New Brunswick Board of Commissioners of Public Utilities

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

Delta Hotel, Saint John, N.B.
September 26th 2005

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Undertakings

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CHAIRMAN: Good morning, ladies and gentlemen. I have a number of public service announcements to make. First of all, there are certain reports in hard copy only from Energy Advisors that is available on the table in the back of the room. As well there are two hand-outs from the Board which are available there for those who didn't get them.

Now I want to talk about -- first of all as you should all be aware by now henceforth we will be starting our day's business at 9:15 in the morning, going until 12 noon, back at 1:15, and we will rise at 3:00 in the afternoon.

And I would like to try my hand at saying some things about the transcripts and I want the shorthand reporter to correct me if I have got it wrong.

My understanding is that everybody will be provided with the transcript by e-mail if they are able to receive same, and if they want a hard copy, then today some time please approach the shorthand reporter and she will take down your name and talk about the arrangements that can be made for you to get that.

Also if we rise at 3:00 then they should be available I understand around seven at night, is that correct? Somewhere between 6:30 and 7:30. And she will tell you about the hard copies. I suppose you can bring the hard copies to the front desk at the Delta or something like that and people can go down and pick them up.

You have all seen the volumes of paper that have been produced in this hearing so far. The Panel wants to be able to follow the questioning and it's absolutely necessary if you are going to refer to an interrogatory or something in the evidence, that you give us the volume that it's in, then wait for us to get that volume down, and then give us the specific exhibit numbers, et cetera, in that particular volume. Otherwise it is going to be worse chaos than it will be if you do that.

And the Board secretary and I have spoken about the Intervenor responses to IRs which have been submitted in respect to Intervenor evidence. Some of it is not quite available yet. And so we will wait until probably tomorrow morning to mark those as an exhibit.

Now for the purposes of the record, could I have appearances, please. The applicant, New Brunswick Distribution& Customer Service Corporation?

MR. MORRISON: Yes, Mr. Chairman. Terrence Morrison and with me is my junior associate, David Hashey. Next to him is Lori Clark, and our witness Panel, Rock Marois, Neil Larlee and Malcolm Ketchum.

CHAIRMAN: When you became senior counsel you used the formal of your first name, I see.

MR. MORRISON: I did that.

CHAIRMAN: Okay. Thank you, Mr. Morrison. Formal Intervenors, Canadian Manufacturers & Exporters?

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

CHAIRMAN: Okay. Would you hold up -- there. No wonder I couldn't see you, Mr. Plante. Conservation Council of New Brunswick?

MR. COON: David Coon, Conservation Council of New Brunswick.

CHAIRMAN: Thanks, Mr. Coon. Eastern Wind Power Inc.? Enbridge Gas New Brunswick?

MR. MACDOUGALL: Good morning, Mr. Chair. David MacDougall appearing on behalf of Enbridge Gas New Brunswick and I'm joined today at my far left by Ruth York of EGNB and by our expert witness, Dr. Rosenberg, to my immediate left.

CHAIRMAN: Thanks, Mr. MacDougall. Energy Probe? The Irving Group?

MR. BOOKER: Mr. Chairman, Andrew Booker and Thomas Storring for the Irving Group.

CHAIRMAN: Thanks, Mr. Booker. Is the Jolly Farmer here today? NBSO? Rogers Cable?

MS. VAILLANCOURT: Christiane Vaillancourt representing Rogers Cable, Mr. Chairman.

CHAIRMAN: Thank you. Self-represented individuals? The sabre has cooled. The Municipals?

MR. GORMAN: Good morning, Mr. Chairman, and members of the Board. Raymond Gorman appearing as counsel for the Utilities and Municipal. This morning I have with me from

Edmundston Energy Charles Martin and Pierre Roy, from Perth-Andover Electric Light Commission Dan Dionne, and from Saint John Energy Richard Burpee, Dana Young and Geoff Garrett, and I am also joined by Paula Zarnett of BDR.

CHAIRMAN: Thanks, Mr. Gorman. Vibrant Communities? And the Public Intervenor?

MR. HYSLOP: Thank you, Mr. Chairman. Peter Hyslop appearing, Public Intervenor. With me today Mr. O'Rourke, Mr. Barnett, Ms. Power and Theresa Young. Thank you.

CHAIRMAN: Thank you, Mr. Hyslop. Just to see if we have any Informal Intervenors here today, Agricultural Producers Association of New Brunswick, Canadian Council of Grocery Distributors, City of Miramichi, Flakeboard Company Limited -- oh, is that the City of Miramichi?

MR. GALLANT: Good morning. It's Barry Gallant with Flakeboard Company Limited, Mr. Chairman.

CHAIRMAN: Right. Mr. Gallant. Mr. Burpee just closed the door. This is an open public hearing, Mr. Burpee. Okay. NB Genco? Noranda Inc.? Potash Corporation? UPM-Kymmene?

Mr. MacNutt, who is with you today?

MR. MACNUTT: I have with me today, Mr. Chairman, Doug Goss, senior advisor, John Lawton, advisor, Arthur Adelberg, consultant, Steve Garwood, consultant, and John Murphy, consultant.

CHAIRMAN: Good. Thank you, Mr. MacNutt. Just to go on the record, I think tomorrow I will call for Energy Probe and NBSO and if they are not present then they will be struck as Intervenors in that they have not been here from the very beginning at all.

Okay. Mr. Hashey, any preliminary matters. I'm sorry. Mr. Morrison. Terrence Morrison.

MR. MORRISON: Thank you, Mr. Chairman. No, no preliminary matters.

CHAIRMAN: Okay. Any other Intervenors any preliminary matters? If not, then I suggest you call your first Panel, sir.

MR. MORRISON: Thank you, Mr. Chairman. I would like to call Rock Marois Neil Larlee and Malcolm Ketchum, please.

CHAIRMAN: While those gentlemen are taking their seats, why don't forget that you have to push the button on your microphone so that the translators and shorthand reporter can know what is going on.

(Roch Marois, Neil Larlee and Malcolm Ketchum sworn)

EXAMINATION BY MR. MORRISON:

MR. MORRISON: Mr. Chairman, I intend to proceed this morning by having each of the panel members give a brief overview of their evidence. And then as indicated in the Board's direction we would then raise whatever issues we wish to raise in rebuttal.

Q.1 - First, Mr. Marois, good morning. Could you please state your full name for the record please?

MR. MAROIS: My name is Roch Marois.

Q.2 - And what is your position with New Brunswick Power Distribution Customer Service Corporation, Disco?

MR. MAROIS: I am Vice-president, Distribution and Customer Service.

Q.3 - Mr. Marois, your evidence appears in exhibit A-3 under tab 3?

MR. MAROIS: That is correct.

Q.4 - And was that evidence prepared by you or on your behalf --

MR. MAROIS: Yes.

Q.5 - -- under your direction?

MR. MAROIS: Yes, it was.

Q.6 - And do you adopt that evidence as your own for the purposes of this hearing?

MR. MAROIS: Yes, I do.

Q.7 - Mr. Marois, could you please provide the Board with a brief overview of the evidence you have provided in this proceeding?

MR. MAROIS: Yes, I will. My overview will be brief because my evidence deals only with really two topics. The first topic is the rate objectives that we have when we develop our rates. And the second topic is really the changes that we are proposing to our rates.

MR. MORRISON: Thank you, Mr. Marois.

Q.8 - Mr. Larlee, your evidence also appears in exhibit A-3 under tab 3?

MR. LARLEE: Yes. That is correct.

Q.9 - Okay. And just for the record, could you state your full name?

MR. LARLEE: My name is A. Neil Larlee.

Q.10 - And what is your position with Disco?

MR. LARLEE: I am the Manager of Load Forecast and Regulatory Study.

Q.11 - And the evidence that appears in exhibit A-3 was -- was that prepared by you or under your direction?

MR. LARLEE: Yes, it was.

Q.12 - And do you adopt that evidence as your own for the purposes of this proceeding?

MR. LARLEE: Yes, I do.

Q.13 - Now Mr. Larlee, could you please provide the Board with a brief overview of the evidence you have filed in this proceeding?

MR. LARLEE: Yes, certainly. The evidence I filed really is in three parts. The first part is a summary of the methodology used for the class cost allocation study. And it also includes a description of the refinements that we made to that study to reflect the new realities and has a brief summary of the results.

The second and third part really relate directly to the schedules for that study. A brief description of the schedules is included in the second part. And the third part is the actual schedules themselves.

Q.14 - Could you describe briefly the methodology you used to develop Disco's class cost allocation study?

MR. LARLEE: Yes. Fundamentally it is the same methodology used in the past and approved by this Board in the 1992 CARD hearing. It is an embedded cost study. And it follows the three fundamental steps of embedded cost studies used by utilities.

Those steps are first functionalization of the cost that the utility incurs to service customers. Those functions are generally regarded as transmission, generation or production and distribution.

The second step is the classification of those costs. And by classification we mean basically dividing up the cost of each function by what is driving those costs.

For instance, in generation or production, what is driving the cost is the need to meet the maximum demand and secondly the energy that is required to be delivered to each of those customers, in a large part the fuel cost.

Once each of the functions cost are classified, we then allocate those costs, the third step, to each of the rate classes using the appropriate cost driver for each rate class.

Q.15 - Now the restructuring of the utility, did that have any impact on the cost allocation study?

MR. LARLEE: Yes, it did. To the greatest extent possible we tried to stick with the methodology approved by this Board. But we had to recognize certain realities that have occurred in the intervening time.

Those realities really -- or the two biggest ones are the fact that now Disco is subject to power purchase agreements for its supply cost. And the second one is that Disco now receives all its transmission service through the Open Access Transmission Tariff. Those two things are the primary changes.

We also -- Disco is now using the shared service organization as part of the NB Power group of companies. So that as well gave us an opportunity to include some refinements in the study.

Q.16 - And finally, Mr. Larlee, could you just briefly describe the other sections of your evidence? I think you went through the first section.

MR. LARLEE: Yes. The other two sections are quite straightforward. There is a schedule by schedule description, a brief description of what is going on in each of the schedules in the second part. And in the third part of the evidence is the schedules themselves.

In schedule 6.1 are the results where the revenues received from each of the classes is shown relative to the costs allocated to each of those classes, giving us what we refer to as the revenue to cost ratio.

MR. MORRISON: Thank you, Mr. Larlee.

Q.17 - Now turning to you, Mr. Ketchum, could you please state your name for the record?

MR. KETCHUM: Yes. My name is Malcolm R. Ketchum.

Q.18 - And Mr. Ketchum, your evidence -- your prefiled evidence appears in exhibit A-3 under tab 3, is that correct?

MR. KETCHUM: That is correct.

Q.19 - And was that evidence prepared by you or under your direction?

MR. KETCHUM: Yes, it was.

Q.20 - And do you adopt that evidence as your own for purposes of this proceeding?

MR. KETCHUM: Yes, I do.

MR. MORRISON: Now Mr. Chairman, if you look at exhibit A-3, page -- starting at page 19.

CHAIRMAN: Mr. Morrison, A-3.

MR. MORRISON: Exhibit A-3.

CHAIRMAN: And then go after that.

MR. MORRISON: And beginning at page 19.

CHAIRMAN: I'm sorry. This is -- where in A-3 are we?

MR. MORRISON: It would be under the tab Malcolm R. -- direct evidence of Mr. Malcolm Ketchum.

CHAIRMAN: What page?

MR. MORRISON: Page 19.

CHAIRMAN: Thank you.

Q.21 - Mr. Ketchum, beginning at page 19 is your curriculum vitae which outlines your professional qualifications, education and experience, is that correct?

MR. KETCHUM: Yes, it is.

Q.22 - And that is an accurate summary of your qualifications, Mr. Ketchum?

MR. KETCHUM: Yes, it is.

MR. MORRISON: Mr. Chairman, normally one would go through each of these qualifications and then have the -- ask the Board to make a motion to have Mr. Ketchum qualified as an expert witness. I have spoken to most of my colleagues. And if there is no objection based on the filed -- prefiled c.v., I would make a motion that Mr. Ketchum be declared an expert witness in the area of customer class allocation and rate design.

CHAIRMAN: Any objection? All right. Mr. Ketchum, you are so declared for the purpose of this hearing.

MR. MORRISON: Thank you, Mr. Chairman.

Q.23 - In summarizing your evidence, Mr. Ketchum, could you first explain what your mandate was?

MR. KETCHUM: Yes, certainly. The purpose of my direct evidence and my mandate in this proceeding was to report on my findings with respect to the methods and the processes employed by NB Power, now Disco to develop the cost of service study that Mr. Larlee alluded to and to offer my expert opinion to the Board with respect to the reasonableness of the cost of service results and the rate design proposals presented by Mr. Marois and Mr. Larlee.

Q.24 - And did you come to any conclusions with respect to the methodology used by Mr. Larlee?

MR. KETCHUM: Yes, I did. Based on my analysis I found that the methodology employed and the results obtained in the cost study and the proposed rates are reasonable and consistent with industry practice and precedent here in

New Brunswick.

Q.25 - Mr. Ketchum, I understand that you were involved back in the 1992, '93 CARD process. And did the restructuring of NB Power require a reexamination of the cost allocation methodology?

MR. KETCHUM: Yes, it did. Since the last review of Disco's cost allocation and rate design in '92, the formerly integrated -- vertically integrated Crown utility has been functionally restructured.

The restructuring has resulted in a change in the operational relationship between the distribution function represented by Disco and the upstream functions. Under the new corporate paradigm the generation service is provided by Genco and Nuclearco under contracts or Purchase Power Agreements, PPAs.

The transmission services are specified and supplied in accordance with the Open Access Transmission Tariff. So the cost that comes to Disco is based on a tariff.

This, as Mr. Larlee has suggested, required reexamination of some of the methodologies that had been employed since 1992 and prior to that of methods for determining the appropriate responsibility by class of service for cost and the consequential rate design flowing out of that.

Q.26 - Now you referred to the methodology or methodological change that Mr. Larlee would have had to employ. Now can you outline that methodology briefly, Mr. Ketchum?

MR. KETCHUM: Well, because of the changed circumstances several things needed to be looked at. The first thing that was looked at, and perhaps the single most important issue in this proceeding was the classification of the generation cost, in particular the fixed portion of generation cost.

Generation costs are provided in two portions really, the fixed portion, the capital or capacity and the energy that is provided by the generation companies, now under the PPAs.

The part that we are looking at most carefully and the part that is most controversial is that fixed part, the capacity piece. Traditionally that was done on a 40/60 demand energy split.

What Disco had to do in this case was to look at the PPAs individually and evaluate how to treat them under this new paradigm.

Essentially Disco decided to treat the Genco PPA on an as-billed basis for costing purposes. The Genco PPA has a demand and energy component to the agreement.

Disco analyzed two other generation cost elements that were priced on a kilowatt-hour basis. That is they were priced on an energy basis. And yet both of these either had a significant fixed cost associated with them or were all fixed costs.

These two elements that are controversial here and need to be looked at carefully are the Nuclearco PPA which is priced on a kilowatt-hour basis and the fixed O & M portion of the Genco contract, which is also fixed cost but priced on a kilowatt-hour basis.

