REPORT TO

THE NEW BRUNSWICK

ENERGY AND UTILITIES BOARD

WITH RESPECT TO

ENBRIDGE GAS NEW BRUNSWICK

PURCHASE AND SALE OF NATURAL GAS

DURING 2013

JOHN BUTLER P. Eng.

J.C. BUTLER MANAGEMENT LTD.

OAKVILLE, ONTARIO

JULY, 2014

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INTRODUCTION

The Gas Distributions Act, 1999 (the Act) governs the activities of Enbridge Gas New Brunswick Limited Partnership (EGNB) as the franchised distributor of natural gas (gas) in New Brunswick. The Act also sets out the mandate under which The New Brunswick Energy and Utilities Board (the Board) regulates the distribution activities of EGNB.

The Gas Distributor Marketing Regulation – Gas Distribution Act 1999 (GDMR) authorizes EGNB, as the franchised distributor, to purchase and sell gas in the Province. The GDMR also sets out the circumstances under which the Board may make any order or give any direction with respect to the purchase and sale of gas.

By Letter of Engagement (LOE) dated April 2, 2014 the Board engaged the writer, John Butler P. Eng. of J.C. Butler Management Ltd. to review and report on certain aspects of EGNB's activities during 2013 in the purchase and sale of gas in New Brunswick. The LOE is attached to this Report as Appendix "A" but for easy reference Sections A and B of the LOE, the Scope of Work and Provision of a Report, appear below.

"A. Scope of Work

The consultant will only be required to review such EGNB information as is necessary to determine whether or not the following occurred in 2013:

1. That EGNB, in relation to its standard offer, posted the following on its Internet site:
    - (i) The price that EGNB charged customers for gas in each of the preceding twelve months;
    - (ii) The price that EGNB was charging customers for gas for the current month; and
    - (iii) The price that EGNB was forecasting to charge customers for gas for the following twelve-month period:

2. That the term for EGNB's standard offer was for one year, and that for any customers who joined during the year, that their contract obligation was only for the balance of that year.

3. That EGNB calculated the price of gas under the Standard Offer for twelve month periods using:

   (i) EGNB's forecast average cost of purchasing and selling gas to customers over the following twelve months, and
   (ii) Any adjustment necessary to include the difference between the actual and forecast cost of purchasing and selling gas for the most recent month in which that difference could be determined.

4. That the revenues from gas sales under all alternative offers were equal to or greater than the cost to EGNB of purchasing and selling the gas required for such offers.

5. That any profit that resulted from the alternative offers did not flow to the Standard Offer customers.

6. That there was no cross-subsidization between the costs incurred in the purchase and sale of gas and those incurred in the distribution of gas.

7. That EGNB purchased gas for sale to customers in accordance with its current Gas Purchase Plan that has been filed with the Board.

8. That EGNB has complied with the Firewall Policy as ordered in a Board Decision dated November 13, 2009.

9. That EGNB has complied with all other Board orders and decisions related to the sale of natural gas in 2013.

The consultant is authorized to retain the services of an accounting consultant (to the extent required) for the following work:

1. To undertake any review/analysis of EGNB audited and regulatory financial statements to the extent necessary to provide comments on the allocation of gas and distribution costs.

2. To prepare summaries of EGNB's expenses and charges related to any areas where cross subsidy may occur and conduct such analysis as may be required to quantify the cross subsidy.

B. Provision of a Report

Following completion of this review, a written and electronic copy of the report will be provided to the Board on or before July 15, 2014. This report will describe the work that has been completed and the conclusions that have been reached. Any failure by EGNB to comply with any of the above requirements must be clearly identified and where possible, recommendations offered as to the action that should be taken.

This report will be a public document and will be available on the Board's website. No other documents or reports will be generated unless specifically requested by the Board."

In accordance with Section A of the above Scope of Work Mr. A. Logan C.A. of Teed, Saunders, Doyle, (TSD) was retained to:

1. Provide support with any financial issues, and
2. Review EGNB Financial Reports and identify areas where a cross-subsidy could arise from an inappropriate allocation of costs between the distribution of gas (regulated activities) and EGNB purchase and sale of gas (non-regulated activities).

Since Annual Reviews of EGNB gas purchase and sales activities have been carried out since 2004 the items in the Scope of Work have all been subjected to review in prior years and the results can be found in previous Reports. Needless to say changes in the gas market in Atlantic Canada, the economy, weather, and in EGNB have all resulted in a number of different issues being identified from time to time.

