Written Direct Testimony of David B. Charleson and Jamie D. LeBlanc

Q 1: Please state your names and positions.

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

My name is Jamie Donald LeBlanc. I am the Manager, Finance and Control for EGNB. My Curriculum Vitae is attached as Exhibit A, Schedule 2.

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

A 2: The distribution rates charged by mature utilities are typically based on a Cost-of-Service ("COS") study and associated rate design. During the Development Period, EGNB's rates have been set using a market-based rates formula. EGNB recognized the need to understand the comparability of its market-based rates to COS based rates as a means of assessing the competiveness of its rates on a COS basis. EGNB believed that this was an important element of assessing whether the Development Period could end and began work in 2008 to develop an understanding of COS and a model that could be used on an ongoing basis.

In recent hearings, Intervenors have expressed concerns regarding the absence of a COS study and have argued that EGNB should file evidence regarding its COS. In the Board's March 20, 2009 decision regarding a Review of Matters Related to the Regulation of EGNB, the Board identified Cost Allocation and Rate Design as two of the issues that would need to be dealt with subsequent to a hearing regarding Development Period Issues. All parties in the Development Period Issues proceeding recognized the importance of a COS study for assessing future

rate setting, and in its December 1, 2009 Decision the Board directed EGNB "to file evidence on its cost of service, proposed customer classes, proposed rate design and the possible impacts of having different rate setting methods for different customer classes by January 15, 2010" (page 8). This evidence responds to this direction of the Board.

Q 3: What steps has EGNB taken in preparing its COS study?

A 3: As indicated above, EGNB began work in 2008 on its COS study. EGNB began to familiarize its staff on COS principles and concepts during the summer of 2008 to prepare itself for more detailed COS work in the fall. This included discussions with Enbridge Gas Distribution ("EGD") staff who were experienced in the COS used within EGD. Based on EGD's own experience, they recommended that EGNB work with Black & Veatch Corporation on developing a COS model. After discussions with Black & Veatch, EGNB began to work with them directly in the fall of 2008.

Based on Black & Veatch's input, EGNB began to collect and organize the information necessary to begin the preparation of a COS study. EGNB and Black & Veatch agreed that the use of 2008 actual information would provide the best starting point for developing allocation factors as EGNB could examine the details behind the actual results for the purpose of characterizing them. In the spring of 2009, Black & Veatch and EGNB completed a preliminary COS study based on the 2008 data. This study provided EGNB with insights regarding COS and served as a foundation for EGNB to build on in developing its ability to be self-sufficient in undertaking future COS studies.

During the summer of 2009, EGNB began preparing its 2010 Budget. As part of this process, EGNB undertook to prepare a 2010 COS study, using the 2010 Budget information adjusted to reflect operations as a mature utility, with some

support provided by Black & Veatch. Black & Veatch reviewed the output of this process in the fall of 2009.

2010 Budget

Q 4: You have indicated that EGNB's 2010 Budget was used as the basis for the COS study. Why was this used?

A 4: The 2010 Budget provides a full year (the test year) of information for the purpose of assessing COS. It provides EGNB's most current forecast of its costs and throughput, which are critical inputs to the COS. EGNB believes this is the most appropriate basis for considering the COS. EGNB believes that the use of forward looking information for 2010, and for subsequent years, will assist in the evaluation of the end of the Development Period, as identified in the Board's December 1, 2009 Decision.

Q 5: Has EGNB forecast any significant changes in its operations in 2010?

A 5: EGNB has not forecast any significant changes to its operations in 2010. EGNB will remain focused on the economic expansion of its business, while continuing to ensure the safe and reliable delivery of natural gas to its existing customers.

Q 6: Has EGNB made any changes to the manner in which it treats any of its costs in its budget for the purpose of the COS study?

A 6: Yes. As previously noted, the budget was adjusted to better reflect the revenue requirement as if EGNB were operating as a mature utility, which is consistent with the purpose of developing the COS study. In order to reflect mature utility operations, adjustments were made to the manner in which Installation Services ("IS") costs and revenues were included, and the amortization and recovery of the

Deferral Account was included. Also, it is assumed that there are no additions to the Deferral Account in 2010; as such additions would not occur when EGNB is able to operate as a mature utility. EGNB also assumed that when it operates as a mature utility there would be no further capitalization of development O&M costs. However, O&M costs associated with property, plant and equipment would continue to be capitalized as appropriate, where such costs represent expenses associated with additions to the distribution system; such as the initial meter installation costs that would normally be capitalized as meters.

