RATE 316

Overview

1. The Company's proposed, Rate 316 provides for a highly flexible, high deliverability, natural gas storage service. The Company proposes no limits on customers taking the service. Rate 316 permits both in- franchise and ex- franchise customers to contract for service under this rate. The Company believes that the combination of choices for both space and deliverability provides power generation customers a range of options for electing a suitable storage service. Customers other than power generation customers may also find this service attractive.

2. The operational issues, infrastructure requirements, and costs to provide this service are identified at Exhibit B, Tab 3, Schedule 2. The implementation timeline would be impacted by the timeline for constructing storage infrastructure and the business process changes required to implement unbundled rates (Exhibit B, Tab 3, Schedule 3). These issues are also summarized below.

3. The pricing of this service includes cost based (regulated) and market based elements. The regulated rate only applies to in-franchise customers whose space and deliverability requirements are in accordance with current Board approved allocation methodology. Space is allocated based on an algorithm that takes in account of customer's seasonal load profile. Standard deliverability is 1.2% of allocated space and subject to ratchets.

4. The Company currently provides standard 1.2% deliverability at cost. The Company's Rate 330, Transmission, Compression and Pool Storage is a Dawn

based service that provides for a range of prices from cost based at the minimum to five times the cost based rate at the maximum.

5. While the Company believes that high deliverability storage should be priced at market rates, the following evidence in addition, addresses the Board's directive that the Company provide cost based rates for deliverability offerings of 5% and 10%.

6. As outlined at Exhibit B, Tab 3, Schedule 2, the Company is proposing to build storage facilities that will offer incremental storage space of 2 Bcf and 10% deliverability of 200 mmcf/d on a firm or unratcheted basis. The table below outlines the capital and O&M cost associated with different levels of build, the associated annual revenue requirement, deliverability demand charges as well as the average annual cost per unit of space. The 10% unratcheted service costs have been reduced by 12% to reflect an allocation to the Load Balancing service under Rate 125.

Annual Storage Cost Under Alternative Build Assumptions

Line No.		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
		Deliverability					
		1.2% Ratcheted	1.2% Unratchet	5% Ratcheted	5% Unratched	10% Ratcheted	10% Unratcheted
		($000's)	($000's)	($000's)	($000's)	($000's)	($000's)
	Cost of capital						
1.	Rate base	$586.2	$3,908.2	$8,877.0	$13,821.8	$12,133.8	$25,776.4
2	Required rate of return[6]	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%
3.	Cost of capital	$56.4	$376.0	$854.0	$1,329.7	$1,167.3	$2,479.7
	Cost of service						
4.	O&M Incremental	$130.0	$158.0	$180.0	$216.0	$180.0	$280.0
5.	Depreciation and amortization	$27.6	$183.6	$246.0	$356.4	$332.4	$847.2
6.	Municipal and other taxes	$1.4	$9.0	$25.5	$36.8	$35.0	$66.3
7.	Cost of service	$159.0	$350.6	$451.5	$609.2	$547.4	$1,193.5
8.	**Revenue requirement**	$215.2	$726.5	$1,306.2	$1,939.4	$1,714.1	$3,674.1
				1	2	3	4
9.	Incremental Revenue Requirement			$1,091.0	$633.2	$1,498.9	$1,960.0
10.	Deliverability Demand Charge/Monthly ($/$10^3m^3$)	35.0933	35.9888	60.4742	84.9835	42.2589	75.0191
11.	Annual Storage Cost ($/$10^3m^3$) of Space [5]	14.9230	15.0520	42.4993	53.8045	59.5484	94.2722
12.	Annual Storage Cost ($/GJ) of Space [5]	0.3959	0.3994	1.1276	1.4276	1.5800	2.5013

Notes:
1. 5% Ratcheted - 1.2% Ratcheted
2. 5% Unratcheted - 5% Ratcheted
3. 10% Ratcheted - 1.2% Ratcheted
4. 10% Ratcheted - 10% Unratcheted
5. Reflects the cost of space, deliverability and single cycle injections & withdrawals over a twelve month period.
6. Current approved gross required return using effective tax rate.

7. For costing purposes, the demand charge for 1.2% deliverability is deemed on a fully allocated basis, while the demand charges for high deliverability storage are determined on an incremental basis. In other words, it is assumed that the

incremental cost of the build is picked up entirely by the customers seeking high deliverability storage.

8. An annual cost based rate for 10% unratcheted deliverability basis all year round on a single cycle is estimated to be \$2.5 per GJ of space or \$94 per 10^3m^3 of space. If the build were to provide 10% deliverability with ratchets, the annual cost per unit of space would be \$1.6/GJ or \$60 per 10^3m^3. If the storage build is sized to provide 5% deliverability on an unratcheted basis, the comparable cost per unit is \$1.4 /GJ or \$53 per 10^3m^3. 5% deliverability on a ratcheted basis could be offered at \$1.1/GJ or \$42/10^3m^3. In contrast, 1.2% ratcheted deliverability at cost based rates would be priced at \$0.4/GJ.

