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VIA COURIER

Ms Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
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Dear Ms Walli:

Re: Enbridge Gas Distribution Inc. Application for Amendments to the Transactional Service Methodology approved in EB-2005-0244

In a Rate Order arising from the EB-2005-0244 proceeding, the Ontario Energy Board (the Board, or the OEB) approved a Settlement Agreement which set out a new Transactional Services (TS) Methodology for Enbridge Gas Distribution Inc. (EGD, or the Company). The new TS Methodology provides that, as of January 2006, EGD shall conduct its TS activities either though an electronic auction process, where all qualified counterparties can participate, or by way of responding to unsolicited bids made by those counterparties to acquire available TS assets. One of the key provisions of the new TS Methodology is the requirement for EGD to assume all responsibility for TS activities from Enbridge Gas Services Inc. (EGS), and to ensure that EGS has no role in TS activities, except as a potential counterparty to transactions with EGD. The new TS Methodology also prescribes limits on the TS transactions that EGD can undertake with EGS.

The Company has conducted its TS activities in full compliance with the new TS Methodology. In the course of these operations, it has become apparent that two changes ought to be made to the TS Methodology. First, in light of the fact that the electronic auction only accounted for 1% of TS revenues in 2006, the Company seeks to replace the auction with a more direct and iterative form of marketing where the Company can solicit business from all qualified counterparties and maximize TS revenues. Second, now that a full separation from EGS has been effected, EGD believes that there is no continuing reason to limit EGD's ability to participate in TS transactions with EGS. EGD believes that these changes will benefit all stakeholders, including ratepayers (who receive most of net TS revenues) and counterparties who transact with the Company. EGD has provided notice of the proposed changes to stakeholders, and no objections have been registered.

The Rate Order in the EB-2005-0244 proceeding specifically provides that any modifications to the TS Methodology must be brought before the Board for approval. EGD therefore requests that approval be granted for its proposed amendments to the provisions of the TS Methodology.

What follows is a more detailed description of the relief sought, and the supporting rationale.

Background

In 2005, the OEB initiated the EB-2005-0244 proceeding, on its own motion, seeking to have EGD develop a new methodology for making surplus TS assets known to and available to unrelated market participants on a non discriminatory basis. One impetus for this proceeding was a concern that had been expressed about the relationship between EGS and EGD, and EGS's perceived unfair advantage in being both the administrator of EGD's TS activities, as well as a potential counterparty in TS transactions with EGD.

The parties in the TS Proceeding were able to reach a resolution of all issues in advance of the hearing and agree upon a new TS Methodology. The agreement of the parties is set out in a Settlement Proposal, which has an attachment titled "Methodology for Transactional Services". The Settlement Proposal was approved by the Board on July 5, 2005 and is included as part of the Board's Rate Order in the EB-2005-0244 proceeding, dated July 19, 2005. A copy of the Rate Order is attached as Appendix 1.

The TS Methodology

Among other things, the Settlement Proposal, and the TS Methodology, provide that:

- all utility functions and services performed by EGS are to be repatriated to EGD, and EGS will not have any role in operating or assisting with EGD's TS business;

- a new TS Methodology to make surplus assets available to the market is to be implemented by January 1, 2006. Under this new TS Methodology, authorized counterparties will have access to an electronic auction site, where EGD would post information about available TS assets, and the counterparties will have an opportunity to bid on those assets. EGD will then award the TS assets to the best bidder at the close of each auction. Alternately, the new TS Methodology also provides that authorized counterparties will be permitted to solicit (make offers to acquire) TS assets from EGD (referenced as "unsolicited opportunities"), so long as the TS assets are not the subject of an auction process that is not yet concluded;

- limitations are to be placed on the ability of EGD to enter into TS transactions with EGS (other than through the auction process), except in the case of small transactions of less than $50,000 and three days duration. Additionally, a report of all TS transactions where EGS is the counterparty will be provided by EGD to all interested parties on a monthly basis;

- EGD will prepare reports for all interested parties (on a 15 day lagged basis) setting out the results of the auction processes and a summary of TS activities;

- measures will be adopted to ensure that no interruptible customers are curtailed as a result of TS activities or transactions;
- EGD will conduct annual performance reviews of its administration and compliance with the TS Methodology and will share these reviews with all interested parties; and
- no changes to the TS Methodology can be made without notice to all TS stakeholders, who must be provided with 15 days notice to register an objection.

