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**Commission de l'Énergie
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BY EMAIL

October 20, 2005

To: Stakeholders in the Ontario Natural Gas Industry (per distribution list)

**Re: Letter from Union Gas Limited Regarding Enbridge Transactional Services
Methodology EB-2005-0502**

The Board is in receipt of the attached letter from Union Gas Limited dated September 9, 2005 regarding its review of the Enbridge Gas Distribution Transactional Services Methodology, approved by the Board in July 2005.

The Board is considering whether to proceed with a review of Union's methodology and how it would do so, should such a review be needed. In this regard, the Board would be assisted by comments from stakeholders on whether a review is required and if so, what would be the appropriate forum (e.g., within Union's next rate case or a separate proceeding such as the Enbridge proceeding). Alternatively, or in addition, the Board may consider the regulation of transactional services (otherwise cited by Union as the S&T transactional business) through the development of a new Rule, or the amendment of an existing Rule, under section 44 of the OEB Act.

Should anyone wish to make comments, please submit them to the Board Secretary by November 11, 2005. Please quote Board file No. EB-2005-0502 and provide your submissions electronically to BoardSec@oeb.gov.on.ca. **In addition, please provide three (3) paper copies of your submission.**

Yours truly,

Original signed by

Peter H. O'Dell
Assistant Board Secretary

attach.



uniongas

A Duke Energy Company

September 9, 2005

Mr. John Zych
Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor
Toronto, ON M4P 1E4

Dear Mr. Zych:

Union Gas Limited (Union) has had the opportunity to review the recent Settlement Proposal of Enbridge Gas Distribution (Enbridge) in EB-2005-0244, which addresses certain aspects of the Transactional Services offered by Enbridge (referred to as the "TS Methodology"). Union believes that its policies and practices with respect to its S&T transactional business meet the spirit and intent of Enbridge's TS Methodology, and offers the following comments on that proposal for the Board's consideration.

There are three primary reasons why the TS Methodology should not be applied to Union:

1. The processes by which Union identifies assets that can be used to provide S&T transactional services to the market have been thoroughly canvassed in Union's rates proceedings. Customers have not complained about these processes. To the contrary, customers have supported Union's approach to marketing S&T transactional services. This has resulted in the development of new storage and transportation infrastructure in addition to Dawn developing into a vibrant market hub. Dawn was also recently identified as the pricing reference point by the Ontario government in their recent Clean Energy Supply RFP for new power generation. Dawn could not have become the liquid trading centre that it is without full, fair and non-discriminatory access for Union's customers and for other third party participants.
2. Duke Energy Gas Transmission (DEGT) is the party that sells S&T services to the market on behalf of Union. DEGT does not act as counterparty with Union, and so does not purchase S&T services from Union. This is in stark contrast to the Enbridge circumstance.
3. DEGT is subject to both the Board's Affiliate Relationship Code for Gas Utilities, and to the Code of Conduct as determined by the Federal Energy Regulatory Commission (FERC). The FERC Code also contains provisions for affiliate transactions, non-discriminatory behaviour, and the protection of sensitive information.

The TS Methodology Notice identified three issues for determination by the Board. Those issues, and Union's circumstances in respect of those issues, are described below.

1. *Does the Enbridge TS methodology meet the Board's standard for fair and non-discriminatory access to surplus utility assets for TS?*

This is not an issue for Union, as the Board has already reviewed Union's processes for asset identification and the sale of S&T services meets its standard. That determination has been made in each rates application since the commencement of the S&T business, and most recently in Union's 2004 rates application. Union has not amended its S&T processes since the time of that proceeding.

2. *Is it appropriate to have Enbridge Gas Services acting simultaneously as process administrator for the TS business and as counterparty in TS transactions?*

As stated above, this is not the circumstance for DEGT and Union, so there is no corresponding issue for Union.

3. *Does the TS proposal have an impact on the interruptible service customers of Enbridge?*

Union only sells firm services where they are fully supported by firm capacity (physical or contractual). As such, the sale of firm S&T services will, by design, not impact infranchise interruptible service customers. Union also sells interruptible S&T transportation services to optimize the utilization of the system. However, interruptible S&T services rank below infranchise interruptible services in terms of priority and will therefore not impact infranchise interruptible transportation service customers.

Note that Union only interrupts its infranchise distribution customers when there are physical constraints on its delivery system caused by cold weather. Other forms of interruption, known as curtailment, can occur when there is a physical disruption on the system (such as a compressor failure or upstream pipeline outage). There are no other forms of interruption.

As the Board knows, Union designs its system to meet a peak day demand and assumes no deliveries to interruptible customers. All firm and interruptible customers are aware of and accept this condition, and pay a price commensurate with the level of service they request.

Accordingly, there is no need to attempt to force an agreement onto Union where the circumstances that gave rise to that agreement do not exist. Furthermore, it is not evident what the trade-offs between the negotiating parties that led to the Settlement Proposal were.

In addition, there are a number of items in the Settlement Proposal documents that are unclear:

- a. One of the principles enunciated on page 5 of the Settlement Proposal is “enhancing ratepayer benefits from TS optimization...”. This principle could apply under the current ratemaking framework. However, in its Natural Gas Forum Report, the Board states “The Board does not intend for earnings sharing mechanisms to form part of IR plans.” The existence of the S&T deferral accounts is simply a form of earnings sharing that may disappear with the advent of incentive regulation. Accordingly, the ratepayer benefit principle associated with the TS Methodology may not be applicable, and at least needs to be reconciled to the Board’s policy statement in the Natural Gas Forum Report.
- b. The parties have agreed to reporting provisions that are “more onerous” than the Board’s existing standard. Given the OEB’s comprehensive approach to setting the reporting standard, Union would not support a more onerous requirement unless it is warranted by special circumstances. No such circumstances exist for Union.
- c. Floor price – Enbridge is required to establish a floor price for TS services to act as a “low reference price”. This requirement is puzzling as the S&T services offered by Union are competitive market based services. There is no need for a floor price in a dynamic and liquid market – the services will reflect the prices that the market will bear. Furthermore, setting a floor price is practically difficult, as the maximum value may be obtained through the offering of a combination of services rather than a single service. Therefore, combinations of floor prices would have to be attempted with no obvious value.

In conclusion, there would be a detrimental impact on the Dawn hub, and on the value of Union’s S&T services, should the Enbridge TS Methodology be directly imposed on Union by the Board. Customers want flexibility in contracting for S&T services, and it is this flexibility that has significantly contributed to the growth of Dawn and the value of Union’s S&T services. Furthermore, there is no need to impose the Enbridge TS Methodology on Union given the difference between the Union and Enbridge circumstances related to the marketing of S&T services. Dawn has and continues to

develop under the existing framework and processes. The Dawn hub is a liquid and well functioning market hub and changes should not be imposed when not driven by a clear market need or requirement.

I trust that the above will meet the Board's needs. However, should the Board have any continuing concerns about this issue, Union suggests that the Board provide direction that this be an issue to be addressed in Union's 2007 rates application. In that way, Union could prefile evidence pursuant to the Board's direction and allow for a full public process, but preserve all stakeholders' capacity to address the current needs of the Natural Gas Forum initiatives, the Gas Distribution Access Rules implementation, the 2007 cost of service evidence preparation, and other regulatory items.

Please contact me directly should you have any questions.

Yours truly,

A handwritten signature in black ink that reads "Mike Packer / G. Anderson". The signature is written in a cursive, flowing style.

Mike Packer, CMA, CIM
Director, Regulatory Affairs

c.c.: Patrick Hoey - Enbridge