

GAZIFÈRE INC.
PRE-FILED EVIDENCE OF ANTON KACICNIK
2006 TEST YEAR

Q.1 Please state your full name, your current position with the Company, your professional qualifications and previous appearances before this or other regulatory tribunals.

A.1 Please refer to my curriculum vitae filed at Exhibit GI-2, Document 14.

Q.2 What is the purpose of this testimony?

A.2 I am presenting the cost allocation changes the Company is proposing for the 2006 test year in light of direction the Régie provided in the 2005 Decision D-2005-58.

Q.3 Could you please outline the organization of the exhibits?

A.3 Yes, Exhibit GI-2 is laid out in the following manner:

The rationale for the proposed cost allocation changes is presented as part of Document 1.

Document 2 remains as filed in Decision D-2005-58, except it has been updated to reflect the proposed changes as outlined in Document 1.

The fully allocated cost study reflecting the changes can be found at Exhibits GI-2, Documents 3 – 13. The study is based on October 1, 2005 Pass On, which represents the base for January 1, 2006 rates.

Document 3 is a summary of the results of allocating the proposed revenue requirement to the rate classes for the 2006 test year. The revenues are compared to the allocated costs generating an over and under contribution for each rate class. This schedule also indicates the over and under contributions in dollars per thousand cubic metres, the return on the allocated rate base, and the revenue to cost ratios by rate class, with and without commodity costs.

Documents 4, 5 and 6 show the functionalization of rate base, net investment costs, and operating and maintenance (O&M) expenses respectively.

Documents 7 to 9 outline the classification of the functionalized rate base, net investments, and O&M costs respectively.

Documents 10 to 12 show the allocation of rate base, return and taxes, and total cost of service. Document 13 outlines the allocation factors in absolute and relative terms.

Q.4 Are you proposing any changes to the cost allocation methodology as approved by the Régie in Decision D-2005-58?

A.4 The Company is proposing the following changes with respect to the cost allocation methodology for transportation and storage costs in light of direction the Régie provided in Decision D-2005-58. The proposed changes do not affect the level of Gazifère's revenue requirement (i.e. changes are revenue requirement neutral) and would align Gazifère's cost allocation methodology with the one approved for Enbridge Gas Distribution (EGD) in RP-2003-0203 (2005 Rate Case).

The reasons for changing the cost allocation methodology for 2006 are summarized below:

- Improved alignment with the cost drivers embedded in EGD's Rate 200 under which Gazifère takes service, thereby enhancing cost causality;
- Allowing for eventual unbundling of upstream transportation costs from Gazifère's delivery charges (i.e. Ontario T customers would neither pay Gazifère for upstream transportation nor would they receive T service credit) because of marketplace changes such as alternative commodity and upstream transportation sources, in combination with capacity turnback;
- Reflection of an updated system load factor in classifying EGD's distribution and Niagara Gas costs, where system load factor represents the average daily consumption expressed as a percentage (%) of the peak day consumption.

A.4.1 Background

Gazifère takes service under EGD's Rate 200 which covers the costs of gas supply, upstream transportation, EGD's distribution and storage facilities costs, and curtailment credits. Gazifère also has a service arrangement with Niagara Gas for movement of gas between EGD's and Gazifère's franchise areas.

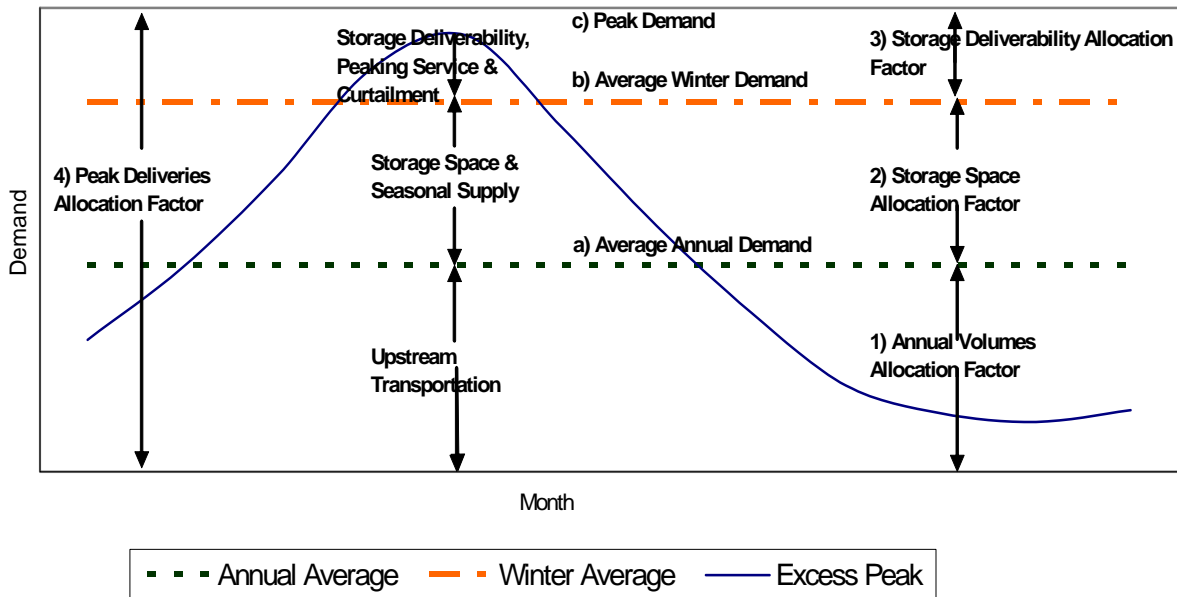
The proposed cost allocation changes will allow the Company to align its transportation and storage cost allocation methodologies with the manner in which costs are incurred in Rate 200. The main features of these include:

