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By electronic filing

March 24, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

Enbridge Gas Distribution Inc. ("EGD")
April 1, 2014 QRAM Application
Board File No.: EB-2014-0039
Our File No.: 339583-000007

We have reviewed the submissions and information provided by Enbridge Gas Distribution Inc. ("EGD") in its March 19, 2014 letter to the Board. We also had a follow-up discussion with EGD staff this morning to obtain clarification of some of the information provided in response to the questions posed to the company in our letter of March 14, 2014, and Board staff's letter of March 17, 2014.

The context for these discussions included the following:

(i) Information Union Gas Limited ("Union") attached to its March 14, 2014, letter to the Board pertaining to its April 1, 2014, QRAM Application, and, in particular, its answer to question 3 of the Interrogatories from Board. This response indicated that Union was able to purchase incremental supplies to satisfy the needs of its system gas customers during the extremely cold winter we are experiencing at an average price of $7.12/Gj. A copy of that Interrogatory Response is attached as Schedule 1;

(ii) The wide publicity EGD's request for April 1, 2014 QRAM relief received, including, for example, a related article written by Adam Radwanski and appearing in the March 18, 2014 edition of The Globe & Mail entitled "Soaring energy prices making Ontario look dim for manufacturers". A copy of this article is attached as Schedule 2;

(iii) The Board's March 21, 2014 Order granting Union's request for recovery effective April 1, 2014, of the unusually large commodity cost increases which it has incurred to satisfy the requirements of its system gas customers; and

(iv) Some of the smaller manufacturer members of Canadian Manufacturers & Exporters ("CME") are system gas customers of EGD while others, including the large manufacturers, are direct purchasers.

During the course of these discussions, EGD staff agreed that from columns 5 and 7 of the information it provided in the attachment to Board staff Interrogatory No. 1 (Exhibit I, Tab 1, Schedule 1), the average cost

of incremental supplies acquired by EGD in January, February and March 2014 could be derived. Our calculations of these averages (which EGD will need to verify) are that, for each of the months January, February and March, the average prices paid for incremental supplies were $7.90/Gj for January, $15.91/Gj for February, and an estimated amount of about $8.44/Gj for March 2014. We calculate the averages for 2 months of January and February, at $10.63/Gj, and for the 3 months January to March inclusive, at $10.01/Gj.

Based on this analysis, the incremental costs EGD has incurred and will be incurring to meet the requirements of its system gas customers for the period January 1 to March 31 inclusive of about $10.01/Gj are about 140% of the average cost Union incurred of $7.12/Gj. The significant extent to which EGD's average incremental cost per Gj exceeds that incurred by Union gives rise to questions pertaining to the prudence of EGD's procurement practices during the recent cold snap.

The existence of this differential may also have relevance to mitigation. However, when considering that issue, it needs to be remembered that any mitigation of large increases in the gas commodity charges in EGD's rates for system gas customers will not provide any relief to participants in direct purchase transactions facilitated and served by EGD. Mitigating the increases in such charges could adversely affect the operation of the competitive gas commodity market as it pertains to the customers of that particular utility.

In an attempt to better understand EGD's procurement practices pertaining to incremental gas supplies, we discussed with EGD staff matters pertaining to the pricing and provision of "Peaking Supply", and "Delivered Supply". We sought information pertaining to the extent to which landed costs of "Delivered Supply" had likely increased by virtue of the unrestricted freedom of TransCanada PipeLines Limited ("TCPL") to price its discretionary services, being a matter referenced in Union's Interrogatory Response to Board staff attached as Schedule 1 to this letter. We raised questions pertaining to the extent to which the curtailment of interruptibles was used to mitigate the total incremental gas commodity procurement costs EGD has incurred since January 1, 2014.

We also sought information to determine whether EGD did anything between January 1, 2014 and the date of the filing its April 1, 2014 QRAM Application to notify its system gas customers, in writing, of the significant commodity price increases they would be facing effective April 1, 2014, so as to manage the expectations of those customers. EGD confirmed that nothing of that nature had been done.

