ENBRIDGE

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November 18, 2015

VIA RESS, EMAIL and COURIER

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

Dear Ms. Walli:

Re: EB-2015-0175: Enbridge Gas Distribution Inc. ("Enbridge")
Pre-Approval of a Long-Term Natural Gas Transportation Contract
Argument-in-Chief

Attached please find the Argument-in-Chief of Enbridge Gas Distribution for the above noted proceeding.

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

Please contact the undersigned if you have any questions.

Yours truly,

[original signed]

Lorraine Chiasson
Coordinator, Regulatory Affairs

cc: EB-2015-0175 Interested Parties

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, *1998*, S.O. 1998, c. 15, Sched. B, as amended;

AND IN THE MATTER OF an Application by Enbridge Gas Distribution Inc. for an Order or Orders Pre-Approving the Cost Consequences associated with a Long-Term Natural Gas Transportation Contract.

ARGUMENT IN CHIEF OF ENBRIDGE GAS DISTRIBUTION

A. OVERVIEW

1. Enbridge Gas Distribution Inc. (Enbridge or the Company) seeks preapproval of the cost consequences of a 15 year gas transportation agreement with NEXUS Gas Transmission, LLC on the NEXUS Gas Transmission Project (the NEXUS pipeline). This preapproval is sought under the Ontario Energy Board's (Board, or OEB) Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts (the Guidelines).[1]

2. Capacity on the NEXUS pipeline will provide Enbridge with direct access to the abundant gas supplies in the Utica basin, with connectivity to the other supply basins such as Marcellus that make up the Appalachian basin. Contracting all the way to the supply basins will assure that Enbridge can obtain supplies of competitively-priced Appalachian basin gas and can deliver those supplies to the Dawn Hub.

3. The NEXUS capacity, which amounts to around 15% of Enbridge's annual system gas supply requirements, fits very well with Enbridge's gas supply planning principles. The NEXUS capacity will diversify Enbridge's supply upstream of the Dawn Hub and, along with previously committed capacity to transport Marcellus basin gas from Niagara to the Central Delivery Area (CDA), will provide for two separate sources of supply from different regions of the prolific Appalachian basin. A further benefit is that contracting for capacity from the Utica supply basin on NEXUS, which is a new transportation path, will enhance Enbridge's security of supply. The NEXUS capacity will benefit ratepayers, because Enbridge's gas supply will be incrementally more secure, diverse and reliable than would be the case without NEXUS capacity.

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[1] The Guidelines are filed at Tab 1 of Exhibit K1.3 (the OEB Staff Compendium for the Union Panel).

4. In order for Enbridge to secure capacity on the NEXUS pipeline (or on any competing new pipeline such as Rover), it is necessary to enter into a long-term transportation contract. This provides the developer the necessary commitment to proceed with the development of significant new greenfield pipeline infrastructure. Enbridge has negotiated a favourable Precedent Agreement (PA) with NEXUS for a 15 year term. Enbridge's NEXUS PA is subject to OEB approval as to its cost consequences. If the requested pre-approval is received from the OEB, and other conditions precedent are satisfied, then Enbridge plans to enter into a gas transportation contract with NEXUS that will reflect the terms of the PA (the NEXUS contract).

5. The NEXUS contact is very different from other transportation contracts that Enbridge typically enters into. The NEXUS contract commits Enbridge to purchase significant capacity on new yet-to-be-built greenfield infrastructure that is upstream of the Dawn Hub. The NEXUS contract has a 15 year term, and a total cost (toll) of around $420 million (US). Enbridge has not entered into any similar contract to support a significant new pipeline project bringing natural gas to Ontario since the Alliance and Vector Pipelines in around 2000.

6. The Board's Guidelines allow for pre-approval of the cost consequences of long-term transportation contracts. The Board has recognized that gas distributors would be reluctant to enter into long term commitments for new infrastructure without assurances of cost recovery. Pre-approval allows gas distributors to support and enable new infrastructure projects that will enhance and diversify the supply of natural gas to Ontario.

7. In the February 11, 2009 Report of the Board on the draft Guidelines, the Board indicated that pre-approval applications "should be limited to those that support the development of new natural gas infrastructure".[2] This is confirmed in the Board's April 23, 2009 letter that published the final Guidelines, and stated that "[t]he Board believes that applications for pre-approval of the cost consequences of long-term contracts should be limited to those that support the development of <u>new</u> natural gas infrastructure."[3]

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[2] Page 5, Report of the Board – Draft Filing Guidelines for the Pre-Approval of Long-Term Natural Gas Supply and/or Upstream Transportation Contracts, February 11, 2009, EB-2008-0280 (hereinafter referred to as Report of the Board on the draft Guidelines), found at Tab 2 of Exhibit K1.3.

[3] OEB letter dated April 23, 2009, EB-2008-0280, at page 3, found at Tab 1 of Exhibit. K1.3.

8. The NEXUS contract meets these expectations. There will be substantial new facilities (costing more than $2 billion) constructed by NEXUS. When complete, the NEXUS facilities will provide Enbridge with direct access to the producing areas in the Appalachian basin (primarily the Utica basin) from the Dawn Hub. Direct access does not presently exist in Enbridge's portfolio.

9. The Board's Report on the draft Guidelines contemplates that long-term contracts should support new infrastructure to access new gas supply sources in order to be eligible for pre-approval.[4] It should be noted that this requirement is not contained in the Guidelines themselves.

10. In any event, the NEXUS contract meets this expectation. The NEXUS contract will provide Enbridge with direct access to Utica basin gas supply, which is a new gas supply source currently in a very early stage of development.

