

1 New Brunswick Board of Commissioners of Public Utilities

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5 In the Matter of an application by the NBP Distribution &
6 Customer Service Corporation (DISCO) for changes to its Charges,
7 Rates and Tolls

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10 Delta Hotel, Saint John, N.B.

11 October 4th 2005

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page 1165 - rate design to demonstrate the effect of restoring the first block size to 900 kilowatt-hours and be revenue-neutral to the residential class

page 1222 - provide what the median monthly consumption is for the residential class, median being the 50 percent point

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14 CHAIRMAN: David C. Nicholson, Q.C.

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16 VICE-CHAIRMAN: David S. Nelson

17

18 COMMISSIONERS: Ken F. Sollows

19 Randy Bell

20 Jacques A. Dumont

21 Patricia LeBlanc-Bird

22 Diana Ferguson Sonier

23 H. Brian Tingley

24

25 BOARD COUNSEL: Peter MacNutt, Q.C.

26

27 BOARD STAFF: Doug Goss

28 John Lawton

29 John Murphy

30 Arthur Adelberg

31 Steve Garwood

32

33 BOARD SECRETARY: Lorraine Légère

34

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36 CHAIRMAN: Good morning, ladies and gentlemen. I want to

37 compliment the secretary on putting no one behind a

38 pillar. I don't think anyway. I will take appearances

39 for the Applicant.

40 MR. MORRISON: Good morning, Mr. Chairman, Commissioners.

41 For the Applicant, Terry Morrison and David Hashey. And

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2 our panel, Roch Marois, Neil Larlee, and Malcolm Ketchum.

3 CHAIRMAN: Thanks, Mr. Morrison. Canadian Manufacturers &
4 Exporters?

5 MR. PLANTE: Dave Plante appearing on behalf of CME New
6 Brunswick.

7 CHAIRMAN: Way over there in the corner. Thank you, Mr.
8 Plante. CBC is not here. Conservation Council of New
9 Brunswick? Eastern Wind? Enbridge Gas New Brunswick?

10 MR. MACDOUGALL: Yes, good morning, Mr. Chair. David
11 MacDougall representing Enbridge Gas New Brunswick. And I
12 am joined today by Ruth Yorke.

13 CHAIRMAN: Thanks, Mr. MacDougall. The Irving Group?

14 MR. STORRING: Mr. Chairman, Thomas Storing on behalf of
15 the Irving Group.

16 CHAIRMAN: Thanks, Mr. Storing. Jolly Farmer, no. Rogers?
17 Self-represented individuals? The Municipals?

18 MR. GORMAN: Good morning, Mr. Chairman, members of the
19 Board. Raymond Gorman appearing as counsel for the
20 Municipal Utilities. I am joined this morning by Dana
21 Young.

22 CHAIRMAN: Thanks, Mr. Gorman. Vibrant Communities? The
23 Public Intervenor?

24 MR. HYSLOP: Good morning, Mr. Chairman. With me this
25 morning, Mr. Knecht, Mr. O'Rourke, Mr. Barnett, Ms. Power

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- 1142 -

2 and Ms. Young. I think I erroneously reported the other day

3 Mr. Knecht was here on Thursday. In fact it was Mr.

4 O'Rourke. And the record should reflect that we have Mr.

5 Knecht in person today. Thank you.

6 CHAIRMAN: Thank you, Mr. Hyslop. I notice on my list, let

7 me see -- no, that's right. The NBSO is not here, is he?

8 The NBSO, I believe, has gone to informal status. Just

9 in case any of the Informal Intervenors are present, I

10 will just run them off. If there is anyone here

11 representing them, let me know.

12 Agriculture Producers Association New Brunswick? Canadian

13 Council Grocer Distributors, City of Miramichi,

14 Flakeboard, New Brunswick Generation -- Genco, Noranda

15 Inc. Potash Corp, Saskatchewan Inc., UPM Kymmene?

16 And Mr. MacNutt, you are appearing today as Board counsel.

17 Who is with you today?

18 MR. MACNUTT: I have with me today, Mr. Chairman, Doug Goss,

19 Senior Advisor, John Lawton, Advisor, John Murphy,

20 Consultant, Steve Garwood, Consultant, and Arthur

21 Adelberg, Consultant.

22 CHAIRMAN: Thanks, Mr. MacNutt. Are there any undertakings?

23 MR. MORRISON: Yes, Mr. Chairman, we have all but one of the

24 undertakings satisfied. We are just in the process of

25 having copies made and they should be ready at the break.

26

2 Actually they may even be ready in the next ten minutes if you
3 would like me, we can interrupt --

4 CHAIRMAN: Which one is that, Mr. Morrison?

5 MR. MORRISON: Pardon me?

6 CHAIRMAN: Which undertaking is --

7 MR. MORRISON: All but one -- the only undertaking that we
8 don't have satisfied was undertaking number 4 from
9 September 28th, which was the question why the StatsCan
10 data is almost double what the data actually is. We are
11 still working on that and it looks like we are going to
12 have to have some contact with Revenue Canada --
13 Statistics Canada, sorry, Revenue Canada -- Statistics
14 Canada to see why the anomalies occurred.
15 So that one is in progress. All the other undertakings we
16 have answers and they are just being copied now so
17 everyone can have copies.

18 CHAIRMAN: Okay. I would suggest we do that right after the
19 break this morning then, Mr. Morrison.

20 MR. MORRISON: Okay. Thank you, Mr. Chairman.

21 CHAIRMAN: Any other preliminary matters? From my
22 understanding from Board counsel is that Board staff has
23 some more questions of the panel with Mr. Marois on it.
24 And once that questioning is concluded, then are there any
25 other questions for Mr. Marois from the Intervenors?

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MR. HYSLOP: Mr. Chair, I have a line of questioning that

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may impact on policy. I didn't think it did when I first

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sketched it out but if we get to me today, we will try to

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deal with it while Mr. Marois is here. It is not as

6

significant as the other day.

7

CHAIRMAN: Okay. Just refresh my memory. I believe, Mr.

8

Gorman, you are complete of your questioning of the panel

9

with Mr. Marois on it?

10

MR. GORMAN: That is correct.

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CHAIRMAN: Mr. MacDougall?

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MR. MACDOUGALL: I am finished with all of the panel, Mr.

13

Chair.

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CHAIRMAN: Completely?

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MR. MACDOUGALL: Completely.

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CHAIRMAN: There are no other Intervenors, I don't think,

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who have questions of the panel with Mr. Marois on it. So

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my suggestion is as soon as you complete your questioning,

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Mr. MacNutt, with the Marois panel, then you can turn over

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the microphone to Mr. Hyslop. He can do his last line of

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questioning and then Mr. Marois can be excused after the

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Board itself, if it has any questions. And then Mr.

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Hyslop will carry on with questions he has of the

24

remaining two on the panel. And then come back to you if

25

in fact nobody else has any questions.

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2 MR. MACNUTT: Yes, that will be appropriate from our point
3 of view, Mr. Chairman.

4 CHAIRMAN: Good. Okay. Go ahead, Mr. MacNutt.

5 CROSS EXAMINATION BY MR. MACNUTT:

6 Q.958 - Good morning, panel and witnesses. I am going to ask
7 you to turn back to the -- open up the transcript for
8 Wednesday, September 28th and take you to pages 1136, 1137
9 and 1138, which is essentially back to where we left off
10 on Wednesday.

11 And I am just going to give you -- read a brief summary,
12 but you should have it in front of you. Mr. Marois was
13 asked at question 957 on page 1138 to provide estimates of
14 the revenue cost ratios to GS I and GS II primary and
15 secondary using your own methodology, using your own data.
16 Mr. Larlee responded to question 957 by saying that he had
17 looked at Disco's own data during the break and said to
18 break out the general service classes by voltage level,
19 primary voltage and secondary voltage, would require
20 examination of Disco's CCAS as to the detail available and
21 analyze basic customer data in order to estimate the
22 revenue split and estimate some of the demand allocators
23 within the study. And he said so to do all that will take
24 some time.

2 Is that an accurate summary of that response?

3 MR. LARLEE: Yes, I believe it is.

4 Q.959 - Thank you. Now first I want to have the panel confirm
5 that the undertaking as just described will be provided
6 over the next week or so?

7 MR. MORRISON: Mr. Chairman, we certainly don't have that
8 one noted as an undertaking.

9 MR. MACNUTT: I would like to make it an undertaking.

10 CHAIRMAN: Mr. MacNutt is moving it up a notch.

11 MR. MORRISON: Okay. That is fine. I would like -- perhaps
12 Mr. Larlee can address that directly in terms of the
13 undertaking because -- speak in terms of the work load.

14 MR. LARLEE: We had answered an IR requesting similar
15 information as that. And at the time we felt that it was
16 probably going to take in the order of 6 to 8 weeks to do
17 that analysis and do it properly. So this is basically an
18 extension of that same analysis and I would feel that we
19 could probably do it within that time frame. So it's --
20 it requires some extensive analysis to do it properly.

21 MR. MORRISON: Mr. Chairman, the reference to that IR was
22 Disco PI IR-34.

23 CHAIRMAN: Is that the same question, Mr. MacNutt, as --

24 MR. MACNUTT: Excuse me, Mr. Chair?

25 CHAIRMAN: Well Mr. Morrison just quoted an IR that Board

2 staff put to --

3 MR. MACNUTT: Yes.

4 CHAIRMAN: -- the company. Is that the same one we are
5 talking about now?

6 MR. MORRISON: It is exhibit A-19. It's under Public
7 Intervenor. And it is tab 34, PI IR 34.

8 Q.960 - Perhaps I could put a question to Mr. Larlee. Are you
9 saying to me that the detail in the CCAS doesn't enable
10 you to do -- readily do this analysis that we have asked
11 in the undertaking?

12 CHAIRMAN: Mr. MacNutt, so we clear this up, have you looked
13 at the Public Intervenor's IR 34?

14 MR. MACNUTT: We have it in front of us, Mr. Chairman.

15 CHAIRMAN: Okay. And is that the same question as you were
16 just putting to this panel or a Request for Information?

17 MR. MACNUTT: It is essentially the same question, Mr.
18 Chairman. But we had trouble understanding the response
19 because we thought the data was available on the face of
20 the CCAS. Just give me a moment here.

21 CHAIRMAN: Take your time.

22 Q.961 - Perhaps we could direct a question, Mr. Larlee.
23 What is missing from the CCAS that you would need to
24 enable you to respond to our undertaking within a week?

25 MR. LARLEE: Specifically what is missing is the revenue

2 split along primary secondary lines, primary and secondary
3 delivery voltage, and the allocation of 12 NCP which is
4 used to allocate transmission costs.

5 This particular question, IR 34 relates to the existing
6 estimates that are in the cost allocation study which does
7 do some allocation along primary and secondary lines.

8 IR 34 basically was asking what would it take to update
9 and improve those estimates. And in responding to the
10 questions we looked at our customer care system in the
11 data warehouse. And we realize now that there is a
12 possibility of making a link between the metering
13 information that we have on customers and the billing
14 information.

15 There is no direct accounting allocation of costs along
16 primary and secondary lines. But using the customer care
17 information, we feel we can build the reports and develop
18 an analysis to make a very good estimate by linking again
19 metering information with the billing information which is
20 all contained in the customer care system.

21 In doing that we can easily expand the reporting in the
22 analysis to include enough information to make estimates
23 of the 12 NCP to also do the allocation of

2 transmission costs and include revenue so that we could split
3 revenue along primary and secondary lines, which would
4 enable us to go from the very beginning of the cost
5 allocation to the very end result and develop the revenue
6 to cost ratios for general service along primary and
7 secondary delivery voltage, which can't be done within the
8 existing cost allocation study now.

9 MR. MACNUTT: Thank you. We will pass on the requirement
10 that they provide the information by way of an
11 undertaking, Mr. Chairman.

12 We will review the comments from Mr. Larlee against a
13 question we asked. And perhaps we will revisit it when we
14 are examining the panel with Mr. Marois absent after we
15 have had a chance to review all the material. And I will
16 pass on to another question now.

17 Q.962 - Now I would like to ask Mr. Marois to respond to the
18 following question. Assuming there are significant cost
19 differences in serving customers at different voltages and
20 creating separate subclasses that would have large rate
21 impacts from a policy perspective, do you believe that it
22 makes sense to abandon the idea or would it make more
23 sense to attempt to address the problem of rate impacts
24 through gradual changes?

25 MR. MAROIS: I guess I see this as a hypothetical question.

2 And from a theoretical point of view we are not opposed to
3 looking at distinguishing customers from a voltage
4 perspective. But I believe Mr. Larlee had addressed this
5 previously.

6 And we see this as a step process. And the first step
7 again is to look at eliminating the all-electric rate, as
8 a first step, then looking at potentially combining the
9 all-service rate with the small industrial rate as a
10 second step.

11 And once you have done that, again in consideration of
12 practical, taking into practical consideration such as
13 gradualism, then you can start looking at customer size,
14 voltage and those different aspects to segregate the
15 customer classes.

16 So again we see it as a step process. From a theoretical
17 point of view we don't object to it. But from a practical
18 point of view we believe that there are some steps to go
19 through before we get there.

20 Q.963 - Thank you. Now on to another matter. Prior to
21 commencing my cross examination on Wednesday afternoon,
22 September 28th, Mr. Larlee in responding to a question put
23 by another cross examiner made reference to the fact that
24 within the residential rate class there are customers that
25 are so-called nondomestic customers such as churches and

2 some commercial enterprises such as farms. Do you remember
3 that line?

4 MR. LARLEE: Yes, I recall that.

5 Q.964 - Thank you. In fact these nondomestic customers were
6 identified as being the largest customers within the
7 residential customer class, is that correct?

8 MR. LARLEE: Yes.

9 Q.965 - Now would you please undertake to provide before the
10 conclusion of the CARD hearing a list of all customers
11 within the residential class that are considered
12 nondomestic customers?

13 In providing the response the list should be prepared so
14 that no individual customer can be identified. And please
15 provide the type of nondomestic function attributable to
16 each customer, in other words church, farm and so on that
17 distinguishes them from the traditional definition of a
18 residential customer and provide the annual kilowatt-hour
19 consumption for each such customers.

20 And finally in the response would you describe -- please
21 describe what if any load research data Disco may have on
22 these nondomestic customers?

23 CHAIRMAN: Mr. MacNutt, in that question you have asked for
24 a list of. I don't think the Board would require that the
25 actual name of the customer be done.

2 But perhaps is there an identifying customer number or
3 something like that that would correspond so that you can
4 compare and contrast it with existing data that has been
5 filed in this hearing?

6 MR. MACNUTT: That is what we are trying to achieve, Mr.
7 Chairman. We don't want disclosure of name of the
8 customer but a coding such that you could do the
9 comparison you just suggested is what we are looking for.

10 CHAIRMAN: So there is data that has already been filed with
11 the participants in the hearing that has a coded name, so
12 --

13 MR. MORRISON: Mr. Chairman, and I haven't -- obviously the
14 Board -- the panel hasn't responded to this. And perhaps
15 I missed something in Mr. MacNutt's request. My concern
16 is defining what domestic means. And I guess what springs
17 to my mind is I know that there are farming operations
18 that are included in the residential class.
19 Some of them are large farming operations. Some of them
20 are the family type farm operations. And I don't know
21 whether they would be considered domestic, nondomestic.
22 I'm just wondering if there is -- that we could have a
23 little more -- and maybe it is not a problem. And I will
24 leave it to the panel to discuss that. But that is an

2 issue that I see.

3 CHAIRMAN: Okay. Probably it is time for the panel to get
4 involved in this discussion.

5 MR. LARLEE: That is exactly the issue I was discussing with
6 Mr. Marois and Mr. Ketchum. I don't believe we have a
7 reliable identifier in our database that would basically
8 give us domestic and nondomestic customers.

9 I would suggest we could provide what you are asking but
10 using a kilowatt-hours per year annual consumption cutoff.

11 MR. MACNUTT: That is fine.

12 MR. LARLEE: And I would suggest that we would use 50,000
13 kilowatt-hours. So all of the customers with
14 consumptions, annual consumptions greater than 50,000
15 kilowatt-hours listed in a nonidentifying manner.

16 MR. SOLLOWS: If I might just to clarify this in my mind, as
17 far as I understand we have all of that data now in the
18 filing, the response to the Interrogatory that they gave
19 us in July.

20 We have five years of billing determinate data for each
21 class. So all we have to do is take all of those more
22 than 50,000 a year. And we have got the information
23 already. Is that --

24 MR. LARLEE: Yes. That would be included in the databases

2 of monthly customer information provided.

3 Q.966 - Mr. Larlee, the problem we are having that -- you
4 know, cutoff, suggested cutoff is fine. And Commissioner
5 Sollows has identified that there is a mass of material
6 there.

7 The problem we are having is that in one of the responses
8 to a question, the panel introduced this concept of
9 residential domestic and nondomestic customers. And what
10 we are looking for is you have introduced the terms.

11 You must have defined those terms. And what we would like you
12 to do is provide the response in terms of your definitions
13 of residential, domestic and nondomestic so that we can
14 assess the data.

15 MR. MORRISON: Mr. Chairman, with respect to Mr. MacNutt, I
16 believe it was Mr. Hyslop that raised the issue of
17 domestic, nondomestic.

18 I don't think our panel made that distinction. And that
19 is my recollection. And of course they responded in the
20 fashion in which the questions were put by Mr. Hyslop.

