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December 20, 2019 Filed Electronically

Canada Energy Regulator
Suite 210, 517 Tenth Avenue SW
Calgary, Alberta T2R 0A8

Attention: Ms. L. George, Secretary of the Commission

Dear Ms. George:

Re: TransCanada PipeLines Limited (TCPL)
Application for Approval of the Mainline 2021-2026 Settlement (Application)

TCPL encloses for filing with the Commission of the Canada Energy Regulatory (CER or Commission) an Application for approval of a settlement for the January 1, 2021 to December 31, 2026 period regarding tolling and service matters (Settlement) that was reached with members of the Tolls Task Force (TTF). A vote on the Settlement was held on December 16, 2019 with the result being a unanimous resolution.

The Application is being filed for approval pursuant to the tolls and tariff and public interest provisions under Parts 1 and 3 of the *Canadian Energy Regulator Act* and the *Revised Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* (Settlement Guidelines).

The Settlement is the product of extensive negotiations between TCPL and interested Mainline stakeholders. All parties having an interest in the toll design and services on TCPL's Mainline system had a fair opportunity to participate in the process and have their interests recognized and appropriately weighed.

The Settlement addresses a broad range of inter-related services and tolling matters on the Mainline system, including the approach to establishing fixed-tolls during the six-year term of the Settlement, the derivation of the revenue requirement, toll design and tariff provisions, and various services and tolling matters. As part of the Application, TCPL is providing the Settlement and its supporting appendices as well as the Written Evidence of TCPL, which together contain the information required under the Settlement Guidelines in support of a Settlement that addresses all elements of a pipeline company's tolls application.

The Settlement represents a balance of interests resulting from compromises of the diverse interests and positions of the parties. Consequently, the components of the Settlement are inextricably linked and presented to the Commission for approval as a package without modification.

The Settlement Guidelines state that upon receipt of an application based on a settlement, interested persons will be invited to comment on the settlement. TCPL respectfully requests that any party that would like to comment on the Settlement file a letter of comment with the Commission and serve a copy to TCPL **on or before noon, Calgary time, on Wednesday, January 15, 2020**. TTF members were asked if they had any concerns with this timeline for comments and TCPL is not aware of any concerns.

If the Commission has questions about the Application, please contact me or TCPL's representatives listed in the Application.

Yours truly,
TransCanada PipeLines Limited

Original signed by

Bernard Pelletier
Director, Regulatory Tolls and Tariffs
Canadian Natural Gas Pipelines

Enclosures

cc: RH-001-2018 List of Parties
Members of the TTF
Mainline Shippers

CANADA ENERGY REGULATOR

IN THE MATTER OF the *Canadian Energy Regulator Act* and the regulations made thereunder;

AND IN THE MATTER OF an application by TransCanada PipeLines Limited for approval of the negotiated 2021-2026 Mainline Settlement Agreement regarding tolling and certain service matters pursuant to the tolls and tariff and public interest provisions under Parts 1 and 3 of the *Canadian Energy Regulator Act* and the Revised Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs.

TRANSCANADA PIPELINES LIMITED

2021-2026 MAINLINE SETTLEMENT APPLICATION

December 20, 2019

To: Secretary of the Commission
Canada Energy Regulator
Suite 210, 517 Tenth Avenue SW
Calgary, AB T2R 0A8

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PART I: APPLICATION

1. TransCanada PipeLines Limited (TCPL) hereby applies to the Commission of the Canada Energy Regulator (CER or Commission) for approval of the 2021-2026 Mainline Settlement, including supporting appendices (Settlement). The Settlement was reached with the members of the Tolls Task Force (TTF), as voted through a unanimous TTF resolution on December 16, 2019 (Unanimous TTF Resolution 02.2019). Unanimous TTF Resolution 02.2019 is included in Attachment 1 to this Application.

