

EGNB Evidence

Enbridge Gas New Brunswick Limited Partnership, as represented by its general partner Enbridge Gas New Brunswick (“EGNB”) has filed this rate application (“Application”) in accordance with the amendments to the *Gas Distribution Act, 1999* (“GDA”) made as a result of Bill 18 (“Bill 18”) introduced by the government of New Brunswick on December 9, 2011.

Section 52.2 of the GDA provides that “A gas distributor who has been granted a general franchise shall file with the Board an application regarding the approval or fixing of rates and tariffs in accordance with section 52(a) on or before May 31, 2012.”

EGNB has complied with Section 52.2 by submitting this Application.

EGNB believes the *Rates and Tariffs Regulation - Gas Distribution Act, 1999* (the “Regulation”) enacted under the GDA has significant adverse impacts on EGNB and the distribution of natural gas in New Brunswick and therefore does not believe the distribution rates presented in this Application should, or in fact can, be approved.

The fundamental issue with the Application as filed is that the resultant rates cannot be just and reasonable in that they do not allow EGNB the opportunity to recover its revenue requirement. The revenue requirement established in the 2013 Budget is \$47.7 million and the total revenue expected is \$43.0 million, a shortfall of \$4.7 million.

EGNB’s position on just and reasonable rates can be found in Appendix A.

Budget 2013

A utility’s cost of service rates are typically established to align with the fiscal year of the utility. This allows the utility to properly prepare annual forward year projections of costs and throughput, which are the key inputs to establish cost of service rates, and thereby align such projections with the rate setting period. In this case, Section 52.4 of the GDA now provides that the Board make an order approving rates to be effective October 1, 2012.

EGNB believes that in moving from a market based method to a cost of service method, it is appropriate for the initial cost of service rates to be based on a 2013 Cost of Service (“COS”) study. The revenue requirement used to determine the rates in this Application is based on EGNB’s 2013 Budget. The 2013 Budget and supporting documentation can be found in Appendix B.

2011 Regulatory Financial Statements

EGNB’s 2011 Regulatory Financial Statements have been included in this Application and EGNB is applying for approval of them by the Board. The 2011 Regulatory Financial Statements can be found in Appendix C.

Market Based Rates

For the purpose of this Application, “historical” rate classes refers to the rate classes established and used by EGNB prior to Bill 18 and the Regulation and “regulated” rate classes refer to those prescribed in Section 3 of the Regulation.

The market based rates and tariffs presented in this Application are based on (a) the current market based methodology approved by the Board prior to January 1, 2012 and (b) Section 4(2) of the Regulation. Section 4(2) provides that in determining rates and tariffs when 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.

The market based rates and tariffs have been calculated for the historical rate classes and the supporting documents for the market based rate calculations can be found in Appendix D.

Cost of Service Rates

The COS distribution rates and tariffs presented in this Application are based on (a) the COS methodology approved by the Board in the December 21, 2010 COS Study Decision with adjustments for the Board ordered minimum system study and (b) Section 4(1) of the Regulation. Section 4(1) requires the adoption of the cost of service method or technique, with a revenue to cost ratio not exceeding 1.2:1 for any class of customers, provided that the rates and tariffs for any class of customers shall not exceed the rates and tariffs that would apply to that class of customers if determined through the application of the market based method or technique.

The COS distribution rates have been determined for the regulated classes and the results of the 2013 COS study are found in Appendix E.

Market Based vs. COS Rates

EGNB has generated distribution rates in accordance with the requirements of Bill 18 and the Regulation.

The previously approved market based formula was developed for the historical rate classes and is based on assumptions relating to displaced energy sources, target savings levels, efficiency factors and rate class consumption profiles specific to those classes.

With respect to the requirement to move from a market based method to a COS method, EGNB is proposing the following process for comparing market based rates to COS rates and establishing distribution rates for the period of October 1, 2012 to December 31, 2013.

The distribution rates for each of the historical rate classes have been calculated using the market based formula and the distribution rates for each of the regulated classes have been determined using the 2013 COS study. To satisfy the regulatory requirement, electricity as the alternative energy source and a target savings level of 20% were used to calculate the market based rates for the Small General Service Residential (“SGSR”) and the Small General Service Commercial (“SGSC”) historical rate classes. The majority of the customers in those two historical rate classes will be mapped to the Small General Service regulated rate class. A target savings level

of 15% and No.2 Heating Oil were used to calculate the market based rates for all other historical rate classes.

In the table below, the COS distribution rates for the regulated classes are compared to all the market based distribution rates calculated for the historical classes that comprise of customers that could be mapped to that regulated class. For example, the Large General Service COS distribution rate is compared to the market based distribution rate for General Service, Contract General Service, Light Fuel Oil and Heavy Fuel Oil historical classes and the lower of the rates have been identified. The 2013 COS study indicates that the distribution rates for the Small General Service class far exceed the market based rates calculated for the SGSR, SGSC and GS historical classes. Therefore the SGSR market based rate has been proposed. The distribution rates for all other regulated classes are based on the 2013 COS study, applying the 1.2:1 ratio allowed in the Regulations, as those rates are lower for those other regulated customer classes than the applicable market based rates.

	Cost of Service Rates	Market Based Target Distribution Rate						Filed Rates*
		Small General Service Residential (SGSRE/SGSRO)	Small General Service Commercial	General Service	Contract General Service	LFO	HFO	
Small General Service	25.4714	13.8257	23.3130	22.7763				13.8257
Medium General Service	9.3732	13.8257	23.3130	22.7763				11.2478
Large General Service	5.6221			22.7763	22.4902			6.7465
Contract General Service	3.2314				22.4902	17.1011	17.128	3.8777
Industrial Contract General Service	2.900					17.1011	17.128	3.4800
Off-Peak Service	2.8205							3.3846

* revenue to cost ratio 1.2:1 for COS based rates

Rate Design

As provided in Section 3 of the Regulation, this Application provides for the following rate classes: (a) Small General Service, (b) Mid-General Service, (c) Large General Service, (d) Contract General Service, (e) Industrial Contract General Service, and (f) Off- Peak Service. This Application does not provide for a Contract Power Plant Service class (see 3(g) of

Regulation). It was not identified in the COS study approved by the Board in 2010 and the Regulation does not provide any details regarding the potential consumption or purpose of this proposed class. Therefore EGNB has not developed a rate design for this class at this time. The exclusion of this rate class does not impact the rates generated for the remaining classes, as under the COS model zero costs would be allocated to this class and no customers currently exist.

The rationale for the rate design can be found in Appendix F.

EGNB Handbook of Rates and Distribution Services

EGNB's Handbook of Rates and Distribution Services ("Handbook") has been updated to reflect the regulated rate classes and distribution rates presented in this application. The general content of the Handbook has also been updated to reflect certain operational changes. A copy of the revised Handbook is found in Appendix G.

Curriculum Vitae

The Curriculum Vitae for David B. Charleson, Lori A. Stickles and H. Edwin Overcast are provided in Appendix H.