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INDEX

Dr. Rosenberg - Direct by Mr. MacDougall - page 5054  
- Cross by Mr. Gorman - page 5076  
- Cross by Mr. Hyslop - page 5081  
- Cross by Mr. Morrison - page 5093  
- Cross by Mr. MacNutt - page 5106  
- By the Board - page 5124  
- Redirect by Mr. MacDougall - page 5152

Messrs. Marois and Larlee

- Cross by Mr. Peacock - page 5160

A-130 - undertaking number 4 from February 20th - page 5051  
A-131 - undertaking number 3 from February 21st - page 5052  
A-132 - undertaking number 5 from February 21st - page 5052  
A-133 - undertaking number 6 from February 21st - page 5052  
A-134 - undertaking number 6 from February 22nd - page 5052  
A-135 - undertaking number 12 from February 22nd - page 5052  
A-136 - undertaking number 13 from February 22nd - page 5053  
A-137 - undertaking number 14 from February 22nd - page 5053  
A-138 - undertaking number 1 from February 23rd - page 5053  
A-139 - Request for information Monday, February 20th  
- page 5136

A-140 - undertaking number 1 from February 22nd - page 5136  
A-141 - undertaking number 4 from February 22nd - page 5137  
A-142 - undertaking number 11 from February 22nd - page 5137  
A-143 - undertaking number 15 from February 22nd - page 5137  
A-144 - undertaking number 10 from February 22nd - page 5159

Undertakings

page 5087 - if we accept your proposal for the 0.98, have  
you or could you calculate for me what would be

INDEX (2)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
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the revenue cost ratios of the non-electric heat customers

page 5088 - while you are doing the calculation for the non-electric heat residential also to calculate the revenue cost ratio for the large industrial class and small industrial class if your recommendation on the general service and residential rate classes are accepted

page 5106 - the red line, is that the usage of customers with electric heat, in other words they have electric heat but have other loads, appliances, et cetera, or is it the residential electric heat usage only, only electricity consumed by electric heat

page 5121 - file the pages of the compliant filing related to that hearing which shows the RC ratio for large industrial based on the rates actually approved in that hearing

page 5122 - undertake to obtain that information or advise the reasons why it is not available

page 5124 - names of all jurisdictions to your knowledge that you have information on where the RC ratios for industrials are lower than the RC ratio for residential

page 5147 - point to data request

page 5152 - which interrogatory

1  
2  
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4  
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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 - Revenue Requirement  
Delta Hotel, Saint John, N.B.  
March 2nd 2006

1 New Brunswick Board of Commissioners of Public Utilities  
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7 Delta Hotel, Saint John, N.B.  
8 March 2nd 2006

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CHAIRMAN: David C. Nicholson, Q.C.

COMMISSIONERS: Jacques A. Dumont  
Patricia LeBlanc-Bird  
H. Brian Tingley  
Diana Ferguson Sonier  
Ken F. Sollows  
Randy Bell  
David S. Nelson

BOARD COUNSEL: Peter MacNutt, Q.C.

BOARD STAFF: Doug Goss  
John Lawton

BOARD SECRETARY: Lorraine Légère

.....

33 CHAIRMAN: Good morning, ladies and gentlemen. Could I have  
34 appearances for the record? N.B. Distribution and  
35 Customer Service Corporation?

36 MR. MORRISON: Good morning, Mr. Chairman and Commissioners.  
37 Terry Morrison and David Hashey for the Applicant. And  
38 with me at counsel table is Lori Clark. We also have our  
39 panel, Neil Larlee and Rock Marois.

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CHAIRMAN: Thanks, Mr. Morrison. Canadian Manufacturers and Exporters?

MR. LAWSON: Good morning, Mr. Chairman and Commissioners. Gary Lawson. And expect to be joined shortly with David Plante.

CHAIRMAN: Thanks, Mr. Lawson. Conservation Council is not here. Eastern Wind is not here. Enbridge Gas New Brunswick?

MR. MACDOUGALL: Good morning, Mr. Chair and Commissioners. David MacDougall for Enbridge Gas New Brunswick. And I'm joined today by Shelley Black, Manager of Regulatory Affairs for EGNB. And our witness today Dr. Alan Rosenberg.

CHAIRMAN: Thank you, Mr. MacDougall. Irving Group of companies? Mr. Booker I saw in the hall. He is now back there. Good morning, Mr. Booker.

MR. BOOKER: Good morning.

CHAIRMAN: Mr. Gillis is not here. Rogers is not here. The unmentionables. Municipal Utilities?

MR. GORMAN: Good morning, Mr. Chairman and Commissioners. Raymond Gorman appearing for the Municipal Utilities. This morning I have Eric Marr and Dana Young with me.

CHAIRMAN: Thanks, Mr. Gorman. Vibrant Communities not here. And Mr. Hyslop?

2 MR. HYSLOP: Good morning, Mr. Chair. Peter Hyslop. And  
3 I'm joined today by Mr. Knecht, Mr. O'Rourke and  
4 Ms. Power.

5 CHAIRMAN: Great. Thank you, Mr. Hyslop. And as usual, if  
6 there are any Informal Intervenors here who wish to be  
7 recognized, speak out.

8 Mr. MacNutt, who is accompanying you today?

9 MR. MACNUTT: Mr. Chairman, I have with me today Doug Goss,  
10 Senior Adviser, John Lawton, Adviser and Jim Easson,  
11 Andrew Logan and John Murphy, Consultants.

12 CHAIRMAN: Thank you, Mr. MacNutt. Any preliminary matters?

13 MR. MORRISON: Yes, Mr. Chairman, I have a number of  
14 undertaking responses that should be marked.

15 CHAIRMAN: Okay.

16 MR. MORRISON: And we expect that we will have more later in  
17 the day.

18 CHAIRMAN: Good. Mr. Hashey sort of fell down on that  
19 responsibility in the last two days. He left it all for  
20 you, Mr. Morrison.

21 MR. MORRISON: Some things never change, Mr. Chair.  
22 The first, Mr. Chairman, is undertaking number 4 from  
23 February 20th.

24 CHAIRMAN: And that is A-130.

25 MR. MORRISON: And the next one, Mr. Chairman, is

2 undertaking number 3 from February 21st. And it is the  
3 hedging report.

4 CHAIRMAN: And that is A-131.

5 MR. MORRISON: Next one, Mr. Chair, is undertaking number 5  
6 from February 21st. It deals with the gypsum waste, where  
7 it is deposited.

8 CHAIRMAN: And that is A-132.

9 MR. MORRISON: The next one, Mr. Chairman, is undertaking  
10 number 6 from February 21st dealing with the breakdown on  
11 the precipitator costs for the two units.

12 CHAIRMAN: That is undertaking number 6, Mr. Morrison?

13 MR. MORRISON: Undertaking number 6 from February 21st.

14 CHAIRMAN: Thank you. That will be A-133.

15 MR. MORRISON: The next one is undertaking number 6 from  
16 February 22nd.

17 MR. MACNUTT: I just wonder if we could slow down a moment,  
18 Mr. Chairman. We are still awaiting 133. Thank you,  
19 Mr. Chairman.

20 MR. MORRISON: The next is undertaking number 6 from  
21 February 22nd.

22 CHAIRMAN: That is A-134.

23 MR. MORRISON: The next one is undertaking number 12 from  
24 February 22nd.

25 CHAIRMAN: That is A-135.

2 MR. MORRISON: The next is undertaking number 13 from  
3 February 22nd.

4 CHAIRMAN: That is A-136.

5 MR. MORRISON: The next is undertaking number 14 from  
6 February 22nd.

7 CHAIRMAN: That is A-137.

8 MR. MORRISON: And finally, Mr. Chairman, it is undertaking  
9 number 1 from February 23rd.

10 CHAIRMAN: And that is A-138.

11 MR. MORRISON: And we will have more responses later in the  
12 day, Mr. Chairman. That's it for now.

13 CHAIRMAN: Good. Thanks, Mr. Morrison. Any other  
14 preliminary matters? I should say that Mr. Hashey has  
15 been speaking with Mr. MacNutt, Board counsel, concerning  
16 a separate summation dealing with the pole attachment  
17 matters, and that certainly from the Board's perspective  
18 is a good idea. And we will take a look and see what  
19 dates might be available and probably get back to you  
20 tomorrow or when we next reconvene.

21 My understanding is that Enbridge Gas New Brunswick's  
22 witness is here today and, Mr. MacDougall, over to you.

23 MR. MACDOUGALL: Thank you, Mr. Chair. Dr. Rosenberg will  
24 be up today and Enbridge's company witnesses will be up  
25 later in the schedule. If Dr. Rosenberg could be



2 affirmed, Mr. Chair.

3 DR. ALAN ROSENBERG:

4 MR. MACDOUGALL: Thank you, Mr. Chair. Dr. Rosenberg's  
5 evidence and what he will be speaking to today is found at  
6 Exhibit EGNB-5. Dr. Rosenberg's qualifications are found  
7 at Appendix A to EGNB-5. Mr. Chair, on the basis of those  
8 qualifications I would ask that Dr. Rosenberg be qualified  
9 as an expert to speak to matters of cost of service and  
10 rate design in the same way that he was qualified as an  
11 expert earlier in this proceeding.

12 CHAIRMAN: No objection to that?

13 MR. MORRISON: No, Mr. Chair.

14 CHAIRMAN: Okay. The Board will so recognize you, Doctor.

15 MR. MACDOUGALL: Thank you very much, Mr. Chair.

16 DIRECT EXAMINATION BY MR. MACDOUGALL:

17 Q.1 - Dr. Rosenberg, do you have in front of you Exhibit EGNB-  
18 5, direct testimony of Alan Rosenberg on behalf of  
19 Enbridge Gas New Brunswick? And that contains both  
20 Appendix A, your qualifications which we just referred to,  
21 and Schedule 1?

22 A. That is correct.

23 Q.2 - And was that document and that evidence prepared under  
24 your direction and control?

25 A. Yes.

1 - 5055 - Dr. Rosenberg - Direct by Mr. MacDougall -

2 Q.3 - And do you adopt that as your evidence in this  
3 proceeding?

4 A. I do.

5 MR. MACDOUGALL: Thank you very much. Mr. Chair, we have a  
6 series of direct questions to bring Dr. Rosenberg through  
7 his evidence in a summary fashion and he has, as has been  
8 the process to date, a few comments on -- comments arising  
9 from the Disco direct and from the Public Intervenor's  
10 expert's filing in rebuttal.

11 Q.4 - Dr. Rosenberg, if we could start -- could you just  
12 briefly identify the subject matter of your evidence?

13 A. Yes. In the first part of my evidence I supply the Board  
14 with additional information on cost causation that I  
15 believe is relevant to their deliberations on the revenue  
16 allocation in this proceeding. I do this because the  
17 Board specifically noted in the CARD case that it  
18 reluctantly made certain decisions based upon incomplete  
19 information.

20 Subsequently I offer the Board an alternative allocation  
21 of the Disco's requested revenue requirement that was  
22 influenced by the information in the first section of my  
23 testimony. My recommendations are also mindful of the  
24 regulatory principle of avoiding, as much as possible,  
25 undue rate impacts. I should emphasize that

2 my recommended revenue allocation is based upon the Disco's  
3 cost allocation study as filed and I believe is fully  
4 conformant in both the letter and spirit with the Board's  
5 guidelines in its CARD ruling.

6 The next part of my testimony offers an alternative rate  
7 design for the residential class that in my opinion is not  
8 only more consistent with the Board's directives in the  
9 CARD case, but is also more conducive to the stated policy  
10 objectives of this province with regard to the efficient  
11 use of energy.

12 The ensuing section of my evidence supports my  
13 recommendations for an alternative rate design for the  
14 general service classes that provide customers with a more  
15 appropriate price signals. I should note that my  
16 alternative rate designs for both the residential and the  
17 general service classes are provided under two scenarios.