I can confirm that the comments, opinions and recommendations offered in this Report are those of the writer, based on my review and assessment of the information provided directly by EGNB/EUG personnel on the gas purchase and sales activities, by Mr. A. Logan with respect to possible cross-subsidy issues and by Board staff on EGNB responses to Board Order dated July 26, 2013.

Throughout this review, Paul Hamilton and other EGNB staff, were helpful and in general were available when required. Questions and concerns were dealt with promptly by email or phone prior to and after the visit to Fredericton and in person during the visit to Fredericton. Additional explanations, financial information or operating data were all provided within a reasonable time.

THE REVIEW

Background

As noted above EGNB holds the franchise for the distribution of natural gas in New Brunswick and, as the distributor, it also sells natural gas within its franchised area. Not only is EGNB effectively in competition with other Gas Marketers but under the Act it is also required to be the supplier of last resort for any consumer denied service by other marketers. EGNB is the name used for all distribution activities, gas purchases and for promoting the use of natural gas but the name Enbridge Utility Gas (EUG) is generally used for gas sales under both Standard Offer Price (EUG/SOP) and Alternative (or Alternate) Offers.

EGNB maintains a General Ledger (GL) for the accrual of all revenues and expenses related to EUG/SOP sales and a GL to accrue all revenues and costs related to sales under Alternative Offers. However, as both of these GLs are embedded in the EGNB accounting system all purchase and sale of gas activities are effectively operated as departments of EGNB.

Review Process

The Review Process followed the same pattern as in previous years with EGNB providing preliminary information related to its purchase and sale of gas activities during 2013. Requests for clarification of this information and for additional information were then forwarded to EGNB. The time required in Fredericton was reduced this year from 4 or more days to 3 days, from April 28th to 30th.

As noted in previous Reports access to reports and working papers with respect to EGNB Audited Financial Statements is no longer allowed. As a result Mr. Logan was required to perform additional work to reach a level of comfort for

2013 results similar to that previously achieved through access to reports and working papers related to the audited statements.

Most of the information required was obtained prior to and during the 3 day visit to Fredericton but some additional requests for clarification and/or information were handled by email and /or phone. Final answers were received by mid-July

As required by the LOE, Mr. Dave Young, a member of Board staff, was given access to all working papers, invited to all meetings required by this review and received copies of all relevant correspondence throughout the Review process.

Information on EGNB/EUG gas purchase and sales activities in 2013 that was provided by EGNB and confirmed by Mr. Logan, showed that revenue from Gas Sales had increased substantially, from $13.408 million in 2012 to $20.506 million in 2013, and the Price of Gas Variation Account (PGVA) increased from $85,011 on December 31, 2012 to $2.024 million as of December 31, 2013.

A brief outline of the review undertaken follows for each of the above Scope of Work items, together with my observations, conclusions and recommendations as deemed necessary.

Item A1 – Postings on EGNB Internet Site

The objective of this item is to determine when and if EGNB posted on its internet site the following information relating to the EUG/SOP:

(i) the price that EGNB charged customers for gas in each of the preceding twelve months;

(ii) the price that EGNB was charging customers for gas for the current month; and

(iii) the price that EGNB was forecasting to charge customers for gas for the following twelve month period:

The EGNB internet site includes (with slightly different terminology) the EUG/SOP rate charged for gas for each of the last twelve months; the price for the current month and the forecast price for the next twelve months. The prices required to satisfy (i) and (ii) above can be found in a table titled “Enbridge Utility Gas: Commodity Rate History”. This table shows the monthly EUG/SOP charged to all EUG customers for natural gas in each of the preceding twelve months and for every month since May 2003. The current month appears on this table and it was confirmed through EGNB and Board Staff that the EUG/SOP for the following month is posted as close to the first of each month as possible. Spot checks confirmed that the table was updated on or before the first of each month.

I am satisfied therefore that the information referred to in (i) and (ii) above was posted on the EGNB internet site throughout 2013.

The Enbridge Utility Gas: Commodity Rate History table also includes the following statement:

> “The Enbridge Utility Gas rate for the current month may change monthly, however it is also the forecast for the following 12 months based on conditions at this time.”

I am satisfied therefore that the information referred to in (iii) above was posted in a timely manner on the EGNB website throughout 2013.

Item A2 – Term of EGNB Standard Offer

The purpose of this item is to determine if the term for EGNB Standard Offer consumers (EUG/SOP customers) was for one year and if the obligation for those who start taking EUG gas part way through a year is only for the balance of that year.

Terms and Conditions of Enbridge Utility Gas Supply Service are posted on the EGNB website. These remain unchanged and Section 3, the section that deals with the term for EUG/SOP customers, is reproduced below.