2. This application for approval of the Settlement (Application) is being made pursuant to the tolls and tariff and public interest provisions under Parts 1 and 3 of the *Canadian Energy Regulator Act* (CER Act) and the *Revised Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* (Settlement Guidelines).

3. TCPL is a federally incorporated Canadian corporation and a "company" as that term is defined in the CER Act.

4. TCPL owns and operates a high-pressure natural gas transmission system that extends from the Alberta border across Saskatchewan, Manitoba, and Ontario, through a portion of Québec, and connects to various downstream Canadian and international pipelines (Mainline).

5. The Mainline is subject to regulation by the CER.

6. TCPL is currently charging tolls that have been in effect since February 1, 2019 pursuant to the RH-001-2018 Decision and Order TG-001-2019 of the National Energy Board (NEB), the predecessor to the CER.

7. The Application has been developed and organized to produce adequate information on the public record for the CER to understand the basis for the Settlement, assess its reasonableness, and determine that it is in the public interest and that the resulting tolls are just and reasonable and not unjustly discriminatory.

8. This Application is structured as follows:
   i) TCPL's Written Evidence
   ii) Attachment 1: Unanimous TTF Resolution 02.2019, which contains the Settlement

Relief Requested

9. TCPL requests an order of the CER approving the Settlement in its entirety, without modification, including:

- setting Mainline tolls for Firm Services, as defined within the Settlement, from January 1, 2021 to December 31, 2026 in accordance with Appendix G to the Settlement (Tolls), subject to finalization after the filing of a one-time adjustment prior to December 1, 2020 regarding the Long Term Adjustment Account (LTAA) in accordance with Section 9.1 of the Settlement;
- approving amendments to the Canadian Mainline Transportation Tariff (Tariff) to modify the renewal provisions for various services and implement the new Market Driven Service (MDS) in accordance with Sections 11.2 and 11.3 of the Settlement, respectively, and as set out in Appendix K to the Settlement;
- approving the disposition of the existing LTAA and Bridging Amortization Account (BAA) in accordance with Sections 9.1 and 9.2 of the Settlement, respectively;
- approving the establishment of a Toll Stabilization Account (TSA) for the Western Mainline (WM) and a TSA for the Eastern Triangle (ET) in accordance with Section 9.3 of the Settlement;
- approving the establishment of a Short Term Adjustment Account (STAA) for the WM and an STAA for the ET in accordance with Sections 9.4 and 9.5 of the Settlement, respectively;
- approving the Rate Rider mechanism set out in Sections 9.4, 9.5 and 9.6 of the Settlement;
- approving the Incentive Sharing Mechanism set out in Section 10.1 of the Settlement; and
- granting such further and other relief as TCPL may request or the CER may consider appropriate.

Respectfully submitted,

Calgary, Alberta
December 20, 2019
TransCanada PipeLines Limited

Original signed by

Bernard Pelletier
Director, Regulatory Tolls and Tariffs
Canadian Natural Gas Pipelines

Please direct all communications related to this Application to:

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Regulatory Tolls and Tariffs
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PART II: WRITTEN EVIDENCE OF TCPL

1.0 BACKGROUND

In December 2013, TransCanada PipeLines Limited (TCPL) filed an application for approval of Mainline tolls for the 2015-2020 period and for certain tolling parameters applicable beyond 2020. The application was considered in the RH-001-2014 proceeding and was approved by the National Energy Board (NEB), the predecessor to the Canada Energy Regulator (CER). Among other things, the NEB approved the Mainline toll design for the 2015-2020 period, created the Bridging Amortization Account (BAA), modified the Long Term Adjustment Account (LTAA), and maintained many of the provisions that were implemented in the RH-003-2011 Decision. In the RH-001-2014 Decision, the NEB also approved in-principle tolling parameters associated with the segmentation of the Mainline for the post-2020 period,[1] approved Mainline tolls for the 2015-2017 period,[2] and directed TCPL to file an application for tolls for the 2018-2020 period.[3] That application was considered in the RH-001-2018 proceeding through which the NEB approved Mainline tolls for the 2018-2020 period[4] and the disposition of the 2017 year-end balance of the LTAA.[5]

