

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 hearing in the above mentioned proceeding on July 10, 2006.

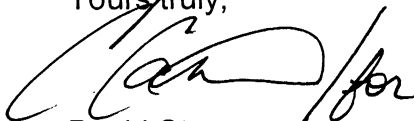
Undertakings being filed are:

K7.2 to K7.4 and K7.6 to K7.10.

A PDF searchable and Word format version will also be filed with the Board electronically.

The remaining of Enbridge Gas Distribution's responses to undertakings will be filed shortly.

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 NO. K7.2

UNDERTAKING

To provide working papers that establish the storage component of the \$31 per residential customer per year and \$48 per residential customer per year costs for storage services. (7 Tr. 5)

RESPONSE

Enbridge Gas Distribution's numerical example illustrates that acquiring market based storage at Dawn would result in an increase of approximately \$17 per year for a typical residential customer. This represents the difference between existing storage costs of \$31 per customer compared to \$44 per customer for market based storage. This was based on the assumption that market based storage at Dawn would be approximately twice the cost of cost based storage.

Upon reviewing the calculation which determined the existing storage costs of \$31 per residential customer, an error was detected in the calculation. The existing cost of storage for a residential customer should be \$44 annually and the market based storage costs should be \$61 per customer. The table below provides the calculations which support these numbers.

<u>Line No.</u>		<u>Total Storage Costs (1)</u> (Col. 1)	<u>Rate 1 Storage Costs</u> (Col. 2)	<u>Storage Costs @ 80 cents/GJ</u> (Col. 3)
1.1	Storage Costs (Millions)	\$54.24	\$26.28	\$52.56
1.2	Other (Millions)	<u>\$84.95</u>	<u>\$41.17</u>	<u>\$41.17</u>
1.0	Total (Millions)	\$139.19	\$67.45	\$93.73
2.0	Volume (10 ⁶ m ³)		4,674.3	4,674.3
3.0	Unit Rate		0.0144	0.0201
4.0	Typical Bill Impact at 3,064 m ³		\$44.21	\$61.44
5.0	Increase (col. 3 minus col. 2)			\$17.23

Note: (1) EB-2005-0001 Final Board Order, Exhibit G2, Tab 5, Schedule 3, Line 3 and Exhibit G2, Tab 5, Schedule 2, Line 3

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.3

UNDERTAKING

To check cost whether the answer to Enbridge Gas Distribution Undertaking number 49 would change if a base of 31 cents/GJ was used as Union's cost based rate. (7 Tr. 12)

RESPONSE

The response to Enbridge Gas Distribution's ("the Company") Undertaking number 49 assumed the previous cost-based storage agreement with Union Gas ("Union") as the basis for determining the difference between the market based price that the Company is paying Union for storage, and Union's own cost based storage. This response does change if a base of 31 cents/GJ was used as Union's cost based rate. Under this scenario, the market based price that Enbridge Gas Distribution is paying represents approximately a 180% increase over Union's cost based rate.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.4

UNDERTAKING

To provide, using appropriate assumptions and caveats, a calculation for 60 cents times 92 Bcf, expressed in terms of the resulting increase in equity return for Enbridge Gas Distribution on a basis points basis. (7 Tr.15)

RESPONSE

Assuming the Company's owned storage capacity was to be re-priced in the market end-state to a level that is 60 cents greater than the current embedded storage cost, and assuming such re-pricing could be sustained in the marketplace for any appreciable time period, the resulting increase in revenue would be as follows:

The revenue impact of 60 cent increase is approximately \$55.2 million

This increased revenue, when translated into an after tax amount equates to approximately \$35.9 million. (amount above times (1-35%))

Dividing this after tax amount by the deemed equity component of \$1,352.2 within the Company's 2006 Final Rates Rate Base of \$3,863.5 million results in the following: $\$35.9 / \$1,352.2 = 2.65\%$ increase in the overall Enbridge Gas Distribution Return on Equity (265 basis point increase).

The Company has two primary comments associated with the above calculation.

