



500 Consumers Road
North York, Ontario M2J 1P8
PO Box 650
Scarborough ON M1K 5E3

Lesley Austin
Assistant Regulatory Coordinator
phone: (416) 495-6505
fax: (416) 495-6072
Email: lesley.austin@enbridge.com

March 5, 2008

VIA RESS/COURIER AND EMAIL

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

Dear Ms. Walli:

**Re: Enbridge Gas Distribution Inc. ("EGD")
Transactional Services Methodology
Ontario Energy Board File No. EB-2007-0932**

On February 20th EGD received interrogatories from Board Staff regarding EGD's application for amendments to the Transactional Services Methodology (EB-2007-0932). Enclosed please find EGD's responses to the interrogatories; Exhibit I, Tab 1, Schedules 1 to 7.

The above noted documents have been submitted to the OEB through the Regulatory Electronic Submission System (RESS), with 2 paper copies being sent to the OEB by courier. The documents will also be available on our website at www.enbridge.com/ratecase by Thursday, March 6, 2008.

Sincerely,

A handwritten signature in black ink that reads 'Lesley Austin'.

Lesley Austin

encl.

cc: Mr. David Stevens, Aird & Berlis LLP
All Interested Parties EB-2007-0932 (via email only)

BOARD STAFF INTERROGATORY #1

INTERROGATORY

Ref: EB-2005-0551 Decision, OEB Business Plan 2008-2011

Preamble: The Board held a proceeding to determine whether it should refrain, in whole or on part, from regulating the rates charged for natural gas storage in Ontario. The Board's Decision in this generic hearing (EB-2005-0551) was released on November 7, 2006. One of the Board's recommendations was that it was necessary for the Board to develop the appropriate rules of conduct and reporting requirements related to storage.

The OEB business plan outlines that a consultation process to develop rules of conduct and reporting related to storage (Storage and Transportation Access Rule, or 'STAR') would start in 2008 and the rules would be in place by the end of fiscal year 2008-09.

Why does Enbridge Gas Distribution ("EGD") believe it is appropriate to request significant changes to its Transactional Services Methodology knowing that a consultation regarding STAR will be starting in 2008 and will ultimately determine the rules for the use of these assets?

RESPONSE

Enbridge Gas Distribution ("EGD") is not aware, and does not expect, that any proceeding regarding a Storage and Transportation Access Rule ("STAR") will have any impact on any rules for the use of its Transactional Services ("TS") assets.

The proposal for a STAR in the EB-2005-0551 Natural Gas Electricity Interface Review proceeding ("NGEIR") originated from the City of Kitchener, and was also supported by the Board Hearing Team. We have reviewed the filings, cross-examinations and argument from those parties, and are unable to discern how, or if, any STAR proposal those parties were advocating would relate to EGD's short term TS activities. To the contrary, their proposals seemed to relate primarily to things such as:

- reporting of transmission and storage capacity and transactions (which would occur on a quarterly basis)
- a complaint system to deal with discriminatory access concerns
- concerns about ensuring open access to Union Gas' transmission system, without which access to storage is of little use to Ontario market participants
- rules and information requirements for open seasons (for long term capacity)

Witnesses: M. Giridhar
V. Krauchek

Similarly, the portion of the Board's Decision with Reasons in NGEIR that determines that the Board will develop and implement a STAR, does not appear to relate to TS activities, which by their nature are short term.

In the "Reporting" section of the NGEIR Decision (section 5.4, pages 74-76), the Board indicated that it was concerned about ensuring consumer protection within the competitive market for storage in Ontario and ensuring access to Union's transportation system on a non-discriminatory basis to new and existing storage operators. The Board's Decision continued by stating that "it is necessary to develop appropriate operating and reporting procedures to ensure these objectives are addressed", so it would initiate a process to develop a STAR that would address:

- requirements to ensure that Union Gas cannot discriminate in favour of its own storage operations or against third party storage operators
- reporting requirements for all storage providers
- a complaint mechanism for customers (or other market participants)

Based on the foregoing, EGD does not expect that the issues that may arise in a STAR proceeding will relate to its TS activities, which involve the re-sale of discrete amounts of existing storage and transmission capacity on a short term basis.

