

DIRECT ENERGY MARKETING LIMITED

Submission re: Direct Energy Proposed Additional Issues in EB-2008-0219 (EGDI Year 2 of 5 Year Incentive Regulation Plan – 2008-2012) with Respect to the Unbundling of Storage and Transportation from Delivery

Pursuant to Procedural Order No.5 in EB-2008-0219, the following is the written submission of Direct Energy Marketing Limited (DE) with respect to the Ontario Energy Board's (the Board) request for clarification on issues raised by DE in Phase 2 of the above noted proceedings. The two additional issues raised by DE are as follows:

1. What is an appropriate approach to the unbundling of storage and transportation services from the delivery of natural gas supply for all customer classes of Enbridge?
2. What conditions should be associated with such unbundling?

The Board has asked DE to provide details as to the nature and scope of what Direct Energy expects to achieve as a result of having the Board review these issues at this time. In order to address this request, it is important to understand the rationale for their inclusion in Enbridge's 2009 Rate Adjustment proceeding.

Procedural Background

The two issues listed above were originally submitted by the Gas Marketer Group (GMG – at the time comprised of Direct Energy Marketing Limited, Ontario Energy Savings L.P., Summitt Energy Management Inc., and Superior Energy Management Gas L.P.) in EB-2008-0106, as part of determining which issues should be reviewed in the QRAM, Load Balancing and Cost Allocation proceedings (the "QRAM Proceedings"). The GMG submitted that the unbundling of storage and transportation from distribution services, including the allocation of storage to each customer, would allow Marketers to forecast daily gas usage for their unbundled customers and manage the daily nomination of supply and storage to match load requirements. This would ensure sufficient gas deliveries to avoid adverse volume variances on the system. The GMG submitted that addressing the unbundling issue would ensure that Union's current process is reviewed and that Enbridge's process is appropriately aligned to facilitate the competitive natural gas market and lowering transaction and system costs for all market participants. The GMG noted that on pages 66 and 67, the NGF Report contemplates that the Board will further examine the issues related to unbundling.

In response to the request of the inclusion of the unbundling issues, Enbridge submitted that unbundling would require a fundamental transformation of its business and has a number of implications for distribution rate structure and design. Based on this, Enbridge suggested that the issue properly belonged in a rates case where all of the costs and implications could be considered.

Union also opposed the inclusion of the unbundling issue based on the view that the subject of the GMG's proposed issues were different from the unbundling referred to in the NGF Report. In addition, Union had already implemented the unbundling described above, and as such, felt that the issues were not necessary.

While the GMG and DE, as part of that group, identified why the issue of unbundling should be evaluated within the QRAM Proceedings, the Board in its Decision and Order with respect to the final issues to be

included in that proceeding determined that unbundling was “qualitatively different” from the matters being addressed by the QRAM Proceedings. Furthermore, the Board found that:

“Unbundling is not an issue in relation to Union, and that parties interested in the kind of unbundling that has been raised by the Gas Marketer Group may bring the matter forward in the context of a utility-specific rates proceeding.”

Consequently, on October 29, 2008, DE submitted the above noted issues as part of its Letter of Intervention in EB-2008-0219, and requested that they be reviewed within the Enbridge specific rates proceeding as directed.