11. In summary, Enbridge submits that it is appropriate for the Board to pre-approve the cost consequences of Enbridge's NEXUS contract. It is clear that the NEXUS contract creates significant benefits for Enbridge's ratepayers (particularly system gas customers). Enbridge's gas supply plan will be enhanced by the NEXUS contract, in terms of diversity, security of supply and reliability. The costs associated with the NEXUS contract are forecast to be competitive with other gas supply options, and the risks associated with the arrangement have been managed and mitigated. Pre-approval of the cost consequences of the NEXUS contract will allow Enbridge to make the significant long-term commitment that is required to ensure the benefits of the project will be realized by Enbridge's customers.

B. THE NEXUS PROJECT

12. NEXUS is a proposed pipeline that will provide natural gas markets in Ohio, Michigan, Chicago, and the Dawn Hub in Ontario with a direct link to the vast natural gas resource located within the Appalachian basin. NEXUS requires the construction of approximately 400 km of new greenfield pipeline and includes the efficient use of existing and expanded transportation capacity along the DTE Pipeline Company (DTE) gas transportation system in

[4] Page 4, Report of the Board on the draft Guidelines - found at Tab 2 of Exhibit K1.3.

eastern Michigan, and the Vector Pipeline system in southeastern and eastern Michigan, northern Indiana, eastern Illinois and western Ontario (Vector).[5]

13. The following map depicts the NEXUS pipeline.[6] The greenfield portion of the path from Kensington, Ohio to Willow Run, Michigan is shown in orange. Enbridge's NEXUS contract also includes transport on DTE from Willow Run, Michigan to Milford, Michigan (shown in green). From there, Enbridge will use its own existing Vector capacity to the Dawn Hub. The Vector capacity is not part of Enbridge's NEXUS contract, and Enbridge is not seeking pre-approval of the cost consequences of that part of its path to the Dawn Hub.[7]

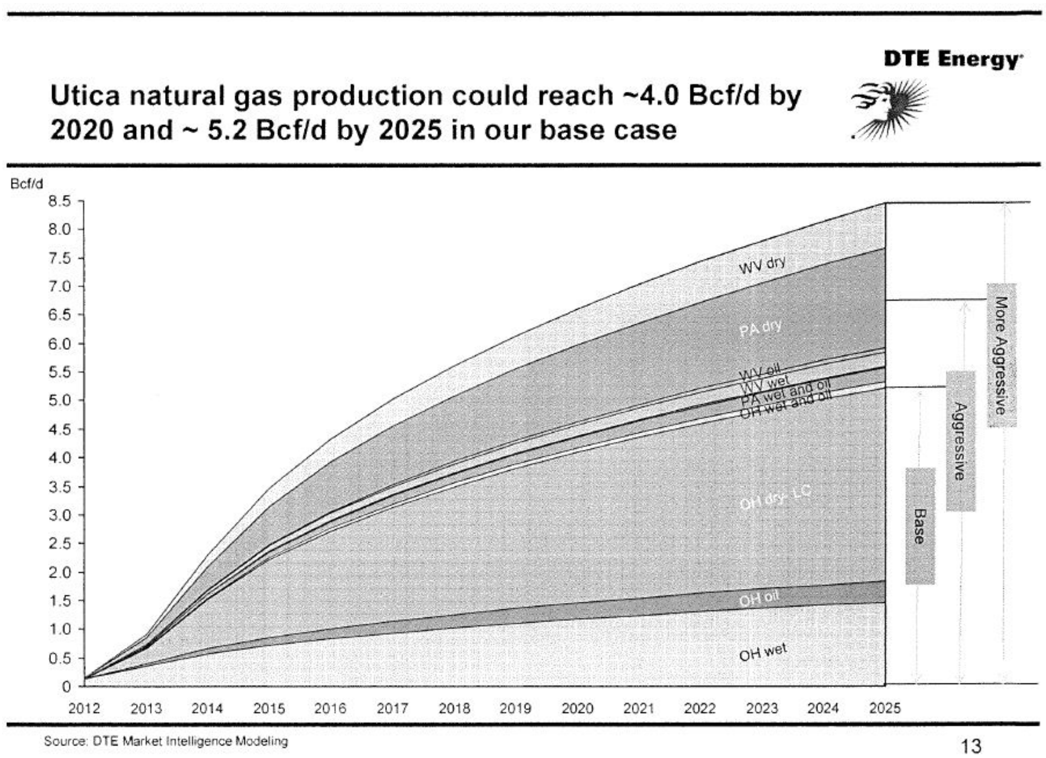
14. NEXUS provides significant opportunity to further enhance Enbridge's gas supply portfolio. The Appalachian basins - specifically, the Utica and Marcellus supply basins - are expected to account for over half the incremental North America gas production through 2035.[8] These basins have served as a primary catalyst for the changing dynamics within North America's natural gas marketplace. As stated in the expert report authored by Sussex Economic Advisors, LLC that has been filed in this case (the Sussex Study), the rise of the

[5] Exhibit A, Tab 3, Schedule 1 (hereinafter referred to as Enbridge's Pre-Filed Evidence), para. 2.
[6] NEXUS Overview Maps, Exhibit K1.1, slide 4.
[7] 1Tr.8-9 and 2Tr.105.
[8] EB-2014-0289 - Future Trends: Assessing Ontario Natural Gas Market Requirements Through 2020 presentation prepared by ICF International, November 25, 2014, page 4.

Marcellus and Utica shale basins as proximate and competitive sources of natural gas for the Ontario market presents new opportunities to source natural gas from these basins.