Disco decided that it was appropriate, as I said, to bill -- to look at and classify the Genco contract on an as-billed basis, the way the bill comes to them.

The fixed price was treated for the Nuclearco contract on a basis where the fixed cost was separated out of the variable cost and then treated using the Board-approved 40/60 split.

So it is the PPA for Nuclearco priced on a kilowatt-hour basis but really set up to recover a very significant amount of capital cost or fixed cost. So that was separated by Disco into fixed variable components. And a fixed piece was classified to demand and energy using a 40/60 Board-approved split.

The same thing was done with the O & M, fixed O & M, the 40/60 split was applied. Based on my review I found that Disco's approach was consistent with cost causation principals and appropriate under the circumstances, and I found it to be reasonable.

Q.27 - Mr. Ketchum, there are a number other costs, if you will, that are allocated in the cost allocation study, one being the transmission cost. Did you form any opinion on the allocation of transmission costs used by Disco in the cost allocation study?

MR. KETCHUM: Yes, I did. Formerly the transmission costs were again a part of the integrated -- vertically integrated utility. Now they are provided under tariff under the open access transmission tariff.

And the way that Disco is priced for that service, that transmission service, is on the basis of class contributions to non-coincident peak, 12 non-coincident peaks during the year, that is the peaks of the individual classes scaled up to the level of the substation. That's the way it's priced. And Mr. Larlee decided that that was appropriate to use that same methodology to allocate that cost to the classes.

I found that his approach in that regard was sound as well.

Q.28 - Similarly, Mr. Ketchum, the approach used by Disco in the cost allocation study with respect to distribution costs, did you form any opinion on that methodology?

MR. KETCHUM: Yes. I also looked at the way distribution cost was functionalized and classified. That had been traditionally done on the basis of certain ratios that were approved in the CARD hearing in 1992. Since then there was some updated information available, some better information, and Disco applied that better information and where that was appropriate developed a new split of the distribution facilities to function between primary and secondary, and also the classification of the costs of the distribution system as to whether they were demand related or customer related. And the summary of that appears in my evidence and it is also incorporated in Mr. Larlee's cost of service study. I found that the steps that Disco had taken in that regard to be appropriate in as much as they applied better information where it was available. If not, they applied the Board approved methodology.

Q.29 - Finally with respect to allocation of costs, Mr. Ketchum, one component in Disco's costs are general costs, shared service costs and corporate services. Did you form any opinion on the methodology used to allocate these costs?

MR. KETCHUM: Yes, I did. Mr. Larlee had available to him some better information in that regard as well. He was able to split out some costs based on the accounts from Holdco and shared services that were related to the customer component. Otherwise the costs were allocated on bases that were standard and reasonable and were in accordance with again the Board approved methodology.

Q.30 - Finally, Mr. Ketchum, did your mandate include an examination of the rate design proposals put forward by Disco?

MR. KETCHUM: Yes, it did. I was asked to look at the rate design. And the goals of the rate design have been described in the direct evidence of Mr. Marois. The goals include recovery of the required revenues, reduction of the cross subsidy to the residential class, providing more pricing transparency, sending better price signals. And imbedded within those goals to accomplish those goals there is a movement to eliminate the residential decline in block rate structure, that is, to flatten the rate. Also imbedded within those goals is the goal of enlarging the General Service class for the General Service to electric heat class. That was done for similar reasons, to eliminate the declining block nature, if you will, to get better price signals with respect to the cost of energy at the time the system peaked.

Disco considered several other factors such as gradualism, the historical perspective, in particular customer impacts. Disco is very wary of doing things that have significant customer impacts. As well the policy goals of the province, particularly as set forth in the White Paper of December 2002.

I endorse Disco's rate design goals and proposals.

Q.31 - And finally, Mr. Ketchum, is your view shared by the other experts that have filed evidence in this proceeding?

MR. KETCHUM: In many regards with respect to rate design there is a lot of commonality in terms of their recognition of the need to eliminate the decline in block nature of the residential rate and also to merge the General Service rate.

The other experts in this proceeding have other proposals as well. For example, Dr. Rosenberg, for example, for Enbridge, favours a seasonal rate and he strongly favours that kind of proposal.

Mr. Knecht for the Public Intervenor agrees with our goals, but he would move to accomplish these goals -- I say he agrees with Disco's goals -- I should have said but he would move to accomplish the goals more quickly.

Energy Advisors for the Board supports the goals but they also advocate subdividing the General Service class and the industrial class by voltage levels. I'm sure the experts will explain their positions a little more clearly and in more detail.

MR. MORRISON: Thank you, Mr. Ketchum. That concludes the overview of the evidence, Mr. Chairman, and I would proceed with your permission to rebuttal. First, Mr. Larlee, and I'm going to ask the Board to turn up PUB-1.

CHAIRMAN: Volume?

MR. MORRISON: Exhibit PUB-1. It's just one volume, I believe, Mr. Chairman. If you would turn to page 68 under the heading Rate Structure.

Mr. Larlee, at page 68 and actually continuing on for a couple of pages, in the direct evidence of Messrs. Adelberg and Garwood, Energy Advisors are suggesting changes to the customer rate class structure. In preparing your cost allocation study, was any consideration given to modifying the current customer rate class structure?

MR. LARLEE: Yes, there was. First off I would like to say that we think the overall rate structure we have is appropriate. There are a couple of areas that we have looked at in the past, one of them relates directly to General Service I and General Service II. And this is really in the cost allocation study where we can see quite clearly with the revenue to cost ratios from General Service I and General Service II, which is the all electric rate, that there is a difference in the revenue recovery between those two rates without any cost justification.

Back in the late '90s we did an analysis of all of the non-residential rate classes in essentially General Service I, General Service II and small industrial to assess how practical it would be to merge them into a single class. The reason why we pursued that line of thinking was currently the segregation between small industrial and general service is simply whether or not the customer is manufacturing. And whether or not a customer is manufacturing you can argue about whether that really is a justification -- a cost justification for different classes.

So we looked at merging these rates and quickly came to the conclusion -- or came to the conclusion I guess over a period of several months -- that the customer impacts were going to be quite severe if we did that merger. Largely those customer impacts are going to be the result of the fact that the General Service II customers have a preferential rate.

So that's why in this particular rate case we are focusing on taking a major step towards merging the General Service I rate and the General Service II all-electric rate. Once that's done then I think that will be the time to assess other aspects of the non-residential rate classes.

Q.32 - Thank you, Mr. Larlee. All the other questions I have with respect to rebuttal are directed to Mr. Ketchum. Mr. Ketchum, you have had an opportunity to look at the direct evidence of the Intervenors that has been filed in this proceeding, the expert consultant's reports essentially?

MR. KETCHUM: Yes, I have.

Q.33 - And I think in our discussions you have identified there were some issues that come out of those consultant's reports that you would like to address in terms of rebuttal, is that a fair statement?

MR. KETCHUM: That's fair.

Q.34 - Would you briefly describe what you consider those issues to be?

MR. KETCHUM: I would like to discuss six issues that I think are fundamental to Disco's position in the case, and try to help clarify, if I can, the positions of Disco versus the positions of the other experts. And I want to respond to some of those proposals. I think the key issues again -- and this may be a little bit redundant --

but I want to talk again a little bit about the generation fixed cost. I want to talk a little bit about the problem with implementing marginal cost-based rates and the practicality of the refined peaker method that is suggested by Dr. Rosenberg.

I would like to talk a little bit about the issue of the large industrial class rate design which has been raised by several Intervenors. As well they have raised the issue of cross-subsidization. And the definition of that term, as I understand it, as used by the Board, and possibly clarifying the company's position versus some of the other experts.

Finally I want to talk a little bit about third party credits and this transmission cost allocation that I mentioned earlier as well.

MR. MORRISON: To be more specific, Mr. Chairman, you should keep out PUB-1. And I would also ask you to turn up exhibit PI-2.

I realize this is a little cumbersome, Mr. Chairman. But I have no other way of approaching it. If you look first at PI-2 at page 18. And it is lines 11 to 17 which is the first full paragraph before the last question on the page. And similarly if you look at PUB-1 at page 5, lines 10 to 12.

Q.35 - Both of those consultants' reports highlight an apparent inconsistency in the manner in which Disco classifies generation fixed costs. In effect, they are making statements that it is a hybrid approach, Mr. Ketchum.

Do you have any comments on the statements that have been made by both Energy Advisers and Mr. Knecht in this regard.

MR. KETCHUM: Yes, I do. Again I just wanted to point out those particular references in order to put this response in context so that the Board could see what the other experts are saying about this at the outset.

We understand the issue that there is an apparent inconsistency whereas we are looking at the PPAs for Genco on an as-billed basis, the way the costs come through, demand and energy. That is the way they are recognized in the cost of service study and allocated appropriately.

However, when it comes to the Nuclearco PPA, as I said before, it is priced on a kilowatt-hour basis and energy basis. But we know that it is designed to recover capital cost for the nuclear plan and if the capital costs make up the largest share of that contract. We also note from our ability to audit the fuel what the fuel in capital pieces of that particular contract.

So Disco was able to separate the contract for Nuclearco into the two pieces once again, fixed, variable, apply the Board-approved method to the fixed piece.

I think that is appropriate. Disco has to purchase all of that energy up to the level of capacity from Nuclearco. The pricing again as I said is based on the capital budget and O & M. Point Lepreau is required to supply virtually all of its energy associated with contracted capacity to Disco.

And so based on cost causation principles and recognizing the nature of that particular contract, Disco thought it was appropriate to do what it did.

I think that the approach that Disco took in this case is appropriate. And I think it is also sustainable in the long run. They will be able to continue to treat it that way over the long haul.

As you know, under the new structure there are new sources of power that are becoming available through the RFP process to Disco and other powers contracted for. So the best approach in the long run is to look at those costs as they are billed to Disco. However, this particular Nuclearco PPA we would suggest should be an exception to that rule because of its unique nature.

Disco also treated the fixed O & M under the Genco contract in identical fashion. That is it split it using the -- it classified it using the Board-approved 40/60 split.

Q.36 - Mr. Ketchum, what did the other consultants, expert consultants that have filed evidence in this matter recommend?

MR. KETCHUM: Well, all of the consultants obviously understood the dilemma completely. And they pointed out, as you have read no doubt, that there are some apparent inconsistencies.

As I understand it -- and I'm getting in a little shaky ground here trying to characterize other witnesses' evidence. But they will fix it I'm sure if I have got it wrong. But as I understand it, Mr. Knecht says that the Board should make a policy decision on this matter. And I agree with him in that regard.

But for now he says he would treat all generation cost as was done before restructuring. That would mean we would have to know everything about Genco's business, Nuclearco's business and the business of all other potential suppliers.

Mr. Knecht however goes on to say that Disco in the future, they should move more toward market pricing. And I agree with that too, with this exception of this particular Nuclearco contract. In other words, you got to reflect costs as they come to you. Those are your marginal costs, what you see as a distributor.

Energy Advisers for the Board recommends in the long run reflecting the PPAs as we have suggested. But they would want to do that with all the PPAs just as they are billed.

Dr. Rosenberg agrees with us to some extent with respect to -- agrees with Disco I should say. I say us in the royal sense. Dr. Rosenberg agrees with Disco that Nuclear PPA should be treated the way that Disco treated it. But he would classify all the generating costs using an equivalent peaker or capital substitution method. And he extends that and refines that concept.

Q.37 - Thank you, Mr. Ketchum. I would ask everyone to turn up again exhibit PI-2 which is the direct evidence of Mr. Knecht. Particularly page 18 of that evidence, and it's lines 15 to 17. In that section that I just referenced, Mr. Knecht is suggesting that Disco arbitrarily chose the 40/60 split for classification in order to benefit the industrial class. That appears to be what he is saying. Do you have any comment with respect to that statement?

MR. KETCHUM: Yes. First of all, I disagree with that implication completely. Having witnessed and understood what Disco was faced with and what they were doing, I didn't see anything arbitrary or anything in the cost analysis phase of their work that would indicate that there was any arbitrary approach to benefit any particular class. Disco made a carefully considered unbiased decision to do what it did based on cost causation principles, as I indicated earlier, and I think what they did was appropriate and did not demonstrate any bias.

Q.38 - Thank you, Mr. Ketchum. Would you please turn to EGNB-1 -- exhibit EGNB-1. And that's the direct evidence of Dr. Rosenberg. And it's at page 11 of that evidence, Mr. Chairman?

CHAIRMAN: Page?

MR. MORRISON: Page 11. And it's beginning at line 5, where it states that NB Power represents that it favours the Peaker Credit Method. Now a similar statement -- and you don't have to turn this up but I will just reference it. A similar statement is found at page 5 of the Energy Advisor's evidence, which indicates that both Energy Advisors and Dr. Rosenberg believe that NB Power adopted or used the Peaker Credit Method in its cost allocation study. What if anything do you have to say in connection with that statement, Mr. Ketchum?

MR. KETCHUM: Yes. I guess this is more in the way of clarification. In '93 --

Q.39 - Maybe just before you do that, so that we are all on the same page, could you give us some idea what the Peaker Credit Method is?

MR. KETCHUM: Okay. Sure. The Peaker Credit Method is a studied approach to developing what the demand energy split ought to be for classifying the fixed cost of generation. There have been -- this is an issue that comes up or has come up historically in every case where there is a cost of service analysis for integrated electric utility -- vertically integrated utility where the utility controls all aspect from generation to distribution.

It's always an issue how to do this classification of those fixed costs and there are lots of different approaches, marginal cost approaches, equivalent Peaker approaches, approaches such as peak and average costs and average and

excess and so on
and so forth.
There is a long
litany of these
methods to do
this.

The equivalent Peaker approach, or as we call it the Peaker Credit Method, is a method where one looks first at the cost of a peaking unit, a combustion turbine, for example, the capital cost associated with that, and says that what the utility is doing -- the planning process is put together various kinds of generation, the base load, intermediate load and peaking load, and provide those kinds of capacity and energy services in a cost effective way. So the part that is just related to peaking is the part that's really driven by the peak demand. So that capital cost associated with the Peaker is said to be representative of the demand component. So you take that away from the cost of intermediate and away from the cost of the base load. The rest is energy and that part is demand. So that's very roughly how it works. And Dr. Rosenberg can do that a lot better than I can.

Q.40 - Thank you for the general overview of the Beaker Credit Method. But getting back to the question, Mr. Ketchum, there appears to be from the evidence filed by Dr. Rosenberg and Energy Advisors a belief or a conclusion that NB Power used the Beaker Credit Method in its cost allocation study in its methodology. Can you comment on that?

MR. KETCHUM: Well I guess I would say first of all that Disco did not use the Peaker Credit Method. We used the Board approved 40/60 split. Now that might be a distinction without a difference but I think it's important to understand that what the company did was follow the Board approved method. In '93 Reed Consulting

Group did a study and decided that in that study that the Peaker Credit Method was appropriate for NB Power at that time. It has been recently updated in response to an IR here as well.

What it said was that the demand energy split should be something like 39 percent/61 percent, which is very close to the Board approved 40/60. So it sort of validated the Board's approved method.

However, the Board never ruled on whether they approved the Peaker Credit Method or anything of that sort. So it's still sort of in my way an unsettled -- in my way of thinking, an unsettled kind of question.