Three other facts lead EGD to the conclusion that any future STAR proceeding ought not to have any bearing on this Application.

First, the relief that EGD is seeking in this proceeding (a change away from the electronic auction process, and permission to participate in TS transactions with Enbridge Gas Services as a counterparty) does not in any way impact the reporting requirements that EGD must continue to satisfy, in accordance with the EGD TS Methodology. Similarly, EGD is not seeking any relief that would in any way bear upon a subsequent examination by the Board of what types of complaint mechanisms might be implemented as part of a STAR. Additionally, any consideration by the Board, as part of a STAR, of rules that might apply to open seasons ought not to impact on the relief sought by EGD, which relates to short term transactions. Indeed, EGD's Application makes clear that parties are not interested in using any sort of auction process for TS transactions.

Second, many (and often most) of the assets that EGD uses for its TS activities are not EGD's own assets, but are instead transmission, storage and other assets acquired from third parties which EGD re-sells on a short-term basis when they are not needed for utility operations. As such, EGD is not unlike an unregulated marketer (or reseller) in

Witnesses: M. Giridhar
V. Krauchek

these activities. In addition, some of the assets that EGD uses for its TS activities, such as pipeline capacity, are outside of Ontario. Finally, the only utility asset that EGD uses for its TS activities is the portion of its Tecumseh storage operations that is reserved for utility operations and that asset is only used for TS when it is temporarily surplus to utility operations meaning that EGD is not in a position to influence or control the market. EGD does not expect, therefore, that a STAR would relate in any way to the assets that it uses for its TS activities.

Finally, and perhaps most importantly, EGD is not aware that any party would support delaying the consideration of the relief sought in this Application. The proposed changes to EGD's TS Methodology have been presented and discussed with affected stakeholders and participants in the TS market, and no party has indicated any disagreement with the relief sought. As noted in the Application materials, the changes that EGD proposes to the TS Methodology are likely to increase EGD's TS activities, thereby benefiting EGD's ratepayers (who receive most of the net TS revenues).

In light of all of these circumstances, it does not appear appropriate to delay the consideration of this Application until a proceeding to consider a STAR has been convened.

Witnesses: M. Giridhar
V. Krauchek

BOARD STAFF INTERROGATORY #2

INTERROGATORY

Ref: EGD Application, Page 3

Preamble: EGD states in its application that, "Through [a survey] 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." (Emphasis added.)

EGD noted that counterparties identified timing and fluidity as primary concerns with the current auction system.

(a) If the auction system is abolished, does EGD believe that reporting of transactions on the current 15 day lagged basis will still provide useful information on a timely enough basis for the contracting of short term surplus assets? Please explain.

(b) Please explain why a 5 day lagged basis or 10 day lagged basis would or would not be appropriate?

(c) Please explain the advantages or disadvantages of reporting of short-term surplus asset transactions via a web-portal, or similar, that would be available to all counterparties?

RESPONSE

a) The monthly auction report outlines auction and affiliate transaction details for the previous month only. This historical account bears no relevance to the assets that are offered to counterparties for present day/future gas flow. Therefore, the reporting of the previous month's auction transactions does not provide useful information for future transactions, irrespective of the timing of the report.

The timing and fluidity concerns brought forward by the respondents are directed at the auction's limited functionality, not its reporting. The auction platform provides a very stagnant and narrow window in which transactions can be executed (as opposed to standard trading practices that are guided by dynamic market conditions and fluctuations). Additionally, the auction necessitates a gap in timing between the submission of a counterparty's bid and the acceptance or rejection of that bid which exposes the party to a price risk in which their bid can be devalued yet still be binding.