21 MR. MACNUTT: Yes. But they responded in such a way that
22 they agreed with the suggested subclassification of
23 residential customer. So we assume that if they agreed
24 they must have it.

25 CHAIRMAN: What did the panel think that Mr. Hyslop meant

2 when he said domestic and nondomestic?

3 MR. LARLEE: I think what we were trying to get at in that
4 particular line of discussion was that the residential
5 class, although is much more homogeneous than the other
6 rate classes, still does have some diversity in the class.
7 And that is largely a result of the fact that Disco
8 identifies a residential class as including churches and
9 farms. So not only do we have domestic homes, apartments
10 and single family dwellings and so on, but it also
11 includes churches and farms that can include very large
12 agribusinesses and can include family farms.

13 So just to ease the conversation I was having with Mr.
14 Hyslop, I said well, let's just call them domestic and
15 nondomestic. But there is no such subclass that we have
16 identified within the residential rate. It is simply an
17 acknowledgement of the fact that the rate class does have
18 this diversity.

19 Q.967 - Now does the data Commissioner Sollows referred to
20 have those -- have appropriate references to churches,
21 farms, et cetera so that we could examine that data and
22 have that breakdown?

23 MR. LARLEE: No. And that is why I responded the way I did
24 to your previous question is that we don't have an
25 identifier within our system that says this is a church,

2 this is a farm and this is a domestic residence.

3 MR. MACNUTT: Okay, Mr. Chairman, we will pass on that
4 undertaking for the moment. We will examine the data over
5 the next few days and we may come back to it if we need to
6 elaborate or refine the question. And with that, I will
7 pass on to another question.

8 Q.968 - Now I am going to address this to Mr. Marois. I am
9 going to ask you to go -- in exhibit A-3, there is the
10 direct evidence of Mr. Larlee. I am going to ask you to
11 go to page 4 and table 1, which is entitled "2005-06 Class
12 COst Allocation Study Results". And I am also -- request
13 examination of Mr. Marois by Mr. Gorman on the morning of
14 Wednesday, September 28th addressed the matter of revenue
15 to cost ratios.

16 If you go to the table 1 which I just identified as being
17 a part of Mr. Larlee's evidence in exhibit A-3, you will
18 find that revenue cost ratios for the original proposed
19 rates in this hearing are shown as 1.09 for small
20 industrial, 1.32 for general service I, 1.17 for general
21 services II, 1.68 for street lights and unmetered. Is
22 that correct?

23 MR. MAROIS: That is correct.

24 Q.969 - Why did Disco propose rates where some classes would
25 be so far outside the .95 to 1.05 range of reasonableness

2 as defined by both this Board and the White Paper?

3 MR. MAROIS: The question is why?

4 Q.970 - Correct.

5 MR. MAROIS: Well simply because at the end of the day we
6 did not have enough flexibility to do the changes we would
7 have liked to do to bring those customer classes within
8 the range. Like I think I mentioned before is when you
9 are setting rates, you have to look at a series of
10 objectives which often are in conflict with each other.
11 And one of the objectives is definitely to try to bring
12 the revenue classes within the 95 to 105 band. Nut that
13 is one of the objectives.

14 So you go down your objectives. You try to set rates.
15 But at that point in time you don't have enough
16 flexibility. Because if you are trying to bring a rate
17 that is above that band, within the band, that means you
18 have to increase another rate to -- by a corresponding
19 level.

20 So it is just a matter of striking a balance. And that is
21 the balance we were able to strike with the flexibility we
22 had.

23 Q.971 - Now would you agree that in other jurisdictions the
24 revenue to cost ratios are much closer to the .95 to 1.05
25 range?

2 MR. MAROIS: I am not able to comment on that.

3 Q.972 - Okay. Thank you. Now I am going to pass on the final

4 line of questions for the panel with Mr. Marois present.

5 I am going to ask you to turn up exhibit A-2. I want to

6 go to attachment 1. This is the original application.

7 Exhibit A-2, attachment 1.

8 CHAIRMAN: Yes, Mr. MacNutt. Just wait until we get A-2.

9 Okay. The reference in A-2.

10 MR. MACNUTT: Attachment 1, which if you go to tab 2,

11 schedule B, attachment 1. And what we are looking for is

12 a table entitled "NB Power Summary of Proposed 2005-2006

13 Rates".

14 Now that table shows the first block rate of 8.26 and a

15 second block rate of 6.61. Is that not correct?

16 MR. MAROIS: That is correct.

17 Q.973 - Now I would like you to turn up exhibit P-1, which is

18 the direct evidence of Mr. Robert Knecht.

19 MR. MORRISON: I believe it it is PI-2, Mr. Chairman.

20 Q.974 - Yes. It is exhibit PI-2, Mr. Chairman. I stand

21 corrected. And I would like you to turn to page 47 of Mr.

22 Knecht's evidence. And I think there you will find that

23 he is suggesting -- shows a natural block rate of 8.1 --

24 excuse me, shows a natural first block rate of 8.13 and a

25 second block rate of 6.44. That is from the table under

2 the heading "Current Rates". Is that correct?

3 MR. MAROIS: Yes.

4 Q.975 - Thank you. I am now going to quote you a passage from
5 page 44 of Mr. Knecht's evidence in exhibit P-2.

6 To the extent that Disco is making progress in phasing out
7 the residential declining block rate, it has been doing so
8 by expanding the size of the first block. The first block
9 size was 900 kilowatt hours in 1993. It increased
10 gradually to 1300 kilowatt hours currently. And Disco
11 proposed to increase it to 1400 kilowatt hours in the
12 current filing. While expanding the size of the first
13 block does contribute to phasing out the declining block
14 tariff, it is not the most effective way to achieve those
15 ends.

16 By adjusting the first block size, the tariff change has
17 very little impact on the marginal cost price signal
18 observed by most customers. Moreover that approach has --
19 that approach also has very little impact on the largest
20 residential customers and tends to have more of an impact
21 on the smaller heat customers. That is the end of the
22 quote.

23 Now on page 47 of his evidence in exhibit P-2, Mr. Knecht
24 proposes a first block rate of 8.230 and a second block
25 rate of 7.407 in order to more quickly phase out the

2 second block rate. Is that correct?

3 That is back at page 47 on the table under RDK proposed.

4 MR. MAROIS: That appears to be the case, yes.

5 Q.976 - Now focusing on the size of the first block, Mr.

6 Marois. Are the comments by Mr. Knecht, just recited,

7 valid?

8 MR. LARLEE: Just before I go to your response, I just want

9 to make one clarification. When -- if you are looking at

10 A-2, attachment 1, the table that shows the rate increases

11 -- the proposed rate increases versus the rates at the end

12 of March 2005, you should note that the residential rate,

13 the first block energy rate and the balance kilowatt hour

14 rates, those rates, the proposed rates do not include the

15 fuel surcharge.

16 So you have to add in the fuel surcharge which is shown at

17 the very bottom of that section of the table, to get the

18 total rate. I just want to make sure everyone is clear on

19 that.

20 Back to your question about changing the block size. The

21 rationale for changing the block size is that by

22 increasing the block size, it obviously increases the

23 revenue related to the rate increase. And as a result of

24 that, the actual increase to the first block rate can be

25

1 reduced.

2
3 And that has the effect of limiting the impacts on lower
4 consuming customers. So that is really the rationale for
5 increasing the block size, is more related to limiting
6 customer impacts than it is using it as an accelerator to
7 flatten the rate.

8 Q.977 - Now, Mr. Marois, do you agree with Mr. Larlee's
9 comments on this point?

10 MR. MAROIS: Definitely.

11 Q.978 - I still would like to know if the comments of Mr.
12 Knecht, which I just read, are valid.

13 MR. LARLEE: No, I don't believe so.

14 Q.979 - Why not? Either you or Mr. Marois can answer that.

15 MR. LARLEE: Well I guess that was the purpose of my
16 previous response was to explain why I didn't think that
17 his comments were valid.

18 Q.980 - However, when we look at this, doesn't Disco's
19 proposal result in a higher first block charge than Mr.
20 Knecht's proposal?

21 MR. LARLEE: Mr. Knecht's proposal does indeed have a first
22 block rate that is lower than the proposed rate but that
23 doesn't -- that doesn't change my rationale for increasing
24 the block size in our proposal.

25 Q.981 - I'm having difficulty understanding. Your line of

26

2 reasoning suggests that on one hand that -- it is my
3 understanding that your Disco proposal would suggest it
4 because it would result in a lower block charge but in
5 fact what we see happening is in fact there is a higher
6 charge for that first block?

7 MR. MAROIS: Well, I believe -- I mean, it is quite obvious
8 that what Mr. Knecht is doing compared to our rate
9 proposal is he is increasing the second block more and
10 increasing the first block less. So we cannot argue with
11 that. I mean, it does phase out or does narrow the band
12 between the first block and second block in our proposal.

13 I mean, it is obvious that is what he is doing.
14 The question at the end of the day -- and we are not
15 opposed to the direction. I mean, that is where we want
16 to go. I mean, we firmly believe we need to eliminate the
17 declining block rate. The question is purely at what
18 rhythm, at what pace.

19 And what we propose we felt was reasonable. But we are
20 not saying we cannot go faster. I mean, at the end of the
21 day we believe that the Board will decide how fast we
22 should be going there.

23 Q.982 - Would Disco have any difficulty if the Board were to
24 accept the Knecht proposal?

25 MR. MAROIS: Well, if that is what -- the Board's approval,

2 I mean, we will implement it. The only concern, I mean, all
3 along for everybody is customer impact. I mean, that is
4 what we see here.

5 I mean, how do you determine an acceptable level of
6 customer impact? I mean, it is a question of judgment at
7 the end of the day. And so the Board is the one with the
8 power to decide that.

9 Q.983 - Are you saying that Disco considers the Knecht
10 proposal to have an unacceptable impact?

11 MR. MAROIS: No. I am not saying that. I'm saying it is
12 significantly higher than what we have proposed. And I
13 mean, I'm not able to pass judgment on what he is
14 proposing or not. It is simply higher.

15 Q.984 - Passing on to another matter in the same vein, in
16 order to understand the impact of this proposal by Mr.
17 Knecht would have, would you please undertake to submit a
18 rate design to demonstrate the effect of restoring the
19 first block size to 900 kilowatt hours and be revenue-
20 neutral to the residential class?

21 And in doing so would you please provide the resulting
22 revenue to cost ratios for the segments and a rate impact
23 analysis? And we would like to have that information
24 before the conclusion of the CARD hearing.

25 MR. MAROIS: Mr. MacNutt, I guess why are we going back to
26

2 900 for this exercise? Just curious. That is far below the
3 current level of --

4 Q.985 - To have less impact on the smaller customers.

5 MR. MAROIS: We will do -- look, we will do the undertaking
6 I guess. We are failing to understand the value of doing
7 it but -- and the data is already available for others to
8 do that analysis. But we will do it.

9 Q.986 - Yes. We would like to see how you would propose to do
10 it. And in doing so would you please propose an
11 alternative you would find acceptable that moves in the
12 direction of eliminating the declining block but not
13 relying on increasing the first block?

14 MR. LARLEE: The first block -- going into this proposal the
15 first block was at 1300. So by producing an alternate
16 scenario at 900 there is going to be some significant bill
17 impacts because of the large difference between the block
18 size.

19 I'm failing to see how that in any way would meet with the
20 concept of gradualism in any type of rate proposal.

21 Q.987 - Yes. But we would like the information as requested
22 regardless. You can provide that?

23 MR. LARLEE: Yes. Could you repeat the undertaking so that
24 we have it clearly?

25 Q.988 - The whole of the undertaking, excuse me?

2 MR. MAROIS: Yes, please.

3 Q.989 - I will go right from the top. In order to understand
4 the impact this might have, would you please undertake to
5 submit a rate design to demonstrate the effect of
6 restoring the first block size to 900 kilowatt-hours and
7 be revenue-neutral to the residential class.

8 And in doing so would you please provide the resulting
9 revenue to cost ratios for the segments and a rate impact
10 analysis.

11 And also we would like to see an alternative that you
12 would find acceptable that moves in the direction of
13 eliminating the declining block but not relying on
14 increasing the first block.

15 MR. MORRISON: Mr. Chairman, the second -- the last part of
16 that undertaking I find problematic. The applicant has
17 put forth a proposition --

18 CHAIRMAN: I'm sorry. You said, I find it what?

19 MR. MORRISON: Problematic.

20 CHAIRMAN: Oh.

21 MR. MORRISON: We have put forth a rate design which we are
22 proposing. Others can oppose. The undertaking seems to
23 me to be asking the applicant to come up with a new rate
24 proposal using certain criteria that the applicant doesn't
25 necessarily agree with.

2 CHAIRMAN: With frankness, Mr. MacNutt, I would expect that
3 the second half of what you are requesting is better able
4 to have the Board staff witnesses put that forth
5 themselves when they take the stand, rather than asking,
6 as Mr. Morrison has said, for the applicant to do that
7 sort of thing.

8 MR. MACNUTT: Okay. We will examine that, Mr. Chairman.

9 But we would still like the first part of the undertaking
10 fulfilled.

11 MR. MORRISON: Very good.

12 MR. MACNUTT: Thank you.

13 Q.990 - Now, Mr. Marois, with reference to your direct
14 evidence in exhibit A-3 at page 4, lines 27 to 28 -- it
15 may not be necessary to turn this up, Mr. Chairman,
16 because I'm going to paraphrase it.

17 MR. DUMONT: Which exhibit?

18 Q.991 - I'm sorry. Exhibit A-3, page 4, lines 27, 28. Mr.
19 Marois' direct evidence in exhibit A-3. And I will start
20 the question from the top again. Mr. Marois, with
21 reference to your direct evidence in exhibit A-3 at page 4
22 at lines 27 and 28 where you state that Disco's costs
23 typically increase rather than decrease with usage, can
24 you identify any circumstances in which they would not
25 increase with usage?

2 MR. MAROIS: Well, at any given time, if the increase in
3 usages doesn't provoke the change of generation source --
4 for example in the spring runoff where you have a lot of
5 hydro available, if an increase in consumption you can
6 still service with the hydro generator, then you don't
7 have an increase in cost. So that is an example of where
8 that would not be the case.

9 Q.992 - Now does the relationship between higher usage and
10 cost suggest that an inverted block structure in some
11 instances might be justified on a cost basis?

12 MR. MAROIS: Yes. And I believe I have mentioned that I
13 guess last week. Our view is that the first step is to
14 eliminate the declining block rate because that is
15 definitely sending the wrong price signal.

16 Once we get there I believe we should look at the
17 alternatives of reflecting the fact that our costs
18 typically increase with consumption level.

19 And I was asked the question what was my view on seasonal
20 rates. Well, seasonal rates is one way of doing that.

21 But I believe there is at least two other alternatives.

22 And one alternative is the one you have just mentioned,

23 inverted block rate or rising block rate. Another

24 alternative could be for example on unbundling

2 Disco's rates and doing a pass through of the power purchase
3 agreements on a monthly basis. So each month your power
4 purchase price change reflecting monthly cost. So those
5 are three alternatives to try to achieve the same thing.
6 And my point last time I spoke to this was we need more
7 analysis. We need to better understand the situation.
8 But I believe we have the work cut out for us just to get
9 -- just to eliminate the declining block rate. And that
10 should be our primary focus for the immediate term.

11 MR. MACNUTT: I have no further questions for Mr. Marois,
12 Mr. Chairman. But I will have questions for the remainder
13 of the panel in due course as you outlined at the opening.

14 CHAIRMAN: All right. And it is my understanding,
15 Mr. Hyslop, you have some questions for the panel and
16 Mr. Marois on it?

17 MR. HYSLOP: I have got one line of questioning that
18 probably might -- Mr. Marois might be participating in,
19 yes, Mr. Chairman.

20 CHAIRMAN: Would you like to move up then and the Board
21 staff will move back?

22 CROSS EXAMINATION BY MR. HYSLOP

23 MR. HYSLOP: Mr. Chairman, as an aid and to assist both
24

2 witnesses and the Commissioners, we have prepared a book which
3 encloses the various documents or portions of IRs and
4 documents that we will be referring to.

5 So rather than having to turn around, I have got a little
6 short binder with it. I also have an affidavit of Ms.

7 Power where she indicates that in making these copies she
8 has tried her best to make true and accurate copies of

9 what are referred to. And if it would please the Board, I
10 would ask to distribute this to the witnesses, to Board

11 members, and I have got enough for counsel and parties and

12 I think it might aid in the speed of the cors examination

13 and protect those that fish and hunt from getting any type

14 of injury turning around to reach books.

15 CHAIRMAN: That is too late for some of us. But I don't

16 need the affidavit, Mr. Hyslop. If Public Intervenor

17 indicates that to the best of their ability, that it has

18 been taken. It is a very good idea. Thank you very much.

19 Appreciate it. I'm sure if somebody turns up something

20 that is inaccurate, it will be brought to our attention.

21 MR. MACNUTT: Just running through my mind, Mr. Chairman, is

22 it perhaps appropriate to have it marked as an exhibit?

23 CHAIRMAN: I don't think so, Mr. MacNutt. I think that all

24 -- from what Mr. Hyslop has indicated to me, it is taken

25 from existing exhibits here or evidence, pre-filed

2 evidence. Ad you are going to refer to where it comes from
3 when you refer to in this binder. Are you not, sir?