> 3 "Term and Renewal
>
> **3.1** The initial term of your EUG Contract will commence on the initial date gas is provided by EGNB hereunder and terminate on the first March 31st following its commencement and any renewal term shall extend from April 1 to the following March 31st. EGNB shall advise you of all available gas supplier options no more than 90 days and no less than 60 days before the expiration of the initial term or any renewal term.
>
> **3.2** Unless you notify EGNB, in writing, at least 30 days before the initial term or any renewal term of your EUG Contract expires that you do not wish to renew, it will, at EGNB's option, automatically renew for a further one year period on the same terms.
>
> **3.3** Your EUG Contract shall also terminate on the earliest of: (a) the date on which it is terminated in accordance with its provisions; (b) the date gas supply and/or delivery is discontinued by EGNB for any of the reasons provided for in the Handbook; and (c) the date fixed by, or determined from, any Order of the Board as the date for its termination."

In addition to the above, discussions with EGNB personnel confirmed that standard offer (EUG) customers have a one-year term if service commences on April 1st but any customers who join part way through the year have an initial term that ends the following March 31st, with no renewal obligations.

I am satisfied therefore that the standard year for EUG/SOP customers is from April 1st to March 31st and that any customers who joined at other times during 2013 were only obligated to take service from EUG to the following March 31st.

Item A3 – EGNB Calculation of the Standard Offer Price

The question here is whether EGNB, in its monthly calculation of the EUG/SOP for the following twelve months, included the following:

a) EGNB's forecast average cost of purchasing and selling gas over the following twelve months, and
b) The most recent monthly actual difference between the incurred and forecast cost of purchasing and selling gas.

A3, a)

In order for EGNB to make its monthly calculation of the EUG Standard Offer Price (EUG/SOP) for the following twelve months it must forecast for each month; the demand for gas for all EUG/SOP customers, the cost of purchasing gas to meet that demand, all transportation costs, revenue from excess sales and administration costs. EGNB developed a model that produces the above forecasts with minimal input and this model has been in use for several years, with only minor revisions. The required inputs include: forecasts of annual demand for small to mid-size customer classes, for which EGNB uses past consumption for existing customers, plus demand forecasts for any new EUG customers expected to be added each month. Historical monthly demand for each class is used to allocate the annual demand by month over the following year. Demand for large volume classes is based on historical monthly demand for each customer unless specific forecasts are received from such customers. Cost of purchasing gas and the revenue from excess gas sales are based on forecasts of total demand forecasts, supply through contracts and spot purchases and forecasts of natural gas prices. Cost of transportation and revenue from excess gas sales are based on contracted supply each month, sale of excess gas and forecasts of purchase and selling prices. Also required by the model are the administration charges which include salaries that EGNB expects to charge EUG each month plus all other administrative items including travel, legal and consulting services.

EGNB personnel confirmed that no changes had been made to the above methodology or to the model during 2013. It was considered acceptable therefore that spot checks on the input data used by EGNB and the links between 2013 spreadsheets produced would provide confirmation that the methodology had been applied consistently.

In accordance with the Board Order dated July 26, 2012 EGNB forwarded to Board Staff information on the monthly calculation of the SOP for the balance of 2012. Discussions on these calculations therefore were held with EGNB personnel and Board Staff. As a result of those discussions and my review for this item I am satisfied that “the forecast average cost of purchasing and selling gas over the following twelve months” was included in the calculation of the EUG/SOP Price each month.

A3, b)

The actual difference between the incurred and forecast cost of purchasing and selling gas is determined by an EGNB model each month once actual revenues and costs are available from the EGNB accounts. This difference is accrued in the Price of Gas Variation Account (PGVA) and the balance in that Account is used in the following month’s calculation of the EUG/SOP price. EGNB also forecasts monthly PGVA balances for a further 11 months for use in calculating subsequent monthly EUG/SOPs.

The review of the EGNB model showed that the actual PGVA balance for each month appears two months later in the calculation of the EUG/SOP. The two month delay was necessitated by the time required to accumulate actual revenues and costs for each month. This two month delay was maintained throughout 2013.

I am satisfied, therefore, that during 2013 the calculation of the monthly EUG/SOP price included the most recent actual difference between the incurred and forecast cost of purchasing and selling gas.

As noted earlier herein the PGVA increased during 2013 from $85 thousand to $2.049 million and it is understood that as of June 2014 it exceeded $6 million. It is evident that since the GDMR only permits recovery of the PGVA over a 12 month period an elevated PGVA will cause problems for some time. This, plus the EUG sales profile will result in the EUG/SOP also being above market prices for a prolonged period which may cause customers to leave EGNB, further exacerbating the situation.