Witnesses: M. Giridhar
V. Krauchek

b) Please see a) above.

- c) The current TS Methodology mandates that each month, specific bid and award information be extracted from the web portal and then emailed as a report to the contacts on the TS Distribution List (this list continues to be open to all Intervenor and any interested parties). The report is comprised of a summary of awarded bids by counterparty, the relative percentage spread between successful bids and the auction floor prices, as well as revenue, term and volume details for any affiliate transactions over the previous month.

The report has been of limited use, since there were only 7 successful bids through the auction mechanism in 2006, and since, no bids were made or awarded through the web portal in 2007. In addition, the restrictions on the ability of Enbridge Gas Services ("EGS") to enter into transactions with EGD has meant that there has been very little affiliate activity to report.

While the Company understands that the report is an appropriate tool for reporting of affiliate transactions on a timely basis (especially if the restrictions against contracting with EGS are lifted), EGD does not believe that the scope of what is included in the report should be expanded. The fact is that counterparties are unwilling to disclose trade specifics to the public, and would resist monthly reporting of details of their transactions, since this could cause the disclosure of commercially sensitive information to competitors. In addition, it should be noted that no counterparty has requested that the Company disclose details of its transactions with non-affiliates.

In addition to the monthly reporting, the Company also prepares and provides an Annual TS Review to all stakeholders.

Given the foregoing, the Company does not believe that additional ongoing reporting of short-term surplus asset transactions is appropriate or necessary.

Witnesses: M. Giridhar
V. Krauchek

BOARD STAFF INTERROGATORY #3

INTERROGATORY

Ref: EGD Application, Appendix 3, Page 2

Preamble: EGD states in its application that, "All recipients of the Monthly reports will retain the ability to ask for more detailed information on affiliate transactions." In response to Enbridge's survey of counterparties, Coral/Shell Energy indicated that, "EGD may wish to make it a standard practice to report more detailed information in the future annual reviews."

- (a) Please indicate whether EGD intends to provide more detailed information as part of its annual review. If so, please list the additional information. What criteria would Enbridge use to determine what types of information it would release to third parties?
(b) If a counterparty requests more detailed information on affiliate transactions, please outline what Enbridge considers a reasonable timeframe for responding to such requests.

RESPONSE

- a) EGD believes that the reporting requirements mandated by the current TS Methodology provide appropriate and sufficient information to market participants and the Board.

As described in the response to Board Staff Interrogatory #2, the current TS methodology requires the Company to provide monthly reports and an Annual TS Review to the TS distribution list. The monthly reports mandated by the TS Methodology identify auction transactions and, in months where there are affiliate transactions, the year to date TS activity and the share of that TS activity involving EGD's affiliates by the number of transactions, transacted volumes and margin. In addition, with respect to unsolicited transactions with an affiliate, the number of transactions, transaction type, duration, and transaction value must also be reported.

Moreover, the OEB's Affiliate Relationship Code (ARC) and the OEB's Natural Gas Reporting and Record Keeping Requirements (RRRs) set additional rules for affiliate transactions. The ARC prescribes limits on the size of affiliate transactions that can be completed without an RFP process (assuming that a competitive market exists), and requires the Company to maintain records of affiliate transactions. Under section 2.1.8 of the OEB's RRRs, the Company is required to file the total dollar

Witnesses: M. Giridhar
V. Krauchek

value and number of transactions with each affiliate with the OEB on an annual basis. Sections 2.3.7.1 and 2.3.7.2 of the RRRs require that the Company maintain (and provide to the Board as required) separate records for each transaction if the total dollar value of transactions with an affiliate exceeds \$100,000 on an annual basis. These records must show the name of the affiliate, the product or service, the form of price determination and the term. These OEB reporting requirements, and the OEB's review of the Company's reporting, should give comfort to all parties that EGD is acting appropriately in any of its affiliate transactions.