- a) Upstream long haul transportation (transportation) is used at 100% load factor to meet average annual demand;
- b) Storage space and seasonal supplies are used to manage supply and demand on a daily basis and to satisfy average winter demand;
- c) All of the above plus storage deliverability, peaking service and curtailment are used to meet peak demand.

The schematics in Graph 1 on page 4 illustrate an annual demand profile for a gas distribution utility, sources of supply used to meet average annual, average winter and peak demand, and factors used for allocating transportation and load balancing costs:

- 1) Average annual demand (annual volumes / deliveries allocation factor);
- 2) Excess of average winter day consumption over the average annual demand (storage space allocation factor);
- 3) Excess of peak day consumption over winter average (storage deliverability allocation factor);
- 4) Peak demand (peak deliveries allocation factor)

Graph 1: ANNUAL DEMAND PROFILE



The key changes in the cost allocation methodology are presented below.

A.4.2 Upstream Transportation Costs

Based on the economics of contracting for upstream supply, upstream transportation is used to meet annual demand. The Company is proposing to classify transportation costs as 100% annual demand and allocate these costs to the rate classes volumetrically. This change reflects the operating practice of the Company, in which it contracts for upstream capacity at 100% load factor to satisfy the average annual demand, and facilitates full unbundling of the transportation charge. Note that customers, who make their own transportation arrangements, also contract at 100% load factor.

Currently, these costs are classified as 30% peak demand, 70% annual demand based on Gazifère's outdated system load factor. The change to 100% annual demand will increase allocation of these costs to the large volume rates.

A.4.3 EGD Distribution and Niagara Gas Costs

The movement of gas through EGD's distribution mains and Niagara Gas is used to deliver Gazifère's annual volumes and to meet peak demand. The classification of these costs reflects system load factor. The Company is proposing to classify these costs as 60% peak and 40% annual demand. This updated classification better reflects current as well as anticipated longer-term system load factor. Load factor represents the average daily consumption expressed as a percentage (%) of the peak day consumption.

Currently, these costs are classified as 30% peak and 70% annual demand.

In the last decade Gazifère's load factor was typically in the 70% range, but has been declining due to a loss of interruptible volumes. See page 10 of 10 for load factor history. The updated load factor of 40% increases allocation of costs to the general service rates (i.e. Rates 1 and 2).

A.4.4 Storage Costs

Storage is used to manage supply and demand on a daily basis (load balancing). Storage costs are presently classified as peak / deliverability, space and annual costs, where annual costs represent the costs of injections and withdrawals. The Company is proposing to classify storage costs as storage deliverability and storage space to more closely reflect storage's role in load balancing. The Company is also proposing a change in calculation of deliverability allocation factors.

A.4.4.1 Storage Deliverability

Storage deliverability costs are incurred to meet the excess demand on peak day over the average winter day. Therefore, the Company is proposing to determine storage deliverability allocation factors by calculating the rate class contribution to the excess of peak day requirements over the average winter day consumption.

Currently, storage deliverability factors are based on the rate class contribution to peak day demand. This change slightly increases allocation of costs to the general service rates (i.e. Rates 1 and 2).

A.4.4.2 Storage Space

Storage space costs are driven by the excess demand on a winter day over the average annual demand. This is still valid, hence, the Company proposes no changes in the derivation of the allocation factors for storage space.

A.4.5 Peaking Service and Seasonal Supply Costs

Peaking service and seasonal supplies are used to supplement storage deliverability and storage space for meeting peak and seasonal demands respectively. The Company is proposing to allocate peaking service costs on the same basis as storage deliverability (i.e. rate class contribution to the excess of peak day requirements over the average winter day consumption) and to allocate seasonal supply costs on the same basis as storage space (i.e. excess demand on a winter day over the average annual demand).

Currently, in the study these charges are treated, together with upstream transportation charges, as load balancing charges. Still, to unbundle upstream transportation costs from Gazifère's delivery charges, peaking service and seasonal supply also need to be separated from the transportation costs. This change increases allocation of costs to the general service rates (i.e. Rates 1 and 2).

A.4.6 Interruptible Service Credits

The cost allocation changes from A.4.2 translated into uniform transportation rates for all rate classes. As interruptible customers will be paying full transportation rates, this change created a need to reassess the value of interruption and release of capacity on days that interruptible

customers are curtailed. EGD underwent this exercise for its 2005 rate case filing. A gas supply optimization (SENDOUT) model was used to determine the optimal gas supply options assuming EGD's interruptible customers were firm customers.

