

June 12, 2019

**BY EMAIL**

Ms. Kathleen Mitchell  
Chief Clerk of the New Brunswick  
Energy and Utilities Board  
P.O. Box 5001  
15 Market Square, Suite 1400  
Saint John, NB E2L 1E8

Dear Ms. Mitchell:

**Enbridge Gas New Brunswick –  
Request to amend the EUG pricing methodology**

1 **Background**

2

3 Enbridge Gas New Brunswick (EGNB) has been offering its Enbridge Utility Gas (EUG) product  
4 since 2003 when the Gas Distribution Act, 1999 was amended to allow the public utility to sell  
5 gas directly to customers. The EUG price is set according to the Gas Distributor Marketing  
6 Regulation – Gas Distribution Act, 1999 (Regulation).

7 In a Decision on the Review of EGNB's Financial Results and Natural Gas Sales at December  
8 31, 2008 dated November 13, 2009, the New Brunswick Energy and Utilities Board (Board)  
9 found that EGNB's standard practice of only increasing or decreasing the price of EUG when  
10 the calculated monthly price change was in excess of 3% was in the public interest in order to  
11 provide some rate stability for customers:

12 *“Butler states that, in practice, EGNBLP does not adjust the price for EUG unless*  
13 *the change is greater than 3%. Butler concludes that this is not in compliance*  
14 *with the regulation which requires changes regardless of the magnitude.*  
15 *EGNBLP acknowledges this and argues that the practice provides some rate*  
16 *stability for consumers and makes no significant difference. The Board finds the*  
17 *practice of only changing the price when the change is greater than 3% is in the*  
18 *public interest.” (p. 8)*

19 The Regulation was amended in December 2016 to read as follows:

20 **4(1)** A gas distributor that sells gas shall make available a standard offering  
21 having a term of one year and shall calculate the price of gas in the manner and

1 for the period determined by the Board, which price shall be based on the cost  
2 estimated by the gas distributor for purchasing gas and selling gas to customers.

3 **4(2)** For the purposes of subsection (1), the difference between the estimated  
4 cost of purchasing and selling gas and the actual cost of purchasing and selling  
5 gas for a period determined by the Board shall be included in the forecasted  
6 price of gas for a period determined by the Board.

7 These changes to the Regulation provide the Board with additional flexibility in relation to the  
8 pricing of EUG.

9 In the Board's December 13, 2018 decision in relation to EGNB's commodity sales activities for  
10 the fiscal year ended December 31, 2017, the Board decided:

11 The price of gas for any month shall be calculated as the average of the  
12 forecasted monthly cost of purchasing and selling gas to customers over the next  
13 12 months, which shall also include one-twelfth of the previous month's balance  
14 or estimated balance of the Purchased Gas Variance Account (PGVA). The  
15 PGVA is the accumulated difference between the monthly forecasted costs and  
16 the actual monthly costs of purchasing and selling gas.

17 **Proposed changes**

18 Over the last two winters, the PGVA balance has reached unprecedented levels. In February  
19 2018, the PGVA balance reached \$8.28M which was surpassed a year later in March 2019 with  
20 another record balance of over \$10M. Prior to these two highs, the previous historical high  
21 balance occurred in March 2014 when it hit \$6.86M. For a product with annual volumes of 3  
22 Million GJs annually, these levels are counterproductive to setting reasonable EUG prices and  
23 recovering the PGVA balance in a timely manner. With such a large PGVA amount factored  
24 into the pricing model, the EUG price's relationship to natural gas market prices deteriorates.

25 Table 1 identifies the PGVA balance increases during the two periods noted above:

**Table 1**

<b>Winter 2017-2018:</b>					
	<b>Nov-17</b>	<b>Dec-17</b>	<b>Jan-18</b>	<b>Feb-18</b>	<b>Mar-18</b>
<b>Net (Income)/Loss for the month</b>	(102,307)	1,581,873	3,325,275	352,903	(1,297,372)
<b>Cumulative PGVA</b>	<b>3,023,070</b>	<b>4,604,943</b>	<b>7,930,218</b>	<b>8,283,121</b>	<b>6,985,749</b>
<b>Winter 2018-2019:</b>					
	<b>Nov-18</b>	<b>Dec-18</b>	<b>Jan-19</b>	<b>Feb-19</b>	<b>Mar-19</b>
<b>Net (Income)/Loss for the month</b>	(586,649)	2,639,610	1,180,609	514,286	478,864
<b>Cumulative PGVA</b>	<b>5,194,294</b>	<b>7,833,903</b>	<b>9,014,512</b>	<b>9,528,798</b>	<b>10,007,662</b>

In both instances of high PGVA balances noted above, the current price setting methodology using all known and future inputs at the time recommended that the EUG price be lowered when ideally the price would have remained higher in order to help reduce the PGVA balance during a month of higher volume.

