ENBRIDGE GAS DISTRIBUTION INC. RESPONSE TO
IGUA INTERROGATORY #1

INTERROGATORY

Issue A.1. Are the proposed facilities needed? Considerations may include but are not limited to demand, reliability, security of supply, flexibility, constraints, operational risk, cost savings and diversity as well as the Board's statutory objectives.

[Reference: Exhibit A, Tab 3, Schedule 9]

On July 22, 2013 Enbridge updated its application and supporting evidence. Enbridge indicated its termination of the MOU with TransCanada Pipelines Limited (TransCanada), its restoration of the pipe size of Segment A to 42" as originally proposed, and movement of the Segment A receipt point back to Union's system at Parkway West. EGD supports its revised proposal on the basis, *inter alia*, that a 42" pipe size for Segment A *"would best meet the long term needs of the market for access to short haul transport"*, as discussed at paragraphs 4, 5 *et seq.* of the referenced evidence. EGD also comments on the dependency of the Segment A transportation benefits on an Albion to Maple build to take gas off of Segment A, and the National Energy Board (NEB) application for approval of such build that will be required.

Since the filing of EGD's most recent application update, Union Gas and Gaz Métro have initiated an open season in respect of a build from Albion to Maple.

(a) Please explain the approvals, agreement(s) and/or other processes that will be required for connection of the proposed Union/Gaz Métro project to TransCanada downstream of Segment A. Given TransCanada's current reticence to facilitate short haul transportation from Dawn or Niagara, please provide EGD's initial assessment of issues that may arise in the course of pursuit of such connection and which will require resolution prior to transportation (as distinct from distribution) of gas along Segment A.

(b) TransCanada has publicly indicated that it will propose to transfer existing TransCanada gas transportation assets, including assets between North Bay and Iroquois, for use in its Energy East oil pipeline project, and that as a result capacity east of Maple on the TransCanada system will or may be constrained, absent expansion. Please explain EGD's understanding of the approvals, agreements and/or other processes that will be entailed in pursuit by TransCanada of its

Energy East project, insofar as those processes will resolve issues regarding the adequacy of transportation capacity downstream of Segment A.

RESPONSE

a) Enbridge's initial assessment of issues that may arise in relation to the facilities downstream of Albion contemplated in the Union-Gaz Metro Open season are as follows:

Union and Gaz Metro have sought regulatory approval under Section 71 of the NEB Act for access to the TransCanada Mainline at Vaughan and intend to seek regulatory approval from the OEB to construct a pipeline from the terminus of Enbridge's Segment A pipeline at Albion to the interconnect with TCPL on its Mainline.

Union and Gaz Metro filed a Section 71 Application on July 31, 2013 which seeks the following Orders from the NEB, directing TransCanada to:

i) provide adequate and suitable facilities for interconnection with the Mainline between Parkway and Maple (Vaughan Interconnect) by November 1, 2015;
ii) establish a new receipt point at the Vaughan Interconnect by November 1, 2015;
iii) receive, transport, and deliver 364,475 GJ/d from the Vaughan Receipt Point to Union and Gaz Metro's franchises in the NDA and the EDA by November 1, 2015;
iv) provide service pursuant to terms consistent with TransCanada's standard renewable firm service for an initial period of 15 years; and
v) provide service pursuant to just and reasonable tolls calculated in a manner consistent with the NEB's RH-003-2011 Decision.

The NEB issued a timetable for this application with oral argument to commence on October 25, 2013. Union and Gaz Metro have not yet filed an application with the OEB for leave to construct the Albion to Vaughan pipeline.

The Orders sought from the NEB address gas supply cost and reliability concerns faced by shippers in Ontario, Quebec and downstream export markets as a result of recent TransCanada actions. These actions include:

1) Pre-empting a shift from long haul firm supply to short haul firm supply through the issuance of a new capacity open season which requires customers to pay the

same tolls for short haul and long haul firm service, thereby blocking market access to burgeoning supply in close proximity to Ontario and Quebec and forcing shippers to rely on declining exports and geographically distant supply from Western Canada.

2) Pre-empting future conversion of long haul to short haul firm service by taking away rolling one year renewal rights available to shippers pursuant to current firm contracts. TransCanada in its recent tariff amendment application has sought to impose up to ten year terms for long haul service and up to 15 year terms for short haul service at its discretion. TransCanada intends to exercise this discretion in response to significant maintenance requirements, capital expansions and redeployment opportunities.