The current application to the CER seeks approval of a negotiated settlement between TCPL and stakeholders for the 2021-2026 period (Application) that builds on the framework approved in the RH-001-2014 and RH-001-2018 Decisions, as well as the guidance provided in these and other NEB decisions. Among other things, the Application and the Settlement address the segmentation of the Mainline for the post-2020 period, the approach through which Mainline tolls for Firm Services[6] are proposed to be established for the 2021-2026 period (Tolls) and various Canadian Mainline Transportation Tariff (Tariff) and service provisions.

The Application is supported by a unanimous resolution with the Tolls Task Force (TTF) under TTF Resolution 02.2019 (Unanimous TTF Resolution 02.2019), a copy of which is provided as Attachment 1 to this Application.

Any capitalized term not defined in this written evidence has the meaning ascribed to it in the Settlement or the Tariff.

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1 RH-001-2014 Decision, page 80.
2 Order TG-011-2015.
3 RH-001-2014 Decision, page 91.
4 Order TG-001-2019.
5 Order TG-011-2018.
6 As defined in Section 1.1 of the Settlement.

1.1 Settlement Overview

Following extensive discussions and negotiations with members of the TTF, TCPL reached the Settlement with TTF members on December 16, 2019.

The Settlement addresses tolling and certain service matters on the Mainline for the period of January 1, 2021 through to December 31, 2026 (Term), except as otherwise expressly provided in the Settlement.

The Settlement represents a balance of the interests of, and compromises by, TCPL and TTF members that will provide market participants with long-term certainty and stability, while providing TCPL with a reasonable opportunity to recover its costs.

The Settlement addresses a broad range of inter-related tolling and service matters on the Mainline. The following is a summary of the key provisions of the Settlement:

- Tolls for Firm Services will be fixed for the Term as set out in Article 8 of the Settlement, subject to the filing of a one-time adjustment prior to December 1, 2020 relating to the LTAA (One-Time LTAA Adjustment);
- the Mainline will be segmented for toll determination purposes into two segments (Segments) of the Western Mainline (WM) and Eastern Triangle (ET), while maintaining operational and commercial integration of the entire Mainline;
- the Settlement sets annual forecast revenue requirements (Revenue Requirements), including return parameters and the amortization of Northern Ontario Line (NOL) maintenance capital;
- the Settlement sets annual billing determinants, discretionary miscellaneous revenue (DMR) and other revenue forecasts;
- an Incentive Sharing Mechanism is included through which TCPL and shippers will share cost and revenue variances between the annual forecast specified in the Settlement and actual annual results;
- a Short Term Adjustment Account (STAA) for each of the WM and ET will be established to capture annual adjustments to account for the shippers' share of cost and revenue variances, cross-segment adjustments to account for the operational interdependence between the Segments, and any variance between forecast and actual LTAA balances resulting from the One-Time LTAA Adjustment;
- Rate Riders would be established to collect or refund the shippers' share of cost and revenue variances if a positive or negative $100 million STAA balance threshold is met;
- the renewal provisions for various services will be amended to reduce the notice period from 24-months to 12-months until October 31, 2026;

- a new, complaint-based Market Driven Service (MDS) will be implemented such that specific offerings could be made until the end of the Term;
- no changes will be made to certain other existing service matters during the Term; and
- provisions relating to a change in law that materially increases TCPL's costs to provide service or a material asset purchase or sale by TCPL during the Term are included.

1.2 Consultation and Negotiations

The TTF is a confidential forum that facilitates the open, timely and efficient exchange of information among TCPL and TTF members, including Mainline shippers, governments and industry associations. Through the TTF, TCPL and TTF members share information and seek to collaboratively resolve issues related to Mainline tolls, tariff, and facilities matters and reduce regulatory litigation.