18 First, accepting the Disco's proposed revenue  
19 distribution and, second, with my recommended inter-class  
20 revenue distribution.

21 In the final section of my evidence I recommend that the  
22 Board direct Disco to take certain steps prior to April  
23 2007. And my reason for these recommendations is that  
24 customer impact considerations preclude making sufficient  
25 progress to its appropriate price signals

1           - 5057 - Dr. Rosenberg - Direct by Mr. MacDougall -

2    within the ambit of this proceeding.  And furthermore it is  
3           unknown when Disco will next be before the Board and it is  
4           important for all parties to receive the appropriate price  
5           signals as soon as possible.

6    Q.5 - Thank you, Dr. Rosenberg.  Could you now please  
7           highlight the additional comments which you believe are  
8           necessary for the Board's consideration with respect to  
9           your rate recommendations?

10   A.  Yes.  While the Disco study is, strictly speaking,  
11           essentially in accord with the classification methodology  
12           approved in the April 15th 1992, decision, at least as far  
13           as I could tell, it unfortunately mutes the cause and  
14           effect connection between the distinctly seasonal pattern  
15           of consumption and the higher costs that are evident in  
16           the winter.

17           Schedule 1 of my evidence graphically depicts the seasonal  
18           variation as well as the correlation between winter usage  
19           and fuel costs.  These phenomena are simply not captured  
20           in the CCAS.

21   Q.6 - And, Dr. Rosenberg, how do you think these differences  
22           can best be reflected by the Board in this phase of the  
23           proceeding?

24   A.  Well as the Board noted in its December ruling, it  
25           reluctantly accepted the methodology of the April 15th

26

1                   - 5058 - Dr. Rosenberg - Direct by Mr. MacDougall -  
2 1992 decision as a reasonable approximation of cost causation.

3           I too reluctantly accept the indications of the Disco  
4 CCAS. Nevertheless, as with any method that merely  
5 approximates, it's useful to know whether approximations  
6 are approximately high or approximately low or  
7 approximately in the middle of some confidence band. And  
8 based on the evidence depicted in Schedule 1, I conclude  
9 that the cost approximations emanating from the CCAS are  
10 on the low side with regard to the residential heating  
11 class, and the general service II class in particular, and  
12 on the high side with regard to the large industrial  
13 class. With respect to the other classes they are more in  
14 the middle.

15           It is my recommendation that this information influenced  
16 the decision on the allocation of the revenue requirement  
17 when the Board uses its discretion in setting the target  
18 revenue to cost ratios.

19 Q.7 - Now what is your specific proposal with respect to the  
20 revenue allocation?

21 A. Specifically I recommend that the revenue be distributed  
22 so as to bring the revenue to cost ratio for the  
23 residential class, again as measured by the Disco study,  
24 to a minimum of 0.98. I would have preferred to bring  
25 this class even closer to the high end of the

2 Board's guideline revenue to cost ratio in view of the fuel

3 analysis contained in the first section of my testimony.

4 However, I have tempered my recommendation so as to limit

5 the increase to this class to no more than approximately

6 one-and-a-half times the system average increase. I also

7 recommend using part of this additional revenue vis-a-vis

8 the Disco proposal to bring the revenue to cost ratios of

9 the two general service classes closer together, thus

10 dampening the promotional aspect of the GS II rate.

11 Specifically I am recommending that the additional revenue

12 from the residential class that I recommend be used to

13 offset any increase to the GS I class only. The remaining

14 revenue should be used to moderate the proposed increases

15 to the large and small industrial classes.

16 Q.8 - And, Dr. Rosenberg, what do you believe are the benefits

17 of your proposal?

18 A. Well first and perhaps most important customers would be

19 receiving a more accurate and correct price signal. These

20 price signals should motivate additional conservation,

21 specifically reduce the electric usage in the winter.

22 This in turn should lead to lower costs for NB Power and

23 hence to all customers in future years.

24 Second, these proposals would be in accord with

25

2 established government policy to further competition between  
3 electricity and alternate fuel, including demand side  
4 management.

5 Third, my proposed rates would be fairer because they  
6 would lead to less subsidization and be more reflective of  
7 true cost causation.

8 Fourth, to the extent that my proposed revenue  
9 distribution can help moderate the industrial increases,  
10 it should help to keep NB Power's industrial base more  
11 competitive and thus would be beneficial to the economic  
12 vitality of the province.

13 Q.9 - Now, Dr. Rosenberg, what specific concerns do you have  
14 with the rate design proposals of Mr. Marois and Mr.  
15 Larlee regarding the residential class?

16 A. My principal concern is that Disco only reduced the  
17 differential between the energy charges for the first and  
18 second blocks from 1.74 cents to 1.28 cents, which is a  
19 reduction of only 0.46 cents or approximately 26 percent  
20 of the current differential. My reading of the CARD  
21 ruling in December was that the differential was supposed  
22 to be reduced by 1/3 in three equal steps. I understood  
23 the Board's intent as being those steps to be of equal  
24 magnitude. Apparently Disco did not, although they do not  
25 appear to have any objections to reducing the 1.74 cent

1                   - 5061 - Dr. Rosenberg - Direct by Mr. MacDougall -  
2 differential by 1/3. And the Board will have to decide which  
3 approach is more in accord with their intentions and which  
4 approach gives a better price signal.

5 Q.10 - And what then is your recommendation on the design of  
6 the residential rate?

7 A. Well I reluctantly accept the Disco proposal of increasing  
8 the size of that first block by 100 KWH to 1400, although  
9 ideally that increase should be even larger. I recommend  
10 that the differential and the energy charges be reduced by  
11 0.58 cents per KWH, which is exactly 1/3 of the current  
12 differential. And in my testimony I have also used the  
13 Disco proposed customer charge for illustrative purposes  
14 because that seems to be indicated by the cost study.  
15 However, I note that should the Board wish to give greater  
16 weight to limiting the increase to low income customers or  
17 to give greater weight to an energy charge that would  
18 encourage conservation, I would recommend leaving the  
19 customer charge unchanged.

20 Q.11 - Could you briefly describe the outcome of your rate  
21 design proposals in the residential class?

22 A. Yes. The outcome in terms of rate impact is approximately  
23 an 18 percent increase for the average residential heating  
24 customer, and approximately a 12

25



1 - 5062 - Dr. Rosenberg - Direct by Mr. MacDougall -

2 percent or so increase for the average non-heating customer.

3 These figures contemplate my recommendation for increasing  
4 the residential class as a whole by approximately one-and-  
5 a-half times the average system increase.

6 I should note that even with these proposals the  
7 residential heating class, the residential heating  
8 customers as a group, would be at a revenue cost ratio of  
9 only 0.96, which is considerably less than where I would  
10 like to see that class.

11 I should also note that my assessments of increases  
12 implicitly assume absolutely no change in consumer  
13 behaviour in response to the price signals, to the extent  
14 that, you know, consumers turn down their thermostat or  
15 take other DSM measures, insulate their attic or change to  
16 ultimate fuel, then obviously these price increases --  
17 these rate increases can be moderated to a large extent.

18 Q.12 - Now, Dr. Rosenberg, I think this was raised last week  
19 by Mr. Larlee or Mr. Marois. There is only a single  
20 residential class. Why then do you speak in terms of  
21 separate RC ratios for the residential heating customers  
22 vis-a-vis non-heating customers?

23 A. Although the residential customers are all served under a  
24 single tariff there is no question that a large

25

1 - 5063 - Dr. Rosenberg - Direct by Mr. MacDougall -

2 segment of that class uses electricity for heat, and has --

3 those customers have a markedly different usage pattern

4 from the remaining customers that do not use electricity

5 for heat.

6 Disco was able to separate these two groups in its cost of

7 service study. And as noted by Mr. Larlee, by examining

8 the revenue to cost ratio of each segment of the

9 residential class, we can get a more accurate picture of

10 whether a particular rate design for the residential

11 tariff is more cost-based or less cost-based than another

12 rate design.

13 However, because we are restricted to using a single

14 tariff, there may be limits to how close we can get to

15 reflecting the actual cost of serving each sub-group. For

16 example, seasonal rates would give the rate designer

17 another tool in his arsenal, but that option is not on the

18 table in this proceeding. Of course if we ignore the

19 revenue to cost ratio of each segment, then we would be

20 neglecting valuable information.

21 Q.13 - Do you agree then, Dr. Rosenberg, with Mr. Marios that

22 it would be unwieldy to segregate the residential class

23 into two different tariffs, electric heat versus non-

24 electric heat?

25 A. Yes, I do agree with Mr. Marois. However, this makes

1                   - 5064 - Dr. Rosenberg - Direct by Mr. MacDougall -  
2 it all the more crucial to develop a cost-based rate design  
3 for this tariff. After all the objective of rate design  
4 is not only to have each class pay its proper costs, but  
5 even more so for each individual customer to pay its  
6 proper costs, and so receive the most accurate price  
7 signal possible.

8 Q.14 - Now, Dr. Rosenberg, in your view when examining the  
9 impact of a particular rate design, which is more  
10 important, how the rate design impacts different strata of  
11 customers or how it impacts individual bills?

12 A. I think it should be obvious that the impact on different  
13 strata or classes of customers is the most important  
14 statistic, most important metric. And to illustrate that  
15 let me give an example. Suppose that a utility were to  
16 institute a seasonal rate -- this is hypothetical of  
17 course -- that would raise all bills in the months of  
18 December, January, February and March, those four months,  
19 by 20 percent. But it reduced bills in all the other  
20 months -- in the other eight months -- so that on the net  
21 the change is revenue neutral to the class.

22 Now clearly if you raise the bills in December, January,  
23 February and March by 20 percent, then 1/3 of all the  
24 bills would be getting a 20 percent increase. But no  
25 customer -- there wouldn't be a single customer that would

2 be getting a 20 percent increase because everybody gets 12

3 bills. And consequently I believe that the most

4 informative metric is to look at how each group of

5 customers are impacted, not how many bills are impacted.

6 Q.15 - Dr. Rosenberg, turning now to your recommendations with

7 respect to the GS classes, what is your recommendation

8 with respect to the GS I class?

9 A. If the Disco's revenue target for that class is approved,  
10 then I accept the Disco's proposed demand charge.

11 However, if my recommendation for no increase for the  
12 General Service I class is approved, then I believe a  
13 lower demand charge is appropriate.

14 My principal concern for the Disco's rate design is its  
15 recommendation to keep the first block energy charge where  
16 it is currently at 10.63 cents per KWH. This charge is  
17 higher than even the first block energy charge for the  
18 residential class and that class does not have a demand  
19 charge as the GS I class does.

20 Consequently I recommend that the first block energy  
21 charge be set no higher than the residential first block  
22 energy charge which I recommended at 9.53 cents. I would  
23 then collect the remainder of the revenue target from the  
24 second block energy charge. Based on the illustration in  
25 my testimony, this would result in a charge for all energy

1                   - 5066 - Dr. Rosenberg - Direct by Mr. MacDougall -  
2 in excess of the first 5000 KWH of 8.60 cents per KWH at the  
3 Disco proposed revenue target and 7.68 cents per KWH if  
4 there were no increase to this class as I recommend.

5 Q.16 - Why are you recommending a zero increase for the GS I  
6 class but have accepted the Disco's proposed increase for  
7 the GS II class?

8 A. Because the result of that recommendation would be to  
9 achieve a revenue to cost ratio of approximately 1.15 for  
10 the GS I class, which is just slightly below the revenue  
11 to cost ratio of the GS II class which would be 1.17  
12 according to the CCAS. Under the Disco proposal the GS I  
13 class would have a revenue to cost ratio of 1.23, which is  
14 considerably above the GS II class.

