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June 2, 2009

VIA MAIL AND EMAIL

Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2008-0219
Enbridge Gas Distribution Inc. 2009 Rates

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in phase 2 of the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

EB-2008-0219

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15 (Sched. B), as amended;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order or Orders approving or fixing rates for the sale, distribution, transmission and storage of gas.

Phase II
Issue 7: Firm Upstream Transportation
Submissions of the Vulnerable Energy Consumers Coalition (VECC)

VECC'S CONCERNS

1. VECC's constituency is a subset of EGDI's residential customers, including a substantial number of customers who rely on the ability to obtain natural gas from EGDI through the bundled system gas offering.

MR. BUONAGURO: Would you agree with me that a working definition of a system-gas customer is a small-volume customer that has not made an election to purchase gas from a gas marketer and relies totally or entirely on Enbridge to provide a bundled default supply and transportation service which is regulated by the Board?

MS. GIRIDHAR: It does not necessarily have to be a small-volume customer. We could have large-volume customers in the same category.

MR. BUONAGURO: Okay. But subject to that clarification, the rest of it's okay?

MS. GIRIDHAR: Yes. Yes.

MR. BUONAGURO: Thank you. I think you might take from that that I'm interested in the small-volume customers.

MS. GIRIDHAR: Yes.[1]

2. VECC's submits that small volume system gas customers by definition have not chosen to enter into the direct purchase options offered by marketers and have placed their trust in EGDI to provide reliable gas commodity and delivery service. EGDI charges them for the full costs of that bundled service, including firm transportation to the CDA, under Board approved rates.

3. VECC submits that EGDI has the responsibility and onus to protect system gas customers from anything, other than *force majeur*, that affects the

[1] TR Vol. 2 Page 181.

reliability of their system gas service.

4. In this application EGDI is claiming that there is a threat to system reliability due to the manner in which marketers arrange for transportation of direct purchase gas into the EGDI system; EGDI asserts that by using less than firm transportation for gas destined to the competitive market, marketers are putting the ability of EGDI to distribute gas to all customers at risk.

5. Accordingly, to the extent that the ability of EGDI to deliver commodity to its system gas customers is compromised, VECC submits that it is important for the Board to identify:
   a) the nature and scope of the risk to system supply,

   b) the cause of that risk, and

   c) the remedial actions, if any, that should be undertaken in response to the risk, and the proper allocation of the costs of those remedial actions.

THE NATURE AND SCOPE OF THE RISK TO SYSTEM SUPPLY

6. VECC takes no position as to whether EGDI has determined that there is a material risk posed to System Reliability by the use of non-firm transportation by DP-ABC Marketers. VECC takes no position for two specific reasons:

   a) whether there is a material risk that direct purchase related deliveries will fail on peak days as a result of the transportation arrangements underpinning those deliveries is an issue that has been extensively canvassed in evidence and argument by both EGDI as the proponent of the existence of a material risk, and by intervenors making such deliveries as the proponents of the position that no such material risk exists, and

   b) VECC's primary concern in this proceeding is that, if the Board determines a material risk exists and that remedial actions should be undertaken, that the costs of such actions should be allocated properly to those parties causing the risk. Specifically, that direct purchasers should bear the costs, either through the requirement that they make their own remedial arrangements or through allocation of the costs incurred by EGDI to take remedial action.

THE CAUSE OF THE RISK

7. If there is a material system integrity issue related to the lack of firm deliveries on peak days, as EGDI asserts, then the problem is caused by the transportation arrangements made by Suppliers to the Direct Purchase ABC

service, and is not related to the transportation arrangements made by EGDI to supply EGDI's System Gas and Western Bundled T Customers.

MR. BUONAGURO
…..Now, in terms of a cost-allocation issue, my understanding is that whether we're talking about your proposal as it relates to your evidence of what you actually want to do, in terms of requiring firm transportation, or whether we're talking about these other proposals, which has Enbridge doing something to provide some sort of insurance or backstopping, and incurring costs on behalf of customers in some way, shape, or form –
MS. GIRIDHAR: We are talking about the latter. Our evidence, as it stands, is that the direct-purchase community would go out and procure the firm transport. But if that was an option that was not to be approved, and an alternative was required, then the alternative would be for us to go and get some backstopping capacity for the cold winter months.
<u>*MR. BUONAGURO: Thank you, but my question is this: Whether we're talking about your proposal or an alternative like this one, the cause is the same, isn't it?*</u>
<u>*MS. GIRIDHAR: Yes.*</u>
<u>*MR. BUONAGURO: The cause, in your mind, is the risk that's posed by the way in which direct purchasers contract for transportation into the system?*</u>
MS. GIRIDHAR: Yes.
MR. BUONAGURO: And under your proposal you -- they would directly pay all the costs, because they're the ones who would be directly paying for firm transportation?
MS. GIRIDHAR: Yes.
MR. BUONAGURO: And what I don't understand is why it would switch under this proposal to have the whole system pay the costs when the cause hasn't changed.
MS. GIRIDHAR: Well, I'm not proposing this at this point. I think I was asked the question as to what the costs would be.
MR. BUONAGURO: Right.
MS. GIRIDHAR: And I just provided that as an example of what the impact would be if everybody picked up that cost as a system reliability cost.
It's certainly not my suggestion that that be the way it's handled. It was just demonstrating what would be the consequences if it was handled that way.
MR. BUONAGURO: Okay. So then the important part of this quote would be the fact that you note that it would be a cost-allocation issue, which would have to be resolved?
MS. GIRIDHAR: Yes.[2]

