Understanding Unbundled Rates and Services

Introduction

Enbridge Gas Distribution Inc. (Enbridge or the Company) redesigned its unbundled distribution and gas storage services as part of the Natural Gas Electricity Interface Review (NGEIR) generic proceeding. The proceeding was initiated by the Ontario Energy Board (OEB) and concluded in August 2006. The Company has since prepared this information package to explain important differences between bundled and unbundled service offerings to its large volume customers. The enclosed material provides fundamental information to assist you in evaluating available service offerings and rate provisions for your application(s).

The main body of the package addresses key issues that customers interested in unbundled services should consider prior to choosing any of the unbundled services. The topics covered in this section include:

1) Mechanics of bundled vs. unbundled services
2) Benefits and costs of unbundled service
3) Early termination policy for bundled contracts
4) Role of third party energy managers

A modeling tool will be provided to customers prior to or at the meeting. This tool can be used to derive a high level comparison of distribution and load balancing charges customers would incur under a variety of bundled and unbundled scenarios. A sample comparison for each bundled large volume rate will be provided. The following documents are provided in the Appendix:

a) A checklist of requirements and obligations under the unbundled Rate Schedules 300, 315 and 316
b) A side-by-side comparison of customer requirements under present bundled and new unbundled rates
c) Copies of each of the new rate schedules
d) Large volume customer letter dated August 29, 2006 outlining the process concerning selection of unbundled services

In addition to circulating this information package, the Company is going to host meetings with large volume customers by October 2, 2006 to present on and discuss unbundled rates and services and answer customers’ questions.

Customers interested in contracting for unbundled services shall express their interest to the Company by October 15, 2006.

Please contact your account representative with any questions you may have.
1) Mechanics of Bundled vs. Unbundled Services

The following table highlights high-level differences between bundled and unbundled services. The key difference, from an operational perspective, is the amount of hands-on day to day involvement by the customer or its representative.

<table>
<thead>
<tr>
<th>BUNDLED SERVICE</th>
<th>UNBUNDLED SERVICE</th>
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<tbody>
<tr>
<td>Complete package</td>
<td>Unpackaged</td>
</tr>
<tr>
<td>Little decision making on daily basis</td>
<td>Hands-on day to day involvement</td>
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<tr>
<td>Similar to indexed mutual funds</td>
<td>Similar to active investing</td>
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Description of Bundled Services
- Combine delivery, storage, and supply-related services
- Customer does not need to nominate daily
- Subject to periodic supply/consumption balancing (i.e. Banked Gas Account (BGA))

Unbundled service allows customers to choose the types and amounts of service required for their needs. Enbridge continues to provide distribution service from a point of interconnection with an upstream gas pipeline service provider. In addition, Enbridge provides, as needed, load balancing services.

Description of Unbundled Services
- Distribution, with limited load balancing service, and storage provided as discrete services
- Customer responsible for daily nomination of supply and storage (if applicable)
- Customer subject to daily balancing provisions

Considerations Regarding Unbundled Rates Suitability
- Large volume customers typically benefit more than smaller volume customers
- Customer required to forecast daily gas use accurately to maximize benefits
- Customer must either possess the ability to manage gas supply or contract for this capability efficiently from others
- Customer should determine if a cost advantage relative to bundled rates exists

When electing unbundled services, the customer takes responsibility for contracting gas commodity and upstream delivery service. Unlike current bundled services, unbundled services require day-to-day management of gas deliveries to match load and ensure sufficient gas deliveries to avoid adverse bill impacts. The Company offers firm and interruptible unbundled distribution services under Rate 300.

Key Provisions of Rate 300: Firm or Interruptible Distribution Service
- Automatic meter reading (AMR) mandatory
- Combined nominations within delivery area subject to Contract Demand (CD)
- Monthly CD Charge applicable to full CD
- Demand Charge recovers all fixed delivery costs
- No commodity charges
- No minimum volumes
- No obligation to deliver if daily consumption equals zero
- Provision of gas losses in kind
- Authorized overrun charge for exceeding CD on limited occasions

Customers may also contract for gas storage service as part of their gas supply mix.