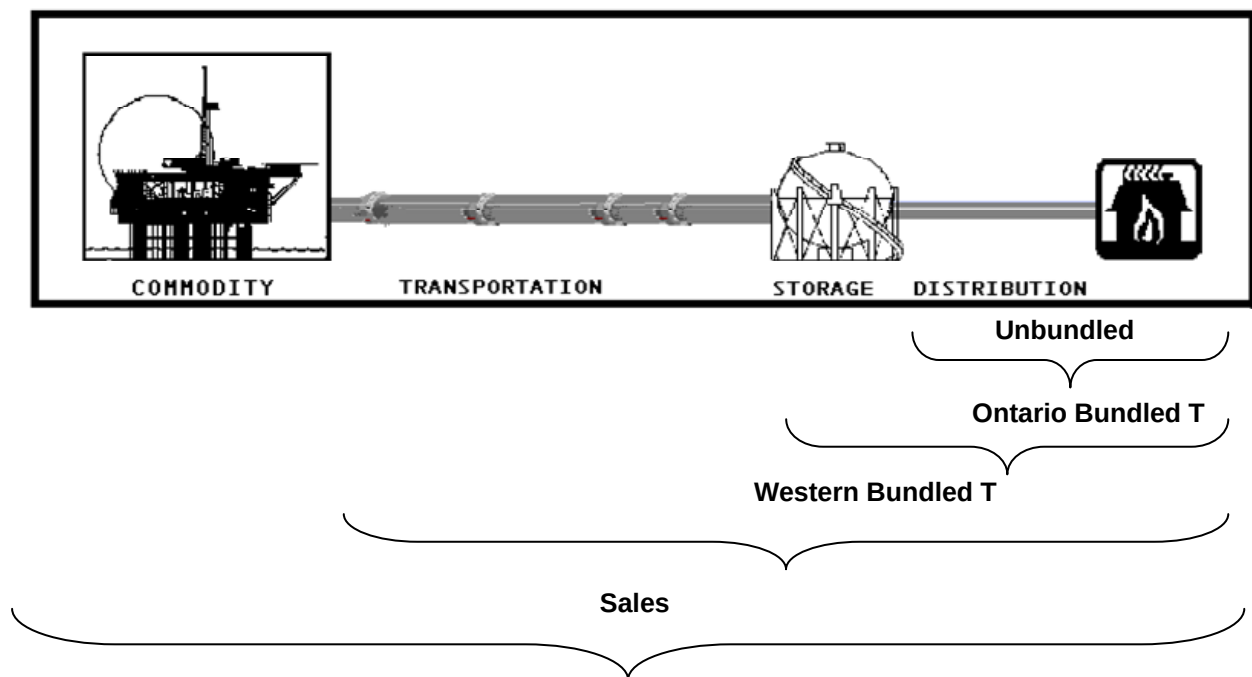
Unbundling Background

In order to put the issues related to the unbundling of transportation and storage from distribution services into context, it may be helpful to review the various types of services offered by Enbridge, and to further define what is meant by “unbundling”. Currently Enbridge offers various “bundled” services to most rate classes; however unbundled service is only dedicated to a handful of very large commercial/ industrial customers.

In the Enbridge franchise territory there are four types of service available to customers including:

- Sales Service
- Western Bundled T Service
- Ontario Bundled T Service, and;
- Unbundled service

Figure 1: Types of Services Offered by Enbridge



Source: EB-2008-0106, Exhibit E1, Figure 1, Page 41

Sales Service

Sales Service is dedicated to those customers that choose to have a completely bundled service provided to them by the gas utility. This service includes the procurement of natural gas (mainly from sources outside the Province), the transportation of that gas to the storage delivery point within the province, the subsequent transportation of such gas to the city gate if necessary, and finally the distribution delivery to the burner tip.

All residential and commercial customers that choose to have their gas supply provided by the Utility would be Sales Service customers. The costs for such services are currently split between utility commodity charges and the "bundled" distribution charges (including transportation, storage and distribution).

Western Bundled T Service

In a Western T-Service Arrangement the customer contracts to deliver a Mean Daily Volume of gas plus fuel gas to a point each day on the TransCanada Pipelines Ltd (TCPL) system in Western Canada. Delivery from that point to the Terminal Location is carried out by the utility using its contracted capacity on the TCPL system and its gas distribution network.

All residential and commercial customers that procure their own gas supply (either individually or through an agent) in Western Canada would be considered Western Bundled T Service customers. The costs for such services are currently split on the customer bill between Direct Purchase (DP) commodity charges and the "bundled" distribution charges (including transportation, storage and distribution) provided by the utility.

