Written Direct Testimony of

Andrew J. Harrington and Shelley L. Black

Q 1. Please state your names and positions.

A 1: My name is Andrew Joseph Harrington. 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 filed as Exhibit A, Schedule 1.

My name is Shelley Lynn Black and I am the Manager, Regulatory Affairs and Upstream for EGNB. My Curriculum Vitae is filed as Exhibit A, Schedule 2.

Q 2. What is the purpose of this evidence?

A 2: This evidence covers two issues. Firstly, EGNB proposes to extend the Development Period by an additional five years. This evidence outlines EGNB's rationale for this request.

Secondly, EGNB believes that it is necessary to amortize the Deferral Account, on a straight-line basis, over 40 years from the end of the Development Period or, alternatively, by 2040. This evidence outlines EGNB's rationale for this request.

Q 3. Dealing first with the Development Period issue. Could you briefly describe the initial Development Period and its purpose?

A 3: Certainly, the Development Period is a primary element of the regulatory framework, under which EGNB currently operates, as approved by the Board in its decision of June 23, 2000. The Development Period is a period during which EGNB cannot be expected to operate like a mature utility because it is still in the early stages of infrastructure development and customer capture. Amongst other characteristics, it is a period in which a non-traditional regulatory framework is being used. Generally the purpose is to allow EGNB to respond quickly to market conditions in the development of customer base while having assurances that it will recover losses incurred in such development. The Development Period acknowledges that it will take time for EGNB to achieve customer and volume acquisition levels that allow management to conclude that it can operate within the traditional operating parameters of a well established gas utility.

Some of the key characteristics of EGNB within the Development Period that distinguish it from a utility operating in a mature state of operation include:

- Low market share and product awareness
- High unit fixed costs due to low customer numbers and system throughput
- Immature energy services marketplace
- Full cost of service exceeds sustainable revenues

Q 4. In the aforementioned decision, the Board determined that the initial Development Period would last until December 31, 2005 and that thereafter the onus would be on EGNB to annually demonstrate that the Development Period should continue for a further year. Why is EGNB proposing that this be changed?

A 4: EGNB believes that the decision rendered by the Board in 2000 was appropriate given the evidence provided at the time. For instance EGNB, in its evidence, indicated that it estimated the Development Period would be eight years. EGNB asserts that the circumstances have evolved sufficiently to reconsider this decision. The following table, profiling key parameters, is provided to illustrate the difference between the forecasts EGNB relied on at the time of preparing its evidence in 2000 and those it now relies on.

		Results at 12/31/05 as Forecast in 2000	**Results at 12/31/05 as Currently Forecast**	**Results at 12/31/10 as Currently Forecast**
(a)	Customers	16,800	5,200	18,000
(b)	Throughput (GJs)	10,500,000	4,200,000	7,700,000
(c)	Unit Costs[1] ($/GJ)	$2.78	$6.76	$5.41
(d)	Annual Deferred Loss ($)	$2.8 Million	$17.6 Million	$6.3 Million
(e)	Deferred Losses, Cumulative ($)	$12.3 Million	$77.7 Million	$130.7 Million

Neither EGNB nor the Board could have reasonably expected such wide variances from forecast. When considered as a continuum between absolute "greenfield" and mature natural gas industry, EGNB believes that it is plain from these variances that the industry has not progressed significantly toward the establishment of a mature industry. Considering the figures under the heading "Results at 12/31/10 as Currently Forecast", EGNB believes that an extension of the initial Development Period to December 31, 2010 is warranted.

Q 5. Given that the previous decision of the Board allowed for ongoing annual extensions, why is EGNB proposing that a five year extension be granted?

A 5: EGNB acknowledges that the previous decision allowed for ongoing extensions. EGNB believes that its current proposal is aligned with the intention of the

[1] Unit Costs = Revenue Requirement($)/Total System Throughput(GJ)

previous decision taking into account the updated information. The Board originally proposed a five and one-half year initial Development Period with no annual requirement from EGNB in order "to minimize the uncertainty associated with the development period so that EGNB can proceed with confidence to develop its distribution system" (page 8 of 2000 Rate Decision). EGNB's proposal seeks to establish the same effect for a period that is more reflective of the current reality rather than being required to file for an extension annually from 2006 through 2010.

Q 6. Regarding the Development Period, what specifically is EGNB requesting of the Board?

A 6: EGNB is requesting that the Board approve its proposal to extend the Development Period to December 31, 2010 and that thereafter the onus will be on EGNB to annually establish that the Development Period should be extended for a further year.

Additionally, should it become clear that this additional extension is not fully required in that EGNB expects to reach the end of the Development Period earlier than December 31, 2010, EGNB commits to end the Development Period through application to the Board.

Q 7. Moving now to the issue of extending the amortization period for EGNB's Deferral Account, can you please describe the Deferral Account and its purpose?

A 7: Certainly. EGNB maintains one Deferral Account in which it records the difference between its actual revenue received and the revenue requirement approved by the Board. EGNB is unable to set its rates to customers on the basis of Cost of Service. Rather they are based on market conditions. It is understood

that throughout the Development Period, EGNB will remain unable to recover its revenue requirement through its actual revenue.