**Key Provisions of Rate 315: Gas Storage Service**
- Customer contracts for space, deliverability, and injection/withdrawal rights
- Customer must maintain positive balance of gas in storage at all times
- Nominated storage service with no-notice storage service available for daily balancing
- Storage space based on algorithm
- Maximum deliverability equals 1.2% of storage space
- Maximum hourly injections/withdrawals equal 1/24 of maximum deliverability
- Subject to storage ratchets

**2) Benefits and Costs of Unbundled Service**

The availability of unbundled services increases customer choice and provides for potential benefits, but also creates responsibilities and obligations for customers choosing unbundled services. Appropriate choices mean the potential for cost savings while inadequate choices mean higher gas costs and the potential for penalty charges from violation of system integrity rules.

In choosing unbundled services, the customer must agree to a different set of responsibilities and obligations. In particular, the customer must arrange for daily delivery of the expected daily gas consumption. The key element of this requirement is providing a sound forecast of gas consumption on a day ahead basis. Better forecasts reduce imbalance and associated costs.

Under certain system operating conditions as communicated by the Company to the customer, the system faces limited tolerance for positive or negative imbalances. On these days the potential for significant extra costs results from customer imbalance. Nominating gas on a daily basis also includes adjusting intra day nominations when the actual daily use differs from the forecast.

Appreciating the potential for cost savings requires understanding of the economics of unbundled services. Distribution service from Enbridge represents a small percentage of the total costs for gas service. (Customers will be able to use the modeling tool to assess and compare their distribution charges under bundled and unbundled scenarios.) Principal components of gas costs include the commodity cost of the gas (the largest single cost)
and the transportation from the wellhead to the Enbridge’s system or storage delivery point.

The greatest potential for savings from unbundled service is derived from adopting purchasing strategies that reduce gas commodity. The second largest savings component results from an optimum mix of pipeline delivery services relative to contract demand. Where customers contract for and manage storage as a gas optimization tool, the cost of financing the gas in storage becomes a consideration that must be evaluated.

Unbundled storage customers effectively operate a piece of the storage facility for their own use, which requires the customer to understand its operating characteristics including both the injection and withdrawal cycle. Storage services are subject to ratchets for injection and withdrawal. In essence, as storage fills up, the rate at which additional gas may be injected declines. This means that customers cannot fill their storage space at the last minute but must do so over the whole injection cycle. Similarly, when storage is full at the start of the winter, the level of withdrawal equals the contract maximum withdrawal rate. Over the course of the withdrawal season, the maximum withdrawal amount declines and reaches zero when the entire customer’s storage gas is used.

Planning for the injection and withdrawal cycles is a critical step in maximizing unbundled benefits. An attractive feature of Rate 315 is No Notice injections and withdrawals. No Notice service permits gas deliveries in excess of the customer’s consumption to be automatically injected into storage and consumption in excess of the deliveries to be automatically withdrawn from storage, subject to contractual injection and withdrawal limits.

Rate 315 provides value as a balancing service where customer loads fluctuate. Customers must carefully evaluate the costs and benefits associated with these options. In general, the more predictable the customer’s load, the less value the higher cost storage services generate.

**Summary of Unbundled Service Cost Components**

1. Gas commodity purchase including counter party risk management where fixed price contracts underpin supply
2. Upstream pipeline transportation charges (available from pipeline supplier tariffs)
3. Storage reservation charges from Enbridge Rate 315
4. Storage injection and withdrawal charges Rate 315
5. Carrying cost of gas in storage
6. Delivery service charges from Rate 300:
   - Customer charge
   - Contract demand charge (firm service) or commodity delivery charge (interruptible service)
   - Authorized demand overrun charges, if any
   - Unauthorized demand and supply overrun charges
• Unauthorized supply underrun charges
• Daily and cumulative imbalance charges, if any

7. Unaccounted for gas costs

Customers need not incur all of these costs depending on the management of gas supply and consumption. Optimizing the use of the various services and options provides customers the opportunity to avoid certain charges and to minimize others.

3) Early Termination Policy for Bundled Contracts

The Company developed a procedure for the early termination of bundled contracts to enable customers to sign up for unbundled services starting January 1, 2007.