15 Q.17 - Now moving to the GS II class, what is your  
16 recommendation for the design of the rates for that class?

17 A. Mr. Marois kept the service charge for the GS II class at  
18 the same level as the GS I, and I believe that's a  
19 reasonable approach. He raised the demand charge to \$5.15  
20 per KW. In my opinion this is an inadequate demand  
21 charge. Mr. Marois is proposing a demand charge of \$5.88  
22 for the small industrial rate. I see no reason why the  
23 demand charge for the GS II class should not be at least  
24 as large. Consequently I would propose a demand charge at  
25 that level, \$5.88 per KW, for the GS II class. This is

1                   - 5067 - Dr. Rosenberg - Direct by Mr. MacDougall -  
2 still considerably less than the demand charge for the GS I  
3 class.

4 Mr. Marois proposed a first block energy charge for GS II  
5 that is equal to that for GS I. I believe that to be  
6 reasonable. However, since I am proposing 9.53 cents per  
7 KWH for the initial block for GSI, I would recommend that  
8 the same charge for -- that same charge for GS II as well.

9 Mr. Marois then recommended that the remainder of the  
10 revenue requirement be collected as a residual from the  
11 charge for all energy above 5000 KWH per month. And I  
12 consider that to be reasonable.

13 Based on the Disco's revenue target for GS II, which I am  
14 not recommending be changed, and all the other charges  
15 that are supported above, that would result in a tail  
16 block of 8.45 cents per KWH.

17 I also recommend that the GS II rate be closed to new  
18 customers as Disco had proposed, without discernable  
19 opposition during the CARD hearing.

20 Q.18 - Now, Dr. Rosenberg, you had mentioned that you had a  
21 couple of further recommendations for the Board. Could  
22 you just elaborate on those further recommendations?

23 A. Yes. I have three further recommendations for the Board.  
24 First I recommend regardless of the rate design  
25 modifications that arise from this proceeding, that NB

2 Power be directed to file a new set of rates to be effective  
3 April 1, 2007, along with the supporting analysis, that  
4 would bring the revenue to cost ratio of the residential  
5 class to 1.0. That would eliminate the second third of  
6 the differential between the first and second blocks of  
7 the energy charges and would expand the size of the first  
8 block. Raising the size of the first block still further  
9 would capture more of the heating usage in the higher  
10 priced first block and thereby make the rate more cost-  
11 based. It would also allow for a lower priced first block  
12 which would benefit the smaller customers and those that  
13 use their electricity in a more uniform pattern throughout  
14 the year.

15 Second, I recommend that the Board direct NB Power to  
16 propose seasonal rates by April 1, 2007. In the December  
17 CARD ruling the Board considered "that seasonal rates may  
18 be an appropriate concept for New Brunswick", but it  
19 demurred from implementing seasonal rates at this time  
20 because of the other changes that were occurring. Even if  
21 the energy rate differential were completely eliminated, I  
22 cannot foresee parity between the heating customers and  
23 the non-heating customers in the residential class.  
24 Consequently unless we move to seasonal or some other form  
25 of time of use rates -- and I consider seasonal rates as

2 being like a poor man's time of use rate -- the heating  
3 customers will be subsidized and will be receiving a  
4 distorted price signal. Consequently I urge that this  
5 important issue not be postponed indefinitely.

6 And my third and final recommendation is that I endorse  
7 EGNB's evidence which recommends that existing GS II  
8 customers not be penalized if they switch a portion of  
9 their usage away from electricity. Such a penalty is  
10 incompatible with the behaviour desired from an  
11 appropriate price signal and it's incompatible with the  
12 Province's policy goals.

13 Q.19 - Dr. Rosenberg, just before we turn to the few comments  
14 that you have with respect to the Public Intervenor's  
15 evidence, last week in response to your statement that the  
16 Disco cost study unnecessarily mutes the influence that  
17 winter usage has on costs, Mr. Larlee made two responses  
18 in the transcript at page 4640. First he stated that  
19 Disco followed the methodology in the December CARD ruling  
20 and, second, that seasonal rates were not approved for  
21 this proceeding. Could you please respond to those  
22 comments?

23 A. Yes. I did read Mr. Larlee's response. And I would like  
24 to make a brief response. First I readily acknowledge  
25 that Disco scrupulously adhered to the cost of



2 service methodology for the CARD ruling, at least as far as I  
3 can tell. So Mr. Larlee is certainly correct in that  
4 statement.

5 I was simply trying to provide the Board additional  
6 information to help it evaluate whether the approximations  
7 of cost in the CCAS were approximately high for some  
8 classes or approximately low for other classes.

9 I would note that Mr. Larlee does not question or dispute  
10 the nub of my analysis, namely (1) that fuel costs are  
11 forecast to be much higher in the winter than the other  
12 ones; (2) that this elevation is driven by the winter load  
13 and (3) that the cost study simply does not capture these  
14 differences.

15 My evidence in this regard is meant to provide an  
16 additional perspective that the Board may wish to consider  
17 when making their decisions on how to use the Disco cost  
18 study in the revenue allocation process.

19 I might also note that in its April 23rd 1992 decision the  
20 Board said that it would welcome proposals which can be  
21 shown to enhance the accuracy of cost of service results  
22 at any time.

23 Turning to Mr. Larlee's second point about the seasonal  
24 rates not being approved for consideration in this  
25 hearing, Mr. Larlee is again technically correct.

1 - 5071 - Dr. Rosenberg - Direct by Mr. MacDougall -

2 But I think he misses my point.

3 Simply because we are not yet ready to consider seasonal  
4 rates at this time does not mean that we should ignore  
5 directional implication of seasonal differences in the  
6 cost analysis.

7 Cost analysis should drive rate design, not vice versa.

8 To allow rate design to drive cost analysis is like the  
9 tail wagging the dog.

10 Q.20 - Thank you, Dr. Rosenberg. And if we could just briefly  
11 move to the evidence filed by Mr. Knecht on behalf of the  
12 Public Intervenor.

13 Mr. Knecht recommended that the Board address whether  
14 export benefits credits should be treated as an offset to  
15 costs or as an addition to revenues.

16 Could you please comment on that aspect of his evidence?

17 DR. ROSENBERG: Yes. I reviewed Mr. Knecht's testimony  
18 with regard to the two possible treatments of the export  
19 benefit credit.

20 First I should note that in the CARD hearing it was my  
21 recollection that all parties including Mr. Knecht treated  
22 these credits as an offset to costs.

23 Secondly, as Mr. Knecht notes, he previously supported the  
24 cost offset approach. I still support the cost offset

25

2 approach. These credits are not revenues and do not belong to  
3 any class. They are reductions to Disco's costs from  
4 Genco. And the CARD hearing noted how this offset should  
5 be classified, namely as demand-related.

6 Third, this classification, namely demand-related, that  
7 was specified in the CARD ruling is the most favorable  
8 allocation possible for the residential class.

9 Fourth, as Mr. Knecht himself acknowledges, whether one  
10 treats these credits as a so-called enhancement to  
11 revenues or as an offset to costs, either way it does not  
12 change the overall magnitude of the dollar difference  
13 between class revenue and class costs.

14 It is important to note in Mr. Knecht's illustration on  
15 his testimony at page 8 at the proposed rates the  
16 residential class is \$27.67 million below cost whichever  
17 method one uses.

18 Finally it is my opinion that the so-called revenue credit  
19 method could be misleading. And let me give a little  
20 example to show how it could be misleading.

21 Suppose hypothetically that you had a class that was  
22 allocated \$100 million in costs, okay, in the cost of  
23 service study, but that there is \$50 million that could be  
24 treated as either an offset to that class' costs or as an  
25 enhancement to its revenue. So those are the two ways

2 that Mr. Knecht is speaking about.

3 Well, and let's also assume in my hypothetical, and  
4 obviously this is a hypothetical, that this class is  
5 paying nothing, it's getting its electricity for free,  
6 okay.

7 Now let's look at the result of the two different methods.

8 If we treat it as a cost offset method, this class would  
9 have a revenue to cost ratio of zero. So it has zero  
10 revenue and \$50 million in cost, 100,000,000 less  
11 50,000,000.

12 And that makes perfect sense to me for that class to have  
13 a revenue to cost ratio of zero, because it's not paying  
14 any revenue.

15 But if you use the revenue credit method, then you  
16 attribute \$50 million in revenue to that class. And now  
17 the revenue to cost ratio is 50 divided by 100 or .5.

18 So which is more informative? To say that that class has  
19 a revenue to cost ratio of zero or to say that class has a  
20 revenue to cost ratio of .5? In my view I think it's  
21 misleading to look at it as a revenue to cost ratio of .5.

22 I think the zero is more accurate.

23 Q.21 - Moving to another topic in Mr. Knecht's evidence, Dr.

24 Rosenberg, he states that in his experience it is rare for  
25 large industrial customers to face rates that are below

2 cost. And he notes that in Quebec legislation mandates a  
3 revenue to cost ratio which exceeds 115.

4 Could you please comment on that?

5 DR. ROSENBERG: Yes. I'm not familiar with that  
6 legislation. But I accept Mr. Knecht's representation. I  
7 don't know what Mr. Knecht means by rare.

8 I would agree with Mr. Knecht that more often than not  
9 cost of service studies show that the large industrial  
10 class would be above cost although that's not always the  
11 case.

12 For example, my recollection is that in the last rate  
13 case, the previous rate case in Nova Scotia, the large  
14 industrial class was actually below cost.

15 Secondly, many large industrial customers are on special  
16 contracts. They are not included in the cost of study --  
17 in the cost of service study. Or if they are they are  
18 directly assigned costs.

19 And finally I would note that the revenue to cost ratio  
20 will of course depend upon the cost methodology that is  
21 used in the other jurisdictions.

22 For example, if we reran the Disco cost study using any  
23 number of widely-used methodologies, such as the fixed  
24 variable method, or even the method that was proposed by  
25 Mr. Knecht and Miss Chown in 1992, it would show that the

1                   - 5075 - Dr. Rosenberg - Direct by Mr. MacDougall -  
2 revenue to cost ratio of the large industrial class is greater  
3 than 1.0.

4 Q.22 - Thank you, Dr. Rosenberg. And just finally do you have  
5 any comments on Mr. Knecht's proposal of what to do if the  
6 Board determines that Disco's proposed revenue requirement  
7 should be lower than the overall proposal put forward by  
8 Disco?

9 DR. ROSENBERG: Well, since obviously I don't know exactly  
10 how the Board or what fashion the Board will modify the  
11 revenue requirement, I think the most accurate and safest  
12 course of action in that case would be to rerun a cost of  
13 service study which reflects the decisions in the revenue  
14 requirement that are mandated by the Board.

15 MR. MACDOUGALL: Thank you, Dr. Rosenberg. Mr. Chair and  
16 Commissioners, that is the end of Dr. Rosenberg's direct.  
17 And he is now available for cross examination.

18 CHAIRMAN: Thank you, Mr. MacDougall. Have counsel talked  
19 about order of cross?

20 MR. MORRISON: I don't believe we have talked about it,  
21 Mr. Chairman. But the normal order of cross would be  
22 alphabetical with the Applicant going last I believe.

23 CHAIRMAN: Well, we will probably change that and have  
24 Mr. MacNutt going last and Mr. MacDougall coming in for  
25 summation, in that Mr. MacNutt's task is as always simply

2 to ensure that the record is complete.

