Written Direct Testimony of David B. Charleson

Q 1: Please state your name and position.

A 1: My name is David Bryce Charleson. I am the General Manager of Enbridge Gas New Brunswick Inc., the general partner of Enbridge Gas New Brunswick Limited Partnership ("EGNB"). My Curriculum Vitae is attached as Exhibit A, Schedule 1.

Q 2: What is the purpose of this pre-filed evidence?

A 2: In its June 23, 2000 decision on an application by EGNB for approval of its rates, the then Board of Commissioners of Public Utilities of New Brunswick, now the New Brunswick Energy and Utilities Board ("Board"), approved EGNB's market-based approach for setting its distribution rates during the development period. In an oral decision rendered on July 19, 2000 the Board approved EGNB's current Contract Large General Service Heavy Fuel Oil ("HFO") distribution rate.

On January 11, 2010, EGNB filed an application to change its market-based distribution rate for the HFO rate class. This evidence presents the proposed distribution rate which is filed at Exhibit A, Schedule 2, as well as supporting data, assumptions and methodology used in generating it.

Q 3: Could you review the Board approved methodology for setting distribution rates?

A 3: On May 26, 2009, the Board issued its decision in the matter of a Review of Enbridge Gas New Brunswick's Market Based Formula (NBEUB 2009-002). This proceeding was ordered by the Board for the purpose of identifying and examining all elements of the formula as well as the data sources for all rate classes. In its April 9, 2008 decisions, the Board indicated that it would not hear an application for any increase in the maximum distribution rates until that process was completed. In its decision, the Board accepted the formula as proposed by EGNB and provided detailed steps regarding how the market-based formula was to be used.

In general, the methodology for establishing the HFO distribution rate is as follows:

- Establish a relevant retail heavy fuel oil price for typical customers in the HFO rate class.
- Calculate the annual commodity cost for a typical customer in the HFO rate class.
- Discount the annual cost by the appropriate amount to establish a target annual natural gas cost.
- Calculate the target burner tip natural gas unit price by dividing the target annual natural gas cost by the expected natural gas consumption.
- Calculate the distribution rate by subtracting the commodity price for natural gas.

The following table that derives EGNB's proposed HFO rate has been updated in accordance with the Board's May 26, 2009 decision.

| Derivation of Distribution Rates- Oil | | | | |
|---|---|---|---|---|
| | | Units | Calculation | HFO |
| 1 | **Alternative Energy Price** | CAN$/l | Retail Oil Price | $0.3843 |
| 2 | **Assumed Efficiency factor** | | Assigned | 100% |
| 3 | **Typical Annual Oil Consumption** | GJs/year | Line 10 / Line 2 | 131,351 |
| 4 | **Conversion Factor** | l/GJ | Assigned | 23.9636 |
| 5 | **Typical Annual Consumption** | in litres | Line 3 x Line 4 | 3,147,642.82 |
| 6 | **Total Alternative Energy Cost** | $/ year | Line 1 x Line 5 | $1,209,639.14 |
| 7 | **Target Savings Level** | % | Assigned | 5% |
| 8 | **Target Savings Amount** | $ | Line 6 x Line 7 | $60,481.96 |
| 9 | **Target Natural Gas Cost** | $ | Line 6 - Line 8 | $1,149,157.18 |
| 10 | **Typical Annual Natural Gas Consumption** | GJs/ year | Typical Customer | 131,351 |
| 11 | **Target Burner Tip Price** | $/GJ | Line 9 / 10 | $8.7488 |
| 12 | **Commodity Cost** | $/GJ | EUG or EVP price | $7.7899 |
| 13 | **Target Distribution Rate** | $/GJ | Line 11 - Line 13 | $0.9589 |
| 14 | **Target Annual Distribution Charge** | $ | Line 13 x Line 10 | $125,952.47 |
| 15 | **Monthly Customer Charge** | $ | Assigned | |
| 16 | **Annual Customer Charge** | $ | Line 15 * 12 | |
| 17 | **Average Contract Demand** | GJs | Average | 915 |
| 18 | **Contract Demand Charge** | $ | Assigned | $3.90 |
| 19 | **Revenue from Demand Charge** | $ | Line 17 * Line 18 * 12 | $42,822.00 |
| 20 | **Target Revenue From Delivery Charge** | $ | Line 14 - Lines 16 or 19 | $83,130.47 |
| 21 | **Distribution Delivery Charge** | $/GJ | Line 20/Line 10 | $0.6329 |

Q 4: In its May 26, 2009 decision, the Board accepted EGNB’s proposal that market data for each of the 12 months included in the application would be collected each market day for two calendar months and an average of each of the 12 months of prices would be calculated. This approach would be used for No. 2 Oil, natural gas, West Texas Intermediate Crude Oil (“WTI”) and exchange rates for the purpose of deriving the rates. Which calendar months of data has EGNB used?

A 4: EGNB has used the most recent two calendar months of November and December 2009 for WTI, natural gas and exchange rates. No. 2 Oil has not been used in this application as it is not applicable to the HFO rate. The data and resulting averages can be found in Exhibit A, Schedule 3.

Q 5: Has the retail oil price been derived in a manner that is consistent with the proposal of MJ Ervin and Associates?

A 5: Yes. The WTI oil prices have been converted to Canadian dollars and the percentage factor approved by the Board has been applied to them. This calculation can be found in Exhibit A, Schedule 4.

Q 6: The May 26, 2009 decision directed EGNB to use the most recent 12 months of actual consumption data for the purpose of determining Typical Annual Natural Gas Consumption and Contract Demand. The figures and supporting data were to be filed with the Board. Has this information been provided?

A 6: EGNB has used the consumption data for the period of January 2009 to December 2009 for the purpose of determining Typical Annual Natural Gas Consumption and Contract Demand. EGNB has included the customers as proposed in its evidence and subsequently accepted by the Board in the NBEUB 2009-002 proceeding. The consumption data used can be found in Exhibit A, Schedule 5.

Q 7: Has EGNB used the 12 month forward expected Enbridge Variable Product ("EVP") price for the HFO rate?

A 7: Yes.

Q 8: How does EGNB propose that the EVP price be evaluated?

A 8: EGNB proposes that it submit the forecasts and estimates supporting the calculations to the Board in confidence for independent verification.

Q 9: Has EGNB provided a calculation of the EVP price?

A 9: Yes. This calculation can be found in Exhibit A, Schedule 6.

Q 10: Why is EGNB filing this application at this time?

A 10: EGNB is looking to establish its maximum delivery rate for 2010 based on the market-based rates formula that was approved by the Board in its May 26, 2009 decision. Establishing the maximum distribution rate enables EGNB to minimize additions to the deferral account, while still providing the flexibility to apply rate riders as market conditions dictate to provide customers the appropriate level of savings.

*** I have no further questions.