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November 2, 2010

VIA RESS, E-mail and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario,
M4P 1E4

Dear Ms. Walli:

Re: 2010 Natural Gas Market Review
Enbridge Gas Distribution Inc. ("Enbridge")
Ontario Energy Board ("Board") File No.: EB-2010-0199

In accordance with the Board's letter dated August 20, 2010, enclosed please find the comments of Enbridge regarding the above noted proceeding.

This letter has been filed through the Board's Regulatory Electronic Submission System.

Please contact me if you have any questions.

Thank You.

Sincerely,

Bonnie Jean Adams

Bonnie Jean Adams
Regulatory Coordinator

Filed: 2010-11-02
EB-2010-0199

ONTARIO ENERGY BOARD
2010 NATURAL GAS MARKET REVIEW

COMMENTS OF
ENBRIDGE GAS DISTRIBUTION INC.

On August 20, 2010, the Ontario Energy Board (the "Board") issued a notice with respect to its review of recent developments in North American natural gas supply markets, the 2010 Natural Gas Market Review ("NGMR"). The notice indicated that a report entitled "2010 Natural Gas Market Review" by ICF International Inc. (the "ICF Report") had been posted on the Board's website. The notice also provided information about a stakeholder conference that would be held by the Board and indicated that, following the conference, stakeholders would have an opportunity to submit written comments to the Board.[1]

To assist participants, the Board included with the August 20th notice an outline of topics for discussion at the stakeholder conference (the "Topics List").[2] According to the Topics List, the overall objective of the NGMR is to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. One such changing market condition referred to in the notice is increased shale gas production at Marcellus. The Topics List stated that the specific objective of the NGMR is to assess the need, if any, for further regulatory initiatives in response to the impacts identified.

The Topics List also set out four questions for discussion at the stakeholder conference. At a general level, these questions raised four subject areas for consideration, namely: (1) opportunities for Ontario gas market participants in light of the changes identified in the ICF Report; (2) challenges for Ontario gas market participants; (3) potential impacts on existing pipeline facilities in the market; and (4) further action, including alignment between the work of the Board and other regulatory agencies.

These are the written comments of Enbridge Gas Distribution Inc. ("Enbridge") submitted in accordance with the August 20th notice. In these comments, Enbridge will provide its views with respect to the conclusions reached in the ICF Report, it will address the four subject areas identified in the Topics List and then it will conclude with its observations relating to the objectives of the NGMR, as set out in the Topics List.

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[1] The notice went on to say that such written comments would be due on November 2, 2010.
[2] Attachment A to the notice of August 20, 2010, "Topics for Discussion at Stakeholder Conference"

The ICF Report

In general, Enbridge agrees with the conclusions expressed in the ICF Report about overall demand and pricing trends for natural gas. Enbridge also agrees with most of the conclusions in the ICF Report about natural gas supply. The notable exception is that Enbridge does not share the view expressed in the ICF Report that, at this time, the Marcellus Shale is not expected to be a major source of gas supply for Ontario.[3] Based on the results of recent open seasons, and the potential results of open seasons that are currently in progress, there seems to be considerable interest in moving gas from the Marcellus Shale into Ontario.[4] Enbridge's view is that Marcellus can be an attractive source of supply for Ontario customers and Enbridge itself is seriously considering this option.[5]

Opportunities for Gas Market Participants

Developments in the sources of supply for the Ontario gas market present a number of important opportunities for gas market participants and, more specifically, for Enbridge and its customers. These opportunities include the following:

(1) Diversification

The availability of gas from new sources such as the Marcellus Shale increases supply diversification. This in turn enhances the security and reliability of gas supply and, everything else being equal, a greater number of sources of supply will result in greater competition, which can result in lower gas prices.

In the case of Enbridge, there is also a connection between diversification and the need for system reinforcement. Enbridge is expecting that it will need to undertake a significant reinforcement of its distribution system over the next few years (necessitated by factors such as aging infrastructure). To the extent that this reinforcement initiative results in increased capacity to move gas away from Parkway, it will have the added benefit of allowing Enbridge to enhance the diversification of its gas supply portfolio, in particular, by taking advantage of Marcellus production. In short, there is an opportunity for Enbridge to explore solutions that will allow it to realize synergies between distribution system reinforcement requirements and gas procurement activities.[6] These synergies can also benefit the Ontario marketplace by alleviating the identified bottleneck between Parkway and Maple.