- b) The Company believes that the level of reporting discussed above is sufficient. To the extent that parties are seeking additional reasonable information about affiliate transactions, EGD will disclose that additional information as part of the next Annual TS Review.

It is not appropriate that the additional information be disclosed more quickly, because that will expose EGS to an unfair disadvantage where potentially commercially sensitive information about its activities would be disclosed to competitors in circumstances where those competitors would not have a similar disclosure risk. On the other hand, where the information is disclosed in a lagged annual review document, the commercial sensitivity of the information will have abated and other parties will still be able to satisfy themselves about the propriety of EGD's TS activities.

BOARD STAFF INTERROGATORY #4

INTERROGATORY

Ref: EGD Application, Page 4

Preamble: EGD states in its application that, "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 bid sand enter into TS transactions with authorized counterparties." (Emphasis added)

Please describe the method(s) that Enbridge deems appropriate and would use to solicit bids and enter into TS transactions.

RESPONSE

On a daily basis, EGD identifies available TS assets which are then valued according to a blend of execution costs, utility needs, historical trends, NYMEX futures, as well as indicative pricing from brokerage houses and on-line trading screens – information that is available throughout the market.

With these economics determined, EGD would be able to present transaction opportunities to authorized counterparties through telephone calls, face to face discussions and/or electronic communications. This option would be in addition to the current practice where counterparties approach EGD to determine if TS assets are available. EGD believes that the volume of unsolicited transactions executed since the inception of the current TS Methodology is clear evidence of an educated market that understands EGD's business. While this is a trend that will likely be sustained, supplementing unsolicited transactions with active solicitation (through telephone conversations, face to face discussions as well as electronic communications) will bolster EGD's potential TS revenue returns.

EGD is aware of the business needs and interests of its authorized counterparties, and as such is able to assess what specific counterparties should be approached about any potential transactions. Assuming that it is granted permission to solicit TS transactions then, in most cases, EGD would approach more than one potential counterparty, with the goal of entering into the best possible transaction. The transactions could be executed within a short period of time, with no risk of time exposure for either EGD or the counterparty. Other than EGD being the initiating party, this process reflects the

Witnesses: M. Giridhar
V. Krauchek

business practices that define current market behavior. Through this process, EGD will seek to further its aim of maximizing TS revenues. In effect, the drivers of a successful EGD deal would continue to be a function of the availability of EGD's assets and the maximization of revenue.

Witnesses: M. Giridhar
V. Krauchek

BOARD STAFF INTERROGATORY #5

INTERROGATORY

Ref: EGD Application, Page 4

Preamble: EGD states in its application that, "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." (Emphasis added)

(a) If EGD intends to directly approach specific counterparties, how will the Company ensure fair access to these transactions? Please comment specifically on how this would apply to transactions between EGD and Enbridge Gas Services ("EGS")?

(b) Please outline the process that would be used when directly approaching counterparties for potential transactions.

(c) Excluding the availability of 15 day lagged reporting of affiliate transactions, what other methods will other parties have to monitor that Enbridge is providing equal access to opportunities to access short term surplus assets?

RESPONSE

a) The Company believes that the following factors will ensure fair access for all counterparties:

- EGD is incented to enter into the best possible TS transactions, in order to maximize the revenues that it is allowed to retain (of course, this also benefits ratepayers who receive most of the benefit of TS revenues)
 - TS revenue is maximized when the TS administrator interacts with multiple counterparties in a competitive environment in search of "best price"
 - TS revenue is also maximized when the TS administrator is able to identify and interact with those counterparties who are most likely to be interested in the subject opportunity
 - In trying to maximize TS revenues, EGD will seek out transactions with those counterparties who it has identified as being most likely to be interested in a particular opportunity
 - EGD will, in most cases, approach more than one potential counterparty for a given opportunity, again in an effort to optimize TS revenues