Q 7: Why were adjustments necessary for IS?

A 7: EGNB expects that IS would be considered to be non-utility activity once mature utility status is achieved, where its costs and revenues would not form part of the utility revenue requirement. As a result, direct costs and other indirect costs associated with the operation of IS were removed from the COS revenue requirement. In addition, all IS related revenues were also removed.

Q 8: What amortization period has been assumed for the Deferral Account?

A 8: EGNB has assumed a 30 year amortization.

Q 9: What was the basis for assuming a 30 year amortization of the Deferral Account?

A 9: EGNB has assumed a 30 year amortization of the Deferral Account given that the January 21, 2005 Decision regarding the extension of the Development Period indicated that the Deferral Account was to be recovered through rates "between the end of the development period and a date no sooner than December 31, 2040" (page 6). A 30 year amortization would generally align with this time period if the Development Period were to have ended in 2010. EGNB has only used the 30

year amortization as a means of showing the impact on COS when the full costs are included.

Q 10: Is EGNB proposing that a 30 year amortization be used?

A 10: EGNB is not proposing a specific amortization period for the Deferral Account at this time as it is not an issue to be addressed in this proceeding. The recovery period for the Deferral Account is a matter the Board has identified to be addressed in another proceeding. The ultimate amortization period should not impact the manner in which the recovery of the Deferral Account is to be allocated to rate classes and as such does not need to be addressed in this proceeding.

COS Study

Q 11: Please describe the manner in which the COS study has been established.

A 11: EGNB has relied on the expertise of Black & Veatch to assist in the development of the COS study. Black & Veatch's evidence can be found at Exhibit B.

In their evidence, Black & Veatch outline their experience regarding COS and rate design. This evidence also provides a discussion on COS principles, the COS process, the results of the COS study, the principles of rate design that require consideration and how these have been translated in to the proposed rate classes under cost of service rates. In addition, Black & Veatch has included schedules that reflect the results of the COS study.

Q 12: How were the allocators that are used in the COS study determined?

A 12: There were three basic approaches used to arrive at the allocators used in the COS study, in order of preference: direct attribution; historic experience; and Black & Veatch's experience with other utilities.

Direct attribution of costs is the most desirable means of assigning costs to a class of customers. This is because direct attribution means that the costs were such that they could be identified with the class without allocation. In those instances where EGNB was able to establish a direct relationship between the cost and the customer class to be served, direct attribution was used. Given that forecast data was being used, and EGNB's operational activities are not typically targeted at specific customer classes, there were limited opportunities to assign costs on this basis. However, the assignment of incentives was determined in this manner. In cases where costs could not be attributed directly, EGNB looked at historic experience to determine the most appropriate allocation to be used for future costs. Bad Debt expenses are a good example where future costs are expected to generally trend in a similar manner to historic costs. In many instances, there was no direct attribution or historic experience that EGNB was able to rely on in establishing its allocation factors (e.g. cost of mains as they have not been tracked as being installed for any particular customer class). In these situations, EGNB relied on the expertise of Black & Veatch to recommend allocators based on their experience in cost allocations seen in other jurisdictions.

Details regarding each of the allocators can be found in Exhibit A, Schedule 3.

Q 13: How is EGNB proposing that the Deferral Account be allocated?

A 13: EGNB is proposing that the Deferral Account be allocated based on the allocation of total distribution plant. This allocation was arrived at based on input from Black & Veatch and their experience in determining cost allocations based on cost

causation. Growth in the Deferral Account has occurred due to shortfalls in revenues against the revenue requirement during the Development Period. Since the revenue requirement is driven by the development of the distribution system, EGNB believes it is logical that the Deferral Account be allocated to rate classes on the same basis as the distribution system costs that support the customers and throughput that has been attached.

By allocating the Deferral Account based on the allocation of overall distribution plant, the majority, or 80%, of the Deferral Account is proposed to be allocated based on the number of customers, with the remaining 20% to be allocated based on demand.

