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October 4, 2013

VIA RESS, EMAIL AND COURIER

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. ("Enbridge")
Ontario Energy Board File No. EB-2013-0046
2012 Earnings Sharing Mechanism and Other Deferral and Variance Accounts Clearance Review

Pursuant to Enbridge Gas Distribution's Hearing Plan dated September 17, 2013, enclosed please find the Argument-in-Chief in the above noted proceeding.

This submission was filed through the Board's RESS and will be available on our website at www.enbridgegas.com/ratecase.

Sincerely,

[original signed by]

Lorraine Chiasson

encl.

cc: Mr. F. Cass, Aird & Berlis LLP
All Interested Parties in EB-2011-0354

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c.15 (Sched. B);

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an order or orders approving the clearance or disposition of amounts recorded in certain deferral or variance accounts.

ENBRIDGE GAS DISTRIBUTION INC.
ARGUMENT IN CHIEF

A. INTRODUCTION

1. The Board's decision in the EB-2011-0055 proceeding (re. Enbridge's 2011 deferral and variance accounts) found that the revenues received from capacity release exchange transactions in 2011 should be treated as gas cost reductions, rather than as Transactional Services (TS) revenues.

2. After that decision, Enbridge indicated that it would file detailed evidence in its 2012 deferral and variance account proceeding to describe its TS activities, and to explain why capacity release exchange transactions should be treated as TS activities.

3. In its Rate Order for the EB-2011-0055 proceeding, the Board acknowledged Enbridge's proposal and indicated that it would consider 2012 capacity release net revenues within the 2012 ESM proceeding. The Board explained that it would be incumbent on Enbridge to provide comprehensive evidence in support of its requested relief. At the oral hearing on September 20th, the Presiding Member confirmed that the decision to be made in this 2012 case will be based on the evidence provided in this case, and will not use the 2011 decision as a precedential value for this year's proceeding.[1]

4. Enbridge filed detailed evidence in this case, setting out the context and nature of its TS activities, and the reasons why net revenues from capacity release exchange transactions

[1] 1Tr.54-55.

are properly considered as TS revenues. Enbridge responded to numerous interrogatories on this evidence.

5. Through the ADR process, parties did not resolve the issue about whether net revenues from 2012 capacity release exchange transactions should be considered to be TS revenues, or included within the transportation component of the Purchased Gas Variance Account (PGVA). However, within the Settlement Agreement the parties did agree that the net 2012 revenues related to capacity release exchange transactions total $18.63 million. It was further agreed that if the Board determines that these revenues should be considered to be TS revenues, then no change is required to Enbridge's deferral and variance account balances. If the Board determines that these revenues should be included in the PGVA, then Enbridge will reduce the ratepayer credit in the Transactional Services Deferral Account (TSDA) by $13.97 million (equal to 75% of the at-issue amount) and record a credit of $18.63 million within the transportation component of the PGVA.[2]

6. In Procedural Order No. 2, the Board directed that this outstanding issue should proceed to hearing on September 20, 2013.[3] The capacity release exchange revenues issue was the only contested issue addressed at the hearing.

7. This is Enbridge's Argument in Chief submitted in accordance with the schedule for written submissions established during the oral hearing of evidence in this proceeding.[4] In this Argument in Chief, Enbridge sets out how the evidence in this case, including the testimony from the September 20th hearing, supports a determination that 2012 capacity release exchange transaction revenues are appropriately treated as TS revenues.

B. ENBRIDGE'S TS ACTIVITIES

8. Enbridge has undertaken TS activities since the mid-1990s. The goal of TS activities is to generate revenue from optimizing temporarily surplus transportation and storage assets.[5]

[2] Settlement Agreement, at Issue 2, Ex. N1-1-1, pp. 13-14.
[3] Decision on Settlement Agreement and Procedural Order No. 2, August 20, 2013, at p. 2.
[4] See Hearing Plan and 1Tr.80.
[5] Ex. C-1-6, pp. 1, 4 and 7 and 1Tr.12-13.

9. Most of the net revenues from Enbridge's TS activities are credited to ratepayers. During the 2008 to 2012 IRM term, Enbridge has provided a guarantee of $8 million in TS revenues to ratepayers.[6] Essentially, this means that revenue requirement is reduced by $8 million each year, to recognize the net TS revenues that Enbridge will work to achieve for that year. The Company is at risk for that amount: if in any year Enbridge did not achieve net TS revenues of $8 million, then its shareholder would have to absorb the shortfall.

