



## Government Rules on Mainline Economics

### Description

**TransCanada Corp.'s** (TSX:TRP,NYSE:TRP) proposed Keystone Pipeline has been splashed across major media outlets throughout North America for some time as we wait for the U.S. government to provide a final thumbs or thumbs down to the project.

On Wednesday however, TransCanada received a ruling from the Canadian government on a different matter. The National Energy Board (NEB) handed down a decision on TRP's Canadian Mainline restructuring proposal.

### Background

The shale gas revolution south of the border has thrown off the economics of TRP's Mainline which moves natural gas from Canada's west to the east. Mass quantities of natural gas are now being produced just south of Ontario and Quebec altering the Mainline's primary role from that of a long haul, base-load carrier to a short-haul, seasonal peaking carrier. 6 billion cubic feet/day travelled on the Mainline in 2007. That figure is now just 2.4 BCF/day.

TransCanada's apparent solution to re-align the economics had been to raise tolls on the Mainline. This however would have an adverse impact on Western Canadian producers and make their gas appear less economic than the nearby U.S. shale producers and has therefore been struck down by the NEB.

### Government Action

I won't pretend to have gone through the 276 page ruling handed down by the NEB (would rather watch paint dry) but one of the highlights is that the government has cemented the Mainline toll from Alberta to Ontario for the next 5 years at \$1.42/gigajoule vs. the \$2.58/gigajoule that TRP would have liked to charge in 2013. This should help to encourage Western gas producers to lock in long-term agreements at a competitive rate.

To help compensate TRP for this lower fixed long haul rate, the NEB is allowing TRP to charge whatever the market will bear for short-haul and interruptible service. The NEB has also increased the

allowable ROE on the Mainline from 8.1% to 11.5%. It's assumed TRP will achieve this increased ROE if they properly optimize volumes.

### The Foolish Bottom Line

The company issued a rather abbreviated and terse news release in response to this ruling, indicating that time is required to digest it. For investors, the takeaway is that the long-term financial fortunes of the Mainline have become more variable. TRP is one of Canada's widow and orphan stocks and this ruling is unlikely to impact the company's ability to keep producing investor friendly returns, however, the ride to riches just got a little bumpier.

If you think TransCanada Corp. is a great dividend stock, you need to [click here](#) to receive our special report titled "13 High-Yielding Stocks to Buy Today". This report is absolutely FREE and will have you rolling in dividend cheques before you know it. You are just [one click](#) away from dividend nirvana!

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*Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.*

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1. Investing

### TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

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