8. Supplies for system gas (and bundled Western T) customers are already underpinned by Firm Transportation including TCPL FT to the CDA and for Load Balancing Union M12 to Dawn to Parkway. Accordingly, if the Board

[2] Tr Vol 2 Pages 181-183 (emphasis added)

determines that a material risk exists, it cannot be attributed to the manner in which system gas is delivered. [3]

REMEDIAL ACTIONS THAT MAY BE TAKEN AND ALLOCATION OF THE COSTS

EGDI's Proposal

9. VECC agrees with EGDI that one solution is for suppliers of the DP ABC market to contract for firm transportation to the CDA and to provide proof to EGDI that they have done so.

10. VECC submits that, in the event the Board determines that there is a material risk that requires action, EGDI's proposal will:

    a) adequately address the risk, and
    b) do so in a manner that protects system gas customers from costs caused by direct purchasers.

11. As previously noted, EGDI procures firm transportation for delivery of system gas (and Western Bundled T) MDV volumes to the CDA on TCPL long haul and for the load balancing portion for both system gas and DP ABC volumes it contracts for firm service on Union M12 Dawn-Trafalgar.

12. Accordingly there is an intuitive symmetry to the proposal, in that it requires the one portion of the total gas supply to "firm up" transportation to the level underpinning the rest of the supply.

13. VECC does not necessarily agree, however, that in the face of a Board finding of a material risk, that EGDI's primary proposal is required.

14. VECC agrees with the proposition that to the extent the Board is convinced that

    a) There is a material risk, but that
    b) A solution short of requiring 90% firm transportation can address that risk,

    the Board should only require the most cost effective solution.[4]

[3] Tr. Vol 2 Pages 172-174

[4] VECC notes, however, that if the Board determines that firm transportation is not required of direct purchasers, there arises the open question of whether system gas customers should be required to have their supply underpinned by firm transportation as well, or whether they too should be entitled to the lower costs associated with less than firm transportation.

Alternative Proposals

15. Alternative solutions to requiring firm transportation were raised by some parties in the hearing included:

    a) Status quo- no change, no requirement to demonstrate firm transportation;
    b) Short Term Firm Transportation on TCPL for ~200gj/day for 2-4 months- Cost $21 million;
    c) Additional Firm Transportation on TCPL for~200gj/day Cost ~$80 million a year; and
    d) Other -Short haul transportation e.g. Dawn-Trafalgar or unspecified Backstopping Service(s).

Status Quo

16. Several parties to the hearing have questioned whether EGDI has proven its contention that there is a system reliability issue with the current contracting practices of marketers, and therefore whether any actions are required to displace the status quo. As previously noted VECC takes no position on this issue.

17. However it is clear to VECC that the marketers are transferring any potential risk to EGD and its customers while optimizing their costs of transportation using a number of physical and financial arrangements.

18. DE says that this is just part and parcel of the development of the competitive market and that to unwind the hedges would cost the market (read marketers) $58 million over 5 years.

> 20. The uncontroverted evidence before the Board is that, if Enbridge's proposal is accepted, the
> Ontario marketplace could incur estimated costs of $53 million over the next five years to unwind hedges it has in place for gas to be delivered to the CDA. These costs are in addition to the other transactional and contract costs that direct shippers will incur in complying with Enbridge's proposed requirement.
> These costs will, to some degree, have to be passed on to customers thus increasing the cost of direct purchase market offerings. This would be a backward step in what has otherwise been a successful development of a competitive market for natural gas in Ontario.[5]

19. In VECC's view, however, there may very well be a clear line between the legitimate actions of marketers in optimizing their costs by reducing their transportation related expenses through various instruments, and the illegitimate actions of marketers (if the Board so decides) in causing risk to all users of gas as a result of those same optimization decisions. In the latter

[5] DE Argument paragraph 20.

case, the fact that it will cost marketers money to reduce the risk that they have caused to the system should not dissuade the Board from taking action.