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Recommendation

It is recommended that the Board consider ordering a study that will examine the future gas market in Atlantic Canada including expansion of pipelines and other potential sources of supply in order to forecast the potential impact on market prices under normal and adverse weather conditions. The terms of reference might also include the impact of the Act and the GDMR on the EUG/SOP and price signals to New Brunswick consumers.

Item A4 – EGNB Alternative Offers

This Item requires the review to test that the total revenues from gas sales under all alternative offers was equal to or greater than the total cost to EGNB of purchasing and selling the gas required for such offers.

The total revenues from Alternative Offers and the total costs allocated by EGNB to alternative offers during 2013 were first reviewed for accuracy and for possible cross subsidy with SOP sales. The Review found no evidence of any cross subsidy and as EGNB had used the same methodology as in 2012 both Total Revenue and Total Expenses were accepted as accurate and no cross-subsidy was found between Alternative Offer and SOP.

As noted in my Report for 2012, EGNB had failed to meet the above test in that year since Total Expenses for Alternative Offers had exceeded Total Revenues by $1.06 million. It was also noted that Enbridge Gas Distribution (EGD), EGNB's parent company, had agreed to cover the shortfall.

In response to EGNB's failure to meet the above test in 2012 a Board Order was issued dated July 26, 2013. Details of that Order can be found in Item 9 below. In that Order the Board found that EGNB had not complied with Section 4.1 of the GDMR but accepted that the payment by the parent company brought it into compliance "…as much as is practical". It also found that EGD's payment of the shortfall "…provides the most practical solution to this issue…"

Appendix "B" to this Report is a copy of the annual one-page summary filed with the Board by EGNB to show the overall result of alternative offer sales in 2013. Comparing 2013 results to those for 2012 showed that alternative offer sales volumes decreasing in 2013 by 441.9TJs to 1,963.7TJs and revenues increasing by $2.665 million. However, as expenses increased by $7.218 million the overall result was that total expenses exceeded total revenues by $5.613 million.

The above shows that in 2013 revenue from gas sales under all alternative offers was not equal to or greater than the cost to EGNB of purchasing and selling the gas. As in 2012 EGNB failed to meet the above test but, as in 2012, EGD agreed to cover the shortfall. A journal entry confirmed that gas sales had been increased by $5.613 million and retained earnings debited by the same amount.

A review of the gas market in Atlantic Canada during 2013 indicated that most of the conditions that caused the EGNB shortfall in 2012 were present throughout 2013. No changes in conditions were noted that would justify a recommendation to the Board to change its approach from that taken in its Order dated July 26, 2013.

Some comfort may also be found in EGNB's decision to discontinue Alternative Offers. See Item 9 below. As a result this issue should not arise again after October 31, 2014.

Recommendation

It is recommended therefore, that the Board should find that the payment of the shortfall by EGD provides the most practical solution to this issue and that it brings EGNB into compliance as much as is practicable.

Item A5 – Disposition of Profit from Alternative Offers

The review for this item is to determine whether or not any profit from sales under Alternative Offers flowed to Standard Offer customers.

As there were no profits from sales under Alternative Offer customers in 2013 it is obvious that none could have flowed to Standard Offer customers.

Item A6 – Cross Subsidy

This item required a review of both EGNB and EUG Accounts to identify any potential cross-subsidy that might have occurred between the two during 2013. Mr. A. Logan first undertook an overview of EGNB audited and regulatory financial statements and met with EGNB staff as necessary for further clarification or to obtain additional information. More detailed analysis was carried out on accounts where a potential for cross-subsidy was identified.

One such account was the salary allocation to EUG. The concern was that allocation factors have remained the same in recent years whereas in 2013 the total revenue from EUG sales had increased significantly. As a result the validity of the current allocation was questioned and a more detailed review undertaken.

It should be noted that when allocation factors were originally developed total revenues were small and of little significance. EGNB already had a fully operational distribution system so it was relatively easy to identify the incremental costs imposed on EGNB when the purchasing and sales of gas activities were added. The time required for personnel to complete the various new tasks seemed a logical approach. Initial estimates showed that these tasks could require one person almost full time, another about 25% of their time plus a number of people who would spend only one to three hours a month on these tasks. From this it was concluded that any attempt to be precise, such as requiring timesheets and the additional work to process them, would be counterproductive.