First, the above calculation is a hypothetical one in that the question contemplates an end state wherein storage prices are deregulated at the burner tip. In such a market it is unlikely that the existing utility capital structure would be applicable to the Company's storage operations. The reason for this is that capital structures in competitive industries typically require a higher level of equity in the capital structure and, as a result, the increase in the Company's overall Return on Equity in the above calculation is overstated.

Second, the Company recognizes that fully deregulating storage at the burner tip in the distribution franchise is an end state, and not one which the Company is proposing be implemented at this time. In the Company's view transition issues and processes (such as rate unbundling, customer education, customer choice, etc.) would need to take place before the end state were implemented, and the Company's exemption proposal allows for these transition issues to be dealt with over time.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.6

UNDERTAKING

To advise as to the extent that the assets listed in Enbridge Gas Distribution Undertaking 55 have been depreciated. (7 Tr. 98)

RESPONSE

The Board has requested in this undertaking that Enbridge Gas Distribution identify the extent to which Enbridge Gas Distribution's storage assets have been depreciated. The following table provides the 2006 Board Approved underground storage balances.

**Underground Storage Plant
 2006 Test Year Approved Balances**

Line No.	Col. 1	Col. 2	Col. 3
	Gross Plant Average of Monthly Averages Balance	Accumulated Depreciation Average of Monthly Averages Balance	Net Book Value Average of Monthly Averages Balance
	(\$Millions)	(\$Millions)	(\$Millions)
1. Total underground storage excluding base pressure gas	221.3	(78.2)	143.1
2. Base pressure gas	40.8	-	40.8
3. Total underground storage	262.1	(78.2)	183.9

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.7

UNDERTAKING

To advise whether Enbridge Gas Distribution Inc. would be prepared to agree, as a condition of obtaining a forbearance order, to provide the information listed in the FERC regulation at Tab 2 of Exhibit J3.2 in respect of the index of customers, available capacity and semi-annual storage report. (7 Tr. 122)

RESPONSE

FERC regulation S284.13 includes three types of reporting that have been identified as being of interest in this proceeding. The first area is related to an Index of Customers. The referenced regulation specifies a number of requirements that Interstate pipelines must comply with under its "Index of Customers" (C.1 & 2 on page 745). C.1 identifies that:

On the first business day of each calendar quarter, an Interstate pipeline must file with the Commission an index of all its firm transportation and storage customers under contract as of the first day of the calendar quarter that complies with the requirements set forth by the Commission....The index of customers must also be posted on the pipeline's Internet web, in accordance with standards adopted in S284.12 of this part.

C.2 identifies the specific information to be included in the index of customers. It indicates that:

For each shipper receiving firm transportation or storage service, the index must include the following information:

- (i) The full legal name, and identification number, of the shipper;
- (ii) The applicable rate schedule number under which the service is being provided;
- (iii) The contract number;
- (iv) The effective and expiration dates of the contract;
- (v) For transportation service, the maximum daily contract quantity (specify unit of measurement), and for storage service the maximum storage quantity (specify unit of measurement);
- (vi) The receipt and delivery points and the zones or segments covered by the contract in which the capacity is held, including the industry common code for each point, zone, or segment;
- (vii) An indication as to whether the contract includes negotiated rates;
- (viii) The name of any agent or asset manager managing a shippers transportation service; and
- (ix) Any affiliate relationship between the pipeline and a shipper or between the pipeline and a shipper's asset manager or agent.

Enbridge Gas Distribution would be prepared to agree, as a condition of obtaining a forbearance order, to provide the information listed above for firm storage contracts that are one year or longer in term, with some exceptions or clarifications. These are:

- Item (ii) requires that the applicable rate schedule be provided. Under a forbearance scenario, the Company assumes that there would not be an applicable rate schedule for the market based storage services;
- Item (vi) is only applicable for a transportation service and as a result would not be applicable to the Company's reporting;
- Item (viii) refers to a transportation service and would not be applicable for Enbridge Gas Distribution; and
- Item (ix) requires the identification of any affiliate relationship between the Company and a shipper's asset manager or agent. Enbridge Gas Distribution would not be aware of any ties between a shipper and an asset manager the shipper may be using.