4 MR. HYSLOP: I am going to refer to the specific exhibit and
5 interrogatory number for the record. And within a few
6 pages under each of the tabs that are included in, you
7 will be able to find specifically what I am referring you
8 to. Or you should be able to.

9 CHAIRMAN: Good. Thank you.

10 Q.993 - Thank you, Mr. Chair. Before we get going down the
11 line too far, I did have one little housecleaning issue
12 that came out of my friend, Mr. Gorman's cross examination
13 from the other day.

14 You will recall, Mr. Marois, there was considerable
15 discussion between you and Mr, Gorman relating to what it
16 meant to have the heavy industrial rate at the .95 and the
17 extent to which if any that constituted a subsidy.

18 Do you recall that line of cross examination, sir?

19 MR. MAROIS: Clearly.

20 Q.994 - Yes. And I would refer you to, if I could, a
21 statement contained in the White Paper on energy and
22 particularly at page 27. And I would ask for your
23 comments on that.

24 And the statement under section 3.1.5.4.2, under the
25 section, cross subsidization in current rate structure

2 indicates "Large industrial customers pay roughly 100 percent
3 of the costs incurred to serve them so they are neither
4 subsidized by, nor do they subsidize other customer
5 groups". Do you confirm that, sir?

6 MR. MAROIS: Yes, I do.

7 Q.995 - Right. And my question is, given the specific
8 reference to 100 percent contained in the White Paper,
9 would it be fair to suggest that the underlying premise is
10 still the concept of unity being the point we wish to
11 achieve and not a specific point at the lower end or
12 higher end of the range.

13 Would you agree with that, sir?

14 MR. MAROIS: No, I do not. I think your quote you have just
15 read from the Energy Policy has to be taken in
16 perspective. That quote comes from the first paragraph of
17 that section. And really what that paragraph does is just
18 talks about the existing revenue to cost ratio. It is
19 just a description of what we see there.

20 The quote we have been using in the same section is the
21 quote towards the end which is in bold. And the reason it
22 is in bold, it is the recommendation of the Energy Policy.
23 So when you read that section, that section starts by
24 describing what's in place, but it concludes by saying

2 that the target should be 95 to 105. So what we have been
3 saying all along is totally consistent with that entire
4 section of the energy policy.

5 Q.996 - I thank you for that, sir. Now just one other
6 housecleaning. I understand that this would be normally
7 the time of year that you would be reflecting on the power
8 purchase agreements and negotiations or discussions would
9 take place between Disco, Genco and Nuclearco with regard
10 to provisions of that that have to be reviewed on an
11 annual basis.

12 Is that correct, Mr. Marois?

13 MR. MAROIS: If you are referring to the fact that as part
14 of the power purchase agreements, the price for the energy
15 for the upcoming year is set by October 1st, you are
16 correct. And that will be reflected in the evidence we
17 will be filing on the 11th.

18 Q.997 - Sure. And were the same financial advisors and energy
19 experts involved in the -- any changes that may have been
20 recently made to the power purchase agreements?

21 MR. MAROIS: I do not understand your question.

22 Q.998 - Well more specifically, were you involved in the
23 changes that have recently been made to the power purchase
24 agreements?

25 MR. MAROIS: There were no changes made to the power

2 purchase agreements.

3 Q.999 - Okay. So all the changes just occurred automatically
4 through the application of the agreements themselves. I
5 that correct?

6 MR. MAROIS: Yes. The upcoming evidence will reflect the
7 power purchase agreements as they stood from October 1st
8 2004.

9 Q.1000 - The documents that I will be referring to in this
10 line of questioning are those that will be found, I
11 believe, under tab 6 of the binders I passed out. They
12 relate to issues relating to surplus power. And this was
13 the last section we prepared and there are also three
14 other exhibits that are not included that I will have to
15 ask you to refer to. And I do believe this is the only
16 time this will happen during the cross examination.

17 The three exhibits will be found in exhibit A-16. They
18 are PIs 53, PI interrogatory 38 and 43. And I will refer
19 to those as we go into it.

20 First I am trying to get in my mind this concept of
21 interruptible surplus energy, curtailable energy completed
22 and then particular -- I am particularly interested in the
23 distinctions between interruptible and surplus. And I am
24 wondering perhaps, Mr. Larlee or Mr. Marois, could you
25 help me with that? What are the distinctions between the

2 different types of service we lump together as
3 interruptible/surplus/curtailable?

4 MR. MAROIS: We will refer you to a previous IR response.

5 We will just find it. Maybe you have it in your binder.

6 It is the response to PI IR-43.

7 Q.1001 - Yes.

8 MR. MAROIS: You have got it in your binder?

9 Q.1002 - I have the binder. That would be --

10 MR. MAROIS: No, sorry, the one you distributed this
11 morning.

12 Q.1003 - Yes. No, that is not in the binder I distributed
13 this morning.

14 MR. MAROIS: Okay. It is in A-16.

15 Q.1004 - Yes. And you are referring to IR-43, PI IR-43?

16 MR. MAROIS: Yes, I am.

17 Q.1005 - Okay. And this is a description of the different
18 rationales that I was asking for with regard to them. But
19 my question is a little bit more specific. And if you
20 could help me here.

21 In particular, I am wondering about interruptible energy
22 and surplus energy and the sales of those. IS there a
23 distinction with regard to the tariff and how those are
24 sold and what they are used for?

25 MR. LARLEE: Well PI IR-43 in parts D and E give a brief

2 description of each of the rates within the RSP manual and
3 those are filed in exhibit A-3 under tabs N and O in
4 section N, starting on pages N-9 is a description of all
5 the interruptible rates in quite a bit more detail. And
6 it includes descriptions of the interruptible and surplus
7 rates.

8 Q.1006 - Sure. And what I am getting at is you know, I read
9 all that and you people are selling these types of forms
10 of electricity and I just want to understand the
11 distinctions from a layman's point of view. What is the
12 difference between interruptible and surplus energy in
13 terms of how it is sold, the price it is sold at and why
14 it is there. Just a layman's view of it, Mr. Larlee, if
15 you would.

16 MR. LARLEE: No problem. I was getting there.

17 Q.1007 - Okay.

18 MR. LARLEE: I'm sorry if I am a little slower.

19 Q.1008 - No.

20 MR. LARLEE: The first thing you have to remember is
21 interruptible and surplus are priced exactly the same. So
22 the pricing mechanism as described in section N in the RSP
23 manual is virtually the same for both products. But they
24 are two separate products in who is eligible for them.
25 The interruptible product is essentially a back-up
26

2 product for customers with self-generation. So that when
3 their self-generators aren't available for whatever
4 reason, then they can purchase an energy only product that
5 is priced on an incremental cost basis. And that is the
6 interruptible product.

7 The surplus product, as described under section E of the
8 response to PI-43 was introduced in the '90s and
9 essentially allowed industry to increase output without
10 any added additional cost to NB Power because of the
11 available capacity we had.

12 So again it is a energy only product because there was no
13 requirement on the point of NB Power to make any
14 additional investments for capacity.

15 Q.1009 - So for --

16 MR. LARLEE: And it is precisely the same as interruptible.

17 Q.1010 - Okay. So as I understand the pricing, it is
18 essentially your variable costs plus \$3 a megawatt hour or
19 \$9 per megawatt hour depending on the time it is sold,
20 whether it is peak or non-peak time. Is that correct?

21 MR. LARLEE: That is correct.

22 Q.1011 - SO that takes care of interruptible and surplus. And
23 interruptible has been around longer because it used to be
24 available to people that had some of their own generation
25 facilities and if they went down they could go and buy the

2 interruptible power. Is that correct?

3 MR. LARLEE: And it is still available on that basis.

4 Q.1012 - Yes. And then the surplus energy there is no caveat
5 in there, like anybody can buy surplus energy if they want
6 to. Correct? Any large industrial customer?

7 MR. LARLEE: Subject to the terms laid out in the RSP
8 manual.

9 Q.1013 - Yes.

10 MR. LARLEE: Section N, yes.

11 Q.1014 - Okay. And so there is no concept of them losing
12 their own power to purchase surplus power?

13 MR. LARLEE: I am sorry. I don't follow your question.

14 Q.1015 - Okay. In purchasing surplus power, there is no
15 requirement that you have your own generation to do so?

16 MR. LARLEE: No, there isn't.

17 Q.1016 - No. That just applies to the interruptible. So is
18 that really the distinction between interruptible and
19 surplus power?

20 MR. LARLEE: That is the key distinction, yes.

21 Q.1017 - Right, okay. Thanks for clarifying that for me. And
22 again, both of these are cost the same way? It is
23 strictly on a megawatt hour basis depending on your
24 marginal cost at that time?

25 MR. LARLEE: Yes. The price flows through from Genco and

2 their incremental cost to supply that load.

3 Q.1018 - Okay. I want to go on and I am going to refer you to

4 Disco PI IR-53, which is not in the book. But it is one

5 of the IRs in exhibit A-16. Do you have that, Mr. Larlee?

6 MR. LARLEE: Yes.

7 Q.1019 - Yes. And in that there is a two-page revenue budget

8 which has numbers covering the periods '92, '93 to '04,

9 '05 for each of the different customer classes, correct?

10 MR. LARLEE: Correct.

11 Q.1020 - And I refer you to what is identified as page 4 on

12 the revenue budget. And at the top of the page there is a

13 description of firm transmission. Do you see that?

14 MR. LARLEE: Yes.

15 Q.1021 - And the total sales in the fiscal year 1992-1993 were

16 \$194,300,000, correct?

17 MR. LARLEE: Correct.

18 Q.1022 - Right. And that for reference is the bottom line on

19 the firm transmission one in the far right-hand total.

20 And in '04, '05, for that fiscal year, the total sales on

21 firm transmission to industrial customers was

22 \$217,100,000, correct?

23 MR. LARLEE: Correct.

24 Q.1023 - And by my calculations that represents an increase in

25 sales for firm transmission of approximately 11.7 percent,

2 correct, subject to check?

3 MR. LARLEE: Subject to check, yes, from 1992 to 2004, 2005.

4 Q.1024 - Yes. And now if I refer to the interruptible sales.

5 And for purpose of the interruptible sales I understand

6 that for this particular Interrogatory response would

7 include both the interruptible and surplus energy sales.

8 Am I correct on that, Mr. Larlee?

9 MR. LARLEE: Yes. That is correct.

10 Q.1025 - And in 1992-1993 the total amount of sales on an

11 interruptible or surplus basis was \$7,808,000?

12 MR. LARLEE: Correct.

13 Q.1026 - And the total interruptible sales in '04, '05 were

14 \$45 million?

15 MR. LARLEE: Correct.

16 Q.1027 - Right. And I suggest that again subject to check and

17 the accuracies of my math that that represents

18 approximately a 475 percent increase in surplus sales, is

19 that correct --

20 MR. LARLEE: Yes.

21 Q.1028 - -- subject to check?

22 MR. LARLEE: Over those intervening years, yes, subject to

23 check.

24 Q.1029 - Right. Okay. I would also ask you if I could to --

25 refer you to Disco PI IR 38 in the same exhibit book. And

2 again I apologize for not having included this. But this is
3 something we added quite late.

4 And again we are looking at quantities and revenues for
5 different sales of interruptible and surplus. And with
6 respect to that, these numbers go -- and I'm referring to
7 page 3 of the exhibit response under tables 4 and 5. And
8 in that regard the interruptible surplus in 1997-1998 in
9 terms of megawatt-hours was 524,896 megawatts, Mr. Larlee?

10 MR. LARLEE: I believe the number you quoted is just for
11 interruptible?

12 Q.1030 - Yes. That is correct. Looking at table 4?

13 MR. LARLEE: Yes.

14 Q.1031 - Yes. And in fact between 1997 and 1998 -- and just
15 aside, it was approximately that time you brought the
16 surplus energy sales to interruptible -- to industrial
17 customers into the tariff was around 1997, 1998, Mr.
18 Larlee?

19 MR. LARLEE: Yes.

20 Q.1032 - Yes. And there has been a decrease in interruptible
21 sales between 1997-1998 and 2004-2005 to 289,887
22 megawatts, correct?

23 MR. LARLEE: Yes. That is correct.

24 Q.1033 - Right. And at the same time, Mr. Larlee, the surplus

2 energy sales have gone from 230,385 megawatts -- and here I'm
3 referring to table 5 -- to 637,274 megawatts in 2004-2005
4 -- megawatt-hours, I'm sorry?

5 MR. LARLEE: Yes, megawatt-hours.

6 Q.1034 - Okay. So this surplus and interruptible energy has
7 become increasingly a much greater portion of the sales to
8 the industrial sector, is that correct?

9 MR. LARLEE: Yes. And that is largely the result of the
10 introduction of mechanical pulping in lieu of chemical
11 pulping which resulted in a large increase in to surplus
12 sales.

13 Q.1035 - And what I'm getting at though is -- and I don't have
14 -- I did have some numbers, and I will take them subject
15 to check. But you can correct me if I'm wrong. But my
16 understanding is in about 1992, '93 the percentage of
17 electricity sales to heavy industrials would have been
18 under 10 percent for anything other than firm
19 transmission. In other words firm transmission to
20 industrial customers represented 90 percent of your sales.
21 Can you, subject to check, confirm that for me,

22 Mr. Larlee? You won't find it in that exhibit, I'm sorry.

23 MR. LARLEE: Yes. I will accept that subject to check.

24 Q.1036 - Yes. And if I'm also correct -- again these are
25 numbers where you had to make some estimates. But if you

2 could be good enough -- I understand in 2004-2005 the
3 percentage of sales of electricity to industrial
4 customers, 30 percent of this approximately was through
5 the sale of surplus energy, is that correct, subject to
6 check if you wish?

7 MR. LARLEE: Yes. That looks about right.

8 Q.1037 - Okay. And to be clear for the record, that should be
9 surplus and interruptible?

10 MR. LARLEE: Yes. That is correct.

11 Q.1038 - If we go forward with this rather than getting caught
12 up too much in the definitions between surplus and
13 interruptible, if I use the word "surplus" can we
14 understand that to mean surplus and interruptible combined
15 or would you prefer me to keep them separate?

16 MR. LARLEE: Well, I would guess I would prefer to keep them
17 separate or just refer to them as interruptible surplus.

18 Q.1039 - Okay. Now I would like to just very briefly move
19 into another IR. And I think it is one you have pulled up
20 which was IR 43 a moment ago where you discussed the
21 rationales for the different type of special energy sales
22 to heavy industrial customers?

23 MR. LARLEE: I have that.

24 Q.1040 - Okay. And I would refer you to the first paragraph
25 in your response where their underlying rationale for this

2 is a win-win solutions that were available at that time. Do
3 you confirm that answer, Mr. Larlee?

4 MR. LARLEE: Yes.

5 Q.1041 - Right. It is a win for the heavy industrials because
6 they can buy their energy at current marginal cost on a
7 variable basis and not have to pay any of the firm costs
8 or capacity costs that would be associated with it. Would
9 that be correct?

10 MR. LARLEE: Yes. That would be the advantage of it. And
11 they are subject to interruptibility as well.

12 Q.1042 - Yes. We will get to the subject to interruptibility
13 part of this during the cross examination.

14 And I also refer you if I could to IR 49 also in exhibit
15 16, A-16. It is in the exhibit book. You will have to
16 refer to the exhibit book for this.

17 CHAIRMAN: Give us the reference on that again?

18 MR. HYSLOP: A-16, Mr. Chair.

19 CHAIRMAN: A-16?

20 MR. HYSLOP: Yes. And I'm looking at IR PI-49.

21 CHAIRMAN: That is the only thing we are looking at right
22 now?

23 MR. HYSLOP: Yes.

24 CHAIRMAN: Okay. We have just heard the Queen Mary out
25 there. Maybe this is a good time for us to take a break.

2 I don't think that Commissioner Sollows can actually see it.

3 But we heard it.

4 MR. HYSLOP: I'm going to take my chances. Could I just ask
5 perhaps one or two quick questions?

6 CHAIRMAN: Yes.

7 MR. HYSLOP: Because it flows with the point I'm trying to
8 make.

9 CHAIRMAN: Right.

10 Q.1043 - Right. And in this we asked some questions relating
11 to your concerns with regard to the failure of large
12 industry or loss of jobs or significant negative impact.
13 And in that you indicated you weren't replying to any
14 specific studies or economic studies or customer
15 submissions in regard to these rate proposals.

16 And would that be correct, Mr. Larlee?

17 MR. LARLEE: Yes.

18 Q.1044 - Yes. But I do refer you to the second page of the
19 interrogatory response. And I would like to read this
20 into the record.

21 And I quote, "It is Disco's judgment that given the
22 challenges facing large industry in New Brunswick, it
23 would be prudent to target a revenue to cost ratio for
24 this class to be at the lower end of the PUB directed
25 target range of .95 to 1.05."

2 Do you confirm that answer, Mr. Larlee?

3 MR. LARLEE: Yes.

4 Q.1045 - Yes. So I look at this answer in IR-49 and in the
5 previous one to create an obvious win in terms of the
6 heavy industrials at the price they can purchase almost 30
7 percent of the energy requirements.

8 And now is it fair to say that in reviewing these, some of
9 the decisions that you are making in general terms are
10 taking into account some of the challenges that you feel
11 that are facing New Brunswick industry at this time?

12 MR. MAROIS: I will answer that, Mr. Hyslop. Just maybe
13 before I answer, the point you just made there on the
14 second page of IR-49, that comment relates to the firm
15 component of the industrial rate.