15. Although Enbridge will soon be accessing Marcellus supply through purchases at Niagara, NEXUS provides additional benefits through increased diversity of path and the ability to obtain natural gas directly from the Utica basin and the neighbouring regions of the Appalachian basin.[9] As explained in the Sussex Study, Enbridge will benefit from this new gas supply that is proximate (480 km distance to Kensington, versus 2,900 km to Empress) and cost competitive.[10]

16. Supply of Utica gas is new for Enbridge. At the time that Enbridge entered into initial discussions about the NEXUS project (around 2012), there was very little natural gas being produced from the Utica basin.[11] There were, however, projections of much greater supply. This can be seen in the presentations made by the NEXUS developers to interested parties, an example of which is included below.[12]



[9] Enbridge's Pre-Filed Evidence, paras. 3 and 85. See also 3Tr.5, 9, 10 and 48-49.
[10] Sussex Study, at page 34.
[11] See testimony of Union Gas (2Tr.7-8 and 82-84) and Enbridge (2Tr.108-109, 112 and 160).
[12] Taken from DTE Energy Presentation titled "Assessing well performance, resources potential and production from the Utica Shale", November 2, 2012, filed at page 58 of the Attachment to the response to TCPL interrogatory #7, at Exhibit I.T4.EGDI.TCPL.7.

17. The early presentations from the NEXUS developers make clear that the project has always targeted Utica supply. [13] The opportunity to have direct access to this new supply source (Utica basin gas) is what attracted Enbridge to NEXUS.[14] There is no current means for Enbridge to hold firm transportation contracts allowing direct access to supply of gas from either the Marcellus or Utica basin. This makes NEXUS a valuable new opportunity for Enbridge to meet its gas supply requirements.[15]

C. THE NEXUS PRECEDENT AGREEMENT

18. Enbridge participated in an open season for capacity on the NEXUS pipeline around November 2012 and was awarded long term firm transportation capacity on NEXUS. This led to negotiations with NEXUS for a PA setting out the terms of the arrangement.

19. Developers of new pipeline facilities typically require shippers to contract for a minimum term ranging from 15 to 20 years. Participation in the NEXUS project requires a minimum contract term of 15 years and is therefore at the lower end of this range. The last time Enbridge entered into similar contract terms for greenfield pipeline capacity was in 2000 for transportation capacity on Alliance Pipeline and Vector Pipeline.[16]

20. Enbridge's PA is a renegotiated version of what was originally agreed between the parties. In the summer of 2014, through the process of seeking management approval of the original PA, Enbridge identified a number of concerns and declined to confirm the original PA. This led to negotiations with NEXUS, and a restated PA for a smaller volume and a shorter path that makes use of Enbridge's existing Vector capacity. Through this process, Enbridge satisfied itself that the concerns that it had identified were all manageable, and that its ratepayers would be best served by having Enbridge secure NEXUS capacity.[17]

21. Enbridge's PA with NEXUS provides for delivery of 110,000 dekatherms (Dth) per day from Kensington, Ohio to Milford Junction, Michigan. The NEXUS toll is $0.70 US/Dth per day. Most of this toll ($0.65 US/Dth per day) is related to the greenfield portion of the NEXUS path and is subject to a symmetric capital cost adjustment capped at +/- 15%. The total

[13] 3Tr.13. See also pages 1 to 147 of the Attachment to the response to TCPL Interrogatory #7, at Exhibit I.T4.EGDI.TCPL.7.
[14] 2Tr.108-109.
[15] Enbridge's Pre-Filed Evidence, para. 26.
[16] Enbridge's Pre-Filed Evidence, para. 5.
[17] 2Tr.141-161. A description of the process that Enbridge undertook to renegotiate the PA is set out in response to FRPO interrogatory #4, at Exhibit I.T1.EGDI.FRPO.4.

annual toll associated with NEXUS is $28.1 million (US). Over 15 years, this amounts to $421.6 million (US). The in-service date for the NEXUS pipeline is anticipated to be November 1, 2017. The term of the NEXUS transportation agreement will be 15 years from the in-service date.[18]

22. Enbridge is one of the shippers underpinning NEXUS's decision to proceed with the project. Enbridge was able to negotiate favourable terms into the PA which protect Enbridge and its ratepayers from being responsible for pre-service project costs unless appropriate authorizations are received. These favourable terms include the right to terminate the agreement without harm if certain conditions precedent are not achieved to the satisfaction of Enbridge. One such condition precedent is the requirement that Enbridge obtain pre-approval from the OEB for the recovery of the transportation costs associated with the NEXUS transportation capacity.[19]

23. In addition to the conditions precedent, the PA includes other favourable terms. Enbridge can elect to increase its contracted volume to 150,000 Dth per day (subject to pipeline capacity being available). If the election is made prior to the NEXUS commencement date, Enbridge will receive the benefit of "Most Favored Nations" status which provides for Enbridge to receive more favourable service provisions if those have already been granted to other similarly contracted shippers. Enbridge has the option to make this election as late as 2020 to receive the preferred reservation rate granted to Union Gas.[20]

24. Enbridge's NEXUS PA, if confirmed, will help assure that the NEXUS project will proceed.[21] There are a significant number of new pipeline projects competing to transport Appalachian basin supplies to various markets across North America. The 2014 Natural Gas Market Review Final Report prepared for Board Staff examined the destination for Marcellus natural gas supply and noted "*the relatively small proportion of the Marcellus that is actually destined for the Ontario market*"[22]. If Enbridge does not actively participate now in new pipeline projects, supplies from the Appalachian basin will continue to be contracted to other

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[18] Enbridge's Pre-Filed Evidence, para. 47. The PA is filed at Exhibit A, Tab 3, Schedule 1, Appendices D and E. As indicated in testimony, NEXUS has now confirmed November 1, 2017 as its bona fide estimate of the in-service date (see 2Tr.151).
[19] Enbridge's Pre-Filed Evidence, paras. 36, 37, 38 and 48.
[20] Enbridge's Pre-Filed Evidence, para. 8.
[21] 2Tr.118-119.
[22] EB-2014-0289 – 2014 Natural Gas Market Review Final Report by Navigant Consulting Inc., dated December 22, 2014, page 37.