In fact, when the PGVA reached its then historical high of \$8.28M in February 2018 and just under \$7M in March 2018, the EUG price setting methodology recommended a change to the EUG price from \$11.20/GJ to \$10.49/GJ for April 2018, in a month with relatively good volumes that could have assisted with paying down the PGVA balance sooner. As a result, the PGVA balance remained higher than necessary and remained above \$5M for the remainder of 2018 and contributed to a high balance to start the 2018/2019 winter season. During that time, the same scenario unfolded when the historical high PGVA balance of \$10M was reached in March 2019. The price setting model again suggested a reduction in the EUG price from \$13.38/GJ to \$12.92/GJ in April 2019 and another reduction to \$11.95/GJ in May 2019, months when volumes could have led to a more rapid reduction of the PGVA. It is once again expected that the PGVA balance will be high to begin the winter season of 2019-2020 resulting in additional risks, costs and a further deteriorating relationship to market pricing.

In addition to the two proposals described below, EGNB has contracted additional capacity from Empress and Dawn to improve stability starting in November 2019 and November 2021, respectively. Furthermore, EGNB plans to participate in hedging activities going forward which will provide additional stability to gas price costs from month to month. Although EGNB has not traditionally been active with hedging activities, it is common practice in the gas supply industry in order to stabilize prices and risks.

EGNB is proposing two changes to the price setting methodology for EUG that would provide greater price stability to customers, yet also provide better protection against high PGVA

1 balances that remain until the next heating season due to insufficient volumes in the summer  
2 months.

3 **1. Increased Tolerance Level**

4 When calculating the EUG price at the end of each month for the beginning of the next month, a  
5 percentage variance from the previous month's price is calculated. Currently, if the model  
6 calculates a variance in EUG price of more than 3% from the previous month's price, the EUG  
7 price is changed for the next month in accordance with the Board's 2009 direction. When the  
8 variance is 3% or lower, EGNB has not typically changed the price in order to maintain pricing  
9 stability even though it could have changed the price within this discretionary range. However,  
10 EGNB reserves the right to change the EUG price even when the variance is less than the  
11 prescribed tolerance level depending on gas pricing market conditions.

12 EGNB proposes to increase the 3% tolerance level that has been in place for many years to  
13 6%. This will assist in correcting the issue that occurred the last two winters described above  
14 when the model recommended a reduction to the EUG price even though gas volumes could  
15 have assisted with lowering the PGVA sooner and place the PGVA balance in a more  
16 reasonable position entering the summer months of lower volumes. As a large PGVA balance  
17 increases the risk to customers and the utility by contributing a high value to the EUG price  
18 during the future winter heating season and further deterioration from market pricing,  
19 maintaining the EUG price at higher levels during months with larger volumes would assist with  
20 maintaining the PGVA balance lower during the lower volume months of June to September.  
21 Increasing the tolerance level from 3% to 6% will allow the EUG price to remain stable for  
22 potentially longer periods of time and allow a more timely repayment of the PGVA.

23 This will benefit customers by maintaining a closer relationship to market pricing and costs,  
24 while limiting the amount of PGVA balance calculated and factored into the EUG pricing model.  
25 A small PGVA benefits customers by ensuring that market pricing and EUG prices are close so  
26 that customers do not have to start a future heating season paying higher than expected costs  
27 from the previous heating season.

28 As noted above, Table 2 demonstrates what the current EUG price setting model  
29 recommendation was for April 1, 2019.