In late 2018, TCPL initiated discussions with TTF members on Mainline tolling and services for the post-2020 period. TCPL hosted formal meetings including over 40 individual dates in various locations. This included meetings where TCPL was not in attendance to facilitate stakeholder-only discussions. Numerous other informal and formal one-on-one discussions occurred in order to achieve agreement. Through this process, TTF members had a fair opportunity to participate, access information, and have their interests understood and taken into account in the Settlement. The Settlement is therefore a balance of interests which represents gives-and-takes from all parties to achieve a negotiated outcome.

A TTF vote on the Settlement was held on December 16, 2019 with the result being a unanimous resolution, meaning that all parties who took a position voted in support of the Settlement.

1.3 Settlement Package

Through the good faith negotiations and resulting compromises by all parties, TCPL and TTF members reached a Settlement that balances the diverse interests and positions of the parties. All tolling and service matters addressed within the Settlement are inextricably linked. No single component of the Settlement can be considered to be acceptable to TCPL or other TTF members independent of the entire Settlement. The package nature of the Settlement is addressed in Sections 2.1 and 4.1 of the Settlement.

Similarly, the Settlement is expressly not intended to set a precedent for tolling or service matters after the Term or on any other pipeline system, as set out in Section 4.5 of the Settlement.

The Settlement accords with the Settlement Guidelines as:

- all parties had a fair opportunity to participate in the process and have their interests recognized and appropriately weighed; and
- no provisions of the Settlement are illegal or contrary to the CER Act or otherwise contrary to the public interest.

As such, the Settlement results in just and reasonable tolls that are not unjustly discriminatory and are in the public interest. Pursuant to the Settlement Guidelines, TCPL applies for approval of the Settlement as a package without modification, including any change to, or removal of, any matter addressed within the Settlement or addition of a matter not addressed within the Settlement.

2.0 PROVISIONS OF THE SETTLEMENT

This section summarizes the provisions of the Settlement.

2.1 Tolls

The toll design established by the Settlement is cost of service based, by Segment, with an agreed upon level of cost and revenue variance sharing between TCPL and shippers. The result is that Tolls will be fixed over the Term without being recalculated each year to account for variances in actual costs and revenues. Tolls for each Segment have been set to recover a forecast Revenue Requirement using forecast billing determinants with variances flowing through an Incentive Sharing Mechanism, as further described in Section 2.4 of this Application. If cumulative variances for a Segment result in an STAA balance that exceeds or is expected to exceed an agreed upon threshold (i.e., the STAA Trigger as defined in the Settlement), a Rate Rider will recover or refund the imbalance as described in Section 2.1.3 of this Application.

The derivation of Tolls for each of the WM and ET Segments are further described in Section 2.1.5 of this Application.

2.1.1 Segmentation

The Mainline will be segmented into the WM and ET for tolling purposes.[7] The Tolls on each Segment will be set to recover costs within the respective Segment. However, the entire Mainline system will remain operationally and commercially integrated under a single Tariff. Physical operations, contracting,[8] and nominations from

[7] WM and ET are as defined in Section 1.1 of the Settlement. Refer to Appendix N to the Settlement for a map of the Mainline system.

[8] Subject to the revised Renewal Provisions in Section 2.5.1 of this Application.

receipts in one Segment to deliveries in another Segment will remain consistent with current practices. The Tolls for paths that cross both the WM and the ET will be the sum of the Tolls in each respective Segment.

To reflect the reliance of each Segment on the other to meet firm requirements, there will be an annual adjustment made to each Segment's STAA, as described in Appendix M to the Settlement.

2.1.2 Fixed Tolls

The Tolls will be fixed for the Term as set out in Article 8 of the Settlement, subject to the One-Time LTAA Adjustment. Parties may only seek a change during the Term on the basis of a change in law that materially affects TCPL's costs to provide service or a material transaction proposed by TCPL, as set out in Sections 4.2 and 4.3 of the Settlement, respectively.