3) Taking away service features that allow shippers to mitigate the cost of holding firm contracts, while at the same time pricing discretionary services prohibitively in order to incent shippers to take firm contracts. TransCanada in its recent tariff amendment application has sought to limit existing contract rights such as diversions and overrun service that shippers rely on to mitigate the cost of paying year round demand charges on firm transport.

4) Pre-empting the ability of shippers to displace competitively priced discretionary supply under interruptible and short term firm rates, available prior to the NEB decision, with firm one year contracts with renewable rights. In an existing capacity open season issued in June 2013, TransCanada deemed all capacity to the EDA as non-renewable past October 2015 in light of its upcoming Energy East Project. As a result, up to 25% of Ottawa's peak winter demand is at risk post October 2015. As noted earlier, Enbridge's only option is to sign a long term contract for long haul service for winter demand that is more ideally served with short haul transport.

In summary, through its recent open season and tariff revisions application TransCanada's actions signal to the Eastern Canadian market an intent to prevent firm shippers from access to Dawn and Niagara supply opportunities currently and in the future, diminish the value of firm contracts, and penalize shippers who used non-firm services in the past but wish to access existing firm natural gas capacity on reasonable terms.

Enbridge also understands that offering unfettered market access to supply from Dawn and Niagara under the RH-003-2011 tolls in effect until 2017 comes with cost recovery risk for TransCanada.

Accordingly from Enbridge's perspective, the NEB must determine if shipper needs for non-discriminatory market access and TransCanada's ability to recover its cost to serve is best achieved by approving a competitive path from Parkway to Maple, similar to the multiple competitive paths that exist from the Alberta basin, or by creating a regulatory framework for TransCanada that limits exercise of market power and creates a willingness to meet shipper needs for market access upon reasonable terms.

Absent a negotiated outcome, the resolution of these issues is unlikely to occur during the regulatory timelines established for hearing the GTA Project. As noted at Exhibit A, Tab 3, Schedule 9, paragraph 5, the GTA Project will be able to accommodate the eventual resolution of market access issues and can proceed as a distribution project with an in-service date of November 1, 2015.

b) Based on a previous application to transfer Mainline assets to the Keystone project, Enbridge expects that TransCanada will seek the following regulatory approvals for its Energy East Project:

- Section 74 Application for the sale of assets from the Mainline to the Energy East Project;
- Section 59 Application to transfer the net book value of the facilities from the Mainline rate base to the Energy East Project rate base;
- Section 52/58 Applications to build replacement natural gas infrastructure if the NEB approves the proposal to transfer the assets between North Bay and Iroquois Junction and construct the Energy East Pipeline.

EGD's initial assessment of the issues relating to the Energy East Pipeline is as follows:

Impact on Mainline Rate Base

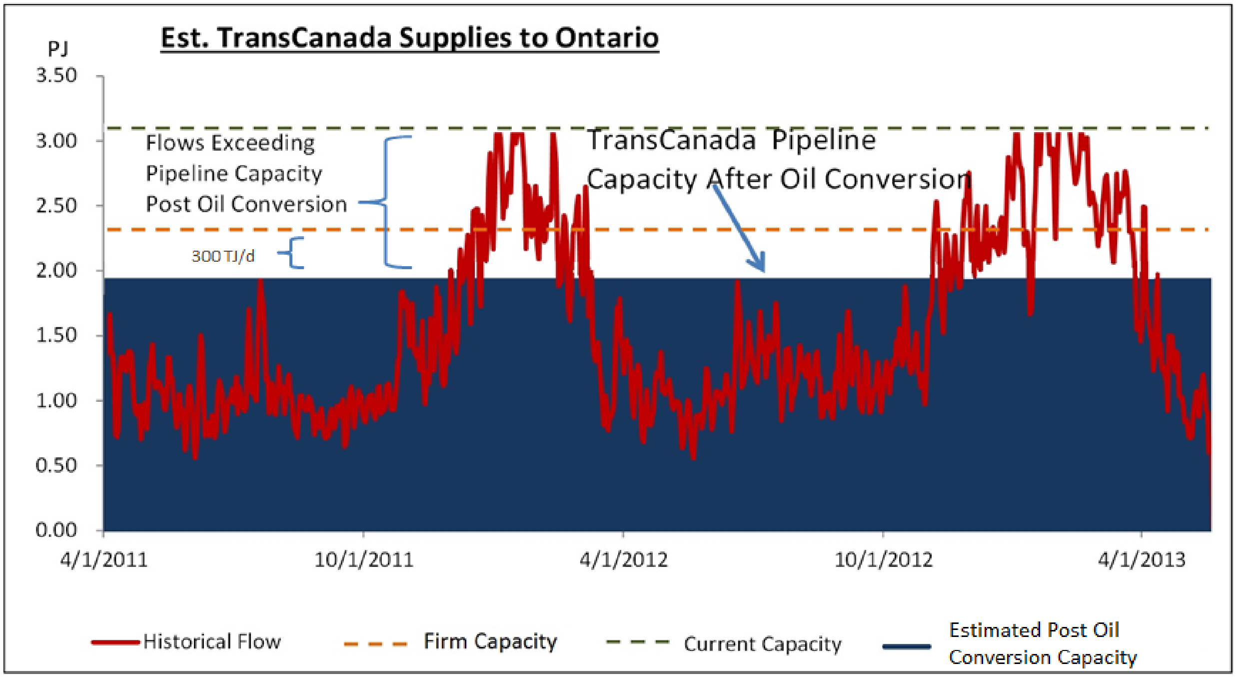
TransCanada has indicated that the transfer of the NPS 42 pipeline from Empress to Iroquois Junction to the Energy East Project at net book value will reduce rate base by $1 billion[1]. The net impact on the Mainline is however dependent on whether replacement capacity required to service existing and future gas shipper needs as a result of the transfer is paid for by gas shippers or oil shippers, as explained below.

