

Aegent

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June 2, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**RE: Enbridge Gas Distribution Inc.
2009 Rates Application – Phase 2
Ontario Energy Board File No. EB-2008-0219**

Please find enclosed two copies of the final submission of the Ontario Association of Physical Plant Administrators in the above-noted proceeding. Also please note that an electronic copy of the submission in PDF format has been e-mailed to you, Enbridge Gas Distribution, and EB-2008-0219 intervenors. As well, the document has been submitted through the RESS.

If you have questions, please contact me at 416.622.9449, x104.

Yours truly,



Valerie Young
Director, Research and Analysis

Encl.

cc. N. Ryckman, Enbridge Gas Distribution
F. Cass, Aird & Berlis
J. Witjes, OAPPA / Queen's University
EB-2008-0219 Intervenors

ONTARIO ENERGY BOARD

**EB-2008-0219
ENBRIDGE GAS DISTRIBUTION
2009 RATES - PHASE 2**

**FINAL SUBMISSION OF THE
ONTARIO ASSOCIATION OF PHYSICAL PLANT ADMINISTRATORS (OAPPA)
on
Issue 7: Changes to Requirements for Upstream Transportation Contracting**

June 2, 2009

INTRODUCTION

1. The Ontario Association of Physical Plant Administrators is a not-for-profit organization whose membership includes the physical plant administrators for provincially-assisted universities in Ontario. A number of the member universities are served by Enbridge Gas Distribution Inc. (Enbridge).

2. OAPPA's submission will address Issue 7 from the Issues List for Phase 2; namely,

Is Enbridge's request for approval of a change in the requirements for the contracting of upstream transportation that would require direct purchase bundled service customers to contract for firm upstream transportation appropriate?

3. The issue of upstream transportation contracting requirements is of interest to OAPPA since a number of its members served by Enbridge are Ontario T-service customers. Although these universities do not fall within the group of customers affected by Enbridge's revised proposal in this proceeding, the proposed requirements, if approved and subsequently expanded to all Ontario T-service customers, would have a direct impact on the way the universities arrange their supplies and the total cost of those supplies. More immediately, OAPPA is concerned about the impact the implementation of Enbridge's proposal would have on the functioning of the Ontario natural gas market.

ISSUE 7: PROPOSED UPSTREAM TRANSPORTATION CONTRACTING REQUIREMENTS

Firm transportation deliveries under peak conditions do not exhibit deterioration

4. OAPPA agrees that reliability of supply delivered into the distribution system is an important matter for the utility and for all market participants. Enbridge has explained that its specific concerns center on a decline in firm transportation arrangements to its franchise area posing a significant risk to distribution system reliability under peak demand conditions.¹

5. Data provided by TransCanada PipeLines (TransCanada) provide insights into the arrangements that have served the Enbridge CDA and Enbridge EDA on peak day for the period covered by winter 2000/01 to winter 2007/08. The information is contained in TransCanada's response to an interrogatory from the Canadian Manufacturers and Exporters; specifically, Exhibit L, Tab 18, Interrogatory #2, pages 1-7. The delivery data are summarized in the tables appearing on the following page. The "% Firm" shown on the last line of each table represents the percentage of deliveries arriving under long-term firm transportation and short-term firm transportation (STFT)

¹ Exhibit C, Tab 1, Schedule 10, p.1, para. 1 and 3

arrangements combined and was determined using the data in the tables (namely, “Total Firm” as a percent of “Total”).

Enbridge CDA – Peak Day Deliveries by Service Type (GJ)

	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01
Long-term Firm	764,390	585,377	904,717	953,058	626,519	703,909	661,847	650,982
STFT	100,747	247,000	32,108	24,679	394,250	95,749	-	-
Total Firm	865,137	832,377	936,825	977,737	1,020,769	799,658	661,847	650,982
Diversion	213,434	410,609	46,223	93,214	168,726	149,299	27,171	149,342
IT	157,516	87,420	145,350	436,311	131,645	319,244	259,486	133,492
TOTAL	1,236,087	1,330,406	1,128,398	1,507,262	1,321,140	1,268,201	948,504	933,816
% Firm	70.0%	62.6%	83.0%	64.9%	77.3%	63.1%	69.8%	69.7%

Enbridge EDA – Peak Day Deliveries by Service Type (GJ)

	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01
Long-term Firm	324,090	323,275	323,800	324,334	323,833	378,281	311,777	406,299
STFT	-	-	-	-	10,000	-	-	-
Total Firm	324,090	323,275	323,800	324,334	333,833	378,281	311,777	406,299
Diversion	119,911	166,589	42,825	122,395	154,272	82,319	5,156	6,023
IT	39	-	70,751	61,569	49,954	21,101	91,913	-
TOTAL	444,040	489,864	437,376	508,298	538,059	481,701	408,846	412,322
% Firm	73.0%	66.0%	74.0%	63.8%	62.0%	78.5%	76.3%	98.5%