Ontario Bundled T Service

Ontario Bundled T Service is dedicated to those customers that procure their natural gas supply requirements either on their own or through an agent, and deliver gas to a designated point of acceptance in Ontario. Enbridge subsequently distributes the gas to the burner tip.

The costs for such services are currently split on the customer bill between DP commodity charges and the "bundled" distribution charges (including transportation, storage and distribution). Note that in this scenario, the utility bundles the DP transportation charges into the distribution charges for the customer and remits back to the DP customer or agent the current TCPL Eastern Toll rate multiplied by the transported volumes.

Unbundled Service

Unbundled Service is currently dedicated to approximately 10 large commercial/industrial customers that purchase, transport, and have access to store their own gas supply. These customers are able to manage the daily nomination of supply and storage to match their load requirements.

These customers are "custom" billed by Enbridge on their Large Volume Billing (LVB) system.

It is this unbundled service that DE is requesting the Board to review, allowing Marketers physical access to storage and transportation within the Enbridge franchise territory for all rate classes, and not just large commercial industrial accounts.

Nature and scope of Unbundling

DE believes that open, effective, and competitive markets best evolve where there is a clear understanding of the areas where marketers bring value, and those areas that should remain under the scrutiny and oversight of the appropriate regulatory body. Accessing gas supply and moving it to the distributor franchise area along with the capability to manage storage, encompasses the areas where marketers can offer varying pricing alternatives. This is because there are no natural monopoly elements or market failure that would necessitate monopoly provision of these services. The safe operation and reliable distribution of in-franchise supply to the burner tip should remain the monopoly service of the distributor, under the scrutiny of the regulator.

The Board's review of the unbundling issues proposed within this proceeding is therefore requested in order to allow marketers physical access to storage and transportation within the Enbridge franchise territory for all rate classes. This will allow marketers to manage, and be responsible for these services on behalf of their customers. The allocation of storage to each customer allows a Marketer to forecast daily gas usage for their unbundled customers and manage the daily nomination of supply and storage to match load requirements. Furthermore, it would lead to greater harmonization between Union and Enbridge, as these services have been available in the Union South territory since 2004.

To better illustrate the nature and scope of unbundling services desired in the Enbridge Franchise territory, it would be helpful to examine the mechanics of unbundling within the Union South territory which exist today.

The Union Experience

The standard marketer arrangement for retail load in Ontario is a flat delivery every day of the year, with annual true-ups. Daily consumption variances are managed by the utility via backstop storage services on marketers' behalf. In the fall of 2004, Union Gas announced an unbundled service whereby the marketer manages the customers' allocation of storage and delivers to a daily utility-calculated weather-driven market required nomination (MRN). DE has participated in this program since the spring of 2005 starting with a pilot of residential retail customers, and by 2008 this has grown to service all residential, small commercial, and most of DE's industrial customers on an unbundled service.

The structure and services required under the Union Gas unbundling program are as follows:

- Daily Market Required Nomination
- Unbundled Supply
- Incremental Unbundled Supply
- Storage – Standard Storage Service and Standard Peaking Service
- Consumption True-up Account

Market Required Nomination (Daily Delivery Requirement)

Each day Union Gas calculates an MRN quantity that DE must supply at the South Market location for the next gas day. This daily requirement is based on the number of end-users and forecasted weather. End-users are separately identified as Residential or Commercial/ Industrial in order to determine expected gas usage. Through an algorithm, Union Gas calculates expected consumption based on historical end-user consumption (weather normalized), forecasted weather, plus true-up for prior day weather variances. Direct Energy sees this MRN as an incomplete nomination on the Unionline system, and is required to complete the nomination by balancing to the required quantity using upstream Unbundled Supply (and Incremental Unbundled Supply) and Unbundled Storage services.

Unbundled and Incremental Unbundled Supply

Unbundled Supply service is similar to transportation in that it moves gas from Union Gas obligated receipt points to the South Market location (e.g., Parkway to South Market). Incremental Unbundled Supply service is similar to Unbundled Supply and provides additional capacity to move gas from obligated receipt points to the South Market to meet MRN requirements. Both Supply services serve as the primary method of balancing to daily MRN requirements.

