Written Direct Testimony of David B. Charleson

Q 1: Please state your name and position.

A 1: My name is David Bryce Charleson. I am the General Manager of Enbridge Gas New Brunswick Inc., the general partner of Enbridge Gas New Brunswick Limited Partnership ("EGNB"). My Curriculum Vitae is attached as Appendix A.

Q 2: What is the purpose of this pre-filed evidence?

A 2: In its June 23, 2000 decision on an application by EGNB for approval of its rates, the then Board of Commissioners of Public Utilities of New Brunswick, now the New Brunswick Energy and Utilities Board, ("Board") approved EGNB's market-based approach for setting its distribution rates during the development period. In a decision dated July 14, 2011, the Board approved EGNB's current maximum delivery rate for the Contract Large General Service Heavy Fuel Oil ("HFO") and Contract Large General Service Light Fuel Oil ("LFO") classes.

On October 7th, 2011, EGNB filed an application to change the maximum HFO delivery rate to align with its current maximum LFO delivery rate while maintaining the approved market-based distribution rate formula for calculating the effective HFO delivery rate through the use of the rate rider and reinstatement mechanism. This evidence presents the rationale for the proposed maximum delivery rate for the HFO class as well as establishing a quarterly setting for the effective HFO delivery rate.

Q 3: Could you review the Board approved methodology for setting distribution rates?

A 3: On May 26, 2009, the Board issued its decision in the matter of a Review of EGNB's Market-based Formula (NBEUB 2009-002). This proceeding was ordered by the Board for the purpose of identifying and examining all elements of the formula as well as the data sources for all rate classes. 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. In its April 30, 2010 decision regarding EGNB's 2010 Rate Application, the Board provided further clarification on the customers to be included for the determination of the typical customer profile.

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

- Establish a relevant retail price for heavy fuel oil.
- Calculate the annual commodity cost for a typical customer in the HFO class.
- Discount the annual cost by five percent 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.

In its May 26, 2009 decision the Board accepted EGNB's proposal 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 West Texas Intermediate Crude Oil ("WTI"), natural gas and exchange rates for the purpose of deriving the HFO rate. The Board also approved a variation in the market-based formula for rate riders and reinstatements; rather than collecting future pricing for two months to calculate the distribution rate only 21 days of market data would be collected.

EGNB believes that the Board's July 14, 2011 decision the Board implied that the use of the approved market-based formula was still appropriate for the HFO class.

Q 4: Is EGNB proposing that the maximum HFO delivery rate presented in this application be charged to the HFO customers, if approved?

A 4: No. The purpose of this application is to align the maximum HFO delivery rate with the current maximum LFO delivery rate of $6.4324/GJ. The rate schedule reflecting this change is filed as Appendix B. EGNB proposes to submit a rate rider application once the Board has rendered its decision regarding this application and establish the effective HFO delivery rate based on market data at that time.

Q 5: What is the rationale for setting the maximum HFO delivery rate at the current maximum LFO delivery rate?

A 5: The current rate application process limits EGNB to a single rate application on an annual basis and has historically involved a full rate hearing. A full rate hearing typically takes several months to complete, resulting in a significant amount of effort and time for all those involved and a lag in the HFO rate reflecting current market conditions. EGNB's proposal in this application would address this concern.

The LFO and HFO classes are made up of large commercial and industrial customers with similar levels of consumption and it is conceivable that in the future customers with the similar consumption levels could merge into the same classes. A higher maximum rate for the HFO class would provide a broader band within which to set the HFO delivery rate therefore providing flexibility to allow HFO delivery rates to move closer to the LFO maximum rate as market conditions permit in a timely manner. This would also reduce the need for an annual application to the Board for HFO rate changes a lengthy process that results in the market-based rate system not being utilized effectively for the HFO rate class.

Q 6: How would the HFO delivery rate be calculated?

A 6: EGNB is proposing that the HFO delivery rate would be established using the current Board approved methodology for setting distribution rates. However, the delivery rate would be reset on a quarterly basis using the rate rider and reinstatement mechanism.

Q 7: What is the rationale for setting the HFO delivery rate on a quarterly basis?

A 7: In 2009, during the hearing regarding the market-based formula review the potential for setting maximum distribution rates on a more frequent basis was advanced by parties. At the time, EGNB testified that depending on the nature of the process that would be required in setting a rate more frequently there may be some merit to considering a quarterly rate setting if it was on the basis of a simple application of the current approved methodology.

In the case of the HFO class, EGNB believes establishing the HFO delivery rate on a quarterly basis would:

- provide clarity, transparency and predictability regarding the timing of rate changes for the HFO customers;

- use up-to-date market data (previous 21 days) in setting the distribution rate for each quarter, thus maximizing the use of the market-based formula;

- reduce the regulatory burden on EGNB and Board - If quarterly delivery rates were set within the proposed maximum HFO delivery rate it would reduce the need for annual rate application and the associated full rate hearing.

- minimize the requirements for rate rider and reinstatement applications to the Board - A system that would see a delivery rate set every three months would potentially reduce the requirement to react to small changes in the market using rate riders as the impact of the change would be limited to a short timeline and be re-adjusted in the following quarter.

Q 8: Is EGNB proposing to eliminate the use of rate riders and reinstatements?

A 8: No. EGNB is not proposing to eliminate the rate rider and reinstatement mechanism and would reserve this mechanism to address significant changes in the market between quarterly settings, if required.

Q 9: Who would determine the quarterly HFO delivery rate?

A 9: EGNB would determine the quarterly rate using the rate rider and reinstatement formula and provide it to the Board for approval by the 15th of March, June, September and December to be effective the first of the following month.

Q 10: What mechanism would be used to notify customers of the quarterly HFO delivery rates?

A 10: EGNB proposes that customers would be notified through a message on their billing invoices and the rate would also be posted on EGNB's website.

Q 11: Is EGNB proposing to have quarterly delivery rates set for all classes?

A 11: No. EGNB is proposing a quarterly delivery rate for the HFO class to allow timely reaction to changes in the market conditions and to maximize the use of the approved market-based formula. EGNB will continue to use rate riders and reinstatements for the other classes as necessary.

Q 12: Why is EGNB filing this application at this time?

A 12: This application is consistent with the direction provided by the Board in the July 14, 2011 Decision on 2011 Rates which noted that the rates in the HFO class "have been significantly lower than other classes for many years. Even with this increase, the HFO rate remains about one quarter of the next lowest rate class and well below its cost of service. This is an issue that EGNB must continue to monitor. When market conditions support an increase to rates, EGNB should apply to the Board for a change to this rate to bring it more in line with other rate classes and its cost of service." (page 8). As demonstrated by the derivation of the HFO distribution rate using the approved market-based formula and current market data found in Appendix C, current market conditions would support a higher HFO delivery rate which would allow the rate to be brought more in line with other rate classes. In addition, EGNB believes the proposed maximum HFO delivery rate and quarterly HFO delivery rate setting more fully addresses the concerns expressed by the Board during the 2011 rates proceeding.

*** I have no further questions.