6. OAPPA understands that the data in the tables reflect the make-up of deliveries into the Enbridge CDA and Enbridge EDA on an aggregate basis (system supply and direct purchase).² In OAPPA’s view, the data still offer helpful information on the amount of firm transportation making up deliveries into the Enbridge franchise area. In that regard, the data do not point to deterioration in firm transportation arrangements (long-term and short-term in total) underpinning deliveries into Enbridge’s franchise on peak day conditions. In the Enbridge CDA, firm transportation represented 70% of the deliveries on peak day in the winter of 2007/08 and just under 70% in winter 2000/01. In the intervening years, the percent ranged from a low of just under 63% to a high of 83%. The situation in the Enbridge EDA has been reasonably similar, with long-term firm deliveries for the peak days from winter 2003/04 to winter 2007/08 essentially unchanged at approximately 323,000 GJ to 324,000 GJ. OAPPA acknowledges Enbridge’s observation that the information provided by TransCanada is for TransCanada’s peak day, which may not coincide with Enbridge’s peak day. However, in OAPPA’s view, the data suggest a level of stability with respect to firm transportation rather than deterioration.

² Tech. Conf. Tr., Apr. 22/09, p.147

7. Enbridge has expressed reservations about the use of STFT to underpin firm delivery obligations on peak day on the basis that it is a discretionary service and therefore, although firm, it is not renewable from one year to the next.³ OAPPA submits that in a market in which there is excess pipeline capacity, as is the current situation on TransCanada⁴, contracting for STFT for the time of year when peak conditions are a key consideration, rather than contracting firm for a full year, is a rational and reasonable practice. STFT is another option that adds to the diversity of the market. It reduces costs for the direct purchase customer while at the same time ensures the gas will be available during the time of year when the peak demand occurs. In OAPPA's view, should the excess capacity begin to decline, parties likely will be proactive and prudent and make the necessary arrangements to ensure their firm delivery obligations can continue to be met.

Direct purchase market has performed well over the years

8. Enbridge has agreed that the direct purchase market has performed well over the years⁵. At Exhibit I, Tab 9, Schedule 3, Enbridge also agreed that retailers have performed within their terms of service with the utility under normal and peak day operating conditions. In the same exhibit, Enbridge confirmed it has been able to balance its system by the end of the gas day in the last 10 years.
9. To support its proposal for upstream contracting requirements, Enbridge has focused on only one three-day period during the winter of 2008/09 (January 13-15, 2009) to highlight its concerns regarding system reliability.⁶ Yet even during this period when the demand for transportation service exceeded available capacity on the TransCanada mainline, the market met its obligations. In fact, interruptible customers, who had been fully curtailed, were still able to bring in approximately 440,000 GJ of Curtailment Delivered Supply over the three days.⁷
10. OAPPA submits that the absence of a system failure generally and the specific experience of January 2009 clearly demonstrate the ability and commitment of Ontario market participants to fulfill their requirements to Enbridge under tight conditions, using their current portfolios of arrangements.

Enbridge's proposal represents a fundamental change, with cost consequences

11. An Ontario T-service arrangement requires the customer to deliver gas to a contractually agreed-upon point of acceptance in Ontario.⁸ It is up to the customer to arrange for the gas to arrive at the Ontario point. To do so, customers have taken an assignment of Enbridge's firm transportation

³ Tr. Vol. 2, pp. 80-81

⁴ Exhibit L, Tab 21, p. 13

⁵ Tr. Vol. 1, pp.88-90

⁶ Exhibit C, Tab 1, Schedule 10, para. 6 and 7; Tr. Vol. 1, pp. 28-29

⁷ Tr. Vol. 2, pp. 11-12

⁸ Exhibit B, Tab 3, Schedule 2, page marked 4 of 9

capacity on the TransCanada system and then availed themselves of the turnback option to substitute the TransCanada capacity with alternate arrangements to meet their Ontario delivery commitments.⁹ The long-standing, fundamental concept underlying Ontario T-service has been that customers assume the responsibility to make their own arrangements to get their gas to Enbridge's franchise, recognizing that they have a firm delivery obligation to the utility. They do so with a view to controlling their own costs to achieve savings.¹⁰

12. Enbridge takes the position that since the transportation component of its rates incorporates the cost of firm upstream transportation and since all bundled customers are paying the transportation charge, they should have their gas arrive under firm upstream transportation.¹¹ For Ontario T-service customers, this reasoning does not apply. The T-service credit mechanism is intended to recognize that Enbridge is not providing transportation for Ontario T-service customers. They have made their own arrangements, and they pay for them.¹² The T-service credit mechanism credits them for the transportation costs embedded in Enbridge's rates. It has no connection to the nature or costs of the customer's upstream arrangements. The T-service credit mechanism will not be required when Enbridge's new customer information system is implemented since the new system will allow for the unbundling of the transportation charge.¹³
13. The firm delivery obligation for direct purchase customers continues under Enbridge's proposal. However, the proposal, if approved, will impose an additional requirement that the obligation be underpinned by firm upstream transportation.¹⁴ OAPPA notes that this is not a requirement that Enbridge imposes on itself for its peaking supplies.¹⁵ The added requirement means Ontario T-service customers are more constrained in how they meet their delivery commitments, contrary to the basic purpose and nature of Ontario T-service.
14. Enbridge says its intention is not to dictate the route for the firm transportation arrangements. It does concede that given current conditions, the practical consequence of its proposal is that for the foreseeable future, the only option for direct purchase customers is to contract for long-haul firm transportation on the TransCanada system.¹⁶ Coupled with Enbridge's concerns about the use of STFT to meet delivery commitments as they relate to system reliability, the outcome is a reduction in available options for direct purchase customers in terms of where supply can be sourced and how it is