It was ultimately concluded that the simplest method of allocating salaries to EUG would be to use allocation factors based on the salaries of the Gas Supply Specialist (GSS) and the Manager, Corporate Services (MCS) since these would spend up to 90% and 25% respectively of their time on EUG matters. Allocation factors of 100% for the GSS and 50% for the MCS were then recommended with the differences between allocation factor and actual time spent covering other EGNB personnel who had minimal involvement with EUG.

The Table below shows Revenues, Number of Clients or Customers and the throughput or sales volumes for sales under Standard Offer Pricing and under Alternate Product Offers for 2011, 2012 and 2013. It is evident that although revenues increased significantly in 2013 the number of clients or customers and the sales volumes was relatively constant over the three-year period. It appears, therefore, that the increased revenue in 2013 was solely due to increases in the cost of gas. That the number of clients and the sales volumes remained relatively constant over the three year period and that no additional personnel were required for EUG matters also supports the retention of the current salary allocation to EUG.

	SOP Customers				Alternate Product Customers				TOTALS		
	Revenue	Clients	Sales		Revenue	Clients	Sales		Revenue	Clients	Sales
	(M$)		(TJs)		(M$)		(TJs)		(M$)		(TJs)
2011	5,614	6,330	798.8		7,633	1,382	1,787.9		13,247	7,712.	2,586.7
2012	4,602	6,666	808.5		8,806	1,267	2,405.6		13,408	7,933	3,214.1
2013	9,035	7,520	1,013.3		11,471	464	1,963.7		20,506	7,984	2,977.0

It was confirmed, however, that the cost to EGNB of the total compensation package per employee is no longer salary plus benefits of between 3% and 4% (considered to be immaterial) and is now salary plus benefits of 13.97 % plus variable payments under a Short Term Incentive Plan (STIP). EGNB accepted that at 13.97% the benefits can no longer be considered immaterial and, subject to Board approval, they should be included as part of salary.

The STIP requires individuals to choose objectives they believe are achievable and that will benefit EGNB. It is understood that individuals generally select objectives that relate to the individual’s role in the company or to safety matters. Since it appears likely that only the GSS will choose objectives that relate to gas purchase and sales EGNB has agreed that, subject to Board approval, only STIP payments to the GSS should be allocated to EUG.

In addition to the more detailed review of Salary Allocation, Mr. Logan also carried out more detailed reviews of the Recovery on Excess Purchased

Gas, the EAESI Retainer Charge (SLA from EOS), the LUF Account and the ABC Billing expense in relation to customer counts. Except for Salary Allocation, Mr. Logan was able to resolve all issues and concerns through discussions with EGNB staff.

Other than the above comments on Salary Allocation, I can confirm that no cross-subsidy was found between gas purchase and sale activities (non-regulated) and gas distribution operations (regulated) in EGNB's 2013 Accounts.

Recommendations

It is recommended that the Board approve Salary Allocation factors of: 100% of the GSS salary plus benefits and STIP payments and 50% of the MCS salary plus benefits effective either January 1, 2013 or, since the overall impact may be considered as minimal, January 1, 2014.

Since changes in the Alternative offers and in the gas market can affect the personnel requirements and the way EGNB purchases gas it is recommended that the Board consider including Overhead Allocation (including salaries) into the study referred to under A3,b) above. Terms of reference could include instructions to examine opportunities for improving purchasing and/or contract administration.

Item A7 – Current Gas Purchasing Plan

For this Item the Board requires confirmation that gas sold to EGNB customers during 2013 had been purchased in accordance with the Current Gas Purchasing Plan (CGPP). The CGPP was filed by EGNB in response to a Board Decision dated November 13, 2009 and it includes principles and plan for gas purchasing as well as forecasts of customer numbers and volumes for each year from January 2010 to December 2014. As EGNB Gas Purchase Plans are required to be confidential this limits the information that can be included in this report. However, in order to provide some understanding of the problems and concerns the inclusion of the following information has been approved.

The following Principles or objectives were included in both the original Gas Purchase Plan and the CGPP as requirements for gas purchases:

a) Provide security of supply to its customers;
b) Offer a price that reflects market conditions in Atlantic Canada; and
c) Minimize EGNB's financial exposure.

As noted in my 2012 report both EGNB and the gas supply market in Eastern Canada and the USA have undergone significant changes since the CGPP was filed with the Board. EGNB had downsized significantly and problems with the gas supply from Sable Island and Deep Panuke forced EGNB to purchase gas from any available source, usually at prices significantly higher than forecast.

To compare to 2012 to 2013 an overview was required of the supply sources in Eastern Canada and the USA as well as the pipelines that connect supply to market, both existing and planned. This indicated that the problems with supply into New Brunswick continued into 2013 and will probably continue for several years. EGNB has been dealing with these problems to the best of its ability by diversifying supply to include sources such as Algonquin, NYMEX and Empress.