16 I believe I have already talked to basically this as part
17 of my previous testimony. And you are correct in saying
18 that in applying our judgment we did take into account the
19 challenges that are facing our customers.

20 So it was part of what we took into account in determining
21 the rate proposal. We have tried to be as upfront as we
22 could about it. It is clearly stated in my evidence. So
23 that is the case.

24 Q.1046 - Right. And I'm not denying in any way that you have
25 tried to make this a big secret, Mr. Marois.

2 But the point I am making is that in designing this
3 particular rate application some of the concerns that you
4 feel exist for heavy industry in New Brunswick have been
5 reflected in some of your judgment calls, is that correct?

6 Yes or no?

7 MR. MAROIS: Yes.

8 MR. HYSLOP: Thank you very much. I think that would be an
9 appropriate time to leave it, Mr. Chair.

10 CHAIRMAN: Good. Thanks, Mr. Hyslop. We will take a 15-
11 minute recess.

12 (Recess - 10:45 a.m. - 11:00 a.m.)

13 CHAIRMAN: Just I want to put on the public record that

14 Mr. Hyslop and I had a brief conversation yesterday
15 concerning a number of individuals who had contacted his
16 office concerning the opportunity. And Mr. Hyslop and I
17 both agree they probably want to be Informal Intervenors
18 in the upcoming rate portion of the hearing.

19 And I have indicated to him that at some later date we
20 will set a specific afternoon during probably the first or
21 second week of the rate portion of the hearing in January
22 to have it Informal Intervenors' afternoon.

23 The Informal Intervenors can contact the Board directly as
24 is set out in the public notice that will be published by
25 the applicant.

2 But also I have suggested to Mr. Hyslop that if the folks
3 contact him, the Board was quite prepared for him to
4 simply come with a list of names. And the only
5 requirement of the Board is that they briefly set down
6 what they wish to address on a piece of paper the day
7 before we hear them.

8 That is just to keep comments that are totally irrelevant
9 out of the process, but otherwise make it as easy as
10 possible for members of the general public who in fact
11 wish to address the Board on an informal basis.

12 MR. HYSLOP: And I would add to that, Mr. Chairman, I spoke
13 briefly with the Secretary of the Board this morning. And
14 as she receives calls she will refer those people to me
15 and I think also will reference the names of the callers
16 to me. So we will try to work together on it.

17 CHAIRMAN: Yes. That is great. I mean, if someone wants to
18 avoid your office then that is okay too. They can still
19 address. But I'm sure they will accept your assistance,
20 Mr. Hyslop. And Mr. Morrison, you had some -- are your
21 undertakings ready?

22 MR. MORRISON: There is a bit of a formatting issue,
23 Mr. Chairman. We are going to get it straightened out at
24 lunchtime and have them on the record right after lunch.

25 CHAIRMAN: Okay. Thank you. Go ahead, Mr. Hyslop.

2 MR. HYSLOP: Thank you, Mr. Chairman. I will try -- I think
3 most of the references I will have from here on in will be
4 found in the small book that I passed out at the first,
5 Mr. Chair.

6 Q.1047 - I would like to move on if I could. And I will refer
7 you to under tab 6 of the book. And in particular I'm
8 going to refer you to exhibit A-19 which are Supplementary
9 Interrogatories, Disco PI IR 9. And that one page
10 response -- question and response is found in the book.

11 MR. MAROIS: We had a bit of an incident here.

12 CHAIRMAN: Your case is coming apart?

13 MR. MAROIS: I hope not.

14 CHAIRMAN: Could you give us those references again,

15 Mr. Hyslop?

16 MR. HYSLOP: Okay. You can go under tab 6. And you will
17 find Disco PI IR 19. And the full reference number for
18 that is exhibit A-19, Disco PI IR 19. It is a one-page
19 piece of paper in tab 6. It would be the fourth piece of
20 paper down, Mr. Chair. Fifth counting the cover page,
21 yes. Everyone have it? I hope I haven't created more
22 confusion than I have resolved.

23 CHAIRMAN: Yes.

24 MR. HYSLOP: Thank you.

25 Q.1048 - Do you have it, Mr. Larlee?

2 MR. LARLEE: Yes, I do.

3 Q.1049 - Okay. And in this we asked you to separate out the
4 firm service, the interruptible service, and surplus
5 service into energy coincident peak, noncoincident peak
6 and 12 NCP allocators, is that correct?

7 MR. LARLEE: Yes. That is correct.

8 Q.1050 - Right. And again in your response for the energy
9 allocators, if we add the interruptible and the surplus we
10 come up with approximately 988,000 -- 948,000 megawatt-
11 hours, is that correct?

12 MR. LARLEE: Yes. That is correct.

13 Q.1051 - Right. And if I take you over to schedule 1.1, which
14 the proper reference would be CCAS 1.1 which would be --
15 the proper reference would be the evidence of Neil Larlee
16 found in exhibit A-3.

17 And my question is is that megawatt-hours that's found in
18 schedule 1.1? And can you show me exactly where it would
19 be found, Mr. Larlee?

20 MR. LARLEE: Yes. If you look at line -- let's call it row,
21 row 13 which is titled Large Industrial Transmission. If
22 you go all the way over to column 12 you will see the
23 number 5506697.

24 Q.1052 - Right.

25 MR. LARLEE: That is the total megawatt-hours required to

2 serve that group of customers.

3 Q.1053 - Right. And that includes the 948,000 megawatt-hours
4 of electricity that is sold on a surplus interruptible
5 basis?

6 MR. LARLEE: Yes, it does.

7 Q.1054 - Right. And the next column, column 13 that said firm
8 energy allocator, that is 4,227,413 megawatt-hours?

9 MR. LARLEE: 4,527,413.

10 Q.1055 - Yes. And does that include the surplus in
11 interruptible energy for purposes of allocation to energy?

12 MR. LARLEE: No, it does not. If you look at the very --
13 the title of that column, that is the firm energy
14 allocation. So column 13 contains only firm energy. So
15 interruptible surplus, energy requirements aren't
16 included, essentially subtracted from the number
17 previously quoted in column 12.

18 Q.1056 - So when we do the firm energy allocation to all the
19 different classes, because this is a surplus or
20 interruptible, this doesn't get factored into those
21 calculations, correct?

22 MR. LARLEE: That is correct. It is not considered part of
23 the firm energy. So it is not included in the firm
24 allocation. Instead it is directly allocated to that
25 customer class.

2 Q.1057 - Sure. And I would like to go I refer you to addendum
3 4 of your evidence which would be the second page down I
4 believe in the booklet. And if I refer you to rows 4 and
5 5, it is system peak. Am I correct to say that there is
6 99 megawatts of energy that is being served as capacity at
7 system peak for interruptible and surplus energy?

8 MR. LARLEE: Yes. That is correct.

9 Q.1058 - And further -- I guess before I go further, so in
10 terms of the allocation and the charges down to Disco,
11 Disco is buying firm capacity to serve energy to the
12 interruptible and surplus customers. Would that be
13 correct, Mr. Larlee?

14 MR. LARLEE: No. I wouldn't say that is correct.

15 Q.1059 - Okay. It is not correct. Okay. Well, let's go on a
16 little further then.

17 And if I refer you down further in the exhibit to schedule
18 5.2. And am I correct that for purposes of the NCP demand
19 there is 250 megawatts set aside for interruptible and
20 surplus customers?

21 MR. LARLEE: If you look at line 11 where it is titled Large
22 Industrial --

23 Q.1060 - Yes.

24 MR. LARLEE: -- under column 1, the 828 12 NCP allocated
25 class includes -- it does include the interruptible and
26

2 surplus 12 NCP. And that is a reflection of the charges
3 incurred by that group of customers under the transmission
4 tariff.

5 Q.1061 - Yes. Okay. And the point I'm making is that Disco
6 has to sign for this demand capacity from Genco, is that
7 correct?

8 MR. LARLEE: Well, this schedule relates to the transmission
9 --

10 Q.1062 - Yes, it does.

11 MR. LARLEE: -- tariff cost incurred by Disco. And it is
12 allocated in terms of how the tariff is charged to Disco.
13 We want to look at how generation costs are allocated.
14 We have to go to schedule 1.2. If you look at schedule
15 1.2. I'm not sure whether you have 1.2 in your book.

16 Q.1063 - No. I didn't have 1.2 in my book.

17 MR. LARLEE: No. So we will have to go to --

18 Q.1064 - A-3?

19 MR. LARLEE: -- A-3. Okay. If everyone is at schedule 1.2,
20 again looking at line 13, large industrial transmission,
21 if you go all the way over to the right you will see in
22 column 12, 599,917.

23 Q.1065 - Would that be column 13?

24 MR. LARLEE: Sorry. Column 13.

25 Q.1066 - Column 12. Yes. I'm sorry.

2 MR. LARLEE: Column 12, yes. 599,917 kilowatts allocated to
3 that class. The firm component of that is 500,917. So
4 the 99 megawatts related to interruptible surplus have
5 been removed. And then the demand allocation is based on
6 the firm demand.

7 And the allocation in column 14 is what is used to
8 allocate generation capacity cost -- or demand cost. So
9 there is no capacity cost allocated for interruptible
10 surplus.

11 Q.1067 - Okay. And I guess the question I have or what I'm
12 trying to get at is that the demand on the system for the
13 purpose of supplying surplus energy, none of that demand
14 has been allocated into the allocation between the
15 different classes under schedule 5.2 has it?

16 MR. LARLEE: No, it has not. Because Disco doesn't incur
17 any capacity costs related to interruptible customers.
18 They are interrupted when we need the capacity. So there
19 is no need for Disco to carry any capacity service --

20 Q.1068 - So you don't sign up to contract to purchase that
21 demand from Genco. The demand that you would need -- the
22 level of demand you would need, you do not purchase that
23 from Genco, would that be your evidence, for the
24 interruptible and surplus energy?

25 MR. LARLEE: Interruptible is purchased from Genco solely

2 based on the pass through energy cost. There is no demand
3 component that flows through from Genco to service that
4 load, interruptible surplus load.

5 Q.1069 - Well, I guess the point you are trying to make for me
6 then is that -- and maybe I'm a little slow at getting the
7 point.

8 But the point I'm getting is that with regard to the
9 surplus and interruptible customers, they are not charged
10 for any demand on the system. And all the demand is that
11 that is incurred by firm transmission customers, correct,
12 Mr. Larlee?

13 MR. LARLEE: Yes. I believe that is correct, yes.

14 Q.1070 - Okay. And you have already told me that your surplus
15 and interruptible customers, their charge for their
16 electricity is simply on the marginal cost or the variable
17 cost at that time plus a little add-on, correct?

18 MR. LARLEE: Yes. The adder recovers the transmission
19 charges. So essentially it is --

20 Q.1071 - Right. And you allocate the generation costs
21 completely different to the surplus and the interruptible
22 customers?

23 MR. LARLEE: Well, the generation costs are made up of a
24 demand component and an energy component. So the energy
25 component is allocated in interruptible surplus customers,

2 as I described.

3 Q.1072 - Right.

4 MR. LARLEE: And there is no demand requirement to service
5 those interruptible surplus customers. So there is no
6 demand cost allocated to those customers.

7 Q.1073 - And so they are quite a bit different than the firm
8 transmission customers. Because the firm customers always
9 have this demand component attached to them, correct?

10 MR. LARLEE: Correct. There is no question they are quite a
11 bit different. They are subject to interruptibility.
12 They are subject to variations in fuel costs, energy costs
13 on a daily basis. So they are different.

14 Q.1074 - Yes. So what I'm getting at is it would seem to me
15 that because there is these fundamental differences
16 between the firm transmission and the interruptible
17 surplus type of heavy industrial customers, this is why we
18 seem to have them all lumped into the same class in terms
19 of determining their revenue cost ratios.

20 Wouldn't it be more appropriate, I suggest, sir, to
21 perhaps move the surplus interruptible portion of this
22 into a separate class?

23 MR. LARLEE: Well, I think I have said before, is that we
24 have tried to keep the cost allocation study as close as
25 possible to the study that was approved by this Board in

2 the 1992 CARD hearing. And at that time the rate classes were
3 defined essentially as they are defined now. So there was
4 essentially no reason to separate them out.

5 Q.1075 - Sure. And in 1992, 1993, as I understand it, you
6 didn't have surplus power as you do today. That was
7 introduced after 1992, 1993?

8 MR. LARLEE: Yes. That is correct.

9 Q.1076 - Right. And then I also recall somewhere in this cost
10 allocation study for purposes of cost allocation you did
11 separate out the residential customers into electric heat
12 and nonelectric heat, is that correct, Mr. Larlee?

13 MR. LARLEE: Again that wasn't really sort of separating
14 them out a separate class. It was really just a segment
15 into those two subgroups so that we could better
16 understand the differences between electric heat and
17 nonelectric heat and look at any interclass -- interclass
18 in equity.

19 Q.1077 - Yes. Okay. And then what I'm getting at here is
20 this is as much the same thing. If we were to segment out
21 all of the heavy industrials into their firm and to their
22 surplus interruptible components, would we not be able to
23 see or propose to see the extent to which there would be
24 interclass subsidies?

25 MR. LARLEE: I think that is true. What you said is true.

2 Q.1078 - That would be a fair comment? In fact I'm going to
3 go so far as to suggest that if we were to do that, the
4 revenue cost ratio for the heavy industrial customers
5 might well drop below .95. And I haven't done the
6 calculations.

7 But I would ask perhaps for your undertaking to do that and
8 confirm what the revenue cost ratio would be if we
9 segmented the surplus and interruptible customers out, Mr.
10 Larlee?

11 MR. MORRISON: Mr. Chairman, on the question of undertakings
12 -- and we are not trying to be difficult here. We are
13 trying to be helpful. But if the data is available to the
14 other parties, and we are now in the hearing, I don't
15 think it is reasonable or fair to expect the applicant, in
16 the course of the hearing, to go back and start doing
17 further analysis.

18 If the data is available, and I don't know the answer to
19 that, but if the data is available, Mr. Hyslop has
20 consultants. They can do that work as easily as we can.
21 That is my only comment with respect to the undertaking
22 load, Mr. Chairman.

23 CHAIRMAN: What do you say to that, Mr. Hyslop?

24 MR. HYSLOP: We will do the calculation, Mr. Chairman. We
25 believe it's below .95.

2 CHAIRMAN: Okay.

3 Q.1079 - Now this idea of surplus and interruptible, one of
4 the big selling points on this is that it's a win for you
5 because you don't have to be in a position at the end of
6 the day to -- if you have to interrupt the service they
7 agree that you can interrupt their service, is that
8 correct, Mr. Larlee?

9 MR. LARLEE: Yes, that's correct.

10 Q.1080 - Okay. So let's -- if you would if you could refer to
11 Disco UM IR-29, and that's found in the booklet. Do you
12 have it, Mr. Larlee?

13 MR. LARLEE: Disco UM IR 29?

14 Q.1081 - Yes.

15 MR. LARLEE: Yes, I have it.

16 Q.1082 - It's August 5th 2005. And this is a history of the
17 different interruptions you have since 1989 to 2005,
18 correct?

19 MR. LARLEE: Correct.

20 Q.1083 - And I had some confusion reading the chart, but maybe
21 we will -- and I don't want to go all through it, but
22 let's take for example the year 1999. And when you say in
23 1999 on January 14th at 7:00 in the morning, or 0700, that
24 would mean the hour from 7:00 o'clock to 8:00 o'clock you
25 were interrupting the interruptible customers, correct?

2 MR. LARLEE: No, that's not correct.

3 Q.1084 - Okay. Good.

4 MR. LARLEE: I'm sorry, it is a little confusing but -- you
5 are looking at January 14th '99?

6 Q.1085 - Yes. That 7:00 to 8:00 o'clock, is that one hour?

7 MR. LARLEE: That 0700 would indicate that there was an
8 interruption in the hour ending 0700 hours. So there was
9 an interruption between 0600 and 0700.

10 Q.1086 - Okay.

11 MR. LARLEE: And it continued on until hour ending 900.

12 Q.1087 - Okay. So that would indicate one continuous
13 interruption for a period of three hours or four hours?

14 MR. LARLEE: One continuous interruption for a period of
15 three hours.

16 Q.1088 - Three hours. Okay. Well I got the right conclusion,
17 not the right explanation. And then I have gone down
18 through this since January 14th 1999, and I assume that
19 it's accurate up to January 19th 2005. And by my
20 calculations there were eight interruptions for 20 hours
21 in total?

22 MR. LARLEE: Sorry. What was the time frame you were using
23 again?

24 Q.1089 - From January 14th 1999, to January 19th 2005.

25 MR. LARLEE: Yes, that looks about right for those five

1 - 1200 - Cross by Mr. Hyslop -

2 years.

3 Q.1090 - So over the -- well it would be six years. Over the
4 six year period we have had eight interruptions for a
5 total of 20 hours, that's your evidence? That's what this
6 seems to suggest to me.

7 MR. LARLEE: Yes.

8 Q.1091 - And you were telling me the other day that in terms
9 of the available capacity in this system that -- in the NB
10 Power system it doesn't appear we are going to need to
11 create any new generation capacity until some time in the
12 middle of the next decade?

13 MR. LARLEE: Yes, that's correct.

14 Q.1092 - That's right. And what I'm getting at here is the
15 sale of the surplus power, it would seem to me that you
16 have got all kinds of capacity to continuously supply the
17 heavy industrial customers on a firm demand, and why would
18 you want to get to a point where 30 percent of the time
19 you are selling them any electricity without any profit?