Short Term Firm Transportation on TCPL for ~200gj/day for 2-4 months-Cost $21 million

20. EGDI states that if its preferred solution is not accepted then for the coming winter of 2009/2010 the procurement of approximately $21 million of Short Term FT would be a reasonable alternative provided EGDI can acquire the required capacity in time.

21. DE is content to propose this solution (slightly modified) if the Board finds the status quo not acceptable but suggests that the costs be "socialized" i.e. be recovered from system gas as well as ABC DP customers.

32. A suitable temporary solution for the coming winter, if the Board finds that one is required, would be for all marketers to contract the same proportion of firm transportation (whether Firm or Short Term Firm) they required during the 2008/09 winter for non-Ontario landed supplies. Enbridge could then contract for any shortfall of the requested 200,000 GJ/day that is not addressed through direct shipper
FT or STFT contracting, and treat such costs as a load balancing expense (and thus socialized among all distribution customers) [emphasis added].

33. For clarity, Enbridge should only contract for those volumes up to 200,000 GJ/day that are not already met by direct shippers. For example, Exhibit HD3.8 demonstrates that over 800,000 GJ/day of STFT capacity was contracted for the Enbridge CDA last January.

34. Furthermore, as Enbridge is only concerned with a number of days as opposed to the whole season, any additional STFT contracted for by Enbridge should be limited in duration. [6]

22. VECC does not agree that this solution is appropriate if the costs are to be allocated to all customers including system gas and Western Bundled customers.

23. As previously noted, system gas customers already have all of their deliveries to the CDA underpinned by firm transportation either on TCPL or Union M12.Therefore these customers are already paying for firm transportation and are not "part of the problem".

24. Accordingly VECC disagrees that the costs of this or any other proposal should be "socialized" as proposed by DE by charging it to all distribution customers through the load balancing charge.

[6] DE Argument Page 12

Additional Firm Transportation on TCPL for~200gj/day Cost ~$80 million a year

25. VECC submits that no party including EGDI and marketers seriously proposed this as an interim solution. Apart from anything else the cost is prohibitive, and contracting for more firm transportation purely as insurance would only make sense if other options were not available.

Other -Short haul transportation e.g. Dawn-Trafalgar or (unspecified) Backstopping Service(s)

26. VECC submits that the evidence on other specific options is incomplete at best and the Board should require more evidence to be brought forward before considering them.

Long Term Solutions

27. VECC notes that there is some directional agreement on the long term solutions, including the introduction of the vertical slice methodology:

> *MR. BUONAGURO: Okay. So I think if I were to put it simply, you would buy more, which would cost more, but then you would be selling it, so the cost would come out. But then there would be some changes here and there, based on the mix that you have, and then the potential to earn more money on transactional services?*
> *MS. GIRIDHAR: Yeah. Basically, we would continue to recover that cost. Today the cost is recovered and remitted to an agent. Under the vertical-slice methodology, you would just assign it, and so we would not actually incur the cost, because it will be borne by the direct purchase agent.*
> *MR. BUONAGURO: Okay.*
> *MS. GIRIDHAR: So essentially very little cost impact today.*[7]

28. There appears to be some promise in resolving the reliability issue through the future availability of the vertical slice methodology. However the evidence in support of the methodology as a long term solution to reliability concerns is, in VECC's submission, incomplete. VECC submits that he Board should direct EGD to bring forward proposals during 2010, including evidence on impacts on system security and costs consequences.

CONCLUSION

29. VECC respectfully submits that in the event the Board determines that the manner in which direct purchasers arrange for transportation of gas into the

[7] TR Vol. 2 pages 187-188

EGDI franchise area is causing a material risk that requires remedial action, that the Board should:

a) consider the most cost effective solution that addresses the material risk, and

b) ensure that the costs consequences of the implemented solution are borne by direct purchasers, either by allowing EGDI to require direct purchasers to take action on their own, or by requiring EGDI to allocate the costs of any actions it takes to direct purchasers.

30. In VECC's view it appears that the most reasonable short term solution, if the Board is convinced a material risk exists, would be to allow "*all marketers to contract the same proportion of firm transportation (whether Firm or Short Term Firm) they required during the 2008/09 winter for non-Ontario landed supplies. Enbridge could then contract for any shortfall of the requested 200,000 GJ/day that is not addressed through direct shipper FT or STFT contracting",* in accordance with DE's submissions at paragraph 32 of their argument, with a cost estimate by EGDI of up to $21 Million, reduced in practice in accordance with paragraphs 33 and 34 of the DE argument. The costs of such a solution, VECC submits, should be allocated to and paid for direct purchasers.

Recovery of Reasonably Incurred Costs

31. VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 2nd DAY OF JUNE, 2009