EGD's Experience under the TS Methodology

EGD has met all of its obligations under the EB-2005-0244 Settlement Agreement, and now has a year and a half experience operating under the new TS Methodology. EGD recently provided interested parties with its Annual Transactional Services Performance Review for the period from January 1 to December 31, 2006, a copy of which is attached as Appendix 2.

As seen in the Annual Review, all utility functions and services related to procurement and optimization of natural gas supply, transport and storage capacity were repatriated to EGD from EGS on January 1, 2006 and a complete separation of information systems has been effected to ensure that EGS does not have access to any information about TS functions beyond the information that is provided to all market participants.

The Annual Review also sets out the fact that the electronic auction process has not been successful, in that it only resulted in 7 successful transactions accounting for 1% of TS revenue in 2006. Given this lack of success, EGD surveyed its authorized TS counterparties in May 2007 in order to obtain their views about the flaws in the electronic auction system. Through this process, EGD learned that counterparties are unwilling to complete transactions through the auction mechanism, largely because of the rigidity and risks that a static system imposes on what would otherwise be a fluid marketplace. All respondents to the survey indicated that they support the abolition of the auction in favour of a return to more standard transactions that provide volume timing and market flexibility.

The Annual Review discloses the fact that there were no unsolicited TS transactions with EGS during 2006. This is not surprising, given the restrictions placed on EGD that prevent it from entering into unsolicited TS transactions with EGS valued at more than $50,000 (or more than three days in duration). There was one transaction with EGS through the auction process, but its approximate value was only $3400 US.

Finally, the Annual Review confirms that TS activity in 2006 did not have any impact on the level of curtailment of interruptible customers.

Proposed Changes to the TS Methodology

In light of its operating experience over the past eighteen months, EGD has concluded that the TS Methodology is overly prescriptive and does not enable the Company to maximize its options to optimize its TS activities. To address this shortcoming, EGD has put forward two recommendations for changes.

First, EGD proposes that the electronic auction process be eliminated, and replaced with a more direct and iterative form of marketing through which the Company can solicit business from all authorized counterparties and maximize TS revenues. This will enable the Company to do more than simply respond to unsolicited bids from counterparties, and instead directly approach counterparties who the Company believes will be interested in potential transactions. This is typical of the approach that is used by other market players to identify and carry out this type of transaction. Given that EGD's reporting requirements for TS activity will continue, all market participants will be able to monitor transactions and assure themselves that EGD is conducting its activities appropriately.

Second, EGD proposes that restrictions on its ability to enter into transactions with EGS be lifted. While it is true that one of the primary objectives of the TS Settlement Agreement and the new TS Methodology was to ensure that EGS did not have an unfair advantage over other market participants, fulfilment of this obligation ought not to result in an unfair disadvantage against EGS. Now that EGS is completely disengaged from any role in EGD's TS activities, and does not have any more information than any other market participant, it is appropriate that EGS be able to have the same right to participate in EGD's TS opportunities as any other market participant. This is in the interest of ratepayers, as it would allow another potential counterparty to be active in TS activities with EGD. Other counterparties can be assured that EGS is not receiving any unfair advantage because EGD's obligation to report each month on all affiliate transactions (solicited or unsolicited) will continue, and all recipients of monthly reports will continue to have the right to ask EGD for more detailed information about affiliate TS transactions.

EGD circulated its Annual Transactional Services Performance Review on September 15, 2007 to all parties who participated in the EB-2005-0244 proceeding. At that time, EGD highlighted the fact that it was recommending the above changes to the TS Methodology and, consistent with the provisions of the TS Methodology, asked for any stakeholder comments on the proposed changes to be provided within 15 days. The Company has received three responses, all of which support the proposed changes. No objections have been raised by any stakeholder. Copies of the responses received from stakeholders supporting the proposed changes are attached as Appendix 3.

Relief Sought

In order to implement the proposed changes to the TS Methodology, EGD requests that the Board issue an Order in this EB-2005-0244 proceeding indicating that:

1. As of January 1, 2008, EGD is no longer required to use the electronic auction procedure set out in the TS Methodology when it makes TS assets available to the marketplace and can instead use such methods as are typical in the marketplace and that it deems appropriate to solicit bids and enter into TS transactions with authorized counterparties.

2. As of January 1, 2008, the limitations upon EGD's ability to enter into TS transactions with EGS will be lifted.

3. All other aspects of the TS Methodology, including all of EGD's reporting requirements for TS activity and affiliate transactions, will continue in full force and effect.

Please do not hesitate to contact me with any questions.

Yours Truly

Patrick Hoey
Director, Regulatory Affairs

cc. David Stevens, Aird & Berlis LLP, counsel to Enbridge Gas Distribution