20 MR. LARLEE: If this load was supplied on a firm basis we
21 would need new generation sooner. So our supply resource
22 balance would no longer be showing what it shows now --

23 Q.1093 - Well how much sooner?

24 MR. LARLEE: -- in the order of 14, 15, but it would -- well
25 our growth is somewhere in the order of 30 to 40 megawatts

26

2 a year I would say. So we are looking at interrupting 150
3 megawatts.

4 Q.1094 - Now my point is this one of the problems -- and back
5 when it was 10 percent I could see where you were coming
6 from, Mr. Larlee. But I guess the theory of this is that
7 the fixed costs are all covered before we start selling
8 any of the surplus or interruptible energy, is that
9 correct?

10 MR. LARLEE: Yes.

11 Q.1095 - Yes. You have got all the plant costs and all the
12 fixed costs of running the entire generation operation and
13 the electricity operation paid for and now we have got
14 this capacity to sell extra electricity and we do it on a
15 variable cost basis, correct?

16 MR. LARLEE: Correct. Under the terms and conditions.

17 Q.1096 - But, you know, when I get generators turning doesn't
18 that wear them out sooner? Thirty percent of the time I'm
19 selling electricity to the heavy industrial sector and
20 there is generators turning, turbines turning. Wouldn't
21 that tend to wear them out sooner?

22 MR. LARLEE: I'm not an expert in the maintenance of
23 generation plant, but ramping up a unit and shutting it
24 down is difficult on them. Running them continuously
25 sometimes is actually better for them, depending on how

2 they are operated.

3 Q.1097 - Okay. Well look, I'm not -- -

4 MR. DUMONT: Excuse me for interrupting.

5 Q.1098 - Sure.

6 MR. DUMONT: Your two last questions you mentioned 30

7 percent of the time. Is that accurate, or is it 30

8 percent of energy?

9 MR. HYSLOP: No, it would be 30 percent of the electricity

10 we are selling to the industrial sector, Commissioner

11 Dumont.

12 MR. DUMONT: So it wouldn't be 30 percent of the time?

13 MR. HYSLOP: No, that's correct. It would be 30 percent of

14 the industrial energy.

15 Q.1099 - Well, you know, I just go back. If I -- and I don't

16 know anything about electricity plants and maybe they are

17 different, but I know if I drive my car 20,000 kilometres

18 a year it will last longer than if I drive it 30,000

19 kilometres a year. But you don't know if that would apply

20 to generation units as well, that type of a principle, Mr.

21 Larlee? You are not an expert in that area?

22 MR. LARLEE: Well I know my owner's manual of my car says my

23 car is intended to be driven every day. So I assume if I

24 don't drive it every day then that's not going to be good

25 for it either.

2 Q.1100 - Sure. Now you would agree with me though that some
3 of that demand capacity has to be being used up through
4 these sales overtime, would you go that far? The life of
5 the plant has to be being used up if we continuously sell
6 a large amount of electricity without recapturing some of
7 that cost?

8 MR. KETCHUM: May I just comment on that? From what I know
9 about power plants, as Mr. Larlee said, ramping up and
10 ramping down and that sort of thing is -- creates a lot
11 less efficiency in the use of the plant, and that most
12 power plants are on annual or bi-annual maintenance
13 schedules. And that a power plant with proper maintenance
14 if it's run at a good constant load factor can be
15 refurbished and are often refurbished so that the life is
16 extended.

17 In some cases one would say that there is no, you know,
18 retirement horizon for some kinds of power plants over
19 time because the various pieces and parts that do wear out
20 are replaced and lots of times with better and newer
21 materials that make the plant more efficient and actually
22 last longer.

23 Q.1101 - Now I would like to move on to another area if I
24 could. And that is to deal with this -- go back to this
25 UM 29. And if we look at this going through, if the power
26

2 is to be interrupted and they don't interrupt there is an

3 additional charge that they receive, correct, Mr. Larlee?

4 MR. LARLEE: Yes. There is terms in the contracts for

5 penalties if they don't meet the requirements.

6 Q.1102 - Right. And it's my understanding that these fees

7 reflect double the fee for the period of the interruption,

8 am I correct on that?

9 MR. LARLEE: We are just trying to find -- or think of the

10 IR where we responded to this and talked about what the

11 penalties were. Perhaps you could give us a couple of

12 minutes?

13 Q.1103 - Well look, I have enclosed the tariff in the book

14 that I have given to you. If I refer you to page 12. And

15 if I refer you to the paragraph second from the bottom --

16 or the bottom paragraph?

17 MR. LARLEE: Yes, I see that.

18 Q.1104 - Right. It says customers who fail to interrupt will

19 be billed an additional charge, which is the higher of two

20 times the monthly demand charge per kilowatt for the large

21 industrial rate classification multiplied by the kilowatts

22 that were not interrupted, plus any incremental costs in

23 supplying the energy. That's one of the charges?

24 MR. LARLEE: Yes.

25 Q.1105 - Right. And the costs of incurred for replacement

2 energy to supply the firms -- supply financially firm export
3 obligations, correct?

4 MR. LARLEE: Correct.

5 Q.1106 - So if they don't interrupt, they get charged with
6 these fees and they would apply just to the kilowatt hours
7 that interrupted -- that they have refused to interrupt at
8 that particular time, correct?

9 MR. LARLEE: For the kilowatts that weren't interrupted,
10 yes.

11 Q.1107 - Yes. Now if I compare that and take into account --
12 and you would agree with me 20 hours of interruption over
13 the last six years doesn't appear to be a situation that
14 occurs very often or for very long periods of time, Mr.
15 Larlee?

16 MR. LARLEE: Well that depends on your perspective. I think
17 if you talk to some of the large account managers and
18 their discussions with customers, these customers feel
19 that it is plenty frequent enough.

20 Q.1108 - Okay. Plenty frequent enough. But it is not so
21 frequent that they don't want to take surplus -- they are
22 prepared to take surplus power as opposed to contract for
23 firm transmission, isn't it?

24 MR. LARLEE: No.

25 Q.1109 - It's not? It would -- the customer would prefer to

2 take firm transmission and not have to worry about being
3 interrupted and pay the extra costs of buying the firm
4 transmission?

5 MR. LARLEE: The customers continue to take the rate, so
6 obviously they think its of some value to them to take the
7 rate.

8 Q.1110 - Right. And you would agree with me, if we go back to
9 the first of my cross examination, since you have
10 introduced the surplus power, there has been a tremendous
11 increase in the purchase of surplus power by industrial
12 customers?

13 MR. LARLEE: Well the surplus power, it wasn't in existence.
14 It came about coincident with the introduction of
15 mechanical pulping. So, yes, there has been an increase
16 in surplus power.

17 Q.1111 - Yes. Let's just go on here a little bit and explore
18 this idea of how it relates to export sales a little bit.

19 Suppose that Genco has the opportunity to sell power in
20 the export market -- and we will just use numbers -- at
21 \$75 per megawatt hours, and let's say it costs Genco --
22 pull a number out -- say \$55 per megawatt hour to generate
23 it.

24 And let's suppose that Disco has to provide the energy to
25 the surplus interruptible customers at 55 plus say the

2 \$9. My question is is there a chance that Genco would be
3 losing \$20 a megawatt hour in export sales that it could
4 otherwise earn if it was supplying the surplus and
5 interruptible customers at that time?

6 MR. MAROIS: Well your maths might be right, but it's a
7 question of correctorization. I mean, the intention of
8 the export market is to sell excess supply and what's
9 available after serving in-province load. So definitely
10 if you serve the interruptible load or surplus load, you
11 are going to have less power to export. So the maths
12 might be right, but the intent is -- again the purpose of
13 export sales is to maximize the value of your assets once
14 you have served in-province load.

15 Q.1112 - Well let's go with that. So I have got a sale. I am
16 sitting here Mr. Genco and I can sell electricity to New
17 England for \$75 a megawatt hour and the best I am going to
18 get from it based on your pricing to the industrials are
19 \$64 a megawatt hour. And then I cover the surplus and
20 interruptible customers first, is that correct? That's
21 in-province requirements?

22 MR. MAROIS: Yes.

23 Q.1113 - So I would lose \$11 a megawatt hour because I am
24 supplying the surplus customers in New Brunswick and not
25 able to make the profit down to New England, correct?

2 MR. MAROIS: Well, you can bring your example to the
3 extreme. If we could sell all our power at a better price
4 to the export market, would be better off in serving all
5 our in-province loads? So I mean, that's a fictitious or
6 that's a very --

7 Q.1114 - Why don't you interrupt them and make the profit?

8 MR. MAROIS: Well why don't we stop serving all in-province
9 load and make more profit?

10 Q.1115 - I didn't say that. I'm just talking about guys that
11 are willing to not make firm commitments. If they want to
12 make firm commitment that would be fine too.

13 MR. MAROIS: The objective of the rate is to interrupt them
14 for operational reasons, not for economic reasons.

15 Q.1116 - Okay. So I am correct at least then that there would
16 be some sales opportunities lost in New England if you
17 were supplying surplus interruptible load to your
18 industrial customers?

19 MR. MAROIS: It could occur.

20 Q.1117 - So I think my next question was is that the policy
21 rationale for this is you see it as your mandate to serve
22 all of your New Brunswick load whether it's firm demand or
23 surplus load before you venture on to the outside markets?

24 MR. MAROIS: The only exception to that is our firm export
25 obligation for example to serve P.E.I.

2 Q.1118 - Sure. I understand that. But again the question I
3 want to get at is you have some policy rationale for
4 foregoing the profits. And then my question is does Disco
5 feel some obligation to provide the low market prices to
6 interruptible and surplus customers? Is there a policy
7 obligation there?

8 MR. MAROIS: Well I think the rationale was spelled out
9 clearly in the IR recorded previously. I mean, decreasing
10 of these rates occur at any given time where there is a
11 situation to address, and that's very typical. I have
12 seen it other utilities where you have got a situation --
13 the example here is for surplus energy. I mean, the
14 industry was facing significant investments to really
15 transform their process from chemical process to a more
16 mechanical process which was very energy intensive. And
17 the solution that was found was to use this product as a
18 win-win solution.

19 Q.1119 - So these customers that switched to mechanical pulp
20 processes, why didn't you say to them, okay, boys, we want
21 to know your firm commitment, and, yes, we will supply
22 that to you on a firm basis? You know, why do we let them
23 off the hook not having to contribute to any of the fixed
24 costs of your plant operation by simply paying for
25 variable costs? Why do you let them off the hook?

2 MR. MAROIS: It's not letting them off the hook because you
3 get something in return. First of all, I was not part of
4 the decision many moons ago, but again this is a very
5 typical -- I even -- I don't know which expert in this
6 process said that we should look at having more
7 interruptible products and services. I mean, it's very
8 typical. It's a good way to use your system. So in any -
9 - I challenge you, in any jurisdictions, gas, electricity,
10 any utility has a form of interruptible service where the
11 utility gets something in return, and in return you offer
12 a better price. It's a quid pro quo that's fair for
13 everybody.

14 And another benefit is it helps secure or consolidate the
15 firm load of those customers. So it's truly a win-win.

16 Q.1120 - Well there is a win-win for NB Power perhaps and for
17 the customers, but there is a lose-lose for someone else
18 because we are foregoing lost sales opportunities. And my
19 question is, you know, these customers -- your surplus
20 customers, they are not contributing to the cost of
21 building new capacity on the pricing, correct?

22 MR. MAROIS: No, because they don't need capacity.

23 Q.1121 - But they are having the right to claim the benefits
24 of the capacity that's already there?

2 MR. MAROIS: Well if you have the residential customer that
3 is willing to be interrupted in the dead of winter, we
4 could design a rate accordingly. They are a totally
5 different service for different customers.

6 Q.1122 - And I might agree with you there, Mr. Marois, but the
7 history says 20 hours in six years. That's what the
8 history says. I will leave it at that. Now do surplus --
9 I have one last question.

10 MR. MORRISON: Let the witness answer. You put a question.

11 MR. HYSLOP: I didn't put a question.

12 MR. MORRISON: Well then save it for argument, Mr. Hyslop.

13 MR. HYSLOP: Thank you.

14 MR. LARLEE: I think it's interesting to look at the IR 29
15 again because you are talking about the history of
16 interruptions. Particularly if you look at 2004. In 2004
17 -- you will probably remember the winter of 2004 because
18 it was one of the coldest winters on record, and you can
19 see that in that year there were several interruptions.
20 So when it's needed, when it's most useful, that's when we
21 use it. So I just wanted to draw your attention --
22 although you can look at several years but when you look
23 at years with very extreme weathers -- very extreme
24 weather, it's a very useful product for all customers.

25 Q.1123 - Well just for the record, we had one, two, three --

2 four interruptions in January of 2004, for a total of -- my
3 calculation, 10 hours, correct?

4 MR. LARLEE: Yes. This is interrupting continuous process
5 operations which is very, very costly to these customers.

6 Q.1124 - Now just going on again, one last point. When you --
7 just referring you back to page 12 of the tariff again.

8 And I refer you to the paragraph, second from the bottom.

9 And I will read it into the record and have you confirm
10 it. "Customers are required to interrupt surplus energy
11 to meet financially firm export obligations. When surplus
12 energy is interrupted to meet financially firm export
13 obligations, the customer is reimbursed 50 percent of the
14 cost of replacement energy that would have been otherwise
15 incurred to supply the export sales." Confirm that, Mr.
16 Larlee?

17 MR. LARLEE: Yes.

18 Q.1125 - And as I understand it then is that if for firm
19 export sales there was a profit being made and you had to
20 interrupt, you would split the profit on that equally with
21 the customer that you interrupted, correct?

22 MR. LARLEE: Yes. And there is an IR responding to that
23 very question.

24 Q.1126 - Yes. I understand that. So what I am getting at
25 here is that these customers benefit from being

2 interrupted even though you are supplying them with surplus
3 energy?

4 MR. LARLEE: This is reflecting the fact that Disco serves
5 in-province customers first.

6 Q.1127 - Yes.

7 MR. LARLEE: So if there is a benefit to interrupt these
8 customers, then that benefit is shared with them.

9 Q.1128 - And that goes back to the principle that I think Mr.
10 Marois was stating that in all these issues with types of
11 energy, it's the Province's customers first, but not the -
12 - before we look at exports, is that correct?

13 MR. LARLEE: Yes, that's correct.

14 Q.1129 - And have you ever done -- Mr. Larlee, have you ever
15 completed an analysis with respect to the trade-off
16 between firm service and surplus service taking into
17 account it might be less expensive to simply take the
18 surplus service then and pay the risks of the
19 interruptions?

20 MR. LARLEE: I am sorry. But you are going to have to
21 repeat the question. I don't quite understand.

22 Q.1130 - Well look, I will run it through -- run it through a
23 little more slowly. I apologize. And what I am getting
24 at is that a customer taking a surplus energy could have a
25 cost attached to him if he was asked to be interrupted and

2 he refused to do so? Correct?

3 MR. LARLEE: You are saying the customer would have a cost?

4 Q.1131 - Sure. If he didn't interrupt when you asked him to,

5 he has a penalty attached to it, correct?

6 MR. LARLEE: That's correct.

7 Q.1132 - Correct. And have you ever analyzed whether that

8 penalty is less than or greater than what he would have

9 paid for firm service if he decided to go that route?

10 MR. LARLEE: No, we haven't done any analysis like that.

11 Q.1133 - Just one sec'.

12 MR. HYSLOP: Mr. Chair, this concludes our questioning in

13 this area. I note it's five to 12:00. I could start

14 another area or we could leave it till after the break and

15 work our way through. I think the rest of the questioning

16 I have would probably take the afternoon.

17 CHAIRMAN: I am sorry. I missed that. Commissioner Sollows

18 was talking to me at the same time. Repeat that? You

19 want to know if we break now for lunch, which makes sense?

20 MR. HYSLOP: Yes.

21 CHAIRMAN: My question is that how much longer will your

22 cross, which includes Mr. Marois on the panel, be?

23 MR. HYSLOP: This is it. I don't think I will be into any

24 more policy issues which would involve Mr. Marois. I

25 think I have covered them in this line of questioning. I

2 don't believe the rest of my cross examination is -- deals
3 with anything except the CCAS.

4 CHAIRMAN: Well some of the panel will probably have some of
5 questions. So unfortunately you will have to stay here
6 for lunch, Mr. Marois. We will come back at quarter after
7 1:00.

8 (Recess - 12:00 p.m. - 1:15 p.m.)

9 CHAIRMAN: Now I understand the undertakings are ready, are
10 they, Mr. Morrison?

11 MR. MORRISON: That's correct, Mr. Chairman. I think we
12 will do them one by one.

13 CHAIRMAN: Good idea.

14 MR. MORRISON: The first one is undertaking number 1 on
15 September 28th, and copies have been given to the
16 Secretary and copies are available and are being
17 distributed.

18 CHAIRMAN: And that's pursuant to an undertaking at my
19 request, and it's a document that is 21 pages long plus a
20 cover page, and it's the load research manual. I presume
21 that's the Edison --

22 MR. MORRISON: Edison Illuminating Company's load research
23 manual. I think it's chapter 4. And there is also a
24 reference of course to documents that are already in
25 evidence, Mr. Chair.