The second area of interest is the "Available Capacity" provisions of the regulation. D.2 of the FERC regulation (page 746) specifies that:

An Interstate pipeline must make an annual filing by March 1 of each year showing the estimated peak day capacity of the pipeline's system, and the estimated storage capacity and maximum daily delivery capability of storage facilities under reasonably representative operating assumptions and the respective assignments of that capacity to the various firm services provided by the pipeline.

Enbridge Gas Distribution would be prepared to file such a report as a condition of obtaining a forbearance order.

The final area of interest is the "Semi-annual storage report". Section E of the FERC regulation specifies that:

Within 30 days of the end of each complete storage injection and withdrawal season, the interstate pipeline must file with the Commission a report of storage activity...contain[ing] a summary of storage injection and withdrawal activities to include the following:

- (1) The identity of each customer injecting gas into storage and/or withdrawing gas from storage, identifying any affiliation with the interstate pipeline;
- (2) The rate schedule under which the storage injection or withdrawal service was performed;
- (3) The maximum storage quantity and maximum daily withdrawal quantity applicable to each storage customer;
- (4) For each storage customer, the volume of gas (in dekatherms) injected into and/or withdrawn from storage during the period; and
- (5) The unit charge and total revenues received during the injection/withdrawal period from each storage customer, noting the extent of any discounts permitted during the period.

Enbridge Gas Distribution would be prepared to agree, as a condition of obtaining a

forbearance order, to provide the information listed above for firm storage contracts that are one year or longer in term, with some exceptions or clarifications. These are:

- Item (2) requires that the applicable rate schedule be provided. Under a forbearance scenario, the Company assumes that there would not be an applicable rate schedule for the market based storage services;
- Item (4) requires reporting in dekatherms, the Company would propose that gigajoules would be the more appropriate measure; and
- Item (5) requires the release of pricing information that Enbridge Gas Distribution views as being commercially sensitive and as a result would not be prepared to provide this information.

Mr. Janigan, during his cross-examination of Enbridge Gas Distribution inquired as to how the Company would “propose that the Board, and possibly interested parties, could monitor the consequences of the decision to forbear” (7 Tr.135). In addition to Mr. Grant’s response that:

the Board would always have tools at its disposal to collect available information out in the marketplace, and perhaps even conduct or have some conduct an independent study to advise the Board, if they felt it was important, as to how the market was working.
(7 Tr.136),

the Company believes that the reports outlined above will provide significant insight into the level of activity that is occurring in the market. By monitoring the level of storage activity reflected in the reports and any trends that these reports show over time, one would have an indicator as to how the market has responded to the forbearance decision.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.8

UNDERTAKING

To advise of the injection rights that Enbridge Gas Distribution holds at Stagecoach under its current contract. (7 Tr. 128)

RESPONSE

Enbridge Gas Distribution held a 5% injection right at Stagecoach under its contract.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.9

UNDERTAKING

To advise whether the Board, for the purpose of setting rates, has ever asked Enbridge Gas Distribution or its predecessor to write down the value of any of the storage assets developed under cost-of-service. (7 Tr. 135)

RESPONSE

The Ontario Energy Board (the Board”) has not asked Enbridge Gas Distribution (“the Company”) or its predecessors to write down the value of its storage assets developed under cost of service, however, since 1993 the Board has denied (with reasons) the Company’s actual costs for its storage operation in two rates decisions.

The first decision was EBRO 479 (March 1993) when the Board denied the Company’s full cost of acquiring the remaining 50% of Tecumseh Gas Storage shares from Imperial Oil. At paragraph 6.1.13 of that Decision the Board stated:

The Board thereby specifically disallows including in rate base the \$5 million premium component of the \$19.6 million the Company assigned to the Tecumseh shares. As a result, the question of how to allocate this premium is irrelevant.

The second Decision was EBRO 492 (September 1996) when the Board denied the Company’s full cost of installing the K-711 compressor due to a cost overrun. At paragraph 2.2.43 of that Decision the Board stated:

The Board finds that the costs of K-711 exceeded its estimated costs by \$457,000, which sum shall be absorbed by the Company’s shareholders. Consequently the Board has removed this amount in establishing the rates for the Company’s 1997 fiscal year, as shown in Appendix B.

