EB-2005-0551

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.1998, C.15, Schedule B;

AND IN THE MATTER OF a Natural Gas and Electricity Interface Review proceeding initiated by the Ontario Energy Board to determine, among other things, whether it should order new rates for the provision of natural gas, transmission, distribution and storage services to gas-fired generators (and other qualified customers) and whether the Board should refrain from regulating the rates for storage of gas.

Argument

of

The Low-Income Energy Network ("LIEN")

2006 August 28

Introduction

Pursuant to Procedural Order 9 of the Ontario Energy Board ("OEB" or the "Board") in the Natural Gas and Electricity Interface Review ("NGEIR") proceeding (OEB Docket EB-2005-0551), the Low-Income Energy Network ("LIEN") hereby submits its argument in respect of Issue II - Storage Regulation, and its submissions concerning costs.

The Board is to determine whether to refrain, in whole or in part, from exercising its power to regulate the rates charged for the storage of gas in Ontario, by considering whether, as a question of fact, the storage of gas in Ontario is subject to competition sufficient to protect the public interest.

Union Gas Limited ("Union Gas" or "Union") is proposing that the Board continue to regulate the rates for storage, for a basic storage requirement for in-franchise customers, which requirement is to be computed on an average-and-excess calculation methodology and frozen at a point in time. Union Gas is proposing that the Board refrain from regulating the price of all other storage services, and that revenues in excess of a Union-Gas-determined cost of those services be credited in their entirety to shareholders. LIEN understands that Union Gas is also proposing that the Board no longer exercise its regulatory jurisdiction over the supply of storage services, i.e. that it no longer analyze and assess the sufficiency of supply of storage for in-franchise customers and that it refrain from exercising approval over large long-term contracts for storage.

A better allocation of resources and better price signals, for services provided in a market which is somewhat competitive, might very possibly result from a transfer all assets related to physical storage reservoirs to a separate company and from pricing all storage services from the company at market prices.[1] One could transfer those assets out at some measure of fair market value[2] and credit the tax-adjusted excess of fair market value over depreciated original historical cost to the rate base for the distribution system. Going forward then, distribution system customers would

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[1] Market Hub Partners ("MHP") on page 10 if its argument dated August 11, 2006, supports the Board's refraining from price regulation of the Ontario storage market as a whole and in so doing cites the evidence of Concentric Energy Advisers.

[2] fair market value in the reasonably foreseeable market system, not some hypothetical fair market value in a perfectly, or near-perfectly competitive market .

receive appropriate credit for the costs of developing storage facilities that they have paid for through rates, together with appropriate credit for the risks of underutilization of those assets, which risks they have also borne.

However, Union Gas is not proposing such a transfer of assets. In LIEN's view, what Union is proposing is in fact more complex, and the allocations of cost made necessary by Union's proposal may year-after-year perpetuate the possibility of allocating too few costs to storage services sold at market rates, Furthermore, Union seeks to confiscate, for shareholders, value that rightfully belongs to customers for whom the storage assets were developed.

In preparing its request for intervener status in this proceeding, LIEN set out in some detail its interests as they relate to the Board's regulation of storage in Ontario. These interests, concerns and possible directions in respect of the Board's regulation of storage remain unchanged. For this reason, an excerpt from that submission is attached as Appendix 1 to this written argument.

In the remainder of this argument, LIEN will set out its views and positions with respect to refraining from regulation of rates for gas storage in Ontario, regulation of the supply of storage services from gas distribution utilities, and the continued role deferral accounts. LIEN will then address the four specific considerations raised initially by the Board (in Procedural Order 1).

LIEN'S positions on refraining from regulation of rates for gas storage in Ontario

If the Board determines that the market for ex-franchise storage services at Dawn, or more generally, in the geographical region of the Union Gas distribution utility, is sufficiently competitive, then it would seem appropriate to continue to price transactional and long-term storage services for ex-franchise customers, as well as such services for the "excess" requirements of the in-franchise customers, at market prices.

This refraining of regulating rates for these storage services, while it may be justifiable, does not logically lead to the conclusion that the Board should refrain from regulating the treatment of the

total revenues from those services, nor that the Board should refrain from regulating, in some manner and degree, the supply of storage services provided by the distribution utilities for the core or captive market[3].