2 CHAIRMAN: So that will be A-27.

3 MR. MORRISON: Thank you, Mr. Chairman. Undertaking number
4 2 on September 28th, another response to an undertaking
5 from Mr. MacNutt to Mr. Marois, and the response has also
6 been given to the Secretary.

7 CHAIRMAN: Okay. That's A-28.

8 MR. MORRISON: The next one, Mr. Chairman, is undertaking
9 number 3 on September 28th. Again it was a request from
10 Mr. MacNutt to Mr. Marois and that response has been given
11 to the Secretary.

12 CHAIRMAN: That's A-29.

13 MR. MORRISON: As I mentioned this morning, Mr. Chairman,
14 undertaking number 4 on September 28th is not ready and we
15 are making inquiries of StatsCan on that one.

16 The next undertaking is undertaking number 5 on September
17 28th, again a request from Mr. MacNutt to Mr. Marois, and
18 the response I believe you have.

19 CHAIRMAN: Slow down, Mr. Morrison. You will wear the Board
20 Secretary out.

21 MR. MORRISON: I will, Mr. Chairman. We can't have that
22 happening.

23 CHAIRMAN: No. A-30.

24 MR. MORRISON: The next one, Mr. Chairman, is undertaking
25 number 6, again from September 28th, requested by Mr.

2 MacNutt to Mr Marois. I guess I could have read this one on
3 the record. The answer is no. But there is a document in
4 support.

5 CHAIRMAN: That's A-31.

6 MR. MORRISON: And undertaking number 7 on September 28th,
7 again from Mr. MacNutt to Mr. Marois, and the response is
8 being distributed by the Secretary.

9 CHAIRMAN: That's A-32.

10 MR. MORRISON: And finally, Mr. Chairman, undertaking number
11 8 on September 28th, requested by Mr. MacNutt to Mr.
12 Ketchum, and that response is being circulated.

13 CHAIRMAN: That's A-33.

14 MR. SOLLOWS: Thank you, Mr. Chairman, Panel. I have a
15 number of questions that I have jotted down over the few
16 days that we have had of the hearings and they are not
17 directed at anyone in particular but I have sort of
18 limited the ones that I think you, Mr. Marois, might want
19 to contribute to. And I will have others later perhaps.
20 The first thing that came to my mind where there was a
21 discussion about where the rates and load forecasting
22 group was. Originally it was in Disco and then it was
23 moved back to the holding company. Why was that done?

24 MR. MAROIS: You are talking about the transfer of the
25 function of preparing the load forecast?

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2 MR. SOLLOWS: Yes. My understanding it was -- we had a
3 reference in the testimony that it was originally in the
4 distribution company but then at some point after the
5 initial reorganization the decision was to move it back to
6 the holding company. I guess my question is why?

7 MR. MAROIS: Quite candidly I'm not too sure there was lots
8 of rationale put into it. It's really when I joined the
9 company last fall one of my first mandates was to manage
10 the upcoming rates application and I needed to put
11 together a team, and I felt that Mr. Larlee should be part
12 of my team more from the regulatory expertise he brought
13 but at the same time he brought with him the load forecast
14 function.

15 Even though a final decision has not been made it's almost
16 definite that he is going to come back in the Disco -- him
17 and his team will come back in the Disco organization.

18 MR. SOLLOWS: Okay. Thank you very much. There was also
19 some discussion on the financial responsibility that Disco
20 has under the Lepreau power purchase agreement and the
21 notion of looking behind it. A general question. It
22 wasn't clear from what I heard and it may be elsewhere in
23 the evidence, I haven't seen it, are there limits on
24 Disco's financial responsibility for a irradiated fuel

2 management, or is there some future contingent risk to Disco
3 for unforeseen costs in the costs of the irradiated fuel
4 management?

5 MR. MAROIS: This would be subject to check, but my
6 understanding is there is no limits, because the costs of
7 dealing with the -- with fuel management is outside of the
8 company's overall control. It will be dictated by the
9 regulators. So my understanding is there are no limits
10 but subject to check.

11 MR. SOLLOWS: So the -- there is unrestricted ability of the
12 Genco -- or the nuclear company to pass on those costs to
13 the distribution customers rather than have the
14 shareholder bear them?

15 MR. MAROIS: That's my understanding. But those costs have
16 to be dictated by --

17 MR. SOLLOWS: By the federal regulators, yes.

18 MR. MAROIS: Yes.

19 MR. SOLLOWS: I understand. There is another issue that
20 arose and a lot of the questioning that has gone on here
21 and a lot of the responses related to the better
22 perspective we have of what is driving, for lack of a
23 better word, your costs that you get by partitioning
24 residential users into what are essentially non-all
25 electric and all electric customers. Electric heating

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2 customers I understand would typically -- based on the
3 evidence you filed would typically cook with electricity
4 and would use electric hot water heaters. So essentially
5 an electric heating customer is an all-electric customer.

6 And there you are modelling, you are separating the two
7 classes because you say -- you feel it gives you a better
8 perspective on what is going on.

9 But at the same time on the general service side you have
10 got all-electric and not all electric and you are
11 combining them. So I am just wondering why the asymmetry
12 there? Why are we not going in the same direction for
13 both classes?

14 MR. LARLEE: In the case of residential it really is an
15 estimate to try and separate the electric heat --
16 customers who use electric heat versus non-electric heat.

17 I think you are right in your assertion that both
18 customers who use electric heat also have electric water
19 heat and electric cooking, so forth. But it was really
20 done for two reasons. One was to -- so that we could show
21 the impact any changes to the defining block structure
22 would have on the revenue to cost ratio.

23 And two was we had -- load research stated that we thought
24 we could get a reasonable estimate of what that
25 segmentation would bring.

2 So it was felt that it would have some value, and the
3 primary value would be as providing -- as all revenue cost
4 ratios do -- providing some input into rate design
5 decisions in the future.

6 In the case of general service the rate classes exist. We
7 have an all electric rate class and we have a non-all
8 electric -- or a standard rate class, if you will. And
9 there is no cost basis really for those two separate rate
10 classes. So -- and that's our argument essentially for
11 merging the rate classes.

12 MR. MAROIS: But maybe just to clarify one thing. As for
13 the residential the only segmentation we did was from a
14 cost perspective. We are not recommending different
15 rates. We just want to better understand the cost
16 drivers.

17 But from the general service perspective we do have two
18 rates and there is the theoretical preoccupation that the
19 second rate, the general service electric does not reflect
20 cost. So there is no justification to have the rates.
21 But over and above that managing that rate is very, very
22 difficult. And so there are some practical considerations
23 as well as cost --

24 MR. SOLLOWS: Thank you. There was a discussion earlier
25 this morning about block size for the residential rate.

2 Can you tell us what the median monthly consumption is for the
3 residential class, median being the 50 percent point?

4 MR. LARLEE: I don't have that particular --

5 MR. SOLLOWS: Could you provide it?

6 MR. LARLEE: Well just before we go there, I can provide you
7 with what the average bill is approximately. It's in the
8 order of 1,400 kilowatt hours.

9 MR. SOLLOWS: No. I particularly don't want the mean. I'm
10 more interested in knowing what the median is, the middle
11 point.

12 MR. LARLEE: Okay. I think we could provide that.

13 MR. SOLLOWS: Thank you. There was just before we broke a
14 discussion about the revenues that you get from
15 interruptible and surplus energy customers and the revenue
16 that you get from the firm service that are supplied to
17 the same group of customers. I mean, I understand and I
18 think it's clear that most customers have both firm
19 service and interruptible/surplus service. And so they
20 aren't just one or the other. They tend to be both, is
21 that correct?

22 MR. LARLEE: Yes, that's correct.

23 MR. SOLLOWS: Okay. Can you put on the record what your
24 revenue would have been if all of that
25 interruptible/surplus revenue had been in fact billed at
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2 the firm rate if we -- since we don't really know one way or
3 the other, making the assumption that the customers would
4 still have bought it at the firm rate, how much more
5 revenue would you have generated? And I guess following
6 on from that, what impact would that have had on your net
7 income over those same -- that same time period, that last
8 five years? Can you provide that?

9 MR. LARLEE: I believe there is an IR along those lines.

10 MR. SOLLOWS: Oh, is there? Okay.

11 MR. LARLEE: You can look in that and --

12 MR. SOLLOWS: So you can direct that -- my attention to that
13 at some point.

14 MR. LARLEE: Very good.

15 MR. SOLLOWS: The other question that just arose in my mind
16 as that discussion was going on is it's certainly clear to
17 me how the interruptible tariff as it is structured -- I
18 can see how that could have some benefit to Genco, and I
19 can certainly see how it would benefit the interruptible
20 customers. It's not clear to me where the benefit lays to
21 Disco. Could you elaborate on that, where the benefit is
22 for Disco as distinct from Genco?

23 MR. MAROIS: Well Disco is the one that has to have the
24 capacity to provide service to its customers. So under
25 the Act Disco is the party that needs to have the supply

2 at its disposal. So as part of restructuring, Disco has
3 contracted for all the energy and capacity generated by
4 the Heritage assets. So Disco has a benefit of trying to
5 prolong the availability of these assets to meet capacity.
6 I will give you an example. I mean, with the upcoming
7 refurbishment of Lepreau, and I believe there has been
8 some evidence to this effect is we will have a challenge
9 during their 18 month outage because Lepreau will be down.
10 Well if all of a sudden you take those interruptible and
11 surplus customers and convert them into firm, Disco is
12 going to have to find additional capacity in the market
13 but probably at a higher price. So at the end of the day
14 Disco is the one footing the bill.
15 Genco is the provider of the service in many cases but
16 Disco is footing the bill. So Disco definitely has an
17 interest of trying to maximize the value it gets from the
18 assets it has under contract.

19 MR. SOLLOWS: So if I'm understanding this, in the context
20 of the White Paper and the Electricity Act, the view here
21 is not so much that the -- well maybe I should clarify
22 this. Do these large customers that have interruptible or
23 surplus service, do they not have the right to contract
24 directly with Genco to buy that energy directly from
25 Genco? I thought that was the whole point of the market

2 restructuring, to allow them to participate in the market.

3 MR. MAROIS: Ultimately yes, but my recollection and subject
4 to check is it is a five year moratorium where Genco
5 cannot be the one providing service to somebody that
6 leaves the system.

7 MR. SOLLOWS: So it's impossible for the people -- the
8 industrial customers that are now getting surplus or
9 interruptible service. It's impossible for them to source
10 that service directly from Genco?

11 MR. MAROIS: For the next five years.

12 MR. SOLLOWS: Why would that be?

13 MR. MAROIS: That's a good question. I am just trying to
14 think. I mean, I know it's part of the PPA. I would be
15 guessing to determine why it's like that. I'm trying to
16 remember if it was a recommendation of the market design
17 committee.

18 MR. SOLLOWS: Because I'm just, you know, running this
19 through as I see it evolving here. It would seem to solve
20 a lot of problems if -- since really this doesn't use
21 Disco's assets at all. It would be simpler to simply have
22 the interruptible and surplus customers buy direct from
23 Genco and reduce your nomination by the -- well it's
24 interruptible anyway. It isn't in your nomination if I
25 understand correctly. So there would be no real impact to
26

2 you other than you wouldn't have to worry about this confusion
3 over cost allocations.

4 MR. MAROIS: Well I don't know what it would change at the
5 end of the day. I mean, Disco has contracted for all the
6 capacity of the Heritage assets. So we have all the
7 capacity contract. And really it's just part -- I mean,
8 Genco right now doesn't have any capacity -- or any energy
9 to serve those customers. I mean, it's really Disco's
10 customers. These customers could leave tomorrow within
11 the prescribed -- to go to another source than Genco.
12 I mean, that's totally -- my understanding of this I guess
13 if I were to speculate as to why there is this five year
14 moratorium is to help foster a market place where -- I
15 mean, if somebody wants to leave they would have to go to
16 another third party than Genco. So to have a third party
17 start providing service to these customers.

18 MR. SOLLOWS: Okay. We also had some discussion about
19 interruption durations and frequency of interruptions and
20 it became clear that there is a penalty associated with
21 the interruptible or surplus service that is associated
22 with their refusal to interrupt.
23 Have there ever been any cases of refusal to interrupt and
24 is it a frequent occurrence?

25 MR. LARLEE: No, I don't think it is frequent. I do believe
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2 it has happened, penalties have been levied, but not a
3 frequent occurrence.

4 MR. SOLLOWS: But it doesn't happen frequently.

5 MR. LARLEE: No.

6 MR. SOLLOWS: So presumably the penalties would seem to be
7 working.

8 MR. LARLEE: Yes.

9 MR. SOLLOWS: Another part of the evidence that wasn't
10 entirely clear to me in the discussion purposes -- and
11 maybe I just missed something -- I heard it said or at
12 least I -- I'm not sure it was said. But what I heard was
13 that the move in the forest products industry towards
14 mechanical pulping led to the introduction of the surplus
15 power rate.

16 Is that -- do I have it the wrong way around? Or I would
17 just like you to elaborate on that, if I have it right or
18 correct maybe, because I am having a hard time
19 understanding how one could cause the other.

20 MR. LARLEE: I believe what I said was they are coincident
21 in that they happened at the same time.

22 MR. SOLLOWS: So one really didn't cause the other?

23 MR. LARLEE: No. I think it just relates to this idea that
24 it was a win win situation. There was an opportunity for
25 industry to make a change and NB Power had surplus

2 capacity so that it was -- it was really a win win situation.

3 MR. SOLLOWS: How did NB Power come to have the surplus
4 capacity at that point in time?

5 MR. LARLEE: I believe it was through the construction of
6 Belledune.

7 MR. SOLLOWS: Okay. No I think, Mr. Larlee, you pointed out
8 that interruptions are costly to the customers that are on
9 interruptible or surplus service. And that is one of the
10 reasons why they would rather not. And Mr. Marois, you
11 indicated I think that the view that residential customers
12 would probably not tolerate such interruptions.

13 My take on this is when I look at the table that we had,
14 one or two hour a year for the most part, my own
15 experience in my residential service is I'm interrupted
16 for one or two hours a year perhaps in the middle of
17 winter just because of a distribution fall.

18 So we certainly tolerate that level of interruption. I'm
19 wondering what lies behind the apparent decision not to
20 offer interruptible rates to other rate classes?

21 MR. LARLEE: One thing that you should all be clear about is
22 that when we say we are interrupting industry or
23 interrupting interruptible or surplus load, they are
24 actually reducing their load to their -- at least to their

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firm amount.

So they are not actually being disconnected. They are just being reduced. I just wanted to make that clear. So obviously providing the same type of capability to residential customers would be quite difficult.

MR. MAROIS: I guess to try to answer your question, my experience is I have never seen any type of interruptible service to what would be characterized firm customers. So customers are using service for heating or I mean typically you offer interruptible service to industrials that have the ability to manage to a certain degree the process.

I see a difference between what you have just characterized as an outage for a residential customer. I mean, typically those are not planned and they are affected by storms or incidents of that nature, while what we are talking about here in terms of having interruptible rate is to help manage the capacity that we have at our disposal or the energy that we have at our disposal.

So I see those as a very different nature. And definitely the type of outages that are faced by our firm customers we try to minimize that as much as we can. I mean, that is our objective.

MR. SOLLINGS: Yes. And I think realistically you do a

2 remarkably good job. I mean, certainly I have no complaints
3 with the level of service that I have seen and I don't
4 hear many complaints at the level of distribution service.
5 But I am left to wonder if I or another residential
6 customer might enjoy the opportunity to do without some
7 portion of my demand during the coldest winter days in
8 exchange for a reduced price on the energy that I do buy.

9 MR. MAROIS: I see Mr. Ketchum wanting to say something but
10 I just want to make a point about the practical nature of
11 that. I mean, when you have a huge industrial, I mean,
12 you can manage that. I mean, we have got how many
13 customers in terms of interruptible? So we have roughly
14 40 interruptible customers and that is relatively easy to
15 manage.

16 But when you start doing it at a small incremental level
17 like a residence, I mean, it would be totally impractical
18 in my mind. Even if in theory you can imagine such a
19 scenario.

20 MR. SOLLOWS: Have you done cost benefit analysis to
21 establish that it's not practical?

22 MR. MAROIS: No. I mean, I think it would require -- I
23 mean, could do it with some type of equipment, but it
24 would totally be different structure than what we have for

2 the industrial.

3 MR. KETCHUM: I think that that -- you know, that -- I was
4 just going to confirm Mr. Marois' observation about how
5 this is typically deployed. It usually is for large
6 industrial customers that are easy to contact and where
7 you can have some control.

8 There are, you know, new devices on the market where there
9 are smart meters and that sort of thing where there could
10 be some control of residential loads but these are
11 expensive and they are coming in to play here in Canada.
12 But that's a bit of a different thing than interruption.
13 Can you imagine trying to call -- the cost of trying to
14 call, for example, particular residential customers that
15 have agreed to be interrupted and then interrupt them for
16 some --

17 MR. SOLLOWS: No, I can certainly imagine that that would be
18 a horrendous task. But of course my mind goes back to
19 conversations I have had with people 15 years ago with
20 ripple controllers on neutral lines. I mean, the
21 technology has been around 30 years and commonly employed
22 in other jurisdictions.

23 And I am just wondering why just from the point of view of
24 equity, NB Power Disco wouldn't offer the same type of
25 service, an interruptible service to all of its

2 rate classes. But I guess that's just -- we'll leave it at
3 that.

