DECISION

IN THE MATTER of an application by Enbridge Gas New Brunswick Inc. for changes to rates for Small General Service, General Service, Contract General Service, Contract Large General Service LFO, Off Peak Service, Contract Large Volume Off Peak Service and Natural Gas Vehicle Fueling Rates

December 15, 2005

New Brunswick

Board of Commissioners of Public Utilities

THE NEW BRUNSWICK

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

IN THE MATTER of an application by Enbridge Gas New Brunswick Inc. to change its Small General Service, General Service, Contract General Service, Contract Large General Service LFO, Off Peak Service, Contract Large Volume Off Peak Service and Natural Gas Fueling Rates.

Board:	David C. Nicholson – Chairman
	Jacques Dumont – Commissioner
	Diana Ferguson-Sonier – Commissioner
	Brian Tingley – Commissioner
	Lorraine Legere – Secretary to the Board
	M. Douglas Goss – Senior Advisor
	John Lawton – Advisor
	John Butler – Consultant
	Ellen Desmond – Counsel
Applicant:	Andrew Harrington – General Manager
	Shelley Black – Manager, Regulatory Affairs & Upstream
	Len Hoyt – Counsel

Formal Intervenors:

Competitive Energy Services	Jon F. Sorenson – Partner
Flakeboard Company Limited	Barry Gallant – Manager of Finance and Purchasing Gerald M. Lawson – Counsel
Atlantic Health Sciences Corporation	Kenneth Baird – Vice President Christopher J. Stewart – Counsel

Informal Intervenor:

Department of Energy	Calvin Duncan – Senior Policy Advisor

Enbridge Gas New Brunswick Inc. (EGNB) filed an application with the New Brunswick Board of Commissioners of Public Utilities (the Board) dated August 15, 2005 for approval of changes to its rates for distribution service. The proposed changes in rates were for the Small General Service (SGS), General Service (GS), Contract General Service (CGS), Contract General Service LFO (LFO), Off Peak Service (OPS), Contract Large Volume Off Peak Service (CLVOPS) and Natural Gas Vehicle Fueling (NGVF) customer classes.

The application was filed under Section 52 of the Gas Distribution Act (the Act). EGNB requested a Board Order to approve changes to its distribution rates that would become effective on January 1, 2006. The distribution rates in place at the time of the application became effective on April 1, 2005.

EGNB requested the Board to establish a schedule for a written process to hear the application. A public notice of the application was advertised on August 25, 2005. It advised any party who wished to intervene, that they must register with the Board by noon, September 22, 2005. The notice stated that the Board intended to proceed by way of a written proceeding. However, any party who considered that the public interest would be better served by an oral hearing was required to provide its reasons supporting an oral hearing, in writing, to the Board and EGNB along with its notice of intervention.

A Pre-hearing Conference was held on October 3, 2005 at the Board's premises. Formal intervenor status was granted to the Atlantic Health Services Corp. (AHSC), Competitive Energy Services (CES) and Flakeboard Company Limited (Flakeboard). Informal intervenor status was granted to the Department of Energy.

Flakeboard requested that the application proceed by way of an oral hearing. It stated that due to the magnitude of the increase in rates requested by EGNB, that it would be extremely difficult to place a complete picture of the issues before the Board through a written process. CES stated its preference for a written hearing culminating with a day for oral presentations. AHSC took no position on the hearing process.

EGNB stated that neither the timing nor the magnitude of its proposed rate increase required an oral hearing to deal fully with the issues. It argued that an oral hearing required an unnecessary expenditure of additional time and preparation. EGNB noted that the Board had decided on a rate application by EGNB 6 months earlier that included two of the current intervenors.

The Board set a schedule that allowed for two rounds of interrogatories with responses on EGNB's evidence, filing of intervenor evidence, a round of interrogatories with responses on that evidence and an oral argument day. AHSC, CES and Flakeboad filed intervenor evidence on November 21, 2005.

At the oral argument day held on December 15, 2005, EGNB stated that it continued to use the Board approved market based ratemaking methodology. That methodology was intended to provide customers with an economic incentive to switch to natural gas and to allow EGNB to respond quickly to fluctuations in the marketplace through the use of rate riders. Noting that market based rates do not recover the full cost of service, EGNB stated that it must seek rate increases when there is a sustainable spread between the prices for natural gas and oil. The utility argued that it would not remain viable if it did not pursue rate adjustments consistent with its market based business methodology.

EGNB stated that wholesale oil prices had risen 28% from when its previous rate application had been filed in November 2004, to the date of this current application of August 2005. This application used the forward wholesale price of oil and Enbridge Utility Gas's (EUG) forward retail price of natural gas in the formula to calculate rates. EGNB stated that large customers pay lower gas prices than those offered by EUG and that Flakeboard's and the AHSC's evidence demonstrated that their actual savings had exceeded their forecasts.

EGNB stated that its deferral account was now forecast to peak at $130.7 million and that it must limit any further increase in that account. The company argued that its ratemaking methodology was working. In 2004 it had achieved its highest level of growth and that 2005 was on track to exceed its growth forecast. EGNB argued that customers were benefiting from its ratemaking methodology. Customers were realizing actual savings from the economic incentives built into EGNB's rates as proven by the increase in total customers. EGNB also stated that its customer incentive program had successfully contributed to the growth in its customer base.

The intervenors argued that EGNB's ratemaking methodology did not work. Flakeboard and the AHSC stated that if they had had prior knowledge of the levels to which EGNB's rates would rise, that they might not have converted. The intervenors stated that EGNB had not achieved the growth to its customer base that had been envisioned in its franchise application. CES and Flakeboard stated that current distribution rates combined with the cost of natural gas made conversion an uneconomic choice. They argued that the market needed lower distribution rates to maintain and attract customers.