⁹ Tech. Conf. Tr., Apr. 22/09 p.176

¹⁰ Tr. Vol. 3, p. 92

¹¹ Tr. Vol. 2, p. 47

¹² Tr. Vol. 2, pp. 90-91

¹³ Tr. Vol. 2, pp. 49-50

¹⁴ Tr. Vol. 1, pp. 52-53

¹⁵ Tr. Vol. 2, p. 130

¹⁶ Tr. Vol. 2, pp. 43-45

delivered. It restricts them to long-term, long-haul transportation on TransCanada's mainline. This outcome would represent a fundamental change for direct purchase customers and a step backward for the Ontario market in terms of diversity in the manner in which gas arrives into the market. From OAPPA's perspective, moving to a greater reliance on one supply source and one type of transportation arrangement to move that gas should cause heightened concerns about system reliability.

15. There are cost consequences associated with Enbridge's proposal. The cost implications fall into two categories: the cost of unwinding current arrangements and the cost related to Enbridge suspending turnback for the 2009/2010 year.
16. To the extent affected direct purchase customers have current arrangements that do not satisfy Enbridge's proposed requirements, those arrangements will have to be unwound and replaced with gas sourced in Western Canada which is then transported to the Enbridge franchise using long-term, long-haul TransCanada capacity. The cost of this exercise will depend on each direct purchase customer's particular arrangements, but generally the cost will reflect the difference between the original cost of purchasing the current arrangements and the cost of the selling those arrangements back into the market combined with the cost of substituting them with the Western Canada supply/TransCanada transportation arrangement. Direct Energy calculated a rough estimate of the cost of Enbridge's proposal to be \$53 million over five years.¹⁷ Enbridge has indicated it accepted Direct Energy's number and did not question the calculation of the estimate.¹⁸
17. With respect to Enbridge suspending the turnback option for the 2009/10 year, this action applied to all Ontario T-service customers including those not the focus of Enbridge's revised proposal. Enbridge decided that it would not offer turnback because its proposal was before the Board.¹⁹ This decision by the company could mean increased costs for direct purchase customers to the extent the cost of transportation on TransCanada is at a premium to the basis to the Enbridge delivery area, where the basis reflects the value placed on the transportation by the market. This premium was discussed by the Direct Energy panel at Tr. Vol. 3, pp. 89-92 with the conclusion being that the potential impact of imposing TransCanada firm transportation is significantly higher transportation costs for customers. The approximate levels discussed were \$1.80-1.90/GJ for the TransCanada option versus \$1.40-1.50/GJ if a customer were instead to buy the basis.
18. There are clear cost implications of Enbridge's proposal to direct purchase customers. In OAPPA's submission, the costs that may be incurred by customers as a result of implementing Enbridge's

¹⁷ Exhibit L, Tab 7, p. 7

¹⁸ Tr. Vol. 1, pp.37-38

¹⁹ Tech. Conf. Tr., Apr. 22/09, pp. 192-193; Exhibit TCU 2.11

proposed upstream transportation contracting requirements are not warranted. As indicated above, experience has demonstrated that under current requirements, participants in the direct purchase market are committed to meeting their distribution system obligations on a very consistent basis, under all conditions.


SUMMARY OF POSITION

OAPPA agrees that reliability of supply delivered into the distribution system is an important matter for the utility and for all market participants. However, it is OAPPA's position that reliability of supply is best assured by continuing to ensure a robust, diverse market in which customers have options in the way they arrange their supplies and meet their firm delivery obligations to the utility. In OAPPA's view, the reasons for Enbridge's proposed requirements have not been justified. Further, implementation of the proposal would represent a fundamental change to the way direct purchase customers arrange for their supplies, and its implementation would come at a cost. The options available for making cost effective supply arrangements would be narrowed, an outcome that diminishes the robustness of the current mature market in Ontario. Therefore, it is OAPPA's submission that Enbridge's request for a change in the upstream transportation contracting requirements of agent/marketer Ontario T-service customers should be denied.

COSTS

OAPPA believes its participation throughout this Phase 2 proceeding has been responsible, and respectfully requests that 100% of its reasonably incurred costs be awarded after assessment.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



Valerie Young
Aegent Energy Advisors Inc.
For the Ontario Association of Physical Plant Administrators

June 2, 2009