Storage services are provided from integrated assets of the distribution utility, including upstream transportation capacity for meeting the system gas requirements and gas requirements of operations. Although storage services may be priced as if gas is going into and coming out of physical storage reservoirs, Union has explained that its storage services are actually provided from its system-wide resources. Delivery of a customer's stored gas may be nothing more than a displacement or diversion of gas, or may correspond to additional gas taken from one of the transmission pipelines where there is economically available capacity[4]. Given this complexity, it is difficult to sort out accurately what is the real cost of storage services on the Union Gas system. What is good enough for a customer class cost allocation study which becomes a very rough indicator of fairness of certain rates and revenues, is, in LIEN's view, not adequate for allocating storage costs between price-regulated services and services which are not price regulated.

The current approach of considering all of a distribution utility's costs of storage and all of the revenues works adequately in determining the revenue requirement for other utility rates and services[5]. If the assets underlying storage services are to remain on the distribution utility books, then there is no reason to change the current approach of looking at all revenues along with all costs.

The average cost of "integrated" gas storage services, taking into account the provision of those services at zero or even negative cost associated with displacement, is not likely to equal the proxy for storage cost used by Union in determining the margin for sharing between customers and shareholders. On sales of market-priced storage service, essentially 100% of the margin between the real cost of storage and Union's proxy for storage cost goes to shareholders, together with the Board-approved incentive portion of the margin over Union's proxy for storage cost.

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[3] or less accurately, the "in-franchise" customers, as they have continued to be referred to.
[4] In addition, there has also been reference to evidence that financial products are utilized as ready substitutes for storage services.
[5] any incentive for shareholders being treated as a cost or as an off-set to the revenue.

The approach of considering all revenues and costs, and of continuing to price the basic requirements of the utility's in-franchise customers is one way to ensure that distribution customers are treated with a sense of fairness, and that windfall superior returns are not earned by the shareholders on assets, the beneficial value of which should be recognized in ratemaking for the distribution utility.

On the other hand, there are alternative ways to ensure that distribution utility customers are treated fairly with respect to the value of storage assets. One way would be to remove and dedicate certain assets supporting market-priced storage services for just that purpose, and to properly recognize as a credit to distribution customers the excess of fair market value of those assets over the value carried on the utility's books. Distribution customers will not be assured fair treatment under a scheme where costs must be allocated annually. If there is to be a separation of assets supporting storage services, a clean physical separation will be better than repeated annual allocations and recurring challenges of their accuracy. Determine a fair market value, transfer the assets outside of the regulated utility, and credit the tax-adjusted[6] excess of fair market value over depreciated original historical cost to distribution utility customers.

However, if storage services of the distribution utilities continue to be provided from their integrated resources, it makes little sense to artificially segregate this storage and its costs and revenues, and it has the potential to set utility "cost based" rates higher than they should be. It is LIEN's position that it makes sense to continue to look at the utility's total costs, to credit all revenues from storage services, then to determine if it is appropriate to grant shareholders a share of any revenue excess over embedded costs and, if so, how much.

If, on the other hand, storage facilities can be physically separated from the rest of the utility system, and if they are surplus to the distribution system's needs, and if the Board is satisfied with the extent of competition in the market for the storage services that can be provided from those assets, then it could make sense to transfer those assets out of the utility. A fair market value could be determined for those physically separated storage assets and the assets should be

[6] The calculation of this credit would have to properly account for tax on any capital cost recapture and capital gain related to storage assets that are to be removed from the domain of the distribution utility.

transferred out at that value. In this case, the excess of fair market value over the book cost of the assets as they appeared on the utility's books should be treated as a credit to the remaining distribution system assets. In LIEN's view, a one-time credit of this excess value to the distribution rate base is preferable to determining appropriate annual credits related to storage services priced at market, but still held within the distribution utility corporation. Such approach would cleanly reflect the value of the credit due to customers at the time of this transition.

In LIEN's view, a credit of any such excesses of market-priced value over utility book-based value (cost), either annually to the revenue requirement for distribution rates[7] or on a one-time basis to the distribution system rate base, is appropriate since storage until recently was developed to serve distribution system customers. Such customers paid for the assets providing storage services through their bundled rates for delivered gas. Such customers bore the costs and the risks of developing storage assets. (It is of course also possible and fair to allocate the credit among customer classes in relation to class requirements for storage.)