9. The table also demonstrates that a 10% deliverability build provides economies of scale relative to a 5% deliverability build. Therefore, the cost based rate for the deliverability demand component alone would be lower for a 10% deliverability build than for a 5% deliverability build. Accordingly, provided that demand for such service exists, it would appear that a 10% deliverability build would be a better solution. Rather than offer three tiers of deliverability, the Company believes that customers should be able to choose any level of deliverability between 1.2% and 10%. The original “strawman” proposal that was presented to stakeholders and filed at Exhibit C, Tab 3, Schedule 2 refers to a three tier structure for pricing deliverability. Based on its build analysis, the Company believes that a continuum of offerings up to 10% is more appropriate. The range of prices included in the Draft Rate Schedule filed at Exhibit C, Tab 3, Schedule 3 addresses both cost based and market based pricing options, as required by the Board.

10. As outlined earlier in its evidence, the Company submits that revenues from the enhanced features of the proposed storage service should be recovered on market based rates with the pricing set through an open season. This would allow for benefit sharing between unbundled and bundled customers.

11. Pricing premium high deliverability services at cost could result in windfalls to the subscribers of this service, to the detriment of those who are unable to subscribe. To the extent that high value services that are limited in quantity are offered at cost, there is a real risk that the Company will be oversubscribed. In such circumstances, the Company will have to determine an appropriate method for allocating the capacity. Allocation methods for competitive offerings result in less optimal outcomes, in that the service may be awarded on the basis of first come first served, size or perceived need. The risk in such circumstances is that the successful recipients of this service may determine that they can resell (arbitrage) their capacity to third parties at a higher cost. In such circumstances, benefits will have been expropriated by a small group of customers to the detriment of the Company and its ratepayers. Additionally, if bundled customers are pre-empted from the process, they will be denied savings that they could otherwise realize by displacing more expensive alternatives to high deliverability storage such as peaking contracts and spot purchases.

12. For all of the above reasons, an open season and market determination of prices is a preferred outcome for the vast majority of stakeholders and the Company. The use of a range rate for Rate 316 will permit the use of market pricing.

<u>Features of Rate 316</u>

13. The section below provides a brief description of the features of Rate 316 as attached in the draft Rate Schedule at Exhibit C, Tab 3, Schedule 3. The proposed Rate 316 contains the following provisions:

    a. Availability
    b. Character of Service
    c. Monthly Customer Charge
    d. Storage Reservation Charge
    e. Monthly Minimum Bill
    f. Nominated Storage Service
    g. Unratcheted Deliverability Service
    h. Other provisions
    i. Term of Contract

14. The following describes the provisions and the derivation of applicable charges:

    a. *Availability*

    The availability provision provides that a customer must contract for both storage space and storage deliverability as separate options. This storage is not a delivered service and the customer must provide a separate pipeline transportation contract from storage to the Enbridge Gas Distribution delivery area that serves the customer's terminal location. In the event that the customer electing service is not in the Company franchise area, the customer must provide delivery to the customer's location. This service is limited to confirmed pipeline deliveries. Deliverability options available for contract range from 1.2% to 10%. All such withdrawals are subject to storage ratchets based on the actual quantity of gas in the customer's storage account.

    b. *Character of Service*

    This service is a firm Dawn based service. The status of the service in the franchise area depends on the nature of the pipeline delivery service the

customer contracts for. Firm deliveries constitute firm service while interruptible deliveries constitute interruptible service.

The service requires daily nomination and the rate of injection or withdrawal is limited to 1/24th of the daily maximum right available. Customers may change daily nominations based on the nomination windows supported by the Dawn Hub and/or as defined by the customer contract for pipeline delivery service from Dawn onwards.

c. *Monthly Customer Charge*

The monthly customer charge is designed to recover the customer related costs for providing unbundled services including the availability of the electronic bulletin board, managing nominations and confirmations, gas in storage accounting, managing injection and deliverability constraints and posting information for customers regarding ratchets for storage. This charge represents the monthly management related costs for the service and applies to each customer. The Monthly Customer Charge is set at $200 per month to recover the incremental cost of system implementation ($50) and the cost of issuing a bill ($150).

d. *Storage Reservation Charge*

There are several components to the storage price. First, there is a storage space demand charge. This charge reserves the maximum space in storage allotted to the contract. The minimum space demand charge is a cost based rate that incorporates the cost associated with creating 2 Bcf of space into the Tecumseh Fully Allocated Cost Study, stemming from the Board's Decision with Reasons from EB-2005-0001/EB-2006-0035. Under current pricing, the minimum charge is applicable if the customer storage space reservation does not

exceed the maximum storage space allocable to the customer under the current Board approved formula. The maximum space demand charge equals 10 times the minimum. Under current pricing, storage space reservation that exceeds the amount allocable under the Board approved formula may be contracted for at market based prices.