It has been noted, however, that any contract with index-based pricing may fail to comply with Principles b) and/or c) at the time the gas is actually purchased. This may result from weather and/or other market events but any event the increased the cost to EGNB can affect compliance with c). Also the GDMR requirement that differences between actual and forecast cost of purchasing and selling gas must be recovered or repaid over the following 12 months can result in incorrect price signals which could violate Principle b).

Another concern has been that forecast demands in the CGPP have not been realized. EGNB downsizing and the reduced emphasis on expansion of services may be responsible but the result is that these forecasts appear to be of little value in planning gas purchases.

My overall conclusion is that the gas supply contracts negotiated by EGNB during 2013 were all in accordance with the CGPP and/or the Principles therein but concerns have surfaced with respect to the CGPP.

Recommendation

In view of the many uncertainties with respect to future developments in the gas market in New Brunswick it is recommended that the Board require EGNB to file a new Gas Purchase Plan that will explicitly recognize current market conditions and changes that are likely to occur (new pipelines already scheduled or proposed and any potential new sources of supply) and also any other changes that could affect gas purchasing, such as the end of current franchise agreement.

In developing the new GPP EGNB should ensure that gas purchasing process, principles and/or objectives are compatible with the GDMR or at least identify possible conflicts and offer suggestions for resolution.

Item A8 – The Firewall Policy

The objective of the review of this was to determine if, during 2013, EGNB had been in compliance with the Firewall Policy that the Board had ordered implemented in its Decision dated November 13, 2009.

EGNB personnel confirmed that the same practices that had been in place for the last few years continued in place during 2013. Appendix “C” is a copy of the email sent on March 6, 2013 to relevant employees by Lori Stickles, Manager, Corporate Services, for EGNB. Ms. Stickles confirmed that all those who received the email have now responded. It is evident therefore, that the relevant employees have been reminded of this Policy and the need to ensure compliance.

It was noted however, that this email differs from the email sent to these same employees in 2012 in that the sentence “For your reference, a complete copy of the Firewall Document can be found on the company’s shared drive at Q:\Regulatory Documents\EGNB Firewall Document.doc..” has been removed. It is understood that EGNB is in process of relocating this Document to an employee website where it can be accessed by all employees.

Based on the above I am satisfied that EGNB continues to comply with the Firewall Policy as ordered in the Board Decision dated November 13, 2009.

Item A9 – Compliance with Board orders

This Item required that the review determine whether or not EGNB had been in compliance with any Board orders and/or decisions related to the sale of gas that were issued in 2013,

Only one such Order was identified and it was dated July 26, 2013. This Order was in response to the filing with the Board of a Financial Report for 2012 filed by EGNB in March 2013 and my Report dealing with the Purchase and Sale of Gas in 2012 that was filed on June 19, 2013. In this Order the Board found as follows:

1. EGNB did not comply with Section 4.1 of the GDMR by failing to obtain revenues from (alternative offer) gas sales equal to or greater than EGNB’s cost of purchasing and selling gas.

2. The non-compliance referred to in Paragraph 1 has been brought into compliance as much as is practicable by the payment of the shortfall by EGNB's parent company. The Board finds that the payment by EGNB's parent company provides the most practical solution to the issue and such payment has now been made.
3. EGNB was in compliance with the remaining sections of the GDMR, including the prohibition on cross-subsidy between gas sales and gas distribution and relevant Board orders.

The Board also included three Orders directed to EGNB. The first required that EGNB file a proposal with the Board to ensure compliance with Section 4.1 in 2013 and future years.

EGNB filed its proposal in the form of a letter in which it outlined the short and long term measures it had taken to mitigate the problem. It also stated that all alternative offers would be terminated effective October 31, 2013, except for one existing contract that does not expire until October 31, 2014.

The second Order required quarterly filings by EGNB of certain sales reports with forecasts to year-end and plans to ensure compliance. The third Order required EGNB to file each month copies of the price calculations plus other relevant information for Standard Offer Gas.

EGNB provided a copy of the proposal letter and the quarterly and monthly filings by EGNB. Discussions were also held with EGNB and Board staff with respect to the adequacy of these filings. Board Staff ultimately confirmed that EGNB has complied with the above three Board Orders.

I am satisfied therefore, that EGNB was in compliance with all Board orders and decisions related to the sale of gas.

Overall Conclusion

The above provides an overview of the review undertaken for each Item in the Scope of Work together with my comments, conclusions and recommendations where appropriate.