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**Table 2**

	<b>Jan-19</b>	<b>Feb-19</b>	<b>Mar-19</b>	<b>Apr-19</b>
1				
2 <b>12-month forward average...</b>				
3 Forecast (monthly) cost of gas supply (in \$)	33,144,064	31,457,772	30,708,873	28,499,374
4 Price of Gas Variance Account adjustment (in \$)	7,833,903	9,014,512	9,528,798	9,943,323
5 Revised cost of gas	40,977,967	40,472,284	40,237,670	38,442,697
6 Volume (GJ)	3,029,931	2,988,448	2,980,259	2,974,778
7 <b>Monthly WACOG per GJ</b>	<b>\$ 13.520</b>	<b>\$ 13.540</b>	<b>\$ 13.500</b>	<b>\$ 12.920</b>
8 <b>Actual Price Used for Billing (updated monthly)</b>	<b>\$ 13.3800</b>	<b>\$ 13.3800</b>	<b>\$ 13.3800</b>	<b>\$ 12.9200</b>

9

2 10 **Percentage Change from last month** 3.44%

3 **2. Reduction of PGVA Balance**

4 Secondly, EGNB proposes an immediate one-time reduction to the PGVA. EGNB proposes to  
5 decrease the PGVA by \$4M and amortize that amount on a straight line basis over a 24 month  
6 period. Set out below is an example of the results of a \$4M PGVA balance reduction on August  
7 1<sup>st</sup>, 2019:

- 8 1. \$4M PGVA reduction amortized over 24 months results in a EUG price adder of \$0.66  
9 per GJ based on the 6.046M GJs forecast over the 24 month period from August 2019 to  
10 July 2021.
- 11 2. On August 1, 2019, the EUG price is reduced to \$10.29/GJ prior to the adder, making  
12 the total EUG price \$10.95 (\$10.29 +\$0.66) per GJ.

13 Table 3 presents this proposal's impact on the EUG model filed with the Board on June 1<sup>st</sup>,  
14 2019 if the reduction would occur on August 1, 2019:

15 Please refer to the confidential file *EGNB 2019 05 30 \$4M Breakout Confidential.xls* for  
16 additional details related to this proposal.

17 **Summary**

18 EGNB recommends that the Board approve these two modifications to the EUG price setting  
19 methodology. If the Board determines that a process is required, EGNB suggests the  
20 establishment of a written process.

1 If you have any questions with respect to this matter, please contact me at (506) 457-7762 or  
2 [paul.volpe@enbridge.com](mailto:paul.volpe@enbridge.com).

3 Yours truly,

4

A handwritten signature in black ink, appearing to be 'P. Volpé', written over a light blue horizontal line.

5

6

7 Paul Volpé  
8 Regulatory Affairs Manager  
9 Enbridge Gas New Brunswick

**Table 3**

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
1												
2 <b>PGVA Breakout (\$4,000,000 over 24 months)</b>		4,000,000	3,957,176	3,910,286	3,793,916	3,608,540	3,339,938	3,004,890	2,682,153	2,403,254	2,212,823	2,110,533
3 Forecast (monthly) cost of gas supply (in \$)	28,049,837	28,046,771	28,018,268	28,019,516	27,973,838	27,851,488	27,879,523	27,766,260	27,779,535	27,710,415	27,713,962	27,781,068
4 Price of Gas Variance Account adjustment (in \$)	6,996,839	3,092,748	3,375,898	3,618,893	3,154,717	2,295,483	1,757,334	2,310,048	2,842,435	2,123,067	1,012,670	765,242
5 Revised cost of gas	35,046,676	31,139,519	31,394,166	31,638,410	31,128,554	30,146,971	29,636,857	30,076,307	30,621,969	29,833,482	28,726,631	28,546,310
6 Volume (GJ)	3,026,285	3,026,136	3,025,960	3,025,584	3,024,898	3,023,961	3,021,819	3,020,168	3,020,168	3,020,168	3,020,168	3,020,168
7 <b>Monthly WACOG per GJ</b>	\$ 11.580	\$ 10.290	\$ 10.370	\$ 10.460	\$ 10.290	\$ 9.970	\$ 9.810	\$ 9.960	\$ 10.140	\$ 9.880	\$ 9.510	\$ 9.450
8 <b>Actual Price Used for Billing (updated monthly)</b>	\$ 11.5800	\$ 10.2900	\$ 10.2900	\$ 10.2900	\$ 10.2900	\$ 9.9700	\$ 9.9700	\$ 9.9700	\$ 9.9700	\$ 9.9700	\$ 9.5100	\$ 9.5100
9						\$ 11.6392						
10 <b>PGVA Breakout Recovery Adder</b>		\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66
11 <b>Percentage Change from last month</b>	3.10%	11.14%	0.78%	1.65%	0.00%	3.11%	1.60%	0.10%	1.71%	0.90%	4.61%	0.63%