On the basis of all of the foregoing circumstances, our submissions with respect to the April 1, 2014 QRAM relief which EGD seeks are as follows:

1. EGD has adhered to the prescribed process pertaining to requests for mechanistic QRAM relief. There are no process grounds upon which to justify an order denying the relief EGD requests.

2. EGD could have better managed the expectations of its system gas customers by alerting them through the issuance of written notices in January and February, and the issuance of appropriate Press Releases, of the likely gas commodity price increases which they would be facing as of April 1, 2014. The Board should encourage EGD to take timely action of this nature in the future. These actions would have likely diluted the effect of the adverse publicity that accompanied the filing by EGD of its April 1, 2014 QRAM Application.

3. Despite the fact that the commodity cost increases for system gas customers which EGD asks the Board to approve will have an annual bill impact greater than 10%, we believe that, on balance, Board ordered mitigation measures to dilute the impact of the gas commodity increases are inappropriate because they are unavailable to participants in direct purchase transactions. We believe

that, on balance, the public interest will be better served if the Board refrains from negatively affecting the operation of the competitive gas commodity market serving EGD.

4. The mechanical nature of the QRAM process does not allow for all facts pertaining to EGD's procurement practices since January 1, 2014, to be completely scrutinized for their "prudence".

5. Without further explanation from EGD, the fact is that its landed costs of incremental supplies to satisfy the requirements of its system gas customers are, on average, materially higher than those incurred by Union. This fact gives rise to questions pertaining to the prudence of EGD's procurement practices.

6. Any failure to take available action to avoid the high cost of peaking supplies or delivered supplies in favour of cheaper alternatives and/or the inadequate curtailment of interruptible customers could fall within the ambit of imprudent procurement practices.[1]

7. Having regard to the limited opportunity available to interested parties to investigate the "prudence" issue during the course of the brief and mechanistic QRAM process, we must rely on the Board to determine whether the circumstances pertaining to the differential between EGD's incremental gas costs and those of Union warrant further investigation.

We respectfully request that our client, Canadian Manufacturers & Exporters ("CME"), be awarded its reasonably incurred costs of participating in this Application. We sincerely hope that the Board will be assisted by these submissions, along with the information EGD provided in response to our requests.

Yours very truly,

Peter C.P. Thompson, Q.C.

PCT\slc
enclosures
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All Interested Parties EB-2012-0459
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OTT01: 6230353: v1

[1] We understand that Mr. Quinn will be drawing to the Board's attention some information in Exhibit K.8.2 in EB-2012-0459 which may call into question the appropriateness of EGD's storage balance at the end of December 2013, which, in turn, may give rise to questions pertaining to the prudence of its procurement practices.

Schedule 1

UNION GAS LIMITED

Answer to Interrogatory from
Board Staff

Ref: Tab 1, p. 15 / Tab 1, Table 1, Line 7

Union noted that it diversified its spot gas purchases by contracting for TCPL STFT capacity from Empress to Dawn to bring additional volumes (3.2 PJs) to Dawn for the period January 28 to March 31, 2014.

i) Please discuss why the large majority of spot gas purchases occurred at Dawn

ii) Please discuss whether Union considered additional Empress (or other non-Dawn) spot gas purchases

iii) Please discuss whether further diversification of spot gas purchases could have reduced Union's cost of procuring gas supplies for its customers and/or enhanced security of supply.

Response:

i) Purchasing gas at Dawn provides the greatest flexibility to meet incremental market demand in both Union North and Union South. Union can move incremental supplies to Union North delivery areas using STS services and provide flexibility to serve markets in Union South. The Dawn purchases were more economical at the times Union was making its purchasing decisions compared to alternatives.

It can also be difficult to source incremental transportation in the winter that is economic. Union did contract for 50,000 GJ/d of TCPL STFT service from Empress to Dawn for the period January 28, 2014 to March 30, 2014 for a total delivered volume of 3.2 PJ. This is discussed in more detail below.