2.1.3 Rate Riders

A Rate Rider mechanism will collect or refund the amount in the applicable Segment STAA once the amount in that STAA reaches or is expected to reach a positive or negative $100 million balance (the STAA Trigger). The STAA Trigger and Rate Riders are addressed in Sections 9.4, 9.5 and 9.6 of the Settlement. An illustrative Rate Rider calculation is also included in Appendix J to the Settlement.

2.1.4 Allocation of Remaining LTAA Balance as at December 31, 2020

As set out in Section 9.1 of the Settlement, the LTAA balance at the end of 2020 not previously disposed under the RH-001-2018 Decision, will be allocated between the WM and ET based on the same approach defined in the RH-001-2018 Decision and amortized over the Term to a balance of $0 by the end of 2026. As a projected LTAA balance and allocation as at December 31, 2020 is included in the calculation of Tolls, the One-time LTAA Adjustment to Tolls will be filed with the CER by December 1, 2020 to reflect an updated LTAA forecast balance and allocation as at December 31, 2020 (Updated LTAA Forecast). No further additions to the LTAA will be made over the Term and any variance between the forecasts used to calculate the One-Time LTAA Adjustment and actual LTAA balance and allocation as at December 31, 2020 will be recorded in the applicable Segment's STAA.

2.1.5 Toll Derivation

Tolls are calculated separately for each of the WM and ET. Tolls are set such that forecast billing determinants recover the forecast Revenue Requirement in each Segment over the Term. The methodology for each Segment can be summarized as follows:

- Tolls are derived starting with the allocation of the forecast Revenue Requirement, as illustrated in Appendix A to the Settlement, forecast non-Firm Services revenue,[9] and DMR to each Segment. See Appendix B to the Settlement for allocation details and Appendix C to the Settlement for resulting Segment allocations;
- the allocated Revenue Requirement in each Segment is then functionalized between energy and energy-distance and the resulting proportions are used to functionalize the allocated forecast non-Firm Services revenue between energy and energy-distance to arrive at a functionalized net Revenue Requirement for each Segment. See Appendix B to the Settlement for functionalization details and Appendix C to the Settlement for resulting functionalized net Revenue Requirement;
- Segment average unit costs for energy and energy-distance are then calculated by dividing the functionalized net Revenue Requirement by the forecast billing determinants in each Segment. The Segment average unit costs are then applied to the various transportation paths within a Segment to derive distance-based Tolls by Segment. See Appendix D to the Settlement for further details on Segment unit costs and Toll calculations; and
- Tolls are initially calculated on an annual basis and adjusted using each Segment's Toll Stabilization Account (TSA) to achieve fixed Tolls in each year over the Term. See Appendix H to the Settlement for further details on each Segment's TSA.

2.1.6 Abandonment Surcharges, Fuel Ratios, and Other Mainline Charges

The Settlement does not change the calculation of Abandonment Surcharges or fuel ratios. Delivery pressure and other Mainline charges,[10] and revenue from such charges, have also been fixed over the Term in accordance with Appendices E and G to the Settlement.

2.2 Revenue Requirement and Rate Base

The forecast Revenue Requirement and Rate Base for the Term are provided in Appendix A to the Settlement. TCPL and TTF members have agreed upon the amount for each component of the Revenue Requirement and Rate Base. These amounts were derived in a manner consistent with the RH-001-2014 and

[9] Includes revenue from services other than those defined as "Firm Services" in the Settlement, including: NDMR, Dawn Long Term Fixed Price Service (Dawn LTFP), Herbert Long Term Fixed Price Service (Herbert LTFP), and North Bay Junction Long Term Fixed Price Service (NBJ LTFP).

[10] Includes tolls, surcharges and revenue from Union Dawn Receipt Point Surcharges, Short Notice Balancing Service, Enhanced Market Balancing Service, Energy Deficient Gas Allowance Service and Sales Meter Station charges.

