollars of over collected revenues for the 2018 to 2020 period decreases the competitiveness of the WCSB in these markets. As of 5 July 2018, CAPP members held 63 per cent of the annual firm service from Empress to Emerson and 25 per cent of all non-Long Term Fixed Price (LTFP) contracts with Empress as a receipt point. These shippers are directly impacted by the disposition of the LTAA.

Dr. Ren Orans of Energy and Environmental Economics, Inc., on behalf of CAPP, submitted that in the RH-001-2014 Decision, the Board approved the proposed treatment of the LTAA balance but also noted that changes in circumstances could prompt it to revisit this treatment:

> "Concerning TransCanada's proposal to allocate the LTAA balance to the Eastern Triangle rate base in 2021, the Board has determined that this proposal is appropriate in the context of the package of gives-and-takes between TransCanada and the settling parties. However, should there be a *material change in circumstances* when 2021 tolls are determined, the Board may determine that a different allocation of the LTAA is more appropriate."[1]

Dr. Orans stated that the significant and unanticipated growth in the credit balance of the LTAA constitutes a material change in circumstances and merits a reconsideration of the appropriate treatment of the LTAA balance. Over the three-year period, billing determinants for Firm Transportation (FT) and Firm Transportation – Non Renewable (FT-NR) services excluding Eastern Triangle Short-Haul have averaged 3,093 terajoules per day (TJ/d), 76 per cent higher than forecast by TransCanada. The toll levels set in the Settlement were intended to yield a

[1] National Energy Board, RH-001-2014 Reasons for Decision (emphasis added), page 89, (A6514-1).

relatively small LTAA balance by 2020. TransCanada forecast it to be $105 million under the terms of the Settlement in response to a Board information request, but its current balance of $1.1 billion is larger by an order of magnitude.

Dr. Orans further stated that the balance of the LTAA now exceeds a level that has previously been used as a trigger by the Board to judge whether the financial position of the Mainline has materially changed. The current $1.1 billion balance of the LTAA, roughly 22 per cent of the Mainline's $4.9 billion rate base, exceeds this level by a significant margin, a clear indication that the Board should review its disposition.

CAPP also argued that the ratio of rate base method of allocating the LTAA proposed by TransCanada bears no relation to the contribution of each segment. Additionally, the ratio of rate base method would disadvantage the Western Mainline (defined as the Prairies and Northern Ontario Line (NOL)) due to its higher depreciation rates, coupled with the new investments that have been made in the Eastern Triangle over the past several years.

Adherence to Tolling Principles

Dr. Orans submitted that TransCanada's treatment of the current balance of the LTAA according to the original terms of the RH-001-2014 Settlement is not consistent with basic ratemaking principles. In Dr. Orans' view, returning the balance to shippers on the Eastern Triangle over its remaining economic lifetime violates ratemaking principles of cost causation, economic efficiency, and intergenerational equity.

In Dr. Orans' view, TransCanada's treatment of the LTAA does not adhere to the principle of cost causation because it would represent a substantial cross-subsidy from shippers on the NOL and Prairies segments to Eastern Triangle shippers. Such a cross-subsidy is particularly inappropriate when considering the relative competitiveness of each segment, as well as TransCanada's shift towards segmented tolling.

Dr. Orans stated that the current balance of the LTAA reflects a system-wide revenue collection that exceeded the revenue requirement. Under TransCanada's treatment of the LTAA, and viewed in the context of the Mainline's shift towards segmented tolling, the vast majority of the balance would be applied after 2020 to eliminate a segment-specific obligation rather than a system-wide obligation. This runs counter to the cost causation principle as outlined by TransCanada.

TransCanada's treatment of the LTAA is, in Dr. Orans' view, also inconsistent with the ratemaking principle of intergenerational equity. Much of the now positive balance of the LTAA was accrued due to an over-collection of revenue during the past three years. According to TransCanada's calculations, its current treatment of the LTAA would refund the balance back to shippers over a 46-year period. The balance of the LTAA should instead be refunded over a short time period in order to benefit the same generation of shippers from whom the revenues were collected.

Dr. Orans also opposed TransCanada's proposed treatment of the LTAA on the basis of its impact on economic efficiency. The current treatment of the LTAA balance would preserve high tolls for shippers using the Prairies and NOL segments compared to historical levels. On a pipeline that has faced competitive challenges due to expansion of supply, maintaining moderate toll levels is crucial to ensuring efficient use of the pipeline. The current treatment of the LTAA fails to provide an efficient signal for shippers seeking to use the Mainline.

CAPP's Proposal

CAPP proposed that the entire LTAA be returned to shippers in the 2018 to 2020 period. Additionally, given that it is possible to track over-collection on the Mainline by segment in the 2015 to 2017 period, CAPP's position is that the LTAA should be allocated to each segment using the same ratio that each segment paid above its forecasted targets. That is, if 57 per cent of the over-collection came from the Prairies, the same 57 per cent of the LTAA should be used to reduce the Prairies tolls over the 2018 to 2020 period. Table 1 provides the over-collection ratios by segment.

Table 1: Over-collection LTAA Allocation Ratios by Segment[2]

Segment	Ratio
Prairies	57%
NOL	9%
Eastern Triangle	34%

Dr. Orans submitted that refunding the LTAA based on the share of over-collection would be more closely aligned with basic ratemaking principles of cost causation, economic efficiency and intergenerational equity.

Dr. Orans stated that compared to TransCanada's treatment of the LTAA, CAPP's recommended approach would result in the greatest reduction in tolls on the Western Mainline. It is expected that Western Mainline throughput will be most price elastic due to the strong competitive pressures; therefore, lowering segmented tolls on the Western Mainline should result in tolls that are more in line with the value of the line segment and potentially higher utilization and overall economic efficiency for the Mainline. Dr. Orans noted that TransCanada submitted an updated depreciation study of the Mainline, in which the Economic Planning Horizon (EPH) of the Prairies was shortened. Dr. Orans stated that in describing this shift, TransCanada had noted that relative to the assessment of the 2012 Study, the Prairies segment is being most impacted by competitive pressures resulting from higher than previously anticipated Marcellus and Utica supply that is expected to displace WCSB gas transported on the Prairies.

[2] As provided in TransCanada's response to CAPP Information Request 2.3, Table CAPP 2.3.1-1, PDF page 95 (A6F3D2).

Under CAPP's proposal, TransCanada would refund the entire balance of the LTAA to decrease the tolls and expected revenues for each segment based on the respective shares of over-collection. TransCanada would then follow its proposed three-step tolling approach to derive 2018 to 2020 tolls. This treatment would provide a proportionally greater reduction in tolls for "Other" tolls, which reflect long-haul tolls on the Western Mainline and have been a major source of revenue that led to the large positive LTAA balance.

In CAPP's view, it is more consistent with the principle of cost causation to allocate the LTAA refund back to the segments from which the revenues were collected over a relatively short future time period, which CAPP believes is also consistent with what TransCanada would have been proposing had the initial Toll Stabilization Adjustment account (TSA) balance been substantially negative in 2015.

CAPP stated that under its proposal, the LTAA will be amortized over the 2018 to 2020 period and, based on TransCanada's calculations, will result in a Bridging Amortization Account (BAA) credit to shippers of $396 million. As per the Settlement, the BAA is to be returned to Eastern Triangle shippers over the 2021 to 2030 period, resulting in an annual credit of $39.6 million to shippers for the 2021 to 2030 period. While the CAPP proposal would reduce Eastern Triangle tolls by 36 per cent for the 2018 to 2020 period, it would also result in lower tolls for the 2021 to 2030 period all else being equal. In CAPP's view, its proposal does not upset the gives and takes of the Settlement.

CAPP stated that it is not aware of how the Prairies and NOL segments will be tolled post-2020 in the event that segmentation is approved by the Board. In the absence of a known toll design for the Prairies and NOL segments post-2020, there is no toll certainty after the 2018 to 2020 period, regardless of the time period in which the LTAA is allocated. It is CAPP's view that it is not possible to determine the impact of CAPP's proposed disposition of the LTAA on toll stability, given that there are no forecasts for tolls on any segment post-2020.

Table 2 compares the results of CAPP's proposal with the results of TransCanada's proposal.

Table 2: Illustrative Toll Impacts of CAPP's Proposal

	Average Toll Change from 2015-2017 Level		
Scenario / Methodology	**Eastern Triangle Short-Haul**	**Eastern Triangle Long-Haul**	**Other**
TransCanada Proposal	-13%	-4%	-2%
CAPP Proposal	-36%	-21%	-17%

Centra

Centra is the sole natural gas local distribution company in Manitoba and serves more than a quarter of a million natural gas customers.