markets across North America. This will increase the risk of Appalachian supply bypassing Ontario and potentially limit access to these supplies in the future.[23]

25. Further, even where new paths are created for the supply of gas from a production basin to the Dawn Hub, the only way for Enbridge to assure that the supply will arrive for the benefit of its ratepayers is to contract for capacity on the pipeline. Producers and other parties who contract on the path will sell their gas at the spot with the highest value, which may be somewhere other than the Dawn Hub. In that case, the production basin gas will not come to the Dawn Hub.[24]

D. BENEFITS OF THE NEXUS CONTRACT FOR ENBRIDGE'S RATEPAYERS

26. The principles behind the benefits of NEXUS are very similar to those explained in the leave to construct applications filed by Enbridge and Union Gas Limited for the GTA Project (EB-2012-0451), the Parkway West Project (EB-2012-0433), and the Brantford-Kirkwall/Parkway D Project (EB-2013-0074). The Board noted in its decision related to these applications that:

> Ontario gas consumers will obtain additional certainty through this project concerning their access to alternative supply sources. The project will provide access to more supply and to more sources of supply while retaining market access to existing WCSB supplies. That is a clear benefit to Ontario consumers, and is a positive element in relation to the economic viability of the project. Supply diversity enhances security and has the tendency to lower gas prices from what they would otherwise be if the market continued to rely on fewer sources of supply.[25]
>
> ....
>
> Even if the gas cost savings do not materialize, the project is justified on the grounds of enhanced security and diversity of gas supply, and the contribution that the project will make to enhance a competitive natural gas market in Ontario through increased liquidity at Dawn.[26]

27. Enbridge establishes its gas supply plan based on the principles of diversity, reliability, flexibility, and cost.[27] The details of these principles are as follows:

> • *Diversity* – Mitigates reliability and cost risks by procuring supplies from multiple procurement points and transporting supplies to market and/or storage through several different transportation paths;

[23] Enbridge's Pre-Filed Evidence, para. 4.
[24] 2Tr.125-127. See also Enbridge's Pre-Filed Evidence, para. 73.
[25] EB-2012-0433, EB-2013-0074, EB-2012-0451 Decision and Order dated January 30, 2014, page 29.
[26] EB-2012-0433, EB-2013-0074, EB-2012-0451 Decision and Order dated January 30, 2014, page 30.
[27] Enbridge's Pre-Filed Evidence, para. 14. See also 3Tr.39.

• *Reliability* – Enbridge is the "supplier of last resort" and as a result supplies are sourced from established liquid hubs and transported to the markets served by Enbridge via firm transportation contracts in order to mitigate delivery interruption;

• *Flexibility* – Manages shifting demand requirements through differentiated supply procurement patterns and provides operational flexibility through service attributes and contract parameters; and

• *Landed* Cost – Balances gas supply costs with the other principles and ensures low cost natural gas supply for customers.

28. The NEXUS contract fits well with these principles, and enhances Enbridge's gas supply plan for the benefit of Enbridge's ratepayers (primarily system gas customers). There are also other benefits associated with the NEXUS contract that benefit ratepayers. Key elements of the benefits of the NEXUS contract are set out in the following paragraphs.

29. NEXUS will diversify Enbridge's gas supply portfolio through direct access to the Utica basin, and connectivity to the Marcellus basin. In testimony, Mr. LeBlanc explained the importance of diversity, indicating that "we try to pick a variety of sources and a variety of supply, so that ratepayers are protected from an undue influence or an undue exposure .. to any particular supply and transport".[28] Mr. Stephens from Sussex expanded on this, stating that "when we think about the benefit of a new resource, it really is the diversity [of] that resource provides to the entire portfolio".[29]

30. The Utica and Marcellus basins are expected to "account for over half of the incremental North America gas production through 2035".[30] Enbridge already procures gas directly from the WCSB, and also procures gas from liquid hubs such as Dawn and Chicago. By diversifying the natural gas supply basins and supply hubs to which it has direct access, Enbridge enhances the overall reliability of its portfolio and mitigates the risk of being negatively impacted by operational, economic or regulatory developments in any one basin or supply hub.[31] This protects ratepayers from being unduly exposed to any particular production basin or supply hub.[32]

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[28] 2Tr.117.
[29] 3Tr.81-82. See also 3Tr.93.
[30] EB-2014-0289, 2014 Natural Gas Market Review, Future Trends: Assessing Ontario Natural Gas Market Requirements Through 2020 presentation dated November 25, 2014 by ICF International, slide 4.
[31] Sussex Study, at page 35.
[32] 2Tr.137-138.

31. Through NEXUS, Enbridge will benefit from having two different paths to access Appalachian basin gas. The Company currently plans to procure gas supply from the Marcellus basin at Niagara, for transportation into the CDA. This will be done through purchases at that delivery point, and will not be underpinned by firm transportation held by Enbridge into the supply basin. NEXUS offers another option, which will lead to Appalachian basin natural gas being delivered directly from the Utica basin (at Kensington) to the Dawn Hub. In the result, the NEXUS contract will promote flexibility, reliability and security of supply.[33]

32. Direct access to supply of natural gas from the production basin is valuable to Enbridge and its ratepayers, because it allows the Company to mitigate price volatility. While some of the gas purchased at the Dawn Hub will be from the Appalachian basin, that gas will be priced according to the prevailing price at the Dawn Hub. When Enbridge is able to buy gas upstream of the Dawn Hub at a production basin such as Utica, this enables Enbridge to mitigate “price spikes” that occur at the Dawn Hub or Chicago from time to time when capacity is constrained. Ratepayers benefit from this strategy, as seen in the fact that when prices recently spiked at the Dawn Hub in the winter of 2014, the price of Enbridge’s supplies of gas from Empress, AECO and CREC (in the WCSB) were not affected to the same degree.[34]