10. During the 2008 to 2012 IRM term, TS activities have been greatly beneficial to ratepayers. Over that period, ratepayers have been credited with approximately $94 million in net TS revenues.[7]

11. The nature of TS activities has evolved over the past 20 years, depending on market demands and opportunities. For example, as different TCPL services have emerged, this has created new optimization opportunities (and has taken away previously existing opportunities).

12. What has not changed, though, is the general nature of what constitutes a TS transaction. As explained in pre-filed evidence and testimony, to be considered a TS transaction, each of the following three elements must be present:

    a. *Unplanned*: The transaction opportunity must be unplanned in the sense that it is not forecast or known at the time that the Company prepares its gas supply plan for the coming year, which is during the spring of the preceding year. A transaction can only said to be planned if both the amount of surplus capacity and the value that can be extracted from third parties for that surplus capacity are known at the time that the gas supply plan is prepared. The result is that optimization transactions are considered to be "unplanned", since the actual amount and value of surplus capacity in the coming year are not yet known at the time that gas supply planning is done to meet forecast winter and peak customer demand for the upcoming gas year.[8]

[6] 1Tr.13.
[7] 1Tr.13.
[8] Ex. C-1-6 at pp. 7 and 16 and 1Tr.13-14 and 67-69.

b. *Third Party Service Request*: The transaction opportunity must involve a third party. Enbridge is not permitted to bundle the sale of gas and transportation, meaning that the only way to extract value from excess transportation is through the sale of excess capacity (or components thereof) to third parties.[9]

c. *Temporarily Surplus Capacity*: The transaction opportunity must relate to transportation or storage capacity that is temporarily surplus. Transportation and storage assets are acquired to meet customer demand in the Company's franchise areas. Capacity is temporarily surplus if it is not required to meet the needs of the customer in the franchise on the day(s) in question.[10]

13. Enbridge's pre-filed evidence sets out examples of TS transactions that use temporarily surplus transportation capacity. The examples given are base exchanges, STS–RAM credits exchanges and capacity release exchange transactions.[11]

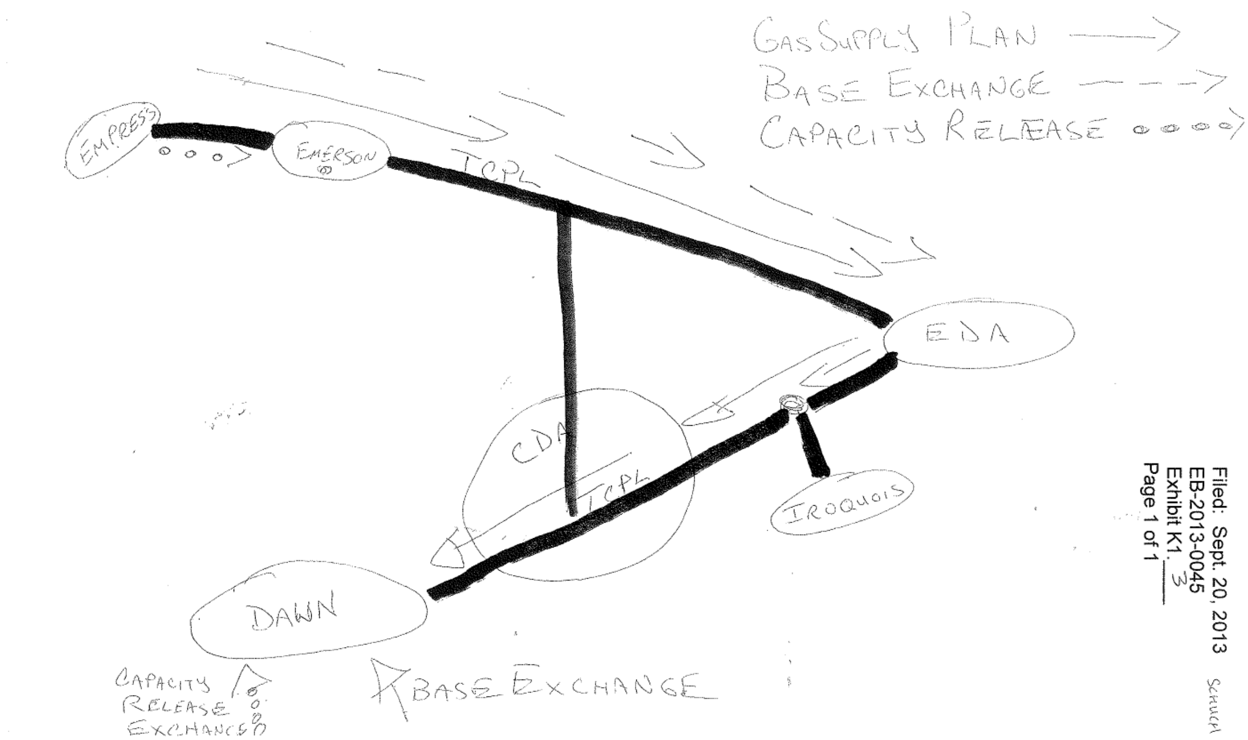
14. The capacity release exchange transactions at issue in this proceeding are possible because Enbridge must contract for a significant amount of firm long haul transportation (FT) from TCPL in order to meet peak day demand in its Eastern Delivery Area (EDA). While the full amount of this FT capacity is needed to meet winter and peak demand, the capacity far exceeds the average summer demand in the EDA. This is illustrated in Table 2 of the pre-filed evidence. During the summer period, Enbridge continues to use its EDA FT capacity to transport gas from Empress (since the FT capacity must be paid for all year) but uses an attribute of the FT service to divert the gas not required in the EDA to storage at Dawn.[12]

