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October 30, 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**

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Pursuant to Enbridge Gas Distribution's Hearing Plan dated September 17, 2013, enclosed please find Reply Argument 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](http://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.  
REPLY ARGUMENT**

**A. INTRODUCTION**

1. The outstanding issue in this proceeding is whether net revenues from 2012 capacity release exchange transactions should be considered to be transactional services (TS) revenues, or included within the transportation component of the Purchased Gas Variance Account (PGVA).
2. Within the Settlement Agreement, the parties agreed 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.<sup>1</sup>
3. Enbridge filed detailed evidence on this issue, setting out the context and nature of its TS activities, and the reasons why net revenues from capacity release exchange transactions are properly considered as TS revenues. Enbridge also provided testimony about this issue at the oral hearing on September 20, 2013.

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<sup>1</sup> Settlement Agreement, at Issue 2, Ex. N1-1-1, pp. 13-14.

4. Enbridge filed its Argument in Chief on October 4, 2013, setting out the reasons why net revenues from 2012 capacity release exchange transactions are properly considered to be TS revenues.
5. Submissions and Final Argument have been filed by Board Staff and seven intervenors, as follows: Building Owners and Managers Association (BOMA), Canadian Manufacturers & Exporters (CME), Consumers Council of Canada (CCC), Energy Probe Research Foundation (Energy Probe), Federation of Rental-housing Providers of Ontario (FRPO), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC)
6. This is Enbridge's Reply Argument submitted in accordance with the schedule for written submissions established during the oral hearing of evidence in this proceeding.<sup>2</sup> Enbridge will respond to the arguments of others under the headings that follow.

**B. THE RECORD IN THIS CASE SHOULD BE USED TO DECIDE THE ISSUE**

7. Enbridge submits that the decision in this case, which relates to the Company's 2012 revenues from capacity release exchange transactions, should be made on the basis of the evidence in this case about its 2012 activities.
8. It appears to Enbridge that the Board agrees with this position, as seen by the comments of Presiding Member Conboy at the oral hearing:

.... the decision that we will make this year, is based on the evidence that we have in front of us for this year, and not use last year as a precedential value for this year's proceeding.<sup>3</sup>
9. As Enbridge explained in its prefiled evidence and testimony, the Company believes that it did not provide sufficient context and explanation for capacity release exchange transactions in the 2011 ESM proceeding (EB-2012-0055). Enbridge has taken the opportunity to do that this year. The enhanced evidence, along with the oral testimony, give the appropriate context and explanation for Enbridge's 2012 capacity release exchange transactions. At the

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<sup>2</sup> See Hearing Plan and 1Tr.80.

<sup>3</sup> 1Tr.54-55.

oral hearing, the Presiding Member acknowledged the approach being taken by Enbridge in this case:

I think what I hear them saying is that you would have made a different decision had we done a better job of explaining ourselves. And therefore, this year we're going to make a better effort at explaining ourselves, and hopefully the decision will be different.<sup>4</sup>

10. Thus, while several parties go to some lengths to emphasize how Enbridge's capacity release exchange transactions have not changed in 2012<sup>5</sup>, that is not the point. The fact that the nature of the transactions is the same as in 2011 does not mean that the Board's decision will necessarily be the same as in 2011.

11. Instead, the point is that Enbridge has now provided a full and proper context and explanation for its 2012 TS activities, including capacity release exchange transactions, to assist the Board. Enbridge believes that this will allow the Board to come to a different conclusion. Board Staff appears to agree. In their Submissions, Board Staff states the view that:

.... in the current proceeding, Enbridge provided better, more thorough and complete evidence explaining its capacity release activities than it did in 2011. It is this more comprehensive evidence, key examples of which are provided herein, that Board staff submits allows the Board to make a decision which is different from the decision it made on the same issue in 2011.<sup>6</sup>

12. Enbridge disputes the suggestion that there is some extraordinary onus upon Enbridge to establish facts that were not available to be presented to the Board in the 2011 proceeding.<sup>7</sup> Enbridge is not seeking a review of the Board's 2011 decision.<sup>8</sup> The Company did not challenge (by appeal or review) the Board's treatment of capacity release exchange revenues in 2011. Instead, as set out above, Enbridge is simply seeking to have the Board come to an appropriate conclusion for 2012, based on the evidence in this case.