3 MR. MORRISON: When I said "last" I mean last before the  
4 Board Counsel, Mr. Chairman, sorry.

5 CHAIRMAN: Thank you, Mr. Morrison. Okay. Mr. Lawson?

6 MR. LAWSON: We have no questions, Mr. Chairman.

7 CHAIRMAN: You have none?

8 MR. LAWSON: No, Mr. Chairman.

9 CHAIRMAN: Okay. Thank you. Mr. Coon is not here. Irving  
10 Group have any questions?

11 MR. BOOKER: No, Mr. Chair, we do not. Thank you.

12 CHAIRMAN: Thank you, Mr. Booker. Mr. Gorman?

13 MR. GORMAN: Thank you, Mr. Chairman. We want to get in  
14 those questions that we had for yesterday. Just kidding.

15 CHAIRMAN: You're some lucky you said that.

16 MR. GORMAN: I do however have some cross examination.

17 CHAIRMAN: Okay. Well, you can move up to the front if you  
18 would, sir.

19 CROSS EXAMINATION BY MR. GORMAN:

20 Q.23 - Good morning, Dr. Rosenberg.

21 A. Good morning.

22 Q.24 - I would like to -- I'm going to take you to your direct  
23 evidence. I believe that was EGNB-5. And on page 2  
24 starting at line 7 the question was "What is the subject  
25 matter of your evidence?"

2 And you indicate that you are going to comment briefly on  
3 the CCAS. And then at line 9 you say "Disco's CCAS  
4 appears to be fully in accord with the directives issued  
5 by the Board in its December 21st 2005 ruling."

6 Do you agree?

7 A. I said yes, to the best of my knowledge and belief, yes.

8 Q.25 - Sure. And I believe that you in fact repeated that  
9 evidence here this morning?

10 A. That's correct.

11 Q.26 - Now the Board's December 21st 2005 ruling, I'm going to  
12 refer you to page 38. And it is a very short quote. And  
13 you don't need to flip it up I don't think. I will just  
14 read it to you.

15 On the first paragraph on page 38 of that ruling the Board  
16 said "We are of the view that a long-term target range of  
17 .95 to 1.05 for the revenue to cost ratio for each class  
18 is reasonable."

19 You are familiar with that statement?

20 A. I recall that statement, yes.

21 Q.27 - And that would be similar to the view expressed by the  
22 Board back in its 1992 ruling, that that was an acceptable  
23 range?

24 A. That is correct.



2 Q.28 - And you would agree that in the CCAS that has been  
3 filed that the large industrial class does not fit within  
4 that bandwidth?

5 A. At this time, yes.

6 Q.29 - In fact my understanding is that they are at .92, so  
7 effectively three points below the so-called bandwidth?

8 A. I know the proposed rates, that is correct.

9 Q.30 - Do you still believe that -- then do you stand by your  
10 statement that the CCAS appears to be fully in accord in  
11 both directives and spirits of the ruling?

12 A. Well, yes. Let me explain two things why I still stand by  
13 that statement. In the first place when I said that Disco  
14 was in accord with the CARD ruling, I meant in their  
15 conduct of the cost of service study, okay, in other  
16 words, how they actually conducted the cost of service  
17 study, how they classified costs, how they allocated the  
18 costs. That is number (1).

19 Number (2) the Board noted that that was a long-run  
20 objective and didn't say it had to be hard and fast rule  
21 in every single case at any particular point in time.  
22 So again I don't see where Disco is going outside the  
23 bounds of what they were directed to do.

24 Q.31 - I agree that the ruling did mention a long-term target  
25 range. But let me take you back to 1992. That was also

2 the long-term target range at that time.

3 And I think you will agree with me that between 1992 and  
4 2006 that is long-term. I think hopefully in regulatory  
5 circles that would be considered long-term.

6 By this time they should be within the range?

7 A. That's something that the Board will have to decide for  
8 themselves.

9 Q.32 - In your experience is it long term?

10 A. Is 15 or so years long term?

11 Q.33 - Yes.

12 A. Yes.

13 Q.34 - And are you aware of the fact that when the CCAS -- the  
14 original one was filed back earlier in these proceedings,  
15 and in fact the large industrial class I believe was at  
16 .95.

17 So they have moved, would you agree, further away from  
18 that target range?

19 A. I'm not sure when -- which cost of service study are you  
20 talking about.

21 Q.35 - I'm talking about the one that was filed, which  
22 ultimate resulted in the CARD ruling and then a new study  
23 was filed. But I'm talking about the original study that  
24 was filed last fall.

25 A. Oh, the regulatory study that was filed last fall? I

2 don't recall the exact revenue to cost ratio at that time.

3 But you have to realize that the revenue to cost ratios  
4 can change quite significantly depending upon the level of  
5 the fuel costs.

6 Since fuel forms a larger portion of the industrial class,  
7 when fuel costs go up, that in and of itself, if nothing  
8 else changes, can have the impact of showing the revenue  
9 to cost ratio to be down for that class.

10 Conversely, if fuel costs should fall, you would have the  
11 opposite effect, so --

12 Q.36 - Well, would you agree with me that going down to an RC  
13 ratio of 9.2 from 9.5 is going in the wrong direction?

14 A. Well, I have to agree that 9.2 is less than 9.5.

15 Q.37 - Thank you. Now one of your recommendations -- I will  
16 take you to page 18 of your report. And you spoke of that  
17 recommendation here this morning as well.

18 But at page 18 in response to -- at line 8 in response to  
19 a question, you talk about other recommendations. And one  
20 of the recommendations you have is that NB Power be  
21 directed to file a new set of rates to be effective April  
22 1st 2007 along with supporting analysis that would bring  
23 the revenue to cost ratio of the residential class to 1.0?

24 A. That is correct.

25 Q.38 - And I guess sometimes we refer to that as unity?

2 A. Yes.

3 Q.39 - And in a perfect world would you agree with me that all  
4 classes would be at unity?

5 A. If cost of service were your only objective and if you had  
6 complete confidence in your cost of service study, with  
7 those two caveats, yes.

8 MR. GORMAN: Thank you, Dr. Rosenberg. Those are our  
9 questions.

10 CHAIRMAN: Thank you, Mr. Gorman. Mr. Hyslop, Mr. Peacock I  
11 saw lurking in the hall. I don't know if he has come in.  
12 No. That is fine, Mr. MacNutt. He doesn't want to ask  
13 any questions I guess.

14 Mr. Hyslop, do you have any questions of this witness?

15 MR. HYSLOP: We have a few, Mr. Chair, yes. And do you want  
16 an estimate of time? About maybe half an hour.

17 CHAIRMAN: Okay. Well, then we will take our break now,  
18 Mr. Hyslop. And you can do your questioning immediately after  
19 that. Thank you.

20 MR. HYSLOP: Thank you, Mr. Chair.

21 (Recess)

22 CHAIRMAN: Go ahead, Mr. Hyslop.

23 MR. HYSLOP: Thank you, Mr. Chair.

24 CROSS EXAMINATION BY MR. HYSLOP:

25 Q.40 - Good morning, Dr. Rosenberg.

2 A. Good morning, Mr. Hyslop.

3 Q.41 - Good to have you back. I live so I can see the  
4 smokestack at Coleson Cove. And I can say, given the cold  
5 weather lately, we know Coleson Cove is running.

6 Dr. Rosenberg, I think much of what you brought before the  
7 Board here this morning I think premised on the fact that  
8 it is undeniable that the kilowatt-hours generated in the  
9 wintertime are much costlier than the kilowatt-hours  
10 generated during the rest of the year, is that correct?

11 A. That's what the evidence shows, yes.

12 Q.42 - Right. And I guess just from my reading of your  
13 evidence that is on an average cost per kilowatt-hour for  
14 the particular months, is that correct?

15 A. That is correct.

16 Q.43 - Right. And as I recall your evidence back in October  
17 as well, which is in EGNB-1 and at page 10 -- I won't go  
18 into it -- but you did do a similar type analysis.

19 And you did estimate at that time that the difference,  
20 based on your calculations, would be somewhere between 10  
21 and \$14 per megawatt-hour at that time, the difference in  
22 the fuel cost between winter and summer?

23 A. That sounds familiar, yes.

24 Q.44 - Yes. Thank you. And what you have done this time is  
25 come before the Board. And you flush that out a little

2 bit I would suggest.

3 And I'm looking in particular at schedule 1 which is the  
4 exhibit of EGNB and EGNB-5. Yes?

5 A. Yes.

6 Q.45 - I will just wait till everybody has it. It is a  
7 columnar chart where you have shown the average monthly  
8 production costs on a megawatt-hour basis, is that  
9 correct?

10 A. That's correct.

11 Q.46 - Right. And what you have shown there is that in the  
12 winter months there is higher costa based on your  
13 analysis, correct?

14 A. That's correct.

15 Q.47 - Right. And as I go back to when we talked about the 10  
16 to \$14 per megawatt in the fall, my recollection is that a  
17 lot of that was due to the fact that after the Coleson  
18 Cove refurbishment, when we didn't burn Orimulsion and had  
19 to burn heavy oil, this pushed the fuel cost up in the  
20 months.

21 Would that be a fair statement?

22 A. The only analysis I did was I looked at the data points.

23 I believe there was a question, interrogatory number 9.

24 And I did notice a lot heavier usage of the gas and

1 - 5084 - Dr. Rosenberg - Cross by Mr. Hyslop -

2 oil in the winter months. And you know, that drove it. I

3 really didn't have time to do a very detailed analysis on

4 a plant by plant basis.

5 Q.48 - Okay. I will accept that. And so it would be

6 partially due to the heavy oil and probably partially due

7 to the use of natural gas from your recollection, but

8 agreeably not an in-depth analysis of that?

9 A. That's correct.

10 Q.49 - Right.

11 A. I took the numbers sort of as face value, right.

12 Q.50 - Sure. Okay. So -- and I think along the way too last

13 fall we did point out that had Orimulsion been used, this

14 would have been a cheaper fuel than the heavy oil that is

15 now having to be used, is that correct?

16 A. Orimulsion is a cheaper fuel, yes.

17 Q.51 - Yes. Thank you. And so just finishing up this line of

18 questioning, I understand heavy industry would incur fuel

19 costs in the winter months, is that correct?

20 A. I'm sorry?

21 Q.52 - Heavy industry would incur fuel costs in the winter

22 months?

23 A. They use electricity relatively evenly throughout the

24 year.

25 Q.53 - Yes. And general service 1 would incur fuel costs in

2 the winter months?

3 A. Correct.

4 Q.54 - Right. Thank you.

5 Now Dr. Rosenberg, page 8 of your evidence. You don't

6 have to go there. But I understand that it is your

7 recommendation to increase the residential rates to a

8 revenue to cost ratio of .098, is that correct?

9 A. In this case --

10 Q.55 - Yes.

11 A. -- that's correct.

12 Q.56 - Right. I guess I said 0.98. .098 would be good I

13 guess. And I think you even used the word "imperative" in

14 your evidence.

15 Now the revenue to cost ratios for nonelectric heat

16 residential are higher than for electric heat residential,

17 is that correct?

18 A. That is correct.

19 Q.57 - And as I understand it, that with the 11.4 percent

20 overall increase proposed by Disco, non-electric

21 residential customers would have a revenue to cost ratio

22 of 1.01 or in that area.

23 Does that strike you as correct?

24 MR. MACDOUGALL: Mr. Chair, if it would be helpful, I think

25 we could go to A-121.



2 A. I am looking at Mr. Marois' evidence, page 4, he has got a  
3 table there, that shows under their proposal the non-  
4 electric would be at 1.01, that's correct.

5 Q.58 - That's right. And we therefore agree that non-electric  
6 residential heat customers have been or are within the  
7 rate class -- or within the particular classification or  
8 subsidizing the residential electric heat customers, is  
9 that correct?

10 A. That's correct.

11 Q.59 - And I think if I go back to when we had our discussions  
12 last October, November concerning this fact, I think there  
13 was general agreement amongst all of the parties to the  
14 proceeding that it was -- the first step to combatting  
15 this was to eliminate the declining block structure for  
16 the residential rate class, would you agree with that?