15. The need for diversion to storage creates TS transaction opportunities. These opportunities arise where a counterparty is prepared to pay some amount for the benefit or use of Enbridge's surplus transportation capacity (using gas purchased by Enbridge) and at the same time provide Enbridge with an equivalent volume of gas at Dawn (to be injected into storage). The value to the counterparty arises where its cost of acquiring gas at Dawn for

[9] Ex. C-1-6 at p. 8 and 1Tr. 14 and 66-67.
[10] Ex. C-1-6 at p. 8 and 1Tr. 14-15 and 18.
[11] Ex. C-1-6, at pp. 10-18.
[12] Ex. C-1-6, at pp. 10-18 and 1Tr.15, 22-23 and 39-41.

Enbridge, plus any applicable transportation cost, is less than the revenues that it can obtain from selling the same volume of gas at a different receipt point (perhaps Iroquois or Emerson), plus any TCPL credits that may apply.[13]

16. Exhibit K1.3, which was discussed at the oral hearing, is a schematic diagram illustrating Enbridge's use of the TCPL FT service that has been contracted to serve the EDA. The diagram also shows the TS transactions that are used to optimize parts of that capacity which are temporarily surplus. For reference, the diagram is reproduced below.



17. The dark solid lines on the diagram show the TCPL transportation paths. The contracted transportation path from Empress to the EDA is along the top of the diagram, along with an indication (seen as long arrows) that this is the path that is intended by the Company's gas supply plan to meet winter and peak day demand in the EDA. Essentially, Enbridge buys gas at Empress, and it is transported to the EDA for customer use. As indicated by the long arrows along the bottom of the diagram, the gas supply plan also contemplates that gas not

[13] Ex. C-1-6, at pp. 10-15 and 1Tr.15-16.

required in the EDA during the summer will be purchased at Empress and transported using the FT service to the EDA, where it will be diverted to storage at Dawn.[14]

18. Base exchange transactions and capacity release exchange transactions, which are the two main types of transportation TS activities undertaken by Enbridge in 2012[15], are also illustrated on Exhibit K1.3. Each is described below.

19. Base exchange transactions accommodate requests from counterparties who would like to have gas delivered to a particular receipt point but have no transportation capacity to get the gas to that point. If Enbridge has temporarily surplus capacity to that receipt point, then it can undertake a "base exchange" to accommodate the request. A typical example of a base exchange transaction, as illustrated by the dotted solid line on Exhibit K1.3, is that Enbridge purchases gas at Empress and delivers the gas to a counterparty at Iroquois. At the same time, the counterparty delivers an equal volume of gas to Enbridge at Dawn, for injection into storage. The result is that both parties receive gas where they need it. Enbridge, as shipper, continues to pay TCPL for the FT transportation. In recognition of the fact that the gas is more valuable to the counterparty at Iroquois than at Dawn, Enbridge receives a payment from the counterparty, which is treated as TS revenue.[16]

20. Capacity release exchange transactions allow counterparties to take advantage of credits associated with unused FT capacity, which are referred to as "FT RAM credits". The counterparty can only access these credits if it is a shipper on TCPL, meaning that Enbridge has to assign capacity to the counterparty. As seen in Exhibit K1.3, the typical example of a capacity release exchange transaction sees Enbridge providing a counterparty with gas at Empress and assigning FT capacity to the EDA to the counterparty for that volume of gas. Then, as seen in the dotted line on the diagram, the counterparty transports the gas to Emerson using a less expensive TCPL IT service and leaves the FT capacity empty so that the counterparty can obtain FT RAM credits. The counterparty sells the gas at Emerson, and provides Enbridge with an equal volume of gas at Dawn, for injection into storage.