[1] Attachment IGUA 1 Financial Post article "Gas distributors sour over TransCanada's mainline conversion plan" published July 18, 2013

Impact on Mainline Capacity

It is well understood that removal of the NPS 42 from Empress to North Bay is unlikely to have a major impact on meeting gas shipper demands, largely due to the decline in WCSB exports on the Mainline and the ability and willingness of Eastern markets to replace WCSB exports with Dawn and Niagara supplies, albeit with some additional short haul infrastructure. However removal of capacity between North Bay and Iroquois impacts the ability of Eastern Canadian shippers to deliver both long haul and short haul supply to their EDA markets. This is because the Eastern LDC markets are physically located off the Eastern Triangle and all supply whether sourced at Empress or Dawn and Niagara will have to traverse the Eastern Triangle to reach end use markets in the EDA.

The chart below indicates that the removal of the NPS 42 will remove over a third of the capacity of the Eastern Triangle, and that in the winter months the existing capacity is fully utilized. These markets have, in recent years, been served with a combination of firm and discretionary services pursuant to TransCanada's approved tolls and terms and conditions of service. EGD's discretionary volumes in the EDA (STFT and peaking supplies), for instance amount to 25% of peak day demand. EGD and other shippers have been given the option to acquire nonrenewable firm service (FT-NR) which will expire in October 2015. Post October 2015, EGD would have little ability to curtail, given the largely heat sensitive nature of its peak day demand load and is therefore required to bid for new capacity. TransCanada has indicated that it will provide replacement capacity of approximately 300 TJ/d to meet current firm contracts or offer incentives to firm shippers willing to self-curtail. Shippers bidding into the new capacity open season issued by TransCanada have little comfort that they will continue to have access to capacity to meet winter peak day demand in the EDA on a non-discriminatory basis and upon reasonable commercial terms, based on TransCanada's proposed tolls and conditions of service.



Source: RH-001-2013, MAS Evidence, Expert Report and Direct Evidence by ICF International, Exhibit BBH-2. Firm Capacity from TransCanada's Contract Demand Energy Reporting at http://www.transcanada.com/customerexpress/888.html. Estimated Post Oil Conversion Capacity based on Attachment IGUA 2 TransCanada's Non-Critical Notice regarding TransCanada Eastern Oil Pipeline Project posted on April 2, 2013.

Impact on Tolls

If TransCanada's intentions to transfer the NPS 42 from North Bay to Iroquois to oil service at net book value and requiring new firm gas shippers to pay for replacement capacity materialize, Eastern shippers could be faced with a situation where the benefits of redeploying unutilized capacity on the Northern Ontario segment of the Mainline are far less than the increased cost of capacity in the Eastern Triangle.

Overall, Enbridge is concerned that the transfer of the assets from North Bay to Iroquois could impact its ability to receive reliable and cost effective market access. Enbridge and the other Eastern LDCs expect to intervene actively in the Section 74, 59, and 52/58 applications to ensure that gas customers in Ontario and Quebec are held whole from a capacity and cost perspective in the event that a transfer of assets from North Bay to Iroquois is approved by the NEB and that their interests are adequately represented in the public interest considerations that will determine the outcome of these proceedings.