The Deferral Account is an asset to EGNB, earning the approved weighted average cost of capital and, once EGNB is in a position to earn continuous positive income (actual revenues greater than revenue requirement on a continual basis), this asset will be amortized over an approved period. This asset is an integral element in EGNB's business model. The existence of a viable Deferral Account is a critical consideration for EGNB's existing and prospective investors. It is critical to understand that if EGNB's Deferral Account were to become non-viable, either through it being increased to a level above which it is no longer commercially possible to recover, or through the Board ordering a change to a key parameter in the treatment of the Deferral Account, EGNB as an investment would not be viable.

As an asset, EGNB views the nature of the Deferral Account as consistent with plant. That is, because the expenditures which go into the Deferral Account all relate to start-up, installing plant, ensuring that plant gets used, EGNB views the Deferral Account as a long-lived asset the value of which is being recognized over a long period of time.

Q 8. At present, how are amounts in the Deferral Account to be amortized?

A 8: In its June 23, 2000 decision, the Board directed EGNB to establish an amortization schedule at the end of the Development Period such that the Deferral Account balance will be cleared by the end of the initial General Franchise Agreement.

Q 9. EGNB is requesting that the direction of the Board, to recover all deferred amounts by the end of the initial franchise period, be changed. Why?

A 9: Before answering the question, it is important to point out that in order to begin recovering deferred amounts, EGNB must be able to move from its current market-based rates to rates that allow EGNB to recover its cost of service. This cost of service (or revenue requirement) would include amounts related to amortization of, and a return on capital for, the Deferral Account on a sustainable basis (that is without further contributions to the Deferral Account). EGNB refers to this point in its operating forecast as "Cross-Over".

Dealing now with the question, three reasons are driving EGNB to submit this request. First, EGNB's current forecasts indicate that in order to satisfy the Board's decision it would require significant rate increases that would violate the framework of EGNB's existing business/rates model, requiring EGNB to charge rates which would be greater than those that would be applied under the market-based approach. Second, and related to the first, EGNB does not believe that such rate increases are realistic and, even if approved by the Board at the time, would likely drive existing consumers to alternate energy sources and prevent further additions to the system, compounding the situation. Finally and again related to the first two points, if the amortization schedule remains as specified in the decision, the risk profile of EGNB, as an investment, will not be acceptable to existing or future investors.

Q 10. Can EGNB illustrate the conclusions it has presented in A9?

A 10: Certainly. EGNB does not currently anticipate that it will reach Cross-Over within the initial franchise period. For illustrative purposes, EGNB developed a scenario in which it forces Cross-Over within its forecasting models (by arbitrarily selecting a date at which it will move from market-based rates to rates which would recover EGNB's cost of service) in 2015. At that time the Deferral Account balance is anticipated to be $124 Million. This is a significant increase from the originally forecast peak deferral amount of $13 Million. In order to

satisfy the Board's decision, EGNB would have to recover this amount from rates by 2020. On average, this would increase the annual revenue requirement by approximately $21 Million. This translates to an average increase of $815 per customer or $2.37 per GJ annually from when customers were paying market-based rates. The average $2.37 per GJ increase would represent a 37% increase to the average price per GJ customers were contributing prior to moving from market-based rates. It should be noted that these figures are average costs per customer and per GJ. They have not been allocated amongst rate classes. It is safe to presume therefore, that given typical cost allocations for ratemaking purposes, the increases to residential customers will be higher and for larger business customers, lower than this average. The following table contrasts these and other figures to those forecast at the time of the Board's decision.

		Forced Forecast	**2000 Forecast**
(a)	Cross-Over[2]	2015	2008
(b)	Years to Recover Balance	6	13
(c)	Deferral Account Balance at Cross-Over ($ Millions)	$124	$13
(d)	Cost-Based Revenue per GJ at Cross-Over ($/GJ)	$8.82	$2.80
(e)	Market-Based Revenue per GJ prior to Cross-Over ($/GJ)	$6.45	$2.82
(f)	Increment to Revenue per GJ at Cross-Over ($/GJ) [(d) – (e)]	$2.37	($0.02)
(g)	Increment to Revenue at Cross-Over ($/Customer)	$815	$105
(h)	Relative increase to $/GJ at Cross-Over (%) [(f)/(e) X 100]	37%	(1%)
(i)	Increase to Annual Revenue Requirement at Cross-Over ($ Millions)	$21	$1
(j)	Revenue per GJ as forecast at Cross-Over assuming Market Based Rates[3] ($/GJ)	$6.98	$2.95
(k)	Increase (Decrease) Revenue per GJ [(d) – (j)]	$1.84	($0.15)

[2] For the case of the result under the heading "Forced Forecast" this is a forced date selected to illustrate the impact of trying to recover deferred amounts by the end of the initial franchise period.

[3] This is computed using the market-based approach in the cross-over year to illustrate the loss of competitiveness of delivered natural gas to oil.

As can be seen, the forced forecast presents a starkly different view with regard to that forecast in 2000.