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[3] ICF Report, page 74.
[4] Stakeholder Conference Transcript, October 7, 2010 ("Oct. 7 Tr."), pages 96-99.
[5] Oct. 7 Tr., page 99.
[6] Oct. 7 Tr., pages 99-100.

(2) Producer Activity

As already stated, the results of open seasons that involve bringing Marcellus gas to Niagara/Chippewa show the interest of producers in supplying Ontario markets with Marcellus gas. Enbridge's interest in this supply source is such that it has submitted a bid for capacity from Niagara to the CDA in an open season held by TransCanada PipeLines Limited (TransCanada).[7] Production from the Marcellus Shale continues to expand and the effect of increased activity by producers should be to reduce prices. This gives rise to an opportunity for Ontario gas customers to benefit from lower prices for gas.

(3) Proximity to Supply

The development of the Marcellus Shale means that participants in the Ontario gas market, such as Enbridge and its customers, are relatively close to an important source of gas supply. This proximity to a major supply source results in benefits and opportunities for the Ontario gas market, because it has the potential to improve deliverability and lower winter price spreads. To put it another way, the availability of market area production can create benefits and opportunities for Ontario gas market participants similar to those that are associated with Ontario's market area storage.[8]

(4) Bio-methane Gas Supply

For many years, Enbridge's gas supply portfolio has included some market area gas production sourced in Ontario, but this local source of supply has declined considerably over the last decade (even from levels that were never large in relation to the size of the overall portfolio). Enbridge believes that there is potential for renewable bio-methane to become a new market area source of supply. While the magnitude of this potential supply source is not yet known, the introduction of bio-methane into the supply portfolio could well offset the decline in Ontario gas production.[9]

Challenges for Gas Market Participants

While Ontario gas consumers have benefitted from low gas prices, they also face the challenge of increasing tolls charged by TransCanada, due to decontracting on the Mainline. The availability of gas from the Marcellus Shale adds upward pressure on TransCanada's tolls, both because Marcellus serves as a market area production source for Ontario gas consumers and because it will reduce exports of gas from Western Canada into the United States.[10]

[7] Oct. 7 Tr., page 99.
[8] Oct. 7 Tr., page 99.
[9] Oct. 7 Tr., page 100.
[10] Oct. 7 Tr., page 96.

For its part, Enbridge relies heavily on TransCanada's Storage Transportation Service ("STS") to meet winter demand. STS is a load balancing service that allows Enbridge to take gas away from the market area in the summer and to bring the gas back in the winter when it is needed.[11] There are operational characteristics of STS that are not available from other transportation services,[12] but the utilization of this service – at least in a cost-effective manner - is tied to the amount of long-haul capacity held by Enbridge on the TransCanada system.[13] While replacement of STS with other arrangements poses a short to medium term challenge for Enbridge, STS can, in the longer term, be replaced through a combination of new short haul services and a system reinforcement project that would enhance Enbridge's ability to take gas at Parkway into the distribution system.

In other words, while Enbridge welcomes the diversification and other benefits associated with the availability of gas from the Marcellus Shale, there are additional factors that must be taken into account in Enbridge's gas supply planning. These include operational flexibility and contractual flexibility or optionality.[14] The challenge for gas distributors like Enbridge is to consider factors such as diversification, rising TransCanada Mainline tolls, contractual flexibility and operational flexibility in order to arrive at an optimal gas supply portfolio.

Customer Impacts

As set out above, there are benefits and costs associated with changes in sources of supply for the Ontario gas market. Due to the "postage-stamp" rate-making methodology, there is no differential impact of these changes on gas costs or rates paid by Enbridge's customers. Thus, the net benefits to customers of changing market circumstances can be considered without any need to take into account different impacts depending on geographic location, rate class or customer category.[15]

Impacts on Existing Pipeline Facilities

Enbridge notes that increased diversification of gas supply can result in a need for long term contracts to underpin new facilities required to take advantage of diversified supply sources. For Enbridge, the issue then becomes one of whether long term contracts can be preapproved when necessary to support the construction of facilities. In Enbridge's view, the Board has brought clarity to this issue with its Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts (the "Long-Term Contract Guidelines").[16]

[11] Oct. 7 Tr., pages 108-9.
[12] Oct. 7 Tr., page 119.
[13] Oct. 7 Tr., page 109.
[14] Oct. 7 Tr., pages 94-5.
[15] Oct. 7 Tr., page 98.
[16] EB-2008-0280.