Centra stated that its primary concern related to the Application is that Mainline volumes in the 2015 to 2017 period were much higher than TransCanada's forecast. As a result, Mainline shippers paid higher tolls than they should have over the 2013 to 2017 period. There is now a massive, unexpected "owing to customers" balance of $1.1 billion in the LTAA. Centra further stated that the Application asks the Board to ignore this fact and to roll most of this $1.1 billion amount forward for future and indeterminate disposition. By doing so, the unfair result is that Mainline shippers are proposed to continue to pay higher tolls than they otherwise should for the 2018 to 2020 period.

Centra stated that, in RH-003-2011, the Board set multi-year fixed tolls for the 2013 to 2017 period in an effort to provide toll certainty and stability for shippers. Further regulatory proceedings soon followed, and although they considered varying issues, all attempted to manage change and evolving Mainline conditions as they arose or had already arisen. For consistency and fairness, it should be recognized that these RH-001-2018 issues, including the amortization of the Annual Bridging Amount (ABA) and LTAA balances, need to be viewed through the same lens of changed circumstances and market conditions. Accordingly, it may be appropriate, even necessary, to change the approach used in one set of circumstances as circumstances evolve. This is the case for the Mainline today.

Centra noted that TransCanada's evidence states that since the treatment of the LTAA is defined in the Settlement and was approved in sections 5.1.1 and 5.2.1 of the RH-001-2014 Decision, no alternative treatments of the LTAA were considered. Centra's view is that this position ignores the findings of the Board in the RH-001-2014 Decision that the ABA and LTAA balances were, specifically, to be reviewed as part of the application and proceeding on 2018 to 2020 tolls.

In Centra's view, disposition of the LTAA balance over the 2018 to 2020 period does not conflict with Sections 5.1.1 and 5.2.1 of the RH-001-2014 Decision. Centra further stated that the RH-001-2014 Decision clearly recognized and envisioned the challenges inherent in the setting of tolls for a six-year period by ordering a mid-term toll review for the 2018 to 2020 period and citing, "should there be a material change in circumstances" as reason for a potentially different allocation of the LTAA. In Centra's view, a $1 billion+ surplus in the LTAA is a material change in circumstance. If amortization of the LTAA is not accelerated, the percentages of rate base that the LTAA would represent over the 2018 to 2020 period are: 22.7 per cent in 2018; 23 per cent in 2019; and 23.9 per cent in 2020. These values are significantly higher than the one-ninth (11 per cent) of rate base threshold defined in the RH-003-2011 Decision, on which TransCanada relied to trigger the early re-visitation of Mainline tolls in its RH-001-2014 application.

Centra asserted that it is unlikely that the Mainline will under-recover its costs over the 2018 to 2020 period. TransCanada's 2018 to 2020 revenue forecast is very conservative. This provides further justification for the disposition of some, if not all, of the LTAA balance over the 2018 to 2020 period.

Drazen Consulting Group, Inc. (Drazen), on behalf of Centra, noted two concerns relating to the LTAA refund. During the 2018 to 2020 period, TransCanada plans to refund the LTAA at 4 per cent a year, thus refunding only 12 per cent over the three years. Drazen submitted that there is no reason for TransCanada to retain 88 per cent of the LTAA balance at the end of 2020 and that most of the LTAA balance should be refunded to shippers in the 2018 to 2020 period. Drazen further noted that 67 per cent of the unexpected large balance in the LTAA came from higher volumes on the Western Mainline. TransCanada's plan is that LTAA refunds post-2020 will go entirely to Eastern Triangle shippers. As a result, Western Mainline shippers get only five per cent of the overall LTAA balance. Drazen stated that although the disposition of the post-2020 LTAA is to be decided in 2020, this is another reason to refund a much larger share during 2018 to 2020.

Drazen stated that the original expectation was that the LTAA balance would be negative in the neighbourhood of $500 million, that is, an accumulation of under-recoveries, so that the annual amortization amount would increase the revenue requirement. When the TSA was combined with the LTAA, the balance became slightly positive, but no one expected a $1+ billion surplus.

Adherence with Tolling Principles

Centra stated that the proposal in the Application to inappropriately roll forward the "owing to customers" balance of $1.142 billion in the LTAA for future and indeterminate disposition defies regulatory principles.

Drazen submitted that a different LTAA treatment than TransCanada's proposal is appropriate for three reasons: intergenerational equity, intersegment equity and intent. First, on intergenerational equity, Drazen submitted that the money in the LTAA belongs to TransCanada's customers. Ideally, over-collections should be refunded to the shippers on the system at the time of over-collection. Had TransCanada been able to forecast the volumes that were actually shipped, tolls would have been lower and the funds in the LTAA would already be in customers' pockets. With TransCanada's proposal, it will take 46 years to refund all the money. Drazen submitted that this is too long a period for TransCanada to hold on to shippers' money.

Second, on inter-segment equity, Drazen stated that delaying most of the LTAA refund creates a large mismatch between the shipper segments that created the surplus and the segment that gets the benefit. Drazen emphasized that 67 per cent of the surplus (Prairies 43 per cent plus NOL 24 per cent) came from the Western Mainline segments.

Third, on intent, Drazen submitted that an important role of TransCanada's deferral accounts, including the LTAA, has been to enhance the competitiveness of its tolls. That should be a consideration in the treatment of the LTAA credit. TransCanada has addressed competitiveness of its long-haul tolls by the Dawn LTFP service and consideration of other fixed price tolls services, for example, the Joliet Xpress proposal. Post-2020, Eastern Triangle short-haul customers will have the benefits of high utilization of the Eastern Triangle and no responsibility for excess capacity on the Western Mainline. Western Mainline customers have the least protection and greatest uncertainty. Drazen submitted that increasing the amortization rate of the LTAA and allocating a large part of that to the Western Mainline segments is a way to lower Western Mainline tolls and increase the competitiveness of that segment.

In response to TransCanada's view that amortizing more of the LTAA than it has proposed might create a problem of toll stability after 2020, Drazen stated that given that the LTAA balance was expected to be about $70 million at the end of 2020, it is not clear why TransCanada now claims that it needs about $1 billion ($1.142 billion less three years' amortization at four per cent) for toll stability. In Drazen's view, TransCanada has not shown that there is potential instability of its sales of a magnitude that would require this. Dawn and Herbert LTFP contracts are stable by design, and with the Settlement, TransCanada has created stability for Eastern Triangle shippers.

Centra's Proposal

As an alternative to TransCanada's LTAA proposal, Centra proposed that at least 75 per cent of the $1.142 billion LTAA balance should be amortized over the 2018 to 2020 period.

Centra stated that while the Board could, in principle, dispose of 100 per cent of the LTAA balance in 2018 to 2020, the option of disposing of 75 per cent of the LTAA balance over the 2018 to 2020 period would provide the Board with some optionality around the allocation and amortization of the LTAA balance at the end of 2020. This would then include the remaining 25 per cent accrued over the 2013 to 2017 period as well as any additional over-recoveries that may materialize over the 2018 to 2020 period. This would provide more than sufficient financial "cushion" for the Mainline if its financial trajectory were to suddenly be reversed from what is currently known and reasonably anticipated.

Centra stated that the benefit of this proposal is that TransCanada would return most of shippers' money to shippers now, rather than over a 46-year period. It is a significant improvement over the proposal in the Application to inappropriately roll forward the "owing to customers" balance of $1.142 billion in the LTAA for future and indeterminate disposition, defying regulatory principles. The benefits of disposing of a large portion, if not all, of the LTAA balance over the 2018 to 2020 period are:

- Mainline tolls in the 2018 to 2020 period will be more substantially aligned with actual costs and revenues on the Mainline;
- All Mainline shippers will be partially reimbursed for paying more than they should have in the 2013 to 2017 period;
- The potential for significant intergenerational inequity as a result of TransCanada's proposal to amortize the LTAA over a period of 46 years will be reduced or eliminated;
- The inter-segment inequity of the LTAA being allocated to the Eastern Triangle when the majority of the LTAA balance was generated on the Western Mainline will be mitigated; and
- Lower tolls will increase the competitiveness of the Western Mainline, which is the less utilized Mainline segment as compared with the Eastern Triangle.

Centra also proposed that the portion of the LTAA balance to be amortized over the 2018 to 2020 period should be used to deliver a pro-rata toll reduction of 23 per cent for all Mainline shippers, after applying the three-step method toll adjustments. Centra stated that its proposed pro-rata approach is fair and simple, as contrasted with the RH-001-2014 three-step methodology that was used in the Application. The three-step method is complex and largely irrelevant given the extent to which circumstances have changed on the Mainline since 2013.

