

ENBRIDGE

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VIA EMAIL and COURIER

Mr. Peter O'Dell
Assistant Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, ON M4P 1E4

Dear Mr. O'Dell:

**Re: Ontario Energy Board ("Board") File No.: EB-2005-0551
Natural Gas Electricity Interface Review Issues and Storage Regulation
Undertakings of Enbridge Gas Distribution Inc.**


Please find enclosed ten hard copies of Enbridge Gas Distribution's responses to undertakings given at the Technical Conference on May 18 and 19, 2006. Undertakings being filed are:

#46 to 49, 51, 52, 54, 56 and 57.

The remainder of Enbridge Gas Distribution's Undertakings will be answered and filed with the Board shortly.

A PDF searchable and Word format version have also been filed with the Board electronically.

Yours truly,


David Stevens
Acting Senior Counsel, Regulatory

Attachment

cc: Mr. F. D. Cass, Aird & Berlis (via email and courier)
EB-2005-0551 Interested Parties (via email)

ENBRIDGE GAS DISTRIBUTION UNDERTAKING #46

UNDERTAKING

TO PROVIDE a range of the terms and sale/storage volumes associated with the Company's transactional storage services offerings. (May 18, 2006, Tr. 220-221)

RESPONSE

The following tables summarize the transactional storage service offerings for transactions that Enbridge Gas Distribution entered into during Fiscal 2005 (October 2004 – September 2005). Both tables show the total number of transactions and volume of gas (in 10^3m^3) associated with these transactions grouped by different durations for the transactions. Table 1 is sorted based on the number of transactions and Table 2 is sorted based on the volume of gas. The groupings indicate if the transaction was for a single day, less than a week, less than a month, or a certain number of months.

Table 1

Duration	Volume in (10^3m^3)	Number of Transactions
1 Day	92,437	65
Less than 1 Month	104,023	50
Less than 1 Week	67,796	45
3 Months	205,073	26
5 Months	111,708	19
6 Months	104,427	17
4 Months	54,147	12
2 Months	74,988	10
1 Month	118,549	8
7 Months	78,974	7
8 Months	54,783	3
9 Months	8,958	2
Total	1,075,863	264

Table 2

Duration	Volume in (10^3m^3)	Number of Transactions
3 Months	205,073	26
1 Month	118,549	8
5 Months	111,708	19
6 Months	104,427	17
Less than 1 Month	104,023	50
1 Day	92,437	65
7 Months	78,974	7
2 Months	74,988	10
Less than 1 Week	67,796	45
8 Months	54,783	3
4 Months	54,147	12
9 Months	8,958	2
Total	1,075,863	264

ENBRIDGE GAS DISTRIBUTION UNDERTAKING #47

UNDERTAKING

TO ADVISE whether Enbridge Inc. has any operational control over Alliance or Vector.
(May 18, 2006, Tr. 236)

RESPONSE

Enbridge Operational Services – Gas Transmission group has a Service Level Agreement with Vector Pipelines to provide gas control and pipeline scheduling services. This department is managed entirely separately from Enbridge Operational Services – Gas Distribution to ensure compliance with Federal Energy Regulatory Commission (“FERC”) Order 2004 which puts in place specific restrictions on the sharing of resources and information between a U.S. pipeline and any affiliate defined as an “Energy Affiliate”, which Enbridge Gas Distribution is classified as.

Enbridge Inc. has no operational control over the Alliance Pipeline, beyond its position as a shareholder of Alliance.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING # 48

UNDERTAKING

46. TO ADVISE, with respect to Rate 316, (Exhibit C, Tab 3, Schedule 3, Page 1), whether: (May 19, 2006; Tr. 6-8)
- a. The minimum rate represents the Company's system average cost for storage and represents the cost-based rate that would be charged as a storage space demand charge;
 - b. The Company considers that the maximum rate specified in the Tariff represents market price to be charged as a storage space demand charge;
 - c. The storage deliverability injection demand charge at the 1.2% level will be cost-based, and will represent the system average cost for deliverability at that level;
 - d. The maximum rate shown in the Tariff for storage deliverability injection demand charge is the maximum market price that the Company would charge for deliverability service additional levels above 1.2%.

RESPONSE

a) and c) The Company confirms that the minimum demand charges for storage space and deliverability for Rate 316 shown at Exhibit C, Tab 3, Schedule 3, Page 1 reflect 1.2% ratcheted deliverability service at Dawn and are derived on a fully allocated basis. In other words, the minimum charges on Rate 316 represent cost-based rates (i.e. system average costs) for traditional storage service of 1.2% ratcheted deliverability at Dawn. The detailed derivation of the charges is shown at Enbridge Gas Distribution Undertaking #20 and #22.

b) and d) Please refer to Enbridge Gas Distribution Undertaking #21 for the rationale for setting the maximum demand charges on Rate 316 at ten times the minimum charges.