17 A. Everybody agreed that eliminating the declining block step  
18 would be beneficial, yes.

19 Q.60 - Yes. Thank you. And, you know, just putting it all in  
20 perspective, and the Board in its decision has stated as  
21 follows at page 29, the Board agrees that the declining  
22 block rate should be eliminated as soon as possible. We  
23 are concerned over the possible rate shock that this might  
24 create for certain customers if the change occurs too  
25 quickly. The Board has analyzed the likely prospects and

2 believes that it is appropriate to eliminate the declining  
3 block in three stages. Each stage should bring the  
4 declining block 1/3 of the way to the rate for the first  
5 block. The first adjustment should occur as part of the  
6 rate changes in 2006/2007. The remaining two adjustments  
7 can occur at the time of future rate changes but the Board  
8 orders this process must be completed within five years of  
9 this date. I'm sure you have read that section of the  
10 decision many times.

11 A. I recall it very well.

12 Q.61 - Right. Now one question I have, if we accept your  
13 proposal for the 0.98, have you or could you calculate for  
14 me what would be the revenue cost ratios of the non-  
15 electric heat customers?

16 A. I could do that.

17 Q.62 - Yes. Okay. You could do it by undertaking.

18 A. I will do it by undertaking.

19 Q.63 - That will be fine. Thank you very much, Dr. Rosenberg.

20 Now also just looking quickly at your recommendations for  
21 residential and general service, we just mentioned the  
22 residential rate increases, and it is my understanding the  
23 total revenues that would flow from the general service  
24 class with your recommendations would still stay the same  
25 as what Disco is proposing, am I correct there? General

2 service II.

3 A. General service II, yes. I am accepting what Disco is  
4 proposing.

5 Q.64 - Yes. And with general service I you are proposing no  
6 increase in the rates for that class, is that correct?

7 A. That is correct.

8 Q.65 - Right. So, you know, if you put this altogether I  
9 guess my question is, you know, this would tend I suggest  
10 to reduce the revenue requirements from the industrial  
11 class, would it not?

12 A. That's correct.

13 Q.66 - Right. And at the present time the proposal is that  
14 they get a 12.1 percent increase, is that correct, large  
15 industrial?

16 A. Large industrial --

17 Q.67 - It was 12.9. There was some reduction the other day I  
18 believe.

19 A. Yes. Well that's because -- right. That's correct.

20 Q.68 - Yes. And so would you be good enough while you are  
21 doing the calculation for the non-electric heat  
22 residential also to calculate the revenue cost ratio for  
23 the large industrial class and small industrial class if  
24 your recommendation on the general service and residential  
25 rate classes are accepted?

2 A. I would be happy to do that.

3 Q.69 - Thank you very much. Now just a couple of quick points  
4 out of your direct testimony, Dr. Rosenberg. The large  
5 industrial, you made a point in your direct examination --  
6 I will paraphrase it to the best of my memory and if I  
7 have it wrong please correct me, but you made a point that  
8 revenue cost ratios are dependent on the cost allocation  
9 methodology that eventually is accepted by the regulators,  
10 is that correct?

11 A. Absolutely.

12 Q.70 - Right. And you made the point that the industrial  
13 revenue cost ratios would probably be in excess of unity  
14 or higher than unity if the fixed variable approach had  
15 been accepted or even the methodology that had been  
16 suggested by Mr. Knecht and his colleague, Ms. Chown, in  
17 the early '90s, is that correct?

18 A. It wouldn't probably be. It would be. I actually  
19 calculated it.

20 Q.71 - Yes. Okay. And I guess my point is though that  
21 neither the fixed variable approach nor the methodology  
22 proposed by Ms. Chown and Mr. Knecht were accepted in  
23 1991, were they?

24 A. They were not accepted. They are still reasonable methods  
25 though.

2 Q.72 - Yes. I appreciate that. And also these methods used  
3 by Mr. Knecht and Ms. Chown or the fixed variable, they  
4 weren't accepted in the December 21st ruling of this Board  
5 either, were they?

6 A. No, they were not.

7 Q.73 - Thank you. Now you made another statement in your  
8 direct I just want to follow up on if I might, and that  
9 deals with -- you made a statement -- and again please  
10 correct me if I am wrong, but if you ignore the revenue  
11 cost ratio of each segment of the residential class, then  
12 you would be ignoring important information for rate  
13 design, is that correct?

14 A. That is correct.

15 Q.74 - Right. And I guess my question would be if this  
16 informational class information is important for  
17 residential would it be fair to say that the same  
18 statement could apply to an analysis of the heavy  
19 industrial rates, and in particular a breaking out of the  
20 industrial rate into both firm and surplus components?

21 A. You could do that. You would have to be a bit careful  
22 when -- it gets a lot more controversial when you are  
23 looking at revenue cost ratios for interruptible service.  
24 Certainly you could break it out for firm service. That  
25 would be just another class and the Board has dealt with

2 that matter. When you get into interruptible service it's a  
3 little more difficult. But theoretically it could be  
4 done.

5 Q.75 - I'm just saying from an informational perspective  
6 because that's your approach with the residential classes  
7 that it's important that we try to distinguish between  
8 those of us that have electric baseboard heating and those  
9 of us that use a wood stove. I think that's the point you  
10 are making with the residential class.

11 A. That's right.

12 Q.76 - And I guess my thought is that there is different types  
13 of use of electricity and different types of -- in fact in  
14 the industrial class we are not talking about -- we are  
15 not talking about just one rate class, where residential -  
16 - surplus energy is identified as one component of the  
17 industrial tariff, correct?

18 A. Yes.

19 Q.77 - And firm is one component of the industrial tariff,  
20 correct?

21 A. That's correct.

22 Q.78 - Right. So being able to develop for an information  
23 basis some of the impacts of that would certainly be of  
24 assistance and we would be ignoring important information  
25 if we totally disregarded that.

2 A. It could be informative, yes, I agree.

3 Q.79 - Thank you. Now look, I'm on the last point and it's  
4 only because Mr. Knecht told me not to ask it, so I am  
5 going to. But it's a simple point. But there was an  
6 issue of what happens if for example we reduce the revenue  
7 requirement say \$20,000,000 and for example it comes  
8 completely out of the distribution -- it's revenue  
9 requirement but purely distribution, and Mr. Knecht you  
10 challenged his position by saying well you really should  
11 run a new customer class allocation study, I think, is  
12 your evidence, is that correct?

13 A. That's correct, because I don't know where it's going to  
14 come out of. I mean that's one possibility, but obviously  
15 the Board hasn't made its ruling, and to say where it  
16 would come out of would be speculation.

17 Q.80 - Okay. Well look, if we just simply assume then it was  
18 -- the Board ruled that it was rated to the cost of  
19 transformers and they took 10,000,000 off -- distribution  
20 transformers -- came out of distribution transformers,  
21 would it not seem appropriate that that would affect only  
22 the distribution classes, Dr. Rosenberg?

23 A. That would be correct.

24 Q.81 - Yes. Okay. And the real reason that we didn't want to  
25 go down -- I think your proposal was there be a new CCAS

2 done and the reason I didn't want to go there is that  
3 hopefully that wouldn't mean we would have to cross  
4 examine you a third time.

5 A. I don't think -- I really wasn't trying to get another  
6 trip to New Brunswick.

7 MR. HYSLOP: Okay. I just thought I would clarify that  
8 point. And on that point, that does conclude my cross  
9 examination, Mr. Chair. Thank you, Dr. Rosenberg. It's  
10 always a pleasure to have you come.

11 Dr. ROSENBERG: My pleasure.

12 CHAIRMAN: Thank you, Mr. Hyslop. Mr. Morrison.

13 CROSS EXAMINATION BY MR. MORRISON:

14 Q.82 - Thank you, Mr. Chairman. I think I will be brief.

15 Good morning, Dr. Rosenberg.

16 A. Good morning, Mr. Morrison.

17 Q.83 - We are dealing with -- I'm assuming you still have your  
18 report in front of you which was --

19 A. Yes.

20 Q.84 - At page 2 of your report, Dr. Rosenberg, and I believe  
21 Mr. Hyslop may have taken you to this already, but I will  
22 just go over it one more time perhaps from a different  
23 point of view.

24 At lines 9 and 10 you say, Disco's CCAS appears to be  
25 fully in accord with the directives issued by the Board in



1                   - 5094 - Dr. Rosenberg - Cross by Mr. Morrison -  
2 its ruling of December 21st, 2005, the December Ruling, and it  
3 would not be appropriate to rehash the arguments of the  
4 last hearing. So I'm assuming by that, Dr. Rosenberg,  
5 that you would agree with me that it would not be  
6 appropriate for this Board to revisit issues that it dealt  
7 with in the CARD hearing in October, November, is that  
8 correct?

9 A. That's correct.

10 Q.85 - And if we turn to page 18 of your report, particularly  
11 lines 13 and 14, which is your recommendations, I  
12 understand that what you are recommending here is that the  
13 declining block be eliminated, the first 2/3 -- first two  
14 stages be done by April 1st of next year, is that correct?

15 A. Correct.

16 Q.86 - And if you turn to page 29 of the CARD decision, and  
17 Mr. Hyslop brought you to this as well, the Board -- what  
18 it states in the decision is the Board has analyzed the  
19 likely impacts and believes that it is appropriate to  
20 eliminate the declining block rate in three stages. Each  
21 stage should bring the declining block rate 1/3 of the  
22 way to the rate of the first block.

23 The first adjustment should occur as part of the rate  
24 changes for 2006/2007. The remaining two adjustments can  
25 occur at the time of the future general rate changes but

2 the Board orders that the process must be completed within  
3 five years of this date. So would you agree with me, Dr.  
4 Rosenberg, that what the Board has said is the declining  
5 block rate is to be eliminated in three stages, one stage  
6 this year and the other two within a period of five years?

7 A. That's what they said.

8 Q.87 - So would you agree with me, Dr. Rosenberg, that what  
9 you are proposing has already been dealt with by the  
10 Board, and it would not be appropriate to revisit this  
11 issue?

12 A. No, not quite. I think what I'm trying to do is -- the  
13 Board did issue that and what I'm trying to do is maybe  
14 define that a little better. Certainly my proposal is not  
15 in conflict with that finding.

16 Q.88 - Well I suggest to you, Dr. Rosenberg, with all due  
17 respect, that it is. I think the Board is fairly clear on  
18 saying that the first stage, the first 1/3 if you will,  
19 will be done in 2006/2007 and the remaining two stages --  
20 because there is to be three stages -- will be done over  
21 the period of five years, within the next five years. And  
22 what you are suggesting is that the first two stages be  
23 done as one stage and that they be done by --

24 A. No, I'm not saying it be done in one stage. I'm saying  
25 the first third would be done now in this

1 - 5096 - Dr. Rosenberg - Cross by Mr. Morrison -

2 particular hearing. The second -- I'm just adding a little  
3 more definition as to when the second step would be.

4 Q.89 - Okay. But you would agree that what the Board ruled  
5 was that these stages can take place at any time within  
6 the next five years?

7 A. And I'm not going outside those five years.

8 Q.90 - Okay. But you would agree that the Board turned its  
9 mind to it and addressed it in the CARD decision?

10 A. The Board -- you read correctly what the Board stated and  
11 as I said, I don't think what I am saying is in conflict  
12 with that. If the Board thinks it's a conflict they won't  
13 heed my recommendation. If -- but I have stated the  
14 reasons for it and the reason is that we don't know when  
15 the next step would be.

16 We don't know -- I mean supposing the second step would be  
17 four years from now and then the third step is five years  
18 from now. Well that would still be in accord with the  
19 Board's time frame but in my view it would be preferable  
20 to do it sooner rather than later, that's all.

21 Q.91 - Fair enough. Now, Dr. Rosenberg, also on page -- well  
22 if we refer to page 18 --

23 A. Yes.

24 Q.92 - -- again of your report, and you make a very specific

25

2 recommendation at lines 20 and 21. You say, Second, I

3 recommend that the Board direct NB Power to propose

4 seasonal rates by April of 2007, is that correct?

5 A. That's correct.

6 Q.93 - So you are making a very specific proposal that

7 seasonal rates be introduced by next year, correct?