Q 14: Is EGNB proposing that Development O&M be allocated on the same basis?

A 14: Yes. EGNB believes that since Development O&M costs have arisen from costs incurred in support of growing EGNB's customer base and developing the requisite distribution system to serve these customers, it is logical that Development O&M be allocated on the same basis as the Deferral Account.

Rate Design

Q 15: What rate classes is EGNB proposing be used when it is able to operate as a mature utility?

A 15: EGNB currently uses ten rate classes: Small General Service Residential Electric ("SGSRE"), Small General Service Residential Oil ("SGSRO"), Small General Service Commercial ("SGSC"), General Service ("GS"), Contract General Service ("CGS"), Contract Large General Service LFO ("CLGS-LFO"), Contract Large General Service HFO ("CLGS-HFO"), Off Peak Service ("OPS"), Contract Large Volume Off Peak Service ("CLVOPS") and Natural Gas Vehicle Fueling

("NGVF"). EGNB is proposing that these be replaced by the following six rate classes:

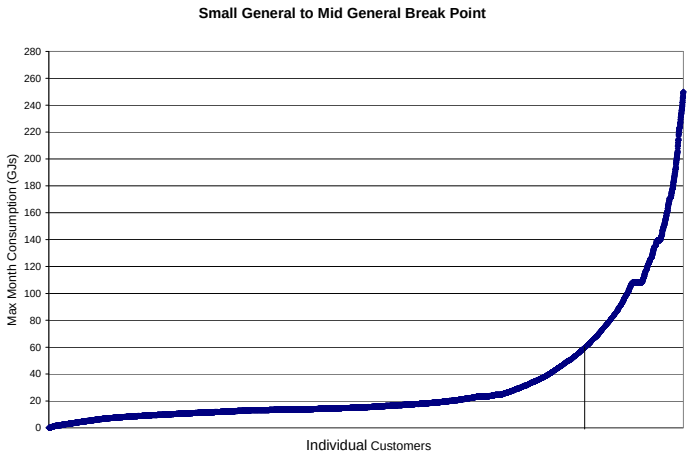
- Small General Service;
- Mid General Service;
- Large General Service;
- Contract General Service;
- Industrial Contract General Service; and
- Off Peak Service.

EGNB is proposing that the existing CLVOPS and NGVF rate classes not be factored into the rate design at this time as there are no existing customers taking service under the existing rates. As a result, EGNB is unable to attribute any costs of its operations to these services. If demand for either of these services is identified in the future, EGNB would look to bring forward a rate proposal to address this demand at that time.

The six proposed rate classes were arrived at through an analysis of EGNB's 2008 actual customer consumption to determine reasonable breakpoints for the purpose of establishing rate classes. Each customer's maximum monthly consumption, which was used as a proxy for design day demand, was identified and customers were then grouped into blocks of 10 GJ increments. The number of customers in each of these blocks was then determined and breakpoints were determined where a lower number of customers fell, to reduce the risk that customers will need to move from one class to another. To support this analysis, consumption levels where a different size of meter is typically installed were also examined. A final input to the assessment was a desire to establish the breakpoints at relatively even breakpoints (e.g. even 10s, 100s or 1,000s), especially in the larger customer classes, as doing so would make the breakpoints easier and more logical for

customers to associate with and recall than an irregular number (e.g. 10,087 for Industrial Contract General).

Once the breakpoints were established, EGNB and Black & Veatch tested the reasonableness of the breakpoints by plotting the maximum consumption for a range of customers (e.g. 0 – 250 GJs to assess the Small General breakpoint). The breakpoint was then examined on the curve to determine if it intersected with the maximum consumption curve in proximity to where the slope of the curve began to increase more significantly. An example of this analysis for the Small General Service rate class is shown below.