Centra submitted that the cause of the unexpected huge LTAA surplus was the additional volumes shipped in 2015 to 2017 as compared to the volumes forecast by TransCanada. Most of the surplus was generated by shipments on the Western Mainline. In Centra's view, the amount in the LTAA is not related to rate base in any way. TransCanada's evidence, on the other hand, does not provide any critical analysis in support of its allocation on rate base. Centra submitted that TransCanada simply used the methodology in the 2013 Settlement agreement. Centra asserted that although the allocation on rate base was used in the past, it is not consistent with the evolving Mainline circumstances that gave rise to the large LTAA balance.

Table 3 shows a forecast of the toll adjustments resulting from Centra's proposal, as provided by Drazen.

Table 3: Centra's Illustrative Proposed Toll Changes from Current Levels

Segment	Three-Step	LTAA Refund	Total Decrease
Eastern Triangle Short-haul	-13%	-23%	-33%
Eastern Triangle Long-haul	-4%	-23%	-26%
Other (Western Mainline)	-2%	-23%	-25%

Centra noted that even with equal percentage decreases in tolls, the largest dollar share of the LTAA refund still goes to Eastern Triangle Short-Haul shippers, because that service has the greatest volume and firm service revenues.

ADOE

ADOE stated that it generally supports the Application, with the exception of the proposed treatment of the LTAA. ADOE raised arguments against TransCanada's proposed treatment of the LTAA that closely paralleled those raised by CAPP and Centra. ADOE stated that it supports CAPP's proposal to refund the LTAA over the 2018 to 2020 period. CAPP's proposal would lower tolls equitably for all segments of the Mainline, encourage utilization of Western Mainline assets and improve the competitiveness of the WCSB during an economically challenging period. The ADOE respectfully requested that the Board direct TransCanada to refund the entire balance of the LTAA over the 2018 to 2020 period.

ANE

In its letter of comment, ANE submitted that it agrees with TransCanada's position on the treatment of the LTAA. ANE stated that certain parties want to explore paying out or allocating the LTAA during the current toll period which, in ANE's view, is contrary to the Settlement on two counts. First, the Settlement is clear that the LTAA is only to be allocated after

31 December 2020. Second, the Settlement is equally clear that the LTAA is only to be allocated to the Eastern Triangle.

In ANE's view, such parties seem to ignore the very substantial increase from the RH-003-2011 tolls imposed on the Eastern Triangle by the Settlement: a 155 per cent increase in the Eastern Triangle toll compared to only a 108 per cent increase for the Western Mainline toll. ANE submitted that it is hardly surprising for the percentage reduction in the 2018 to 2020 Eastern Triangle toll to be commensurately greater than that for the Western Mainline toll.

ANE stated that, consistent with the Settlement, the Board envisaged no allocation of the LTAA before 2021. Further, ANE noted there has been no change in circumstance that would warrant any allocation of the LTAA post-2020 different from that provided for in the Settlement, in the context of the Settlement's gives-and-takes. The Settlement imposed the risk of the LTAA on the Eastern Triangle shippers. Parties that now call for the LTAA to be shared amongst all system segments would no doubt have strongly objected to such treatment had the LTAA gone negative. In ANE's view, those positions are inappropriately based on hindsight and ignore the gives and takes of the Settlement and the balance of risk incorporated therein.

EPAC

In its letter of comment, EPAC submitted that, given the current very large balance in the LTAA and recognizing that a number of factors have contributed to it, it is concerned about how this balance will be managed going forward. EPAC recommends alternative treatments should be given consideration by the Board recognizing all the stakeholders affected.

Market Area Shippers (MAS)

MAS, which includes EDGI, Énergir and Union, provided final argument in support of the tolls application of TransCanada and requested that the Board approve the Application as filed as soon as possible.

MAS raised many similar points that TransCanada raised regarding the LTAA. MAS stated that the proposals filed by Centra and CAPP must not be accepted because the Settlement was a package of gives-and-takes, and Centra and CAPP do not take into account the significant additional costs and risks embedded within the Settlement that were principally borne by MAS and other Eastern Triangle shippers to the benefit of Centra, CAPP members and other Western shippers. As well, MAS stated that an evaluation of the LTAA's allocation is premature in the RH-001-2018 proceeding, where the Board is focused on 2018 to 2020 tolls, not 2021 tolls. In the view of MAS, Centra and CAPP's submissions are contrary to the Board's RH-001-2014 Decision which, among other things, contemplated evaluating the allocation of the LTAA in a 2021 tolls proceeding, not now.

MAS stated that the three-step methodology was a critical component, particularly in light of the transition to a segmented tolling framework. To now remove the LTAA from the three-step calculation as previously approved by the Board, only to reintroduce it within a new step of toll calculations taking place after Step 3, as proposed by Centra, is patently a change to the three-step design not within the scope of this proceeding.

National Grid Gas Delivery Companies (National Grid)

National Grid companies are natural gas distribution utilities serving more than three million natural gas customers in the northeastern United States. All six of the National Grid companies are firm transportation shippers on the Mainline system. In final argument, National Grid stated that it supports the timely approval of the Application in order to permanently implement TransCanada's proposed toll reduction for the 2018 to 2020 period.

Utilities Kingston

Utilities Kingston noted that the nature of its responsibilities to its shareholders and customers provides it with a distinct voice that is somewhat unique and certainly different from the settling parties. Utilities Kingston submitted that by virtue of their agreement, the parties have negotiated a set of terms and conditions that is satisfactory to their management and shareholders. As a utility who receives all its gas deliveries from TransCanada, Utilities Kingston is interested in the long-term viability of TransCanada. At the same time, since there is a pass-through of transportation costs to its customers, Utilities Kingston seeks rates that are economically-efficient and principally-based in alignment with the spirit of the Mainline Settlement Agreement and in the public interest. Utilities Kingston submitted that this agreement falls short of recognizing the source and potential benefits of the LTAA.

Utilities Kingston respectfully requested that the Board order that 50 per cent of the current LTAA balance be used to reduce the revenue requirement for the last two years of the six-year toll regime to reduce tolls for 2019 and 2020. It supports this approach as an economically rational and equitable approach in the public interest.

TransCanada's Reply

TransCanada replied that CAPP and Centra both advocate disposing of all or most of the LTAA balance during the 2018 to 2020 period as though the LTAA was independent and unrelated to the overall Settlement framework approved in RH-001-2014. They also take no account of the different magnitude in toll increases that occurred in the Eastern Triangle partially as a result of the Eastern Triangle shippers contributing to the Western Mainline costs, as approved in the RH-001-2014 Decision. According to TransCanada, the LTAA, as well as its disposition and allocation, is one of the many intrinsically related components of the overall Settlement package and the reasonableness of one component cannot be assessed in a vacuum outside the context of the overall package.

TransCanada stated that the Board approved the proposed allocation and disposition of the LTAA, having regard to the inter-relationship between the disposition and allocation of the LTAA and other aspects of the Settlement in the RH-001-2014 Decision. The LTAA allocation and disposition are key components of the achieved balance that underpins the Settlement and the RH-001-2014 Decision. TransCanada submitted that it is not appropriate to reconsider at this time one component of this balance in isolation and based on hindsight, as done by CAPP and Centra.

TransCanada noted that, in the RH-001-2014 Decision, the Board approved the proposed treatment of the LTAA "as an adjustment account to eliminate any and all variances between the actual and forecast revenue requirements and the actual and forecast revenues during the 2015 to 2020 period, net of incentive mechanism adjustments". TransCanada submitted that the actual LTAA balance at the end of 2017 directly results from the application of the approved adjustment account and reflects "any and all variances" experienced during 2015 to 2017, as contemplated in the RH-001-2014 Decision.

TransCanada disagreed with the positions of CAPP and Centra, who allege the LTAA balance is a material change in circumstances that warrants modifying the Settlement and the RH-001-2014 Decision with respect to disposition and allocation of the LTAA balance. By its nature, TransCanada explained that the adjustment account balance cannot be known in advance.

Unlike the multi-year framework implemented in the RH-003-2011 Decision that explicitly included an off-ramp mechanism, the model implemented in the RH-001-2014 Decision does not include an off-ramp. If an off-ramp had been included, that would change the balance achieved in the Settlement and the RH-001-2014 Decision. It would therefore be inappropriate to rely on the off-ramp structure from RH-003-2011 in considering this Application, as suggested by Dr. Orans on behalf of CAPP. Rather, the Board explicitly stated in the RH-001-2014 Decision that "should there be a material change in circumstances when 2021 tolls are determined, it may determine that a different allocation of the LTAA is more appropriate".

