

Written Direct Testimony of Shelley L. Black

Q 1: Please state your name and position.

A 1: My name is Shelley Lynn Black and I am the Manager, Regulatory Affairs and Upstream for Enbridge Gas New Brunswick Inc., the general partner of Enbridge Gas New Brunswick Limited Partnership (“EGNB”).

Q 2: What is the purpose of this evidence?

A 2: In its June 23, 2000 decision on an application by EGNB for approval of its rates, the Board of Commissioners of Public Utilities of New Brunswick (“Board”) approved EGNB’s market-based approach for setting its distribution rates during the Development Period. In a decision dated March 31, 2005, the Board approved EGNB’s current distribution rates for Small General Service (“SGS”), General Service (“GS”), Contract General Service (“CGS”), Contract Large General Service LFO (“LFO”), Off Peak Service (“OPS”), Contract Large Volume Off Peak Service (“CLVOPS”) and Natural Gas Vehicle Fueling (“NGVF”).

On August 15, 2005, EGNB filed an application to change its market-based distribution rates. This evidence presents the proposed rates, which are filed as Exhibit A, Schedule 1, as well as supporting data, assumptions and methodology used in generating them. This pre-filed evidence accompanies EGNB’s application to change its market-based distribution rates for the SGS, GS, CGS, LFO, OPS, CLVOPS and NGVF rate categories.

Q 3: EGNB has stated previously that its distribution rates are market-based. Please explain the purpose of market-based rates.

A 3: Market-based rates are predicated on local market conditions with the objective of providing potential end-use customers with an economic incentive to convert to natural gas.

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Q 4: Does EGNB continue to feel that the market-based rates methodology of setting its rates best suits the greenfield market in New Brunswick?

A 4: Yes, the market-based approach for setting rates continues to enable EGNB to establish rates based on local market conditions and supports EGNB's objective to provide potential end-use customers with sufficient economic incentive to convert to natural gas.

Q 5: Could you review the Board approved methodology for setting distribution rates?

A 5: In general, the methodology for establishing distribution rates is as follows:

- Establish a relevant retail oil price for typical customers in each rate class.
- Calculate the annual oil cost for a typical customer in each 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.

Derivation of Target Distribution Rates					
Line	Item	SGS	GS	CGS	LFO
(1)	Retail Oil Price (\$/L)	0.7480	0.6594	0.6297	0.5948
(2)	Retail Oil Price (\$/GJ)	19.36	17.06	16.29	15.40
(3)	Typical Annual Oil Consumption (L)	3,773	37,411	140,102	821,217
(4)	Typical Annual Oil Consumption (GJ)	146	1,447	5,420	31,745
(5)	Annual Oil Cost (\$) (Line 1 x Line 3)	2,822	24,669	88,222	488,460
(6)	Target Savings Level (%)	20%	15%	15%	10%
(7)	Target Annual Savings (\$) (Line 5 x Line 6)	564	3,700	13,233	48,846
(8)	Typical Annual Natural Gas Cost (\$) (Line 5 minus Line 7)	2,258	20,968	74,989	439,614
(9)	Typical Annual Natural Gas Consumption (GJ)	114	1,175	4,400	31,745
(10)	Target Natural Gas Burner Tip Unit Price (\$/GJ) (Line 8 divided by Line 9)	19.81	17.85	17.04	13.85
(11)	Commodity Price (\$/GJ)	10.50	10.50	10.50	10.50
(12)	Target Distribution Rate (\$/GJ) (Line 10 minus Line 11)	9.3054	7.3454	6.5429	3.3483
(13)	Target Distribution Rate Reduction (\$/GJ)	(2.1776)	-	-	-
(14)	Adjusted Target Distribution Rate (\$/GJ) (Line 12 minus Line 13)	7.1278	7.3454	6.5429	3.3483
Breakdown of Distribution Charge between Monthly and Delivery Charges:					
(15)	Annual Target Distribution Charge per Customer (\$) (Line 14 x Line 9)	813	8,631	28,789	106,291
(16)	Monthly Customer Charge (\$)	16.00	16.00	N/A	N/A
(17)	Annual Customer Charge (\$) (Line 16 x by 12 months)	192	192	N/A	N/A
(18)	Monthly Demand Charge (\$/GJ)	N/A	N/A	5.20	5.20
(19)	Average Monthly Contract Demand (GJ)	N/A	N/A	45.90	487.00
(20)	Annual Demand Charge (\$) (Line 18 x 12 months x Line 19)	N/A	N/A	2,864	30,389
(21)	Annual Delivery Charge per Customer (\$) (Line 15 minus Line 17 minus Line 20)	621	8,439	25,925	75,903
(22)	Delivery Charge per GJ (\$) (Line 21 divided by Line 9)	5.4436	7.1820	5.8919	2.3910

EGNB has adopted targeted annual savings for the market categories that, when combined with other benefits of natural gas and other economic considerations, such as the typical age of heating systems and switching costs, should provide

sufficient incentive for customers to switch to natural gas:

- For the residential and small commercial sector (SGS): 20% opposite home heating oil,
- For the medium to large commercial sector (GS, CGS): 15% opposite light fuel oil,
- For the large industrial sector (LFO): 10% opposite light fuel oil.