RH-001-2018 Decisions. The amounts are generally based on a forecast for the first year with escalation factors applied to subsequent years, except for transportation by others (TBO) and emissions compliance costs. TBO contract quantities are consistent with those approved in the RH-001-2018 Decision, except for a forecast increase in the level of Enbridge Gas Inc. Albion Pipeline and Trans Québec & Maritimes Pipeline Inc. (TQM) T-1 TBO quantities associated with incremental service. Emissions compliance costs incorporate an increasing price on carbon emissions based on available information, rather than using an escalation factor.

The Revenue Requirement components are fixed for the Term subject to the One-Time LTAA Adjustment. The One-Time LTAA Adjustment will impact the Revenue Requirement and Rate Base with consequential impacts to return, income tax, and the deferral account amounts, as noted in Appendix A to the Settlement.

Key parameters underpinning the Revenue Requirement and Rate Base include:

i) rate of return on equity (ROE) of 10.1% on 40% deemed common equity;

ii) depreciation rates approved in the RH-001-2018 Decision, except for NOL capital additions that do not increase the combined capacity or capabilities of the system, which will be amortized over the five-year period following the month assets are placed into service; and

iii) deferral accounts to track and amortize revenue and cost variances as follows:

BAA

The BAA balance as at December 31, 2020 will be retained in Rate Base and amortized over the following 10 years, as approved in the RH-001-2014 and RH-001-2018 Decisions. The Annual Bridging Amount consisting of the BAA amortization, plus related return and income tax, is included in the Revenue Requirement.

LTAA

The forecast LTAA balance of $200 million as at December 31, 2020 is subject to a One-Time LTAA Adjustment to be made in 2020. The Updated LTAA Forecast will be included in Rate Base and amortized equally over the Term. Any variance between the Updated LTAA Forecast and the actual LTAA balance as at December 31, 2020 will be allocated between the WM and ET Segments and transferred to the respective WM and ET STAAs. The LTAA Amount consisting of the LTAA amortization, plus related return and income tax, is included in the Revenue Requirement.

TSAs

New TSAs will be established for the WM and ET. These accounts will be carried in Rate Base and will include the annual adjustments, as provided in Appendix H to the Settlement, that are required to fix Tolls during the Term. The annual adjustments applied to the TSAs add up to $0 over the Term and will be adjusted in 2020 as a result of the One-Time LTAA Adjustment. The WM and ET Annual Toll Stabilization Amounts consisting of annual adjustments to the TSAs, plus related return and income tax, is included in the Revenue Requirement.

STAAs

New STAAs will be established for the WM and ET to capture:

(a) annual adjustments to eliminate the respective WM and ET allocated share of actual annual cost and revenue variances (WM Net Revenue and ET Net Revenue), net of the allocated share of amounts retained by TCPL in accordance with the Incentive Sharing Mechanism;

(b) the variance between the Updated LTAA Forecast and actual December 31, 2020 LTAA balance allocated between the WM and ET; and

(c) Cross-segment STAA Adjustments made in accordance with Appendix M to the Settlement.

The STAA accounts will be carried in Rate Base and will not be amortized during the Term unless the STAA Trigger is reached. If this occurs, the full amount in the STAA account as at December 31 of the applicable year will be amortized over the greater of the remaining Term or four years. Amortization will commence on January 1 of the year immediately following the year the STAA Trigger is reached. Amounts added to the STAA after the STAA Trigger has been reached will be amortized over four years. The WM and ET STAA Amounts consisting of the respective STAA annual adjustments, amortization (if the applicable STAA Trigger has been reached), plus related return and income tax will be included in the actual revenue requirement. Forecast STAA Amounts will be used to determine Rate Riders, as illustrated in Appendix J to the Settlement. Any Net Revenue variances associated with Rate Riders and forecast STAA Amounts will be included in the adjustments to the STAAs in subsequent years.