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<sup>4</sup> 1Tr.55.

<sup>5</sup> See, for example, BOMA Submissions, at p. 5; CCC Final Argument, at pp. 2-3; and VECC Final Submissions, at p. 7.

<sup>6</sup> Board Staff Submission, at p. 8.

<sup>7</sup> See, for example, Argument of CME, at pp. 8-10.

<sup>8</sup> Contrary to the suggestion within the VECC Final Submissions, at p. 7.

13. As a final note on this topic, Enbridge disagrees with CME's proposition that the Board's findings in Union Gas proceedings related to FT-RAM optimization activities are relevant to the decision to be made in this case.<sup>9</sup> This case is different. In the Decisions in the Union Gas cases, a key finding was that Union Gas created opportunities to achieve FT-RAM optimization revenues on a planned basis.<sup>10</sup> Opportunities for Enbridge to carry out TS activities do not arise from its gas supply plan; they arise from the weather and other circumstances that occur as Enbridge proceeds to implement the gas supply plan during the year in respect of which it was made. As seen in the exchange between Board Member Quesnelle and Ms Giridhar reproduced in the Board Staff Submission<sup>11</sup>, Enbridge sets its gas supply plan from the perspective of least cost. The anticipation of having capacity release opportunities does not influence the proportion of the transportation products included within the gas supply plan. The finding in the Union Gas case is therefore not relevant to Enbridge.

**C. ENBRIDGE'S CHARACTERIZATION OF TS TRANSACTIONS IS APPROPRIATE**

14. Enbridge's prefiled evidence and testimony explained the three elements (or criteria) that must be present for a transaction to be considered a TS transaction:

- a. *Unplanned*: The transaction opportunity must be unplanned in the sense that it is not and cannot be 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.
- b. *Third Party Service Request*: The transaction opportunity must involve a third party.
- c. *Temporarily Surplus Capacity*: The transaction opportunity must relate to transportation or storage capacity that is temporarily surplus to meeting customer demand during the period when the transaction takes place.

15. Parties had a range of responses to Enbridge's proposed approach:

- a. Board Staff focused on the first and third of Enbridge's criteria, and agreed that both elements are present in the case of capacity release exchange transactions.<sup>12</sup>

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<sup>9</sup> Argument of CME, at pp. 2-5.

<sup>10</sup> This is seen clearly in the passages from the Union Gas EB-2012-0087 decision reproduced by CME at pp. 3-5 of its Argument.

<sup>11</sup> 1Tr.40-41. See also Board Staff Submissions, at pp. 10-12.

<sup>12</sup> Board Staff Submissions, at pp. 8-9.

- b. BOMA, CCC and Energy Probe appear to accept Enbridge's three criteria, but argued that one or more elements are not present for Enbridge's capacity release exchange transactions.<sup>13</sup>
- c. VECC argued Enbridge's criteria should not be determinative, but offered no alternative approach.<sup>14</sup>
- d. FRPO and SEC argued for different tests to be applied to determine whether a transaction is properly considered to be TS.<sup>15</sup>
- e. CME did not address what constitutes a TS transaction, but offered certain "rationale" for concluding that capacity release exchange transactions are not TS transactions.<sup>16</sup>

16. As can be seen, there is no common idea among intervenors as to how the Board should assess whether a particular opportunity should be considered to be a TS transaction. Enbridge has provided a clear and principled explanation of what constitutes a TS transaction. Intervenors have provided scattered and inconsistent comments that do not establish any cohesive basis for a principled approach to TS.

17. Enbridge believes that it is important that there be predictability and set principles to delineate what constitutes a TS transaction. Otherwise, as new market opportunities arise in coming years, there will be ongoing debates about the characterization of such transactions. In this regard, Enbridge agrees with FRPO that it is the nature, not the title, of an opportunity that determines whether it should be considered a TS transaction.<sup>17</sup>

18. Enbridge submits that its three proposed elements properly identify what opportunities should be considered to be TS transactions.

