

SECTION 5.0
Market Based Rates

5.0 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, market data for March 2014 and April 2014 has been used. See Schedule 5.2 - Market Data January 2015 to December 2015.

The most recent twelve months of consumption data is used for the purpose of determining Typical Annual Natural Gas Consumption profile. For the purposes of this Application, the consumption data from May 2013 to April 2014 has been used. The complete consumption data for each rate class has been provided in Schedule 5.5 - Summary Consumption Data May 2013 to April 2014.

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. See Schedule 5.4 - EUG Price Calculation, which is the commodity used for all of the rate classes. In calculating the EUG price, EGNB relies upon a Board approved methodology which uses a combination of forecasts

and actuals and is in compliance with Section 4(1) and 4(2) of the Gas Distributor Marketing Regulation - Gas Distribution Act, 1999.

Currently, EGNB includes the most recent known actual balance of the Purchase Gas Variance Account (PGVA), which represents the difference between the estimated cost of purchasing and selling gas and the actual cost of purchasing and selling gas, in the calculation of EUG. This results in the use of a PGVA balance from two months prior to the month in which EUG is being calculated. Last winter saw unprecedented high gas costs, and as a result, there has been a great deal of growth of the PGVA during the winter months. Due to the lag in including the actual PGVA balance into the EUG calculation, it is resulting in an increase in the length of time to recover the PGVA, as the balance from the winter is then left to be recovered from customers in the summer when there is less throughput. As part of the 2015 Rate Application, EGNB is proposing to use a forecast of the previous month's ending PGVA balance in the calculation of the monthly EUG price, as EGNB believes this will facilitate a more timely recovery of the shortfall in the PGVA and will also serve to provide better matching between those customers who contributed to the PGVA with those paying for its recovery (ie. EUG contract period runs April 1 – March 31).

The resulting derivation of the market based rates for the Mid-General Service, Large General Service, Contract General Service and Industrial Contract General Service classes can be found in Schedule 5.1 - Derivation Tables for Market Based Rates. EGNB has not included a proposed rate design for these rate classes as the Target Distribution Rate is used for the purpose of comparing the market based rates to the cost of service based rates. EGNB would propose customer and demand charges applicable to these rate classes under the market based methodology should the need to utilize the market based rates arise in the future.

The Off-Peak Service (OPS) rate has been established at 75% of the Mid-General Service rate. This results in an OPS market based target distribution rate of \$11.5076/GJ.

The SGS class is legislated to provide a target savings level of 20% against electricity at the time rates are set. Historically, this rate class included the residential customers and the smallest of the commercial customers. As electricity rates differ significantly between residential and

commercial customers, setting a rate based on target savings of 20% proved to be problematic with the current rate class structure.

In the 2014 Rate Application, EGNB recommended a blended electricity price to be used in calculating the SGS rate. The Board expressed concern over the use of this methodology as outlined at page 21 of its April 17, 2014 Decision:

“In this case, while the blended approach meets the technical requirements of section 4, it does not meet the full objectives of the market based system. Specifically, it does not necessarily produce rates which will attract and retain residential customers. The Board is concerned that few residential customers in the SGS class will in fact receive the target savings they had anticipated when converting to natural gas.”

As a result, the Board ordered EGNB to set the SGS rate at \$10.00/GJ and directed EGNB to re-examine how the SGS rate will be set in the future and bring forth a proposal to the Board in this Rate Application.

In response to the Board’s direction, EGNB has undertaken a redesign of the SGS rate class. In doing so, EGNB believes the SGS class will be a more homogeneous rate class, will comply with the legislative and regulatory requirements of the rate class, and will eliminate the need for rate riders in the future. The proposal for the SGS class will see commercial customers move out of the class leaving only residential customers, and will align more closely with the NB Power residential rate class and comparable electricity costs as the alternative energy source comparison used for the SGS class. Additionally, the monthly customer charge for SGS customers has changed from \$16 to \$18 per month. This will provide greater cost stability to customers by lowering the volumetric portion of the rate. The monthly customer charge remains below other residential utility charges which are typically above the \$20 monthly mark.

The electricity pricing for the residential customers is presented in Schedule 5.3 - Alternative Fuel Calculations and the Small General Service class market based rate derived is provided in Schedule 5.1 - Derivation Tables for Market Based Rates.

As a result of the changes to the SGS class, all the commercial customers previously in the SGS rate class are being transferred to the MGS rate class, along with the current commercial customers in that class. The introduction of smaller commercial customers into the MGS rate class has resulted in the establishment of tiers within the MGS rate class (MGS – Small and

MGS – Large). The migration of the smaller commercial customers to MGS will also result in a greater number of customers moving to cost of service rates.

Summary

For the purpose of this Application, the market based distribution rates for EGNB's rate classes were calculated using the approved market based formula adjusted for the target saving levels and alternative energy sources prescribed in the Regulation. A 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 rate for the Small General Service class. A 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 market based distribution rates for EGNB's rate classes. These market based distribution rates will be compared against the distribution rates generated under the 2015 COS study for the rate classes and the lower of the two will be applicable pursuant to Section 4(1) of the Regulation.

Rate Class	Distribution Rate (\$/GJ)
Small General Service	7.4045
Mid-General Service	15.3435
Large General Service	15.0374
Contract General Service	9.6033
Industrial General Service	9.4689
Off-Peak Service	11.5076

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

- Schedule 5.1 - Derivation Tables for Market Based Rates
- Schedule 5.2 - Market Data January 2015 to December 2015
- Schedule 5.3 - Alternative Fuel Calculations
- Schedule 5.4 - EUG Price Calculation
- Schedule 5.5 - Summary Consumption Data May 2013 to April 2014