Of major concern are the problems created by the supply shortfall from Sable Island and Deep Panuke. While recognizing that there are a number of projects either planned, proposed or in progress that will help the situation it is difficult to understand how these will affect the ability of EGNB to purchase gas on a year by year basis. It is for this reason that I have recommended a study that will assist the Board in understanding the problems and possible short and longer term solutions.

With respect to 2013 results I can confirm that, with the exception of the gas pricing concerns described in Items A4 and A7, and the Firewall Document concern in A8, it is my view that EGNB was in compliance during 2013 with all of the remaining Items included in the Scope of Work.

J.C. BUTLER MANAGEMENT LTD.

Signed by J. C. Butler P. Eng.
In Oakville, Ontario on July 16, 2014

APPENDIX A

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April 2, 2014

VIA TELECOPIER: (905) 842-8314

Mr. John Butler, P.Eng.
J.C. Butler Management Ltd.
2131 Pineview Dr.
Oakville, ON L6H 5M8

Dear Mr. Butler:

Re: Review of Enbridge Gas New Brunswick Limited Partnership Gas Sales for 2013 (Matter # 244)

The New Brunswick Energy and Utilities Board (Board) will be conducting a review of the natural gas purchases and sales by Enbridge Gas New Brunswick Limited Partnership (EGNB) for 2013.

As part of this review, the Board intends to retain the services of J.C. Butler Management Ltd. (consultant) to review EGNB's gas purchases and sales, based on the following terms and conditions:

A. SCOPE OF WORK

The consultant will only be required to review such EGNB information as is necessary to determine whether or not the following occurred in 2013:

1) That EGNB, in relation to its standard offer, posted the following on its internet site:

   a. The price that EGNB charged is customers for gas in each of the preceding 12 months;
   b. The price that EGNB was charging customers for gas for the current month; and

…/2

   c. The price that EGNB was forecasting to charge customers for the following twelve-month period.

2) That the term for EGNB's standard offer was for one year, and that for any customers who joined during the year, their contract obligation was only for the balance of that year.

3) That EGNB calculated the price of gas under the Standard Offer for twelve-month periods using:

   a. EGNB's forecast average cost of purchasing and selling gas to customers over the following twelve months, and
   b. Any adjustment necessary to include the difference between the actual and forecast cost of purchasing and selling gas for the most recent month in which that difference could be determined.

4) That the revenues from gas sales under all alternative offers were equal to or greater than the cost to EGNB of purchasing and selling the gas required for such offers.

5) That any profit that resulted from the alternative offers did not flow to the Standard Offer customers.

6) That there was no cross-subsidization between the costs incurred in the purchase and sale of gas and those incurred in the distribution of gas.

7) That EGNB purchased gas for sale to customers in accordance with its current Gas Purchase Plan that has been filed with the Board.

8) That EGNB has complied with the Firewall Policy as ordered in a Board Decision dated November 13, 2009.

9) That EGNB has complied with all other Board orders and decisions related to the sale of natural gas in 2013.

The consultant is authorized to retain the services of an accounting consultant (to the extent required) for the following work:

1) To undertake any review/analysis of EGNB audited and regulatory financial statements to the extent necessary to provide comments on the allocation of gas and distribution costs.

…/3

2) To prepare summaries of EGNB's expenses and charges related to any areas where cross subsidy may occur and conduct such analysis as may be required to quantify the cross subsidy.

B. PROVISION OF A REPORT

Following completion of this review, a written and electronic copy of the report will be provided to the Board on or before July 15, 2014. This report will describe the work that has been completed and the conclusions that have been reached. Any failure by EGNB to comply with any of the above requirements must be clearly identified and where possible, recommendations offered as to the action that should be taken.

This report will be a public document and will be available on the Board's website. No other documents or reports will be generated unless specifically requested by the Board.

C. ATTENDANCE AT HEARINGS

The consultant may be required to attend and testify at a public hearing and will be expected to answer any questions related to his report and the work that was completed.

D. POINT OF CONTACT

During the term of this retainer, the consultant’s primary contract with be David Young who can be reached at (506) 658-2504. Mr. Young must be allowed access to all working papers and to accompany the consultant while completing the above Scope of Work, and to be informed as to all information obtained from EGNB during the course of the review.
Should there be any questions regarding procedural issues, the consultant may wish to contact Board Counsel to provide direction or assistance. Counsel may be reached at (506) 643-7431.

E. WORKING PAPERS

The consultant’s working papers must be retained for at least 18 months.