The previous table summarizes this approach.

The rate schedules filed as Exhibit A, Schedule 1 also include rates for OPS, CLVOPS and NGVF classes. The calculation of these rates is consistent with the methodology approved by the Board in 2000 and is simply a function of the GS and CGS rates. The OPS and CLVOPS rates are set at 75% of the proposed GS and CGS rates, respectively. The NGVF rate is set at the same level as the GS rate.

EGNB continues to feel that oil is the most appropriate benchmark against which to set its rates. It is generally the least expensive of the existing energy alternatives, meaning that natural gas will be even more competitive against other alternate energy sources such as propane. Electricity rates in New Brunswick are artificially low and static, making it difficult to provide a consistent economic incentive for customers to convert to natural gas. Propane is not considered to be an appropriate benchmark as it is generally more expensive than either oil or electricity.

Also, generally speaking, oil and natural gas commodity prices tend to track one another, that is, when the price of oil goes up so does the price of natural gas, and vice-versa.

Q 6: Why has EGNB reduced the target distribution rate for the SGS class from that allowed under the market-based rates methodology by \$2.1773/GJ (23.4%) as indicated on Line 13 in the table provided at A5?

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A 6: EGNB has reduced the adjustment from that allowed under the market-based methodology to preserve competitiveness in certain residential market segments. If EGNB was interested only in competing against residential oil markets, it would pursue approval of the maximum amount possible under the market-based rates model as the targeted end-users would be provided with sufficient end-use savings. EGNB has, starting in 2004 and increasing in 2005, made significant headway in attracting the residential new construction market. This is an important market for EGNB's long term growth and one that has been traditionally dominated with the use of electric baseboard heating. In order to preserve and expand its growth in this segment, EGNB believes it is necessary to limit the magnitude of the proposed adjustment.

While delivered natural gas offers significant end-use savings in certain market segments opposite electricity, EGNB believes adjusting rates to the full amount possible under the market-based rates methodology would result in delivered natural gas at prices unacceptably non-competitive opposite the artificially low, declining block residential rate currently offered by NB Power. By limiting the proposed adjustment to the monthly charge, EGNB will preserve and expand its growth in this key market segment.

Q 22: Does the proposed CLGS-LFO delivery rate of \$2.3910 apply to all blocks in this rate class?

A 7: No, the delivery rate of \$2.3910 for the first 33,000 GJs is designed to deliver the target savings of 10% to the typical customer in the CLGS-LFO class:

Monthly Distribution Charge:	Current	Proposed
Demand Charge per GJ of Contract Demand (\$ per GJ)	5.20	5.20
For the first 33,000 GJ delivered per month (\$ per GJ)	0.9773	2.3910
For the next 25,000 GJ delivered per month (\$ per GJ)	0.1900	0.1900
For volumes delivered in excess of 58,000 GJ per month (\$ per GJ)	0.0800	0.0800

The second and third blocks of this rate class apply to only very large customers with greater volumes and purchasing power than the typical customer. EGNB is not proposing an adjustment to the delivery charge for the second and third blocks or the demand charge.

Q 8: Why is EGNB proposing to increase the fixed component of its distribution rates in the SGS rate class?

A 8: Similar to the delivery component of the distribution rate, the monthly charge is market-based. These adjustments will position EGNB's monthly charge at a level comparable with other utilities in New Brunswick.

Fixed Monthly Charges	Residential
NB Power	\$17.74
Aliant	22.30
Edmundston Energy	17.74
Saint John Energy	13.22
Average	\$17.75

Q 9: What justifies EGNB applying for the level of rate adjustments requested?

A 9: Since EGNB applied for its 2005 rates adjustment in November 2004, the wholesale price of oil has continued to rise on a forward basis and while natural gas has also risen, it has not risen at the same pace.

EGNB's market-based rates methodology supports the levels of adjustment sought. The current, increased competitive advantage of natural gas not only allows, but requires EGNB to adjust its rates at the earliest possible opportunity to ensure that EGNB is recovering the maximum amount of its costs of providing distribution service.