4 MR. KETCHUM: That would need to be analyzed in terms of the
5 cost and I think there are experiments in Canada going on
6 with regard to that. And the results of those will be
7 interesting to see. If they can show a cost benefit now
8 that the cost of some of these devices has in fact come
9 down somewhat.

10 MR. SOLLOWS: Okay.

11 MR. NELSON: Mr. Marois, under exhibit A-3, under Mr.
12 Larlee's direct evidence, schedule 6, you have listed
13 223,000 hot water heaters. And what is the percentage of
14 that would be attributed to residential? Both classes of
15 residential?

16 MR. LARLEE: Subject to check, it is about 190,000, I
17 believe.

18 MR. NELSON: 109,000 to residential?

19 MR. LARLEE: 190.

20 MR. NELSON: 190. Also on the same page, schedule 6,
21 miscellaneous revenues, \$15,001,000. Where are those
22 revenues coming from?

23 MR. LARLEE: I believe there is an IR that we have got that
24 detail. But you are looking specifically at line 16?

25 MR. NELSON: Line 16.

2 MR. LARLEE: Included in there is things like inter-company
3 revenue between Disco and other NB Power group of
4 companies. Revenue from Aliant, pole tax revenue.

5 MR. NELSON: I notice that you have 60 percent of it
6 allocated to residential customers.

7 MR. LARLEE: Yes. Because the allocation of miscellaneous
8 revenues is based on revenue.

9 MR. NELSON: With the 100 -- you said approximately 190,000
10 water heaters that would be used in the residential
11 sector, in the residential classifications, why wouldn't
12 that revenue be attributed to the residential sector
13 classifications?

14 MR. LARLEE: Water -- in line 16, water heater revenue isn't
15 included there. It is separately in line 11. So it is --
16 water heaters is actually a separate classification for
17 the purpose of the study and hence gives us a revenue to
18 cost ratio for water heaters themselves.

19 MR. NELSON: But that is just strictly for the rental of the
20 water heaters and all, not the energy used?

21 MR. LARLEE: That's right. It is just the rental revenue on
22 this schedule and of course the cost of those units and
23 maintaining them in the cost schedules.

24 The revenue related to the energy is part of the energy
25 consumption of the residential class. And general

2 service class as well because there are rentals in the general
3 service class.

4 MR. NELSON: Okay. Thank you.

5 MR. DUMONT: You mentioned a minute ago the smart meters.

6 You are supposed to buy 200 of them or something or 20 of
7 them for a study at a cost of I think it was \$60,000 or
8 something?

9 MR. KETCHUM: Yes. We were talking about load research
10 meters before. Mr. Larlee referenced that number of 200
11 which gave rise to the Chairman's question about the
12 adequacy of the number.

13 MR. DUMONT: Okay. Those meters would be time of use meters
14 too? That would include a time of use meter?

15 MR. KETCHUM: They would have, yes, time clocks on them if
16 you will or that sort of thing digitally.

17 MR. DUMONT: I know that time of use meters are used in
18 other jurisdictions.

19 Do you foresee in the near future the consumers of this
20 province having the time of use meters to save energy or
21 the cost of their energy?

22 MR. KETCHUM: Well, that was a subject as well of some
23 studies that had been done in the past, as I understand
24 it. And the conclusion at least at this point in time is
25 that the cost benefit just doesn't prove out for that sort

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of thing.

We understand, for example, too that Nova Scotia Power has some time of use rates. And there hasn't been a great deal of take-up for that particular kind of rate. So I mean, it is something that was advocated to a considerable extent in the past and that sort of thing.

But the movement now is more toward the idea of the business and energy becoming unbundled and becoming competitive on the energy side of things. And that has some different implications in terms of, you know, how those costs flow through to customers.

MR. DUMONT: You mentioned cost benefit. Was that cost benefit to the energy or cost benefit to the consumer?

MR. KETCHUM: In other words, the consumer doesn't save enough to -- in the consumer's mind, to make it worthwhile to try to keep track of what he is consuming at different points in time.

The savings just doesn't seem to be greater than the inconvenience, if I may. So that is my take on what -- is that correct, Mr. Larlee?

MR. LARLEE: Yes. And it is included in a response to one of the IRs. There is a seven or eight-page discussion of the work we did on time of use rates back in 2002, I believe.

2 And basically that was our finding, that as a result of
3 the cost of generation, the combination of cost of
4 generation and the structure of the current residential
5 rate, the time of use rate that we had developed didn't
6 provide the savings that really customers are looking for,
7 couldn't provide the savings that customers were looking
8 for in order to basically justify the inconvenience.

9 That is not to say that time of use rates will never be
10 viable. There is significant work being done in metering
11 in general to meet the Ontario initiative, to have smart
12 meters on every residential home. And we are anticipating
13 that that will drive down the cost of metering, to do
14 things like time of use.

15 Unfortunately the term "smart metering" is quite nebulous.

16 And it means different things to different people. The
17 meters that we are buying for load research, the 200
18 meters to upgrade the load research sample really are
19 going to be specific to do that particular task.

20 The communication capability is going to be strictly on
21 site. There isn't going to be any remote communication
22 capability. But they will have the ability to basically
23 take a meter reading every 15 minutes, so that we will get
24 load profile information on those customers, which is what
25 we are trying to do with load research.

2 MR. DUMONT: Okay. You mentioned the year 2002. Don't you
3 think the consumer thinks differently today than the
4 consumer thought in 2002 with the rate hikes that are
5 announced?

6 MR. LARLEE: Well, I'm sure they think differently. And I
7 think it is something that we have to keep our eye on and
8 make sure that when it does look viable that we give it
9 some serious thought as to reintroducing some type of
10 voluntary time of use program for residential.

11 MR. DUMONT: Because I'm pretty sure now the consumer
12 response will be a lot different in 2002 if you checked.
13 Thank you.

14 MR. NELSON: Mr. Larlee, could you get back to us and tell
15 us how many, the exact number of water heaters are in
16 residential, just to clarify that?

17 MR. LARLEE: Yes. I can do that.

18 MR. NELSON: And could you also give us the IR the
19 miscellaneous revenue is under, the question was asked?

20 MR. LARLEE: Yes.

21 MR. NELSON: Okay. Thank you.

22 CHAIRMAN: Mr. Ketchum, in this province which is the first
23 all-digital telephone network in the world, you can now
24 make 10,000 phone calls with one phone call. You were
25 saying what an impossible task it would be to inform

2 residential customers to cut back on their electricity.

3 That is not a question. That is a statement. It was made
4 with pride, I might add.

5 MR. KETCHUM: Thank you.

6 CHAIRMAN: Getting back to the meeting, Mr. Larlee, which
7 appears to be my favorite topic, the 200 meters that you
8 are going to be purchasing has a capacity however to put
9 in a module into that meter to allow it to be read from a
10 remote location, does it not?

11 MR. LARLEE: Yes, they do. Most meters now have the
12 capability of hooking up essentially a modem where you tap
13 into the customer's phone line or a phone line, dedicated
14 phone line for that matter.

15 CHAIRMAN: And how much would additional cost of that meter,
16 which we established last week would be \$300, would it be
17 to have a module such as that?

18 MR. LARLEE: I don't have the exact numbers for that. I
19 would take a guess that it is \$100. It wouldn't be --

20 CHAIRMAN: Carrying on with meters for a minute, you have
21 just introduced A-27 at the commencement of this
22 afternoon's session. And of course I haven't had an
23 opportunity to commit that to memory. But it has to do
24 with a sampling and a method of sampling which both you
25 and Mr. Ketchum spoke to.

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2 Would I be wrong in saying that if you -- you know, the
3 most perfect sample is 100 percent of the universe. We
4 have no question about that.

5 But if you start reducing your sample down below what
6 every statistician would say would be right 19 out of 20
7 times within plus or minus 1 percent, every time you start
8 reducing your sample you have to bring human judgment to
9 bear on the choice in your sample.

10 Or vice versa, if you wanted to get less judgment
11 introduced by this sampling method, which I haven't read,
12 that if you increase the number of meters or the larger
13 sample size, then the less judgment you and your confreres
14 would have to bring in the choice of sample, is that
15 correct?

16 MR. LARLEE: Well, I guess the sampling technique described
17 there is an accepted sampling technique to get us the
18 types of accuracies, either, you know, 10 percent 19 times
19 out of 20 or within 5 percent 19 times out of 20, that are
20 generally accepted.

21 The theoretical sample sizes are well below what we
22 actually ended up doing for each of the strata or the
23 segments of the sample, in the order of 10, 11, 12 or 13
24 customers theoretically required. And we would up it to
25 what they call a practical limit of 20. So that that

2 basically allows for failed meters, customers that disappear
3 and so forth.

4 So I believe that the sampling technique used is one that
5 essentially eliminates as much judgment as is possible.

6 CHAIRMAN: With that number of meters?

7 MR. LARLEE: Using a lower number of meters than to a random
8 sampling but yet still achieving the accuracy required.

9 CHAIRMAN: The fact that my recollection of how you
10 described it, these are volunteer residential customers,
11 that you compile this bank of volunteers at one point in
12 time.

13 And from what I recollect from last week is that it was
14 your intention to pick 200 of them to put these meters in?

15 MR. LARLEE: No. The customers are picked from the entire
16 population. But once they are picked, then they are asked
17 essentially to volunteer.

18 If they decline then there is an alternate customer
19 preselected that we would then go and ask until we -- and
20 normally the customers very rarely decline until we fill
21 the samples.

22 CHAIRMAN: Okay. And Mr. Marois, in your response I believe
23 to one of Commissioner Sollows' questions, you were

2 talking about the advantage to Disco in that Disco has to
3 provide all of the electricity needs of all of your
4 customers including the time of the refurbishment of Point
5 Lepreau.

6 I'm sure you have now made estimates of over what period -
7 - or sorry, in what months you will probably have to go
8 outside of New Brunswick to purchase additional power.
9 Have you any idea in that -- what is it, 19 months that
10 they are looking to have Lepreau out of service?

11 MR. MAROIS: The estimate is 18 months.

12 CHAIRMAN: Okay. And how many months in that time period
13 are you looking to go purchase electricity outside of New
14 Brunswick?

15 MR. MAROIS: I don't have the exact numbers. But it is a
16 lot more specific than months. We are talking about hours
17 really. Because I mean, most of the time it will be okay.
18 But there is going to be some specific times, during
19 coldest days, things like that, where we will need to find
20 additional capacity.

21 So we are looking at -- I mean, Genco on our behalf is
22 looking at the options that are available right now in
23 terms of what is the best mix. And the sort of things we
24 are looking at, for example, as you probably are aware, we

2 are looking at renewable energy.

3 Well, if you could get some of that online prior to the
4 outages. So we will have to take all those things into
5 account to determine the optimal mix to meet the
6 requirements during the outage.

7 CHAIRMAN: Would Disco be prepared to interrupt the
8 interruptible/surplus customers for the entire period of
9 time that they have to go out and purchase additional
10 power?

11 MR. MAROIS: Well, we have even initiated discussions with
12 them to see if they can do more curtailment, so if they
13 can modify their processes to increase the level of -- the
14 amount of power that they can interrupt. So we are
15 working with them on that. So definitely that is part of
16 the equation.

17 One thing that is going to happen, as you probably are
18 aware, is the current generators will be run more. So I
19 mean, we are going to try as a company to minimize the
20 outages during that time frame. It is going to have an
21 impact on exports.

22 So all those things will be coming into play in terms of
23 optimizing the resources that are currently available.

24 CHAIRMAN: So you are telling me then that the interruptible
25 customers of NB Power at present are fully well aware that

2 they may be called upon to curtail or interrupt their supply
3 well in excess of the 20 hours that the Public Intervenor
4 was talking about?

5 MR. MAROIS: Well, I guess the way I would phrase it is we
6 are going to try to maximize the contribution of these
7 customers during the outage.

8 And it could mean -- well, I guess it could mean -- it
9 could mean more interruptions. But it also could mean if
10 they can bring more value to the system by maybe for
11 example modifying some of the firm load to interruptible
12 load, as an example.

13 So to increase the amount of -- or to decrease the amount
14 of capacity we need to supply, that is another way of
15 doing it. So it is not just the number of hours that is
16 important here as the amount of capacity we can free up.

17 CHAIRMAN: I can appreciate that. But are you and Disco
18 prepared to let the interruptible customers know in
19 advance of that refurbishment period that you are prepared
20 or not prepared to interrupt them whenever you have to go
21 outside of the boundaries of the province to purchase
22 energy?

23 MR. MAROIS: Oh, yes, definitely.

24 CHAIRMAN: All right.

2 MR. SOLLOWS: If I may, just to clarify, my understanding of
3 the question that the Chairman asked that I think gave
4 rise to this report or this photocopy of a chapter from
5 the Load Research Manual -- or maybe it is the whole
6 manual -- there is nothing in this that says the specific
7 assumptions that you have made.

8 You are still going to file the report that says -- that
9 is the study that you have done to do your sample
10 estimation, is that correct?

11 MR. LARLEE: No. My understanding of the undertaking was
12 just to provide a description of the process we followed.

13 MR. SOLLOWS: You don't have a written report indicating the
14 implementation of the calculations?

15 MR. LARLEE: We do.

16 MR. SOLLOWS: Could you file that?

17 MR. LARLEE: Yes.

18 MR. SOLLOWS: Thank you.

19 CHAIRMAN: Those are all the questions that this panel has
20 of Mr. Marois. And you are excused. And thank you for
21 your --

22 MR. MACNUTT: Mr. Chairman --

23 CHAIRMAN: Mr. MacNutt, do you have more?

24 MR. MACNUTT: No. Just a matter of clarification arising
25 out of Commissioner Sollows' questions.

2 I would just like to confirm and clarify that the question
3 Commissioner Sollows asked with respect to residential
4 median values of some sort, that was an undertaking that
5 was requested. And the panel agreed to provide it?

6 MR. MORRISON: That is correct, Mr. Chairman.

7 MR. MACNUTT: And then there was a second one with respect
8 to revenue in respect of interruptible and the billing of
9 surplus. I don't have the exact wording.
10 But was that understood to be an undertaking which the
11 panel agreed to provide?

12 MR. MORRISON: I believe that question has been asked and
13 answered as part of the IR. But I will provide the IR.

14 MR. MACNUTT: Okay.

15 CHAIRMAN: Why don't we take a break, Mr. MacNutt. And they
16 can check and let you know. We will take a 10-minute
17 recess now.

18 And before we do, I was interrupted in thanking Mr. Marois
19 for his attendance and testimony. And you are excused,
20 sir. Thank you.

21 MR. MAROIS: Thank you very much.

22 (2:10 p.m. - 2:20 p.m. - Recess)

23 CHAIRMAN: Mr. Hyslop, I have got a question. But you can
24 help me. In your cross this morning you were referring to

2 two responses -- or two charts that were involved in
3 Interrogatories, showing the interruptible and the surplus
4 customers.

5 Can you refer to that? I just had a question concerning
6 that particular one. It showed the number of customers in
7 the two classes by year.

8 Dr. Sollows has done it for me. Thank you. That is okay.

9 So this is IR 38. And that is Public Intervenor IR 38.
10 And it is page 3 in that. It is A-16. I broke my own
11 rules.

12 MR. HYSLOP: It is not in the little book. It was one of
13 the IR's we looked at outside of the little book.

14 CHAIRMAN: Right. Thank you.

15 My question, Mr. Larlee, is that if we look at that page 3
16 of IR 38 it shows the numbers of customers. And we are
17 all painfully aware in this province of the number of
18 mills that have closed, some temporarily but some it
19 appears permanently, well, so permanently that they have
20 torn one of them down.

21 I presume that some of those customers of NB Power that
22 now no longer are operating are included in that list of
23 customers there. Would that be correct?

24 MR. LARLEE: Yes, it would be.

25 CHAIRMAN: Can you tell us where they sat? Or were they
26

2 over in surplus? Were they on interruptible?

3 MR. LARLEE: I can't tell you that right off. But I can
4 undertake to --

5 CHAIRMAN: Would you find out for us and just let us know
6 before the hearing is over? In other words in 2006-2000'
7 -- your next fiscal period, how many interruptible
8 customers are you anticipating as well in surplus? Good.
9 Thank you.

10 And go ahead, Mr. Hyslop.

11 MR. MORRISON: Perhaps, Mr. Chairman, before Mr. Hyslop gets
12 started, there were a couple of inquiries from the
13 Commission.

14 The first was a question as to if all the interruptible
15 load was filled at firm rates. And that information is
16 found at exhibit A-16. And it is PI IR 38 which is the
17 one we were just looking at I guess. And it is more
18 specifically tables 4, 5 and 6.

19 MR. SOLLOWS: Just so that I'm clear, so the column labeled
20 "Revenue at Firm Rate" is not an actual revenue item then.
21 That would be the revenue that would have been earned if
22 it had been billed at firm rate?

23 MR. LARLEE: Yes. That is correct.

24 MR. SOLLOWS: Okay. Thank you.

25 MR. MORRISON: And the other inquiry was with respect to
26

2 miscellaneous revenue and how that is described. And that is
3 found on exhibit A-3, tab 5, evidence of Lori Clarke. And
4 it is pages 9 to 11. She gives a description of what
5 comprises miscellaneous revenue.

6 Page 9 to 11. On page 9 there is a table. And I don't
7 have it in front of me right now, Commissioner Sollows.
8 And then the following two pages describe how that is
9 comprised.