2.3 Billing Determinants

The agreed upon billing determinants used to derive the Tolls reflect a combination of known booked and forecast contracts for the Term. A forecast of non-Firm Services revenue, DMR, and non-DMR (NDMR) has been included in the calculation of Tolls. The DMR forecast has been set at $30 million per year for each year of the Term. Details of the billing determinants, forecast Firm Services revenue, forecast non-Firm Services revenue,[11] and DMR are set out in Appendix E to the Settlement.

2.4 Incentive Sharing Mechanism

Section 10.1 of the Settlement includes an Incentive Sharing Mechanism under which TCPL and shippers will share upside and downside outcomes during the Term. The Incentive Sharing Mechanism aligns the interests of TCPL and shippers to maximize revenues and minimize costs without compromising safety or operational reliability.

The Incentive Sharing Mechanism establishes the means of sharing Incentive Net Revenue balances. As defined in Section 1.1 of the Settlement, Incentive Net Revenue is the difference between the actual annual revenue collected and the actual annual revenue requirement, excluding:

i) variances in actual pipeline integrity expense required to maintain existing operational capacity compared to amounts included in the Revenue Requirement used to calculate Tolls;[12]

ii) the ET STAA Amount and the WM STAA Amount; and

iii) any adjustments to revenue arising from the application of Rate Riders.

Forecast Incentive Net Revenue for the Term is $0, as the forecast revenue is equal to the forecast Revenue Requirement. If actual Incentive Net Revenue is positive in a given year, there is a benefit to be shared between TCPL and its shippers and if Incentive Net Revenue is negative in a given year, that amount would also be shared. The share accruing to shippers is made through an adjustment to the applicable WM or ET STAA, with the share accruing to TCPL retained as incentive earnings or losses.

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[11] Includes revenue from services other than those defined as “Firm Services” in the Settlement, including: NDMR, Dawn LTFP, Herbert LTFP, and NBJ LTFP.

[12] All pipeline integrity expense in the forecast Revenue Requirement is required to maintain existing operational capacity.

The Incentive Sharing Mechanism will function as follows:

i) Incentive Net Revenue will be shared 55%/45% between TCPL and shippers, respectively, up to a plus or minus equivalent of 2.5% ROE from the base 10.1% ROE; and

ii) Incentive Net Revenue greater than plus or minus 2.5% ROE from the base 10.1% ROE will be shared 20%/80% between TCPL and shippers respectively.

Illustrative examples of the Incentive Sharing Mechanism are contained in Appendix I to the Settlement.

2.5 Service Matters

2.5.1 Renewal Provisions

The Settlement includes Tariff amendments to modify the renewal provisions for the various services listed below from 24-months notice to 12-months notice. These amendments are to be in effect soon after approval in 2020 and remain effective until October 31, 2026.

Appendix K, Tab 1 to the Settlement includes the Tariff amendments required to amend the renewal provisions, in both blackline and clean, for the following services:

- Firm Transportation Service;
- Firm Transportation – Short Notice Service;
- Enhanced Market Balancing Service;
- Short Notice Balancing Service;
- Storage Transportation Service; and
- Storage Transportation – Linked Service.

As described in Section 11.2 of the Settlement, these changes will be filed in effect within five business days of approval of the Application, with the exception that TCPL is not required to file renewal notice changes to be effective prior to March 1, 2020 to provide sufficient time for administrative and computer system changes.

2.5.2 Market Driven Service

As established by Section 11.3 of the Settlement, MDS is a new complaint-based service that provides the opportunity to quickly meet market demands with market solutions.