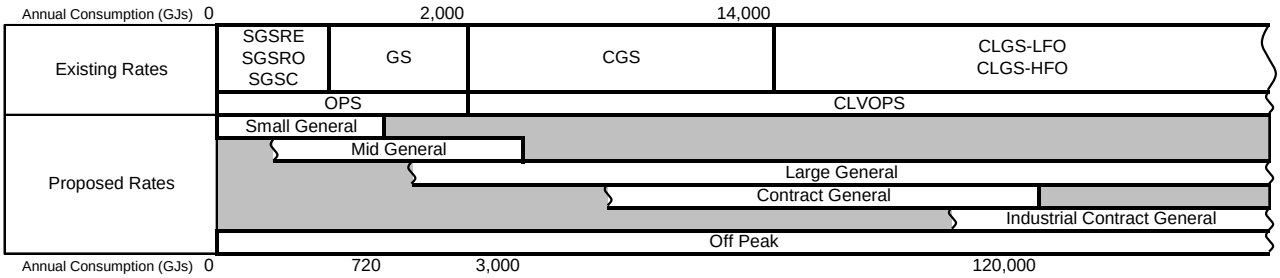



EGNB believes that, based on the analysis conducted, the proposed rate classes provide an appropriate grouping of customers for the purpose of establishing distribution rates.

Q 16: How do the proposed rate classes compare to the current rate classes being utilized by EGNB?

A 16: Since the fundamental basis for the proposed rate design differs significantly from the current rates, it is difficult to compare the rate classes. The eligibility criteria

for the current rates looks at annual consumption and, in the case of the SGSRE, SGSRO, CLGS-LFO and CLGS-HFO rate classes, the fuel used prior to converting to natural gas. The eligibility criteria for the proposed rates focus more on the peak demand requirement of the customer, using their maximum monthly consumption as the basis for determining the applicable rate. Recognizing this difference, the diagram below provides a general indication of how the proposed rate classes compare to the current rate classes:




**Note:** minimum for Proposed Rates based on review of existing customers mapped to the class, maximum is based on 12 * maximum monthly consumption

As shown, the proposed rate classes result in the break points between classes being adjusted, with the smallest class now including customers with a maximum monthly consumption less than 60 GJs / month, which equates to a maximum annual consumption of 720 GJs (60 GJs * 12 months), from the current maximum of 400 GJs / year for the smallest classes. The Mid General Service class is proposed to include customers with a maximum monthly consumption from 60 GJs / month to less than 250 GJs / month, which equates to a maximum annual consumption of 3,000 GJs. The Large General Service class is proposed to be available to customers whose maximum monthly consumption is at least 250 GJs. However, since there is no minimum monthly consumption, customers with similar annual consumption may be eligible for different rate classes as their peak demand requirements may differ.

EGNB also proposes similar changes for its contract rate classes. Two contract rate classes are proposed. The Contract General Service class for customers with a maximum monthly consumption of at least 1,000 GJs / month and less than 10,000 GJs / month, which equates to a maximum annual consumption of 120,000 GJs, and the Industrial Contract General Service rate class for customers with a maximum monthly consumption that is at least 10,000 GJs / month.

Q 17: Why is EGNB proposing that the Large General Service rate class have no maximum consumption?

A 17: EGNB believes that a rate class should be available to all customers that does not require them to enter into a service contract with EGNB; as required by the Contract General Service and Industrial Contract General Service rate classes. While EGNB believes that customers with qualifying consumption for those rate classes will take advantage of those rate classes, it believes that it is appropriate to provide an option for customers not interested in entering into and having to satisfy the obligations of such a contract.

Q 18: How does EGNB propose that the rates within its proposed rate classes be structured?

A 18: EGNB is proposing the following rate design for the proposed classes:

- Small General Service – EGNB proposes that this rate class have a customer charge and a single distribution rate that is applicable to all consumption by customers within this rate class.

- Mid General Service – EGNB proposes that this rate class have a customer charge and a three block rate structure, with the first block rate being applicable to the first 5 GJs of consumption within the month, the second

block rate being applicable to the next 55 GJs of consumption within the month, and the final block rate being applicable to the remainder of the consumption within the month.

- Large General Service – EGNB proposes that this rate class have two distinct customer charges, one for customers with small meters and the second for customers with larger meter sets. In addition, EGNB proposes that a three block rate structure be used, with the first block rate being applicable to the first 10 GJs of consumption within the month, the second block rate being applicable to the next 240 GJs of consumption within the month, and the final block rate being applicable to the remainder of the consumption within the month. EGNB also proposes that the third block rate differ by season, with a higher charge being applicable to consumption in the winter months.