19. The first and third proposed elements (Unplanned, and Temporarily Surplus Capacity) are important hallmarks of TS transactions. As noted in the Board Staff Submission, the first and

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<sup>13</sup> BOMA Submissions, at pp. 5-6; CCC Final Argument, at p. 3; and Energy Probe Argument, at pp. 4-6. Note that Energy Probe has a different view from Enbridge of what is meant by Temporarily Surplus Capacity: this is addressed later in this Reply Argument.

<sup>14</sup> VECC Final Submissions, at p. 7.

<sup>15</sup> FRPO Argument, at pp. 4-5; and SEC Final Submissions, at pp. 3-4.

<sup>16</sup> Argument of CME, at pp. 7-8.

<sup>17</sup> FRPO Argument, at p. 4.

third of Enbridge's proposed elements have already been adopted by the Board, in the EB-2012-0055 Decision.<sup>18</sup>

20. The second of Enbridge's three proposed elements, Third Party Service Request, was addressed within FRPO's Argument. Enbridge submits that this element appropriately recognizes that a TS opportunity requires the involvement of a third party. Enbridge cannot unilaterally reduce its costs, and claim that as a TS transaction. A TS transaction contemplates that a third party will make some use of elements of Enbridge's temporarily surplus capacity and pay some amount to Enbridge while not impacting Enbridge carrying out its gas supply plan.<sup>19</sup> In response to FRPO's concerns about the apparent one-way nature of this element (because the heading Third Party Service Request connotes an inbound request only)<sup>20</sup>, Enbridge confirms that the intent of this element is simply to require the *involvement* of a third party. This may come about where a third party approaches Enbridge about an opportunity, but can also come about where Enbridge approaches a third party.
21. Rather than engaging on the elements/criteria proposed by Enbridge, FRPO has proposed a different test to determine whether an opportunity should be considered a TS transaction. The FRPO approach asks whether the purpose of a transaction is "Gas Supply or Third Party services", essentially stating that where a transaction involves the movement or acquisition of gas that is included within the Company's gas supply plan, that would not be a TS transaction. Only where surplus assets are used to move a third party's gas would the transaction be considered to be a TS transaction.
22. FRPO's proposal creates a distinction that has never been used to differentiate TS activities from other gas supply activities. It is at odds with what Enbridge has understood to be the parameters of its TS opportunities.
23. Below is an explanation of several of the problems with FRPO's proposal.

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<sup>18</sup> Board Staff Submission, at pp. 8-9.

<sup>19</sup> See discussion at 1Tr.14 and 66-67.

<sup>20</sup> FRPO Argument, at p. 2.

24. First, FRPO's proposal takes away the appropriate and agreed-upon incentive for Enbridge to find and take advantage of opportunities to extract additional value from capacity that is not needed to serve customers on a particular day.
25. Second, FRPO's proposal would significantly diminish the TS opportunities that currently exist, and that were part of the TS business at the outset of the IR term, when parties agreed to include an upfront \$8 million reduction in rates to recognize an anticipated amount of TS revenue each year.<sup>21</sup>
26. For example, FRPO's proposal would classify base exchange transactions as "Gas Supply", even though base exchange transactions are currently (and for many years prior) treated as TS transactions. As explained at the oral hearing, and described in Argument in Chief, Enbridge's base exchange transactions involve the Company purchasing gas at Empress and using temporarily surplus TCPL Firm Transportation (FT) capacity<sup>22</sup> to deliver it to a third party at Iroquois or another point in the EDA or CDA. Concurrently, the third party delivers the same volume of gas to Enbridge at Dawn, for injection into storage.<sup>23</sup> This type of transaction, where both Enbridge and the third party get gas where they need it, and Enbridge obtains additional revenue from the third party, would not qualify as a TS transaction under FRPO's proposal because part of a base exchange involves the third party providing gas to Enbridge at Dawn for injection into storage.
27. More generally, FRPO's proposal would greatly limit the times when TS opportunities for transportation capacity are available. Under the FRPO approach, TS would only be available during the relatively few days in the year when the gas supply plan does not call for particular capacity to serve either end use consumption on the day, or injection into storage. TS opportunities would be so rare as to make it very challenging to generate revenues that would equate to the \$8 million rate reduction that was credited to ratepayers for each year of the IR term.

