

APPENDIX F

Rate Design

### Rate Design

EGNB has used the prototype rates filed with the Board on March 21, 2011 as the foundation for its rate design. These prototype rates were developed based on the rate design filed as part of the 2010 Cost of Service proceeding (NBEUB 2010-002).

Certain principles were considered as part of the rate design, including the manner in which customer related charges were to be recovered and the overall impact on distribution costs for customers within the class when compared to existing rates.

While a utility would ideally recover all of its customer related costs through a customer charge, this would result in customer charges that would be prohibitively high and detrimental to the continued use of natural gas by existing customers and attracting new customers to the system, especially with customers that have lower consumption within the rate class. As a result, EGNB has focused on recovering these costs through a combination of the customer charge and the first consumption block within the rate class. This is consistent with the historical design method for gas rates used by other utilities. EGNB believes it is a sound practice in light of the competitive constraints and the need to develop a customer base to achieve economies of scale.

In designing the rates, EGNB also considered the change that customers would see in their distribution costs in comparison to rates that are currently in place, which supports the principle of rate stability. EGNB has looked to provide percentage changes in distribution costs that are in a similar range for a large percentage of customers within the new regulated rate classes. While the impact on certain customers will vary due to their specific circumstances, EGNB believes that providing a similar level of rate changes for as many customers within the class as possible provides an equitable transition to the new cost of service based rate class, reflecting the principle of gradualism.

The following summarizes the specific elements considered in the rate design for each of the rate classes:

#### Small General Service (SGS)

- Cost of Service rate design was not conducted as the cost of service rates would be greater than the applicable market based rate.

### Mid-General Service (MGS)

- A \$50 customer charge is used to recover as much of the customer related costs as EGNB believes can reasonably be achieved from this class of customer without negatively impacting load.
- The 100 GJ first block size has been retained from the prototype rates and the rate has been set so that the total revenue generated from the first block and the customer charge recovers 100% of the customer related costs and 80% of the demand related costs. EGNB believes that this provides sufficient recovery of demand related costs in the first block.
- The tail block in this class recovers the remaining 20% of the demand related costs. This will be recovered through larger users within the MGS class.

### Large General Service (LGS)

- A two tiered customer charge, included in the prototype rates, has been retained. EGNB has used a 650 GJ maximum consumption threshold as the break point for the customer charge as EGNB will typically install a larger meter set if the customers maximum consumption exceeds this level.
- A \$125 and \$250 customer charge has been used to recover as much of the customer related costs as EGNB believes can reasonably be achieved from this class of customer without negatively impacting load.
- The 250 GJ first block size has been retained from the prototype rates and a seasonally differentiated rate for consumption above the first block has been used to recognize the difference the load will place on the system depending on the time of year it occurs.
  - The summer block charge in the second block has been set by dividing the demand related costs by the 100% load factor consumption for the class. EGNB believes this calculation reflects the amount of demand cost that would be recovered year round if the customers had that load factor and reasonably reflects the cost for the summer commodity component.
  - The winter block charge in the second block has been set by dividing the remaining demand related costs by the sum of the first block and winter block consumption.

- The first block charge has been established by dividing the remaining costs by the first block consumption.

#### Contract General Service (CGS)

- The demand charge has been established at a level that recovers all customer related costs.
- To recognize the demand these customers place on the system at different times of the year, a seasonally differentiated rate has been used:
  - Similar to the LGS class, the summer block charge has been set by dividing the remaining demand related costs by the 100% load factor consumption.
  - The winter block charge has been set to recover the remaining demand related costs.

#### Industrial Contract General Service (ICGS)

- Given the nature of these customers, the demand charge has been established to recover all of the customer costs and 50% of the demand related costs.
- To recognize the demand these customers place on the system at different times of the year, a seasonally differentiated rate has been used:
  - The same as the CGS class, the summer block charge has been set by dividing the remaining demand related costs by the 100% load factor consumption.
  - The winter block charge has been set to recover the remaining demand related costs.

#### Off-Peak Service (OPS)

- While all costs in this class are customer related, EGNB does not believe it would be appropriate to recover all of the costs through a customer charge as there is variability in the consumption levels of the different customers within this class. The customer charge has been set at the same level as the Mid-General class as these customers have similar consumption level characteristics.
- A single consumption based charge has been used to recover the remaining customer related costs.

A copy of the Rate Schedules are provided in Schedule 20.