33. The reliability and security of supply enhancements from NEXUS are not only realized through the abundant supply forecasts for Utica and Marcellus. NEXUS will provide access to additional upstream receipt points such as Clarington, Ohio, which connects with other basins such as the Gulf Coast through Texas Eastern Transmission LP and northwestern Colorado and Wyoming through the Rockies Express Pipeline LLC. Access to alternative supply basins through these pipelines ensures security of supply for Enbridge and its customers.[35]

34. NEXUS increases the flexibility for future growth within Enbridge’s gas supply portfolio. The opportunity to increase the contracted capacity from 110,000 Dth per day up to 150,000 Dth per day on or before November 1, 2020 provides Enbridge with the flexibility to observe how

[33] Enbridge’s Pre-Filed Evidence, paras. 66-67.
[34] 2Tr.128-129.
[35] Enbridge’s Pre-Filed Evidence, para. 68. See also Sussex Study, at pages 36-37 and 40. See also 2Tr.156.

the North American natural gas marketplace has evolved before determining if Enbridge's gas supply portfolio would benefit from incremental Utica and Marcellus supply or supply from other receipt points on NEXUS.[36]

35. Contracting for NEXUS capacity to deliver Appalachian basin natural gas to the Dawn Hub will increase liquidity at Dawn.[37] If the project does proceed, then there will be some new incremental supplies to the Dawn Hub – it is estimated that incremental capacity to the Dawn Hub will be around 0.3 petajoules (PJ) per day (300,000 gigajoules (GJ) per day) if both NEXUS and Rover proceed.[38] Importantly, though, NEXUS will also assure that substantial Vector capacity continues to be used for deliveries to the Dawn Hub. At present, with decontracting related to Alliance, there is a risk of lower deliveries from Chicago on Vector.[39]

36. A further liquidity advantage that results from NEXUS is that the number of shippers and counterparties at the Dawn Hub will increase.[40]

37. Continued liquidity at the Dawn Hub is important to Enbridge, because the Company forecasts growing reliance on supplies from the Dawn Hub.[41] Moreover, as Mr. Stephens of Sussex explained, additional liquidity at the Dawn Hub will assist small customers who purchase at Dawn, both through supply availability and price moderation.[42]

E. THE COST OF THE NEXUS SUPPLY IS COMPETITIVE

38. The landed cost of gas supply for Enbridge using the NEXUS pipeline is forecast to be competitive with other alternatives.[43] This can be seen in the chart in Enbridge's Pre-Filed

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[36] Enbridge's Pre-Filed Evidence, para. 70.
[37] Enbridge's Pre-Filed Evidence, para. 71. See also Sussex Study, at pages 35-36 and 40. See also response to Board Staff Interrogatory #14 at Exhibit I.T2.EGDI.STAFF.14, and the other interrogatory responses cited in that answer.
[38] See response to APPrO Interrogatory #2 (Union) at Exhibit I.T1.UNION.APPrO.2, and 2Tr.33-34 (Union testimony) and 2Tr.149 and 186-187 (Enbridge testimony).
[39] See response to APPrO Interrogatory #2(a) at Exhibit I.T1.EGDI.APPrO.2, and 1Tr.52 (Union testimony) and 2Tr.188 (Enbridge testimony) and 3Tr.55-56 (Sussex testimony).
[40] Sussex Study, pages 35-36. See response to APPrO Interrogatory #5 (Union) for discussion of the attributes that contribute to higher liquidity (Exhibit B.T1.Union.APPrO.5) – the NEXUS project will provide enhancements in terms of all of these attributes.
[41] Enbridge's Pre-Filed Evidence, para. 72 and Exhibit A, Tab 3, Schedule 3, page 17, figure 10.
[42] 3Tr.94. See also Sussex Study, pages 40-41.
[43] The discussion of Enbridge's landed cost analysis is found in Enbridge's Pre-Filed Evidence, paras. 49 to 64.

Evidence, showing forecast landed cost as of May 2015.[44] The relative ranking of cost competitiveness of NEXUS did not change when the analysis was updated in August 2015.[45]

39. As explained in testimony, Enbridge views landed cost analysis as being important to assess the competitiveness of various gas supply options, but not as being precisely predictive of actual future prices.[46]

40. Where forecast landed costs of alternatives are in the same range, then Enbridge looks to other attributes of those alternatives to make gas supply portfolio choices that contribute to diversity, reliability and flexibility.[47] In the case of NEXUS, the forecast landed costs are competitive with other options. Combined with the substantial benefits of NEXUS supply to the overall robustness of Enbridge's gas supply plan, this makes NEXUS capacity a valuable addition to the Company's gas supply portfolio.