But from Disco's point of view for this purpose it was settled because it did have the Board approved 40/60 split to rely on for classifying the fixed generation costs. I hope that --

Q.41 - And why is that important for this proceeding, Mr. Ketchum?

MR. KETCHUM: Well I think it is important because then if we are talking about Disco's Peaker Credit Method it's really -- really maybe RCG's '93 recommendation about the Peaker Credit, but it was not Disco's method. They couldn't really say that they used that because it hadn't really been approved. And if we start taking off from that premise that it's Disco's method, I think that there may be again a distinction without a difference because the end result wouldn't be terrifically different. However it's just not an accurate way of looking at it.

Q.42 - Thank you, Mr. Ketchum. I ask you to turn up again EGNB-1, which is Dr. Rosenberg's evidence, while we are talking about Peaker Credits. And beginning at page 16, and it follows for several pages thereafter, Mr. Chairman, Dr. Rosenberg explains the capital substitution theory or capital substitution method, which I believe he characterizes as a refined Peaker Credit Method. You have reviewed Dr. Rosenberg's evidence, I assume, Mr. Ketchum?

MR. KETCHUM: Yes, I have.

Q.43 - Do you agree that Dr. Rosenberg's proposed methodology is appropriate for use in the Disco cost allocation study?

MR. KETCHUM: Well it would have been appropriate to look at that carefully. It's obviously a very well thought out analysis. However, I think that it applies really best to a vertically integrated utility, which we no longer have. I don't think we can put Humpty Dumpty back together again. I think that the PPAs are now driving Disco's costs for now and in the future. So I think it's important that we select a methodology for doing this important piece of cost classification that's sustainable for the future. And I think what Disco has done in looking at the PPAs, it not only reflects cost causation but it is sustainable. And it's sustainable even for that one recommended exception with the Nuclearco contract because it can audit the fuel cost and determine the pieces of that and then apply the Board method for that, understanding that that's really a capital contract, not an energy contract, even though it does supply a lot of very low cost energy. It's based on recovery primarily of capital is what I'm trying to say.

So Disco also has again contracts in place with third party suppliers and under these conditions, even though I think Dr. Rosenberg's method -- methodology is refined Peaker Credit, I think that's maybe my characterization of equivalent Peaker Capital substitution method that he uses. It's a good analysis but I just don't think it's any longer appropriate.

Q.44 - Thank you, Mr. Ketchum. I'm going to turn now to another issue that you have identified, and that's the question of marginal cost or marginal costing. And on this point I would ask you to look at the evidence of Mr. Knecht which is exhibit PI-2. In particular he has a number of recommendations on page 54. And I will zero in directly on the recommendation which is the first recommendation on that page.

I just point out, Mr. Chairman, that sort of the analysis that supports that recommendation is found on pages 14 to 17 of Mr. Knecht's evidence. But I will just make the reference directly to the recommendation.

In that recommendation it appears that Mr. Knecht recommends that Disco should move to marginal cost-based allocation. Now Mr. Ketchum, in your expert opinion do you agree that Disco should move to marginal cost analysis as the basis for cost allocation?

MR. KETCHUM: Well, I would say in that regard that I have long recommended looking at marginal costs in marginal cost principles as an aid to rate design and to understanding cost in cost causation.

Mr. Marois applies marginal cost thinking in his rate design proposals as well. However, I believe that, as I understand it, what Mr. Knecht is saying, that he would like -- thinks that the company Disco should do full-blown marginal cost analysis as opposed to doing fully-allocated studies prior to rate design.

It seems to me I would have some of the same concerns that I just expressed with regard to Dr. Rosenberg's study. What we are looking at now is no longer a vertically-integrated utility but a restructured utility that sees marginal cost as the prices that it pays for capacity and energy in contracts as opposed to looking at resources and looking at how they would be dispatched and what would be saved by reducing demand by one kilowatt or that sort of thing.

So I think, you know, based on those kind of considerations that full-blown, I would say, kinds of traditional, long-run incremental cost or marginal cost studies as we used to think of them, say in the '80s and '90s, doesn't seem to -- wouldn't seem to add any great value at this point in time.

Q.45 - Thank you, Mr. Ketchum. Energy Advisers also makes a statement with respect to marginal cost analysis. And I would refer you to exhibit PUB-1 which is the Energy Advisers' report. And it is at page 54. And it is near the bottom of the page at page 54. It's the second last line of line 19.

And there Energy Advisers makes the statement "Marginal costs offer the only escape from the realm of subjectivity." Do you have any comment with respect to that statement, Mr. Ketchum?

MR. KETCHUM: Well, yes, I do, naturally. As I said, I have done several marginal cost studies during my career. And

I do understand that, you know, they have some usefulness. They do however require a lot of judgment.

And I think that Energy Advisers recognizes that there is some judgment required or at least a lot of decisions need to be made in order to translate a marginal cost study, first of all, to decide on which method, which of the several marginal cost methods to use, short-run, long-run, long-run incremental, those sorts of things, right down to how do you reconcile the marginal cost with the revenue requirement of the utility.

I think the resolution of all of those issues -- and they are listed. And I agree with Energy Advisers about what they said, what is required. What they listed there I agree with.

But there are a lot of issues and decisions on page 52 to 54 there that need to be decided. And they do require a lot of judgment, which puts us right back into the realm of subjectivity. It is not to say that it can't be done. But it is -- there is subjectivity involved.

And again, as I said before, I think marginal cost studies, if we are talking about the full-blown marginal cost study for an integrated utility, maybe couldn't actually be done today because of lack of data. But even if it could I think it would be of very little value.

CHAIRMAN: Mr. Morrison, I'm going to take a 10-minute recess

MR. MORRISON: That is fine, sir.

(Short recess)

CHAIRMAN: Okay. Mr. Morrison?

MR. MORRISON: Thank you, Mr. Chairman.

CHAIRMAN: They didn't believe me when I said 10 minutes.

MR. MORRISON: I find that hard to believe.

CHAIRMAN: It is the new regime.

Q.46 - Mr. Ketchum, I'm going to turn now to the issue of marginal -- or sorry, seasonal rates. And I would ask you to turn up exhibit EGNB-1, again that is the evidence of Dr. Rosenberg, at page 3, lines 8 to 12.

In there Dr. Rosenberg suggests implementation of seasonal rates. Do you agree with that position,

Mr. Ketchum?

MR. KETCHUM: As a general proposition I don't have a problem with seasonal rates. I think there is justification for seasonal rates in some circumstances. In fact I recommended a cautious movement towards seasonal rates way back in 1993 in that Reed Consulting Group study.

But NB Power and now Disco has elected to reflect marginal cost principles in rate design by moving to flatten the residential rate as we talked about before, and to consolidate the general service in the General Service II rate.

That would also provide the kinds of price signals that seasonal rates are intended to provide. And it was Disco's view that it made sense to take care of that issue first and then again perhaps take up the issue of moving to seasonal rates in a measured way.

Q.47 - Mr. Ketchum, in dealing with seasonal rates is it your opinion that customer impacts are a consideration to be taken into account?

A. Yes, of course. Customer impact should be taken into account in any redesign of rates. And Disco does that very carefully. I didn't see in Dr. Rosenberg's evidence -- and he did supply an IR to this effect too with respect to customer impacts. But it looks to me that some of his suggested seasonal differentials are fairly large. And the customer impact would be significant on electric heat customers in my opinion.

So I think a greater degree of specificity with regard to particular customers in the customer impact study is required.

Q.48 - Thank you, Mr. Ketchum. I'm going to turn now to another one of the issues you identified in your opening remarks. And that is the issue of the large industrial class which has been a subject of comment by a number of the consultants.

And specifically I would like you to turn up exhibit PUB-1 which is the Energy Advisers' evidence, specifically at page 78. And it is lines 5 to 9 on page 78, Mr. Ketchum that I would like you to direct your attention. Energy Advisors in that paragraph suggest that Disco is advocating a policy "favouring the industrial class over others." Do you agree with that statement?

MR. KETCHUM: No. Not as it applies to the cost of service analysis. I think Disco, as I mentioned before, didn't have any intent to favour the industrial class over the others in terms of the way it performs that class cost of service. And I believe that in Disco's view, it should look to what the Board's said in the CARD hearing in '92 with respect to ranges of reasonable revenue to cost ratio and what the energy policy paper, White Paper said on page 27 of that document that the Province will direct the crown utility to eliminate over time the cross subsidization between customer classes to gradually provide rates that are within a range of 95 to 105 percent of the actual cost of providing service.

If you eliminate cross subsidization by moving to that range, then it follows if you are in that range by definition in this respect in this province, there isn't any cross subsidization of any meaning under this definition.

Disco's proposal for the large industrial class is for a revenue to cost ratio of .953, within the range, and therefore based on our interpretation -- my interpretation I should say of the policy statement and the Board CARD decision, I don't think there is any evidence of favouring the industrial class. And there was certainly no steps taken in the cost of service analysis to deliberately shape anything to make it come out that way.

Q.49 - Mr. Ketchum, you referred to ranges, revenue to cost ratio ranges. Is it your opinion that these types of ranges are appropriate and if so why or why not?

MR. KETCHUM: Yes, I believe these kinds of ranges are appropriate and we have seen them in other cases as well. It is a recognition by regulators that there is -- there could be some judgment involved in cost of service study certainly, that there is some averaging. There is always averaging in an embedded cost study no matter how fine one takes it.

And secondly, a range of acceptable returns allows for some reflection in the rate design of other rate design considerations, such as history, gradualism and marginal cost principles and so on and so forth.

Q.50 - Thank you, Mr. Ketchum. On a related matter -- and it's again dealing with a large industrial class, I refer you to exhibit PI-2, which is the evidence of Mr. Knecht. I am hoping I am pronouncing his name correctly. And it's page 37 that I would like you to direct your attention to. So it's page 37 of exhibit PI-2. And specifically at lines 5 to 7 where it states, for large industrial customers, however, Disco proposed to assign no rate increase to the class, despite the fact that the class under recovers allocated costs even using Disco's cost allocation methodology. Now do you agree, Mr. Ketchum that the industrial class under recovers allocated costs?

MR. KETCHUM: I believe the reference, revenue to cost ratio there must have been one. Based again on the definition that we just discussed with respect to what's in the CARD, and what's in the Energy Policy White Paper, Disco doesn't believe the large industrial class with its proposed rates would be under recovering cost. That is it's within the range. It is certainly not one, the revenue to cost ratio, but it's within the range.

Q.51 - Thank you, Mr. Ketchum. And on page 40 of that same exhibit, Mr. Knecht's evidence, this is a related topic. At lines 14 through 17 at page 40. It is exhibit PI-2. Mr, Knecht is suggesting that large industrial customers are being subsidized by other customer classes. Would you comment on that observation, please?

MR. DUMONT: Excuse me. Which line, please?

MR. MORRISON: That would be lines 14 to 17 on page 40.

MR. DUMONT: Thank you.

MR. MORRISON: It's the third bullet on that page.

MR. SOLLOWS: Third bullet, line 15?

CHAIRMAN: Which begins "Finding NB Power remains a provincially owned utility --"

MR. MORRISON: That's it.

CHAIRMAN: In our rendition it's line 15.

MR. MORRISON: I'm sorry. Mine is 14. Sorry. That is the correct reference, Mr. Sollows. Could you comment on that, please, Mr. Ketchum?

MR. KETCHUM: Well again, I don't believe as understood again from the New Brunswick perspective and the accepted 95 to 105 range, I don't believe that there is an indication here of subsidy to the industrial class. What I -- the way I read the range and the order and so on, it reads to me that the rate for the industrial class or any other class that can be shown to produce a revenue to cost ratio that's in the range is neither subsidizing nor being subsidized according to the accepted definition.

Now obviously for those class as for the overall to be one, some classes will be, you know, providing more than one in terms of a revenue cost ratio and some less, and it balances out at one. But if they are within the range, definitionally here in New Brunswick there is not a cross subsidy in my view the way I read it.

Q.52 - Thank you, Mr. Ketchum. I just have two additional points to make and very briefly. Dealing with third party credits, I would ask you to turn to exhibit PUB-1 which is the Energy Advisor's evidence. Specifically at the bottom of page 21 beginning at line 9 and the top of page 22, the first three lines at page 22, do you see that, Mr. Ketchum?

MR. KETCHUM: Yes.

Q.53 - It appears that Energy Advisors takes exception to the manner in which Disco applies third party credits and suggests that they be allocated based on the actual capacity energy split and sales revenue. Do you agree with that conclusion?

MR. KETCHUM: I believe I would also mention that I think Dr. Rosenberg also takes exception to that allocation of third party credits as well. And if Disco doesn't agree with that, and I support Disco's position in this regard, Disco sees the credits as being applied to the fixed cost portion of the contract by Genco and the credit comes down to Disco as billed as a credit to the fixed cost. So that is an appropriate way based on cost causation to look at those costs and it's consistent with the other classification of costs. In other words, if it's billed to Disco as a credit reducing the demand cost in the Genco contract or PPA, that's the way it should be looked at. That in fact reduces total demand charges and doing it that way as opposed to splitting it up would favour the higher peaking classes such as the residential class.

Q.54 - Finally, Mr. Ketchum, I want to deal with the issue of transmission costs, and again I am going to refer you to exhibit PUB-1 which is the Energy Advisors' evidence. And it's beginning at the bottom of page 5, line 21, under the subheading Transmission Costs, and continuing on page 6 down to line 8. From that portion of the Energy Advisors' evidence it appears that they are proposing that transmission costs be allocated based on contribution to coincident peak demand.

MR. KETCHUM: Yes, that's correct.

Q.55 - And do you agree with that approach?

MR. KETCHUM: Well if NB Power had not been restructured and was not subject to an open access transmission tariff, I would say that that's a reasonable approach. In fact I could very well have recommended that. However, that's not the way Disco is billed. They are billed on the sum of the monthly noncoincident peaks of the classes at the substation level. Since they are billed that way it's appropriate therefore to allocate the costs to the classes in that way as well.

MR. MORRISON: Thank you, Mr. Ketchum. Mr. Chairman, those are all my questions.

CHAIRMAN: Thank you. Now I understand that there has been some agreement between the Applicant and Intervenors as to order of cross.

MR. HASHEY: Thank you, Mr. Chairman. I believe what we have done is canvassed the Intervenors as best I could to determine who would be cross examining Mr. Marois. As I indicated last week he is not available tomorrow. It is my understanding that the majority of the cross examination of Mr. Marois will come probably from Mr. Coon and Mr. MacDougall, who just happened to fit the order of cross examination in any event. So I think if we just proceed in the normal order I think we will be fine today.

CHAIRMAN: All right. It's my understanding, however, Mr. Hashey, that if any parties wish to have Mr. Marois return to the Panel any day after tomorrow then he will do so.

MR. HASHEY: Absolutely.

CHAIRMAN: Okay. So, Mr. Plante, you have no cross of Mr. Marois?

MR. PLANTE: That's correct, Mr. Chairman.

CHAIRMAN: Thank you. Okay. Mr. Coon, would you -- do you want to move up a little. Just before we begin, does this mean, Mr. Hashey, that for instance Mr. Coon and Mr. MacDougall will cross, that cross will be limited until it's done of Mr. Marois, will they also then go back and have an opportunity to ask the other witnesses on this Panel additional questions tomorrow and the following days?