Q 11. EGNB is requesting that the Deferral Account balance be amortized over a 40 year period. The Board, in 2000 sought to match the clearing of the Deferral Account with the end of the initial Franchise Period. How does EGNB reconcile its current proposal with the Board's decision?

A 11: EGNB is not certain what specifically led to the Board's decision in 2000. The written decision provides little insight, the only relevant notation being at pages 31 and 32:

"EGNB requested that the amount deferred should be amortized over forty years so as to minimize the impact on rates. The Board is concerned that such a long period of amortization will not necessarily be in the best interests of the customers. The Board therefore requires that EGNB establish an amortization schedule, at the end of the development period, that will clear the balance in the deferral account over the remaining term of the initial General Franchise Agreement."

EGNB understands that one possible concern may have existed around the potentiality of EGNB not being the franchisee beyond the initial franchise period and the transferability of the Deferral Account to a new franchisee. Most importantly, EGNB at this time intends on continuing to be New Brunswick's gas distributor beyond the initial franchise period. Additionally, EGNB maintains that the Deferral Account is an asset and is just as transferable to an incumbent franchisee as any other asset. Finally, EGNB notes that the issue of transferring the franchise does not mesh with the customer-related concern profiled in the written decision.

As discussed previously, in EGNB's view the approach specified in the decision is no longer practical. A revised approach therefore is required. EGNB relies on

the following arguments in support of its request to amortize deferred amounts on a straight-line basis over a 40-year period:

1. First and foremost, as an asset, EGNB views the Deferral Account's nature as consistent with plant. That is, because the expenditures that go into the Deferral Account exclusively relate to start-up, installing plant, ensuring that plant gets used, EGNB views the Deferral Account as a long-lived asset similar to plant, the average life of which for accounting purposes is in excess of 40 years.

2. Similarly, the monies being expended are to put in place assets that will be for the use of customers for a long time. Therefore it is important from a rates perspective to ensure that customers, both present and future, participate in the recovery of such investments.

3. This approach is consistent with EGNB's overarching objective of growth. By recovering deferred amounts over a longer period of time, EGNB is able to avoid significant rate increases. Ultimately this approach, as compared to that currently prescribed, results in lower and more stable rates to customers. Rate stability is one of the most important objectives of a utility trying to capture and retain customers.

Q 12. EGNB has proposed in its application that alternatively it be allowed to clear the balance of the Deferral Account by 2040. What is the rationale for this request?

A 12: This request would be consistent with the approach taken by the Board in 2000 after factoring in current circumstances. In its decision, the Board chose a seemingly arbitrary, although arguably at the time reasonable, period of time based on the evidence presented in 2000 during which EGNB was required to clear the balance in the Deferral Account. Similar to the 2000 decision approach

of tying the recovery period to a date certain, 2040 would require the balance to be cleared by the end of the first renewal term of the General Franchise Agreement. Additionally, EGNB's original proposal to the Province of New Brunswick provided, at page 4.146, that "The accumulated deferral is straight-line amortized such that the account is depleted at the end of year 2040." Finally, the Board may determine that allowing EGNB until 2040 would simply be a reasonable period of time to clear the balance in the Deferral Account.

Q 13. Has EGNB conducted an analysis to determine whether there are any scenarios under which EGNB can recover deferred amounts within the initial Franchise Period without generating the impacts identified in A10?

A 13: Yes. EGNB has tested its modeling using various revenue and cost scenarios to determine if it is within the realm of possibilities to achieve this. EGNB has been unable to identify any scenario in which this is possible.

Q 14. It would appear that EGNB does not have to address this issue until it is approaching the end of the Development Period, that is the concern around having to clear the Deferral Account only becomes pressing when EGNB is about to reach Cross-Over. Why is EGNB asking the Board to approve its proposal at this time?

A 14: EGNB is requesting this change now for the reason outlined in response to Q7. Specifically, without changing the current decision to allow for practical recovery of the Deferral Account, EGNB believes that its operations will be impaired, as it will very difficult to raise additional capital. EGNB intends on requesting additional capital from existing and prospective partners in 2005.

For greater clarity, without changing the existing decision, EGNB will not be in a position to present a viable investment vehicle to attract additional equity. It is

essential that EGNB have certainty on this matter in order to progress with operations as planned.

Q 15. By granting EGNB the right to amortize deferred amounts over a longer period than what is currently allowed, is the Board extending the General Franchise Agreement or otherwise impairing potential future assignment of the General Franchise Agreement?

A 15: No. Consistent with EGNB's views as expressed in A11, the Deferral Account is simply a long-lived asset. Like plant, the Deferral Account is an asset with a certain value that can be transferred between franchisees. EGNB, should it choose to renew its franchise rights, will be required to comply with the renewal provisions as outlined in the General Franchise Agreement regardless of whether this proposal is granted or not.

Q 16. In EGNB's opinion, do any of the proposals outlined in this evidence require amendments to the General Franchise Agreement?

A 16: No. The proposals are absolutely aligned with the terms of the General Franchise Agreement.

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