Storage Services - Standard Storage and Standard Peaking

Underlying Union Gas' Unbundling program is the allocation of storage to Direct Energy that allows DE as the marketer to deliver to daily weather-driven market obligations (MRN). With Standard Storage Service (SSS), injections and withdrawals are a percentage of the total space entitlement of the contract and are tiered based on the standing inventory balance. In addition to traditional storage withdrawals from the storage facility (Dawn Storage to Dawn market), the service can also withdraw from Dawn Storage directly to the South Market to balance MRN requirements.

Standard Peaking Service (SPS) is a second and separate storage service that is meant to provide firm deliverability to service heat sensitive customers on winter days (November thru March) when the forecasted temperature is -4C or colder and SSS storage inventory is greater than 20% full.

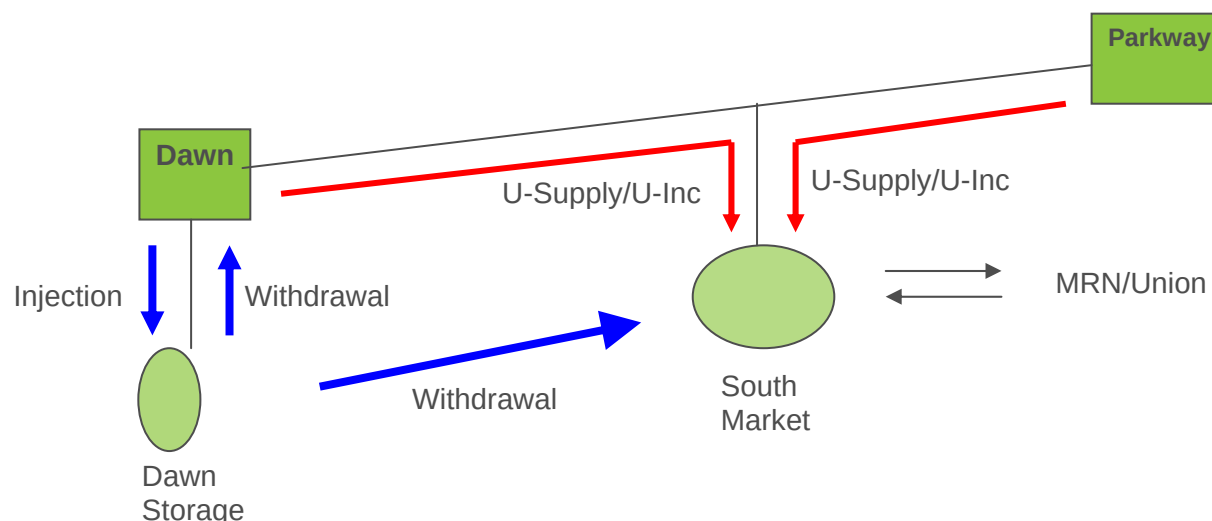
Storage allocation for residential customer pools are allocated at 23.56GJs of SSS storage per customer account, while commercial/ industrial customer pools are allocated 24.6% of normalized annual consumption for SSS storage capacity. SPS storage capacity for both customer classes is allocated out at 16% of SSS space.

Consumption True-up Account

At the beginning of each month Union Gas posts consumption variances from 2 months prior. Components that derive the true-up amount are the actual consumption true-up (MRN vs. Actual Calendarized Consumption), and the prior period consumption. From the date of posting, Direct Energy has 10 days to clear up any balances. DE has never breached these terms.

The Unbundled Model below shows how Unbundled Supply/Unbundled Incremental Supply (Red) and SSS/SPS (Blue) is nominated to balance MRN requirements at the South Market.