8 A. That's correct. I'm trying to add specificity, right.

9 Q.94 - Now if you look at page 34 of the CARD decision, I'm

10 going to read to you. It says, "the Board considers that

11 seasonal rates may be an appropriate concept for New

12 Brunswick but that implementation is not desirable at this

13 time because of the possible customer impacts together

14 with the other changes that are occurring. We direct

15 Disco to provide a proposal for seasonal rates at the time

16 of the next review of rates."

17 So would you agree with me, Dr. Rosenberg, that the Board

18 specifically addressed the issue of seasonal rates and

19 made a decision with respect to that issue?

20 A. That is correct. They said at the time of the next

21 proposal and my recollection was that when Mr. MacDougall

22 was questioning Mr. Marois, he asked him when would that

23 next proposal be, and Mr. Marois said he did not know. So

24 again all I'm trying to do is add a little specificity to

25 the process. I'm not trying to overturn or change what

1 - 5098 - Dr. Rosenberg - Cross by Mr. Morrison -  
2 the Board had said. I'm just trying to add a little  
3 specificity to it because of the uncertainty as to when  
4 that next hearing would be.

5 Q.95 - Well what the Board said is Disco would prepare a  
6 proposal and file it.

7 A. Right.

8 Q.96 - It did not direct it to do it by April of 2007, did it?

9 A. It did not put a timeframe on it, yes.

10 Q.97 - Now, Dr. Rosenberg, if we could turn back to page 14 of  
11 your report. And I believe at this area you were talking  
12 about price signals and what price signals will do to  
13 encourage behaviour. And at lines 5 to 7 you say,  
14 however, it must be remembered that this increase would  
15 only be experienced by customers who did not change their  
16 electrical usage in response to the new rates. Do you see  
17 that?

18 A. Yes.

19 Q.98 - So let's just explore some of the -- and we are talking  
20 about residential heating customers, correct?

21 A. Correct.

22 Q.99 - And maybe I could explore with you some of the ways in  
23 which electric heat customers can modify their usage.  
24 Let's say you would agree that one of the ways would be  
25 they could change their heating system, correct, from

2 electric heat? Would that be one of the ways?

3 A. That's correct.

4 Q.100 - So they could switch to gas for example?

5 A. Or oil.

6 Q.101 - Or oil.

7 A. Yes.

8 Q.102 - And you would agree that there is a cost to the  
9 electric heat customers in doing this?

10 A. That is correct.

11 Q.103 - And those costs would not be affordable by all  
12 electric heat customers?

13 A. It -- I mean I don't know what type of arrangements that a  
14 contractor would make. Some contractors might arrange to  
15 make those changes and finance it in return for -- and get  
16 paid for out of the savings.

17 Q.104 - I don't know either, Dr. Rosenberg, but you would  
18 agree with me that changing out a furnace is for most  
19 homeowners a fairly -- I wouldn't say expensive -- yes, it  
20 is an expensive proposition, wouldn't you say, for most  
21 homeowners?

22 A. If the homeowners pay for it and don't finance it, yes,  
23 that's correct.

24 Q.105 - So you would agree with me there would be some  
25 homeowners that wouldn't be able to afford to do that at

2 least in the short term?

3 A. Unless they could get a contractor that would agree to  
4 finance it, yes.

5 Q.106 - But assuming they could not do that then the impact of  
6 that change -- it may take them some time to save up money  
7 or whatever in order for them to do the conversion, would  
8 you agree with that?

9 A. In that change, but of course that's not the only way that  
10 customers can react. They can also lower the thermostat,  
11 they can also --

12 Q.107 - We will get to some of those in a moment. But  
13 conversion to another heat source is certainly not one  
14 that you would expect to see immediate results from?

15 A. Any results from?

16 Q.108 - In other words, the response to the price signal, in  
17 other words, the residential rate goes up, you are not  
18 going to see an immediate conversion from electric heat to  
19 another heat source. It's not going to be an immediate  
20 impact, an immediate response to that price signal,  
21 because of the capital costs involved in doing it?

22 A. When you say it's not going to be immediate in terms of  
23 savings?

24 Q.109 - Yes.

25 A. Because you are including the capital costs?

2 Q.110 - No. What I'm saying is that most homeowners, when  
3 they get the new price signal, are not immediately going  
4 to be in a position, a financial position, to convert to  
5 another heat source?

6 A. I don't know. I haven't done a survey.

7 Q.111 - Okay. Another way that electric heat customers could  
8 respond to this price signal would be to insulate their  
9 houses, you would agree with that?

10 A. Yes.

11 Q.112 - And again that would be a capital cost issue as well,  
12 wouldn't it?

13 A. You are talking about insulation?

14 Q.113 - Yes.

15 A. Yes.

16 Q.114 - And they could instal all new doors and windows, that  
17 would be another way?

18 A. That's correct.

19 Q.115 - Okay.

20 A. I do, Mr. Morrison, know that there are -- in my  
21 experience there are contractors that will offer to put in  
22 those measures and receive payment from the bill savings  
23 that the customer receives and that require either -- I  
24 won't say sometimes no but a smaller amount of capital  
25 outlay by the homeowner.



2 Q.116 - But that does assume that eventually the homeowner has  
3 the capital in order to carry out that conversion?

4 A. It depends on the arrangements, yes.

5 Q.117 - And similarly the installation of new doors and  
6 windows is a capital intensive exercise, correct?

7 A. It could require capital, yes.

8 Q.118 - And again I would suggest to you, Dr. Rosenberg, that  
9 there would not be immediate response to the price signal  
10 in installing new doors and windows?

11 A. I don't know what immediate means. I think people do  
12 respond to price signals, there is no question about that.

13 Q.119 - Okay. And in New Brunswick, Dr. Rosenberg, when it's  
14 minus 25 or -- as it was in Edmundston yesterday, minus 26  
15 degrees Celsius, where you might have the option to turn  
16 off your 52 inch television screen you don't have the  
17 option to unplug your heat, do you, in New Brunswick?

18 A. You have to heat your house but whether you set your  
19 thermostat at 74 or 68 and put on a sweater is a different  
20 story.

21 Q.120 - Would you agree with me, Dr. Rosenberg, if I suggested  
22 to you that when it's minus 20 degrees in New Brunswick  
23 and you turn your thermostat down a few degrees that there  
24 isn't a significant impact on electricity consumption in  
25 New Brunswick?

1 - 5103 - Dr. Rosenberg - Cross by Mr. Morrison -

2 A. I haven't measured that -- what the impact would be from  
3 that. Certainly there is an impact. I don't know what  
4 you mean by significant.

5 Q.121 - You would agree that putting my example of the 52 inch  
6 screen TV that there is less price elasticity in heating  
7 customers than there would be in non-heating customers?

8 A. I have not measured that. I don't know.

9 Q.122 - Dr. Rosenberg, I want to go back to page 11 and again  
10 it's your proposal -- your interpretation of the Board's  
11 direction to reduce the declining block in three segments.

12 A. That's correct.

13 Q.123 - And at page 11 you say that Disco's proposal -- sorry  
14 -- basically you say that Disco's proposal to decrease the  
15 percentage --

16 A. Yes.

17 Q.124 - -- differential by  $1/3$  does not follow the Board's  
18 December ruling. That's -- I think your quote is "In my  
19 view Disco's approach on this point simply does not follow  
20 the Board's December ruling"?

21 A. That's correct.

22 Q.125 - That's your view?

23 A. That's my view, yes.

24 Q.126 - Now you would agree with me, Dr. Rosenberg, that the  
25 differential between the first and second blocks is 21

1 - 5104 - Dr. Rosenberg - Cross by Mr. Morrison -

2 percent? Have you done that calculation?

3 A. Yes. Mathematically that's correct.

4 Q.127 - Now I'm a little reluctant to go here. I realize you  
5 have a Ph.D. in mathematics and I still have nightmares  
6 about grade 11 trigonometry. But would you agree with me,  
7 Dr. Rosenberg, that 21 divided by three is seven? Am I at  
8 least that good?

9 A. Am I under oath?

10 CHAIRMAN: This is a trick question.

11 A. I get the toughest math questions here. Is six less than  
12 12? Yes. 21 divided by three is seven.

13 Q.128 - I at least remember something. I'm going --

14 A. If you only do it by percentages -- I mean if at each step  
15 you decrease the percentage differential by a third you  
16 would never -- you would never close the gap.

17 Q.129 - No. I agree with you there, Dr. Rosenberg. I am  
18 going to put a hypothetical to you. Hypothetically  
19 speaking, if Disco eliminated seven percent of the  
20 differential -- the 21 percent differential this year,  
21 okay, and then next year eliminated a further seven  
22 percent of that original 21 percent differential, and then  
23 the following year eliminated the final seven percent,  
24 would you agree that in those three stages the original 21  
25 percent differential would be eliminated in three steps?

2 A. They would -- well I understood after I wrote my testimony  
3 how Mr. Larlee would propose doing the second two steps.  
4 And after reading that it's just a question, Mr. Morrison,  
5 of I would do it 58 cents, 58 cents and 58 cents. And  
6 under Mr. Larlee's approach he would do it 46 cents and  
7 then 64 cents and then 64 cents. So it's just a question  
8 if the Board wants 58, 58, 58 or does the Board want .46  
9 cents, .64 cents and .64 cents.

10 Q.130 - Or, to frame it another way, seven percent, seven  
11 percent, seven percent, correct?

12 A. The question is which way fits what the Board had in mind  
13 when they said in three equal steps. It's just -- the  
14 Board has the facts, the Board can make that decision.  
15 It's really not rocket science here. Do you want to do it  
16 .58, .58 and .58 or do you want to do it .46, .64 and .64?  
17 And the question is which better accords with their  
18 intent, which gives them better price signal, and the  
19 Board has to make that decision. That's all.

20 Q.131 - Thank you, Dr. Rosenberg. I have one final question  
21 and it's really a question of clarification. And it's in  
22 the exhibit -- the schedule 1 to your evidence --

23 A. Yes.

24 Q.132 - -- the second page -- third page, sorry, page 3 of 3.

2 A. Yes.

3 Q.133 - And it's a graph and it has two lines and the second  
4 line is in red --

5 A. Yes.

6 Q.134 - -- and it's described as residential electric heating  
7 megawatt hour usage, is that -- am I looking -- are we  
8 looking at the same graph?

9 A. Yes.

10 Q.135 - My question, Dr. Rosenberg, is that -- the red line,  
11 is that the usage of customers with electric heat, in  
12 other words they have electric heat but have other loads,  
13 appliances, et cetera, or is it the residential electric  
14 heat usage only, only electricity consumed by electric  
15 heat?

16 A. I think the safest thing for me to do would be to take  
17 that as an undertaking and get back to you.

18 MR. MORRISON: Okay. Thank you. Those are all my  
19 questions, Mr. Chairman. Thank you.

20 CHAIRMAN: Thanks, Mr. Morrison. Mr. MacNutt?

21 CROSS EXAMINATION BY MR. MACNUTT:

22 Q.136 - Thank you, Mr. Chairman. Good morning, panel,  
23 Commissioners and Dr. Rosenberg. You should have out in  
24 front of you EGNB-5 which is your direct evidence. And  
25 you might also get out Exhibit A-76 which is the 2006/7

1 - 5107 - Dr. Rosenberg - Cross by Mr. MacNutt -  
2 class cost allocation study proposed rates and rate proposal  
3 24 January 2006. And --

4 A. I'm not sure I have the cost of service study.

5 Q.137 - That is the revised one.

6 A. Okay. Mr. MacDougall I believe is -- okay.

7 Mr. MacDougall was kind enough to give that to me.

8 Q.138 - Fine. And I just wonder if he could check that.

9 I'm going to deal with exhibit A-121(2) which is Mr.  
10 Marois' revised table 1 on page 2 of his evidence.

11 A. Which table are we looking at?

12 MR. MACDOUGALL: I'm sorry. Mr. Chair, the document I gave  
13 to

14 Dr. Rosenberg does not have A-21 in it. But Dr. Rosenberg  
15 does have exhibit A-121 separate.

16 If Mr. MacNutt is referring to A-121 maybe he can just  
17 make those comments. I just want to let

18 Dr. Rosenberg know that that is separate from it.

19 Q.139 - Well, there were a series of pages amending  
20 A-76. And the one I'm specifically going to refer to is A-  
21 121(2).