- Contract General Service – EGNB proposes that this rate class have a contract demand charge, where the minimum contract demand is 36 GJs / day. In addition, EGNB proposes that a two block rate structure be used, with the first block rate being applicable to the first 1,000 GJs of consumption within the month and the second block rate being applicable to the remainder of the consumption within the month.

- Industrial Contract General Service – EGNB proposes that this rate class have a contract demand charge, where the minimum contract demand is 360 GJs / day. In addition, EGNB proposes that a two block rate structure be used, with the first block rate being applicable to the first 10,000 GJs of consumption within the month and the second block rate being applicable to the remainder of the consumption within the month.

- Off Peak Service – EGNB proposes that this rate class have a customer charge and a two block rate structure, with the first block rate being applicable to the first 60 GJs of consumption within the month and the second block rate being applicable to the remainder of the consumption within the month. This rate class is only applicable to consumption between April 1 and November 30 each year. An overrun charge would be applicable to any consumption between December 1 and March 31.

While EGNB believes this rate design is appropriate at this time, as noted in the evidence of Black & Veatch (page 27), it may be necessary to incorporate other features such as additional rate blocks, graduated customer charges and potentially other rate design elements to track costs more precisely as EGNB becomes a mature utility.

Q 19: Why is EGNB proposing a three block rate structure for the Mid General Service rate class?

A 19: The Mid General Service rate class covers a broader range of consumption than the Small General Service rate class, with a maximum monthly consumption ranging from 60 GJs / month to 250 GJs / month. The use of three rate blocks recognizes the economies of scale that are achieved through increased consumption within the rate class, while also establishing a reasonable minimum level of consumption for the purpose of a minimum charge. The first two blocks are intended to recover fixed customer related costs not recovered through the customer charge, and the third block is intended to recover design day demand related costs from larger customers, while also recognizing the economies of scale achieved with the larger load.

Q 20: What is the basis for the 5 GJs / month breakpoint between the first and second blocks in the Mid General Service rate class?

A 20: EGNB is proposing that the median summer consumption for Mid General Service customers be used as the breakpoint between the first two rate blocks. This would also serve as the minimum monthly charge, as this reflects a reasonable threshold for consumption that customers that qualify for this class should meet. As noted above, this helps to ensure that fixed customer related costs not covered in the customer charge are recovered.

Q 21: What is the basis for the next 55 GJs / month of consumption being used as the breakpoint between the second and third blocks in the Mid General Service rate class?

A 21: The 55 GJs / month of consumption in the second block, when combined with the 5 GJs / month of consumption in the first block, equates to the minimum monthly consumption within the class. In qualifying for this rate class, all customers in the class are expected at a minimum to consume at this level at one time during the year and therefore will have been served by similar facilities. Using the minimum threshold supports the recovery of these costs in a consistent manner, with the third block rate being used to recognize economies of scale that are achieved at consumption above these levels.

Q 22: Is EGNB proposing a three block rate structure for the Large General Service rate class and the break point between these blocks for the same reasons as the Mid General Service rate class?

A 22: Yes. Similar to the Mid General Service rate class, the Large General Service class covers a broad range of customer consumption, making a three block structure appropriate. However, since the maximum monthly consumption in the

Large General Service rate class can range from 250 GJs to at least 1,000 GJs per month, EGNB is proposing that there be two customer charges based on the type of meter used by the customer to reflect cost differences. Additionally, EGNB proposes a seasonal differentiation on the third block of the distribution rate.

Customers that will qualify for the Large General Service rate class will typically use two types of meters, with a larger meter set being used for customers with consumption in excess of approximately 500 GJs per month. To recognize this difference in the fixed costs, EGNB proposes that a different customer charge be implemented depending on the meter set used by the customer.

EGNB is also proposing that the third block charge vary between winter and non-winter consumption. Since consumption in the third block will be greater outside of the winter months for customers with a higher load factor in comparison to a low load factor customer that has similar annual consumption, EGNB believes it is appropriate to provide a lower distribution rate in the third block during those months to recognize the lower unit cost of serving high load factor customers.

