

APPENDIX D
Market Based Rates

Market Based Rates

The market based distribution rates presented in this Application are based on the following regulatory requirements:

- 1) the use of the market based method approved by the Board prior to January 1, 2012; and
- 2) in accordance with Section 4(2) of the Regulation which requires “In determining rates and tariffs for classes of customers under subsection (1) utilizing the market based method or technique, the Board shall use electricity as the alternative energy source and ensure a target savings level of 20% for the Small General Service class, and use No. 2 Heating Oil as the alternative energy source and ensure a target savings level of 15% for those classes of customers other than the Small General Service class.”

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). 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 including 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 natural gas, No. 2 Heating Oil and exchange rates for the purpose of deriving the rate for the appropriate class.

For the purposes of this Application, the two most recent months are March 2012 and April 2012. No. 2 Heating Oil was only trading up to the end of April 2013 for the period of March 1 to April 26, 2012. EGNB applied the April 2013 market trading data for this period, to the months of May 2013 through December 2013. On the last two trading days of April 2012, No. 2 Heating Oil was trading up to the end of Dec 2013. No. 2 Heating Oil prices have been converted to Canadian dollars and the percentage factor approved by the Board has been applied.

The 12-month weighted average Enbridge Variable Product “EVP” and Enbridge Utility Gas “EUG” prices have been determined for use in the derivation of the rates as directed by the Board in its April 30, 2010 decision. The most recent 12 months of consumption data is used for the purpose of determining Typical Annual Natural Gas Consumption and Contract Demand.

For the purpose of this Application, the consumption data from May 2011 to April 2012 has been used.

In the July 14, 2011 Board Decision regarding EGNB's rate application, the Board directed EGNB "In its next rate application, for which a market-based rate with an efficiency factor is proposed, EGNB is directed to file evidence in support of any efficiency factors used in its proposed rates." There is no efficiency gain incorporated into the market based rates when using electricity as the alternative energy source. As a result, consideration of the efficiency factors used is only applicable to the derivation of the GS and CGS historic rates. The market based derivation for these historic rate classes using the existing efficiency factors is well in excess of the applicable COS rate. While EGNB continues to believe the existing efficiency factors are reasonable, even if the efficiency factor was removed completely at this time, the resulting market based rate would be well in excess of the applicable COS rate. As a result, EGNB has not conducted a study of the efficiency factors as they do not play a role in the rates reflected in this Application.

Adjustment to Market Based Formula

The majority of customers currently in the Small General Service Commercial ("SGSC") rate class typically consumed No. 2 Heating Oil and/or propane prior to converting to natural gas. The requirement to use electricity as the alternative fuel for establishing the market based rate for the SGSC class has resulted in some adjustments to the alternative fuel calculation used in the market based formula for this class.

The cost of purchasing electricity from NB Power under its General Service Rate 1 class had to be established for customers in the SGSC class. For the purpose of the derivation, it is assumed that all SGSC customers switched from electricity and used the same type of appliances on electricity as they currently do on natural gas and they used the same amount of energy. All existing SGSC customers with 12 full months of consumption and with an annual minimum consumption of 45 GJs were analysed to determine the following:

1. The amount of natural gas used each month by space heating appliances and baseload appliances. Baseload is the gas used for non-temperature sensitive loads such as water heating, cooking, etc.

2. The types of gas appliances used and the rated capacity as measured in Btu/h.
3. The estimated end-use efficiency for each type of appliance using natural gas or electricity.

EGNB has estimated the monthly demand for baseload to be 9.49 kW and the monthly demand for space heating is assumed to be staged in proportion to the energy used each month.

Summary

For the purpose of this Application, the market based distribution rates for the historical rate classes were calculated using the approved market based formula adjusted for the target saving levels and alternative energy sources prescribed in the Regulations. The target savings level of 20% and the use of electricity as the alternative energy source were applied in the calculation of the market based distribution rates for the Small General Service Residential and Small General Service Commercial classes. The target savings level of 15% and No. 2 Heating Fuel as the alternative energy source were used in the calculation of the market based distribution rates for all remaining classes. The table below provides the distribution rates for the historical rate classes. These market based distribution rates will be compared against the distribution rates generated under the 2013 COS study for the regulated classes and the lower or the two will be applicable pursuant to Section 4(1) of the Regulation.

Historical Rate Class	Distribution Rate (\$/GJ)
Small General Service Residential	13.8257
Small General Service Commercial	23.3130
General Service	22.7763
Contract General Service	22.4902
Contract Large General Service Light Fuel Oil	17.1011
Contract Large General Service Heavy Fuel Oil	17.1280

The following information has been provided in support of the market based rates:

- Schedule 11 - Derivation Tables for Historical Rate Classes
- Schedule 12 – Market Data – January 2013 to December 2013

- Schedule 13 – SGSRE and SGSC Alternative Fuel Calculations
- Schedule 14 – EUG Price Calculation
- Schedule 15 – EVP Price Calculation
- Schedule 16 – Summary Consumption Data May 2011 to April 2012