

FRPO INTERROGATORY #20

INTERROGATORY

REF: Exhibit G2, Tabs 4-6 and associated schedules

Preamble: With the evolution of gas supply sourcing from primarily Western Canada to other purchase locations, we would like to understand better the impacts on the allocation of costs for pipeline contracts as functionalized to load balancing.

At a high level, please provide the following information:

- a) Any changes to the methodology employed in EB-2012-01459.
- b) Any changes to the discretionary functionalization associated with separating seasonal from annual requirements.
- c) Please provide the per cubic metre impact for load-balancing costs for Rates 1 and 6 embedded in the 2015, 2016 and 2017 rates.
- d) At a high level with the reduction in cost of long-haul associated with winter seasonal load balancing, please provide the drivers that would contribute to the impact on load balancing rates.
- e) If not answered in the subsections above, please ensure a description of how Commodity and Transportation costs from a short-haul centric model are being functionalized using an Empress based reference price.
 - i) Further please ensure there is a description of how the transportation costs are allocated to transportation and load balancing.
- f) What is Enbridge's current view on the need for a Dawn Reference Price (as approved by the Board for Union Gas in their EB-2015-0181 proceeding):
 - i) To address market price signal
 - ii) To address cost allocation and functionalization issues

Witnesses: J. Collier
A. Kacicnik
D. Small
B. So

RESPONSE

- a) No. Also, please see response to part e) below.
- b) No. Also, please see response to part e) below.
- c) Please see below for the Board approved load balancing unit rates from each QRAM for 2015 and 2016 and the proposed unit rate as part of the current application. The load balancing unit rates are updated with each of the Company's QRAM applications.

2015, 2016 and 2017 Load Balancing Unit rates (cents per cubic meter)									
	EB-2014-0348	EB-2015-0027	EB-2015-0163	EB-2015-0242	EB-2015-0327	EB-2016-0021	EB-2016-0184	EB-2016-0260	EB-2016-0215
	<u>2015 Q1</u>	<u>2015 Q2</u>	<u>2015 Q3</u>	<u>2015 Q4</u>	<u>2016 Q1</u>	<u>2016 Q2</u>	<u>2016 Q3</u>	<u>2016 Q4</u>	<u>2017 Proposed</u>
Rate 1	1.0888	1.0912	1.1314	1.1431	1.4198	1.5750	1.6556	1.6558	1.6613
Rate 6	0.9324	0.9325	1.0433	1.0532	1.3220	1.4672	1.5434	1.5439	1.5300

- d) Everything else being equal, a reduction in the cost of long-haul associated with winter seasonal load balancing would result in a reduction to the load balancing rates.

The reduction to the load balancing rates (stemming from the shift from long haul to short haul transportation) will be seen, everything else being equal, as part of January 1, 2017 QRAM rates.

The impact of this reduction is not seen within the 2017 rate adjustment application as the 2017 forecast gas cost to operations budget is developed and captures the impact of the 2017 supply mix change relative to the 2016 supply mix and does not capture changes in costs / prices for those supplies or transportation. This approach is consistent with the Company's approved QRAM methodology which adjusts rates in each quarter to reflect changes in commodity, upstream transportation and load balancing costs, but does not capture impacts due to changes in supply mix. This approach is further discussed in gas cost evidence at Exhibit D1, Tab 2, Schedule 3, page 8, paragraphs 23 and 24 and is consistent with the Company's past rate case filings.

Further, it should be highlighted there are no Unabsorbed Demand Charges ("UDC") forecast in 2017.

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In past years the Company incurred the cost of additional long haul firm transportation (“FT”) capacity to provide load balancing service to all bundled customers (system gas and direct purchase). A certain amount of long haul FT was utilized in lieu of an equivalent amount of peaking service (less reliable than FT) or STFT (more expensive than FT) to meet demand in peak and near-peak conditions. The UDC costs represented the unutilized portion of the long haul FT capacity that the Company acquired for load balancing purposes. Although UDC costs were recovered from customers via a deferral account, not having to bear these costs in 2017 represents an overall reduction in load balancing costs to all bundled customers.

- e) The response to this question first lays out basic information about the Company’s gas supply plan, followed by a description of how the gas supply charges are developed using the Empress price as the reference price for the gas supply charge and how transportation costs are classified / split between transportation and load balancing charges.

As per the Board-approved approach, Enbridge’s gas supply plan is developed by forecasting the gas supply needs specific to Enbridge’s sales / system gas customers, Mean Daily Volume (“MDV”) deliveries from direct purchase customers, and the amount of gas supply required to balance forecast year round.

The gas supply plan cost is based on a forecast (i.e., 21-day forecast of market prices for 12 month forecast period) of price indices at the various supply basins / market hubs, plus the associated transportation cost to deliver the gas to the franchise area. Through this approach Enbridge develops a Purchased Gas Variance Account (“PGVA”) reference price of its forecast upstream acquisition costs, including commodity, transportation and delivered supply costs. This approach also provides the Company with the means to adjust its forecast gas supply plan costs and its rates on a quarterly basis using the Board-approved Quarterly Rate Adjustment Mechanism (“GRAM”).

Once the forecast has been completed, Board-approved cost allocation and rate design principles are used to allocate those costs between different types of service and customer classes through the establishment of the gas supply, transportation, and load balancing charges.

All variances from the forecast costs are captured in the PGVA, which ensures that ratepayers and the Company are held whole with respect to gas supply plan acquisition costs.