F. NEXUS CAPACITY FITS WELL IN ENBRIDGE'S GAS SUPPLY PORTFOLIO

41. Enbridge's gas supply acquisition is underpinned by a variety of upstream transportation arrangements. These arrangements are differentiated by procurement point, transportation service provider, transportation path, contracted capacity, term and other service attributes.[48] The NEXUS capacity will provide further diversity to Enbridge's portfolio in all of these aspects and thereby also contribute to enhanced reliability and flexibility benefits, as described above.[49]

42. Set out on the next page is a chart illustrating Enbridge's planned gas supply portfolio as of 2018, with and without NEXUS capacity.[50]

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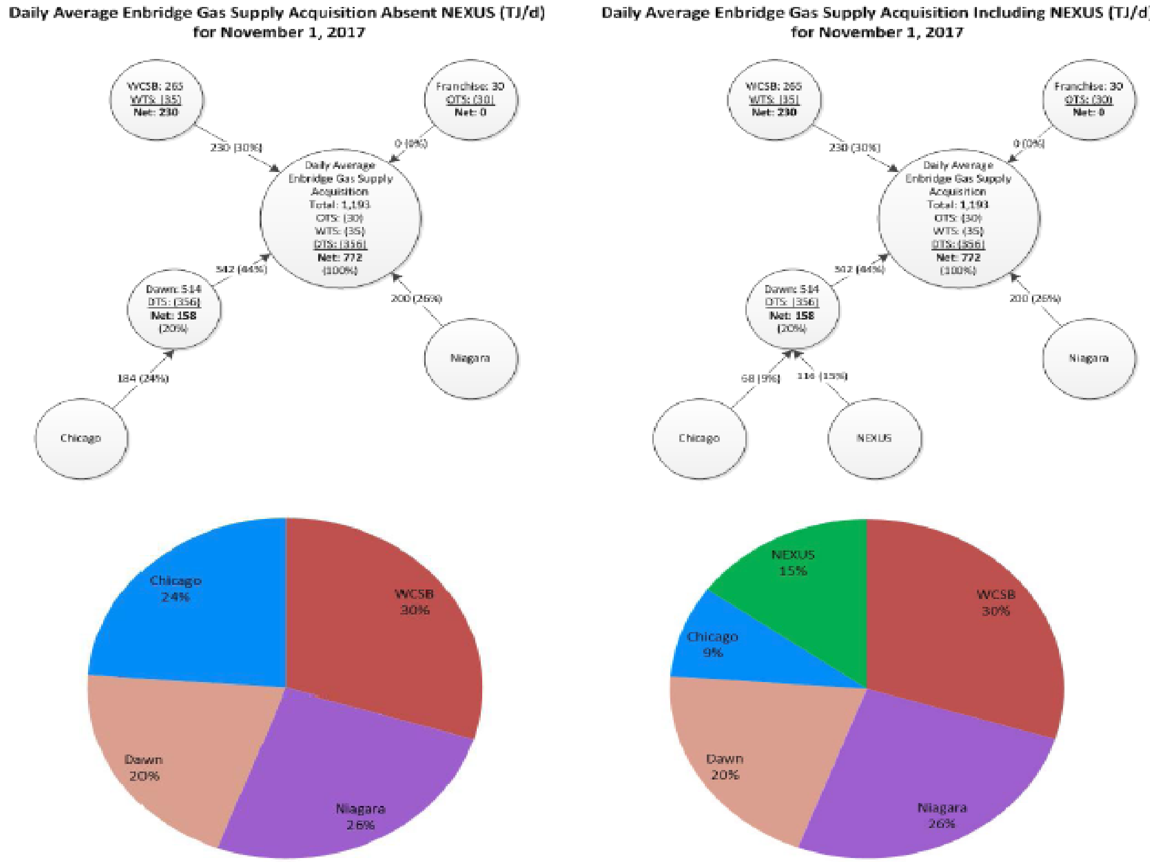
[44] Enbridge's Pre-Filed evidence, para. 61 (updated).
[45] Response to TCPL interrogatory #3, Exhibit I.T1.EGDI.TransCanada.3.
[46] 2Tr.110, 117 and 138. See also 3Tr.43.
[47] 2Tr.117.
[48] Enbridge's Pre-Filed Evidence, para. 76.
[49] The fit of the NEXUS capacity within Enbridge's gas supply plan is explained in response to Board Staff interrogatory #7 at Exhibit I.T1.EGDI.STAFF.7.
[50] Response to Staff interrogatory #7, Exhibit I.T1.EGDI.STAFF.7. Enbridge discussed this chart in testimony – see, for example, 2Tr.139-140 and 3Tr.39-41.



43. Absent NEXUS, Enbridge's only natural gas supply from the Appalachian basin will be Marcellus basin gas procured at Niagara. This supply source is expected to make up approximately 26% of Enbridge's total system gas supply portfolio over the duration of the NEXUS contract.[51]

44. The acquisition of gas supply from NEXUS equates to approximately 15% of the system gas portfolio from 2018 to the end of the contract term and will be offset by an equivalent decrease in supplies procured from the Chicago Hub over the same period.[52]

45. This shift in procurement will diversify the supply being transported to the Dawn Hub along Vector. To facilitate this change, Enbridge expects to restructure its existing Vector capacity so that 110,000 Dth per day of that capacity will be used for volumes delivered to Milford, Michigan via NEXUS, and the remaining 65,000 Dth per day will flow between Joliet, Illinois

[51] Enbridge's Pre-Filed Evidence, para. 80.
[52] Enbridge's Pre-Filed Evidence, para. 82.

and Dawn, Ontario for a 3 year term that can be renewed for subsequent 3 year increments with 1 year notice.[53]

46. The addition of NEXUS to Enbridge's gas supply portfolio will increase the supply being procured from the Appalachian basin to approximately 41% of the total portfolio over the term of the NEXUS contract.[54] NEXUS provides the additional benefit of diversifying the access that Enbridge has to the Appalachian basin from both a supply and transportation path perspective. NEXUS supplies are expected be procured at the Utica basin and will comprise around one third of Enbridge's total Appalachian basin supply and will be transported to the Dawn Hub via NEXUS and Vector.[55] The remaining two thirds of the total Appalachian basin supply will be procured at Niagara and likely produced in the Marcellus basin.[56]

