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April 30, 2007

Ontario Energy Board
Attention: Kirsten Walli
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: EB-2006-0209 - TransCanada Energy ("TCE") Comments on PEG Study entitled "Price Cap Index Design for Ontario's Natural Gas Utilities" dated March 30, 2007

TransCanada Energy (TCE) appreciates the opportunity to comment on the above noted study. As this study is described as a preliminary report, it is our understanding that PEG will consider the comments and questions it receives from stakeholders and will issue a final report in due course. In particular, TCE refers to the statement made by PEG in its study that,

> "The -0.52% ADJ for the (entirely) non-residential services of Union is something of an anomaly and will be the subject of ongoing investigation;"[1]

and the commitment made by PEG at the stakeholder meeting on April 18, 2007 that they will study this matter further before issuing its final report.

TCE is a significant gas consumer in Eastern Canada and has advanced plans in place to build two large gas-fired power generation plants in southern Ontario. One plant will be located in Enbridge's franchise area (the Portlands Energy Centre ("PEC"), which is a partnership with Ontario Power Generation) and one plant will be located in Union's franchise area. As such,

[1] PEG Study, "Price Cap Index Design for Ontario's Natural Gas Utilities", March 30,2007, Page 63

TCE expects to become one of the largest customers in each of the utilities' franchises. TCE (through PEC) has entered into a long term large volume distribution service contract with Enbridge and expects to conclude a similar type of contract with Union in the near future. TCE, through PEC, has also executed a long term M12 contract with Union that provides for firm transportation service from Dawn to Parkway. Further, TCE also holds significant quantities of firm transportation through others for fuelling its power generation facility in Becancour, Quebec. In summary, TCE has a vested interest in the escalation of both utilities' large volume distribution contracts as well as Union's Dawn to Parkway transportation service.

TCE's concerns lie in three main areas: 1) The derivation of escalation factors; 2) The grouping of very large volume customers with customers who are much different in both size and cost to serve; 3) The inclusion of an Average Use Factor in the PCI for customers whose use is not declining

1) The derivation of escalation factors

TCE understands that deriving all encompassing escalation factors for a multi-year period is a difficult task but at the end of the day any proposal must pass a test of reasonableness. This test should consider both historical trends and future expectations. It is our understanding that Union's M12 service for transportation from Dawn to Parkway has experienced a rate decline of 8.6% over the period 2000 to 2004.[2] It is unclear as to whether or not PEG has considered this recent trend in development of the PCI. PEG's proposed PCI of +2.79% per year for Union's "non-residential" customers deserves additional consideration as it seems to diverge considerably from recent trends. TCE recommends that PEG compare the proposed PCI's for each rate class with the recent 5-10 year average rate changes in those rate classes and explain any variances.

2) Grouping very large volume customers with customers who are much different in both size and cost to serve

[2] Column AV ("Price of Transmission to Parkway"), PEG's Excel Data Sheet for Union

TCE understands that some grouping of customers may be desirable for administrative ease but submits that these customer groupings should ensure similar characteristics and load profiles within the group. TCE submits that Union's M12 transportation service from Dawn to Parkway/Kirkwall is a much different service than Union's distribution services. These transportation customers tend to be very large and Union's only obligation is to transport gas from point A (usually Dawn) to point B (usually Parkway or Kirkwall) using its high pressure, large diameter transmission network. The customers who utilize this service are often larger than Union's largest distribution customers and do not require load balancing and/or storage services as most of Union's distribution customers do. TCE submits that a separate PCI should be given consideration for Union's transportation service from Dawn to Parkway/Kirkwall.

3) The inclusion of an Average Use Factor in the PCI for customers whose use is not declining

The PEG study says that,

> "The basic intuition is that the PCI for a specific service group should reflect the manner in which its impact on revenue growth and cost growth differs from the impact of all services."[3]

TCE is not able to deduce the calculations that are made or the data that was used to arrive at the ADJ factors. It appears as though the ADJ factor is meant to adjust the Average Use Factor by service group. It may be appropriate to create a "residential" service group if that is the service group that is experiencing declining average use. TCE does not understand why and does not agree with throwing all other customers into one "non-residential" service group. By doing so, this group would include customers with very different sizes and usage patterns with their own specific cost and revenue impacts on the utilities. For example, it is our understanding that in Union's franchise, this "non-residential" service group would not only include distribution customers as small as 180 GJ/day (M4 customer) that require load balancing and/or storage

[3] PEG Study, "Price Cap Index Design for Ontario's Natural Gas Utilities", March 30,2007, page 60

services but also transportation customers with a daily contracted volume of over 1,700,000 GJ/day (M12 customer) that only require transportation services. TCE cannot envisage how customers of such vastly different sizes and different service requirements could have a similar impact on revenue growth and cost growth. TCE is concerned and questions any ADJ factor that increases the PCI for large volume distribution and transportation customers without evidence that those customers are creating some additional net "burden" on the utilities.

TCE appreciates the opportunity to comment on the PEG study and we are looking forward to participating actively during the remainder of the process.

Sincerely,

TRANSCANADA ENERGY LTD.

Brian Kelly
Manager, Eastern Commercial Operations