Regulation of the supply of storage service

The Board has continued to monitor gas contracting in the ex-franchise market and to analyze and carefully consider supply of the in-franchise market before approving large storage contracts for periods exceeding two years. Union Gas is proposing that the Board should also refrain from this form of regulation. Obviously, this proposal goes beyond the question of refraining from the regulation of rates for storage, which was the subject of notice given in this proceeding.

If the Board were to move to market pricing for storage for all of the Ontario market, then arguably price could allocate supply and the Board could refrain from regulating under Sections 36 and 39(2) of the Act. Under Union's proposal to continue to price storage services for some customers on the basis of the utility's embedded costs, in LIEN's submission, it will remain necessary for the Board to scrutinize the availability of sufficient supply for in franchise customers, and for the Board to continue its approval process with respect to long-term storage contracts of significant size.

[7] e.g. by considering all costs and revenues for storage services.

LIEN agrees with MHP that the process for approving long-term storage contracts, if required, should operate efficiently. On page 27 of its argument, MHP asserts that it does not. It was LIEN's understanding that the process for Union Gas, while protecting the public interest in respect of assurance of supply for in-franchise needs, was nonetheless responsive to the unbundled-storage service customer's needs, that initial service to a customer could typically be offered immediately under the Board's blanket approval provisions, and that Union Gas understood the Board's approach and concerns well enough to avoid offering contracts to customers that would present problems for Board approval[8]. This approval process should not be burdensome.

Refraining from storage regulation for other storage companies

In LIEN's view, there is no evidence to suggest a need to regulate rates for storage services provided from independently developed storage reservoirs. However, there will continue to be problems to face in assessing the fairness of transactions involving the purchase of storage services by the utility from affiliated companies. The Board is familiar with these problems and how to deal with them.

In LIEN's view, if the Board has satisfied itself that the gas distribution utilities will themselves have sufficient supply of storage to satisfy their in-franchise needs, then there should be no reason to hold up the approval of the gas supply contract entered into by a gas storage company separate from the distribution utilities. A "blanket" Board approval for all storage contracts entered into by each such storage company would seem efficient and in the public interest.

Deferral Accounts

As long as storage services continue to be provided by the distribution utility, and as long as the Board continues to acknowledge that revenue from all utility services must be considered in

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[8] the approval process, nonetheless providing a useful check on supply sufficiency.

setting rates for utility services (an approach the Board has followed to date), then the existing deferral accounts related to storage costs and revenues, and the prescribed uses of these accounts, should continue. The revenues from market-priced storage services are difficult to forecast. Through the use of the existing deferral accounts, risk to the utility shareholders is reduced and a utility-like return is justified on the assets supporting market-priced storage services. Importantly, it is also a process by which excess revenue from market-priced storage may be held for the credit to utility customers to whom it is due.

Four Board-identified "considerations"

(1) Do gas utilities (and/or their affiliates) either collectively or individually have market power in the provision of storage services for all or some categories of customers in Ontario?

The answer to this, in LIEN's submission, is most relevant for the categories of customers in Ontario that buy storage services directly from a utility or from some other supplier. This would include some large gas users in Ontario, in-franchise and ex-franchise, as well as some gas marketers and ex-franchise utilities. Smaller customers will not buy gas services directly, but will instead buy such services bundled with the gas they purchase. Competition in the market for such bundled services was not intended to be examined directly in this proceeding. If there were sufficient competition in the market for bundled services, then indirectly it might be possible to conclude that smaller gas customers were indeed served by storage offered under competitive market conditions. Nonetheless, the evidence of Union's witnesses and others is that there is not a competitive market for storage services serving most of the in-franchise market. Furthermore, it is not Union's proposal to price storage services for the basic needs of customers in this market as if they were part of a competitive market.

Significant evidence has been presented in this proceeding to indicate that the market for unbundled storage services beyond some size threshold may be workably competitive. (It is clearly competitive, if not perfectly or even workably so.) Whether it is or is not workably competitive, LIEN's concern is that the excess of fair market value over the depreciated original

historical cost is properly credited to the in-franchise distribution customers that have paid for these assets through rates, and that have basically shouldered the investment risk of non-utilization of these assets (non-utilization for whatever reasons). In confirmation of an investor's view of who carries the latter risk (answer: the utility's captive customers), one need only look to the assertion of Market Hub Partners in the last sentence on page 6 of their argument in this proceeding, dated August 11, 2006.