MR. HASHEY: I have no problem with that. That's my understanding with Mr. MacDougall, that his cross examination is split. I'm not certain in fairness to Mr. Coon just how he wishes to split it. But certainly Mr. MacDougall has indicated that he would come back tomorrow with the rest of the Panel if he didn't conclude.

CHAIRMAN: Okay. Mr. Coon?

MR. COON: Just to get this clear, Mr. Chairman. We would contain our cross to Mr. Marois today and then resume cross with other Panel members tomorrow.

CHAIRMAN: Good. Thank you. Go ahead when you are ready, sir.

CROSS EXAMINATION BY MR. COON:

Q.56 - Thank you. And good morning, Panel. Mr. Marois, I wanted to start out with asking you first, or just confirming that Disco, the New Brunswick Power distribution and Customer Service Corporation, it was created via the new Electricity Act, is that correct?

MR. MAROIS: That is correct.

Q.57 - And can you describe what the legal mandate for Disco is as provided for under the Act, just paraphrasing it?

MR. MAROIS: Well the key mandate is to provide a standard offer*, that is to provide customer -- electricity to all customers in order that to get electricity from another source.

Q.58 - Is there anything further in the Act which elaborates on the purpose or mandate of Disco besides simply providing electricity to customers?

MR. MAROIS: There is a section dealing specifically with purchasing power from renewable sources. To my recollection there are no additional qualifications as to the type of service the utility should be providing in the Act.

Q.59 - So the legal mandate then of Disco is simply to supply electricity to customers, am I correct?

MR. MAROIS: In the Act that's the original mandate, yes.

Q.60 - Thank you. Does Disco have any corporate mission statement outside of that that it has created itself?

MR. MAROIS: Yes, we do.

Q.61 - And where would we find that?

MR. MAROIS: I believe it would be contained in the business plan we have filed with our evidence.

Q.62 - So that would be exhibit A-7, is that correct? I just ask you to confirm that, Commissioners and Chair, before you retrieve the reports there. I think it's A-7 but I may have misnumbered it, just in case. I am assuming it's A-7, so --

MR. MAROIS: Pardon?

Q.63 - You are going to find the page number for us, are you?

MR. MAROIS: Yes. It's A-7 on page 40.

Q.64 - Page 40?

MR. MAROIS: Yes. 4-0.

Q.65 - If you could just read the Mission for us. It's not very long.

MR. MAROIS: Yes. The Mission of Distribution & Customer Service is to supply safe and reliable electricity and to competitively price products and services with respect for the environment while providing a commercial return to the shareholder.

Q.66 - And the shareholder being in this case, Mr. Marois?

MR. MAROIS: The Province of New Brunswick.

Q.67 - Thank you. So you have a Mission Statement that goes into far more detail than the actual legal mandate to simply provide electricity to customers. Why would Disco develop such a Mission Statement?

MR. MAROIS: Well I believe your previous question was specific to the Electricity Act, but I believe if we want to have a more subtle interpretation of what are the policies governing distribution customer service I believe we should -- one of the documents which provides that framework is the Energy Policy. The Energy Policy does go into further objectives that it has -- the province has for distribution customer service.

Q.68 - Can you point to the sections in the Electricity Act, Mr. Marois, that directs the distribution company to respond and implement government policy?

MR. MAROIS: I don't believe there is such a reference in the Electricity Act.

Q.69 - So the decision to develop a Mission Statement which reflects government policy was that of the distribution corporation itself, is that correct?

MR. MAROIS: Well the current belief is that as part of the corporate governance the Board of Directors of distribution customer service gets part of its guidance of the shareholder to the Energy Policy. At the end of the day the Board of Directors of distribution customer service has the mandate of running the corporation in a manner consistent with the overall policies of the province.

Q.70 - But that's not provided for in law, is it, Mr. Marois?

MR. MAROIS: No.

MR. MORRISON: Other than, Mr. Chairman, because Mr. Marois is not a lawyer, under the Business Corporations Act of course the directors of the corporation do have the legal authority to direct and develop a mandate for the operation of business just like any other business.

Q.71 - Okay. I would like to turn to exhibit A-3 now. And in A-3 under Mr. Marois' evidence, that is page 1 to begin with, and question lines 15 to 23. And I will primarily be working from this exhibit for most of my cross, so you won't have to --

CHAIRMAN: I'm sorry. Are you looking at Mr. Marois' direct evidence?

MR. COON: Direct evidence, yes.

CHAIRMAN: Page 1?

MR. COON: Page 1 of his direct evidence.

CHAIRMAN: Okay.

Q.72 - In those -- on page 1 of your direct evidence, Mr. Marois, you outline a series of key objectives for the proposed rate changes, and there are five of them. Are there other corporate policy goals that -- or objectives that you are looking to achieve through rate design other than those listed here, or is that the complete set of objectives?

MR. MAROIS: No, there are others. As indicated on line 17 these are the key objectives and maybe I should have written key specific objectives. But some of the other objectives that we are trying to reflect in our rate, the proposal is gradualism, historical facts, past PUB decisions and naturally Energy Policy directives, conservation and customer impact. So those are some of the other factors that have been taken into account in developing our rate proposal.

Q.73 - Thank you. And as I understand it -- if we change to the question of -- well would these include -- would these include influencing customer space heating load -- space heating load among your customers? Is that an objective of your rate changes?

MR. MAROIS: Influencing in what sense?

Q.74 - The scale of the space heating -- the size of the space heating load among your customers?

MR. MAROIS: Well I believe that's an indirect benefit of sending the proper price signal. We believe that currently our rates are not -- especially residential and the general service all-electric rates are not sending the proper price signal. And we believe if they do send a better price signal we would potentially see less electricity for space heating and more conservation.

Q.75 - Well I would agree with you that would be a benefit, but is it an objective of distribution company?

MR. MAROIS: Well the objective that is stated here is to send the right price signal, because at the end of the day we believe that a price signal is key for customers to make the proper choices. So we cannot dictate what the customers want to do. If they want to use electricity for space heating they can, but what is important to us is that we send the proper price signal so that the decision that is made is the right one.

Q.76 - Thank you. Among those objectives that you said there wasn't a full list here, and there are others which maybe aren't key, would they include customer service related objectives?

MR. MAROIS: I'm not certain our customer service would fit in as part of these rate objectives. Maybe you can clarify what you are getting at.

Q.77 - Well, you know, conventionally many distribution utilities see that the idea of helping to get their customers get the most out of the power that they are sold is kind of a customer service function. Is that an objective of Disco?

MR. MAROIS: Well I believe that this -- what you mention there is consistent with what I have just mentioned. If we send the right price signal, hopefully the customers will do the right usage of our product and will get the proper value.

Q.78 - Thank you. This may be a bit premature, but one of the objectives as regarding reducing cost subsidization of the residential class listed here, what percentage of your overall allocated costs are recovered by the current residential rates, the past fiscal year, I guess.

MR. MAROIS: Prior to the rate proposal or --

Q.79 - Yes.

MR. MAROIS: We just have it there. We just have to find it in the proper binder. At the existing rate, adjusted to reflect the fact that we are underrecovering our revenue requirement, the revenue to cost ratio for residential rate is .89.

Q.80 - And along the same line what was your total overall revenue from residential customers in the last fiscal year? What is the total revenue that came in?

MR. MAROIS: Well, the number that is in my evidence for '05, '06 including the proposed rate increase of the time was $468 million from the residential at rate class.

Q.81 - That included the proposed rate increase?

MR. MAROIS: The 6.6 percent, yes.

Q.82 - Yes. Could you undertake to bring forward later on the revenue for the last fiscal year?

MR. MAROIS: So for fiscal '04, '05?

Q.83 - Yes.

MR. MAROIS: Yes, I will.

Q.84 - Thank you. And the --

CHAIRMAN: Mr. Coon, just so I'm clear and the undertaking is clear, you want the revenue --

MR. COON: Total revenue from residential customers for the last fiscal year.

CHAIRMAN: -- from residential class --

MR. COON: Residential class of customers, yes.

CHAIRMAN: Yes. For the past fiscal period?

MR. COON: Right.*

CHAIRMAN: Okay. Thanks.

Q.85 - And in a similar vein, Mr. Marois, I'm looking for the total expenditures to service those customers. Is that something that is easy to provide now? Or would you have to take that on as an undertaking?

MR. MAROIS: To respond to the revenue amount you are looking for?

Q.86 - No. Just your total expenditures to service the residential class of customers in the last fiscal year?

MR. MAROIS: Because we have not done a cost allocation study based on the actual results of '04,'05. And we would require that to be able to determine the amount of cost applicable to the residential rate class.

Q.87 - So at this point you don't have an idea of how much you expended in the last fiscal year to service those customers for the revenue that you raised?

MR. MAROIS: Typically when we do cost allocation studies is at the start of a year on a prospective basis.

Q.88 - So was a cost allocation study done prior to the last fiscal year to project those costs?

MR. MAROIS: There was not one done for '04, '05 because it was the restructuring year.

Q.89 - Was there one done for '03, '04?

MR. MAROIS: Yes. And if there was one it is in the evidence as part of a response to one of the Information Requests. You want us to try to dig it out?

Q.90 - Yes, if you could. Well, just the reference please. Okay. I want to -- moving down this list of objectives I want to talk -- ask a question about price --

MR. MACNUTT: Mr. Chairman, I'm still unclear as to this undertaking. Is it one undertaking or two undertakings? And exactly what is it that Disco is prepared to provide?

MR. MORRISON: As I understand it, Mr. MacNutt, the undertaking was to provide the total revenue from the residential class for the 2004, '05 fiscal year.

And there has been an undertaking by us to try to locate the IR response wherein the cost allocation study for 2003, 2004 was identified. And we will get that reference, if not in the next few minutes, at the break.

CHAIRMAN: Thank you, Mr. Morrison.

MR. MAROIS: I do have the reference.

Q.91 - Go ahead.

MR. MAROIS: It is in A-13 under the '03, '04 budget tab.

Q.92 - Thank you. Now with respect to these objectives you are talking about price transparency. And I guess my question is why do you want Disco's customers to better appreciate the role that fuel costs play in the price that they are paying?

MR. MAROIS: In my view there might be or there is a perception out there that the price of electricity is stable and kind of immune to the world market in terms of energy prices.

And as we see now that is not the case. So we believe that anything we can do to help educate the customers in that regard would be beneficial.

Q.93 - What is the purpose of that? Why would it be beneficial to Disco?

MR. MAROIS: So that customers -- well, not necessarily beneficial to Disco but beneficial period. Because it is like sending the proper price signal. If the customers have a better appreciation for the price of the product, hopefully they will use it in the most efficient manner possible.

I mean, just the absolute price of electricity, if it goes up, will sensitize customers to hopefully consume less. But if they get a better understanding that electricity is not as stable as some -- the cost of electricity is not as stable as some could believe, then I think we are all better for it.

Q.94 - Thank you. Are there other costs that you would want the customers to better appreciate in terms of transparency,   O&M costs, debt servicing for example?

MR. MAROIS: Well, I think the fuel cost is the major cost that is totally outside of our control. And that is the one we were trying to deal with here in terms of applying the fuel surcharge.

I believe from a longer term perspective and as part of market restructuring, one thing that we will probably have to consider at one point in time is unbundling our rates into potentially three components, the distribution component, transmission component and the generation component.

And I believe that will also be useful in sending -- in creating more transparency, as people would understand the key components that are driving the rates.

Q.95 - Thank you. I just quickly looked at -- it said that one of the key reasons you wanted to do this was that it would make -- help consumers more efficiently -- or use the electricity in the most efficient manner possible.

But I don't see that in your mission, that you want your customers to use electricity efficiently. Where does that objective come from?

MR. MAROIS: It comes from the principle of providing rates that are aligned with costs. I believe that that is a typical way you run a business. And if you charge prices that are disconnected with your costs it will create all sorts of issues.

Naturally being a regulated utility, it takes time to have rates that are aligned with costs and that are of the proper structure. But we are trying to get there.

Q.96 - And can you explain, Mr. Marois, how having your customers use the electricity purchased more efficiently would help do that?

MR. MAROIS: Well, one of our objectives is to provide customers with the best rate possible for electricity. And the way for us to do that is first of all -- first and foremost to manage or costs properly, but also to ensure that our customers are using electricity as efficiently as possible. And the way to do that is to charge appropriate prices.

Q.97 - So then you would agree, Mr. Marois, then one of the unwritten objectives in your evidence for the Distribution company is to have its customers use the electricity as efficiently as possible?

MR. MAROIS: I think it is in the evidence itself. I will refer you to page 4 starting on line 22. And I quote, "Sending the proper price signals is an essential element in the choices customers make. Prices impact which energy source customers use and how they use it." So we have addressed this explicitly in our evidence.

Q.98 - Well, it is a general comment. But I don't see here anything that suggests you have an objective of having your customers use electricity as efficiently as possible?

MR. MAROIS: Well, I believe it is implied by that statement. What this evidence is saying is we want the rates to send better pricing out. And we believe that by sending better price signals, the customers will be better off when choosing the source of energy they want, but also how to use it.

For example with the declining block, residential rate, if customers perceive that it is cheaper to consume more, they will potentially use more. But if we send a different price signal they may reduce their consumption thus better using the energy.

Q.99 - Well, let's stick with that. Isn't it the case, Mr. Marois, that you have all the power you require through the Power Purchase Agreements to supply those customers?

MR. MAROIS: Yes, we do.

Q.100 - So why would you be concerned with how they use that electricity?

MR. MAROIS: Well, it is part of our responsibility to try to get as much value from that power as we can. Because if the power is not used efficiently we will have to seek new power sources sooner, incur more costs which will potentially increase our rates and at the end of the day reduce the competitiveness of our product.

Q.101 - Thank you. On that page -- let me just check the line. It says, line 27, 28, 29 this -- purchase increased consumption is inconsistent with the fact that Disco's -- this is regarding the declining block rate -- purchase increased consumption is inconsistent with the fact that Disco's incremental costs typically increased rather than decrease with usage, because Disco's purchased power costs reflect the fact that the more economical generation units are dispatched first.

Now is that indeed the case through the Power Purchase Agreements, that somehow this flows through the Power Purchase Agreements, that your incremental costs under those agreements increase with increased usage?

MR. MAROIS: Yes.

Q.102 - Thank you. Now on page 5, lines 14 to 16, again referring to the proposed changes to gradually flatten out the residential rate to block structure, you say these changes are also consistent with the government's objective to encourage conservation as evidenced in the White Papers on Energy Policy and the Energy Efficiency system for New Brunswick.

Could you describe to us in fact how these changes are consistent with the objectives outlined in the White Paper on Energy Efficiency for New Brunswick?

MR. MAROIS: I have just been provided with a copy of the White Paper on the Energy Efficiency system for New

Brunswick, and on page 2 --

CHAIRMAN: Excuse me, Mr. Marois. Is that in evidence?

MR. MAROIS: I don't believe it is.

CHAIRMAN: It isn't?

MR. MORRISON: I don't believe so, Mr. Chair. Would you like to have it marked?