Q 23: What is the basis for EGNB's proposed design of the Contract General Service rate class?

A 23: EGNB is proposing that, instead of a customer charge, a contract demand charge be used for the Contract General Service rate class. The use of a contract demand recognizes the load requirements on the system of these larger users and the lesser impact on the distribution system of a customer with a higher load factor. While the benefit of a high load factor is equally applicable to all customers, establishing and contracting for a contract demand typically requires a higher level of sophistication in the use of natural gas. Also, the increased administration and account management associated with a contract demand typically leads to a

contract demand only being established for larger customers. Importantly, customers in this size range exhibit less homogeneity than smaller customers. The use of demand charges to recover fixed costs provides a method to track intraclass differences more precisely.

In addition to a contract demand, EGNB is proposing that two block rates be used, for similar reasons to the Mid General Service and Large General Service rate classes. EGNB is not proposing that the second block rate adjust seasonally, as the use of a contract demand charge for the rate class addresses the reasons for its inclusion in the Large General Service rate class.

Q 24: Is the basis for the design of the Industrial Contract General Service rate class the same as the Contract General Service rate class?

A 24: Yes, the same considerations made in the Contract General Service rate class are equally applicable to the Industrial Contract General Service rate class.

Q 25: Are the design principles behind the Off Peak Service comparable to the Mid General Service and Large General Service rate classes?

A 25: While EGNB believes that similar rate design characteristics are applicable to the Off Peak Service, as it spans these rate classes, there are some differences that are applicable. Due to the nature of the rate and fact that there is no minimum charge proposed with the Off Peak Service, EGNB is only proposing a two block rate structure with a 60 GJs breakpoint. The 60 GJs breakpoint is proposed recognizing that forecast Off Peak Service customer consumption is similar to Mid General Service customers and therefore require similar facilities to serve them. Since 60 GJs of consumption is designed to recover these facilities costs within the Mid General Service rate class, EGNB believes it is appropriate to use 60 GJs as the breakpoint between the Off Peak Service blocks.

EGNB notes that the Off Peak Service must also recognize the lesser impact on the distribution system of customer demand that only occurs outside of the winter months.

Q 26: Has EGNB developed rate schedules for the proposed rate classes?

A 26: Yes. Rate schedules for the proposed rates can be found in Exhibit A, Schedule 4, although actual rates and effective dates have not been included at this time.

Q 27: Why has EGNB not proposed charges for the rates as part of its rate design at this time?

A 27: EGNB has not populated the rate schedules with proposed charges for each of the rates since it is not proposing that these rates be implemented at this time.

Since it is not known when COS rates may be implemented, EGNB believes it is more appropriate to perform the requisite analysis for the final determination of the rates to be charged when the rates are to be implemented. The necessary analysis will include a review of cost responsibilities for each of the classes at that time, as cost responsibility between classes will change over time as the mix of customers changes. Also, a bill frequency analysis will need to be conducted to confirm the block structure and help normalize the manner in which revenues should be recovered through each of the blocks. EGNB will also need to review the meter sets used in each of the classes to determine if the mix has changed, which may lead to a corresponding adjustment to the determination of the customer or demand charge.

Given the items that are likely to change prior to the implementation of COS rates, EGNB believes the most appropriate time to associate costs with a particular rate design is closer to their actual implementation. It is likely that

other considerations such as competition, stand alone costs and other factors will have to guide decisions related to the development of rates under cost of service regulation. This means that issues such as rate stability and discrimination are best addressed at the time such rates are proposed for implementation, rather than in the abstract while market-based rates continue.

As well, transition issues will need to be reviewed before final rates are determined, including possible considerations of gradualism in moving towards cost-based rates, and actual COS rates cannot be developed until these issues are addressed.

Q 28: Why is EGNB proposing eventual changes to the structure of its rates?

A 28: The existing rates were developed in conjunction with the use of the market-based rates methodology. In the case of the SGSRE, SGSRO, CLGS-LFO and CLGS-HFO rates, different customers with similar characteristics are differentiated based on the fuel that was used prior to conversion to natural gas. EGNB believes that, when it is operating as a mature utility, the eligibility for its rate classes should be established based on load characteristics and not the previous fuel used. Also, at the time the existing rates were established, EGNB had no customers and therefore no experience in the consumption patterns of its customers. Given that EGNB now has experience with its customer base, it is appropriate that this experience be used in the design of its rates. Furthermore, EGNB believes that reducing the number of rate classes simplifies the management of rates, both from an EGNB and customer perspective.