(2) If gas utilities (and/or their affiliates) do have market power in storage, is it appropriate for them to charge "market rates" for transactional and long term storage services?

The answer depends on the extent of the market power. Evidence in this proceeding indicates that those purchasing transactional and long-term storage services may not be concerned about the market power of Union Gas. Furthermore, for some period of time, the services offered to ex-franchise customers have been offered at market prices, arguably providing a better allocation of storage services in a competitive market than would pricing at cost. Once again, LIEN's concern is that the in-franchise distribution customers of the utility owning the storage receive fair credit. As stated above, LIEN holds that the excess of revenues from the sale of transactional and long-term storage services to ex-franchise customers, over revenues from rates based on the depreciated original historical cost, should be credited to the distribution system customers[9].

Crediting some of this revenue but not all, as the OEB has done in recent years, is better than crediting none of this revenue. However, in LIEN's view, essentially all of this revenue should belong to the distribution customers[10], and the portion currently credited to shareholders is an unnecessarily large "incentive" to productively manage the assets that underlie these services, i.e. to do what management is supposed to do. (One may assume, or expect, that some of the credit that is directed to shareholders influences the level of management bonuses.)

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[9] LIEN understands that there is an analogy to this treatment to be found in the Board's treatment of embedded benefits of low-cost electricity generation in one of the northern electricity distribution systems where the benefits clearly were intended for all consumers of bundled electricity on the distribution system. After separation of the commodity, in order to ensure the benefit would go to the same consumers, that meant directing it to all users of the distribution system.

[10] As new storage services are added over time, distribution customers, to the extent that they purchase unbundled storage services, should likely be treated differently from others in the in-franchise market in respect of the credit of excess revenues. A one-time segregation of storage assets and a credit to distribution rate base would appear to overcome this difficulty.

(3) If gas utilities (and/or affiliates) do not have market power, is it in the public interest that all or some customers continue to pay storage rates at cost as opposed to market rates? How should the extra revenue from storage services at market rates be allocated?

If the gas utilities and/or affiliates do not have market power in the market for storage services, then economic arguments can lead one to conclude that the services should be offered at market prices. This should lead to a more efficient allocation of the resources underlying the provision of those services than would any regulated approach. Once again, in-franchise distribution customers must be given appropriate credit for the excess revenue, i.e. the revenue from market rates in excess of the revenue that would result from rates based on original historical cost. LIEN has commented above concerning whether economic arguments might suggest that market prices for storage services should apply to all storage services and not just to storage services in excess of some base requirement calculated using, say, the "average and access" calculation method.

(4) If the Board determines, based on considerations of market power and the public interest more generally, that some customers should pay for storage services at cost and others should pay for storage services at market prices, how should the line be drawn between the two types of customers, and, specifically, should there be a constraining allocation of physical storage facilities to some types of customers based on measures such as aggregate excess or whether customers are considered "in-franchise" or "ex-franchise"? How should the extra revenue from storage services at market rates be allocated?

If the Board determines that some customers should pay for storage services at prices/rates based on embedded historical costs and that others should pay for storage services at market prices, the distinction between in-franchise and ex-franchise customers may be of some assistance. It appears, however, that in-franchise and ex-franchise may be less accurate and less useful terminology than another terminology that would more clearly distinguish clearly between customers (and portions of customer use) entitled to receive storage services at cost rather than at market prices. For this submission, LIEN still uses the franchise-driven terminology as a proxy for the improved terminology which may be adopted in the future. In LIEN’s view, also, it should be possible to agree on a general method of determining the portion of utility storage

capability that should be allocated to in-franchise (storage-at-cost) customers, although the Board should be open to submissions concerning alternative determinations which could arguably be fair in certain circumstances.

In LIEN's view, difficulties may arise if there is the possibility of arbitrage between in-franchise and ex-franchise markets. For example, a large customer with low cost storage as part of its allocation from the utility might be able to sell some of its gas to another customer, in franchise or ex-franchise, at peak season at significant profit. The result may be an unintended result which might be considered unfair. (Such a customer would presumably decide that the gas that it would sell is excess to its needs, given its then current business situation and the profitability of selling such storage as compared to its other alternatives.)