The maximum represents the maximum rates the Company would charge for high deliverability storage service under the current regulatory regime where the

Ontario Energy Board (“the Board”) regulates storage rates. In such a scenario, customers could contract for additional space and deliverability that exceed the amount allocable under the Board approved formula (i.e., traditional storage service of 1.2% ratcheted deliverability) at market-based prices which are not to exceed the maximum shown on the rate schedule.

If the Board were to forebear from regulating high deliverability storage services, then the price for space and deliverability, above the base amount of storage (i.e., traditional storage service of 1.2% ratcheted deliverability) allocated to in-franchise customers, would be determined through an open season.

ENBRIDGE GAS DISTRIBUTION # 49

UNDERTAKING

TO ADVISE of the percentage difference between the market based price that the Company is paying Union Gas for storage, as compared to Union Gas' own cost-based rate for storage. (May 19, 2006, Tr. 44-45)

RESPONSE

The market based price that Enbridge Gas Distribution is paying Union Gas for storage represents approximately a 175% increase over the previous cost-based storage agreement.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING # 51

UNDERTAKING

TO ADVISE how, in the context of a non-forbearance decision by the Board, and in the context of a forbearance decision, the Company would allocate physical storage to customers and to advise whether the current allocation algorithm takes into account any factors other than seasonal load profile. (May 19, 2006; Tr. 49-50)

RESPONSE

In the context of a forbearance decision, an allocation of storage to customers using an Ontario Energy Board (“the Board”) approved formula, or another allocation methodology, would no longer have merit. In such a context, market supply and demand would determine the price at which customers would acquire various storage services, as well as the volume of storage acquired.

In the context of a non-forbearance decision Enbridge Gas Distribution (“the Company”) is proposing to continue using the Board approved formula to allocate the base amount of storage (i.e., traditional storage service of 1.2% ratcheted deliverability) to both bundled and unbundled in-franchise customers. The Board approved formula takes into account the customer’s annual load profile to allocate storage space and deliverability. The calculation is outlined below.

To determine storage space requirement, the Company currently takes into account winter deliveries over four months (Dec. 1st to March 31st or 121 days). The Company is proposing to use five months (Nov. 1st to March 31st or 151 days) to allocate storage space to its customers starting in 2007. The five month period better reflects storage withdrawals to balance demand in shoulder seasons.

i) Required Information:

Annual deliveries = total deliveries over 365 days

Average annual demand = annual deliveries / 365

Winter deliveries = deliveries between Nov. 1st and March 31st (i.e. over 151 days)

Average winter demand = winter deliveries / 151

ii) Calculation of Storage Space allocation and Deliverability (1.2%):

Storage space = (average winter demand - average annual demand) * 151

Deliverability = 1.2% of storage space

Deliverability = storage space x 0.012

The current storage allocation methodology using the Board approved formula does not take into account any factors other than the customer's annual load profile. This is due to the fact that storage is being used to meet seasonal nature of the Company's demand.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING # 52

UNDERTAKING

TO PROVIDE the OEB decision number where the Board first approved the Company's transactional services sharing methodology. (May 19, 2006, Tr. 55)

RESPONSE

The Ontario Energy Board first approved a transactional services sharing methodology in the EBRO 492 Rate Case.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING # 54

UNDERTAKING

TO ADVISE of the revenue that has arisen from transactional services over the course of its history, and the amount of money that has been returned to ratepayers and the Company's shareholder as a result over that period of time. (May 19, 2006, Tr. 57-58)

RESPONSE

Please see the attached table which provides the requested information for all transactional services activity (not simply transactional storage services).