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The disposition of PGVA balances through the cost adjustment rider (Rider C) to sales / system gas customers and to direct purchase customers follows the same methodology that underpins the cost allocation and rate design principles.

Gas Supply

Enbridge provides system gas to its residential, commercial, and industrial customers who do not procure their own gas supply either on their own, or through gas marketers or vendors.

The rate Enbridge charges to customers for system gas (i.e., gas supply charge) is subject to regulatory approval and is based on a 21-day forecast of market commodity prices (i.e., “21-day strip”) at Empress for the next 12-month period and is adjusted each quarter through the QRAM process.

Empress is a trading hub and a receipt point for the TransCanada Mainline near the Alberta – Saskatchewan border. Its price index is (readily) available through various sources. It is an appropriate reference point for costing of gas supplies from the Western Canadian Sedimentary Basin (“WCSB”) given it is in a very close proximity to the WCSB, (but at the same time is the furthest away supply hub utilized by Enbridge).

Empress being so close to the gas supply basin means that the prices for gas supply at Empress reflect the cost of commodity itself, while the prices of gas supplies procured at Chicago or Dawn hubs incorporate the cost of transporting the gas to Chicago or Dawn. In other words, the price premium at Chicago or Dawn over Empress notionally reflects the cost of getting the gas to Chicago or Dawn.

Enbridge sources gas supplies from a number of market hubs and transports supplies via a number of transportation paths to achieve diversity and reliability of its gas supply plan.

As discussed above, the Company uses the Empress price inclusive of fuel as a reference price to design its gas supply charge. Accordingly, the cost of gas supply commodity is recovered from system gas customers through the Company’s gas supply charge.

Any price premium for gas supplies purchased at other supply hubs over the Empress reference price is classified as transportation and, in the case of delivered supplies, also to load balancing. Transportation costs are recovered from System gas and Western T-service customers, and load balancing costs are recovered from all bundled customers.

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Transportation

Enbridge contracts for upstream capacity on pipelines such as TCPL, Vector and Nexus to transport gas supplies from the various market hubs to its franchise area. The cost of upstream capacity that is contracted at 100% load factor to meet annual average demand for system gas, Western T-Service and Dawn T-service customers is recovered through the Company's transportation charges. Ontario T-Service and unbundled customers arrange for their own transportation to the Company's franchise area.

This approach of flowing gas on upstream pipelines at 100% load factor (i.e., the same amount of gas is delivered to the franchise area each day year round), which is a concept / approach equivalent to the Mean Daily Volume (MDV) delivery obligation for direct purchase customers, is facilitated by the close proximity of storage to Enbridge's franchise area. Excess supplies in the summer are stored for withdrawal in the winter.

To reflect this operating practice of meeting annual average demand, upstream transportation costs (inclusive of the deemed transportation costs from the gas supply section above) are classified as 100% annual demand and are recovered from customers based on bundled transportation delivery volumes by the type of transportation service and by rate class.

The cost of upstream transportation which is utilized only for part of the year to help the Company meet seasonal and peak demands on the system (i.e., demand beyond the demand that is met via 100% LF transportation / MDV delivery by direct purchase customers and storage withdrawals) is recovered through the load balancing charge. In other words, such upstream capacity is used to provide load balancing to all customers. Load balancing charges are recovered from all system gas and direct purchase customers.

It should also be noted that the cost of forecast UDC, if any, is removed from the forecast gas supply plan costs. The UDC cost is recovered from customers via a deferral account.

- f) As noted in the sections above, Enbridge sources gas supplies from a number of market hubs and transports supplies via a number of transportation paths to achieve diversity and reliability of its gas supply plan. While the proportions of gas supplies sourced at the various market hubs will change over time versus the current gas supply plan, the Company will continue to diversify its purchases among the various market hubs.

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If the Dawn price were to be used as a reference price for the gas supply charge, then the resulting gas supply charge would not reflect the actual cost of landing gas supplies for the Company's system gas customers in Ontario. As noted previously, the Company will continue to diversify its purchases among various market hubs. To the extent that the gas supply charge based on the Dawn price would deviate from the utility's operating practices to source and transport gas supplies to its system gas customers, it would create cost variances which would need to accumulate in the Purchased Gas variance Account ("PGVA") and would have to be trued up at a later date. These variances would occur even if there was no change to gas supply prices in the marketplace. The variances would occur because gas supply charge revenues would not be based on the (actual) costs to provide service.

In other words, using a reference price for gas supply that is not determined based on the Company's costs to provide service (i.e., gas supply plan) will result in cost impacts that will need to be cleared to customers on a deferred basis. Such an approach would also represent a deviation from the principle of using cost incurrence / cost causality as the basis for setting rates.

An Ontario landed price that is based on Enbridge's supply plan and that reflects diversity of purchases among the various market hubs and associated transportation paths would provide an appropriate reference price for the gas supply charge.

However, the structure of Western T-service is not compatible with an Ontario landed reference price. Should an Ontario landed price be adopted as a reference price for the gas supply charge, Western T-service might need to be discontinued.

Also, to facilitate a shift to an Ontario landed reference price, Enbridge would need to change a number of its business processes and systems and it would need to communicate the changes to its customers. Accordingly, stakeholder support for the change and for recovery of the associated costs of implementation would be essential to support a shift to an Ontario landed reference price.

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