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<sup>21</sup> 1Tr13. Note that the \$8 million credit is not divided into transaction types – it is meant to cover all TS activities.

<sup>22</sup> The capacity used for capacity release exchange transactions is surplus, because it is not needed to serve customers on the day(s) of the releases.

<sup>23</sup> See Argument in Chief, at para. 19, and associated evidentiary references, including Exhibit K1.3.



28. Enbridge notes that SEC has also made a proposal about how to determine what transactions should be included within the TSDA. Essentially, SEC proposes that any transactions that are not contemplated within the gas supply plan, and have the effect of optimizing the implementation of the gas supply plan, should be incented (and included in the TSDA).
29. While Enbridge appreciates the goal and simplicity of SEC's proposal, it is not clear that the proposal is completely consistent with the existing TS framework that applied through Enbridge's 1<sup>st</sup> Generation IR term. For the purposes of this 2012 ESM proceeding, it seems more appropriate to apply the three elements/criteria that Enbridge has proposed for the purpose of determining whether capacity release exchange transactions are TS transactions.

#### **D. CAPACITY RELEASE EXCHANGE TRANSACTIONS ARE TS TRANSACTIONS**

30. Enbridge's prefiled evidence, testimony and Argument in Chief explained that capacity release exchange transactions include all three of the elements of a TS transaction.<sup>24</sup> While Board Staff agreed with Enbridge's conclusion, some other parties did not.
31. The main point of difference appears to relate to whether capacity release exchange transactions make use of temporarily surplus capacity. As Enbridge has explained, the capacity used for capacity release exchange transactions is temporarily surplus, because it is not needed to serve customers on the day(s) of the releases. The FT capacity that is released was acquired to meet the winter demand for customers in the EDA. Some of that capacity is not needed to meet demand in summertime. The surplus FT capacity would ordinarily be used to divert gas to storage, because the FT demand charges are a sunk cost and the gas supply plan considers that the best planned alternative use for that capacity is to fill storage.<sup>25</sup> The gas that is injected into storage will be used to meet later demand of Enbridge customers.

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<sup>24</sup> See, for example, Argument in Chief, at para. 22, and associated evidentiary references.

<sup>25</sup> See Argument in Chief, at paras. 14 to 17 and 22, and associated evidentiary references.

32. In Enbridge's view, contrary to the assertions of Energy Probe and others<sup>26</sup>, the use of temporarily surplus capacity to generate revenues, while still ensuring that the requirements of the gas supply plan are met, lies at the heart of what TS transactions are meant to achieve. While the FT capacity is always used to the full extent required to meet daily demand in the EDA (which is the reason why the capacity was acquired), the value of the capacity that is not needed for that purpose at some times of the year can be optimized. This optimization, in the form of capacity release exchange or base exchange transactions, allows Enbridge to get required gas to storage, while obtaining additional value from the capacity that is not needed to serve its customers on the day(s) in question.
33. There is no important distinction between whether it is the "capacity" or the "asset" that is surplus on the day(s) in question.<sup>27</sup> The "asset" (presumably the TCPL transport) is never completely surplus. Part of the TCPL FT service is always being used (even in the warmest days of summer) to meet demand in the EDA. However, there will be days when part of the "asset" (the surplus capacity) is not required to meet customer demand in the EDA. That is what is "surplus" (even though it is being used to fill storage), and available to be used for capacity release exchange and base exchange transactions (as long as the Company can still undertake the planned gas purchases, and achieve the planned injections into storage).
34. Enbridge disputes CME's assertion that surplus capacity that arises because of Enbridge's optimization actions does not qualify for TS transactions.<sup>28</sup> It is not Enbridge's actions that create temporarily surplus capacity. The capacity at issue in this case (that which is used for capacity release exchange transactions) is temporarily surplus because it is not needed to meet the needs of customers in Enbridge's franchise on the day(s) in question.
35. Enbridge further disputes the suggestion that TS opportunities can only relate to capacity that would remain idle if not used for a TS opportunity.<sup>29</sup> If Enbridge can optimize transportation capacity not needed to serve its franchise on the day, and still meet the ends