For an Enbridge customer requesting early termination of their pool for the purpose of migrating from a bundled to an unbundled service arrangement, in addition to their existing contractual obligations, the following points should be considered:

1. Annual Minimum Bill
2. BGA Disposition
3. T- Service Credit

*The Annual Minimum Bill*

This is the amount of gas the customer contracts to use on a month by month basis. Failure to meet this obligation results in a penalty charge to the customer. If the customer uses gas for a period of less than 12 months, a pro-rated Annual Minimum Volume (AMV) will be calculated. The AMV for the early terminated contract period will be an amount which is calculated as follows:

\[ \text{AMV} = \frac{\text{Sum of the estimate monthly volumes during the early terminated contract period}}{\text{customer’s estimated annual gas requirement specified in the contract}} \times \text{contracted AMV} \]

*BGA Disposition*

Upon the early termination of a customer pool where the customer has a BGA in a positive (over delivered) position, and wishes to transfer this balance into an Unbundled Storage Account (Rate 315 or Rate 316), EnTRAC will recalculate the allowable BGA Balance to a pro-rated value that reflects how long the pool was active.

This is based on the following formula*:

\[ \text{Revised allowable BGA} = (20 \times \text{MDV}) \times \frac{\text{(the number of days in the revised term)}}{365} \]
Based on this new value, EnTRAC will follow its standard procedure of automatically initiating a Gas Purchase** for the volume of gas in excess of the (newly) pro-rated tolerance. Any remaining volume of gas (i.e. the amount within the new tolerance value) must be disposed of by the customer in EnTRAC within 180 days of the Termination Date of terminated contract.

Means by which this could be accomplished may include:

- Title transferring of gas volumes to another party
- Gas sale** to Enbridge
- Transferring a volume to a customers’ Rate 315 Storage Account, accepting that there may be volumetric limitations dependant upon the amount of storage space the customer has contracted for.

*T Service Credit*

This is the fee paid by Enbridge to the customer on delivery of gas to the CDA or EDA to prevent the customer paying Trans Canada PipeLines (TCPL) charges twice. Enbridge then charges the Transportation Fees as part of the consumption charges on the customer’s monthly bill. Allowing the customer to Title Transfer the BGA balance to an unbundled storage account removes Enbridges’ ability to recover these fees, therefore, where a customer transfers gas volumes from a BGA to an unbundled storage account, Enbridge will recover these fees by applying a one-time charge to the customer’s monthly bill.

This charge will be based on:
TCPL Toll at the time of the transfer  x  carry over volume.

*Note: The formula is embedded in the EnTRAC Gas Purchase Sale Manager Engine Specifications, Enbridge Implementation, November 10, 2004, and has been part of the operating procedures since EnTRAC’s implementation. An indicative value can be manually calculated, but the EnTRAC calculation will always be the definitive value used to determine the final BGA disposition volume.

**Note: The Gas Sale, Gas Purchase process is described in the Enbridge Gas Distribution Rate Handbook, Part IV, Terms and Conditions – Direct Purchase Arrangements, Section F – Disposition of Banked Gas Account Balances.

4) Role of Third Party Energy Managers

In many instances, customers may find it advantageous to procure energy management services from third party suppliers. Ideally, the supplier will provide the technical and gas supply management expertise as part of a service package to customers who do not want the day-to-day nomination and gas supply management function. By choosing a third party to perform the various services, the customer may increase the benefits of unbundled service as compared to their own management of the services.
Customers must exercise diligence in choosing a third party supplier to assure that the goals and objectives of the customer align with those of the supplier. Customers must recognize the importance of risk management associated with any agreements between the supplier and the customer. In particular, the roles and responsibilities of the customer and the supplier must be clearly defined. Since mismanagement of daily deliveries imposes costs on the customer (the customer remains responsible for the bill for all services provided under the Company tariff), customers should fully understand the basis for any contract service and the provision of third party liabilities in the event of errors by the supplier.

Performing due diligence relative to the technical and financial qualifications of potential suppliers provides a starting point for selecting suppliers. Assurance that the supplier understands the various upstream pipeline service requirements, as well as the Enbridge tariff requirements, provides an initial screening step. Actual experience nominating and managing gas supply for customers strengthens qualification of a third party supplier.

Understanding the financial strength of the supplier provides additional security related to the counter party risks of the contract. When any supplier provides a fixed price contract (gas supply, delivered service, etc.), customers must recognize the existence of a default risk under the contract. Since default risk increases as market prices exceed the contract price, customers need to be assured that the default risk and the significant cost risk to the customer is minimized.

Choosing an operationally savvy and financially sound third party supplier increases the likelihood of achieving cost savings from unbundled service.