F. OTHER ENGAGEMENTS

It is understood that the consultant will not take any other engagement that would give rise to a conflict of interest

…/4

G. Costs

It is understood that the work as described in this retainer agreement will be paid for at the consultant's negotiated rate. Reasonable costs and travel disbursements incurred by the consultant will be reimbursed by the Board.

It is understood that the commencement of the consultant’s engagement for this retainer was March 17, 2014.

It is understood that the consultant will contract directly with the accounting consultant. The fees for those services are estimated to be approximately $11,500 and $1,200 for expenses. It is agreed that these costs will be passed through to the Board without markup.

Any additional or unforeseen costs that the consultant may incur require prior approval by the Board.

Kindly indicate your acceptance of these terms by providing your consent below. Should you have any further questions, please do not hesitate to contact me at (506) 658-2504.

Yours truly,

Original Signed by Mr. R. Gorman

Raymond Gorman, Q.C.
Chairman

The Consultant understands and agrees to the terms of this retainer.

Dated the 2nd day of April, 2014.

Original Signed by Mr. J. Butler

John Butler, P.Eng.
J.C. Butler Management Ltd.

Enbridge Gas New Brunswick
Financial Report for Regulatory Purposes
For the year ended December 31, 2013

APPENDIX B

	EUG Alternate Offers		
Revenue	(in thousands of dollars)		
Gas Sales	Revenue YTD	Customers YTD	Throughput TJs YTD
Small general service (SGS)	$566	233	89.8
Mid-General service (MGS)	$618	115	97.3
Contract General Service (CGS)	$1,761	25	291.3
Large General Service (LGS)	$1,448	85	234.7
Industrial Contract General Service (ICGS)	$7,077	6	1,250.7
Off-Peak Service (OPS)	-		
Total	$11,471	464	1,963.7
Expenses			
Commodity	$15,835		
Transportation	$1,139		
ABC Billing	$25		
Administration	$84		
Total	$17,083		
Revenue variance from Alternate Offer gas sales	$5,613		

Notes: Net proceeds from gas sales (above) is used to establish that annual gas costs do not exceed revenue as required under section 4.1 of the Gas Distributor Marketing Regulation - Gas Distribution Act, 1999

Monthly 2013 EUG alternate offer price ($/GJ):	**Off-Peak**	**Variable Product ("EVP")**	**Fixed Price**
January	$4.39	$5.34	$6.50
February	$4.25	$12.90	$6.50
March	$4.30	$13.26	$6.50
April	$4.96	$7.53	$6.50
May	$5.08	$5.79	$6.50
June	$6.04	$6.53	$6.50
July	$5.69	$6.19	$6.50
August	$5.31	$5.80	$6.50
September	$5.56	$6.06	$6.50
October	$7.32	$7.32	$6.50
November	N/A	N/A	N/A
December	N/A	N/A	N/A

APPENDIX C

Enbridge Gas New Brunswick
Enbridge Gaz Nouveau-Brunswick

Date: March 6, 2013

To: Employees who regularly interact with customers and/or potential customers

From: Lori Stickles

Re: **EGNB Firewall Policy – Awareness and Compliance**

As directed by the New Brunswick Energy and Utilities Board, EGNB maintains a Firewall Document which addresses the sharing of customer information within EGNB. Management wishes to continue to ensure that all employees, who interact directly with customers and/or potential customers, have a clear awareness and understanding of EGNB's Firewall Document. As part of this effort, this summary was prepared for annual review and sign-off.

Background
The Firewall Document was created in 2003 when EGNB gained approval to offer Enbridge Utility Gas ("EUG"). At that time, natural gas marketers expressed concern that EUG would have an unfair market advantage over them if given access to specific customer information by the utility. As a result, EGNB put the "firewall" in place to ensure no EUG employee had access to the following customer information:

- **a)** A customer's price category;
- **b)** The end date of a customer's contract with a gas marketer; and
- **c)** A customer's monthly price.

In addition, EGNB employees who interact directly with potential natural gas customers or customers who have not chosen a natural gas marketer must **not** show bias towards EUG or one particular marketer over any other. If, after reviewing this memo and/or the Firewall Document, you have any questions please feel free to contact me directly.

Acknowledgement
Please confirm by return email that you have understood this memo and know how to ensure you comply with EGNB's Firewall Document. As part of the body of your return message, please indicate that you have reviewed this memo and intend to comply with the requirements and spirit of EGNB's Firewall Document. **Please respond on or before March 15, 2013.**

I appreciate your assistance in this matter.

Sincerely,

Lori Stickles
Manager, Financial Services
Enbridge Gas New Brunswick