	1997	1998	1999	2000	2001	2002	2003	2004	2005 ¹	2005 Stub ²
Gross Margin	5.7	5.7	6.9	9.9	14.1	9.4	18.1	21.8	21.3	8.1
Ratepayer Portion	4.1	4.1	5.2	7.6	11.7	8.5	13.6	16.3	16.0	6.1
Shareholder Portion	1.6	1.6	1.7	2.3	2.4	0.9	4.5	5.5	5.3	2.0
Less: Incremental O&M	0.4	0.5	0.5	0.5	0.5	0.5	0.7	0.7	0.7	0.2
Net Shareholder Portion	1.2	1.1	1.2	1.8	1.9	0.4	3.8	4.8	4.6	1.8

Notes:

1. Sharing of 2005 Gross Margin will be formalized through the clearing of the 2005 TSDA. Distribution of the Gross Margin is based on the sharing specified in the RP-2005-001 Decision with Reasons
2. 2005 Stub period associated with the change in Enbridge Gas Distribution's year end

ENBRIDGE GAS DISTRIBUTION UNDERTAKING # 56

UNDERTAKING

TO ADVISE of the process that the Company used for its request for proposals for storage in the Fall of 2005, including who the bidders were (by category; i.e., markets, storage providers) and whether the process indicated that there were competitive options open to the Company to meet its needs. (May 19, 2006, Tr. 72-73)

RESPONSE

In the fall of 2005, Enbridge Gas Distribution undertook a Request For Proposal ("RFP") process to acquire gas storage services to replace the 20 BCF of storage that had previously been contracted with Union Gas. The RFP was structured in a manner that allowed service providers to submit bids for quantities of at least 5 BCF, with smaller quantities to be considered, and for terms ranging from 1 to 10 years. This was intended to provide the Company with flexibility in making its new storage arrangements and to structure its storage portfolio in a manner that segregated its storage renewals into smaller components on a go forward basis.

Enbridge Gas Distribution provided a broad distribution of the RFP to the marketplace, including storage operators, marketers and other market participants. In total 42 parties received a copy of the RFP. While the Company did not expect to receive responses from the majority of the recipients, it wanted to cast the RFP as broadly as possible. A total of 7 responses to the RFP were received, of which 5 responses were from marketers and 2 were from storage operators, including Union Gas. It is unknown if the proposed services from the marketers were underpinned by some physical storage assets/services or not.

Given the number of responses that the Company received and the diversity of the offerings, Enbridge Gas Distribution believes that there were a number of competitive options open to the Company to satisfy its storage needs.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING # 57

UNDERTAKING

TO ADVISE of what inputs, other than the Merger Enforcement Guidelines, that the CRTC has used to develop its own approach to looking at forbearance applications (May 19, 2006, Tr. 74-75)

RESPONSE

The purpose of this undertaking is to identify and explain inputs and criteria, different from those in the Competition Bureau's Merger Enforcement Guidelines ("MEG"s), used by the Canadian Radio-television Telecommunication Commission ("CRTC") when making forbearance assessments.

In Telecom Decision CRTC 94-19, Review of regulatory framework, the CRTC set out a multi-part assessment, which was based on the MEGs. In subsequent Decisions and Public Notices the CRTC summarized its forbearance criteria as follows:

In Decision 94-19, the Commission adopted the concept of market power, commonly used in economics and in competition law, as the standard by which to determine whether a market is, or is likely to become, competitive. Under this approach, the determination of whether or not to forbear from regulating a service or class of services is based on a determination of the relevant market in which the service(s) is/are offered and on whether a firm has market power in that market.

The Commission considers that a market is not sufficiently competitive if a firm possesses substantial market power. Market power may be assessed by examining three factors: market shares, demand conditions that affect responses of customers to a change in price for a product or service, and supply conditions that affect the ability of competitors in the market to respond to a change in the price of a product or service. High market share is a necessary but not sufficient condition for market power; other factors must be present to enable a firm with market power to act anti-competitively.

Other indicators of a sufficiently competitive market may be taken into consideration. These include evidence of rivalrous behaviour, such as falling prices; vigorous and aggressive marketing activities; or an expanding scope of competitor activities in terms of products, services, and geographic boundaries.

The Commission's process for assessing the degree of competition in telecommunications service markets is outlined in Decision 94-19.

The first step is the identification of the relevant market. The relevant market is the smallest group of products and geographic area in which a firm with market power can profitably impose a sustainable price increase. The definition of the relevant market is based on the substitutability of the services in question.

The next step in the analysis involves determining whether a firm has market power with respect to the relevant market. As indicated in Decision 94-19, there cannot be sustainable competition in a market in which a firm possesses substantial market power. Market power can be demonstrated by the ability of a firm to raise or maintain prices above those that would prevail in a competitive market.

The last step in the analysis is to determine whether, and to what extent, forbearance should be granted.¹

Unlike the criteria set out in the MEGs, the CRTC decided not to include factors such as the four-firm concentration ratio or Herfindahl – Hirschman (“HHI”) measurements when considering market share or market concentration². In fact, the CRTC has decided to forbear from regulating long distance services, interexchange private line services, and local telephone services even though there may be only two firms in the market and the incumbent telephone company has a market share of 70 percent or more.