Q 29: Has EGNB assessed the number of customers in the current rate classes that would map to each of the proposed rate classes?

A 29: Yes, the following table summarizes the mapping of existing customers to the proposed rate classes:

| | Proposed Rate Class | | | | | |
|---|---|---|---|---|---|---|
| Current Rate Class | Small General | Mid General | Large General | Contract General | Industrial Contract General | Off Peak |
| SGSRE | 1,998 | 66 | | | | |
| SGSRO | 4,879 | 47 | 2 | | | |
| SGSC | 1,210 | 269 | 4 | | | |
| GS | 241 | 1,096 | 206 | 3 | | |
| CGS | 3 | 19 | 191 | 68 | | |
| CLGS-LFO | | | | 21 | 4 | |
| CLGS-HFO | | | | 3 | 5 | |
| OPS | | | | | | 16 |

Q 30: What observations would EGNB have regarding the results of the COS study and the proposed rates?

A 30: The COS study indicates that the revenues from customers in the proposed Small General Service rate class under the current rate structure are well below the revenue requirement for the rate class, indicating that significant increases in rates to non-competitive levels would be required. This outcome indicates that there are transitional issues that will have to be addressed before competitive cost of service rates can be implemented in all rate classes with revenue to cost ratios that would typically be seen in mature utilities.

While an overall goal of achieving a revenue-to-cost ratio within a relatively narrow band around unity in each rate class may be desirable, such an outcome is only likely to occur over time as the rates established continue to account for competitive realities. Implementing rates that exceed competitive options hurts all customer classes by driving customers off the system who make contributions to the recovery of fixed costs that would not disappear without competitive rates. For these reasons, appropriate revenue-to-cost ratios will need to be looked at with respect to future rates and the transition to them.

Implications of different rate setting mechanisms

Q 31: As part of the Board's December 1, 2009 Decision in the Development Period Issues proceeding, the Board directed EGNB to file evidence in this proceeding on "the possible impacts of having different rate setting methods for different customer classes" (page 8). What implications does EGNB see arising from different rate setting methods being used for different customer classes?

A 31: EGNB believes, from a theoretical perspective, the main implications arising from different rate setting methods being used for different customer classes are that customers in different classes will be treated differently in terms of how their rates are set and the use of different rate methods may cause administrative confusion for both EGNB and its customers.

At this time, EGNB is not aware of any proposal for an alternate rate setting method other than cost of service. As indicated in the Development Period Issues proceeding, and as demonstrated in A16 above, issues would be created by the fact that the proposed cost-of-service rate classes do not align with the existing rate classes. If some other method of setting rates were proposed, the implications would be dependent on the methodology. The alternate rate setting method may lead to issues of discrimination, where a rate that is perceived to be preferential is provided only to a certain class of customers. However, EGNB cannot speculate on what these issues may be in the absence of a proposal. It is EGNB's understanding that these issues are frequently addressed by regulatory agencies where some or all of a group of customers have options to utility service. As explained by Mr. Overcast in his evidence, both marginal costs and stand alone costs play a role in determining the appropriate rate levels. Certainly, market-based rates that provide savings for customers demonstrate that EGNB has rates below the stand alone costs where those costs are measured by the competitive service.

As noted, administrative confusion may arise from the implementation of alternate rate methods for different rate classes. EGNB has a number of customers that manage many accounts that may span different rate classes. The use of alternate rate methods may mean that the same customer has different premises with rates set using different approaches, making it more difficult to understand and administer the costs associated with the different premises. Additionally, EGNB may have to implement different rate calculation algorithms within its billing system to ensure charges are billed accordingly. EGNB acknowledges that while these issues can likely be managed, they still warrant noting.

For the foregoing reasons, EGNB continues to believe that the use of a single rate setting method for all rate classes is the most appropriate means of establishing rates.

*** I have no further questions