22 A. A-121.

23 Q.140 - Yes. Table 1 on page 2 of --

24 A. Page 1 and page 2.

25 Q.141 - Table 1 on page 2 of Mr. Marois' evidence.

1 - 5108 - Dr. Rosenberg - Cross by Mr. MacNutt -

2 A. Yes. I see table 1 on page 2.

3 Q.142 - And it should be revised. I think it is February 22.

4 A. Yes.

5 Q.143 - Now you have got that array in front of you. I would  
6 like you to start at page 8 of your evidence.

7 And it is my understanding you recommend setting the RC  
8 ratio for residential class at .98 which would require an  
9 increase of 16.6 percent over existing rates, is that  
10 correct?

11 A. That is correct.

12 Q.144 - Now do the numbers in the table at the top of page 14  
13 of your evidence result in that 16.6 percent increase?

14 A. That's correct.

15 Q.145 - Thank you. Now I want you to turn to the table we  
16 were just referring to. That is the evidence of Mr.  
17 Marois on exhibit A-76. And I want you to go to that  
18 table. Now the table is labeled "Revenue and Rate  
19 Increase by Rate Class for Fiscal Year End 2006/2007  
20 Ending March 31."

21 And I would like you to go to line 1, "Residential". This  
22 shows that Disco's proposed revenue without a rate  
23 increase in column 1 to be 455.8 million. And it is  
24 increased by the 13 percent in column 2 to result in a  
25 revenue rate increase of 515,000,000.

2 Is that not correct?

3 A. That's correct.

4 Q.146 - Now if we apply your 16.6 percent increase to Disco's  
5 proposed revenue without a rate increase in column 1 of  
6 455.8 million, we get 531.5 million in column 3.

7 That would be Disco's revenue rate, your rate increase, is  
8 that correct?

9 A. 531.5?

10 Q.147 - Yes.

11 A. Yes. That's approximately correct. It's about \$16 1/2  
12 million more.

13 Q.148 - I will just repeat the question. Please turn to your  
14 evidence in exhibit EGNB 5 at page 14 at lines 2 to 5.

15 And at that point you state that you estimate "The average  
16 impact to residential heating customers would be an  
17 increase of 18 percent." Is that correct?

18 A. For the heating customers, yes. That's the average  
19 heating customer.

20 Q.149 - Average, yes, residential heating customers, right.

21 A. That's correct.

22 Q.150 - Now if that is an average --

23 A. That's correct.

24 Q.151 - -- certain residential heating customers would be  
25 above that number and some would be below that number, is



2 that correct?

3 A. Some would be above. I actually looked at in Disco's  
4 response, Public Intervenor IR-10. They gave examples of  
5 various customers.

6 And I actually priced it out for the largest customer of  
7 the electric only large home. And I came up with a 19.9  
8 percent increase for that. And that's about -- I mean,  
9 that would be like the upper 98 percent point.

10 In other words, there would only be 2 percent of the  
11 customers in the class above that. So yes, that would be  
12 larger than -- that would be larger than 18. So --

13 Q.152 - Yes.

14 A. -- some might get 19.9. But some might get a little less,  
15 yes.

16 Q.153 - Conceptually because it is an average, there are going  
17 to be certain classes of customers impacted higher than  
18 that rate and some lower than that rate?

19 A. That's correct.

20 Q.154 - And you have just identified -- I think you were  
21 talking in terms you went to the 98th percentile. And  
22 they would be impacted to the tune of about 19.9 percent?

23 A. 19.9.

24 Q.155 - Yes. Now have you done any calculations to estimate  
25 what the upper limit would be? You have indicated 98th

1                   - 5111 - Dr. Rosenberg - Cross by Mr. MacNutt -  
2 percentile. I want to go on further, what the upper limit of  
3 increases would be for the residential heating --

4 A. That was the largest consumer, was the one that listed as  
5 the electricity only large home. That's a customer that  
6 uses 35,200 KWh for the year. And as I said that appears  
7 to be at the 98, 99 percent limit.

8 And the increase for that customer is 19.9. So 99 -- 98,  
9 99 percent of all customers would obviously get less than  
10 that. So that's the upper -- sort of like the upper  
11 limit.

12 Q.156 - Okay. Thank you.

13 Now I would like you to turn to page 10 of your evidence  
14 and at lines 4 to 13 where you discuss rate impacts?

15 A. Yes.

16 Q.157 - In that portion of your evidence you advise that the  
17 Nova Scotia Utilities Review Board adopted the "1.5 times  
18 system average" as a guideline, is that correct?

19 A. That's correct.

20 Q.158 - Now it is my understanding in testimony that you filed  
21 before the Nova Scotia Utilities Review Board in October  
22 of 2005, you urged that Board to "exercise similar  
23 judgment" with regard to the 1.5 times average increase as  
24 an upper limit.

25

2 Do you recall that?

3 A. You could refresh my memory?

4 Q.159 - I can provide you with a copy of the extract from that  
5 testimony.

6 MR. MACNUTT: I don't know if it is necessary to make it an  
7 exhibit, Mr. Chairman.

8 A. I saw it in context.

9 Q.160 - If I just direct your attention I believe where you  
10 state that. It is in line -- this is an extract from Dr.  
11 Rosenberg's testimony before the Nova Scotia Utility  
12 Review Board dated October 2005.

13 And I'm referring to page 25. And I'm asking Dr.  
14 Rosenberg to go to lines 15 and 16.

15 A. 15 and 16?

16 Q.161 - Yes.

17 A. That's correct. This is what I testified. And that's at  
18 150 percent. Of course that's 1.5.

19 Q.162 - Thank you.

20 A. And then I -- at 15 and 16 I said I was urging the Board  
21 to exercise similar judgment when applying the formula for  
22 the extra large industrial rate.

23 Q.163 - Thank you. Now still on page 10 of your evidence, you  
24 categorize the increase of 1.5 times the system average  
25 increase as a "very temperate proposal."

2 In fact it is at the extreme high end of what you might  
3 consider to be reasonable, is it not?

4 A. It's certainly within the bounds of reason, yes. I would  
5 consider 1.5 times the system average to be certainly  
6 within the bounds of reason.

7 Q.164 - But you would confirm that it is at the high end of  
8 what you consider to be reasonable?

9 A. Well, I don't know if it's at the high. I mean, 1.5 is --  
10 any more than 1.5 certainly says you are getting into the  
11 zone where you want to look back and say, you know, do we  
12 want to do this.

13 But 1.5 is certainly within the zone of reasonableness,  
14 yes. It's a guideline. It's a rule of thumb.

15 It says if a class is getting one and a half times the  
16 system average -- well, no class is getting more than one  
17 and a half times the system average -- then you have a  
18 level of confidence that you are acting with due  
19 moderation.

20 Q.165 - Thank you. Now I would like you to turn to exhibit A-  
21 76 of Mr. Marois' evidence. Again this is at page 2, that  
22 table, Revenue and Rate Increase by Rate Class, Fiscal  
23 Year 2006/2007 and Ending March 31. And this table is  
24 revised February 22.

2 I want you to go to line 9?

3 A. Are we back at table 1 now?

4 Q.166 - Yes.

5 A. Okay. And line 9?

6 Q.167 - Correct.

7 A. Okay.

8 Q.168 - Which is entitled "Firm Energy Sales Subtotal"?

9 A. I have that.

10 Q.169 - Thank you. Now if we take your proposed increase of

11 18 percent -- and I believe you used 19.9 percent for

12 electric heat customers and divided by the 11.4 percent

13 shown in column 2 of that table, we get a result of about

14 1.58 times the system average, is that correct?

15 A. That sounds about right.

16 Q.170 - Now does not this exceed the 1.5 times that you have

17 just stated as reasonable?

18 A. Well, the 1.5 is usually applied, Mr. MacNutt, to a class.

19 And the residential class is getting one and a half

20 times. There might be, as I said -- as we discussed

21 before, there could be individual groups of customers

22 within the class that are getting more than the system

23 average.

24 Obviously if a class gets one and a half times the system

25 average, there are going to be people in the class

2 that get -- customers in the class that get greater than one  
3 and a half times. There are going to be customers in the  
4 class that get less than one and a half times.

5 So anytime you use one and a half times as a guideline or  
6 rule of thumb for the class increases, there are always  
7 going to be subclasses or subsets of the class that get  
8 more than one and a half and some that get less than one  
9 and a half.

10 Q.171 - This would not be considered reasonable in other  
11 jurisdictions such as Nova Scotia? Or would it?

12 A. No. I don't think they ever used that one and a half rule  
13 for individual customer within a class. They just used  
14 that rule for the broad classes, residential, small  
15 industrial, large industrial.

16 Q.172 - Thank you. Now we are going to deal with service  
17 charges for the general service class. And again I would  
18 like you to go to your evidence EGNB-5 at page 17. And we  
19 are also going to deal again with exhibit A-76. And you  
20 are at page 17 of your evidence?

21 A. Yes, sir.

22 Q.173 - Thank you. On that page you state, in respect of Mr.  
23 Marois' evidence in exhibit A-76, and I quote "Mr. Marois  
24 kept the service charge of GS II at the same level as GS  
25 I. And I believe that to be reasonable." Is that a

2 correct statement?

3 A. That is correct.

4 Q.174 - Now at the bottom of page 17 you provide a small table

5 showing Disco's recommended rate of \$19.80 for a service

6 charge, is that correct?

7 A. That's correct.

8 Q.175 - Thank you. Now do you believe a service charge of

9 \$19.80 per month to be reasonable?

10 A. I haven't questioned that. I mean, I have accepted Mr.

11 Marois' evidence. I haven't done an independent

12 calculation of it.

13 Q.176 - What have you done by way of determining whether or

14 not it is a reasonable figure?

15 A. To be perfectly candid I looked at it. And Mr. Marois

16 represented -- I mean, it certainly seemed reasonable in

17 proportion to where it was previously. And I didn't see

18 any reason to question it.

19 And like I said, to be perfectly honest I didn't do an

20 independent calculation of what it would be. I just

21 accepted Mr. Marois' representation. Plus there was

22 nothing about it that struck me as unreasonable.

23 Q.177 - But you are not prepared -- or are you prepared to say

24 that it is a reasonable figure?

25 A. As I -- I honestly have not done an independent

1 - 5117 - Dr. Rosenberg - Cross by Mr. MacNutt -  
2 calculation of it. I have just accepted Mr. Marois'  
3 representation.

4 So if you have a quarrel with Mr. Marois then by all means  
5 you should take it up. I didn't see anything that jumped  
6 out at me as unreasonable. And so I accepted it as  
7 reasonable.

8 Q.178 - Thank you. Now I would like you to go to Mr. Larlee's  
9 evidence, that is exhibit A-76 and Mr. Larlee's evidence  
10 in Appendix 1?

11 A. I have Mr. Larlee's evidence.

12 Q.179 - Yes. Mr. Larlee's evidence. And Appendix 1 is  
13 Appendix 1 to Mr. Larlee's evidence?

14 A. Appendix 1?

15 Q.180 - Correct. Tab. And there should be a series of tables  
16 there. And I want you to go to Schedule 4.6 which is page  
17 19 of that appendix. And the page number appears in the  
18 lower right-hand corner.