CHAIRMAN: Well if it is -- certainly. If you are going to refer to it it has to be marked.

MR. MACNUTT: Mr. Chairman, just to clarify, are you calling for the whole of the White Paper to be marked as an exhibit or just the extracts being referred to?

CHAIRMAN: Was that a question, Mr. MacNutt, did I call for the whole --

MR. MACNUTT: Of the White Paper to be filed or just the extracts being referred to?

CHAIRMAN: Well I will let Mr. Morrison make that decision.

MR. MORRISON: Thank you, Mr. Chairman.

CHAIRMAN: Frankly it probably is easier, following up on Mr. MacNutt's comment, that the entire document be put in.

MR. MORRISON: I believe I have the entire document. It looks like it has 11 pages in the table of contents and I have 11 pages, Mr. Chairman.

CHAIRMAN: Good.

MR. MORRISON: Unfortunately we don't have copies available at the moment but I'm sure we can get them.

CHAIRMAN: Well I think -- why don't we mark it? Mr. Coon can ask -- or Mr. Marois can respond referring to the document and over the luncheon break you can get some copies made, sir. My notes indicate that this should be exhibit A-26?

MR. MAROIS: So on page 2 of the White Paper on an Energy Efficiency system for New Brunswick, in the bottom paragraph it's stated, and I quote, For example, removing the declining block rate structure sends the correct price signal -- the correct signal to the market and also improves the economics of energy efficiency.

Q.103 - Just to remind myself again, this objective to further enhance energy efficiency of your customers, it's not in your legal mandate, it's not in your mission, but this is a direction from your board of directors reflecting this government policy?

MR. MAROIS: I believe the way we have positioned this in my evidence is that we are proposing to modify the structure of the rates to better reflect cost causality. But by doing so it sends a better price signal and one of the benefits of the better price signal is conservation. So we are not necessarily driven to do this to improve conservation. Conservation is definitely one of the benefits of having better price signals.

Q.104 - Well it's sort of a circular argument, isn't it, Mr. Marois. I mean, you are explaining why you want to send better price signals and then you are suggesting that the reason you want to send better price signals also has benefits. In other words if one of the reasons is to enhance the energy efficiency of your customers that surely is an objective of your company?

MR. MAROIS: Yes. But like I said, the way we are -- the main reason why we are doing it is the rates are not sending the proper price signal when you look at the costs that these rate classes are generating.

Q.105 - Okay. Thank you. Now I wanted to -- I had a question around -- on page 5 as well, the general service to all -- electric rate for new customers. In here -- and I just want to find the lines -- on lines -- I guess it's page 6, I'm sorry. If we turn to page 6, lines 5 to 8, again we are dealing with sending price signals only this time to new general service customers. And in here you suggest the reason for doing this is it will help new general service customers to make better choices with respect to their energy sources for space heating, water heating and cooking. Does that mean that the distribution company doesn't want new customers to use electricity -- choose electricity for space heating, water heating and cooking?

MR. MAROIS: No. What we say there is we want rates that are reflective of costs, so if a customer does decide to choose electricity for heating they will have a better appreciation of the cost that they are causing on the system. That's what we mean by sending out a better price signals.

Q.106 - And, Mr. Marois, why would a customer care about what costs they are having on the system?

MR. MAROIS: Why would they care?

Q.107 - Yes. Why would they care?

MR. MAROIS: Well they should care because if they are not paying the true cost of electricity somebody else is footing the bill. That's the first thing. And the second thing is if over time we are moving towards rates that are more cost based, that are sending better price signals, over time they will have to pay those rates. So it is somewhat misleading for them to make a decision today based on rates that are not align with costs if over time we are trying to get at rates that are based on costs.

Q.108 - Do I -- I mean, I get -- tell me if I am correct here. I get the sense that in sending better price signals in this way with the change to the General Service II rate that there would be benefits to the distribution company if fewer new customers chose electricity for space heating, water heating or cooking, is that correct?

MR. MAROIS: I'm not certain that that's implied. I think there are benefits to everyone if the customers that do opt for -- General Service customers that do opt for electricity for space heating, water heating and cooking, that they pay the proper price. I think that's what is important here. And if the price -- the price may incite them to choose another source for heating if the prices that we are charging is closer to the cost that we are incurring.

Q.109 - So if that were the case, Mr. Marois, wouldn't that drive away potential customers for your company?

MR. MAROIS: Potentially.

Q.110 - And is your company not interested in attracting new customers?

MR. MAROIS: What we want to achieve is provide electricity to the customers at competitive rates and in a cost effective manner. If providing electricity to certain customers is not efficient and if we charge the proper prices and that price is not competitive to another source, so be it, if the price signal is the proper one.

Q.111 - But aren't you competing, Mr. Marois, with other fuel sources for space heating, water heating and cooking?

MR. MAROIS: I believe we are competing only if we are competing on a level playing field. So if on a level playing field if we are sending the proper pricing and if our cost structure is the same and the electricity is still cheaper, then the customer I think is making the right choice, but if it's not then the customer should know.

Q.112 - That's very generous of you, Mr. Marois. Okay.

CHAIRMAN: Mr. Coon, is that a good place for us to stop and take our lunch?

MR. COON: Absolutely.

CHAIRMAN: Okay. We will reconvene at quarter after 1:00.

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

CHAIRMAN: Even the Board Secretary doesn't believe I can stick to the schedule. Any preliminary matters before Mr. Coon continues with his cross?

MR. MORRISON: Yes, Mr. Chairman. There was an undertaking given this morning to provide the total revenue for residential class customers for 2004, 2005. We have that response.

Total revenue for the residential class customers for 2004, 2005 is $426.6 million. And this is referenced in exhibit A-3. And that is the direct evidence of Ms. Lori

Clark under tab 5, page 5. And it has now been tabled 5-D.

CHAIRMAN: Would you repeat that as to the reference?

MR. MORRISON: Oh, I'm sorry.

MR. DUMONT: And the amounts please.

MR. MORRISON: The amount is $426.6 million. And it is exhibit A-3, tab 5, direct evidence of Lori Clark, page 5. And it is found in table 5-D.

CHAIRMAN: Thank you, Mr. Morrison. Anything else?

MR. MORRISON: No, sir.

CHAIRMAN: Okay. Go ahead, Mr. Coon.

MR. COON: Thank you, Mr. Chair.

Q.113 - Mr. Marois, just to refocus here, one key objective of the rate changes proposed is to send proper price signals, is that correct?

MR. MAROIS: Yes.

Q.114 - And proper price signals will increase the efficiency with which your customers use electricity, encouraging them to reduce their consumption, correct?

MR. MAROIS: That is the assumption and also may guide them to use the best energy source.

Q.115 - Right. Which gets to specifically the changes proposed to the General Service II rate which could encourage future customers, commercial customers to choose other suppliers for space heating, water heating and cooking services, correct?

MR. MAROIS: Potentially, yes.

Q.116 - So in effect what you are proposing here is to use price signals to manage the demand for your product for electricity, is that correct?

MR. MAROIS: Well, to repeat myself a little bit, what we are proposing is to evolve towards rates which are more aligned with costs.

And what we are saying is the benefit of that is that by sending a proper price signal, it will have potentially an impact on customers to use both the right energy source and to use it the right way.

Q.117 - But as you had said earlier to me this morning, by managing demand this way through price signals, you would delay having to seek additional power from new purchase agreements, correct?

MR. MAROIS: Yes. And that could be a benefit to the utility.

Q.118 - Does Disco now devote any of its annual expenditures to what might be called managing demand or demand side management such as employing Energy Advisers?

MR. MAROIS: I know we have provided that information in response to one of the Information Requests. And yes, the bulk of the money that could be said to be as having an impact on demand side management would be through the salaries paid to Energy Advisers and Account Managers who provide advice to customers on how to use energy.

Q.119 - And what was the total for last year of those expenditures?

MR. MAROIS: I am trying to look up the IR.

Q.120 - And I was going to ask the percent that represents of your annual expenditures to service residential customers. But you previously said that that information was unavailable for the past fiscal year, correct?

MR. MAROIS: Yes. It is correct to say that we did not do a cost allocation study for '04, '05. So we do not have the expenses allocated to the residential class. But I believe we provided the '02, '03 number as a proxy.

Q.121 - That is correct. These -- I will continue, if it is all right, to pose some questions while the IR reference is being looked up.

These costs which represent expenditures to manage demand, as I say, basically to employ Energy Advisers and customer service representatives, these costs are recovered how?

MR. MAROIS: They are built in our cost of service and recovered through our rates.

Q.122 - So then can you tell me what portion of your rates deliver that cost recovery? How much does that affect your rates?

MR. MAROIS: Although we are still looking for the number, it is a very small number in comparison to the total revenue.

Q.123 - But quantifiable?

MR. MAROIS: Yes. Like I say, we have already provided that answer. We are just trying to --

Q.124 - Yes.

MR. MAROIS: -- find it.

Q.125 - So with these energy -- do you want to go ahead with that?

MR. MAROIS: The Information Request in question is Information Request number 2 of CME, the Canadian Manufacturers and Exporters.

And the response to (b) or question (b) was please provide an indication of where in the expense detail any of the DSM are contained, their actual levels and their relativity to any programs highlights in the response to (a) above.

And the response is the total 2005, '06 labour and benefit budget for the Energy Advisers and Account Managers is $579,000 and $841,000 respectively.

Approximately 40 percent of the Energy Advisers' time or 231,600 and 25 percent of the Account Managers' time or $210,000 pertains directly to DSM and energy conservation related requests. Other than these costs there are no specific expenses in Disco's OM&A budget related to the DSM program.

MR. MORRISON: And that, Mr. Chairman, is in exhibit A-19, volume 1 of 1?

Q.126 - So then roughly, just from the numbers you read into the record, just under half a million dollars is expended by the company to influence your customers' demand through DSM, for lack of a better word?

MR. MAROIS: That is correct.

Q.127 - How do you decide within the company the balance between, you know, how much to use price signals to reduce demand for your product versus how much to expend on DSM programming through the company?

MR. MAROIS: Well, I think that arbitrage is made simpler for us by the fact that the province has indicated that it will be introducing an energy-efficiency agency. So in terms of policy the province has already made that decision. And I believe that where the utility can play the bigger role is by sending the proper price signal.

I think if our prices are not sending the proper signal and you try to implement measures to help promote DSM, it is almost like that you are short-circuiting yourself. You should start by sending the proper price signal and then can you start promoting DSM measures.

Q.128 - Can you explain why you would be short-circuiting yourself in that event?

MR. MAROIS: Well, for example if you are giving out funding to customers to help better insulate their homes, but because you have got a declining block rate and the customer doesn't really care because he doesn't see it as -- he is not -- I am going to say the price is not sending the proper signal that he should be perked by spending more money.

Even if you are giving out money he might not take you up on it and insulate his home. But if you are sending the proper price signal and he is seeing electricity at the true cost of it, then he is going to have an additional incentive to do certain things such as better insulating his home.

Q.129 - So what you are saying is without the proper price signals people would turn their nose up at a grant you might offer them.

But if you set the proper price signals then they would more readily accept a grant you provide, is that correct?

MR. MAROIS: Basically yes. I believe that one without the other is kind of just -- it really diminishes the impact of what you can achieve.

Q.130 - So will you be providing -- are you planning to provide grants to your customers in addition to -- by getting approval on sending the proper price signals?

MR. MAROIS: I don't believe that that is our role anymore. Like I mentioned, the province has announced that they want to introduce an energy-efficiency agency. And my understanding is that agency will be the body by which any funding would go through.

Q.131 - So does that mean you will be eliminating your Energy Advisers from your payroll?

MR. MAROIS: No. Because I believe that Disco still has a critical role to play. Because Disco has the contact with the customer on the daily basis. And Disco has a lot of information on the customers.

I think what the creation of this energy-efficiency agency will do is it will force us to identify what role we should be playing as part of this new structure.

Q.132 - So you will therefore not be reducing your costs on demand side management. You will continue to expend around half a million dollars on this every year?

MR. MAROIS: I don't know if I can really commit to that. Because for example, if the new agency determines that that is the role they want to play, maybe we will have to find a different role for Energy Advisers. But the intent at this stage is not to reduce their role.

Q.133 - Of course you would see cost savings if you eliminated those positions, wouldn't you?

MR. MAROIS: Not necessarily. Because we could also decide to reassign their efforts to other initiatives that could be of benefit to the corporation.

Q.134 - Well, if you are primarily seeing the proper price signals as a means to reduce demand for your product, then can you point to me where in your evidence you have specific plans for eliminating the declining block rate?

MR. MAROIS: Well, the evidence that is in front of the Board right now is a one-year plan. And so we did not file a long-term plan other than the information that is contained in our business plan.

Q.135 - So how many years are you assuming it will take to eliminate the declining block rate?

MR. MAROIS: I have to answer it depends. It depends on many factors. Personally I would like to see the declining block rate eliminated as soon as possible.

But that is the reality of setting rates. You have got a series of conflicting objectives or factors that we have to take into account, one of them being gradualism.

So -- and then naturally the Board at the end of the day, as part of this proceeding, will be deciding the level of changes we will be seeing. But I guess the challenges are those conflicting factors.

Q.136 - Have you got any better sense of how quickly you might eliminate the General Service II rate?

MR. MAROIS: Not really. I mean it really depends on -- for example, we have provided this information in response to several IRs. But it depends on the overall rate increase we are facing. It depends on what is deemed to be reasonable in terms of gradualism. It depends on the profile of each customer, the cost we are allocating to the classes.

So there are many factors that contribute. That is why it is so difficult to have a specific time line.

Q.137 - Thank you for that. I would like to turn to page 10 in -- I think we are operating in A-3 or we have been. Page 10. This is still in Mr. Marois' evidence -- direct evidence. Lines 7 to 18 you describe proposed rate changes for the large industrial customers. I don't see anything in there about changes to the rate design to ensure they receive proper price signals. Are there any changes to their rate design contemplated?

MR. MAROIS: Well there is one change and that's the change referred to as the equivalent TBA rental charge.

Q.138 - Oh yes.

MR. MAROIS: And what that does is really put the distribution customers on par with the transmission customers, so that there it is more equitable. So you can say that this is sending a better price signal to the distribution customers.

Q.139 - Thank you for pointing that out. Are there -- do the industrial customers have a declining block rate?

MR. MAROIS: No.

Q.140 - Their rate is flat?

MR. MAROIS: Yes. They have a demand component to their rate but the energy rate is flat.

Q.141 - So in your opinion are the -- with this adjustment you are proposing here will the proper price signals be sent to large industrial consumers in terms of ensuring they are reducing the use of electricity, which seems to be a goal of yours?

MR. MAROIS: In my mind the industrial customers are quite different than the residential customers, and the industrial customers like commercial customers watch their bottom line very closely. So in my mind it's not as much the structure of the rate as the level of the rate that will dictate their behaviours. They are always trying to find ways to reduce their costs. So I believe they have a built-in incentive to manage their energy wisely.

Q.142 - So what you are saying is residential customers need some discipline and the industrial customers do not?

MR. MAROIS: Not the same level of the price signal. They don't have the issue -- like they don't -- first of all they don't have the same issue as the residential rate has which is truly sending a wrong price signal by having a declining block rate.