47. Enbridge does not intend to completely sever connectivity with WCSB supplies. Enbridge expects WCSB supply to remain an integral part of its supply portfolio for the foreseeable future. NEXUS will not impact the reliance on WCSB supplies which for illustrative purposes was held at approximately 22% of the total portfolio over the duration of the NEXUS contract. After 2020, commitments to the TransCanada Mainline Settlement Agreement will have been fulfilled at which point Enbridge may consider further changes to its gas supply portfolio that will impact its reliance on WCSB supplies. This could include exercising the option to increase NEXUS supply.[57]

48. Enbridge expects to flow the NEXUS contract at a 100% load factor.[58] As such, supply from NEXUS is expected to be baseload supply. Flexibility will come from planned purchases at the Dawn Hub and potentially seasonal supplies from other procurement points. Although the 15 year term for NEXUS will erode some of the transportation flexibility in Enbridge's gas supply portfolio, the direct access to supplies from the Appalachian basin (Utica basin) will improve diversity, reliability, supply flexibility, and cost effectiveness of Enbridge's gas supply plan.[59]

[53] Enbridge's Pre-Filed Evidence, para. 83. See also Exhibit JT2.4 and 2Tr.186-192.
[54] Response to Board Staff Interrogatory #7 at Exhibit I.T1.EGDI.STAFF.7.
[55] Enbridge's Pre-Filed Evidence, para. 85. See also 2Tr.141.
[56] Enbridge's Pre-Filed Evidence, para. 85.
[57] Enbridge's Pre-Filed Evidence, para. 86.
[58] This means that there are no expected unabsorbed demand charges (UDC).
[59] Enbridge's Pre-Filed Evidence, para. 88. See also 2Tr.154-155.

G. ENBRIDGE'S PRE-APPROVAL REQUEST

49. In this proceeding, Enbridge is requesting pre-approval of the cost consequences of the 15 year NEXUS contract, the terms of which are described in the NEXUS PA. Enbridge is not seeking pre-approval of associated gas costs, nor for the Vector capacity required to transport NEXUS gas from Milford Junction to the Dawn Hub.

50. If the requested pre-approval is received from the OEB, and other conditions precedent are satisfied, then Enbridge plans to enter into the NEXUS contract.[60] In that circumstance, ratepayers will receive the benefits associated with the arrangement.

51. If pre-approval is not granted, Enbridge will not proceed with the NEXUS contract. In that circumstance, many of the benefits that ratepayers would have enjoyed will be lost.

52. As discussed below, Enbridge's requirement for pre-approval is not an admission that the NEXUS contract is imprudent. Instead, it is a recognition that the contract is extraordinary, and there are risks of future cost disallowances if there is no pre-approval.[61] Enbridge's shareholder does not benefit from the procurement of gas for ratepayers as these costs are passed on without any mark-up or return.[62] Therefore, Enbridge will not take the risk of proceeding with the NEXUS contract without pre-approval.[63]

53. The annual approval of transportation costs in a rate proceeding only deals with costs for the one year in issue – that does not establish the same relief as what is sought here. Once Enbridge commits to the NEXUS contract, Enbridge is committed for fifteen years. That means that, absent pre-approval, there are multiple opportunities for parties to challenge the prudence of the arrangement, in each year when the Company's gas supply plan is being reviewed. Although Enbridge believes that any such review would confirm the reasonableness of the NEXUS arrangement that is not assured. In the context of a 15 year contract with a total cost of more than $420 million (US), even a small risk of disallowance is meaningful.

54. The fact that the Supreme Court of Canada has recently indicated that the OEB may use tests other than a no-hindsight prudence review to assess a utility's committed operating

[60] Enbridge's Pre-Filed Evidence, para. 7.
[61] 2Tr.113-114.
[62] Exhibit JT2.2. See also response to CME Interrogatory #3, Exhibit I.T3.EGDI.CME.3.
[63] 2Tr.107-108. See also response to CME interrogatory #3, Exhibit I.T3.EGDI.CME.3.

expenses[64] reinforces that there may be future risks to a utility when its gas cost arrangements are reviewed. While it is not clear how the Supreme Court's decision will impact future rate proceedings, it does introduce uncertainty.

H. THIS IS AN APPROPRIATE CASE FOR PREAPPROVAL

55. In the February 2009 Report of the Board regarding the draft Guidelines, the Board indicated that a pre-approval process is appropriate for long-term contracts that support the development of new natural gas infrastructure.[65] The Board offered the option to utilities to seek pre-approval of the cost consequences of a long-term contract(s) and indicated that the application should be made prior to contract execution, or after execution if there is a condition precedent requiring OEB approval.[66] The Board's Report and associated draft Guidelines set out the information that the utility should file in support of its pre-approval application. The draft Guidelines were confirmed by the Board in April 2009.

56. Enbridge does not believe that the fact of having applied for pre-approval should raise doubts about whether the NEXUS contract is reasonable and beneficial. The fact that a utility chooses to make use of the pre-approval option that the Board has established and implemented is in no way an admission that the contract in question is imprudent or unduly risky. It is instead a proper approach for a responsible utility to follow. Enbridge should not be penalized or questioned for seeking approval under Guidelines that the Board has approved, and with which "stakeholders generally agreed".[67]

57. In answer to concerns that may be raised about whether Enbridge's NEXUS contract should be eligible for pre-approval under the Guidelines, Enbridge submits that this is plainly the type of long-term transportation contract that the Board has indicated would be eligible.