The scope of the Long Term Contract Guidelines is sufficiently broad to include utilization of existing facilities as one of the factors to be considered by the Board when preapproval of a long term contract is requested. In Enbridge's view, it is not necessary to be more specific at this time about the extent to which potential impacts on existing pipeline facilities should or will be considered when new or expanded pipelines under the Board's jurisdiction are proposed.

Further Action

Enbridge submits that the Board should continue to support gas distributors by recognizing both the role of diversification in good planning and the need to consider diversification together with a number of other factors. More particularly, Enbridge submits that the Board should continue to accept that key factors in the determination of an optimal supply portfolio are an assessment of landed costs, operational flexibility, contractual flexibility and supply diversity.

It is also Enbridge's submission that, while maintaining a focus on conservation, the Board should continue to facilitate construction of new gas infrastructure, such as pipelines, gas-fired electricity generating facilities, and infrastructure associated with the development of renewable sources for gas supply.

During the course of the NGMR, it was suggested that the Board might establish a formalized long term resource planning requirement for Ontario utilities. The province's gas distributors have successfully met the needs of their customers for many years, through periods of dramatically changing circumstances, without any such formalized resource planning requirement. Enbridge submits that there is nothing in the current or anticipated market circumstances that justifies the imposition of this proposed and significant new requirement on utilities, especially in light of the fact that the approach now taken by the gas utilities, and the Board, is one that has stood the test of time.

Enbridge files an annual gas cost budget each year, which identifies the consequences of changes to its gas supply portfolio. The annual identification of changes to the gas supply portfolio and the preapproval process under the Long Term Contract Guidelines together provide appropriate opportunity for consideration of the implications of gas supply portfolio changes.

The issue of long term utility resource planning was brought forward in the context of the Board's consideration of the Long Term Contract Guidelines, but the Board did not see fit to impose a resource planning requirement in that proceeding.[17] Indeed, the Long Term Contract Guidelines adequately address issues such as portfolio content and compatibility and this is yet another reason why a long term resource plan is unnecessary. Further, a long term resource plan would include many elements that would not actually be acted upon by the

[17] EB-2008-0280 Filing Guidelines.

utility and these elements would inevitably become irrelevant to the utility's procurement portfolio.[18]

It was also suggested during the course of the NGMR that Enbridge, Union Gas Limited (Union) and TransCanada could work together to prepare integrated system plans for the Board's consideration.[19] Enbridge does not support this suggestion. Enbridge, Union and TransCanada have competing interests and, joint development of an integrated system plan by these companies potentially would mean disclosure of information that is commercially sensitive and confidential. The sharing of information that would otherwise be confidential would impede the marketplace and it is not reasonable to expect that a process based on sharing of confidential information by companies with competing interests would be effective or productive. Even if an integrated system plan were to be produced in this manner, the plan would be of little value, because, as stated above, the outcome invariably would be that parts of the plan would not be acted upon.

Concluding Observations

The overall objective of the NGMR is to assess how natural gas markets in Ontario are responding or adapting to changing market conditions. The specific objective is to assess the need, if any, for further regulatory initiatives. As elaborated on in these comments, Enbridge believes that, to date, Ontario natural gas markets have been adapting to changing market conditions and that, given the Board's existing approach to gas supply planning and pre-approval of long term contracts, no further regulatory initiatives are needed at this time. When new infrastructure projects are brought forward to the Board, Enbridge submits that the fact that any particular project addresses multiple objectives – such as safety, reliability and security of supply from increased diversification – should be viewed with favour by the Board.

[18] For example, a long term plan prepared five years ago probably would have projected that LNG would be an increasingly important source of gas supply, but this has not proved to be the case: Oct. 7 Tr., pages 168-9.
[19] Stakeholder Conference Transcript, October 8, 2010, page 85.