In certain of its Decisions, such as those addressing the forbearance of long distance and interexchange private line services, the CRTC applied the forbearance criteria in a methodological manner. However, in subsequent Decisions, the CRTC did not rely entirely on the forbearance criteria developed in Decision 94-19, and which was based on the MEGs. In deciding whether or not it was appropriate to forbear from the regulation of the incumbent telephone companies' VoIP services, the CRTC determined that it was "appropriate to conduct two separate analyses: one within the Decision 94-19 framework, and one outside of that framework".³

The second analysis, conducted outside of the Decision 94-19 framework, focused specifically on whether or not there "is or will be subject to competition sufficient to protect the interests of users", pursuant to subsection 34(2) of the *Telecommunications Act*. In this assessment, the CRTC considered factors not explicitly identified in either the MEGs or the Decision 94-19 criteria. In its review, the CRTC considered factors such as the ability of cable companies to emerge as strong competitors, expected competitive behaviour on the part of the incumbent telephone companies if services were forborne, experience with forbearance in

¹ See, for example, Public Notice CRTC 2005-2.

² See Merger Enforcement Guidelines, paragraphs 4.11 to 4.17.

³ CRTC, Telecom Decision CRTC 2005-28, paragraph 133.

other sectors of the telecommunications industry, and alternatives to VoIP services available to customers.⁴

In Telecom Decision 2006-15, *Forbearance from the regulation of retail local exchange services*, issued on April 6, 2006, the CRTC substantially revised its forbearance criteria with a set of new criteria, designed specifically for the local telephone services market. Although the CRTC did not decide to forbear from the regulation of any of the incumbent telephone companies' local telephone services, the CRTC said that it was prepared to approve an application from an incumbent telephone company where it can demonstrate that it has satisfied five criteria specified in the Decision. Three of the five criteria are unique to the local telephone services market and were included to promote competition. The remaining two criteria, identified below, are more generic in nature and could be used for assessing forbearance from regulation in other telecommunications markets.

1. The incumbent telephone company has suffered a 25 percent market share loss in the relevant market.
2. The incumbent telephone company demonstrates to the CRTC that rivalrous behaviour exists in the relevant market.⁵

It is interesting to note that the forbearance criteria developed by the CRTC differed significantly from the approach recommended by the Competition Bureau. The CRTC summarized the Competition Bureau's approach as follows:

The Competition Bureau proposed that the Commission should adopt a structured rule of reason (SROR) approach that could serve as the basis for streamlined analysis of ILEC requests for local exchange service forbearance, once the relevant product market had been identified. In the Competition Bureau's view, this approach used the following set of conditions that, if satisfied, should be sufficient for the Commission to conclude that an ILEC did not possess market power in the provision of local exchange services:

- At least two independent facilities-based service providers must exist, the ILEC and a facilities-based entrant, capable of offering local service that has been determined to fall within the relevant product market for ILEC local service;
- The entrant was able to obtain and retain a customer base;
- The entrant's variable costs of providing local service are similar to or lower than the ILEC's variable costs of providing local service;
- Neither the ILEC nor the entrant was capacity-constrained;

⁴ CRTC, Telecom Decision CRTC 2005-28, paragraphs 153 to 170.

⁵ CRTC, Telecom Decision CRTC 2006-15, paragraph 242.

- There was evidence of vigorous rivalry between the ILEC and the entrant in the provision of local service; and
- Industry characteristics are such that the ILECs are unlikely to engage in anti-competitive behaviour.⁶

In rejecting the Competition Bureau's proposal, the CRTC observed that:

The Commission, equally, should not put itself into the position of second-guessing or micromanaging the business plan of competitors by reviewing their variable costs and comparing those variable costs to the variable costs of an applicant ILEC. If an applicant ILEC can demonstrate that it no longer can exercise market power in a particular relevant market then the Commission considers that market forces should be permitted to operate in that relevant market, within the scope of the framework set out in this Decision, and it is incumbent on competitors to adapt to that market reality.⁷

In addition to rejecting any assessment of competitors' variable costs, the CRTC did not incorporate assessments of entrants' ability to obtain and retain a customer base or the existence of capacity constraints. The local telephone service forbearance criteria adopted by the CRTC is less stringent and less detailed than those proposed by the Competition Bureau.

⁶ CRTC, Telecom Decision CRTC 2006-15, paragraph 213.

⁷ CRTC, Telecom Decision CRTC 2006-15, paragraph 241.