DECISION

IN THE MATTER of an application by Enbridge Gas New Brunswick Inc. for changes to 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 Vehicle Fueling Rates

March 31, 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. for changes to 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 Vehicle 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 Bulter – Consultant
	Ellen Desmond – Counsel
City of Saint John	William Edwards – Commissioner, Buildings and Inspection Services
	Samir Yammine – Energy Manager
Competitive Energy Services	Jon F. Sorenson – Partner

Enbridge Gas New Brunswick Inc.	Andrew Harrington – General Manager Shelley Black – Manager, Regulatory Affairs & Upstream Mark Butler – Manager, Business Development Len Hoyt - Counsel
Flakeboard Company Limited	Barry Gallant – Manager of Finance and Purchasing Gerald M. Lawson – Counsel
Maritime Natural Gas Pipeline Contractors Association Inc.	David Ross - Secretary

Enbridge Gas New Brunswick Inc. (Enbridge) filed an application with the New Brunswick Board of Commissioners of Public Utilities (the Board) dated November 22, 2004, for approval of changes to its 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 Rates (NGVF).

Rates for OPS and CLVOPS are set at 75% of the GS and CGS rates respectively. The NGVF rate is set at 100% of the GS rate. No change to these percentages was made in the application.

Enbridge applied for an Order under Section 52 of the Gas Distribution Act, 1999 (the Act), to change the Distribution Rates for the SGS, GS, CGS, OPS, CLVOPS and NGVF classes that had been approved on April 30, 2004 and for the LFO class that had been approved on July 19, 2000. Section 52 of the Act provides the Board with the authority to make an order approving or fixing just and reasonable rates for the distribution of gas. The application requested approval of the proposed rates to be effective on February 1, 2005.

A public notice of the application, dated November 25, 2004, advised parties who intended to intervene, that they must register with the Board by noon, January 4, 2005. The notice stated that the Board intended to proceed by way of a written proceeding but that any party who considered that the public interest would be better served by an oral hearing, was directed to provide their reasons in writing to the Board and Enbridge with their notice of intervention.

A Pre-hearing Conference was held on January 6, 2005 to review the requests for intervenor status. Formal intervenor status was granted to the following parties:

- City of Saint John
- Competitive Energy Services

- Flakeboard Company Limited

Informal intervenor status was granted to the following parties:

- Department of Energy
- Fredericton Residential Properties Association
- Light House Self Storage
- Maritime Natural Gas Pipeline Contractors Association Inc.
- New Brunswick Natural Gas Association

The City of Saint John (the City) was the only party that requested an oral hearing of the application. The Board upon consideration decided to proceed by way of an oral hearing. It stated that the parties were representative of the gas marketplace that did not exist when the rate structure was first considered. The Board felt that it would prove beneficial to hear testimony concerning the positions of the parties. The formal intervenors advised they would be submitting evidence.

A hearing schedule was established that allowed formal intervenors and the Board to ask written questions of and receive responses from Enbridge on its evidence. As well, formal intervenors were required to respond to questions on their evidence from Enbridge, the Board or other formal intervenors. The hearing was set for March 17, 2005.

Enbridge’s application had requested that approval of changes in its rates be effective on February 1, 2005. Enbridge made a motion requesting the Board to approve an interim order to change rates effective February 1, 2005. The Board established a proceeding to hear that motion and in a separate decision dated January 31, 2005, it was denied.

The hearing was held on March 17 and 18, 2005. Written arguments were submitted on March 23, 2005 and comments on the written arguments were submitted on March 29, 2005.

INTRODUCTION

In a decision dated June 23, 2000, the Board had approved an application by Enbridge to use a market-based approach for setting its distribution rates during the development period. Enbridge stated it still considered that the market-based approach was best suited for the New Brunswick green-field marketplace and it used that same rate making methodology in this current application.

Market-based rates are based upon conditions existing in a local marketplace. The objective is to provide potential end users with an economic incentive to convert to natural gas. Market-based rates are not based on the cost of service to customers.