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<sup>26</sup> See Energy Probe Argument, at pp. 3-6; CCC Final Argument, at pp. 2-3; and BOMA Submissions, at pp. 2-3.

<sup>27</sup> See Energy Probe Argument, at pp. 3-6.

<sup>28</sup> Argument of CME, at p. 7.

<sup>29</sup> CME Argument, at p. 7.

of the gas supply plan by having gas delivered to Dawn for injection into storage, then the optimization transaction is properly considered as TS.

36. CME's approach would treat base exchange transactions as gas cost reductions, despite the fact that these have been treated as TS transactions throughout the 1<sup>st</sup> Generation IR term. For many years, Enbridge has entered into base exchange transactions, which result in Enbridge offering to use its temporarily surplus FT capacity to provide gas to a third party at an agreed delivery point, so long as the third party provides the same volume of gas to Enbridge at Dawn. In such cases, Enbridge buys gas at Empress and delivers it to the third party by using FT capacity that would otherwise be diverted to Dawn. This is made possible because Enbridge does not need to use the FT capacity to get gas to the franchise area on the day(s) in question. A base exchange transaction results in the same outcome (in terms of fulfilling the gas supply plan) as a capacity release exchange transaction despite the different mechanics of each transaction. Enbridge submits that it is appropriate that the utility be incented to find and take advantage of opportunities to extract additional value out of capacity that is not required to meet the needs of customers in the franchise on particular days.

37. As to Enbridge's other proposed elements/criteria of TS transactions, there does not seem to be strong disagreement with Enbridge's position that capacity release exchange transactions are unplanned (not contemplated within the gas supply plan) and involve third parties.

38. Enbridge therefore repeats its submission that capacity release exchange transactions include all required elements of TS transactions, and should be treated as such.

#### **E. OTHER ITEMS**

39. Within intervenor arguments, several other positions were advanced to which Enbridge wishes to respond.

40. It is not correct that capacity release exchange transactions should be viewed as resulting in a lower landed cost of gas at Dawn than would be the case using FT transport.<sup>30</sup> The proper way to view the transactions is that the landed cost of the gas is the same as contemplated in the gas supply plan, but there is additional revenue received from the counterparty to whom Enbridge assigns FT capacity as a result of the counterparty being able to use value in that transport that is inaccessible by Enbridge directly.

41. Stated simply, there are two transactions. The first transaction involves Enbridge paying the counterparty for the FT transport that was assigned, because the counterparty has received gas from Enbridge at Empress and delivered gas to Enbridge at Dawn. The second transaction involves the counterparty paying Enbridge a portion of the FT-RAM credit received from TCPL. This was explained by Ms Giridhar at the hearing, as follows:

So, because we cease to be the shipper on record temporarily, TransCanada does not invoice us for the transportation capacity. They invoice the new shipper, or the new temporary shipper on record, which is the marketer.

The marketer then turns around and invoices us for what TransCanada would have otherwise invoiced us. And then the marketer is also giving us some of the revenues he has generated from using the FT RAM attribute.

So what you really see is a net transaction, but it's two transactions, and it's very common in the industry when there is a receipt and a payable that the amount is netted. Our credit departments love it. And I think all credit departments love doing business that way.<sup>31</sup>

42. Some intervenors pointed to the determination in the 2011 decision that STS-RAM credit transactions should be treated as gas cost reductions, and argued that the same approach should apply to capacity release transactions.<sup>32</sup> The two intervenors who raise this point in argument did not ask any interrogatories about STS-RAM credit transactions, and did not participate in cross-examination.