TransCanada also did not agree with CAPP and Centra that the Application raises concerns about undue intergenerational inequity. TransCanada noted that any model that fixes tolls for a multi-year period will necessarily result in variances, whether positive or negative, and this in turn results in shippers in one period paying tolls that do not precisely match the costs incurred to provide service in that period.

TransCanada submitted that CAPP's position on intergenerational equity in this proceeding is inconsistent with its positions in the RH-003-2011 proceeding when it advocated for the deferred recovery of $500 million through the LTAA. CAPP also did not express concerns when the amount of anticipated deferred cost increased to $700 million in the Compliance Filing.

TransCanada also took issue with the positions of CAPP and Centra that the disposition of the LTAA balance should be allocated on a different basis than the ratio of rate base approved in the RH-001-2014 Decision. TransCanada noted that in that proceeding, when the LTAA balance was unknown, no party proposed that a different allocation be approved.

In TransCanada's view, CAPP's proposed allocation ignores the fact that Eastern Triangle shippers' 2015 to 2017 tolls were disproportionately increased to generate revenue well in excess of the cost of service for the Eastern Triangle. These excess revenues were used to cover the majority of the revenue shortfall on the Western Mainline. TransCanada submitted that attempting to apply the Board's tolling principles to variances alone, as done by CAPP and Centra, is ill-founded and should be rejected.

On the matter of toll stability, TransCanada submitted that, in the RH-003-2011 and RH-001-2014 Decisions, the Board approved multi-year fixed toll models and explicitly cited the importance of toll certainty and stability in its decisions. Additionally, the Board has reinforced the importance of toll certainty and stability in the RH-001-2016 Decision when it found that changing Storage Transportation Service, the effects of which would be small in relation to the LTAA proposals, should not be made during the 2015-2020 period when "shippers expected a reasonable level of toll certainty and stability as a result of the Settlement and the RH-001-2014 Decision".

TransCanada stated that allocating the LTAA over the 2018 to 2020 period would also have implications for stability beyond the fixed toll period, since the toll reductions proposed by CAPP and Centra may not be sustainable, causing them to be followed by toll increases of a similar or greater magnitude.

TransCanada asserted that neither CAPP nor Centra appear to recognize that even at the proposed toll level, the Western Mainline revenues fall short of costs by approximately $93 million per year during the 2018 to 2020 period. Reducing tolls on the Western Mainline in excess of 30 per cent would widen the gap between costs and revenues on the Western Mainline. Regardless of the tolling methodology that will be implemented for the post-2020 period, imposing such an imbalance between the costs and revenues during the 2018 to 2020 period would likely contribute to toll instability and uncertainty post-2020.

TransCanada observed that at least a year of the 2018 to 2020 period will have passed by the time the RH-001-2018 Decision is issued. As such, the adjustments that would be required in the latter portion of the period would be substantially larger than those presented.

TransCanada also asserted that the period of toll instability between 2004 and 2008 ultimately led up to the RH-003-2011 proceeding, and the implementation of a multi-year tolling methodology. In TransCanada's view, implementing either the CAPP or Centra proposals would risk even greater instability.

Views of the Board

The Board finds that, based on the facts and circumstances presented in this case, TransCanada's proposed treatment of the LTAA would not adhere to the cost-based/user-pay tolling principle, causes unreasonable intergenerational inequity, and therefore does not produce just and reasonable tolls. In order to better align with established tolling principles, the Board has decided that 100 per cent of the LTAA be returned to shippers in the 2018 to 2020 period using the over-collection allocation method as proposed by CAPP (i.e., based on the ratios identified in Table 1 on page 7). The Board provides its reasons as follows.

Requirements of the NEB Act and Tolling Principles

Under Section 62 of the NEB Act, all tolls must be just and reasonable. In determining whether tolls are just and reasonable, the Board has historically relied on fundamental tolling principles, including the principle of cost-based/user-pay tolls. The Board has stated that tolls should be, to the greatest extent possible, cost based and that users of a pipeline system should bear the financial responsibility for the costs caused by the transportation of their product through the pipeline[3]. Similarly, the Board has stated that all reasonable efforts should be made to minimize cross-subsidization[4].

The cost-based/user-pay principle can be applied in consideration of costs over time, which can be referred to as intergenerational equity. In other words, one generation of shippers subsidizing the costs of another generation of shippers should be avoided.

Amount to Dispose

The Board finds that the Application's approach to return only approximately 3.9 per cent of the $1.1 billion LTAA balance each year to shippers in the 2018 to 2020 period represents an unreasonably large intergenerational cross-subsidy. From 2015 to 2017, shippers paid tolls that generated revenues significantly above the Mainline's costs. TransCanada's approach results in the majority of that significant overpayment being returned to shippers in 2021 and thereafter, and would not be fully returned to shippers until after 46 years.

Adherence to intergenerational equity and the cost-based/user-pay principle is often evaluated on a spectrum. Some levels of intergenerational cross-subsidization are inherent and acceptable in a fixed toll design such as on the Mainline. However, in this case, the imbalance in time from when the over-collection of revenues occurred to when it is largely returned, in conjunction with the magnitude of such a deferral resulting from the $1.1 billion LTAA balance, conflicts with intergenerational equity and the cost-based/user-pay principle to a degree that, in the Board's view, necessitates a different approach. While there was no explicit off-ramp mechanism included in the RH-001-2014 Decision, clearly there must be, at some point, a level of deferral that does not produce just and reasonable tolls. The Board concludes that, in this case, that level has been reached.

The Board finds that CAPP's proposal to dispose 100 per cent of the LTAA in the 2018 to 2020 period better aligns with intergenerational equity and the cost-based/user-pay principle. CAPP's proposal provides a greater opportunity for the toll decrease benefits resulting from the amortization of the LTAA to accrue to those shippers that effectively overpaid Mainline costs in the 2015 to 2017 period. Since the Board cannot retroactively change final tolls that were in place between 2015 and 2017, the Board finds that disposing of the entire LTAA balance in the following period of 2018 to 2020 is a

[3] RH-1-2007 Reasons for Decision, July 2007, page 27
[4] RH-4-86 Reasons for Decision, July 1987, page 48

practical solution for returning prior shippers' over-funding of the Mainline's revenue requirement.

The Board heard arguments that CAPP's proposal would negatively impact toll stability and certainty. While toll stability is an important toll objective for the Mainline in its current environment, it would come at the expense of a significant departure from the principles of cost-causation and intergenerational equity. The Board finds that in these circumstances, addressing the magnitude of the LTAA balance and the significant proposed intergenerational inequity that would result from the Application takes precedence over toll stability and certainty.

Allocation to Each Segment

In this case, the Board finds that the Application's approach to allocate the LTAA Amount to each Mainline segment using the ratio of rate base methodology does not adequately adhere to the cost-based/user-pay principle. As stated previously, adherence to the cost-based/user-pay principle is often evaluated on a spectrum. Some levels of inter-segment cross-subsidization are inherent and acceptable in an integrated toll design such as on the Mainline. However, given the magnitude of the inter-segment cross-subsidy that would result from the ratio of rate base method, and that no compelling evidence supporting the ratio of rate base method as being consistent with the Board's tolling principles was provided, the Board finds that an alternative allocation method is required.

The Board finds that CAPP's proposed over-collection allocation method better aligns with the cost-based/user-pay principle by allocating the LTAA Amount to each Mainline segment based on each segment's respective share of over-collected revenues from 2015 to 2017. CAPP's proposal will provide a greater opportunity for the toll decrease benefits to accrue to shippers that effectively overpaid Mainline costs in the 2015 to 2017 period. CAPP's over-collection allocation method is also consistent with TransCanada's three-step toll design, unlike the pro-rata approach proposed by Centra.

The Board heard arguments that CAPP's proposal ignores the fact that Eastern Triangle shippers paid higher tolls in 2015 to 2017 to cover the majority of revenue shortfall on the Western Mainline. The Board finds that CAPP's over-collection allocation method still adequately reflects the Eastern Triangle's previous contributions towards Western Mainline costs. As a function of TransCanada's three-step toll design, CAPP's proposal for allocating the LTAA will still largely benefit the Eastern Triangle. The Eastern Triangle is provided with the largest toll decrease and a significant BAA balance at the end of 2020 to the credit of Eastern Triangle shippers.

Consistency with the RH-001-2014 Reasons for Decision and Settlement Agreement

The Board heard arguments that alternative LTAA proposals would be inconsistent with the RH-001-2014 Reasons for Decision and the Settlement Agreement between TransCanada and the settling parties. Parties argued whether the $1.1 billion LTAA balance represented a material change in circumstances that warranted a different treatment. TransCanada argued that the Board did not contemplate any changes to the LTAA's treatment until 2021.