The intervenors argued that forward prices of oil and natural gas had experienced extreme volatility since EGNB had filed its application. Forward prices do change daily and depending upon the day chosen, would result in higher or lower distribution rates, using EGNB's methodology. Examples put forward by the intervenors in evidence suggested that distribution rates should be drastically reduced given the current market prices. This was due to a market change that had caused gas prices to increase more quickly relative to oil price increases.

DECISION

The Board advised the parties that it would render an oral decision at the conclusion of the oral arguments, with written reasons to be issued later. The Board carefully reviewed the evidence and after giving consideration to the final arguments of the parties, approved EGNB’s rate application with the exception of the rate for the SGS Class.

In its application, EGNB had introduced an adjustment to its ratemaking methodology for the SGS class only. This change would have removed any increase to the SGS Class that would have resulted from applying the approved ratemaking methodology. In such an instance, EGNB would have been applying different ratemaking methodologies to different classes which would have been a deviation from its previous applications. The Board ordered EGNB to remove the adjustment from its methodology.

The Board’s reasons for finding in favour of the application are as follows:

(a) EGNB’s rates do not recover its cost of service and it continues to struggle with a small customer base. This results in annual operating losses that are transferred to a deferral account. That account may be recovered through rates from future customers when the utility matures to the point that it can charge cost of service rates. The Board believes that it is very important for EGNB to maximize its revenues and minimize its losses while continuing to grow its customer base.

(b) The Board believes that it is contrary to EGNB’s corporate interest for it to set rates that would discourage customer attachments and negatively impact its revenues.

(c) The Board recognizes that market forces will continue to cause changes in the relative prices of oil and natural gas. It is incumbent upon EGNB to skillfully use the rate rider mechanism, approved by the Board to adjust distribution rates and continue to provide customers with an economic incentive to consume natural gas. The intervenors demonstrated that recent events have affected natural gas prices for the short term at least and argued for a reduction in rates. To date EGNB has not used the rate rider mechanism that is available to it but indicated in the hearing that it intended to do so. In the long term the Board believes that setting an appropriate maximum amount for rates will allow EGNB to balance growing its revenues against continuing to provide customers with an economic incentive.

(d) Intervenor evidence filed in this application and EGNB’s previous rate application has indicated to the Board that most often those intervenors, who were GS and LFO class customers, had enjoyed cost savings after switching to gas.

(e) Distribution rates are only a part of a customer’s energy costs. Distribution rates must be considered along with the cost of gas and then compared to equivalent delivered cost of oil. EGNB’s evidence indicated that for the average customer in a given class, its proposed rates would still deliver an economic benefit as compared to equivalent oil prices.

The following table illustrates EGNB’s distribution rates for 2006 that were approved by the Board.

EGNB TARGET DISTRIBUTION RATES Monthly Delivery Charges Per GJ			
DISTRIBUTION RATE CLASSES	2005 APPROVED RATES	INCREASE	2006 APPROVED RATES
SGS Class	5.4436	2.1776	7.6212
GS Class	3.8326	3.3494	7.1820
CGS Class	3.1427	2.7492	5.8919
LFO Class			
Up To 33,000 GJ	0.9773	1.4137	2.3910
Next 25,000 GJ	0.1900	0.0000	0.1900
Above 58,000 GJ	0.0800	0.0000	0.0800

COMMENTS

In its oral decision the Board stated that it would require EGNB to work with Board staff on filing requirements for forecast energy prices and methodologies to allow it to track changes in forecast prices. The Board believes that it is prudent to require EGNB to file, on a non-confidential basis, forecast price data and its use in the ratemaking formula so that all parties can better understand the driver's behind EGNB's rate methodology.

The Board noted in its oral decision that the intervenors had presented a number of interesting arguments and, in response, the Board provides the following comments.

Energy prices are volatile and change on a daily basis. The intervenors argued that EGNB had selected the period during which the forecast for oil prices were at their highest levels, and the use of those prices in ratemaking resulted in proposed rates that were excessive and not reflective of current forecasts. The Board is aware of the impact of volatile oil and gas prices on EGNB’s rates. The Board believes it is prudent to require EGNB to file information on forecast energy prices to allow its staff to monitor EGNB’s ratemaking process. This filing requirement will also permit the Board to monitor the historical relationship between oil and gas that EGNB referenced in its argument.

The Board is concerned with the slow development of the natural gas market in New Brunswick and it is concerned that EGNB’s ratemaking methodology may be a factor that impacts on customer growth. The Board noted above that EGNB amended its ratemaking methodology for the SGS class to mitigate the possible impact of any rate increase for that class. This raises the question of whether the methodology truly works to create a real economic incentive for customers in some classes to switch to gas. EGNB has stated repeatedly, however, that its ratemaking methodology is designed to provide an economic incentive to customers and that it does achieve that objective. The Board will closely monitor EGNB’s customer attachments and throughput growth.

The intervenors argued that events in mid 2005 had caused gas prices to rise quickly from September to November. Coupled with distribution rates, they argued that consumers' costs were actually higher for gas consumption than for an equivalent oil consumer. They claimed during the proceeding that EGNB should be applying to decrease its distribution rates. EGNB did state during final argument that it intended to file a rate rider to reduce distribution rates after the proceeding.

The Board recognizes that EGNB must base its decision to implement a rate rider on achieving the proper balance between providing an incentive to its customers and maximizing revenues. EGNB had not previously implemented a rate rider. It is believed that the filing requirements that will be developed for EGNB will allow the Board to monitor the market more effectively, including the value of rate riders.

The Board will continue to monitor the natural gas market and may hold a generic hearing to review EGNB's ratemaking methodology and use of rate riders.

By Order of the Board

Lorraine Légère

Secretary to the Board