EGNB must strive to balance the provision of economic incentive and continued savings to customers with its own financial viability through the recovery of as much of its costs of providing service during the Development Period. To ensure that its rates are just and reasonable, EGNB should not provide any more

economic incentive to customers to convert to and continue consuming natural gas than is absolutely necessary.

Q 10: Do end-use customers have to realize the precise savings level in order to convert to or continue consuming natural gas?

A 10: No, end-user conversion decisions are based upon their own unique circumstances and as such, conversions are achievable at various pricing levels. The emphasis of this pricing mechanism is on “target” savings because EGNB does not and cannot control all components of the delivered price of natural gas or competing fuels.

These target savings are guidelines and will evolve with the market for natural gas. The actual savings realized by a customer will be based on the combined costs of distribution and commodity compared with a customer’s alternate energy costs and will vary from customer to customer and over time as energy prices evolve.

Price is only one of the factors influencing a customer’s decision to switch to or continue consuming natural gas. In practice, EGNB is aware of end-user situations in which customers have made the switch to natural gas in the face of price premiums to their incumbent energy choice, demonstrating that price was only one aspect of the decision and not always the primary factor driving a customer’s choice.

Q 11: Could a rate increase hinder future customers converting to natural gas?

A 11: An increase in distribution rates could impact a customer’s decision to convert to natural gas; however, natural gas prices are only one factor that potential end-use consumers consider when making the decision to convert. Capital costs to convert (and any off-setting incentives), payback periods, environmental benefits, maintenance cost reductions, reliability and flexibility are other examples of related factors that consumers also take into consideration.

It is important to keep in mind that by following the market-based rates methodology, while relative savings remain consistent the absolute amount of savings available to a customer who converts from oil will actually increase strictly due to the increasing price of oil. The forward price of oil for 2006 has increased by US\$13.45/barrel (bbl) (28%) at the wholesale level from the forward price of oil for 2005 as anticipated in EGNB's 2005 rates application. This leads to significant, incremental end-use savings for customers. For example, in the 2005 rates application, it was anticipated that the typical CLGS-LFO customer would achieve annual savings of \$39,900. This application, using the forward retail price of oil, the proposed rate adjustment and forecast Enbridge Utility Gas ("EUG") prices, anticipates that this same customer would achieve an annual savings of \$48,845. This represents an increase in savings for this customer of approximately 22%.

Finally, it is important to remember that if EGNB determines at any time that distribution rates are acting as a deterrent to customer acquisition or retention, it can apply to the Board to use the rate rider mechanism to lower rates.

Q 12: Have EGNB customers with dual fuel capability switched to oil in response to the 2005 rate adjustment?

A 12: No fuel switching took place as a result of the 2005 rate adjustment.

Q 13: Does EGNB feel that the distribution rate increases, effective April 1, 2005, had an impact on customers converting to natural gas during the year?

A 13: No, in fact EGNB notes that at least one intervenor in the 2005 rates case has subsequently committed to convert additional buildings to natural gas.

In the first quarter of 2005, signings were 104% of target. Further, as of July month end, the year to date signings were 114% of target. EGNB is confident that natural gas is becoming further established as the preferred fuel of choice for potential end-users and is committed to ensuring future development of the New

Brunswick natural gas industry.

Q 14: Can you please indicate what retail oil prices EGNB proposes to use in setting rates and the methodology EGNB used in establishing them?

A 14: The following table presents, by rate class, the retail oil price that is being used in establishing the proposed rates (see Line 1 and 2 of the table in A5):

Rate Class	Retail Oil Price	
	\$/l	\$/GJ
SGS	0.7480	19.36
GS	0.6594	17.06
CGS	0.6297	16.29
LFO	0.5948	15.40

For its forecast, EGNB has used the closing settlement prices for West Texas Intermediate (WTI) crude oil from NYMEX (New York Mercantile Exchange) as the anticipated price of crude oil over the forecast period - in this case, January through December 2006, as of August 8, 2005. WTI was selected as it is the commonly traded North American index for crude oil prices. Since NYMEX is a market view of forward pricing which changes on a daily basis as a result of market conditions and expectations, a 21-day average¹ is utilized to estimate monthly crude costs over the forecast period. The anticipated crude oil cost for this period using this methodology is US\$61.78/bbl. These crude prices are converted to Canadian dollars using a similar 21-day average of the future strip for the Canada/US exchange rate. The exchange rate derived using this approach is \$CDN 1.21 per \$US.

In order to calculate retail oil prices, a “market spread” is needed for the New Brunswick market (the difference between the cost of crude oil and the price of refined products or distillates). For New Brunswick, historical information was used to estimate the typical market spread for each of the products and sectors.

