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ENBRIDGE

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Lise Meloche
General Manager
Gazifère Inc.
706 boulevard Gréber
Gatineau, Québec J8V 3P8

Re: Comments on solutions taken by Gazifère Inc. (Gazifère) for its gas supplies in the event that it is unable to meet the needs of its customers after October 31, 2016.

Dear Ms. Meloche,

I am writing to assist you in informing the Régie with respect to further information it has requested regarding information contained in the letter from Jamie LeBlanc to you dated July 24, 2014.

I understand that the Régie has requested comments around possible solutions that might be proposed by Gazifère for the provision of gas supplies in the event that it is unable to meet the needs of its customers due to actions taken by TransCanada PipeLines (TransCanada) regarding its declaration of significant amounts of firm capacity as non-renewable past October 31, 2016 and the impact of the potential transfer of Mainline pipeline to the Energy East Project on future gas pipeline capacity.

As detailed below, solutions include our participation in the 2016 New Capacity Open Season (NCOS) which secured 15-year firm transportation to markets in eastern Ontario and Québec and EGD's participation in regulatory proceedings to ensure there will be no negative impact on costs and capacity as a result of TransCanada's Energy East Project.

Gazifère is an indirect captive customer of TransCanada and its gas supply requirements are provided by Enbridge Gas Distribution (EGD) under the rate 200 service schedule approved by the Ontario Energy Board (OEB). Gazifere's gas supply requirements are serviced by EGD's gas supply arrangements to the Eastern Delivery Area (EDA). I can inform you that EGD has participated in open seasons that will provide it with future firm capacity to meet its immediate expected gas supply needs in the EDA. However, EGD's firm commitments do not include gas supply requirements for peaking supplies and direct purchase and curtailment customers. Replacement capacity less than what is currently available will likely result in industrial customers being exposed to increased service interruptions in the future. Our belief is that the 2016 NCOS prevented many shippers from contracting firm capacity due to the requirement to make long term commitments and the imposition of onerous liability provisions that were a direct result of the inclusion and assumption, in a non-transparent manner, of replacement capacity for the Energy East Project. EGD will seek remedies on behalf of its customers, including Gazifère, with the National Energy Board (NEB) to direct TransCanada to take steps to ensure that there will be no adverse impacts on gas customers resulting from the Energy East Project.

In the July 24, 2014 letter from Mr. LeBlanc, he discussed the implications of the Settlement Agreement (Settlement) between TransCanada, EGD, Union Gas and Gaz Métro. The Settlement is currently being reviewed by the NEB. TransCanada is obligated by the Settlement to construct facilities, known as the King's North and Eastern Mainline Expansion Projects, which will connect with EGD's GTA Project in 2015 and 2016, respectively. These facilities will provide much needed market access between eastern Ontario and Québec and the Marcellus and Utica shale gas basins, enhancing supply diversity and cost-effectiveness of the EGD gas supply portfolio and thereby greatly benefiting its customers, including Gazifère. However, TransCanada's proposed Energy East Project will now potentially reduce current capacity east from where these facilities are being constructed through the presumed transfer of a portion of the North Bay Shortcut (NBS) to Energy East, thus negatively impacting deliverability to eastern Ontario and Québec.

In order to meet the requirements of its EDA customers, including Gazifère, EGD bid for firm short haul capacity in TransCanada's 2016 NCOS that was offered from November 29, 2013 to January 15, 2014 and has executed a Precedent Agreement (PA) for this capacity. TransCanada advised that it will provide EGD with this capacity through a subsequent loop of the Mainline after the King's North Project is complete. This short haul capacity will replace non-renewable long haul capacity to the EDA which expires on October 31, 2016 and will alleviate much of the potential 25% peak day supply shortfall indicated by Mr. LeBlanc in his letter of July 24, 2014. Despite EGD's actions in securing firm short haul capacity, a significant amount of peak day demand is provided by third parties that cannot sign up for 15 years. Peak day demand for the EDA includes direct purchase and peaking supplies. In addition, industrial customers currently subject to curtailment may also eventually seek firm contracts. These volumes represent approximately 16% of peak day demand in the Enbridge EDA. Lastly, future growth requirements need to be accommodated in assessing capacity requirements which are not currently contracted. Gazifère will bear a proportionate share of any physical capacity constraints or cost blow outs resulting from capacity constraints.

TransCanada, however, is using firm transportation, including the results from the 2016 NCOS, as the only means by which it is determining the future capacity needs for the Eastern Triangle (ET) assuming Energy East is constructed. This approach is very misleading as it artificially suppresses the real demand that would exist under normal and acceptably transparent market conditions. As discussed, many existing domestic customers were dissuaded from signing transportation contracts, but to the extent that future growth occurs and current export volumes are sustained, there will be continued pressure on ET capacity, further underscoring the requirement that the full amount of existing capacity is replaced in the event a portion of the NBS is repurposed to oil service.

As outlined in Mr. LeBlanc's letter, EGD does not support the manner in which the 2016 NCOS was conducted as it imposed conditions too onerous for third party shippers that supply the Gazifère franchise and did not properly reflect market demand for transportation service in the ET. Secondly, EGD cannot support Energy East as currently proposed since the transfer of assets will eliminate critical used and useful capacity without full replacement at a higher cost to shippers. In EGD's view this is discriminatory in favour of Energy East's oil shippers and cannot be permitted.

EGD's Response

As indicated above, EGD has contracted for short haul capacity to meet its requirements for November 1, 2016. EGD also recognizes that requirements in the EDA will continue to grow over time. In order to ensure fair and equitable treatment of its customer, including Gazifère, and to allow for access to capacity requirements in the future, EGD believes that TransCanada should be required to do the following, to ensure no impact on customers in eastern Ontario and Québec from the Energy East Project.

1. TransCanada should not use the results of the 2016 NCOS in the Energy East proceeding for the purpose of removing capacity from the Eastern Mainline; and
2. Also, TransCanada should not repurpose the existing fully utilized segment of the Mainline that serves the Enbridge EDA and others in the region or ensure that any incremental cost of appropriately sized replacement pipeline capacity is borne by Energy East Pipeline oil shippers and/or TransCanada.

As stated in the letter from Mr. LeBlanc, despite significant efforts by EGD and others to negotiate a mutually agreeable resolution to these concerns, no progress has been made to date. EGD will intervene in TransCanada's Energy East Project and Eastern Mainline Project applications on behalf of its customers to ensure that Gazifère customers are not negatively impacted by the Energy East Project.

Yours truly,

(s) Ralph Fischer

Ralph Fischer
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