MDS will be offered by TCPL within prescribed bounds and through an open season process. Each MDS Open Season will specify the toll and the attributes established for that MDS offering within certain parameters, as described in Section 6.1 of the Transportation Access Procedure (TAPs) under the Tariff, as included in Appendix K, Tab 2 to the Settlement. The key elements and parameters of the MDS are as follows:

- maximum of 400 TJ/d can be offered in an MDS Open Season;
- minimum quantity of FT Service offered concurrent to MDS Open Season;
- primary and secondary Receipt Points only eligible on the WM;
- primary and secondary Delivery Points only eligible on the WM and to Union SWDA, Enbridge SWDA, and Dawn Export;
- Abandonment Surcharges may be included in the MDS toll, and if so, an MDS Differential Charge may apply;
- delivery pressure charge, if applicable, may be included in the MDS toll;
- Diversions and Alternate Receipt points are not available;
- minimum term that can be established in an individual offering is five years and the maximum term that can be established in an individual offering is twenty-five years; and
- term reduction rights may be included and subject to an increase in toll for the exercise of such rights.

MDS can be offered through the use of existing capacity or through the use of capacity that can be made available in the future if maintenance is undertaken. In either case, a minimum quantity of FT service will also be offered during an MDS Open Season, as per Section 6.1 of the TAPs, included in Appendix K, Tab 2 to the Settlement.

After an MDS Open Season closes, capacity will be allocated to service applicants, as described in Section 6.3 of the TAPs, and service applicants will be notified within 15 banking days of the closure of the MDS Open Season. After MDS contracts are executed, TCPL will post the open season results within 14 days, including an analysis of net benefits to the Mainline system, as described in Section 6.5 of the TAPs. If no complaint is made to the CER within 21 days of TCPL posting the MDS net benefit analysis, the service may commence. This reduces the time and cost of pursuing regulatory approval to meet market needs in a more timely manner. If a complaint is raised with the CER, the service will only commence after the CER's disposition of the complaint in accordance with the process established by the CER. Prior to commencement of service under any MDS offering, an update to the List of Tolls in effect would be filed with the CER.

TCPL may offer a subsequent MDS Open Season for the same System Segment after a minimum of thirty days have elapsed since the closure of the MDS Open Season for capacity on that same System Segment.

Appendix K, Tab 2 to the Settlement, includes the Tariff amendments required to implement MDS, in both blackline and clean, as applicable, for the following:

- MDS Toll Schedule;
- MDS Contract;
- amendments to the Transportation Access Procedures; and
- consequential amendments to the General Terms and Conditions.

As described in Section 11.3 of the Settlement, the Tariff amendments to implement MDS will be filed in effect within five business days of approval of the Application. As specified in sub-Section 6.1(b) in the amended TAPs included in Appendix K, Tab 2 to the Settlement, MDS can only be offered in MDS Open Seasons that close on or before December 31, 2026.

2.5.3 Service Matters to Remain Unchanged for the Term

Section 11.5 of the Settlement stipulates that the following service matters will remain unchanged during the Term:

- TCPL's pricing discretion in setting the IT, STFT and ST-SN bid floors;
- STS; and
- Term-up provisions applicable to Firm Services.

2.5.4 Diversions and Alternate Receipt Points

The eligible diversions and Alternate Receipt points are set out in Appendix L to the Settlement and will not be changed during the Term, except as required to remain current with contracted Mainline paths in a manner consistent with Appendix L to the Settlement.

2.5.5 Operational Nominations Procedures

Section 11.5 of the Settlement outlines the NAESB Timely Cycle process that TCPL will continue to follow for the duration of the Settlement.

2.5.6 NGTL Integration

TCPL will not seek regulatory approval of the integration of Mainline assets with NGTL system assets, including through the sale of Mainline assets to NGTL, to be effective during the Term, as described in Section 4.4 of the Settlement.

3.0 CONCLUSION

TCPL believes that the Settlement, supported by Unanimous TTF Resolution 02.2019, represents a negotiated package of compromises and accommodations among diverse interests. Approval of the Settlement in its entirety and without modification will result in tolls and tariff terms that are just and reasonable not unjustly discriminatory and in the Canadian public interest.

Timely approval of the Application will provide certainty to all market participants and allow for the implementation of the new MDS service and changes to the renewal provisions that are proposed to commence prior to 2021.