¹ 21 day average is an industry standard to reduce the effect of possible market anomalies of a particular trading day

This historical information included prices collected by EnerData (Statistics Canada), New Brunswick Department of Energy as well as data independently collected by EGNB. These spreads were then added to the Canadian dollar value for the NYMEX strip for crude oil. The above table contains retail oil price estimates derived in this manner. Note that, due to the competitive nature of the retail oil market, significant variations have been observed, i.e. these prices will vary on an individual customer basis.

Q 15: Referring to the table (Lines 4 and 9) in the response to Question 5, why is the expected consumption for the competitive energy (in this case oil) different than that presented for natural gas?

A 15: Different heating equipment (water heaters, furnaces or boilers) have different operating efficiencies. For example, a typical high-efficiency gas furnace will convert 92% of the energy input that goes into the equipment into heat energy. Equipment vintage, maintenance history and energy source all have an impact on its operating efficiency.

EGNB has used the following blended efficiencies in setting the relationship between input energy requirements and typical equipment energy output. They are based on different possible equipment types and combinations relevant to a class. Again, the actual efficiency of gas and alternative equipment will vary by customer and will impact actual savings realized.

Rate Class	Natural Gas	Oil
SGS	87%	68%
GS, CGS	80%	65%
LFO	80%	80%

Q 16: Referring to the methodology outlined in the response to Question 5, once the target burner tip price is established, how does EGNB arrive at the distribution rate?

A 16: The distribution rate represents the burner tip price less the commodity price. The commodity price is the amount end-use customers will pay to have their gas supply delivered to EGNB's distribution system.

Q 17: How did EGNB arrive at the commodity price?

A 17: EGNB has used the price of EUG as the reference price for commodity for the purpose of setting its proposed distribution rates. As a result, the forecast EUG price of \$10.50/GJ has been used as the commodity price.

Q 18: How did EGNB develop the forecast of the commodity price?

A 18: The forecast EUG price is based on the methodology prescribed in the *Gas Distributor Marketing Regulation – Gas Distribution Act, 1999* (“*Marketing Regulation*”). As set out in section 4(1) of the *Marketing Regulation*, the price of EUG is based on the forecast average price of gas for the following 12 months based upon the cost to EGNB of purchasing gas and then selling gas to customers.

Q 19: Why is EGNB proposing to use EUG as the reference price for commodity?

A 19: First, the price of EUG is publicly available in the marketplace. Second, approximately two-thirds of gas users are currently purchasing EUG. The following table presents the percentage of natural gas customers by rate class who have chosen EUG for their gas supply:

Rate Class	EUG	Others
SGS	77%	23%
GS	38%	62%
CGS	31%	69%
LFO	24%	76%
Total	68%	32%

Though EUG serves fewer customers in the commercial GS and CGS rate classes and industrial LFO rate classes, EGNB believes the use of EUG is necessary because of its price transparency. In addition, EGNB believes that larger

customers with greater purchasing power are able to contract for natural gas at more favourable pricing than EUG, resulting in additional savings.

It is important to note that EGNB's objective in choosing EUG is to provide a reasonable approximation of what customers will pay on average for the provision of commodity. Each supplier will take into account its own value proposition objectives and related cost structures when establishing its prices. This is another reason why targeted savings need to be considered as an order of magnitude rather than a hard target.

Q 20: What would be the outcome if marketers charge more than EUG?

A 20: Everything else being equal, if a marketer charges more than EUG then the savings achieved by the impacted customers will be less than the targeted savings. As previously mentioned, the targeted savings are more an indication of an order of magnitude rather than an absolute target to reach. Indeed, it would be impossible to achieve a specific savings level for each customer as many variables impact a customer's actual realized savings.

Q 21: Is EGNB taking advantage of current high oil prices to increase their distribution rates?

A 21: As emphasized in response to Q11, since the 2005 rate application (November 2004), the market prices of oil have risen steadily from US\$48.33/bbl to US\$61.78/bbl during the 21-day period over which the average was calculated for the period January to December of 2006. The current market expectation of oil prices for the period of January to December 2006, as of August 10, 2005, is US\$66.69, US\$4.91/bbl over the price of US\$61.78 assumed by EGNB in this application.

Q 22: Why is EGNB making application in August for a January 1, 2006 decision?

A 22: Given EGNB's market-based rates methodology, rates have been significantly lower than they potentially could be due to the evolving price relationship

between oil and natural gas. EGNB believes it would not be acting prudently if it did not apply to have its rates adjusted as soon as possible. Based on discussions with Board staff, EGNB understands that applying in August should, given the Board's current schedule, enable the Board to make its decision before January 1, 2006.

*** I have no further questions.