58. The Board's Report issued in respect of the draft Guidelines makes clear that a pre-approval process is appropriate for long-term contracts that "support the development of new natural gas infrastructure"[68]. In the April 23, 2009 letter that published the final Guidelines, the Board stated that "[t]he Board believes that applications for pre-approval of the cost

[64] *Ontario (Energy Board) v. Ontario Power Generation,* 2015 SCC 44, paras. 103-105 (found at http://www.canlii.org/en/ca/scc/doc/2015/2015scc44/2015scc44.html).
[65] Report of the Board on the draft Guidelines - found at Tab 2 of Exhibit K1.3.
[66] Report of the Board on the draft Guidelines, page 4.
[67] Report of the Board on the draft Guidelines, page 2.
[68] Report of the Board on the draft Guidelines, page 4.

consequences of long-term contracts should be limited to those that support the development of new natural gas infrastructure."[69]

59. Enbridge's NEXUS contract clearly supports the development of new natural gas infrastructure in the form of a 400 km greenfield pipeline at a cost of more than $2 billion that will facilitate the delivery of Appalachian (primarily Utica basin) gas supplies to the Dawn Hub. The project benefits Ontario gas consumers, and Enbridge's NEXUS contract benefits its ratepayers.

60. The Board's Report issued in respect of the draft Guidelines appears to contemplate that long-term contracts should support new infrastructure to access to new gas supply sources in order to be eligible for pre-approval.[70] That requirement is not actually set out in the Guidelines themselves. The focus of the Guidelines is on new infrastructure.

61. Enbridge's NEXUS contract will facilitate access to new gas supply from the Utica basin. The Utica basin gas to be delivered by NEXUS was a very new source of supply at the time that Enbridge began negotiations for capacity on the NEXUS pipeline. In the time since then, during which period negotiations on the PA have proceeded and NEXUS has done pre-development work, gas production at the Utica basin has expanded. Even now, though, it remains a relatively new option for gas supply, and there is no significant current supply of Utica gas to Ontario. The Utica basin has the characteristics of a new supply area that were highlighted by Mr. Stephens of Sussex. That is, there is investment being made on new production and processing facilities and there is investment being made in new pipeline infrastructure.[71]

62. The Guidelines are clear that any pre-approval application is to be considered on a case-by-case basis.[72] This means that the outcome of any prior application ought not to be determinative of a future application. That is consistent with the general rule that an administrative tribunal is not bound by its previous decisions, and that where numerous

[69] OEB letter dated April 23, 2009, EB-2008-0280, at page 3, found at Tab 1 of Exhibit K1.3.
[70] Report of the Board on the draft Guidelines, page 4.
[71] 3Tr.91.
[72] OEB letter dated April 23, 2009, EB-2008-0280, at page 3, found at Tab 1 of Exhibit K1.3.

reasonable interpretations exist, the administrative tribunal may change its consensus or policy with respect to which one it will adopt.[73]

63. Enbridge therefore objects to any suggestion that the Board's decision in the EB-2011-0300/0333 proceeding[74] is somehow determinative of this case. In that prior case, the Board denied pre-approval applications from Enbridge and Union for long term contracts for capacity from Niagara that would transport Marcellus basin gas on the basis that no substantial new facilities were being constructed. The Board also questioned whether there was a "new gas supply". This case is different, because the NEXUS contract supports significant greenfield facilities being constructed and enables Enbridge and Union to obtain direct access to the developing Utica basin.

64. In any event, Enbridge submits that the Board ought not to apply a narrow approach to the applicability of the Guidelines in this case. The focus of the Guidelines should be on encouraging the development of new natural gas infrastructure that will improve and diversify gas supply to Ontario. That is an important benefit of long-term contracts, as the Board recognized in its report on the draft Guidelines.[75] Whether new infrastructure is the first or only connection from a previously untapped supply source to Ontario ought not to be a determining factor.

65. Taking a narrow view of the applicability of the Guidelines will render them largely meaningless. This will likely frustrate the development of new infrastructure that will provide capacity to Ontario. This is because developers of new infrastructure projects require long-term commitments from shippers before proceeding with the project. If the commitments are not made, then the project will not proceed. On the other hand, gas distributors who do not make a profit on gas supply will not likely be willing to take the risk associated with an extraordinary long-term contract for capacity on a new pipeline without assurance that the costs are recoverable from those ratepayers who will benefit.

66. For the reasons set out above, Enbridge submits that the Board should conclude that the NEXUS PA is eligible for pre-approval.

[73] *Altus Group Limited v Calgary (City)*, 2015 ABCA 86 (CanLII), at para 16 (found at http://www.canlii.org/en/ab/abca/doc/2015/2015abca86/2015abca86.html).
[74] The EB-2011-0300/0333 Decision is found at Tab 3 of Exhibit K1.3.
[75] Report of the Board on the draft Guidelines, page 3.

67. Moving beyond eligibility, Enbridge submits that the NEXUS contract is a beneficial arrangement for ratepayers, with manageable and mitigated risks.[76] By securing capacity on the NEXUS pipeline, Enbridge will obtain significant gas supply benefits for its customers. If Enbridge does not proceed with the NEXUS contract, then there is no current ability to obtain other transportation capacity directly from the Appalachian basin to the Dawn Hub to diversify Enbridge's gas supply.

68. As explained in Enbridge's evidence, and highlighted in these submissions, the NEXUS contract will improve Enbridge's gas supply plan, by enhancing diversity, reliability and security of supply. The NEXUS contract will ensure that Enbridge's ratepayers obtain the benefit of direct access to the closest and most prolific gas supply basin in North America. The NEXUS contract fits well within Enbridge's overall gas supply portfolio, and will provide Enbridge with two assured paths to access Appalachian gas supply from different regions of the basin in the coming years.

69. For all of these reasons, Enbridge requests that the Board pre-approve the cost consequences of the NEXUS gas transportation agreement.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 18th DAY OF NOVEMBER 2015

David Stevens, Aird & Berlis LLP
Counsel to Enbridge Gas Distribution

[76] The potential risks associated with the NEXUS contract, and the manner in which Enbridge has addressed and mitigated the risks, is set out in Enbridge's Pre-filed Evidence at pages 35 – 43.