The Board recognizes that, in the RH-001-2014 Reasons for Decision, it did not specifically contemplate changes to the LTAA's treatment for the 2018 to 2020 toll review. The Board also found in the RH-001-2014 Reasons for Decision that the LTAA's treatment was appropriate given the context of gives-and-takes between TransCanada and the settling parties.

However, regardless of previous Board direction and agreements that may be in place, tolls must be just and reasonable at all times. The circumstances have changed from the Board's previous consideration of the LTAA in the RH-001-2014 proceeding. The magnitude of the $1.1 billion LTAA balance, which could not have been forecast in RH-001-2014, and the significant departure from intergenerational equity and the cost-based/user-pay principle that would result from the Application's treatment of that significant LTAA balance, result in tolls that are not just and reasonable, and therefore necessitate a different approach.

Competitiveness

The Board also considered the competiveness of Mainline tolls in making its determination on the LTAA's treatment. The Board has stated previously that "long-haul Mainline tolls must be competitive to be just and reasonable"[5]. As TransCanada submitted, competitiveness is a spectrum. It varies among paths depending on many factors, and varies between different shippers. The Board finds that no evidence was provided to demonstrate that overall, TransCanada's proposed FT tolls were not competitive.

However, competition remains a threat to the Mainline, and the trend of declining long-haul contracting continues. This is evidenced by TransCanada's billing determinants and throughput forecasts provided as part of the Application. Additionally, TransCanada has applied recently for two LTFP services[6] to specifically respond to competition. The Board finds that returning the entire LTAA balance to shippers in the 2018 to 2020 period will help towards the overall competitiveness of the Mainline's services in a competitive environment, and will promote increased utilization to the benefit of the Mainline and its shippers.

Post-2020 Tolls Application

In consideration of the Board's decision on the treatment of the LTAA in this proceeding, the Board expects TransCanada to provide a detailed justification regarding the LTAA's disposition and allocation in its post-2020 tolls application.

[5] RH-003-2011 Reasons for Decision, March 2013, page 220, (A51040-1).
[6] TransCanada's Dawn LTFP Service and Herbert LTFP Service.

Decision

The Board denies TransCanada's proposed LTAA treatment for the 2018 to 2020 period. The Board directs TransCanada to submit a compliance filing to dispose of 100 per cent of the LTAA in the 2018 to 2020 period and to allocate the LTAA amount to each Mainline segment using the over-collection method, as proposed by CAPP in this proceeding. See Appendix I and II for the toll orders that give effect to this decision.

2.2 Pricing Discretion

Views of TransCanada

TransCanada submitted that pricing discretion for IT and STFT services for the 2018 to 2020 tolls period remains appropriate. Pricing discretion continues to provide an incentive for shippers to contract for FT service to meet firm requirements and has contributed to the Mainline achieving positive net revenues.

TransCanada submitted that the forecast of BDs and Discretionary Miscellaneous Revenue (DMR) for 2018 to 2020 and the resulting applied-for tolls are premised upon and can only be supported with the continuation of pricing discretion.

TransCanada summarized that absent existing pricing discretion, there would be less incentive for shippers to use FT service and less opportunity for TransCanada to capture discretionary revenues to lower tolls. Furthermore, shippers would revert to the behaviour observed prior to the RH-003-2011 Decision. In that environment, shippers relied on discretionary services to meet firm requirements and paid only a fraction of the Mainline's annual cost of service. This behaviour was a major contributor to the downward trend in billing determinants and an upward trend in tolls observed in the period prior to the RH-003-2011 Decision.

TransCanada submitted that it intends to continue using pricing discretion to increase revenues and associated throughput using available capacity. The use of pricing discretion to maximize overall Mainline revenue is an exercise of balance between providing an incentive for shippers who have firm requirements to contract for the firm service they require, and responding to market opportunities if and when they arise.

Views of Participants

ANE

ANE submitted that pricing discretion is important to incenting parties to contract appropriately on the Mainline and to ensure that the Mainline's annual costs are fairly recovered from system users. ANE took no position on specific pricing discretion details such as appropriate ceiling levels. ANE supported the retention of pricing discretion that the Board may consider appropriate for the maintenance of just and reasonable tolls.

Centra

Centra expressed concerns with the continuation of pricing discretion on the Mainline. Centra stated that the circumstances on the Mainline have changed considerably since the Board awarded pricing discretion to TransCanada following the RH-003-2011 Decision. Centra argued that virtually unlimited pricing discretion on the Mainline is unnecessary and should be constrained.

For the 2018 to 2020 timeframe, Centra recommended maintaining IT bid floor flexibility with an upper limit of 1,500 per cent of the daily FT equivalent toll. In Centra's view, this change would improve Mainline pricing discretion by:

- maintaining the Mainline's ability to set high bid floors to incent FT contracting;
- continuing to allow IT service to be bid higher than maximum bid floors;
- mitigating the potential detrimental effects of pricing discretion on gas prices under certain market conditions; and
- appropriately limiting TransCanada's ability to restrict Mainline flows and deliveries.

Recognizing that shorter Mainline paths would have relatively lower IT tolls with a 1,500 per cent maximum IT bid floor, Centra submitted that a maximum IT bid floor benchmark for shorter paths could be established based on the prevailing Empress to Welwyn daily equivalent FT toll (currently $0.4217/gigajoule (GJ)). The daily IT toll for Empress to Welwyn at 1,500 per cent would be $6.33/GJ. Any Mainline path with a lower daily equivalent FT toll than the Empress to Welwyn path of $0.4217 would be subject to a maximum IT bid floor benchmark of $6.33/GJ.

Centra stated that its recommended approach would ensure substantial IT revenue can be obtained for even the shortest Mainline paths. A benchmark of $6.33/GJ for Emerson 1 to Emerson 2 and St. Clair to Dawn would effectively be maximum IT bid floors of 6,994 per cent and 4,888 per cent, respectively. Centra submitted that the prevailing Empress to Welwyn daily equivalent FT toll is a reasonable benchmark by which to define "short paths", as it is approximately two-thirds of the highest toll on the Prairies segment (Empress to Emerson 1 and 2), and of similar distance as Eastern Triangle short-haul paths such as Union Dawn to Iroquois and Union Parkway Belt to Énergir Eastern Delivery Area.

Centra submitted that placing an upper limit on IT bid floors would mitigate their potential to unduly impact gas market prices. In Centra's view, it is reasonable to conclude that IT bid floors of 5,000 per cent or other extremely high levels during periods of high demand or unusual market conditions are more likely to unduly impact gas market prices than an IT bid floor of 1,500 per cent.

In Centra's view, end-use markets bear the brunt of such market effects, and there is no need to perpetuate the "unlimited" feature of pricing discretion for IT service during the 2018 to 2020 period, given the Mainline's vastly improved competitive position. Furthermore, allowing TransCanada to charge "whatever the market will bear" at the expense of end-use markets is an approach that is unnecessarily weighted in TransCanada's favour.

Centra argued that implementing reasonable limits on pricing discretion for IT service should also be considered in the context of the Mainline's foray into LTFP services. In Centra's view, TransCanada's ability to effectively block Mainline flows with extraordinarily high IT bid floors should not be preserved in unlimited form while TransCanada is also diminishing access to Western Canadian gas through large LTFP services that bypass the Western Mainline.

Centra stated that the appropriateness of the Mainline being able to set very high IT bid floors within Centra's prescribed limits applies only to the 2018 to 2020 period, which assumes the Mainline's current tariff provisions, services, and service attributes. Potential post-2020 changes to tariff provisions, services, and service attributes that are detrimental to shippers using firm annual Mainline services would necessitate re-examination of the appropriateness of Mainline pricing discretion in any form.

Centra submitted that it does not recommend any change to pricing discretion for STFT in the 2018 to 2020 period, as STFT is a potential alternative to annual FT for shippers that require firm service but do not require alternate receipt points, diversion rights, or renewal rights.

Centra argued that TransCanada discussed the history and rationale that was the basis for pricing discretion, and applied the same rationale to today. In Centra's view, while IT was relied on by some shippers in the past, the circumstance assumed that IT bid floors were capped at 110 per cent and there was excess Mainline capacity. Centra argued that market conditions have since changed dramatically, illustrating that the Mainline sold out of annual firm service capacity with a next day contract on the Western Mainline for periods of time between September and December 2017. LTFP services, existing and potential, are also making Western Mainline capacity increasingly tight.

