Summary of Decision – RP-2003-0203

This Decision deals with Enbridge Gas Distribution Inc.'s ("EGDI") application for a Board Order approving rates for its 2005 fiscal year commencing October 1, 2004. The majority of the issues were settled by the Parties, with the remaining matters being heard by the Board in an oral proceeding ending on August 3, 2004. The Applicant asked the Board to make an early decision on several issues to facilitate an October 1, 2004 implementation of new rates. For this reason, as well as to implement the Parties' Settlement Agreement, the Board issued a Partial Decision with Reasons on August 31, 2004 which in turn lead to interim rates being approved for October 1, 2004.

This Decision addresses the remaining five issues or groups of issues where agreement could not be reached by all Parties through settlement efforts. The Board's Decision on these matters will lead to a rate order implementing a modest reduction in distribution rates, which will be reflected in the Board's final rate order.

Chapter 2 of this Decision considers the Transactional Services ("TS") earnings Sharing Mechanism designed to share profits from the marketing of surplus EGDI transportation and storage assets. It also addresses the issue of, how and if. EGDI should include commodity in these transactions to maximize revenues.

The Board has found that the Company's current TS sharing mechanism should be continued, meaning that $8.0 million is guaranteed to ratepayers in rates, the next $2.7 million goes to the shareholder, and any remaining amounts are shared 75% going to ratepayers and 25% to the shareholder. The Board has decided that it is not appropriate for either EGDI, or its affiliate Enbridge Gas Services Inc. ("EGS") as agent for EGDI, to acquire gas commodity to be bundled with utility TS assets. In this regard, the Board's view is that TS should be made available on an open market basis to all interested parties. The Board has stated that it expects EGDI to develop a methodology for making surplus TS assets known to, and available to other market participants, in addition to EGS.

In Chapter 3 the Board considers the costs consequences of a new gas storage contract between EGDI and Union Gas Limited (“Union Gas”), which establishes a 10-year term, with market-based rates, as opposed to the historic cost-based rates. The Board has denied EGDI’s request for recovery of the cost consequences of this contract, which by agreement, initiates a return to the previous cost-based rates. This return to the previous rates will result in a $2.7 million cost savings in the 2005 rate year. This short-term benefit carries with it the risk of a longer-term higher cost, but the Board lacked confidence in the evidence supporting the prospects of a long-term benefit and could not justify higher costs to ratepayers in the short-term.

Chapter 4 of this Decision contains the Board findings on EGDI’s proposed changes to its gas supply risk management program designed to reduce natural gas price volatility. The changes include the removal of the 10% restriction on hedgeable volumes, the use of a 12-month rolling hedge period, and a customer risk tolerance survey. The Board has approved the changes, but in so doing has directed EGDI to file proposed revisions to the quarterly rate adjustment methodology (“QRAM”) to recognise the effects of the new 12-month hedging period.

Chapter 5 concerns the disposition of the deferred tax liability issue relating to the October 1, 1999 unbundling of EGDI’s hot water tank rental business and its eventual sale to a third party. The Board has authorized EGDI to collect from ratepayers, $23.9 million over three years starting October 1, 2004. The Board relied on the guidance provided in past decisions on this subject and found that the amount of $23.9 million was an accurate representation of the deferred taxes that became payable between October 1, 1999 and May 7, 2002 in 3696669 Canada Inc., the entity set up to hold the rental program assets.

The final substantive matter as outlined in Chapter 6, surrounds the impacts of EGDI’s proposal to change its fiscal year-end from September 30 to December 31, to match the calendar year and its parent Enbridge Inc.’s fiscal year. EGDI proposed to make the transition via a three-month special “Stub Period” to take it from fiscal 2005, ending on September 30, 2005 to fiscal 2006, commencing on January 1, 2006.

The first impact results from a request for an increase in rates for the Stub Period of October, November and December 2005. The Board denied EGDI’s request for the increase, because it was not sufficiently convinced that the inflationary adjustment proposed, would result in a new rate that appropriately reflected cost increases in the Stub Period. The Board also rejected Intervenors’ requests to reduce rates by applying a lower return on equity for the Stub Period, finding it inappropriate in this case to use a return on equity other than the usual 12-month ROE. These findings resulted in the Board determination, that there will be no inflationary cost increase applied to the Stub Period of October to December 2005.

The Board resolved other issues brought about by the change in fiscal year end. These included the impacts on: the clearance of deferral accounts, the TS sharing mechanism, the impact on the Demand Side Management program and the implementation plan for the upstream storage and transmission cost allocation changes.

As a result of this Decision with Reasons, the Board will issue an order approving final rates for 2005, which will be implemented January 1, 2005 in conjunction with the regular quarterly adjustment to the natural gas commodity rates (QRAM).

This summary does not form part of the Decision and is not to be relied on for the purpose of applying or interpreting the Decision.