Enbridge's market-based approach was to set the distribution rates so that the total delivered price of natural gas for a customer would be less than the equivalent price for fuel oil. Rates are premised upon the burner tip cost of gas on an annualized basis for an average customer, being lower in general by a "targeted percentage" than the burner tip cost of fuel oil. The potential savings through use of target rates were intended to act as an economic incentive for customers to switch to natural gas.

Distribution charges vary by amount and type for different customer classes. The SGS and GS distribution rate classes include a fixed monthly customer charge and a delivery charge per giga-joule. The CGS and LFO distribution rate classes include an average monthly contract demand charge and a delivery charge per giga-joule.

Distribution rates may be adjusted annually based on approval of a general rate application by Enbridge. Rates may be reduced for a specific customer class throughout the year based on an application by Enbridge to the Board for approval of a rate rider. A rate that has been reduced by approval of a rate rider may be increased up to the rate approved by the Board for that customer class, upon approval of a rate reinstatement application by Enbridge.

ENBRIDGE

In its application, Enbridge proposed increases to its delivery charge rates for the SGS, GS, CGS and LFO classes. Further, the application included a reduction in the target savings for the LFO class from 15% to 10%. The proposed increase in rates for the LFO class was the first increase since Enbridge's initial rates had been approved in 2000.

Enbridge stated throughout the proceeding that through its market-based rates, it was attempting to strike a balance between providing sufficient economic incentive to a customer to convert to natural gas, while recovering as much of its costs as possible. Proposed distribution rates were calculated using forecasted future oil prices, typical annual consumption based on blended efficiencies and the Enbridge Utility Gas current 12-month forecast gas price.

Future oil prices for the period February 2005 to January 2006 were calculated using a *NYMEX 21-day average of closing prices*,from October 6, 2004 to November 5, 2004. Enbridge's response to the Board's interrogatory number 3, indicated that the *21-day average price* for each of the 30 days prior to October 6, 2004 and after November 5, 2004 was lower than the price used by Enbridge in its calculations, on all but one of the 60 days.

Enbridge submitted Exhibit A-5 at the hearing that updated its table used in calculating distribution rates. The exhibit, used as an example only, indicated that the forecasted cost of oil had increased while the forecasted cost of gas had decreased. Use of those costs would result in significantly higher distribution rates. Enbridge's purpose in providing the exhibit was to show that future prices for oil and gas will change both upwards and downwards.

Enbridge stated that it would adjust distribution rates downward through the use of a rate rider, if it believes that customer attachments were being negatively impacted by high prices or there was no economic incentive for customers to switch to natural gas.

CITY OF SAINT JOHN

The City uses gas at 14 different facilities and is subject to distribution rates for the SGS, GS and CGS customer classes. The City believed that it was a typical customer and that the target savings proposed by Enbridge for a typical customer in its rate calculations, could not be achieved. It concluded that the increase in distribution rates would be counterproductive and hinder new attachments.

The City purchases fuel oil through a purchasing arrangement with the Province of New Brunswick. It stated that its cost of oil is based on a monthly fixed rate and may vary depending upon the oil market. Propane is purchased under a bulk supply contract directly with a supplier. The City's price for furnace oil was 52.49 cents per litre for November 2004 decreasing to 46.59 cents per litre for February 2005 for all City buildings. Enbridge's forecast of future oil prices in its application were 63.66 cents per litre for the SGS customer class, 52.27 cents per litre for the GS customer class and 51.52 cents per litre for the CGS customer class. At the time of the hearing, the City was purchasing its gas supply from Enbridge Utility Gas.

The City indicated that it had converted ten facilities from propane to natural gas. In 2004 the City achieved an 11.4% savings at three of those facilities and over 20% savings at the remaining seven facilities. Savings of 25% and 35% were achieved at the two facilities converted from electricity in 2004 but no savings were achieved at the two facilities that had converted from oil to gas. Thirteen of the City's facilities are included in either of Enbridge's GS or CGS distribution rate class with targeted savings of 15% for the typical customer.

For 2005, the City is forecasting that its propane conversions will produce savings of 13.2% at seven facilities and an increase of 1.2% at the remaining three facilities. No forecasts were provided for the conversions from oil or electricity. The City did not provide future forecasts for oil prices beyond its current monthly fixed rate.