The credit on Rate 200 equaled \$1.1/m³ of Mean Daily Volume (MDV) of interruptible customers over 4 months, which translated to \$252,000 on an annual basis. This represents the gas supply costs to replace the curtailment capacity provided by Gazifère's Rate 9 customers, but excludes commodity costs which are calculated separately. The Company is proposing that the entire credit amount of \$252,000 be allocated to Rate 9 interruptible customers to compensate them for release of capacity on curtailment days.

Note that because the changes discussed above were implemented in full at EGD in 2005 with respect to the cost allocation side of rate design, Gazifère has also received the interruptible credits (\$252,000) for 2005. Considering cost allocation changes were not yet introduced for Gazifère at that time, the credit was not directly allocated to Rate 9 customers, but it was rather used to reduce Gazifère's load balancing costs and was consequently spread over all customer classes based on peak and annual demand allocation factors. For 2005, however, Gazifère's Rate 9 customers still received a lower allocation of transportation costs resulting from the current cost allocation methodology and Capacity Repurchase Credit (CRC) compensation on days of curtailment.

A.4.7 Recap of the Proposed Changes to Cost Allocation Factors

Tables 1 and 2 below show the existing and proposed classification and allocation factors for transportation and storage costs.

Table 1: CURRENT ALLOCATION FACTORS

Description	Classifier	Allocation Factor
Upstream Transportation	30% Peak / 70% Annual	Peak & Annual Delivery Volumes
EGD Distribution & Niagara	30% Peak / 70% Annual	Peak & Annual Delivery Volumes
Storage Space		Excess Winter Over Annual Average
Storage Deliverability		Peak Volumes
Seasonal Supply		n/a
Peaking Service		n/a

Table 2: PROPOSED ALLOCATION FACTORS

Description	Classifier	Allocation Factor
Upstream Transportation	100% Annual	Annual Delivery Volumes
EGD Distribution & Niagara	60% Peak / 40% Annual	Peak & Annual Delivery Volumes
Storage Space		Excess Winter Over Annual Average
Storage Deliverability		Peak Over Winter Average
Seasonal Supply		Excess Winter Over Annual Average
Peaking Service		Peak Over Winter Average

A.4.8 Rate Class Impacts

The rate class impacts based on the implementation of cost allocation changes to October 1, 2005 Pass On are presented in Table 3. October 1, 2005 Pass On represents the base for January 1, 2006 rates.

Table 3: RATE CLASS IMPACTS (OCT. 1, 2005 PASS ON)

Rate Class	T-Service Impact \$000	T-Service Impact %	System Gas Impact %
Rate 1	\$116.7	1.6%	0.5%
Rate 2	\$166.5	1.0%	0.4%
Rate 3	\$0.2	n/a	0.1%
Rate 4	(\$8.1)	-1.6%	-0.5%
Rate 5	(\$22.9)	-2.9%	n/a
Rate 9	(\$252.4)	-20.5%	n/a
Total	\$0.0	n/a	n/a

Note: T-service impact includes the costs of transportation, storage and distribution, but excludes the cost of gas supply commodity for system gas customers. System gas impact includes the costs of transportation, storage, distribution and gas supply commodity for system gas customers.

Q.5 Does this conclude your testimony?

A.5 Yes, it does.

Gazifere's Load Factor History

Load Factor (LF) = (Annual Demand / 365) / Peak day Demand

Load factor represents the average daily consumption expressed as a percentage (%) of the peak day consumption.

2005 (Decision D-2005-58)		
Annual Demand =	153,951.7	10 ³ m ³
Peak Day Demand =	1,152.4	10 ³ m ³
Load Factor (LF) =	37%	
2004 (Decision D-2003-243)		
Annual Demand =	164,470.2	10 ³ m ³
Peak Day Demand =	1,128.0	10 ³ m ³
Load Factor (LF) =	40%	
2003 (Decision D-2002-45)		
Annual Demand =	189,061.4	10 ³ m ³
Peak Day Demand =	1,121.3	10 ³ m ³
Load Factor (LF) =	46%	
2002 (Decision D-2002-45)		
Annual Demand =	182,105.7	10 ³ m ³
Peak Day Demand =	1,104.9	10 ³ m ³
Load Factor (LF) =	45%	
2001 (Decision D-2001-55)		
Annual Demand =	207,377.8	10 ³ m ³
Peak Day Demand =	1,090.4	10 ³ m ³
Load Factor (LF) =	52%	
2000 (Decision D-2000-48)		
Annual Demand =	214,619.5	10 ³ m ³
Peak Day Demand =	1,051.2	10 ³ m ³
Load Factor (LF) =	56%	
1999 (Decision D-99-09)		
Annual Demand =	182,896.0	10 ³ m ³
Peak Day Demand =	948.7	10 ³ m ³
Load Factor (LF) =	53%	
1998 (Decision D-97-46)		
Annual Demand =	221,845.7	10 ³ m ³
Peak Day Demand =	918.6	10 ³ m ³
Load Factor (LF) =	66%	