In addressing the fair crediting of the market value of storage services provided from assets acquired at historical cost, there are several considerations. Today's market value of storage services exceeds the utility embedded cost of those services, for the three reasons given by the Enbridge witness, Mr. Craig (referenced at page 2 of the argument of Enbridge Energy Distribution Inc. ("EEDI") dated August 11, 2006), and for a fourth reason: Inflationary tendencies year-over-year in Canada have seen a decrease in the value of the dollar. The historical cost of all assets, including storage assets, are less, by this effect of inflation, than the current price-level-adjusted cost of the same assets. This, together with the taking of accounting depreciation on storage reservoir assets that have actually appreciated in value, and then factoring in the reasons stated by the Enbridge witness, has resulted in a significant difference between the fair market value of storage assets and the value of those assets embedded in the books of account of the utility, the costs of which and the depreciation related thereto having been the basis of ratemaking for many years within the price-regulated regime.

Estimates put the value of the excess of market over utility embedded cost of storage at some very high annual numbers and, in terms of a credit to rate base, it would be an order of magnitude larger again. LIEN interprets the Board's decision in the cushion gas case (EB-2005-0221) to mean that it has the jurisdiction to deal in ratemaking with any capital cost recapture or gains on the transfer of utility assets out of the price-regulated domain of the utility. As LIEN has argued there and here, exercise of that jurisdiction is necessary in order to ensure that shareholders are

not compensated twice for the use of their capital invested in such assets, i.e. that they do not receive over the life of the asset in utility service a return far in excess of the fair return which over time they have earned through revenues from the utility rates.

In LIEN's view, whether the excess of fair market value over the embedded cost of storage services is transferred out of the utility in a one-time transaction giving rise to capital cost recapture and gain[11], or whether fair market value of storage services are viewed on an annual basis as the revenue from those services at market rates and the difference between that revenue and revenue at cost based rates is calculated annually, in either case the credit for the excess should go to the customers that carried the costs of those assets and bore the risks of underutilization of those assets. The shareholders have received a fair return on the capital invested in those assets since those assets were first developed, through until now. (Whether there is a further need to provide any incentive return in excess of the fair return is an ongoing concern that LIEN has alluded to above.)

Costs

In filing its letter of intervention, LIEN applied to the Board to be found eligible to receive an award of costs. The Board found LIEN eligible. As such, LIEN hereby asks that it be awarded 100% of its reasonably incurred costs and designates Financial and Regulatory Consultants of Canada ("FRC Canada" or "FRC"), as LIEN's representative and agent, to file a claim.

In support of this request for an award of costs, LIEN submits that it has participated responsibly in this proceeding, having cooperated with other intervenors of similar interest in the preparation portions of the proceeding, in the settlement conference discussions and negotiations, and in the oral hearing which followed. LIEN's participation was efficient and, as planned and anticipated, there was sufficient evidence adduced in the proceeding to support LIEN's positions taken in argument. LIEN participated actively in the settlement proceedings and assisted in the advancement and resolution of matters as they had potential to affect LIEN's constituents. LIEN attended the oral hearing when matters were likely to arise on which LIEN should potentially

[11] a simple and fair approach, in LIEN's view.

make immediate submissions. On other hearing days, LIEN's representative relied on review and annotation of the transcript and input to its litigation support software for easy access and searching, typically trading off hearing attendance time and disbursements against a shorter time for transcript review and analysis. LIEN further submits that its participation has assisted the Board in addressing its concerns and, hence, we would hope, in arriving at its decisions.

All of which is respectfully submitted,

Malcolm Jackson
Financial and Regulatory Consultants of Canada

as agent for,

THE LOW-INCOME ENERGY NETWORK

Excerpt from LIEN's detailed statement of interest in its letter of intervention (2006-01-23)

LIEN, in its letter of intervention, set out its interests with respect to the regulation of gas storage in Ontario. With only minor corrections of typographical errors, LIEN outlined its interests as follows:

Competition in the market for storage services

Is the market for storage in Ontario sufficiently "competitive" to expect market-determined prices for storage services to be fair and, hence, to allow the Board to refrain from exercising its statutory power to "refrain" from setting rates for storage? This issue has been raised in other proceedings before the Board and, in LIEN's understanding there was no evidence to conclude that the market was sufficiently competitive.

