



## THE GLOBE AND MAIL

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### TransCanada faces industry pushback on pipeline tolls

By Nathan VanderKlippe  
From Tuesday's Globe and Mail

*As its Mainline across Canada brings in lower revenue, it eyes the Alberta system for fee hikes, to the displeasure of some gas shippers*

TransCanada Corp. TRP-T is locked in difficult talks with some of Canada's largest energy companies as it tries to revitalize one of its most important pipelines.

The company is engaged in a controversial bid to trim the cost of sending natural gas across the country, while at the same time raising transportation tolls in places such as Western Canada, where demand for its product is stronger. Some customers like the idea; others, including EnCana Corp., don't.

"This is an enormous asset for them," said Chad Friess, an analyst with UBS Securities.

But the Canadian Mainline is in trouble. Alberta's natural gas industry has seen precipitous drops in production as a result of weak prices and staggering new gas finds in new shale plays in Texas, Pennsylvania and British Columbia. Alberta gas output is down 1.7 billion cubic feet a year since 2007, a 13-per-cent decline.

The Mainline has seen volumes fall from more than seven billion cubic feet a day in the late 1990s to about four billion today; it's down 1.5 billion cubic feet in the past few years alone. That precipitous drop has forced TransCanada to raise the cost of shipping what gas is left.

Last year, it increased its transportation tolls by 38 per cent, prompting Canadian Natural Resources Ltd. to warn that rising pipeline costs could drive away even more gas from the pipe, creating a "death spiral" that might jeopardize the pipeline itself.

Now, TransCanada is speaking with some of the largest players in the industry about a new plan that would see it alter the way it collects some of its primary revenues. It wants to trim the cost of shipping gas through its Mainline pipe, rather than pushing for another toll hike that could even more seriously hurt companies already starved for profit on natural gas.

"We need to bring our [Mainline] tolls down and there's various methods by which we can do that," TransCanada chief executive officer Russ Girling said in an interview. "We need to move our costs from those places where we're not moving as much gas to those places where we are."

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For TransCanada, which is guaranteed a certain rate of return on its pipelines, there are no easy solutions. Lowering Mainline tolls could mean boosting tolls on its Alberta system, a 23,095-kilometre spider web of pipe that collects gas from wells scattered across the province.

That solution might help the company with its Mainline, but it's not finding a receptive audience among some of the largest gas producers. EnCana, one of the top natural gas companies in North America, doesn't like it.

"We support changes to make tolls more attractive and competitive, but do not support cost-shifting from the Mainline to the Alberta system," said spokesman Alan Boras. He declined to comment on what EnCana might prefer. Its gas moves both through TransCanada's Alberta and Mainline systems.

Other companies, however, said it makes sense to shift costs to areas where there is greater gas flow. - although they'd rather see a broader shift that would see costs rise only in those places where production remains strong.

"Where gathering systems are underutilized, you have to keep the prices down to stimulate activity," said John Williams, president of Trilogy Energy Corp. "If the tolls are too high, you won't go explore for new gas."

That, too, could be tricky for TransCanada, which currently bases shipping rates on distance and diameter of pipe. But both options may be better than one potential alternative, a writedown. TransCanada has already begun speeding the depreciation of the Mainline. Toll rates are based in part on its book value, so more depreciation means lower tolls. But if the company can't revive volumes, it could be faced with more drastic action.

"If Canadian production falls off so much they can't keep up with it, they might be faced with a writedown somewhere down the line," Mr. Friess said.

TransCanada, however, argues that its current pain is temporary, and that salvation will come from the very cause of its current problems: shale gas. It is working to connect pipe to two major new plays in northeastern B.C. - the Montney and the Horn River - both of which that are expected to see substantial growth in coming years.

It has already contracted 1.5 billion cubic feet a day of new shale gas, which will flow between 2012 and 2014. "So that will offset the 1.5 billion we've lost," Mr. Girling said.

And even if the company sees further Mainline declines in 2010 and 2011, he said shale gas could fill that, too. "We've got requests for additional service of about one billion cubic feet a day, on top of the 1.5," he said. "I expect we'll turn those into contracts over the coming months."

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