Centra argued that its recommended bid floors of 1,500 per cent to 6,994 per cent would make IT very expensive and 'out of the money' in all but extraordinary cases, meaning that marketers would not plan to rely on IT in place of annual FT. Marketers serving firm requirements would not stop contracting for annual FT, as IT is not a replacement for shippers with firm needs. Centra also argued that IT is at risk of being bid higher than Centra's recommended maximum bid floors, and is also at risk of not being authorized to flow.

In Centra's view, TransCanada's concern with limited pricing discretion reducing the ability to derive higher IT revenues is dispelled by the fact that, under Centra's proposal, shippers can bid above Centra's recommended limits to secure capacity; and by the fact that TransCanada relinquished capacity on the St. Clair to Dawn path.

Centra argued that its proposal provides a much wider IT bid floor range compared to alternatives considered in RH-001-2014, which could result in pricing patterns not being fully predictable unless TransCanada chose to make them so. Centra's proposal would not result in bid floors being known well in advance.

Centra submitted that its proposal would not require revisions to TransCanada's forecast BD or DMR for the 2018 to 2020 period. The current forecast does not assume large DMR and Centra's proposal preserves wide flexibility. In Centra's view, this is sufficient to incent annual FT, particularly as capacity becomes tight.

Centra argued that for TransCanada to suggest Centra's proposed IT bid floors are not high enough ignores changed Mainline circumstances and is not supported by evidence. There is also no evidence that Centra's proposal would be insufficient to incent FT.

Centra concluded that TransCanada's evidence for maintaining pricing discretion relied on outdated history and flawed assumptions, while Centra's proposal fairly recognized changed Mainline circumstances.

EPAC

EPAC submitted that capping pricing discretion for IT and STFT services for the 2018 to 2020 period would be appropriate, given the current levels of FT contracting on the Mainline. EPAC does not see FT contracting behaviour changing in the near term which, in EPAC's view, would suggest pricing discretion as currently employed by TransCanada would not be required to provide an incentive for shippers to contract for firm service.

Westbrick

Westbrick submitted that TransCanada failed to support its concerns about eliminating unlimited pricing discretion going forward with demonstrable evidence. Furthermore, TransCanada did not offer other solutions to maximize the use of daily operational capacity through IT discretionary pricing. Westbrick asked the Board to consider limiting the IT tolls on discretionary pricing to 125 per cent of the Dawn LTFP toll.

TransCanada's Reply

In response to comments from Centra, TransCanada stated that limits on pricing discretion would result in lower firm contracting and increased tolls, as observed prior to the implementation of the RH-003-2011 Decision. TransCanada stated that significant existing FT and FT-NR contracts expire prior to 31 December 2020 and would be at risk of not being renewed or replaced under Centra's proposal.

Limitations on pricing discretion would provide shippers the opportunity to reduce their annual costs of meeting firm needs by relying on discretionary services. To illustrate, TransCanada stated that the ceiling proposed by Centra would make it cheaper to meet peak requirements that occur 24 days or less using IT service than using FT.

TransCanada submitted that limits would also reduce its ability to derive higher revenues when market conditions support higher IT prices. For example, during the RH-001-2014 proceeding, TransCanada explained that it sold IT at a bid floor of 5,500 per cent, which represented a floor of approximately $5.00 when the market value on the path in question was about $30.00.

TransCanada advised that limiting pricing discretion to 160 per cent of the FT toll would reduce the existing incentive currently in place for shippers who require guaranteed access to contract for the firm service. In TransCanada's view, it is likely that imposing a 160 per cent limit for discretionary service would result in a gradual return to the pre-RH-003-2011 situation where Western Mainline receipts were approximately 1 Bcf/d. As current FT contracts expire, many would likely not be renewed, and shippers would instead opt to only pay for service on peak demand days and contract for their base requirements. There would also be less incentive for contracts not yet in place but reflected in the forecast of billing determinants to be executed.

The resulting upward pressure on tolls would likely encourage further de-contracting and increase the likelihood that shippers exercise their right to convert existing long-haul FT contracts to short haul. In addition, it would likely increase the risk that existing Dawn LTFP shippers exercise their early termination rights and elect instead to rely on discretionary services. While discretionary revenue would likely be higher than under the existing framework, the increase in DMR would be a fraction of the decrease in firm revenues. In TransCanada's view, the cumulative effect would be an increase in business risk facing the Mainline relative to that resulting under both the Settlement framework approved in RH-001-2014 and the framework implemented through the RH-003-2011 Decision where the Board determined that limiting pricing discretion to 160 per cent did not go far enough.

In response to Centra's comments that limits on IT bid floors would mitigate the potential to unduly impact gas market prices, TransCanada stated that no evidence was presented to support these allegations. TransCanada stated that similar allegations were rejected by the Board in the RH-001-2014 proceeding. Moreover, TransCanada emphasized that in that proceeding, the Board concluded that capping pricing discretion would increase the likelihood that bid floors would impact commodity prices because pricing patterns would be more fully predictable.

TransCanada argued that capping pricing discretion would benefit select shippers on the Mainline who would be able to save money by relying on IT instead of FT to meet their firm requirements. However, for the same reasons that the Board approved unlimited pricing discretion in RH-003-2011 and RH-001-2014, those benefits to individual shippers would be outweighed by the adverse impacts to the Mainline and remaining FT shippers. As a result, TransCanada submitted that the Board should reject Centra's proposed cap on pricing discretion for IT and find that TransCanada's existing pricing discretion remains appropriate.

TransCanada argued that although the Board said it would review the continued appropriateness of pricing discretion in the 2018 to 2020 toll review, the presumption should be that the existing price discretion continues to be appropriate unless a party can demonstrate changed circumstances since RH-001-2014. In TransCanada's view, pricing discretion is working as intended and higher contracting levels are in part a result of pricing discretion. In TransCanada's view, there is no change in circumstances since RH-001-2014 that suggests existing pricing discretion is inappropriate.

Views of the Board

The Board is of the view that unlimited pricing discretion played an important role in increased FT contracting since RH-003-2011 and remains relevant in providing continued incentive for shippers to contract for firm services. With limitations on pricing discretion, the Board is of the view that shippers would have a higher incentive to decrease FT contracting in favour of discretionary services, and therefore would not pay for the annual cost of operating the Mainline. As well, limits on pricing discretion would limit TransCanada's opportunity to derive higher discretionary revenues when market conditions could support higher IT bid floors.

The Board notes that the post-2020 Mainline toll design is unknown. The Mainline continues to evolve in response to changing market conditions with new facilities and services. The Board is of the view that the necessity of unlimited pricing discretion for IT and STFT services in a scenario of a segmented Mainline, higher contracting and lower uncontracted pipeline capacity will require a re-evaluation. For the post-2020 toll application, TransCanada is directed to provide justification for the continuation of unlimited pricing discretion for IT and STFT services, as well as information on contracts, forecast flows and available capacity by segment.

Decision

The Board approves the continuation of the existing pricing discretion for IT and STFT services for the 2018 to 2020 period.

2.3 Transportation by Others (TBO) Costs

Views of TransCanada

TransCanada submitted that TBO costs for 2018 are based on the contract and rate assumptions included in its 2018 budget and this cost is held constant for 2019 and 2020 at $305.3 million. TBO costs have increased due to new contracts associated with the Dawn LTFP service that commenced in November 2017. Foreign exchange rate changes have resulted in an increase of $5 million per year from the amount in the Compliance Filing. A reduction in the negotiated Great Lakes Gas Transmission St. Clair to Emerson rate has contributed to a reduction of TBO costs of $19 million.

TransCanada stated that it enters into TBO arrangements as an alternative to the construction of incremental facilities, or where the economics of operating existing facilities and the service provided by a third-party pipeline offer a better means of meeting TransCanada's aggregate requirements. TBO arrangements may offer timing benefits as compared to a build alternative and typically provide TransCanada flexibility to manage risks as the market evolves over time.

TransCanada considers the 750 / 750 TJ/d flow split between the southern and northern routes for Dawn LTFP to be optimal at this time, as it results in the lowest cost, provides the required flexibility to adjust to changing market circumstances and provides operational flexibility.

Views of Participants

No participants expressed any concerns with the proposed TBO costs.

Decision

The Board finds the proposed TBO arrangements as applied for by TransCanada provide economic and timing benefits in meeting TransCanada's aggregate requirements and are reasonable.

2.4 Other Revenue Requirement Items and Rate Base

Views of TransCanada

TransCanada updated components of the 2018 to 2020 revenue requirement and rate base using a consistent approach to that used in the Compliance Filing, and is based on its 2018 budget. Certain costs have been increased by an annual inflation factor of two per cent, municipal taxes have been increased by three per cent, and TBO and Pipeline Integrity and Insurance Deductibles have been held constant at the 2018 level.