Q.143 - Thank you. On page 11, lines 9 to 16, the question is posed, why is the large industrial rate class receiving the lower adjustment in that evidence. And what I see is a social rationale, something to do about jobs and economic viability of these industries. Is there an economic rationale in your evidence somewhere in terms of better aligning costs and rates with respect to the industrial rate class?

MR. MAROIS: Well like we have mentioned here and like we have mentioned in response to several IRs on this matter, the effect of the rate proposal we have on industry is to keep them within the target band of revenue to cost ratio. So from that perspective my belief is we are not really changing the fact that they were not being cross subsidized and at the end of the day they are not being cross subsidized with our proposed rates.

Really what we have here is like with all other aspects of our rate proposal is we have applied judgment. At the end of the day setting rates is not an exact science. You have to take into account numerous factors and when we determine the rate for large industry we believe that it was reasonable to keep them at the bottom of the reasonableness band for revenue to cost ratios.

Q.144 - I guess I just was wondering why you would provide a social rationale here to the economic regulator rather than an economic rationale?

MR. MAROIS: Well like I said, the economic rationale is that they are still within their reasonableness band and this -- we are sharing here our reflection as to why we believe it was reasonable to have them at the bottom of that band. So they are still recovering their cost but based on our judgment, based on our knowledge of our customers, based on our knowledge of the industry, we believe it was the right thing to do for the benefit of all our customers.

Q.145 - Thank you. On page 12, lines 10 to 16, you summarize the rationale for the proposed rate changes, and the middle -- lines 14 to 15, you say -- rate design changes that reflect not only the past directors of the PUB but are consistent with the White Paper on New Brunswick Energy Policy. You referred also to the White Paper on Energy Efficiency earlier on in your rationale -- in your evidence as rationale in your evidence. That was A-26 now as an exhibit. Was it an oversight to not include that there or should it be added at this point?

MR. MAROIS: We could have added it there.

Q.146 - So you would agree then that this -- the rationale for rate changes will be consistent with that White Paper, the one on energy efficiency as well as the New Brunswick Energy Policy White Paper?

MR. MAROIS: Yes, because the relevant sections of the White Paper on Energy Efficiency and the relevant sections on the New Brunswick Energy Policy are all saying the same thing, that we should eliminate the declining block structure for residential, that we should get rid of the -- all electric rate. So that's a consistent message across the board.

Q.147 - Thank you. I just want to shift with a few final questions to questions of power purchase agreements. So NB Power is no longer as has been pointed out earlier today a vertically integrated company, is that correct?

MR. MAROIS: That's correct.

Q.148 - And Mr. Ketchum said earlier today that the power purchase agreements are now the major driver for Disco's cost, do you agree with that?

MR. MAROIS: They are the driver for Disco's generation costs, yes.

Q.149 - Disco's generation costs. I didn't think Disco was in the generation business?

MR. MAROIS: Supply costs. Sorry.

Q.150 - Supply costs. So by extension then the power purchase agreements are a significant driver in determining the revenue required from your customers?

MR. MAROIS: Yes, they are. They represent roughly I believe 78 percent of Disco's costs.

Q.151 - Did you negotiate the power purchase agreements on behalf of Disco?

MR. MAROIS: I believe we are getting into policy here. The power purchase agreements were established as part of restructuring. We have been through this as part of the proceeding in front of this Board the previous time, so --

Q.152 - Were you involved in those policy discussions and, if so, on which company's behalf?

MR. MAROIS: I was not.

MR. COON: Thank you, Mr. Chairman. That's all the questions I have.

CHAIRMAN: Thank you, Mr. Coon. Mr. MacDougall, do you want to come up when Mr. Coon leaves?

MR. MACDOUGALL: Thank you, Mr. Chair.

CROSS EXAMINATION BY MR. MACDOUGALL:

MR. MACDOUGALL: Good morning, Mr. Chair, Panel members -- good afternoon I guess it is. Good afternoon, Panel. Mr. Chair, most of my questions for the next little while will be directed to Mr. Marois, a couple of them will be for the other Panel members, and at times certainly the Panel can feel free to direct a question to others other than Mr. Marois.

It may be useful for everyone to start having a copy of exhibit A-3 which is after tab 3 in the same binder that you have been looking at that Mr. Coon was referring to which is Mr. Marois' evidence. I will be referring to other documents from time to time but you should keep Mr. Marois' evidence out.

CHAIRMAN: Mr. MacDougall, just so we are clear, Mr. Coon limited basically his questions to Mr. Marois and he reserved the right to come back later and do cross of the remaining two Panel witnesses. You are going to do a bit of both today? I would just like to have that cleared up.

MR. MACDOUGALL: I am going to do it generally as Mr. Coon did. But there is a couple of my questions that it may be useful for me to just ask a follow-up to one of the Panel members deriving out of policy, but there will only be one or two --

CHAIRMAN: Okay. Thanks.

MR. MACDOUGALL: -- related to the policy aspect.

Q.153 - Mr. Marois, since the time that the market opened such that municipals and large industrials were entitled to purchase electricity from parties other than Disco, which I understand was October 1, 2004, how many municipals or large industrials have gone off standard service supply in favour of a third party provider?

MR. MAROIS: None.

Q.154 - And how many municipals or large industrials have contacted Disco and advised that they are intending to go off standard service supply in favour of a third party provider?

MR. MAROIS: None.

Q.155 - If we could go to exhibit A-6, which is the load forecast. And if we could go to page 22, and in the second last paragraph, I just want to read that paragraph. Large industrial transmission customers now have the option of choosing an alternate supplier of electricity or of adding or increasing self-supply. The key sentence for my question is, no allowance is made in the forecast for any loss of customer load in either of these manners. So I just want confirmation from you that in this forecast document no allowance has been made for any loss of a customer, a large industrial transmission customer?

MR. MAROIS: That is correct.

Q.156 - Now if we could go to exhibit A-6 which is Disco Plan 2005 -- sorry, exhibit A-7 which is Disco Plan 2005. And on page 15, Demand Side Options, I can just read there. Demand side options will mitigate some of the in-province load growth. Conservation and end use fuel switching away from electricity will help to reduce the growth in both capacity and energy requirements.

I would just like some clarity on that last point, that end use fuel switching away from electricity will help to reduce the growth in both capacity and energy requirements. Could you just elaborate on that point?

MR. MAROIS: Well, as part of preparing our long-term load forecast we have made assumptions that some new customers and some existing customers will fuel switch, mainly to natural gas, and as a result they are slowing down the growth of our overall load. So that's the point we are making here.

Q.157 - Okay. Thank you very much. Now could you please advise of the current status regarding the determination of exit fees or stranded costs for parties who may wish to consider leaving Disco's standard service?

MR. MAROIS: Currently there are no exit fees that have been determined.

Q.158 - And when you say there are no exit fees that have been determined, you are not saying there are no exit fees, you are just saying that third parties wouldn't be aware of what the exit fee may or may not be?

MR. MAROIS: Exactly. We have not addressed this at this point.

Q.159 - Thank you. I have got a two-part question. I will read it both out and maybe you can answer in two parts. How would you describe the current markets for fossil fuels, in particular, gas, oil and coal, in terms of a) their actual pricing levels, and b) their relative pricing levels compared to historical periods?

MR. MAROIS: The three fuels you mentioned?

Q.160 - Natural gas, oil and coal.

MR. MAROIS: Well, I think the first thing is I think all three are at historical levels and there is no relief necessarily in site. We have seen -- I think it's from our purchases we have seen the gap grow between oil and coal, i.e., oil has been increasing more than coal. And in terms of natural gas I would have to say that it's following oil very closely.

Q.161 - So based on your comments would you consider the current markets for these fossil fuels to be stable or volatile?

MR. MAROIS: Volatile.

Q.162 - At page 1 of your evidence -- and Mr. Coon went though this, so if you could turn again to A-3, tab 3, your evidence. Mr. Coon had you go through what you list as your five objectives, and I won't go through those again. You did confirm earlier today that these remain Disco's key objectives?

A. I did.

Q.163 - Would you agree that these objectives should be met by both the class cost allocation study as well as through rate design?

MR. MAROIS: I'm not certain I understand your question. Maybe you can rephrase?

Q.164 - Sure. I know you have been talking with Mr. Coon about rate design, but in order to send the proper price signal for example, let's just pick one of the objectives, it's important for one to be able to have figured out the cost appropriately in the class cost allocation study before you could send an appropriate price signal on what those costs for a class are, correct?

MR. MAROIS: Correct.

Q.165 - And I'm just saying in general, using that as an example, should the class cost allocation study be designed to try to the extent possible to meet your objectives in the same way that rate design should be?

MR. MAROIS: I don't see the direct link. In my mind the cost study should be designed on sound principles to try to assess as best as possible the cost to be allocated to each class. So that's an exercise that is -- we try to make as objective as possible. Once you have got that it's only one input that's set in your rates. Cost is a significant input but it's just one.

So once you have got your cost -- the result of your cost study which is hopefully as objective as possible, then you look at all the other objectives you are trying to meet, and that's why you cannot necessarily target the revenue cost ratio of one because recovering cost is just one of your objectives.

Q.166 - And understood, that you are saying there is a range of 95 to 105 that is reasonable. I guess just getting to my point though, if one gets the class cost allocation study incorrect it would then be difficult to fix that to rate design, is that a fair statement?

MR. MAROIS: That's a fair statement. I guess where I was struggling with the way you had phrased your previous question was that you gave the impression -- or gave me the impression that you can play with your cost study to achieve rate results, rate objectives.

I think when you are looking at doing a cost study you have to do it as a stand alone. It has to be as objective, as fair as possible, without taking into account consideration on rates.

Q.167 - And I didn't mean you can take it in the way that you had rephrased it there. Mr. Ketchum, do you agree that the five objectives that have been set out by Disco are appropriate objectives for them at this time?

MR. KETCHUM: Yes, I do.

Q.168 - Thank you. Mr. Marois, if we could turn to page 3 of your evidence? In lines 5 and 6, you indicate that reducing cross subsidization takes time. And Disco's proposal is to continue with the principle of gradual adjustments consistent with past directives from the PUB. And you then go on to state that NB Power has been working towards achieving this objective since 1992. And that the residential rate would still only recover 89 percent of its allocated costs if an across the board increase of 4.4 percent was assumed for 2005, 2006, correct?

MR. MAROIS: Yes.

Q.169 - In my understanding from the evidence, and I don't think we have to turn anything up here as long as you can confirm it, is that the revenue to cost ratio arising out of Mr. Larlee's CCAS for residential electric heat customers is 0.879?

MR. MAROIS: That is correct.

Q.170 - So we have current residential electric heat customers whose revenue to cost ratio is .879. Okay. Now my understanding is also that at the time of the 1992 decision, that the residential RC ratio was .87. Can you confirm that?

MR. MAROIS: Mr. Larlee just pointed out that the 0.879 was after the proposed rate increase. Just for clarity.

Q.171 - Yes. After the proposed rate increase. I agree. After your proposed increase, it was -- that's what the revenue to cost ratio was going to be. Correct.

And again my understanding -- I can give you a reference where I believe the residential rate was .87. I get that from PUB IR-95 in exhibit A-12. And I am referencing page 11, PUB IR-95, exhibit A-12.

MR. MAROIS: That is correct.

Q.172 - That is correct. So it was .87 in 1992. And for residential electric heat customers it would be .879

following your proposal?

MR. MAROIS: That is correct. Unfortunately we are missing what went on in between.

Q.173 - Well but -- I am just trying to say what happened in '92 and where we would be today.

MR. MAROIS: I agree. I think it's important to -- I guess as I was preparing for today, I went back to another IR, which is PI IR-34 and it made me realize that when you are moving -- it's really a moving target, because your revenues might be progressing, but if your cost allocation changes over the years because of refinements and methodology, all that, some of the efforts made in certain years may be lost when you are refining your study. So it is somewhat of a moving target.

Q.174 - I agree. I agree that you filed in your evidence the RC ratios for different years. But comparing this year's to 1992, the numbers are as we discussed? Correct?

MR. MAROIS: That is correct.

Q.175 - Right. Now at page 2 of your testimony, you indicate -- and I am reading at lines 21 -- page 2, line 21 -- the PUB noted in its 1992 CARD decision, page 26, that the Board considers that a long-term target range of .95 to 1.05 for the revenue to cost ratios is reasonable. Okay.

And then as you mentioned to Mr. Coon, you go on to state that the same concept is included in the White Paper, New Brunswick Energy Policy. And then you also go on to say that this is consistent with the widely accepted principle that costs should be allocated among customers on the basis of cost causation. Correct?

MR. MAROIS: Yes.

Q.176 - So it's Disco's position that cost should be allocated among cost customers on the basis of cost causation?

MR. MAROIS: Agreed.

Q.177 - And do you believe that the long-term target range set by the Board in 1992 of .95 to 1.05 for revenue to cost ratios was reasonable?

MR. MAROIS: Yes.

Q.178 - And do you think when the Board issued its decision in the 1992 CARD decision, that it expected for a period of longer than 14 years for you to reach that target range?

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

Q.179 - If we could go on then to page 4. And this again is on the issue of sending better price signals. If we could go to line 22. And I just want to read into the record what's there. Sending the proper price signals is an essential element in the choices customers make. Prices impact which energy source customers use and how they use it. For example, the declining residential block sends the price signal that the more you consume, the lower your average rate will be. As a result of this price signal, customers may mistakenly think that it is always cheap to produce additional power. This encourages increased consumption and is inconsistent with the fact that Disco's incremental costs typically increase rather than decrease with usage because Disco's purchase power costs reflect the fact that the more economical generation units are dispatched first. Correct?

MR. MAROIS: Correct.

Q.180 - Presumably then if this is the case, the ultimate goal is to eliminate the declining block structure completely? Correct?

MR. MAROIS: Yes. And even maybe consider an increasing block rate.

Q.181 - And you said even considering an increasing block rate?

MR. MAROIS: Yes. That will start by achieving the first objective.

Q.182 - Now, Mr. Coon asked you this question, but I do want to go back to it. And I don't want to trod the same ground too much. But you don't have a proposal to this Board as in a time frame in which you wish -- intend to do this? I think Mr. Coon was talking about the GS rates. But for the residential rates, you are saying this is based on a bunch of factors and there is no time period. You are not saying let's do this over one year, two years, three years?

MR. MAROIS: You are correct. I believe it's very difficult at this stage to try to establish a specific time frame.

Q.183 - So you are proposing no specific time frame over which this occurs, right?

MR. MAROIS: It's not in our proposal. Again, this is a one-year application.

Q.184 - And I believe though you indicated in one of the IR responses that if the Board ordered the pace of change to be different, it would be different?

MR. MAROIS: Oh, definitely. When you are setting rates, you try to put different hats on. Naturally, you put your utility hat on, you put your customers' hat on, you put your shareholders' hat on, you put the Board's hat on, and you try to come -- put something together that you believe is reasonable. But we are not the party to decide at the end of the day.

Q.185 - And I believe you indicated earlier in speaking with Mr. Coon as well that maintaining the declining block doesn't encourage conservation, does it?

MR. MAROIS: I almost venture to say that it probably encourages the waste.