10 MR. SOLLOWS: Table 1 E? This is "Please provide a
11 breakdown of transmission expense."

12 MR. MORRISON: I believe so. If you can just bear with me
13 for a moment. Yes. Table 5 E. And if you look to lines
14 5 and 6 there is reference to "Intercompany" and "Other".
15 And that is explained in the subsequent two pages.

16 MR. SOLLOWS: What was his question anyway? I'm just
17 curious.

18 MR. DUMONT: You talked earlier about there was about 40
19 interruptible customers?

20 MR. LARLEE: Yes. I believe that Mr. Marois was talking
21 about there was 40 industrial transmission customers.

22 There is about 10 interruptible surplus customers, so --

23 MR. DUMONT: Could you explain the difference to me?
24 Because I don't quite understand.

25 MR. LARLEE: We have customers on -- large industrial
26

2 customers on transmission system that take 100 percent firm
3 product. So they do not take any interruptible or surplus
4 product. So those customers wouldn't be considered
5 interruptible or surplus customers.

6 MR. DUMONT: So they are not part of the 40?

7 MR. LARLEE: So they are part -- they make up the 40. Any
8 customer who actually is on the transmission system would
9 make up part of the 40.

10 MR. DUMONT: Okay.

11 MR. LARLEE: A subset of those -- some of those customers
12 take interruptible and surplus products as well. And they
13 number 10.

14 MR. DUMONT: Okay. That is what -- I was looking at IR 38
15 there. And all I could come up with is 10. So the 40
16 included those big consumers that -- they are not buying
17 interruptible then.

18 So that statement was wrong. There is no 40 customers
19 buying interruptible power?

20 MR. LARLEE: No. That is correct. That statement was
21 wrong. And Mr. Marois was referring to the total
22 interruptible transmission group.

23 MR. DUMONT: Thank you.

24 MR. LARLEE: Mr. Marois was referring to the total large
25 transmission, large industrial transmission group.

2 CHAIRMAN: Go ahead, Mr. Hyslop.

3 MR. HYSLOP: Thank you, Mr. Chairman.

4 CROSS EXAMINATION BY MR. HYSLOP:

5 Q.1134 - I would like to start with a few questions relating
6 to the treatment of export sales.

7 And I guess this whole study of the customer class
8 allocation study, Mr. Larlee, I believe that the starting
9 point is the 1992 CARD decision. Would that be correct?

10 MR. LARLEE: Yes. I would say that is correct.

11 Q.1135 - Right. And I would like to -- if you could, if you
12 could look at pages 27 to 29 of the CARD decision. And
13 that is found in the little book that I passed out this
14 morning.

15 MR. DUMONT: Tab --

16 MR. HYSLOP: Under tab 1, I'm sorry, Commissioner Dumont.

17 And all the questions will be under tab 1 until I indicate
18 otherwise.

19 Q.1136 - Do you have that Mr. Larlee?

20 MR. LARLEE: Yes.

21 Q.1137 - Thank you. And as I recall the treatment -- and I
22 won't go into a lot of detail, but the question of how to
23 use the revenue from export sales in the CCAS was an issue
24 at that hearing. And the large industrial power users
25 argued before the Board at that time that the amount of

2 revenue coming back in from that should be shown as a cost
3 credit or used in cost credit methodology, is that your
4 understanding?

5 MR. LARLEE: Yes.

6 Q.1138 - Yes. And that's at the second paragraph under the
7 heading, Export Revenue Impacts, on page 27. And NB Power
8 in fact at that time recommended that the export sales
9 revenues be applied to all customer classes on a revenue
10 credit method. And in that they were supported by the
11 municipal corporations and surprisingly the Public
12 Intervenor. And again I think that's the record that's
13 recorded in this decision on pages 27 and 28, correct?

14 MR. LARLEE: Yes, that's my recollection.

15 Q.1139 - And to go on further, the Board actually ended up
16 concluding -- and this is at page 28 in the middle of the
17 second paragraph, for these reasons, the Board considers
18 it more appropriate to show the cost as they are and to
19 account for net export revenues by way of a credit to the
20 revenue of existing in-province customer classes showing
21 clearly the amount and how it was calculated. Would you
22 agree that that's the conclusion of the Board with regard
23 to this point?

24 MR. LARLEE: Yes.

25 Q.1140 - Yes. Now if you would refer to your Customer Class

1 - 1252 - Cross by Mr. Hyslop -

2 Allocation Study, schedule 5.1. And in particular I refer
3 you I believe to a line 25. And that indicates Genco third
4 party credit (\$76,964,000), is that correct, Mr. Larlee?

5 MR. LARLEE: Yes, that's correct.

6 Q.1141 - And am I correct in assuming or am I understanding
7 that the Genco third party credit that reflects the export
8 sales margin -- revenue on margin?

9 MR. LARLEE: Yes, it does. It can -- it can be other than
10 exports, and hence the title, third party credits, but
11 it's primarily exports --

12 Q.1142 - Yes.

13 MR. LARLEE: -- and the credits calculated as per the PPAs.

14 Q.1143 - And you have applied this according to your
15 classification as 100 percent to demand and we will talk
16 about that maybe a little more in a minute.

17 But it would appear for me from the examination of line 25
18 for the purposes of this cost allocation study, you have
19 applied this as a credit to cost and not to revenues, is
20 that correct?

21 MR. LARLEE: It's applied as it is applied in the PPA, which
22 is what we are trying to do here, reflect the PPA cost as
23 much as possible. So as a result it's a reduction in
24 cost, as opposed to a revenue credit. Yes, that's

25

2 correct.

3 Q.1144 - Yes. Okay. So your treatment -- I will accept your
4 explanation that's the way it's treated in the PPA, but
5 you would tell me that however you do not follow the
6 procedures that the Board had recommended in 1992 with
7 regard to this item?

8 MR. LARLEE: Because it's a reduction in cost again it
9 does differ from the Board's ruling in that regard. But
10 this is a different world and that the cost are flowing
11 through a PPA.

12 Q.1145 - It's a good thing we got them. They help explain a
13 lot of things. But in any event, you would also agree
14 with me with the rationale of the Board, that one of the
15 effects of adding this onto revenues, is that it would
16 move revenue cost ratios out towards unity, is that
17 correct?

18 MR. LARLEE: It -- adding -- adding to revenues, reducing
19 costs has very similar effects. But it does -- either
20 way, you are moving towards -- towards unity.

21 Q.1146 - Well just looking at page 28 of the CARD decision,
22 the Board's reasoning was -- and I quote the first
23 paragraph at the top of the page, "It is the revenue to
24 cost ratios with are affected, use of the revenue credit
25 method moves ratios closer to unity, while the cost credit

2 method widens the range." Would you agree with the Board's
3 analysis in 1992 with respect to that point? Did the
4 Board get it wrong in 1992, Mr. Larlee?

5 MR. LARLEE: Not that I am aware of, but perhaps Mr. Ketchum
6 could comment?

7 MR. KETCHUM: Well, I am just thinking that there may be
8 some confusion there. But I think as Mr. Larlee just said
9 should be adding to revenues and -- or subtracting from
10 costs.

11 In either case, if you take that away from what's
12 allocated to the classes, I mean if you take the costs
13 away or add revenues to the class, you get the same
14 effect, revenue to cost ratio, you know, moves.

15 Q.1147 - Yes. And according to the Board, it would move
16 toward unity?

17 MR. KETCHUM: Yes.

18 Q.1148 - Yes. And I guess my point is here -- and again just
19 going back -- and some of Mr. Marois' comments this
20 morning -- but again the only party at the 1992 hearing
21 that -- who wanted to do it strictly as a credit to cost
22 was the large industrials according to what is in the CARD
23 decision? Correct?

24 MR. LARLEE: Based on the excerpt you provided that appears
25 to be the case, yes.

2 Q.1149 - I would just like to stay with this 77 million if
3 I could for a moment longer. It appears from my
4 examination of schedule 5.1, you have classified this item
5 as a 100 percent demand item, Mr. Larlee?

6 MR. LARLEE: Yes.

7 Q.1150 - That's correct? And I would ask you to look at
8 exhibit A-16, Disco CME IR-4, which should be the next
9 page in your book? Do you have it?

10 MR. LARLEE: Yes, I do.

11 Q.1151 - And we asked export benefits credit result from both
12 demand and energy sales. Please provide the portion
13 applicable to both items. And your answer in (a) is that
14 there is a capacity portion of 24 million and an energy
15 portion of 53 million, correct?

16 MR. LARLEE: Yes, as derived from Genco sales, yes, that is
17 the split.

18 Q.1152 - That is the split from Genco sales. So that would be
19 the way Genco would apply them back through you through
20 the PPA, is that what you are advising me at this time?

21 MR. LARLEE: No. The way that they are applying the PPAs is
22 through a credit to the PPA, an annual credit and cost.

23 Q.1153 - Okay.

24 MR. LARLEE: So from there I took it as a fixed -- as a
25 fixed credit and classified it appropriately as a hundred

2 percent demand. That was the rationale.

3 Q.1154 - Well, you know -- and maybe you can just help me a
4 little bit. It's not a big point, but with regard to the
5 \$24 million on the capacity that would obviously be part
6 of the 77 million that you are showing in schedule 5.1 for
7 the whole 77 million? I just wonder where does the 24
8 million show up in IR-4 or in the Customer Class
9 Allocation Study?

10 MR. LARLEE: The split, the 24 and 53 million, doesn't show
11 up in the Cost Allocation Study.

12 Q.1155 - Okay.

13 MR. LARLEE: It is to the best of my knowledge how Genco has
14 determined how that benefit can be divided into demand and
15 energy based on their export sales. But as far as Disco
16 is concerned, there is a fixed annual credit subject to
17 the 20 percent band, as described in the contract. And
18 that fixed annual credit is shown in the cost allocation
19 study as just that, as a credit to the PPA fixed costs.

20 Q.1156 - So where does the 24 million show up in IR-4 in part
21 B?

22 MR. KETCHUM: It's in the 77. The total of the 24 and 53 is
23 the 77. And that's the total credit. And the demand --
24 it's charged or it's credited to the demand component in
25 the rate from Genco. So that's what Mr. Larlee reflected

2 in his cost of service as a demand credit.

3 Q.1157 - So that the 53 million -- and although it's an energy
4 cost, that's just been accumulated as part of the demand
5 credit as well?

6 MR. KETCHUM: That's right.

7 MR. HYSLOP: I am going to start -- I know I am going to get
8 in the middle, but I would rather do things in order, Mr.
9 Chair.

10 CHAIRMAN: Well, Mr. Hyslop, if you got a line of
11 questioning that you think is going to go over and it's
12 going to not assist the Board or anybody very much by
13 getting started and then having to break off in the middle
14 of it, just let me know?

15 MR. HYSLOP: Look I got one other little point. I will move
16 around on my schedule. There is a short point on
17 transmission cost. You might expect the next issue was
18 generation fixed costs and we would have been a little
19 longer than 15 minutes. But this transmission is pretty
20 short. So if we can move to I believe tab 4 of the
21 documents to be able to assist yourself.

22 Q.1158 - Now referring to cost allocation schedule 5.2. And I
23 understand you intend to allocate transmission costs based
24 on a 12 NCP allocator. Is that correct, Mr. Larlee?

25 MR. LARLEE: Yes. We are allocating transmission costs

2 based on 12 NCP consistent with the transmission tariff.

3 Q.1159 - Right. And I understand that you have selected that
4 methodology based on the Transco OATT?

5 MR. LARLEE: Correct.

6 Q.1160 - And as I understand the Transco OATT, that was
7 subjected to some very extensive hearings and a final
8 decision by the Board of Commissioners of the Public
9 Utilities Board?

10 MR. LARLEE: That is my understanding as well.

11 Q.1161 - That's right. And so the method used by the Transco
12 seems to be well established and appears from your point
13 of view, I suggest, at least to be approved. Is that
14 correct?

15 MR. LARLEE: Yes.

16 Q.1162 - Okay. Now in schedule 5.2, you have NCP demand for
17 large industrial transmission of 828,000 megawatts on line
18 13?

19 MR. LARLEE: Correct.

20 Q.1163 - And if you flip up Disco PI IR 10, which would be the
21 next page, under section A, we have asked that you confirm
22 or propose to include the 12 NCP interruptible load, and
23 surplus load I assume, in the transmission allocation
24 factor for interruptible service. And you confirm that
25 because of the PUB tariff, correct?

2 MR. LARLEE: Correct.

3 Q.1164 - So this means that Disco is billed for its
4 interruptible demand under the OATT approved tariff,
5 correct?

6 MR. LARLEE: For the demand related interruptible surplus
7 load there is a corresponding load that Disco is billed
8 for, yes.

9 Q.1165 - So if you are not going to allocate transmission cost
10 -- you know, if you weren't going to allocate transmission
11 costs to the interruptible customers you would be acting
12 inconsistently with the tariff?

13 MR. LARLEE: I would agree with that, yes.

14 Q.1166 - Right. And if transmissionable customers were not
15 interrupted during the monthly peaks the firm transmission
16 customers would have to pay for those costs coming from
17 Transco, correct?

18 MR. LARLEE: Can you repeat the question, please?

19 Q.1167 - Well very briefly, if you didn't bill them the firm
20 transmission customers would have to absorb the bill. If
21 you didn't bill the surplus interruptible customers you
22 would have to -- that cost would be borne by the firm
23 transmission customers, is that my understanding?

24 MR. LARLEE: Well if we didn't have the interruptible
25 surplus load there be less monthly demand, so --

2 Q.1168 - Yes.

3 MR. LARLEE: Then assuming that Transco needed the same
4 revenue, it would end up being spread over all of the rate
5 classes.

6 Q.1169 - Sure. So everybody would have to bite a piece of it.

7 Now I would ask you to turn up exhibit PUB 3, and in
8 particular PUB IR PI IR 1 and 6(c) which should be the last
9 page you have under tab 2. Tab 4. I'm sorry, yes. I
10 apologize. I was on my second line of questioning, so --
11 and I refer to answer (c) and I would ask you to briefly
12 read the answer. And this is the proposal I understand
13 with Energy Advisors regarding transmission cost
14 allocation.

15 Perhaps I will read it into the record. The authors would
16 not include the load associated with interruptible load
17 and the development of CP demands on the basis that
18 transmission capacity is not planned and built for
19 purposes of serving such load.

20 As such consistent with transmission pricing policies
21 established by the federal energy regulatory commission
22 applicable to pricing of transmission services in the US,
23 the authors would exclude all non-firm demand from the
24 development of CP demand allocators and would simply treat
25 the revenue from the provision of such non-firm

2 transmission service as a credit against the transmission
3 revenue requirements.

4 I guess my first question is, Mr. Larlee, it's not the
5 Federal Energy Regulatory Commission that regulates the
6 affairs of Disco, you would agree with me with that?

7 MR. LARLEE: Yes, I agree.

8 Q.1170 - And would you agree that the proposal put forward by
9 Energy Advisors is not consistent with the Board's
10 decision and the OATT tariff in this respect?

11 MR. LARLEE: The tariff is set up such that the billing
12 determinate is 12 NCP --

13 Q.1171 - Yes.

14 MR. LARLEE: -- and we felt that that was the proper way to
15 allocate those costs given that that's the direct cost
16 causation to Disco.

17 Q.1172 - Yes.

18 MR. LARLEE: I'm not intimately familiar with the Board's
19 decision on the tariff in regards with these matters, but
20 that's my understanding certainly of how Disco is billed.

21 Q.1173 - Okay. And the point I wish to make is you have been
22 following the guidelines and tariffs that have been
23 established by the Board that has jurisdiction over you?

24 MR. LARLEE: Certainly, yes.

25 MR. HYSLOP: Yes. That completes the questioning with

2 regard to that point, Mr. Chairman. I think I have about six
3 minutes left but I don't have a six minute line of
4 questioning.

5 CHAIRMAN: Well that's fine. We will recess then until
6 tomorrow morning at 9:15.

7 MR. HASHEY: Mr. Chairman, could I just ask a question here?

8 CHAIRMAN: Mr. Hashey, of course.

9 MR. HASHEY: I'm lonely off while my senior partner conducts
10 this part of it.

11 CHAIRMAN: Yes. He has done a fine job, sir. Yes.

12 MR. HASHEY: The issue that I wanted to raise in seriousness
13 is the Rogers issue that were scheduled for Thursday
14 afternoon. It seems to me from every indication from Mr.
15 Hyslop, and I don't know about Mr. MacNutt, that we may be
16 moving ahead. Would you like us to try to move that to
17 Thursday morning if this happens to conclude tomorrow, or
18 would you prefer just to leave it? Now there is no one
19 here from Rogers and we would have to make a call or two,
20 that's all.

21 CHAIRMAN: Well I suggest you give a call. I'm sure it
22 won't change their travel plans much --

23 MR. HASHEY: No.

24 CHAIRMAN: -- if you say perhaps you had better standby for
25 Thursday morning. It may not come until lunch time but
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would you be here in the morning so we could go ahead with that in the morning.

MR. HASHEY: Yes. I don't see that argument is going to be that long, you know, that it won't take half a day or a day type of thing. So I will ask them if they could be available so that the Board can conclude and be on its way on this thing.

CHAIRMAN: I'm glad you have confidence in the brevity of the arguments, Mr. Hashey. Well that's a good suggestion and we would appreciate it. Thank you.

Certified to be a true transcript of the proceedings of this hearing as recorded by me, to the best of my ability.

Reporter