Figure 2: South Market Unbundled Model



Enbridge Unbundling

The smooth operations in the Union territory since 2004 attest to the validity of the Union unbundled storage and transportation model. There is every reason to believe that a similar model would work well in the Enbridge territory, recognizing that EGD's business is not structured in exactly the same way as Union's. DE does not believe that these differences are sufficient to prevent the unbundling of storage and transportation from distribution delivery. Furthermore it should not affect EGD's capability to meet the "Peak Demand Day". This is due to the fact that the physical assets and the engineering required to meet such peak demand would remain unchanged. What would change are the contractual obligations of the parties. The chart below illustrates Enbridge contracted capacity on M12:

Table 1: Enbridge Capacity on M12

M12 Shippers as of January 1, 2009 (source: Union Website)					
	Volume		Expiry	Receipt	Delivery
Enbridge	53,455	GJ	31-Oct-09	Dawn	Parkway
Enbridge	20,848	GJ	31-Oct-10	Dawn	Parkway
Enbridge	35,806	GJ	31-Oct-10	Dawn	Kirkwall
Enbridge	107,000	GJ	31-Oct-11	Dawn	Parkway
Enbridge	37,400	GJ	31-Oct-12	Dawn	Parkway
Enbridge	1,764,678	GJ	31-Mar-14	Dawn	Parkway
Enbridge	32,123	GJ	31-Mar-14	Dawn	Kirkwall
Enbridge	106,000	GJ	31-Oct-18	Dawn	Parkway
Enbridge	57,100	GJ	31-Oct-19	Dawn	Parkway
Enbridge	10,692	GJ	31-Oct-11	Dawn	Parkway
Total Enbridge	2,225,102	GJ			97% Parkway

Source: Union Gas Website, EGD Exhibit E1

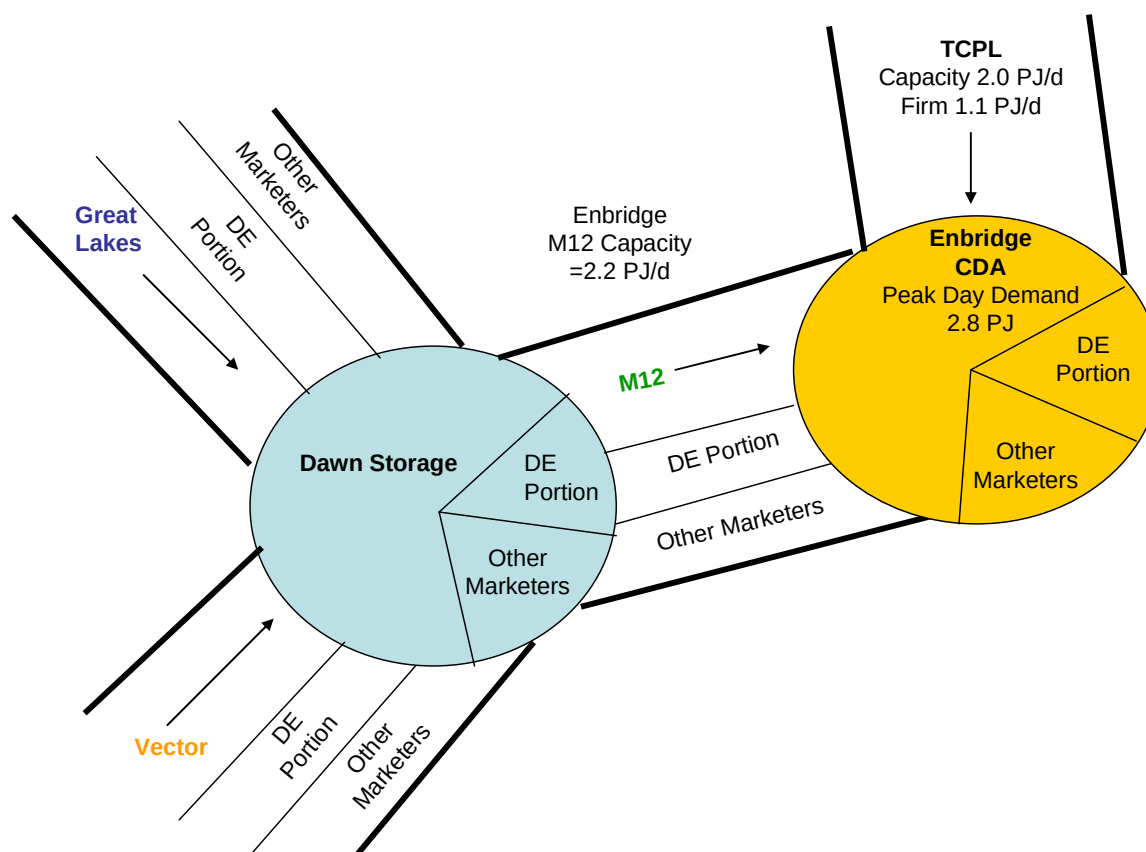
Given the above noted capacity, the peak demand day has been replicated in the table below:

Table 2: Enbridge Peak Demand Day

Enbridge Peak Demand Day	3,200,000	MMcf	Estimate from Exhibit E1, #108 figure 1, EB-2008-106		
Enbridge Peak Demand Day	3,368,421	GJ	0.95 MMcf/GJ		
Less: Direct Purchase MDV	681,644	GJ	Daily MDV Estimated from total sourced from Exhibit E1, #107, EB-2008-106		
			248,800,000	Annual Total MDV	
Less: Firm Storage Transport from Dawn	2,225,102	GJ	M12 Shippers as of January 1, 2009 (source: Union Website)		
Less: Tecumseh Storage/Seasonal/Curtailment	461,675	GJ			
Total Supply	3,368,421	GJ			

Since the TransCanada Mainline is not full the 461,675 GJ can be supplied on a peak demand day. If storage was unbundled, the peak demand day would be handled in a similar fashion, the only difference being that Marketers would be required to provide a proportionate share of the weather sensitive load. In order to manage the storage position, Marketers would take a proportionate share of Great Lakes, Vector and M12 transport. Failure to deliver the weather sensitive load should result in punitive financial penalties for the Marketers with unbundled storage. For example, a "failure to deliver" penalty similar to the one imposed by Union could be implemented. The penalty for purchases made by Union on behalf of Marketers is 2.955/GJ plus the higher of the daily spot cost at Dawn in the month of, or the month following the month in which gas is sold under this rate; and shall not be less than Union's approved weighted average cost of gas.

Figure 3: Illustration of Proposed Unbundling in Enbridge Territory



Enbridge Bill Unbundling:

DE commends Enbridge for "unbundling" line items for transportation from the distribution charges on the customer's bill with the implementation of their new Customer Information System (CIS). However, this should not be considered as the definition for, nor the extent of unbundling that is sought after in this proceeding. This necessarily displays these charges separately on the customer bill, but does not give the physical access required for marketers to manage what should be competitive services.

Rationalization for Unbundling within the Enbridge Franchise Area

As noted above, the delivery of natural gas has been unbundled from storage and transportation in the Union territory since 2004. This has been beneficial to all parties because the Marketer takes responsibility for the day-to-day management of their customers' gas consumption requirements. Matching the consumption profile tightly with the customer load ensures sufficient gas deliveries to avoid adverse volume variances on the system. In its decision to unbundle, Union stated that the proposed changes to the rate schedule are intended to:

- Allow small volume customers to compare service options;
- Facilitate access to unbundled services;
- Achieve greater price transparency and understanding of customer choice; and,
- Allow Union to realize a higher level of gas distribution system utilization.

The reasons stated by Union for unbundling in their franchise area can be extended to support the argument for unbundling in the Enbridge franchise area. In considering whether unbundling is appropriate for Enbridge, the Board must also question the need for bundled services and the magnitude and prudence of utility storage levels and costs.