If the market were not inherently competitive, could rules and constraints (e.g. time-limits, transparency, greater disclosure) be imposed on transactions in the market so that prices would be more likely to be fair? To LIEN's knowledge this has not been explored.

To what extent should the OEB continue to play a role as a surrogate for competition concerning the setting of storage rates? Under what conditions does a storage facility not come under price regulation jurisdiction of the Ontario Energy Board?

The conclusions reached from review of these questions could result in adverse affects on LIEN and other stakeholders. If the market is not sufficiently competitive, and the Board refrains from rate regulation of storage, then rates for utility services to bring gas to LIEN customers will be too high. Price leadership by the dominant sellers of storage will permit monopoly profit taking from storage activities.

If the market is or can be made to be sufficiently competitive, then the very important issue arises as to who is entitled to the rates benefit of historical based accounting for investment and the implied gain (real or appropriately deemed) on transfer of storage assets from rate-regulated to not-rate-regulated status. Some have roughly estimated that this gain would exceed $100 million.

Rates Treatment of capital cost recapture and gain (real or appropriately deemed) on transfer of storage assets from rate-regulated to not-rate-regulated status

Although this issue is implied in the Board-stated issue about "refraining" from rate regulation of storage, in LIEN's view the rates treatment of the capital recapture and gain is a major issue and should be stated separately. The Board and interested parties need to be able to examine the magnitude of the capital recapture and gain as storage assets are transferred to not-rate-regulated status, and then examine how it should be treated in utility rates.

There is a need for the Board to direct the production of the relevant evidence on this issue in advance of the hearing. In LIEN's view, the evidence provided under the Board's items 1c, 2b, and 2c would not likely provide sufficient evidence to examine the capital recapture and gain associated with transferring storage assets to a not-rate-regulated status. Also, what capital additions are to be assumed to be "in service" for the Board's three scenarios (to the end of 2006, 2007, 2008 or to when)? In LIEN's view, market prices in the third scenario are unlikely to give parties any relevant evidence of the fair market value of the underlying assets, let alone the fair market value of the existing assets used in providing the new services. (In LIEN's view,

market prices in the third scenario are unlikely to give parties any relevant evidence of the fair market value of the underlying "assets that provide all storage services, or the separable component fair market value of the existing assets used in providing the new "high deliverability" services.") In fact, the scenario evidence required to be filed deals only with the service to new high deliverability customers. If the Board were to refrain from the rate-regulation of storage services, how would all storage services be costed (with the fair market value today becoming the new assets on some new not-rate-regulated entity's books) and where would the difference in cost of existing assets before and after refraining go?

Gas storage was primarily developed to serve heat-sensitive load in Ontario, and heat sensitive load customers have borne the cost of developing and operating that storage while ensuring the utility a return on the net original cost of those storage assets not yet recovered through rates. If storage rates are no longer to be regulated, but rather determined through market forces, prices will depend on a forward view of costs, including replacement costs, and on supply and demand for storage. The difference, between the book value of the assets which currently determine rates and the market value of the assets which will determine storage pricing going forward (e*ven if FMV is determined only as a target or lower bound, and assuming a market with no significant excess supply or demand)*, should go to the price-regulated utility's ratepayers. (Utility investors have recovered their invested capital and received a return on the portion not yet recovered, which return in recent years has included an additional incentive component in addition to the otherwise fair return.)

In LIEN's view, an expeditious way to accomplish this transition/transfer to a new scheme for storage pricing is to determine this relevant recapture and gain and treat it as a credit to the rate base of the distribution utility. The utility's heat sensitive customers would share in this benefit to the extent that rates for their distribution services would be lower. In economic terms this crediting is no direct problem, since distribution services are not competitive and there is no need on average to price all such services at replacement or any other forward-looking cost. In this approach, the books of the not-rate-regulated storage facilities would begin with the storage assets shown at fair market value, presumably at or near the value of storage assets on the books of new entrants to the storage market.

LIEN notes that new entrants to the storage services market would surely object to a transfer of utility storage assets at anything less than such a fair market value. LIEN also notes that market-based rates for storage will be expected to be higher than rates currently paid by in-franchise utility customers for storage through the distribution utility process. This emphasizes the importance of crediting the heat-sensitive distribution load with the aforementioned capital cost recapture or gain. It is a way to ensure a smooth and fair transition to any new market-based rates.