Purchasing gas at Dawn also provides Union the most flexibility; Union can purchase gas on the day, the rest of the month (using firm even dailies), or for the next month. Union could not do this from any other supply basin without firm transportation.

ii) Union did purchase volumes at Empress and transport the gas to Dawn using STFT as noted at Lines 2 through 7 on page 15 of Tab 1 and page 5 of Tab 1, Appendix A. This was done to diversify purchases when supply signals were tightening at the end of January.

Purchasing gas at Empress requires incremental transport to deliver gas to Union North

delivery areas or Dawn. Incremental transportation from Empress is limited to STFT or IT. The bid floor for IT from Empress to Dawn is unpredictable and fluctuated from 195% to 2729% in January to March to 5500% of firm tolls on any given day.

STFT was available for the period January 28 to March 31, at a bid floor price of 180% of firm tolls. Prior to this, the bid floor for STFT capacity on TCPL was posted at 435% ($6.18/GJ for transport to Dawn) and was not cost effective relative to purchasing supply at Dawn. On January 27, Union bid on the STFT which was offered, with a bid of 185% to increase likelihood of acceptance and Union was awarded 50,000 GJ/day for the period January 28 to March 31. As noted at Tab 1, Appendix A, page 5 of 7, the weighted average landed price at Dawn was $7.55/GJ. This included the cost of STFT transportation to Dawn, as well as the cost of the gas supply commodity and fuel.

Subsequently, TCPL posted bid floor prices for STFT at 1000% to 1200% ($14.20/GJ to $17.04/GJ for transport to Dawn). Adding the cost of this transport to the cost of the supply at Empress plus fuel to deliver the supply to Dawn would have made this option uneconomic or expensive relative to other options.

iii) Union accessed significant diversity of supply when purchasing supply at Dawn due to the large number of buyers and sellers of natural gas transacting at Dawn.

The Dawn Hub is connected to all major supply basins in North America and a significant amount of underground natural gas storage within the Great Lakes region. Dawn is also one of the most physically traded, liquid hubs in North America. The liquidity of Dawn is the result of the combination of:

a) access to underground storage;
b) interconnections with upstream pipelines;
c) take away capacity to growth markets;
d) a large number of buyers and sellers of natural gas; and
e) price transparency.

The Board, in its NGEIR Decision with Reasons, identified the importance of the Dawn Hub in its NGEIR Decision with Reasons (EB-2005-0551, November 7, 2006, page 7-8):

"The storage facilities are an integral part of what is commonly referred to as the Dawn Hub, is widely recognized as one of the more important market centres in North America for the trading, transfer and storage of natural gas. In its Natural Gas Forum Report, the Board stated "The large amount of nearby storage, combined with the convergence of pipelines linking the U.S. and Ontario gas markets, have made Dawn the most liquid trading location in Ontario. The Federal Energy Regulatory Commission (FERC), in its assessment of energy markets in the United States in 2004, made similar comments about

the significance of Dawn: The Dawn Hub is an increasingly important link that integrates gas produced from multiple basins for delivery to customers in the Midwest and Northeast. …Dawn has many of the attributes that customers seek as they structure gas transactions at the Chicago Hub: access to diverse sources of gas production; interconnection to multiple pipelines; proximity to market area storage; choice of seasonal and daily park and loan services; liquid trade markets; and opportunities to reduce long-haul pipeline capacity ownership by purchasing gas at downstream liquid hubs."

Gas prices were higher in all supply areas and Union continually evaluated the availability and economics of various supply options. Union considered various options to purchase supply and delivery to Dawn relative to purchasing the gas at Dawn, however, purchasing supply at other supply basins, and transporting on interruptible capacity would have required Union to purchase gas in the cash market on the day at a much higher price (given the transportation could have been interrupted at any time).

As indicated at page 7 of 21, line 9, Union was able to avoid the highest price periods due to frequent monitoring and layering in approach to spot gas purchases and by predominantly buying the gas proactively in the forward market. Based on availability of supply at Dawn, Union was able to purchase incremental supply at an average price of $7.12 /GJ which was significantly less than gas prices in the cash / day market.