Witnesses: M. Giridhar
V. Krauchek

- The Company is required to report on TS activity on a monthly and annual basis, and this information is available to all market participants. As already noted, counterparties are unwilling to disclose trade specifics to the public and as such, the intent of the reports is to restrict identifying statistics for non-affiliate transactions while still providing general information to all market participants. In any event, however, market participants will be able to review the disclosed information to assure themselves that there is an active market for EGD's TS assets.
- The Company has enhanced reporting requirements for affiliate transactions, which will provide comfort to market participants and the Board that no affiliate is obtaining preferential treatment.
- The Company's affiliates do not receive access to proprietary utility information, and this is certified on an annual basis by a Company officer.
- Finally, and in any event, all authorized counterparties remain able to approach the Company seeking to enter into TS transactions – as noted in the Application, this process currently accounts for the vast majority of EGD's TS transactions – meaning that market participants are able to directly affect their ability to participate in EGD's TS transactions.

The Company believes that the foregoing provides comfort that TS opportunities will be offered on a non-preferential basis to counterparties. This should not be confused, though, with seeking to provide TS opportunities on an equal basis to all counterparties. While the auction system was intended to provide all authorized counterparties with equal access to TS opportunities, the fact is that counterparties have been unwilling to participate in that process, for the reasons described in the Application. EGD believes that its proposals for changes to the TS Methodology balance the goal of maximizing TS revenue with assurances that authorized counterparties will have fair access to TS transactions.

- b) Please see the response to Board Staff Interrogatory #4.
- c) Please see (a) above.

Witnesses: M. Giridhar
V. Krauchek

BOARD STAFF INTERROGATORY #6

INTERROGATORY

Ref: EGD Application, page 3

Preamble: EGD states in its application that, “[the auction mechanism] only resulted in 7 successful transactions accounting for 1% of TS revenue in 2006.”

What percentage and absolute increase in TS revenue does EGD expect, year over year, as a result of the changes contemplated in its application? Please provide EGD’s estimate, with supporting documentation, of the increase to transactional services revenue, based on the assumption that all of the changes requested in this application are approved. If EGD cannot provide a specific estimate, please provide a short list of the most likely scenarios.

RESPONSE

As explained in its Application, EGD believes that the increased opportunities and flexibility that will result from the requested changes to the TS Methodology will increase its total TS revenues, assuming all other factors remain equal. EGD is unable, however, to provide a specific estimate of the forecast increase to TS revenues if the requested changes are approved. As noted in previous proceedings, TS revenues are difficult to predict due to factors such as fluctuations in price between different trading hubs and points in time, weather and customer needs.

The aim in eliminating the e-Market auction is not to mitigate the uncertainty with respect to revenue, but rather to increase the control EGD has over the generation of revenue. Although EGD’s core business is well understood by market participants (as evidenced by the volume of unsolicited activity that has occurred since the auction’s inception), opportunities have been lost as a result of the combination of the auction’s rigid timing and this passive environment of unsolicited offerings. If market conditions could be held constant, TS activity not constrained by the auction methodology would potentially generate more revenue (as opposed to the current pattern of unsolicited transactions) as EGD would be able to actively promote and leverage its assets at any time. Maximizing TS revenue would continue to be the focus of the TS process and EGD believes this pursuit would be enhanced with a combination of both solicited and unsolicited opportunities.

Witnesses: M. Giridhar
V. Krauchek

BOARD STAFF INTERROGATORY #7

INTERROGATORY

Please provide historical balances of the Transactional Services deferral account for the past 5 years.

RESPONSE

Amounts cleared through approved rate orders in relation to the 2003 through 2006 Transactional Services Deferral Accounts ("TSDA") were as follows:

(\$000's)

2003 – (\$4,672.0)
2004 – (\$10,974.8)
2005 – (\$12,949.0)
2006 – (\$7,508.8)

The amount contained in the 2007 TSDA, which still requires approval to be cleared, is as follows:

2007 – (\$8,698.4)

Witnesses: K. Culbert
M. Giridhar
V. Krauchek