Q.186 - Yes. I would tend to agree. And you acknowledge that one of the government's objectives is to encourage conservation as evidenced in the White Papers you discussed with Mr. Coon?

MR. MAROIS: Definitely.

Q.187 - Now if we could go to page 5, line 8. And you are still here talking about sending appropriate price signals, but in this context you are talking about with respect to the GS rates. And again just to briefly read into the record, since it is expected that no longer offering the GS II, similarly it is expected that no longer offering the GS II all electric rate to new customers will remove a financial incentive for businesses to use electricity for space heating. This could result in an overall reduction in energy consumption because natural gas and oil end use heating equipment is far more efficient than electricity generating plants. Correct?

MR. MAROIS: Correct.

Q.188 - Could you confirm that it is your understanding that the efficiency of modern natural gas and oil end use equipment is in the range of 90 percent for gas and 80 plus percent for oil?

MR. MAROIS: Yes.

Q.189 - I thought from your past experience you would be able to answer that question.

MR. MAROIS: And it's also in my evidence.

Q.190 - I believe it's in an IR response.

MR. MAROIS: In IR, yes.

Q.191 - And if we could turn now to A-11, Volume 1 of 2, the first set of IRs? And if you could turn to EGNB 15. In that response you indicate that for conventional thermal plants the electric conversion efficiency is approximately 35 percent and that transmission and distribution losses in delivery of electricity from power plants to homes further reduce the effective efficiency of electricity generation, correct?

MR. MAROIS: That is correct.

Q.192 - So we are starting with power plants that have an electric conversion efficiency of approximately 35 percent, but then from that we have to add on essentially losses over the transmission and distribution system, correct?

MR. MAROIS: Correct.

Q.193 - And I would then like you -- just so that we can, you know, drill a little deeper into these numbers, if we could go to exhibit A-17, and this is the second round of IRs, PUB IR 132. Exhibit A-17, PUB second round IR 132.

CHAIRMAN: It's PUB what, Mr. MacDougall?

MR. MACDOUGALL: It's PUB 132. And if we could go to page 3, you show a history of total NB Power distribution losses. And I'm looking at the bottom line that says seven year average, and here you are showing distribution losses of 4.1 percent, correct?

MR. MAROIS: Yes.

Q.194 - And I believe though if we flip back to page 1, in the second paragraph, you say because of some variations in load in fact the actual distribution loss is more around 4.3 percent rather than 4.1 percent, correct?

MR. MAROIS: Correct.

Q.195 - So your distribution line loss as you would note them today are about 4.3 percent?

MR. MAROIS: Yes.

Q.196 - And then just to do the same analysis with transmission, if we could go to page 4, here we are dealing with the history of NB Power transmission losses, seven year average of 4.1 percent?

MR. MAROIS: Yes.

Q.197 - However, you are not using the 4.1 percent because I understand you are using a line loss figure from the OATT proceeding and in the OATT of 3.3 percent, correct?

MR. MAROIS: Yes. But on page 1 we indicate in the third paragraph on the bottom that we are using 3.5 percent.

Q.198 - 3.5 percent. Okay. I just want get you to confirm then your two numbers. You tell me the two numbers for distribution and transmission. Distribution is 4.3 and transmission what are you using?

MR. MAROIS: 3.5.

Q.199 - 3.5?

MR. MAROIS: Yes.

Q.200 - So 4.3 and 3.5. So those losses take away from the efficiency of electric usage, correct?

MR. MAROIS: Correct.

Q.201 - And we have already said that the electric conversion efficiency is approximately 35 percent. So would you be able to tell us what the actual effective efficiency factor is after factoring in the losses? I'm not sure if it's simply cumulative is my question.

MR. MAROIS: Yes. So you just take for example the 35 percent that is quoted in IR 15 --

Q.202 - Yes.

MR. MAROIS: -- and you deduct from that the 4.3 percent and the 3.5 percent.

Q.203 - Okay. So it's simply cumulative, so it would be 35 minus 7.8 --

MR. MAROIS: Yes.

Q.204 - -- which would be 28.2?

MR. MAROIS: Sounds right.

Q.205 - That would be the effective efficiency?

MR. MAROIS: Yes.

Q.206 - Okay. And now just to drill a bit deeper into transmission losses and distribution losses, my understanding is that line losses are higher in the winter months when there is higher load on the system. The load is up, resistance is greater, greater line losses?

MR. LARLEE: Yes, that's right. It's a physical fact that as you increase current your losses go up by the square of the current.

Q.207 - Thank you. So --

MR. LARLEE: Just to correct, you said resistance doesn't change. The power loss changes.

Q.208 - Thank you very much. My problem. I'm not an electrical engineer, Mr. Larlee is or is closer to I then. But that being said the losses are still higher in the winter. So the line losses are greatest when electric heat customers are using the most electricity, is that a fair comment?

MR. LARLEE: Yes. It's a fair comment.

Q.209 - Thank you. So, Mr. Marois, would you acknowledge that it's important to send the appropriate price signal to allow customers in both the residential and GS classes to determine whether to use natural gas or oil versus electricity for space heating?

MR. MAROIS: Yes.

Q.210 - And now if we could go back to page 5 of your testimony, line 21. And there at line 21 on page 5 you state that the differentiation of the General Service I, the standard class, and the General Service II all electric rate is not cost justified, and that NB Power has been working towards merging the two rates since 1992, correct?

MR. MAROIS: Correct.

Q.211 - Could you indicate what steps you have taken since 1992 to merge the two rates and the change in the differential between the rates from 1992 to present?

MR. MAROIS: We believe we -- we would like to refer to our response in IR.

Q.212 - That would be fine. I think it may be in one but because the demand in energy components change I think I might need a little bit of a description, if it is that.

MR. LARLEE: Okay. I can take you through this. It's exhibit A-11 which is the -- I believe the first round of

IRs. It's PI IR 1. Page 4 of that IR. If everyone has that up. What this table shows is the history of the General Service II all electric rate from October 1992 through to present day. And what I would like to draw your attention to is the column called the demand KW charge. You go all the way to the bottom of that column, you will see in October '92, we introduced a demand charge for that rate for the first time. Prior to that there was no demand charge. So it was like the residential rate, simply on a consumption or energy charge. So that was the primary difference between the two rates. At the time the General Service I rate had a demand charge, the all electric did not. So that was the first hurdle we had to overcome to get these two rates together.

Due to a directive from the Board we modified that rate slightly -- or actually significantly, in October of '93 to place a cap on the rate. Essentially what it does is for very low load factor loads the effective of the demand charge is reduced through a cents per kilowatt hour cap. And that cap remains in effect today and the actual turn-on point for the cap is the same as it always was. So we set it at about a load factor of 27 percent when the cap comes into play. Customers below it are capped, customers above it are not. That 27 percent is still the factor in play today. So we have raised the cap and the demand charge in proportion so that the effect of the cap is virtually the same.

So you can see that we have gradually increased that demand charge, in some years more than others, as a result of other rate design factors, so that we are about half -- that $4.24 is approximately half of the standard general service demand charge.

Q.213 - But again, Mr. Larlee, from this in the first block the dollars per kilowatt charge, has that changed?

MR. LARLEE: Yes. Because now through this rate we are actually receiving revenue from the demand charge it meant that in each successive rate increase we had to increase -- the energy charge is less, because obviously we are gaining revenue through the demand charge. So by introducing demand charges allowed us to also bring the energy charges closer together.

Q.214 - Okay. And in the first block of kilowatt hours, the 5,000, that has stayed the same throughout the period, has it?

MR. LARLEE: Yes. Those two charges have always -- well not always, but we try to keep them in sync between the two rate classes.

Q.215 - Okay. Thank you very much, Mr. Larlee. Now I understand that you are planning to grandfather the existing GS II customers until the rates GS I and GS II merge?

MR. MAROIS: Are you --

Q.216 - I can just re-ask the question.

MR. MAROIS: You are asking me to confirm that we are proposing to grandfather?

Q.217 - To grandfather existing GS II customers until the rates GS I and GS II merge?

MR. MAROIS: Yes, we are proposing that.

Q.218 - Okay. Now I want to ask you a couple of questions about what happens during the grandfathering period. During this period if a GS II customer switches from electricity to natural gas for heating purposes, so they are no longer an all electric customer, then for its remaining electric usage would it then pay the GS I rate?

MR. MAROIS: That should be the consequence, yes, because they are no longer eligible for the GS II rate.

Q.219 - Okay. So they switch their heating load to natural gas, they will be no longer eligible to be grandfathered?

MR. MAROIS: And that has nothing to do with the fact that we are proposing to stop offering the GS II rate. It should be happening today.

Q.220 - I understand that, but once you grandfather these folks this is what would happen to them if they decide to go off electric space heat?

MR. MAROIS: To be grandfathered it implies that you remain eligible for the rate.

Q.221 - Okay. And the GS I rate, as Mr. Larlee was talking about, the demand charge is higher than the GSII rate, correct?

MR. MAROIS: Yes.

Q.222 - Yes. So my question to you is does that not send exactly the wrong price signals, because the GS II customer gets rid of its most expensive load, it's heating load, and then pays a higher demand charge for its remaining electricity?

MR. MAROIS: Well the problem with the pricing though is that we have the GS II rate to start off with.

Q.223 - But I'm talking about your proposing to grandfather a group of customers. Of that grandfathered group of customers, I'm suggesting that if they have to go to the GS,I rate for their non-heating load if the switch to natural gas for example, they are getting the exact wrong price signal because for their remaining load, the less costly heat load, they will then pay a higher cost than if they stay on CS II?

MR. MAROIS: I agree it's sending maybe the wrong pricing, but the issue is -- the issue at the base of all this is the fact that we -- it's not the all-service I rate that is wrong, it's the General Service II rate that is wrong. And like I say even if we weren't proposing to grandfather the General Service -- or to close the General Service II rate we currently have this situation right now. If you have got a customer on General Service II and they start using another source of energy, they would lose their right for that rate.

Q.224 - I agree. And what I'm pointing out is that remains the situation for the grandfathered GS II customers?

MR. MAROIS: Effectively, yes.

Q.225 - Great. If we could go to page 5 of your testimony, line 25. And here you say that closing the electric rate to new customers would make it easier to merge the two rates?

MR. MAROIS: Yes.

Q.226 - And then again just to go back to Mr. Coon's comment earlier today in your response to him, you do not have a time frame for ultimately merging the two GS rates, do you? You are not proposing a time frame for that either?

MR. MAROIS: No. But intuitively if by stopping to offer the General Service II rate to new customers you are reducing the size of the problem. So we got fewer customers at one point in time that will have to merge.

Q.227 - Sure. And I guess it all depends on how big the magnitude of the problem people think it is. You are closing it off.

But you have no proposal before this Board to merge the GS classes?

MR. MAROIS: No. Because of the unknown factors that we talked about previously.

Q.228 - Okay. Just moving on to a separate topic area, I think you might have alluded to this a bit with Mr. Coon but wasn't very specific.

Does Disco attribute any value to the interruptible capacity of industrial customers?

MR. MAROIS: Yes.

Q.229 - And could you elaborate on the value they bring to the system?

MR. MAROIS: Well, I'm not able to quantify it here. But there is definitely value to the fact that because these customers are not there at peak -- yes, at peak -- that allows Disco to avoid costs, capacity costs that they would otherwise have to incur.

Q.230 - And that is exactly what I want. I don't need a dollar value. I mean that is certainly of benefit to a utility in capacity planning and determining whether it has to build new capacity for the future, correct?

MR. MAROIS: My understanding, all utilities including gas utilities use these type of customers to help manage the load.

Q.231 - Exactly. You alluded to this as well I believe this morning. But I would like to just probe it a little further. If a residential electric heat customer has no indication of when the declining block would be further reduced or eliminated, how can it make a rational determination on whether to stay with electric heat?

MR. MAROIS: Well, I guess the answer to that is the sooner we reduce -- the faster we reduce the declining block and the sooner we eliminate it, the better off everybody will be. Because the customer will be getting the right price signal. So there is an incentive to move quicker rather than slower.

Q.232 - And I agree with that comment, Mr. Marois. But I would like to come back to the question though. In that time period -- for example, what you are proposing here to do is raise your block and open 1300 to 1400. But most electric heat customers are significantly above that.

So if they have no indication of the time frame, what is their incentive? How do they know how to compare what their costs are going to be to the cost of a conversion, for example?

MR. MAROIS: Well, it is more difficult. A potential solution here would be to start communicating to the customers that that is the direction where we are going. So at least customers will know that that is the general direction and hopefully factor that in.

I guess it is all part of not being in a perfect world. If we could do that overnight that would be great from a price signal.

Q.233 - And would you agree that a customer considering switching from electric heat to oil or gas would need to make a capital investment?

MR. MAROIS: Yes.

Q.234 - And earlier today you talked to Mr. Coon about I think you have two groups of people, Energy Advisers and Account Managers who provide information on price signals and the like to your customers, correct?

MR. MAROIS: Correct.

Q.235 - And what are they currently telling your customers about the time period over which the declining block will disappear?

MR. MAROIS: Well, I hope they are communicating that they don't know. Because I don't know.

Q.236 - Okay. Arising out of his hearing though, is it your intention I guess based on the comments we just made, that the intention would be that they start to signal to the marketplace that this is going to happen faster rather than later and that they start communicating that direction and that speed?

MR. MAROIS: It is all going to depend on what the Board decides. I mean, we cannot communicate that information in a vacuum.

Q.237 - Okay. What are you doing today to encourage builders not to build new electric baseboard heated homes?

MR. MAROIS: What are we doing today?

Q.238 - Yes.

MR. MAROIS: I guess it is really limited to providing the builders with as much as information as we can. And that is the role of the Energy Advisers. The difference between Energy Advisers and Account Managers is Energy Advisers are focused on the residential market while the Account Managers are focused on the business and additional market. And the rule that they work under is to provide factual information and nonbiased information.

Q.239 - Okay. But are they doing anything to encourage builders not to build new electric baseboard heated homes?

MR. MAROIS: No.

Q.240 - Thank you.

MR. MACDOUGALL: I would like, Mr. Chair -- in all my cross there is one reference -- I know it is in the materials and I know the document. But I had received it by a separate e-mail. So I would like to refer to the Energy Planning Survey 2001. But maybe Mr. Morrison or someone could indicate what exhibit that is in. Because it was sent as a separate document.

MR. MORRISON: That is not an exhibit, Mr. Chairman. That information was provided to Mr. MacDougall under a restricted use agreement.

MR. MACDOUGALL: It was. But is it not part of the record?

MR. MORRISON: I don't believe so.

MR. MACDOUGALL: So that might be my fault, Mr. Chair. Maybe it was provided to me under that but not as part of the record. If that was the case I won't ask any questions on it, Mr. Chair.

Q.241 - If we could go to A-6, the load forecast at page 11, the second full paragraph. And there, Mr. Marois, just staying with the new build questions I was asking. I would just like to go to the second full paragraph and the second sentence. "In recent years most new homes have opted for electric space heating, over 80 percent and water heating nearly 100 percent."

So is that Disco's current understanding of what has been happening in the new home market?

MR. MAROIS: Across the province, yes.