Purchasing gas at Dawn also provides Union the most flexibility; Union can purchase gas on the day, the rest of the month (using firm even dailies), or for the next month. Union could not do this from any other supply basin without firm transportation.

THE GLOBE AND MAIL

Schedule 2

Soaring energy prices making Ontario look dim for manufacturers

ADAM RADWANSKI
The Globe and Mail
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Last updatedTuesday, Mar. 18 2014, 9:16 PM EDT

For businesses in Brockville, the attempt to lure them over the border wasn't new. But the pitch was.

Earlier this winter, manufacturers in the Eastern Ontario community received a letter reminding them that their province's industrial electricity rates were projected to rise by 33 per cent over the next five years, and 55 per cent by 2032.

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"As a hedge against these increases," it suggested, "setting up an operation just across the border in St. Lawrence County, New York, may be a competitive strategy you should consider."

Such overtures, if not in written form then made more casually, are becoming increasingly common in Ontario. While they may not find immediate takers, they are emblematic of the mounting economic threat from an energy-cost trajectory that – following a series of questionable policy decisions – the province now seems powerless to do much about.

Owing mostly to a combination of overdue investments in infrastructure, phasing out coal and an ill-fated gamble on green energy, soaring power rates have already greatly increased the cost of doing business in Ontario. That's particularly true for those in the troubled manufacturing sector. In a report last month, the Association of Major Power Consumers of Ontario (AMPCO) alleged that the province now has "the highest industrial rates in North America"; per that report, prices are currently 37 per cent higher than in neighbouring New York for the province's biggest industrial users, and 68 per cent higher for smaller ones.

Adding insult to injury is that, because an excess of energy supply has come online at a time of decreased demand, Ontario is currently selling surplus power to New York and other neighbours at a steeply discounted rate. While that may play only a marginal role in enabling them to offer lower prices to consumers, it adds to frustration on this side of the border – not so much with those taking advantage, as with perceived mismanagement of the province's energy market that has given them the opportunity to do so.

"It's not anything to do with them – they're capitalizing on an opportunity," said Brockville Chamber of Commerce executive director Anne MacDonald about St. Lawrence County. "It's more about the hike in electricity costs."

Ms. MacDonald is quick to note that those costs have yet to actually drive any of the region's businesses to move, and local industry leaders say such decisions would be far more complex. "If a decision like that was ever forced to be made, it would involve more than the price of electricity," said Northern Cables CEO Shelley Bacon, citing factors such as labour costs and the strength of the Canadian dollar.

But Mr. Bacon, whose company makes industrial and power cables, says energy prices have in the past couple of years "started to creep onto the radar screen" when it comes to making investment decisions.

Influencing where new investments are made rather than trying to get companies to uproot themselves altogether is what St. Lawrence County says it was aiming for. "The pitch isn't for a Canadian company to move over here," said Patrick Kelly, the CEO of the industrial development agency that sent the letter. "What works best for us is some kind of satellite or companion facility."

While insisting that setting up operations in New York can complement those in Ontario though, Mr. Kelly acknowledges that his agency "ramped things up last year" in terms of emphasizing its power advantage, because it recognized energy prices as "clearly something that's frustrating the industrial world over there." And to date, he says, the county has gotten "some response" to the hundreds of mailings it sent out.

For its part, Kathleen Wynne's government points to a pair of recently introduced programs aimed at providing price relief to manufacturers – one allowing the biggest users to save by shifting production to off-peak times, the other trying to direct some of that surplus power at discounted rates to smaller companies starting up or expanding. Neither, according to a spokesperson for Energy Minister Bob Chiarelli, was factored into AMPCO's cross-border comparisons.

There is speculation that further such measures will be announced this spring, and it's not hard to see why. With government and even opposition sources conceding price increases are an inescapable fact of life in the coming years, the province will need to get creative in trying to mitigate their effects. Meanwhile, the stateside pitch that businesses have recently started to hear will fast become more familiar.

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