

EGD Carbon Procurement Appendix (Parameters)

April 10, 2017

[Table of Contents deleted]

EGD Carbon Procurement Appendix (Parameters)

April 10, 2017

Introduction

These Parameters set forth the risk management policies and procedures to be followed by Enbridge Gas Distribution Inc. (“EGD” or the “Company”) and applicable personnel in affiliated companies in the conduct of EGD’s carbon allowance procurement activities. These Parameters and any amendments thereto are approved by the EGD Carbon Procurement Governance Group (“CPGG”) and the Enbridge Inc. (“EI”) Corporate Financial Risk Management Committee (“CFRMC”) and are consistent with EI’s other risk policies. EGD’s risk management governance is the responsibility of the EI Board of Directors.

The authorities granted by these Parameters shall be used only to manage the risk of EGD’s commercial carbon instrument procurement activities and are a further delineation of EGD’s Business Unit Risk Management Policy specific to the referenced business areas. In no way shall these Parameters be interpreted to permit the execution of transactions creating incremental risk with an intention to generate profits based on a market view.

Cap and Trade legislation imposes strict conditions of confidentiality in order to prevent fraud, insider trading, tipping and financial manipulation of the cap and trade market. A bidder or auction participant is prohibited from disclosing if they plan to take part in an auction or, after the fact, if they have participated in an auction. In addition, bidders or participants must not disclose any information about their bidding strategy, the amount of bids or the quantity of allowances they plan to purchase in a specific auction. As required, operational risk procedures will address these confidentiality obligations.

Carbon Compliance Obligation

As a result of the *The Climate Change Mitigation and Low-carbon Economy Act, 2016* (“Climate Change Act”) and Ontario *Regulation 144/16, The Cap and Trade Program* (“Cap and Trade Regulation”) EGD will have the following compliance obligations in connection with greenhouse gas emissions:

- Facility-related obligations for EGD-owned and operated facilities, and
- Customer-related obligations for natural gas-fired generators and residential, commercial and industrial customers who are not Large Final Emitters or voluntary participants

EGD is bound by the Cap and Trade Framework (“Framework”) issued by the Ontario Energy Board (“OEB”) on September 26, 2016. The Framework requires EGD to outline its approach to meeting its compliance obligations, which may include both carbon emission allowance procurement and abatement opportunities. The Compliance Plan (“Compliance Plan”) details the Company’s allowance procurement strategy (“Procurement Strategy”).

EGD’s Compliance Plan for meeting its obligations must be filed with the OEB according to a set schedule. The OEB will not approve the Compliance Plan *per se*, it will approve the cost consequences of the Compliance Plan through an assessment of the Plan’s adherence to a principles-based framework including cost-effectiveness, rate predictability,

EGD Carbon Procurement Appendix (Parameters)

April 10, 2017

transparency, flexibility and, noting the nascent state of the market, continuous improvement. A summary of Carbon Procurement Policy and Procedures for OEB reporting purposes is attached as Appendix "A".

The following instruments and their markets are set out in the OEB Framework as compliance options to meet obligations under the Cap and Trade Program. Not all of the instruments contained in Table 1 are currently approved for use by the Corporation. Refer to Section 3 for a list of currently approved instruments.

Table 1: Instrument and Market Listing

Instrument	Market	Definition
Auction Allowances	Primary	Available through government administered auction. Clearing price risk in competitive auction with some predictability.
Allowance Bi-laterals	Secondary	Negotiated price for government sourced allowances between counter-parties, improves price certainty, higher availability risk
Allowance Futures	Primary	Standardized futures contract traded on an exchange by a broker with delivery dates, volume and terms and margin call requirements
Allowance Forwards	Secondary	Customized contract traded over the counter (OTC) that includes both market and credit risk
Offsets	Secondary	Compliance-grade instrument generated by emission reduction activities outside of regulated scope.
Offset Futures	Secondary/Tertiary	Exchange traded futures contracts for verified offsets
Allowance Derivatives	Secondary/Tertiary	Allowance derivative products offering the right to buy or sell an allowance for a set price during a future period (options) and swaps

In these Parameters, the use of the term "Allowances" is inclusive of carbon allowances purchased via auctions, secondary market or tertiary market sources, which represent one set of compliance instruments, including verified offsets. The term "Offsets" is used as defined in Table 1 to represent another source of compliance instruments. "Auction" refers to the Ontario Government administered cap and trade carbon auctions for both current and future vintage allowances. The term "Secondary Market" includes allowances purchased on the secondary or tertiary markets.

As these are nascent markets and legal obligations, 2017 will be the first year that EGD will be implementing a Compliance Plan and participating in the Cap and Trade market as a capped participant. These Parameters are based on information obtained from the Ontario Government, OEB and EGD consultants and research about this new marketplace. As

EGD Carbon Procurement Appendix (Parameters)

April 10, 2017

EGD gains experience in participating in the market, implementing and reporting on its Plan, amendments to these Parameters to accord with such experience and any new information will be necessary.

[The remainder of this document has been filed in confidence with the Ontario Energy Board.]