ENBRIDGE GAS DISTRIBUTION UNDERTAKING NO. K7.10

UNDERTAKING

To advise whether any decision of the CRTC, including Decision 97-19, has set a ceiling on basic Toll Rates. (7 Tr. 148)

RESPONSE

In Telecom Decision CRTC 97-19, *Forbearance - regulation of toll services provided by incumbent telephone companies*, the CRTC determined that it was appropriate for forbear from the regulation of the incumbent telephone companies' toll services (i.e., long distance services). However, the Commission also expressed concern that customers in areas where long distance competition did not exist required regulatory protection. As a result, regulatory safeguards were imposed by the Commission on the incumbent telephone companies' basic toll rates, which are the rates charged to a customer who has not moved to a competitor and who has not subscribed to a long distance service plan or bundle from an incumbent telephone company.

The fourth of the five regulatory safeguards created by the Commission imposed a cap on the overall North American basic toll rate schedule. This cap, first introduced by the Commission in 1994 (Decision 94-19), required that increases to individual rates in the toll schedule be offset with reductions of other basic toll rates. Decision 97-19 maintained this "cap" with the requirement that "any rate increases within a schedule are offset by corresponding decreases within the same schedule such that there is no change to that schedule's weighted average rate".

Under the remaining regulatory safeguards, the incumbent telephone companies were required to make the basic toll rate schedule publicly available, obligated to provide written advanced notification to customers of any changes to basic toll rates, prohibited from de-averaging toll rates, and required to provide basic toll service to all customers requesting the service. Pursuant to Decision 94-19, the Commission placed limitations on the incumbent telephone companies' flexibility to decrease the off-peak percentage discount for any given time period. Under this forbearance regime, the Commission did not require the incumbent telephone companies to file basic toll rates for approval.

The following excerpt from Decision 97-19 provides some of the rationale and directives concerning the safeguards adopted by the Commission for basic toll services:

79. The Commission considers that in a forborne environment in which prior Commission tariff approval is no longer required, subscribers in non-equal access areas do not yet have

the ability to switch to comparable services provided by APLDS, and thus require certain regulatory protection.

80. The Commission considers that, without the necessity of obtaining prior Commission approval of tariffs, the Stentor companies could, in the absence of safeguards, route de-average basic toll rates in high-cost remote areas where there is no effective competition, and raise rates for such subscribers.

81. To protect the interests of users, including users in high-cost remote areas, and in light of the Canadian telecommunications policy objectives, the Commission considers it appropriate to adopt the following additional conditions applicable to the offering or provision of toll services:

(i) The Stentor companies shall provide to the Commission, and make publicly available, rate schedules setting out the rates for basic toll service. These schedules are to include the 50% discount currently applicable to calls which originate from, and are billed to, the residence service of a registered certified hearing or speech-impaired Telecommunications Devices for the Deaf (TDD) user. The Stentor companies shall update their respective schedules within 14 days of any change to the rates for basic toll service.

(ii) The Stentor companies shall provide reasonable direct notice in writing to subscribers in advance of any increase to basic toll rates.

(iii) The Stentor companies shall not route de-average basic toll rates.

(iv) The cap on overall North American basic toll rates implemented by the Commission in Decision 94-19 shall continue to apply in modified form. Changes within any of the North American basic toll schedules will be permissible, provided any rate increases within a schedule are offset by corresponding decreases within the same schedule such that there is no change to that schedule's weighted average rate.

(v) The Stentor companies shall ensure that all toll customers and applicants for toll services in their respective serving territories can choose basic toll service at the rates set out in the rate schedules noted above.

82. The Commission intends to review the continued need for the foregoing five conditions in conjunction with its review of the four-year price cap regime.

By way of explanation, equal access means an arrangement which permits any customer to dial "1" plus a 10-digit telephone number and have the long distance call carried by the long distance company selected by the customer.

"APLDS" means alternate provider of long distance services.