Bundled Services

One of the primary arguments used by utilities to require bundled retail service is that the utilities believe they must control all aspects of infrastructure delivery to maintain operational surety in order to meet core demand in their franchise area, especially during peak demand periods. In many ways, utility daily operations, trading and nominations are a means of providing "real time" accounting to the pressure flows of gas moving as required by the core market when dealing with high demand periods. That is, all available pipe/peak storage capacity will be used to satisfy peak demand as determined by the utility. The operational flow can be considered as somewhat independent of the contractual relationship between stakeholders, in that, if there is a physical demand for gas, the gas will move to the burner tip, provided the infrastructure capacity is available. It is incumbent on all market participants to insure efficient economic pricing of the costs and the utilities' mandate to insure efficient physical flow.

Should an event occur (i.e. extreme cold) where all infrastructure resources are required, they will be employed from an engineering perspective, irrespective of whether the utility held 100% of an asset or 50%. Should any market participant not satisfy any contractual obligations, then the utility would rightly have recourse against the offending contractual party. In order to ensure compliance, onerous penalties for non-performance should exist.

The Union example is instructive of this to the extent that Union retains a 22 day call for gas at Parkway (vs. Dawn) over the winter season to insure that the contracts can match the reality of the flow.

Magnitude and prudence of storage costs

It is reasonable to question the degree of storage required by utilities and how it may be applied primarily to the optimization of the storage asset and secondly, to the optimal buying plan. It is important to identify what is needed by utilities to maintain supply surety and what assets may not necessarily be required for Default supply service. Union Gas has already identified some of this by defining storage into seasonal - SSS (nice to have) and peaking - SPS (Must have).

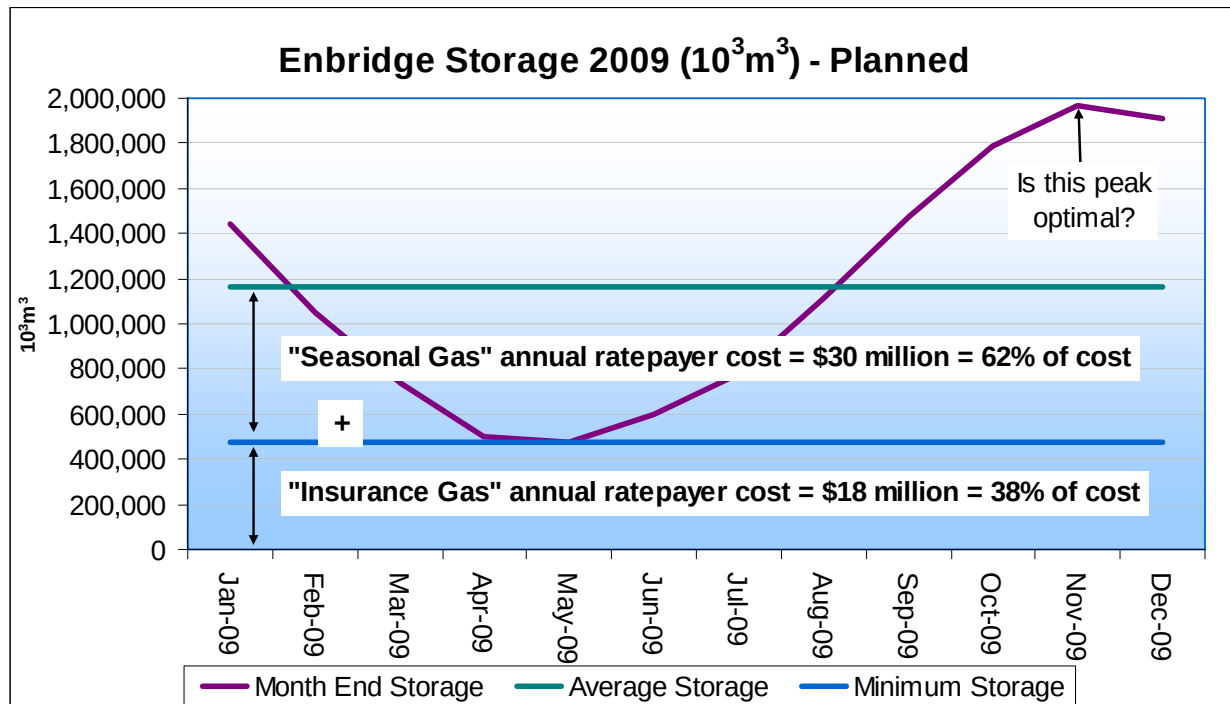
Should the Board see fit to address the unbundling issues in this proceeding, it will need to review the benefit that may accrue to the Rate Payer by allowing Marketers the option of managing their own storage. By examining Enbridge's 2009 Forecast Gas in Storage in Rate Base and its Associated Gross Carrying Cost below, (EB-2008-0219; Exhibit B; Tab1; Schedule 2, Appendix A), it can be seen that significant carrying costs for the amount of gas being held in storage by Enbridge are being attributed to rate payers. Rate payers are being asked to pay over \$50 million in carrying costs to Enbridge for storage that may or may not be required.