Views of Participants

No participants expressed any concerns with the other revenue requirement items or rate base.

Decision

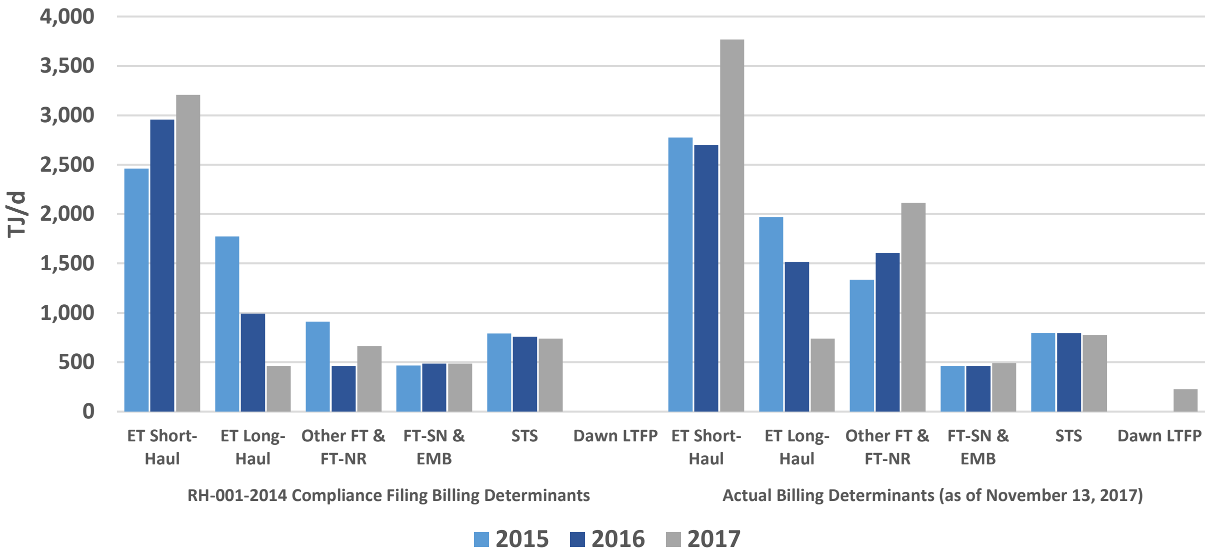
With the exception of the Board's findings relating to the LTAA and LTAA Amount in Section 2.1, the Board accepts the proposed components of the 2018-2020 revenue requirement and rate base as applied for by TransCanada as reasonable.

2.5 Billing Determinants

Views of TransCanada

TransCanada submitted that BDs for the 2015 to 2017 period were approximately 28 per cent higher than expected. Figure 2 summarizes the forecast and actual BDs for this period.

Figure 2: TransCanada Mainline Billing Determinants (2015-2017)[7]



TransCanada submitted that the largest variance in BDs during the 2015 to 2017 period was realized in the Other FT & FT-NR category, which includes volumes from Empress to Emerson 1 and 2. These two paths account for 68 per cent of the variance in this category. The variance is largely the result of quantities contracted in response to short-term cold weather events and volumes contracted to temporarily serve markets such as Dawn due to delays in pipeline infrastructure such as the Rover and Nexus projects.

Long-haul FT & FT-NR contracts to the Eastern Triangle were also above estimates, largely due to volumes contracted in response to:

- delays to the King's North Connection project, which in turn delayed long-haul to short-haul contract conversion;
- delays to the Constitution pipeline project in the U.S. northeast, which would have displaced export demands at the Iroquois export point;
- cancellation of the Tennessee Northeast Energy Direct project, which also would have displaced exports into the U.S. northeast; and
- declining Canaport liquefied natural gas imports and maritime gas supply volumes, which have both resulted in incremental exports via East Hereford than had been expected.

TransCanada updated the firm BDs from those filed in the Compliance Filing for the years 2018, 2019 and 2020 and included the BDs associated with Herbert LTFP and Dawn LTFP services. Figure 3 summarizes the forecast BDs for this period.

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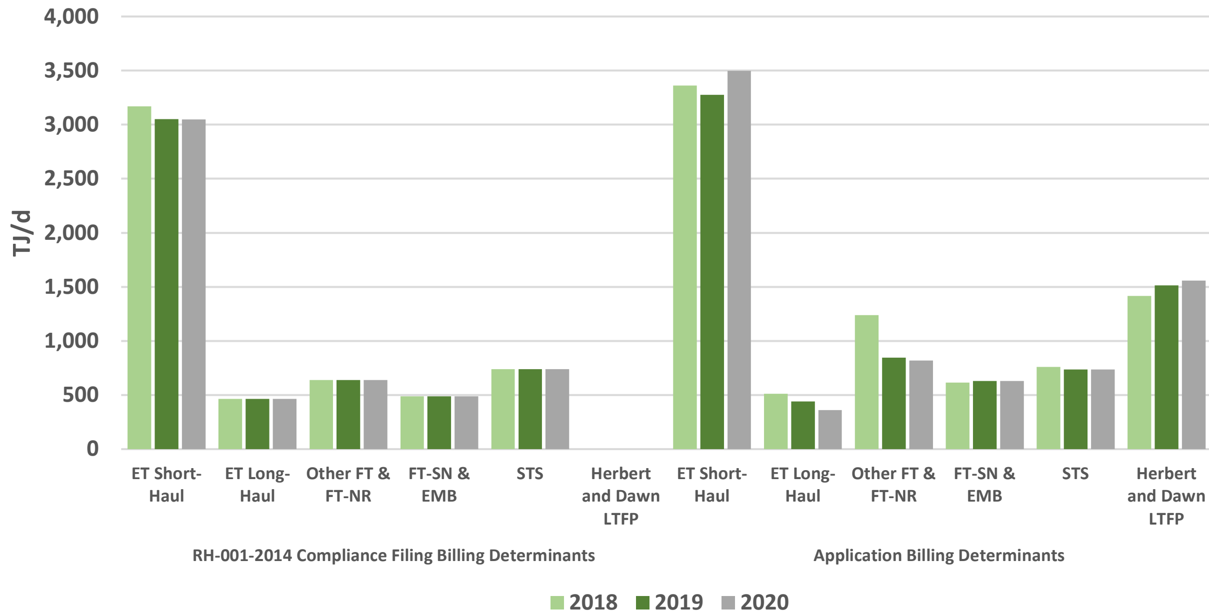
[7] Data from TransCanada 2018-2020 Mainline Tolls Applications, Table 3-1: Billing Determinants (2015-2017), page 3-1, (A88754-2).

Figure 3: TransCanada Mainline Billing Determinants (2018-2020)[8]



TransCanada submitted that updated BDs for 2018 to 2020 are now forecast to be higher than those reflected in the Compliance Filing, largely due to the Dawn LTFP service. Also, as with the variances in the 2015 to 2017 period, the largest adjustments to prior expectations for the 2018 to 2020 period relate to Other FT & FT-NR category. The majority of this increase is expected to occur in 2018, coinciding with a period of expected continued delays associated with both the Rover and Nexus projects. After 2018, the BD forecast is more similar to expectations from the Compliance Filing.

Short-haul FT & FT-NR BDs to the Eastern Triangle are also higher for the period than had been included in the Compliance Filing, mostly due to higher contracted receipts at Niagara Falls and Chippawa.

Long-haul FT & FT-NR BDs to the Eastern Triangle are expected to be approximately five per cent lower than were forecast in the Compliance Filing as shippers increasingly contract on a short-haul basis.

TransCanada advised that each of the Eastern local distribution companies has maintained and is expected to maintain long-haul contracts at or in excess of its respective Settlement commitment level.

For the years 2018 to 2020, TransCanada submitted that there continues to be a variance between forecast BDs and executed contract demand totaling 74 TJ/d, 335 TJ/d and 811 TJ/d, respectively.

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[8] Data from TransCanada 2018-2020 Mainline Tolls Applications, Table 3-2: Billing Determinants (2018-2020), page 3-2, (A88754-2).

Views of Participants

Centra

Centra submitted that TransCanada's BD forecast is conservative and that the known FT and FT-NR contracts on the Western Mainline already exceed TransCanada's forecast of BDs for the 2018 to 2020 period.

TransCanada's Reply

TransCanada submitted that no evidence or letters of comment have been filed challenging the BD forecast for the Mainline and that both Centra and CAPP rely on TransCanada's BD forecast for their respective proposals.