COMPETITIVE ENERGY SERVICES

Competitive Energy Services (CES) stated that it disagreed that Enbridge's proposed rates would represent a balance between an economic incentive for customer growth while recovering as much of its costs as possible. CES stated that Enbridge's methodology and computations contained errors and that the proposed rates would be counterproductive.

CES took issue with Enbridge's methodology and assumptions in determining efficiency factors used in forecasting distribution rates and argued that the efficiency factors were too low. As well, CES claimed that the capital costs for conversion should be included in a customer's analysis for conversion and that a target annual savings for a typical customer was not sufficient to justify a conversion.

CES disagreed with Enbridge's methodology in forecasting future oil prices and its approach to comparing fuel costs. They argued that oil and natural gas prices do not remain in the same proportion to each other at all times and this would affect forecast target savings. Also, CES stated that Enbridge had opted to choose the day upon which future oil prices were at their highest level over a sixty-one day period, resulting in higher target savings and higher distribution rates. CES stated that this methodology was unsound.

FLAKEBOARD COMPANY LIMITED

Flakeboard Company Limited (Flakeboard) stated that the proposed rate increase would be a significant deterrent to potential new gas customers. It felt the consequence of the increase would be that fewer customers would be present, in the future, to share in the recovery of Enbridge's costs. Flakeboard has converted part of its facility from propane and oil to gas and expects to complete the conversion in 2005. It stated that its projected savings compared to the cost of oil would have decreased from 16.7% in November 2004 to 6.3% in January 2005.

In an interrogatory response, Flakeboard estimated its cost of conversion for its plant to be about $2,200,000. If it achieved the proposed 10% target savings for the LFO class, it would recover its costs in about 2.2 years based upon savings from 2005 projected costs for oil and propane. Enbridge submitted Exhibit A-11 that provided a forecast of savings for Flakeboard for 2005 based on its anticipated full conversion, which indicated that the cost of conversion could possibly be recovered during the year.

DECISION

The Board has carefully considered the evidence, interrogatories, testimony and submissions presented by Enbridge, the City, CES and Flakeboard and it notes that energy prices have increased recently and become more volatile. Consideration has been given to the effects of the proposed distribution rate changes on existing and future gas customers as well as to the competitiveness of the gas sector against alternative energy choices.

The Board recognizes that Enbridge's rates are market-based and not based on the cost of service. Market-based rates are used to provide an economic incentive to customers to switch to natural gas from their current fuel. The gas market is still in the development period and Enbridge is unlikely to reach the point where its revenues will cover its costs for some time. During the development period Enbridge will not be profitable and its deferral account will continue to grow.

During the hearing, there was considerable debate concerning forecasts for future oil and gas prices and on the possible efficiencies that could be achieved by converting to natural gas. The City and Flakeboard provided evidence that varying levels of savings had been achieved from existing rates. The Board recognizes that future savings for any particular customer will be determined by the actual prices of fuel oil and natural gas, as well as by the specific operating circumstances of that customer.

Enbridge stated that its rates must continue to provide an economic incentive to customers to convert to natural gas while recovering as much of its costs as possible. All the parties expressed concern about the future of the market and the possible effects of a rate increase. The Board notes that the recent changes in market prices and volatility of both fuel oil and gas and the evidence of Enbridge, all suggest that the forecasts provided in evidence will almost certainly be wrong. For this reason the Board considers that Enbridge is in the best position to determine at any point in time if its rates are providing the required economic incentive to customers or if rates are too high and are a deterrent to attracting or maintaining customers. The Board expects Enbridge to use rate riders to reduce distribution rates if necessary, to allow the total cost of gas for customers to be competitive with other fuels.

The Board therefore approves the changes included in the rate application by Enbridge to be effective on April 1, 2005.

Dated at the City of Saint John this 31st day of March 2005.

David C. Nicholson, Chairman

Jacques Dumont, Commissioner

Diana Ferguson-Sonier, Commissioner

Brian Tingley, Commissioner