43. Enbridge does not agree that STS-RAM for "own use" credit transactions are equivalent in nature to capacity release exchange transactions. STS-RAM credits are obtained from TCPL on days when Enbridge does not use its contracted Storage & Transportation Service

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<sup>30</sup> See, for example, Energy Probe Argument, at p. 4.

<sup>31</sup> 1Tr.19.

<sup>32</sup> See, for example BOMA Submissions, at p.4; and Energy Probe Argument, at pp. 3-4.

(STS) capacity.<sup>33</sup> In an STS-RAM “own use” credit transaction, Enbridge uses accumulated STS-RAM credits from TCPL (which credits must be used within the month when they are earned) as a direct offset to Enbridge’s own TCPL Interruptible Transportation (IT) service costs.<sup>34</sup> There is no third party involvement.<sup>35</sup> By contrast, in a capacity release exchange transaction, Enbridge pays the full cost of the FT transportation to the counterparty to whom it has assigned FT capacity. At the same time, Enbridge receives a payment from that counterparty for a portion of the value that the counterparty has achieved through the transaction.

44. Finally, Enbridge wishes to respond to CME’s effort to differentiate between Enbridge’s base exchange transactions and capacity release exchange transactions.<sup>36</sup> CME’s submissions appear to misstate the nature of base exchange transactions.

45. CME asserts in its Argument that the temporarily surplus capacity used for the base exchange transaction would remain surplus (empty) if not used for the base exchange transaction.<sup>37</sup> CME then says that this is a point of difference from capacity release exchange transactions. The problem is that CME’s assertion does not reflect the actual nature of base exchange transactions. In its testimony and Argument in Chief, Enbridge has explained the nature of base exchange transactions, which have long been treated as TS transactions, and explained why they are fundamentally similar to capacity release exchange transactions.<sup>38</sup> The temporarily surplus capacity used for base exchange transactions is surplus because it is not needed to meet the needs of customers in the franchise area on the day(s) in question. Instead, the temporarily surplus capacity will be

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<sup>33</sup> Exhibit C, Tab 1, Schedule 6, at pp. 12-13. Enbridge notes that the BOMA Argument appears to equate STS-RAM credits and STS withdrawal rights (see BOMA Argument, at p. 4). In fact, these are not the same thing. The STS-RAM credit is obtained by a shipper leaving STS capacity empty, and expires at the end of the month it is earned. The STS withdrawal rights, which allow a shipper to remove gas from storage, are obtained when a shipper makes deliveries to storage using STS service. STS withdrawal rights are accumulated in summer (injection season) and can be used for the following winter (withdrawal season) : see Exhibit C, Tab 1, Schedule 6, at p. 16-17.

<sup>34</sup> Exhibit C, Tab 1, Schedule 6, at pp. 12-13.

<sup>35</sup> However, in the case where Enbridge has more STS-RAM credits than it can use during a month to offset IT services, then Enbridge will seek TS opportunities to obtain revenues from the surplus STS-RAM credits: see Exhibit C, Tab 1, Schedule 1, at p. 13.

<sup>36</sup> Argument of CME, at pp. 10-11.

<sup>37</sup> Argument of CME, at p. 10.

<sup>38</sup> See, for example, Argument in Chief, at paras. 19 and 23 and associated references. See also 1Tr.45-47 and Exhibit K1.3.

filled and diverted to Dawn, so that gas purchased at Empress will be injected into storage. The base exchange transaction allows Enbridge to obtain extra revenue from optimizing the temporarily surplus capacity in a manner that enables both Enbridge and the counterparty to get gas where they want it. However, consistent with the gas supply plan, if there is no TS opportunity then Enbridge will plan to fill and divert the temporarily surplus FT capacity to Dawn, to allow for injection into storage.