[14] Ex. K1.3 and 1Tr.47.
[15] See Ex. C-1-6, Appendix B, which illustrates that these two types of transactions accounted for virtually all of Enbridge's 2012 transportation related TS revenues.
[16] Ex. K1.3 and 1Tr.47 and 70 and Ex. C-1-6, pp. 9 and 12.

Enbridge gets gas where it needs it. The counterparty benefits because the value of the gas at Emerson plus the value of the FT RAM credits exceeds the cost of gas purchased at Dawn plus the cost of IT transportation acquired from TCPL. The counterparty pays TCPL for the cost of the FT capacity that was assigned, and bills that cost to Enbridge while at the same time crediting Enbridge with a payment of an additional amount (in recognition of the value that the counterparty obtains from the transaction). That additional amount is treated as TS revenue.[17]

C. CAPACITY RELEASE EXCHANGE TRANSACTIONS ARE TS ACTIVITIES

21. There is no issue in this case that net revenues from 2012 base exchange transactions are properly treated as TS revenue within the 2012 TSDA. For the reasons that follow, Enbridge submits that 2012 net revenues from capacity release exchange transactions, which are very similar to base exchange transactions[18], should also be treated as TS revenue within the 2012 TSDA.

22. Capacity release exchange transactions include all three elements of TS transactions:

    a. *Unplanned*: At the time that Enbridge creates its gas supply plan, it does not know either the amount or the value of transportation capacity that will be temporarily surplus during the coming year. It is only later that Enbridge is able to identify how much capacity will be available to offer for capacity release transactions, and it is only later that counterparties are prepared to value that capacity.[19]

    b. *Third Party Service Request*: The capacity release exchange transaction necessarily involves the assignment of Enbridge FT capacity to a third party. That is what differentiates this type of transaction from a base exchange transaction. Enbridge cannot "unlock" the value of the FT RAM credits within the FT service without

[17] Ex. K1.3 and 1Tr.15-17, 18-20, 32-33, 47 and 70-71 and Ex. C-1-6, pp. 14-15.
[18] See, for example, 1Tr.71-72.
[19] Ex. C-1-6 at pp. 15-16 and 1 Tr.18, 61-64 and 67-69.

assigning the capacity to a counterparty who will become the shipper of record, and then pay Enbridge a portion of the value of the FT RAM credits.[20]

c. *Temporarily Surplus Capacity*: Enbridge has confirmed that it does not acquire any FT capacity for the purpose of optimization transactions – all of Enbridge's FT transportation to the EDA is required to meet peak day demand. Capacity release exchange transactions involve the assignment of FT capacity that is not needed to serve customers within the EDA during the periods of assignment (generally summertime). That transportation capacity is temporarily surplus and would otherwise be diverted to send gas to storage, instead of to the contracted location (the EDA).[21]

23. As can be seen, capacity release exchange transactions include all required elements of TS transactions. As described above, capacity release exchange transactions are very similar to base exchange transactions, which also include all required elements and have been treated as TS transactions for many years. The difference between the two is that a capacity release exchange transaction requires Enbridge to assign the temporarily surplus transportation capacity to the counterparty, to "unlock" the value of the FT RAM credit. This allows Enbridge to obtain far greater value from the capacity release exchange transaction as compared to what would be available from a base exchange.[22]

24. Enbridge submits, therefore, that net revenues from 2012 capacity release exchange transactions are properly treated as TS revenues, and included within the 2012 TSDA.

All of which is respectfully submitted, October 4, 2013.

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David Stevens, Counsel for Enbridge Gas Distribution Inc.

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[20] Ex. C-1-6 at pp. 15 and 17 and 1Tr. 15-16, 19 and 70-72.

[21] Ex. C-1-6, pp. 17-18 and 1Tr.18, 22-23 and 40-41.

[22] See Ex. C-1-6, pp. 18-21 (especially Table 4, supported by Appendix D), which shows that Enbridge generated $18.6 million in revenues from capacity release exchange transactions, whereas it would have only generated $3.8 million in revenues had it used the same temporarily surplus capacity for base exchanges.