The deliverability injection/withdrawal charge reserves daily injection/withdrawal capacity subject to storage ratchets. The minimum deliverability demand charge is a cost based rate that incorporates the cost of providing 1.2% deliverability associated with 2 Bcf of space into the EB-2005-0001 Tecumseh Fully Allocated Cost Study. The maximum charge is ten times the minimum charge. The Company's current market based offering under Rate 330 provides for a range of 5 times the minimum cost based rate to cover off market pricing options. However this is for standard deliverability options. The Company is proposing a wider range equal to 10 times the minimum cost based charge to recognize the higher value of high deliverability storage.

Finally, the service requires volumetric charges for activities under the service. The volumetric charges include charges for injection and withdrawal as well as a fuel charge applicable to the service. These charges are derived from the 2006 Board Approved Tecumseh Fully Allocated Cost Study.

If the Board were to approve market based rates for enhanced storage services, the price for deliverability and space would be set through an open season. Cost based rates would apply for the customer charge and the volumetric charges.

e. *Minimum Bill*

The monthly minimum bill equals the sum of the monthly customer and monthly demand charges.

f. *Nominated Storage Provision*

Nominated storage service provides that storage services up to the maximum injection or withdrawal must be nominated daily at Dawn. Customers may change daily nominations based on the nomination windows supported by the Dawn Hub and/or as defined by the customer contract for pipeline delivery service from Dawn onwards.

The provision also permits customers to transfer title to gas in storage, subject to certain restrictions as proposed at Exhibit C, Tab 4, Schedule 1.

g. *Un-Ratcheted Storage Provision*

The purpose of this provision is to permit a customer to select a level of storage withdrawal service that will not be subject to storage ratchets. Under this provision, a customer will be able to withdraw up to the full amount of gas under the withdrawal tier so long as the customer has that amount of gas in storage. Based on the capital costs associated with providing unratcheted service, the Company proposes a premium of up to 100% over the Deliverability Demand Charge for equivalent ratcheted service.

h. *Other Provisions*

The purpose of the other provisions is to permit the Company to store its own gas in the space contracted for by the customer in the event that the customer does not use all of the storage space. This provision is necessary to permit the Company to offer higher deliverability and to maintain system reliability. This

provision provides further that Company use of storage space does not reduce the flexibility of the customer to inject or withdraw from storage gas owned by the customer.

i. *Minimum Term of Contract*

The minimum term of contract is one year. The Company reserves the right to require a longer-term contract where it must acquire additional contracts with 3rd parties, construct facilities or make new capital investment in existing facilities to provide the requested service.

Response to Board Questions

6. The following discussion addresses the questions posed by the Board in Appendix A to Procedural Order No. 2.

Operational Barriers

7. The Company has discussed at length the overall issues related to maintaining safe, reliable service in the context of unbundled, high deliverability storage at Exhibit B, Tabs 3 and 4.

Costs and Revenues

8. With respect to the costs associated with the new services, the Company has provided informed estimates as to the costs for systems upgrades and has requested a variance account to recover the actual costs for implementing these services. This is discussed in detail at Exhibit C, Tab 1, Schedule 1.

9. The revenue implications of providing this service depend on the Board's Decision with Reason on the appropriate pricing mechanism for this service. They also

depend on the amount of customer interest in the service, both in terms of storage space and deliverability level.

Rate Implications for Other Customers

10. As noted above, the Rate 316 proposal does not have any negative potential rate impacts on bundled customer service classes. Whether Rate 316 is priced at market or at cost, the Company expects that all incremental costs will be recovered solely from Rate 316 customers.

Implementation Timing

11. Under the Company's proposal, the Company expects to implement Rate 316 only after the open season process indicates that customers demand the service and their price bids permit the Company to recover its costs.

12. It is only after that process is successfully completed that the Company would undertake the storage build program necessary to offer the service. The Company does not forsee the build program being completed before 2008.

13. When it is in place, implementation of Rate 316 will require contract terms running from one spring until the next spring, at a minimum, to properly manage injection and withdrawal. Further, the Company believes that in order for it to justify the capital investment of the build program, customers will have to contract for more than one year. In this way, preference in the open season would go to customers who make multi-year commitments to the service.

Witnesses: M. Giridhar
E. Overcast