46. Enbridge submits, therefore, that base exchange transactions are fundamentally similar to capacity release exchange transactions. As highlighted in Argument in Chief, the difference between the two is that a capacity release exchange transaction requires Enbridge to assign the temporarily surplus capacity to the counterparty, to “unlock” the value of the FT RAM credit, thereby allowing Enbridge to obtain far greater value from the transaction as compared to a base exchange.<sup>39</sup>

#### **F. CAPACITY RELEASE EXCHANGE REVENUES ARE TS REVENUES**

47. In summary, Enbridge submits that capacity release exchange transactions should be considered to be TS transactions, and related 2012 net revenues should be recorded within the TSDA. Like base exchange transactions, capacity release exchange transactions exhibit all three elements/criteria for TS transactions, and allow Enbridge to obtain additional value from temporarily surplus capacity.
48. Most of this additional value is credited to ratepayers, with a portion (25% in this case) being credited to the utility as an incentive payment. This incentive is appropriate. As SEC points out in its Final Submissions, it is appropriate to incent transactions that optimize the implementation of Enbridge’s gas supply plan.<sup>40</sup> There is significant effort associated with finding and implementing transactions that extract value from temporarily surplus transportation and storage assets. The incentive payment associated with such transactions works to ensure that Enbridge makes full effort to extract maximum value from surplus assets, to the benefit of ratepayers and the utility.

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<sup>39</sup> Argument in Chief, at para. 22, and associated evidentiary references.

<sup>40</sup> SEC Final Submissions, at pp. 3-4.

49. The fact that this incentive is important can be seen in a review of the arguments made by VECC about the treatment of revenues arising from Enbridge's use of temporarily surplus capacity to the EDA. In its Final Submissions, VECC states that Enbridge has three options:

(i) EGD keeps the FT capacity full in the injection season and utilizes the diversion attribute of TC's FT service, (ii) EGD uses its FT at less than 100% load factor, accumulates FT RAM credits itself, and applies these credits to its own nomination of TC IT from Empress to Dawn, or (iii) buys gas at Empress, assigns TC FT capacity to a third party along with the gas EGD purchased and receives gas at Dawn in return.<sup>41</sup>

50. VECC argues that the effect of all three transactions is the same – Enbridge buys gas at Empress and receives gas at Dawn.<sup>42</sup> While that may be true, it misses the point. The point is that Enbridge has FT capacity that is not needed to meet the needs of customers in the franchise at some times of the year, and the utility should be incented to extract the most value from that excess capacity. As seen in the chart below, which is taken from Enbridge's prefiled evidence<sup>43</sup>, the value to ratepayers from each of the three options is very different (the chart also includes the option of base exchanges in addition to the three options noted by VECC).

\$ (millions)		Third Party Involvement	Incremental PGVA Impact	Transactional Services Revenue	Ratepayer Share
Option 1	Diversion of excess supply to Storage	No	-	-	-
Option 2	Base Exchange	Yes	-	(3.82)	(2.87)
Option 3	Capacity Release Exchange	Yes	-	(18.63)	(13.97)
Option 4	Utilization of FT RAM Credits	No	(1.86)	-	(1.86)

51. Were Enbridge to simply implement the gas supply plan as contemplated, and divert all excess capacity to storage, then there would be no incremental benefit to ratepayers (Option 1). Similarly, if Enbridge was to leave the FT capacity empty and use the FT RAM

<sup>41</sup> VECC Final Submissions, at p. 7.

<sup>42</sup> VECC Final Submissions, at p. 7.

<sup>43</sup> Exhibit C, Tab 1, Schedule 6, at p. 20.

credits to procure IT capacity from TCPL, the net benefit to ratepayers would be much less (Option 4).

52. The approach that Enbridge chose to take in 2012 (Option 3, capacity release exchange transactions), optimized ratepayer benefit by “unlocking” the value of the FT RAM credit through assignments to third parties. This resulted in significantly more value to ratepayers than would have been the case had Enbridge chosen to be more passive, and employed one of the other options noted by VECC. This optimization, which achieves incremental revenues from temporarily surplus capacity, is what the TS incentive is meant to achieve.

#### **F. CONCLUSION**

53. For the reasons set out in Argument in Chief, and herein, Enbridge submits 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 30, 2013.

A handwritten signature in blue ink, appearing to read "David Stevens", followed by a period.

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David Stevens, Counsel for Enbridge Gas Distribution Inc.