Q.242 - Now I don't think I have to go to this IR. So I will just make a general comment. Although it does derive out of an IR.

My understanding is that Disco's load at peak hours is driven by electric heat. Is that a correct statement?

MR. MAROIS: Yes.

Q.243 - And in PUB IR-13 (c) which is again in exhibit A-12 --

MR. MORRISON: The reference again?

MR. MACDOUGALL: PUB IR-13(c) in exhibit A-12. Mr. Chair, it would be useful to keep that binder out. My next few questions will be referring back and forth to some of the PUB IRs.

CHAIRMAN: All right. But hang on. It is 13(c)?

MR. MACDOUGALL: 13(c). So the response to 13(c) is on page 3 of IR-13.

CHAIRMAN: No, it isn't. Perhaps it should be. But it is not. The third page is an amendment of the 10th of August with table 1. And textwise there is only two pages.

MR. MAROIS: I believe it is the last page. If you look at the last page in that section.

CHAIRMAN: The last page is a volume of --

MR. MAROIS: No. In 13. It is in IR-13.

MR. MACDOUGALL: It is three pages, Mr. Chair. It is the third page should have (b) at the top.

CHAIRMAN: No. I don't have --

MR. SOLLOWS: Nor do I.

MR. MACDOUGALL: I have extra pages, Mr. Chair. I can share one with the Board. And we can --

MR. MAROIS: Okay. I'm told that it was corrected. So we removed the entire old response and we have put a new response in. Yes, just revised.

MR. SOLLOWS: There are two page 3s.

MR. MACDOUGALL: I'm sorry. I'm not using the revised one I guess.

CHAIRMAN: Mr. MacDougall, I will take you up on your offer.

MR. MACDOUGALL: And maybe I can read this. If there is something wrong in this reference or (c) has been changed, the witnesses can tell me, Mr. Chair.

Q.244 - And what I'm referring to is a statement that you made in PUB IR-13(c) of July 14, 2005 that when trying to assess a customer or a customer class' load shape, the load factor provides a good indicator of their loads peak relative to energy consumption.

Whether that is in that IR or not, do you agree with that statement?

MR. MAROIS: It is in the IR -- on this IR I will agree.

Q.245 - Okay. Now in general large industrial customers have a high load factor, is that correct, a higher load factor than residential and --

\ MR. MAROIS: Generally speaking, yes.

Q.246 - Yes. And this means that they have a flatter load shape, correct?

MR. MAROIS: Correct.

Q.247 - And residential customers generally have a lower load factor and a more peaky load shape, is that correct?

MR. MAROIS: Especially the heating residential customers, yes.

Q.248 - Jumping past my questions. That is greatly appreciated.

MR. MAROIS: Like efficiencies.

MR. MACDOUGALL: And I believe -- maybe I have found the problem. I believe PUB IR-13 was corrected in the Utilities Municipal second round IR-58, Mr. Chair. So for the record going forward I believe that is where some of the corrected IR responses can be found.

Q.249 - Now just sticking with this July 14th page in PUB IR-13(d), you were asked "Would you agree that if a cost allocation study properly assigns the costs, the responsibility for peakedness is properly shared between classes and no further adjustment should be required?"

That was a question that was posed to you. And your response in (d) in the first paragraph was that "Load factor is a useful indicator of the peak of a class relative to the energy required by the class. The methodology used in the CCAS described below allocates demand and energy separately and thus does not explicitly use load factor as an input in the CCAS."

Can you confirm that statement, Mr. Larlee, with respect to the CCAS you are proposing to the Board?

MR. LARLEE: I think what I'm trying to say there is the methodology itself doesn't use load factor as an input.

Q.250 - Yes. The methodology for your CCAS does not use load factor as an input?

MR. LARLEE: That is right.

Q.251 - Thank you. Now if we could go to PUB IR-16(a). So we are still in A-12 and now PUB IR-16(a). And here Disco was asked to provide any analysis or alternatives to the rate design proposal that was submitted with the filing. You were asked to provide those. And your response was that the rate design proposal submitted with the filing is the only proposal considered by Disco's Board of Directors. Correct?

MR. MAROIS: We can't find the IR, but I remember that answer, yes.

Q.252 - Do you need a copy? I can certainly --

MR. MAROIS: No. We got here.

Q.253 - The question is important here because you were asked to provide any analysis of alternatives. And your response was that the rate design proposal submitted with the filing is the only proposal considered by Disco's Board of Directors. Correct?

MR. MAROIS: Correct.

Q.254 - Mr. Larlee, did you -- or Mr. Marois, did you consider other alternative rate design proposals?

MR. MAROIS: Well, I think it is fair to say when you are preparing a rate proposal you work with numbers all the time. So I mean what is a proposal? From our perspective until we bring it to the Board of Directors, it's purely playing with the numbers to see what works and what doesn't. So we don't call it a proposal.

Q.255 - So you wouldn't have suggested anything else you done previously to bringing your proposal to the Board of Directors was an analysis of alternatives to the rate design proposal that went forward?

MR. MAROIS: No, I had -- personally, I have -- I don't even remember seeing any alternative. It's just as part of the reflection process you crunch numbers. I mean that's what it's all about.

Q.256 - Okay. Mr. Ketchum, did you discuss any other rate design proposals with Mr. Larlee or anyone else at Disco, other than the ones they put forward for you to review?

MR. KETCHUM: No. My assignment was to look at and review and provide my opinion with respect to the reasonableness of the rates that Mr. Larlee and Mr. Marois produced.

Q.257 - Right. Thank you. If we could now go to PUB IR-49. It should be in the same binder. And here you attach a time of use rates backgrounder dated June 2003. And if we could go to the fourth page of that document. It's actually -- it's called page 4, but it's the third page of that document, the fourth page of the IR response. And in the first full paragraph on page numbered 4, I would just like to read this into the record. Time of use rates will be more attractive to customers when NB Power's standard rates are more reflective of the costs for residential customers. Without a declining block structure or one with a much reduced discount, customers will be more likely to look to TOU rates as a means to consume discounted electricity. Under the present residential rate structure, customers can consume energy at a rate that is 22 percent less per kilowatt hour simply by exceeding 1,200 kilowatt hours per month consumption. Correct?

MR. MAROIS: Correct.

Q.258 - And your proposal now is to move that up to 14 from where it is today, correct? This was awhile ago this report, a couple of years ago?

MR. MAROIS: Yes. We are moving the second block up.

Q.259 - But the general statement, with the exception of the numbers, is still applicable today?

MR. MAROIS: Yes. As I mentioned previously, I believe we need to start walking before we can run. So the first thing we should do is have our current rates, send the price signal -- the right price signal and then we can start looking at other ways of improving the price signal.

Q.260 - And the price signal you are sending today in the declining block structure, that's not reflective of costs for residential customers, particularly the electric heat customers is it?

MR. MAROIS: No, it's not.

Q.261 - Mr. Ketchum, I have a couple of questions of you, but again they are related to the policy aspect of this line of questions.

In PUB IR-67, so we are still in exhibit A-12, PUB IR-67 in the first round. And in that question, you were asked to provide the definition of cross subsidization. And you stated -- if I may read it in starting at the second line that, if the results of the class costs allocation study are deemed valid, then it follows that a class of service with a revenue to cost ratio of above 1, would be subsidizing the cost of any class for the revenue to cost ratio below 1 by paying some of the cost caused by the class with the ratio below 1. Correct?

MR. KETCHUM: You read that correctly.

Q.262 - And I believe though today that you indicated that, however, there is a range of reasonableness and if one is looking at the Board's previous range of 95 to 105, you wouldn't suggest that that's cross subsidization, as long as one was in what the Board felt was the approved range?

MR. KETCHUM: That's correct. This -- the reference here was to my direct evidence on page 16 at line 12.

Q.263 - Yes.

MR. KETCHUM: And at that point I was addressing the general relationship between class cost of service allocation study and rate design. So the response here was reflecting what I had said in my direct evidence, which was about a general situation and not the New Brunswick specific situation.

Q.264 - Yes. So there can be a range of reasonableness within which there isn't cross subsidization, although not every single class is earning exactly the revenue to cover its cost?

MR. KETCHUM: That's correct.

Q.265 - And I take it to reach that ultimate goal is pretty difficult, to have every class recover all of its costs exactly?

MR. KETCHUM: Well, it's not clear to me that that's necessarily difficult, because we do have the range and some are earning a little more and some a little less in terms of revenue to cost ratios and still within the range of reasonableness.

Q.266 - Okay.

MR. KETCHUM: To hit the target of 1, if you wanted to try to do that on the nose, I guess that's what you are asking?

Q.267 - Yes.

MR. KETCHUM: That might be difficult, yes.

Q.268 - Now to go back to the quote you made though, talking about the general concept here, you say that your comments start from the premise if the results of the class cost allocation study are deemed valid. So that's the initial premise?

MR. KETCHUM: Is that a question?

Q.269 - Yes, it is.

MR. KETCHUM: Yes.

Q.270 - So the starting point is to get as appropriate as possible a class cost allocation study, correct?

MR. KETCHUM: That's correct. And as Mr. Marois said the point there is to try to be as objective as you possibly can apply, except the principles, cost causation and that sort of thing, they come up with a cost of service study that you believe is reasonable and appropriate under the circumstances. Your rate design then, the next phase, you have this flexibility that's built in by virtue of the Board's directive with respect to the range of reasonableness.

Q.271 - And I guess just coming back to your words, a class cost allocation, the premise is that it be one that's deemed valid. Maybe just to probe that. You are not looking for one actually that's deemed valid that isn't valid, are you? What you mean is the goal would be to have a CCAS that is valid?

MR. KETCHUM: Naturally, yes, of course.

Q.272 - Not just if the Board deems it valid that that makes it okay?

CHAIRMAN: Mr. MacDougall, I wouldn't want to accuse you of friendly cross, but this is getting quite close I would suggest.

MR. MACDOUGALL: I can change, Mr. Chair, but with all fairness, I have no idea what Mr. Ketchum would have said to these questions and it certainly was not intended to --

CHAIRMAN: I was picking up a thread that was re-emphasizing the rebuttal that was made this morning. Perhaps that's my mishearing. You go ahead, sir.

MR. MACDOUGALL: No. I apologize if I have done that. But on the deeming point that was not my intent, Mr. Chair, and I apologize if it came across that way. I have been rarely been told that I have friendly cross. I will take that as a compliment. Although, I know it's not appropriate.

CHAIRMAN: It's certainly the first time I have heard it, sir.

MR. MACDOUGALL: Thank you, Mr. Chair. I will be judging myself accordingly moving forward.

Q.273 - Now, Mr. Marois, if we could go to A-16, Volume 1 of 2. This is a binder of the second -- the first of the second round IRs. So it's A-16. And what I wanted to look at was Enbridge Gas New Brunswick second round IR-25. And that response has a bunch of line numbers and I would like to go to line number 13.

And there my understanding is that under your current rates, and I believe under your proposed rates, and this is what I want to get clear, that 100 percent of water heating energy is at the front block energy rate?

MR. LARLEE: If you don't mind I will answer that?

Q.274 - Certainly, Mr. Larlee.

MR. LARLEE: Yes, at the proposed rates and at current rates that would be the case.

Q.275 - And then if we could go to table 2, which is two pages over in the same IR, page number 5. And the ultimate conclusion at the bottom of that page is that the percentage of electric heat at first block energy is 32.9, let's say 33 percent?

MR. LARLEE: Yes, that's the conclusion. Yes.

Q.276 - So to get this clear, using the 1,400 kilowatt hour block, 67 percent of the electric heat of a residential customer would be priced at the lower second block price, correct?

MR. LARLEE: Yes.

Q.277 - It's the obverse of the 33 percent?

MR. LARLEE: Right.

Q.278 - Now can we just look, for an example, let's look at January. It starts with average electric heat, 3,086. And then it shows next to it the average non-electric with water heat customer of 1,314?

MR. LARLEE: Yes.

Q.279 - So my understanding is only 86 kilowatt hours of electric heat would be priced at the first block energy, the difference between 1,314 and 1,400, correct? Because all of the rest is non-electric heat usage?

MR. LARLEE: Correct.

Q.280 - So you have 86 kilowatt hours of electric heat would be priced at the first block energy. And that means from my math that 1,686 kilowatt hours of electric heat would be priced at the lower second block energy rate in January for the customer represented by this data, correct?

MR. LARLEE: Correct.

Q.281 - So 86 kilowatts at the first block. 1,686 at the second lower block. And if we could stay in A-16, but go to the Public Intervenor's questions now. So you have got the same binder in front of you. IR-1. Page 3 and it's the second full paragraph at the top that starts, residential resegmented. And that states residential resegmented into electric heat customers and non-electric heat customers for the first time in the 2005/06 CCAS for the purposes of cost allocation. Correct?

MR. LARLEE: Yes, that is a correct quote.

Q.282 - And as I understand this, this was for the purpose of being able to recognize more clearly any intra class subsidy. That is the reason you did this for this CCAS?

MR. LARLEE: That is correct. We were looking at -- we wanted to look at the intra class difference between electric heat and non-electric heat residential customers. Again, in the environment that we are in with so much focus on electric heat and the declining block structure and having available to me the load research data that we had, I felt that it would add some value to this cost allocation study. So we included it.

Q.283 - Thank you very much. So now if we could go to PI IR-6, again in the same binder, at page 4, there is a table called contribution to peak per customer. Do you see that?

MR. LARLEE: Yes.

Q.284 - And in the explanation that precedes that which is over on page 3, you indicate that the CCAS includes residential loads segmented into electric heat customers and non-electric heat customers. And that load research results were used to develop the estimate of the contribution to peak for these two segments. Could you elaborate on the numbers in table 3? I understand -- am I correct to say that the numbers, the 6.62 as compared, you know, February '02 -- let's use the most current one. January 2004, the 704 and the 2.45, those are kilowatt figures?

MR. LARLEE: Yes, they are kilowatt figures per customer.

Q.285 - Okay.

MR. LARLEE: So they are estimates per customer.

Q.286 - And this would indicate a contribution to peak of essentially for almost all of the years here, of three times as much for an electric heat customer than for a non-electric heat customer. Is that what this shows?

MR. LARLEE: Yes. I guess that it is about three times, a little bit less perhaps.

Q.287 - Sure, a little bit one way or the other.

MR. LARLEE: Yes.

MR. MACDOUGALL: Mr. Chair, that was the questions I had that were referrable to Mr. Marois and his colleagues. I can go on into the -- if we have time, I am not sure of the time -- but I am finished that piece and the next questions are really along the CCAS in more detail for Mr. Larlee and Mr. Ketchum.

CHAIRMAN: Well we have only got five minutes left to go until the appointed hour to rise this afternoon, so it is your choice as to whether you want to use that five minutes or carry on tomorrow.

MR. MACDOUGALL: I think, Mr. Chair, since Mr. Coon said he was going to ask the panel some of these questions, we should just do the same thing tomorrow in that order. He can do his questions of the two gentlemen, I can then do mine and then we can be into the normal order rather than me start for five minutes.

CHAIRMAN: Okay. We will reconvene tomorrow morning at 9:15.

MR. MACDOUGALL: Thank you, Mr. Chair.

(Adjourned)

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