Table 3: Enbridge 2009 Forecast Gas in Storage

		2009 Forecast Gas in Storage In Rate Base and its Associated <u>Gross Carrying Cost</u>		
		Col.	Col. 2	Col. 3
Line No.	Exhibit Reference			
				\$000
1.	Average gas in storage volume & value	EB-2008-0219 Exhibit B.T5.S2.pg.4, line 14	(10 ³ m3) 1 160 383.9	511,235.1
2.	Gas cost working cash allowance			
2.1	a) Purchase cost of gas		\$2,380,207.6	
2.2	b) Net lag-days calculated	EB-2008-0263,Q4-3.T2.S2.line 3.2	4.2	
2.3	c) Dollar days		9,996,871.9	
2.4	d) Number of operating days		365	27,388.7
3.	Rate Base value			538,623.8
4.	Gross return component	(See page 3 of this schedule)		9.36%
5.	Carrying cost requirement			50,415.2

In reviewing the above, it should be considered whether carrying costs to the ratepayer could be reduced by allowing Marketers to manage their own storage. Using the "2009 Gas in Storage Month End Balances and Average of Monthly Averages" table provided by Enbridge (EB-2008-0219, Exhibit B, Tab5, Schedule 2, Page 4 of 8) the graph below was created, along with the associated carrying costs for customers. Insurance Gas in this graph is defined as the minimum level of storage reached in April. In other words, it is the volume of gas that is carried all year long "just in case". This does not include the cushion gas that is already held in any storage facility in order to allow for operational efficiency. The "Seasonal Gas" in the graph below is the annual injection and withdrawal planned to meet weather sensitive load demand.

Figure 4: Enbridge 2009 Planned Storage Volumes and Costs



The average gas in storage is represented by the green line above. The minimum storage is represented by the blue line. The two costs of carrying storage gas are noted above at \$30 million for the seasonal injection and withdrawal of gas and \$18 million for the gas that is carried all year long ("insurance gas"). It should be considered if the curve above represents an optimal use of storage, and whether competition could cause the entire curve to shift downward, or be flattened. Without competition, there is no incentive to minimize the average annual volumes held in storage, which is projected to cost consumers \$50.4 million. The difference between the \$48 million shown on the graph and the total \$50.4 million is the "working cash allowance".

Conclusion

In summation, Direct Energy expects to achieve open, fair, competitive physical access to storage and transportation for all rate classes within the Enbridge franchise area as a result of the Board reviewing these issues at this time. Such access will allow Marketers to manage and be responsible for these services on behalf of their customers. In doing so, DE would expect that a greater utilization of market infrastructure and assets will occur, allowing market participants to compete on a level playing field while maintaining surety of supply. Furthermore, the opportunity to reduce the burden of carrying costs for ratepayers on gas in storage should avail itself.

Should the Board find that unbundling is appropriate within the Enbridge franchise area, DE would propose that a pilot should first be initiated to move a subset of customers to unbundled service, and following a review with Enbridge, the remainder of customers could be migrated in a measured approach.

DE would like to thank the Board for this opportunity, and hopes that this submission has clarified the nature and scope of the unbundling issues proposed above, and looks forward to reviewing the merits of unbundling within this proceeding.