TransCanada advised that Centra's submissions on BDs are incorrect. TransCanada stated that Centra failed to recognize the BDs associated with Stretch Revenue. TransCanada provided an analysis of Western Mainline BDs and Stretch Revenue BDs, compared to known BDs on Western Mainline as of 31 August 2018. TransCanada advised that except for 2018, known contracts for the three year period are still short of the total BDs required to generate expected Mainline revenues. BDs expressed on an energy-distance basis are 331,212 PJ-km short of forecast 1,408,287 PJ-km, or about 24 per cent below the values reflected in the Application. In TransCanada's view, this demonstrates that TransCanada's BD forecast is not overly conservative as Centra suggests.

> **Decision**
>
> **The Board accepts the BD forecast as applied for by TransCanada as reasonable, with the inclusion of BDs associated with Stretch Revenue.**

2.6 Discretionary Miscellaneous Revenue

Views of TransCanada

TransCanada submitted a DMR forecast for 2018 to 2020 that is lower compared to the Compliance Filing forecast of DMR. In the Compliance Filing, the DMR level was forecast to be $60 million for each year from 2018 to 2020. In the Application, the DMR forecast was updated to $32 million for 2018 and $25 million for both 2019 and 2020.

TransCanada advised that its forecast of DMR reflects a continued trend towards more firm contracting on the Mainline that has been occurring since the RH-003-2011 Decision. This trend is also reflected in the increased BD forecast. As Mainline shippers increasingly rely on firm contracts to meet their market requirements, the use and resulting revenues from discretionary services is expected to be reduced, with most of the DMR revenues resulting from the use of diversion features associated with FT service.

TransCanada advised it expects a reduction in contracts at Emerson as a result of competitive pressures from Appalachian gas sources including gas transported via Rover and Nexus.

Significant conversion from long-haul to short-haul contracting also means diversions are expected to be made more predominantly from short-haul contracts going forward than had been the case in the prior period, which will generate less discretionary revenue. Finally, given the increase in firm billing determinants, particularly in the Eastern Triangle, TransCanada advised there will be less overall capacity available for discretionary services.

Views of Participants

No participants expressed any concerns with TransCanada's proposed DMR forecast.

Decision

The Board accepts the DMR forecast as applied for by TransCanada as reasonable.

2.7 Depreciation

Views of TransCanada

TransCanada stated that its proposed changes to depreciation rates result in an increase to depreciation rate expense of $110.4 million, $105.7 million and $113.3 million for 2018, 2019 and 2020, respectively. TransCanada submitted that depreciation expense is higher than in the Compliance Filing primarily due to an increase in the depreciation rates and higher capital additions.

The proposed depreciation rates by asset class and segments were provided in Attachment 5 of the Application. The proposed depreciation rates fall within the range of depreciation rates supported by a 2017 depreciation study[9] prepared by Concentric Advisors, ULC (CA), and rely on a Mainline throughput study, which were included as part of the Application. TransCanada last submitted a comprehensive depreciation study in the RH-003-2011 proceeding, which was accepted by the Board.

Prairies segment

For the Prairies segment, TransCanada submitted that the range of anticipated throughput is now lower than it was in 2011, supporting the need for a shorter EPH, especially for compression assets.

TransCanada provided the implied EPH for the Prairies segment corresponding to the proposed depreciation rates: 2023 for compressor structures, 2031 for measuring and regulating structures, 2032 for mains, 2022 for compressor equipment, and 2031 for measuring and regulating equipment. The current EPH for asset classes in the Prairies segment is 2036.

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[9] 2017 Depreciation Study, TransCanada PipeLines Limited, Canadian Mainline, by Concentric Advisors ULC, November 2017, (A99865-8).

Eastern Triangle and NOL segments

TransCanada proposed to retain the EPH approved in RH-003-2011 at 2050 for the Eastern Triangle segment. TransCanada also proposed to retain the EPH approved in RH-003-2011 at 2020 for the NOL.

Views of Participants

EPAC

EPAC stated that it is not convinced the adjustment to the Prairies segment is warranted by TransCanada's explanation since it appears not to be supported by the behaviour of shippers committing to recent incremental delivery contracts at NOVA Gas Transmission Limited (NGTL)'s East Gate under recent open seasons.

TransCanada's Reply

TransCanada replied that the factor identified by EPAC in support of its concern was considered and addressed by TransCanada in determining the proposed depreciation rates. It explained that determination of the EPHs for the Mainline is based on the factors outlined in Section 3.2 of the 2017 Depreciation Study, and how they specifically relate to the segments on the Mainline. Expected flow on the NGTL System and its influence on these factors such as "the availability of supply to the pipeline", is incorporated into the overall assessment.

> **Decision**
>
> **The Board approves the proposed depreciation rates as applied for by TransCanada. The Board notes the depreciation rates fall within the range of depreciation rates supported by a 2017 depreciation study prepared by CA, and rely on a Mainline throughput study.**

2.8 Allocation of Dawn LTFP Net Revenues

Views of TransCanada

TransCanada submitted that the Dawn LTFP Net Revenue will be allocated to the segments based on the path weighted distance in each segment. With 1,500 TJ/d of Dawn LTFP service being provided using 50 per cent through the northern route and 50 per cent through the southern route, the Dawn LTFP Net Revenue will be allocated 9.64 per cent to the Eastern Triangle segment, 53.72 per cent to the NOL segment and 36.64 per cent to the Prairies segment.

Dawn LTFP net revenues (revenue less abandonment surcharges and certain costs) total $240 million, $246 million, and $249 million for each of 2018, 2019 and 2020, respectively. TransCanada submitted that absent the net revenues associated with Dawn LTFP, the revenue requirement used to derive 2018 to 2020 Mainline tolls would be approximately 16 per cent higher.

Views of Participants

Centra

Centra observed that the Dawn LTFP net revenue allocation could, alternatively, happen after the three-step toll calculations, rather than as a preliminary step to the existing methodology as TransCanada proposes. Centra submitted that there was no guidance in the original Settlement or the RH-001-2014 Decision as to how the revenue from market-based services should be allocated or how it plays into the three-step methodology. Thus, Centra stated that TransCanada should have sought the views of all interested parties in a meaningful consultation on this matter. Despite these comments, Centra is not recommending that the Board alter the manner in which Dawn LTFP net revenue has been allocated in the Application.

> **Decision**
>
> **The Board accepts the proposed allocation of the Dawn LTFP Net Revenue to the segments based on the path weighted distance in each segment, as applied for by TransCanada, as reasonable. The Board notes that Centra did not recommend a change.**

2.9 Definition of Net Revenue and Stretch Revenue

Views of TransCanada

TransCanada submitted that there are changes required to the adjustments to Net Revenue used in the Incentive Sharing Mechanism from the Settlement Agreement and the RH-001-2014 Decision. These include the Stretch Revenue adjustment as defined in Section 1.1(kkk) of the Settlement, which has been updated as defined in article 2.5 of the Supplemental Agreement. The Stretch Revenue adjustment relates to uncertainty surrounding deliveries at points on the Mainline and therefore Mainline revenue. In the Settlement Agreement, the uncertainty related to deliveries to Iroquois and East Hereford for 2016. When the billing determinants and revenue were updated in the Compliance Filing, sufficient revenue had already been generated so the Stretch Revenue mechanism was not required for 2016. For 2018 to 2020, the uncertainty relates to FT and FT-NR Revenues from Empress to Emerson 1 and 2. The mechanism for calculating the Stretch Revenue Adjustment has also changed, as described as follows:

> The Stretch Revenue Adjustment mechanism applies only to the FT and FT-NR revenue generated from Empress to Emerson 1 and 2 (Emerson Revenues). All other system revenue and cost variances will be included in Net Revenue independent of the amount of Net Revenue that is associated with the Emerson Revenues.

TransCanada also provided a discussion of its inclusion of annual billing determinants volume and revenue forecasts for Emerson that are well in excess of volumes and revenues that are actually expected for Emerson. TransCanada also provided illustrative examples of the Stretch Revenue adjustment, Net Revenue and resulting incentive associated with various amounts of Emerson contracts.

Views of Participants

No participants expressed any concerns related to the definitions of Net Revenue and Stretch Revenue.

> **Decision**
>
> **The Board approves the updated definitions of Net Revenue and Stretch Revenue used in the Incentive Sharing Mechanism, as applied for by TransCanada.**

3. Disposition

The foregoing, together with Order TG-011-2018, constitutes our Reasons for Decision in respect of the Application heard by the Board in the RH-001-2018 proceeding.

R.R. George
Presiding Member

J. Gauthier
Member

D. Côté
Member

Attachments

Calgary, Alberta
December 2018