19 A. Yes. I have Schedule 4.6 on page 19.

20 Q.181 - Now I would like you to go to line 5, column 8?

21 A. Line 5, column 8. Yes, I have that.

22 Q.182 - And where the General Service I customer cost per  
23 month is shown as \$36.21. And then at line 6 in column 8  
24 where the General Service II customer cost per month is  
25 shown as \$38.09. Those two figures appear there?



1 - 5118 - Dr. Rosenberg - Cross by Mr. MacNutt -

2 A. That's -- you have read those correctly.

3 Q.183 - Thank you. Now line 2, column 8, residential class is  
4 shown as \$23.04, is that correct?

5 A. Line 2, 23.04, yes.

6 Q.184 - Thank you. Now even though the customer cost for the  
7 General Service classes is about 60 percent higher than  
8 for the residential class, you recommend the same customer  
9 charge for both classes, is that not correct?

10 A. Based strictly on the evidence in column 8 it would -- the  
11 customer charge should be increased. But there are other  
12 considerations, as you well know, that you would take into  
13 account when designing a rate such as gradualism and  
14 continuity.

15 But on a strict customer cost basis, yes, it would warrant  
16 a larger customer charge based upon the evidence here, I  
17 agree.

18 Q.185 - Thank you. Now I would like to deal with revenue to  
19 cost ratio for residential and large industrial. And  
20 again I would like to direct you to your evidence EGNB 5.

21 And I would like you to go to pages 8 to 10?

22 A. Page 10?

23 Q.186 - Pages 8, 9 and 10?

24 A. 8, 9 and 10.

25 Q.187 - Yes.

2 A. I have that.

3 Q.188 - And I'm going to start at the top of page 8. At that  
4 point in your evidence you recommend that as the minimum  
5 the RC ratio for residential should be .98, is that  
6 correct?

7 A. That's correct.

8 Q.189 - Now I was not able to find in your evidence where you  
9 made a recommendation regarding the RC ratio for large  
10 industrial. Am I correct in assuming you didn't make one?

11 A. That's correct. I did not.

12 Q.190 - Okay. Now at the top of page 10 of your evidence you  
13 list as the fourth of four beneficial ramifications of  
14 taking the residential RC ratio up to the .98 to be a  
15 moderation of industrial increases, is that correct?

16 A. That's correct.

17 Q.191 - Now in effect you propose a RC ratio of .98 for  
18 residential and .92 for large industrial, is that correct?

19 A. Correct.

20 Q.192 - Now it's my understanding of your evidence is that  
21 residential is at an increase of \$16.5 million and would  
22 call for a reduction in the GS I of 7.8 million, leaving a  
23 differential of \$8.7 million, is that correct?

24 A. That is correct.

25 Q.193 - Now proportionally divided between large and small

1 - 5120 - Dr. Rosenberg - Cross by Mr. MacNutt -

2 industrial, would you --

3 A. That's about \$300 million divided between the large and  
4 small industrials. That's correct.

5 Q.194 - Now the \$8.7 million proportionately divided between  
6 large and small industrial would reduce large industrial  
7 by \$6.8 million yielding an RC ratio of about or just  
8 below .90, would it not?

9 A. I haven't done the calculation. But that sounds about  
10 correct.

11 Q.195 - Thank you. Now you would agree that this Board is  
12 responsible to set fair rates for all customers. I would  
13 like to know how you could recommend an RC ratio of .90  
14 for large industrial as a just and reasonable rate  
15 considering the RC ratio for the other classes?

16 A. Because it's my considered opinion that the cost of  
17 service study considerably understates the -- for one  
18 thing considerably understates -- oh, I'm sorry,  
19 overstates the cost of serving the large industrials, is  
20 number 1.

21 Number 2 I think that the Board ought to think long and  
22 hard about an increase of 12 percent to the industrial  
23 class, because I don't know the impact that that will have  
24 on the viability of the industrials and their ability to  
25 compete.

2 So those were both considerations that were foremost in my  
3 mind when I made that consideration.

4 Q.196 - Thank you. Now are you aware of any jurisdiction  
5 where the RC ratio for industrial is .6 lower -- excuse  
6 me, .06 lower than residential?

7 A. I have not made a survey of that, sir.

8 Q.197 - Are you aware of any jurisdiction where the RC ratio  
9 for industrial is below 1.0?

10 A. Below 1.0?

11 Q.198 - Yes.

12 A. In Nova Scotia it's below 1.0.

13 Q.199 - Now this morning you stated that based on your

14 recollection the RC ratio for large industrial class was  
15 below 1.0 at the last Nova Scotia Power rate case, which  
16 you have just confirmed, is that correct?

17 Now would you please undertake to file the pages of the  
18 compliant filing related to that hearing which shows the  
19 RC ratio for large industrial based on the rates actually  
20 approved in that hearing?

21 A. This is in the Nova Scotia hearing?

22 Q.200 - Correct.

23 A. Okay.

24 Q.201 - Would you undertake to do that?

25 A. Yes. Certainly.

2 Q.202 - Thank you.

3 A. You want the revenue to cost ratio of the industrial class  
4 in the --

5 Q.203 - Per the compliance filing that that Board directed?

6 A. I don't know whether -- I'm trying to recall right now  
7 whether there was another cost of service that was filed  
8 in the compliance filing that was made public.

9 MR. MACDOUGALL: Mr. Chair, if I can add, because when the  
10 compliance filing is done in Nova Scotia there is no  
11 further Intervenor follow-up. I do not think that the  
12 Intervenors would have received the compliance filing.  
13 Whether we can obtain it from the Board or not I'm unsure.  
14 But I don't believe the compliance filings are provided  
15 to the Intervenors in Nova Scotia.

16 CHAIRMAN: You can only do what you can do.

17 WITNESS: I will endeavor to give you whatever information I  
18 have that relates to the revenue to cost ratios of the  
19 large industrials in Nova Scotia. I mean, I can only give  
20 you what I have.

21 Q.204 - Yes. You are undertaking to provide us with what you  
22 have. I wonder through your counsel, you EGNB, could  
23 undertake to obtain that information or advise the reasons  
24 why it is not available?

25 MR. MACDOUGALL: We could certainly do that, Mr. Chair.

2 MR. MACNUTT: Thank you.

3 Q.205 - Now are you aware of any jurisdiction where the RC  
4 ratio for industrial is lower than the RC ratio for  
5 residential?

6 A. I -- well, let me say this. RC ratios are normally used  
7 only in Canada. In the United States they don't use RC  
8 ratios. They use rates of return. In other words they  
9 take the income and they divide it by the rate base. They  
10 come up with a rate of return. So they don't use RC  
11 ratios.

12 In Canada it's customary to use RC ratios. I don't  
13 recall. My experience in Canada is limited to -- as far  
14 as RC ratios is limited to Alberta -- British Columbia,  
15 Alberta, Nova Scotia and New Brunswick.

16 Of course Alberta has deregulated. And I don't know when  
17 the last time there was a full cost of service study. So  
18 really the only relevant information I have as far as RC  
19 ratios is Nova Scotia.

20 Q.206 - But you just mentioned you have also been involved  
21 with British Columbia, Alberta and Nova Scotia and one  
22 other jurisdiction?

23 A. Well, Alberta deregulated in 1995. And I don't know when  
24 the last time they filed a revenue to cost ratio was.  
25 They don't do full-blown embedded cost of service studies

2 now, because the generation is all competitive.

3 Q.207 - Okay. I can bring this to a head perhaps. Would you

4 undertake to file with the Board the names of all

5 jurisdictions to your knowledge that you have information

6 on where the RC ratios for industrials are lower than the

7 RC ratio for residential?

8 A. I will endeavor to do the best I can, yes, sir.

9 MR. MACDOUGALL: No further questions, Mr. Chairman.

10 CHAIRMAN: Thank you, Mr. MacNutt.

11 BY THE BOARD:

12 MR. DUMONT: Mr. Rosenberg, I heard you mention that you

13 didn't know what the impact of a 12 percent increase for

14 heavy industry would do?

15 A. Correct.

16 MR. DUMONT: Now do you know what the impact would be if

17 you increased the residential rate, electric heat

18 customers, by 18 percent?

19 A. Well, I would assume that -- as I said, that's an average.

20 And there will be residentials with a much lower increase

21 than that.

22 But I would assume that the residential heating customers

23 would look to find ways to reduce the impact of that by

24 examining possibly changing part of their heating

25 requirements to alternate fuel or to lower their

2 consumption behavior or to use conservation.

3 I mean, as I'm sure you are aware, residential classes  
4 across North America have recently seen very large  
5 increases to their electric consumption. I noted in my  
6 testimony in Delaware residential customers are facing  
7 increases of 59 percent. And that's quite a large  
8 increase.

9 So we are not unique in this position. It's certainly  
10 never very pleasant for people to see big increases in  
11 their bills. I mean, I just got a big increase in my gas  
12 bill. I heat my house with gas in St. Louis. And gas  
13 prices this year were considerably higher than they were  
14 last year.

15 Fortunately we had a mild winter. So they were not quite  
16 as high as people were afraid. But people do react. My  
17 wife turns the thermostat down.

18 MR. DUMONT: Okay. You know, you mentioned that  
19 residential customers can react by lowering their heat by  
20 a degree.

21 How about the heavy industry? How would they react to a  
22 12 percent increase? Would they lower their costs to try  
23 to use less energy?

24 A. Industry?

25 MR. DUMONT: Yes.



2 A. Well, industry -- I represent a lot of industrial  
3 customers. And they try to do everything they can to  
4 lower their cost.

5 For example I took a tour of a paper mill up in Port  
6 Hawkesbury, Nova Scotia. And they were pointing out to me  
7 how they try to squeeze every bit of efficiency out of the  
8 energy that they can. And they have to because they are  
9 in a very competitive situation.

10 But there are uses. For example in paper mills that use a  
11 thermomechanical process to grind the pulp you have to use  
12 electricity. I mean, those motors run on electricity.

13 They can't do anything else.

14 A lot of industry try to become interruptible as much as  
15 possible. Industry is always looking for ways that they  
16 can cut their electricity costs in order to remain  
17 competitive. But some cases there is no more they can do.

18 And then -- I know in Newfoundland, Stephenville,  
19 Newfoundland there was a paper mill, I think an Abitibi  
20 mill that went to the government and said unless we get a  
21 concession we are going to have to close our mill. And  
22 eventually the government gave them a lower price because  
23 they wanted to keep the mill going. So it's a very  
24 difficult situation.

25 MR. DUMONT: But there is ways that heavy industry can

2 react to a higher cost of energy. There are ways. I mean,  
3 they are not limited to say well, okay, the increase is 12  
4 percent, but there is no way we can reduce our costs or  
5 our usage by 1 percent or 2 percent. There are ways that  
6 they can reduce their costs.

7 I'm not saying they can absorb the whole thing. But there  
8 certainly are ways that they can reduce their costs too  
9 just like the residential can, maybe not as much because  
10 they still have to use the power to run their mill.

11 A. My experience -- and my experience is mostly with large  
12 industrials. They are constantly, constantly looking for  
13 ways to use electricity as efficiently as possible because  
14 it's a necessity. It's just a fact of life. If they  
15 don't, they know their competitors are.

16 And for many industrials electricity, especially in the  
17 paper industry, in the aluminium industry, the chemical  
18 industry, in the mining industry, natural resource  
19 extraction, energy is the largest single cost input. And  
20 they are always looking for ways to remain competitive.

21 They have to. Otherwise they have to close their mills --

22 MR. DUMONT: Yes.

23 A. -- and shift production to another location.

24

25

1 - 5128 - Dr. Rosenberg - By The Board -

2 MR. DUMONT: I understand that. But you are saying that if  
3 this Board wants to send a price signal, the price signal  
4 should be for everybody? Would you agree with that?

5 A. I think -- I think this Commission should try to send as  
6 accurate as possible price signals to all groups.

7 MR. DUMONT: Okay. Thank you.

8 A. I have always been a supporter of cost of service and  
9 accurate price signals.

10 MR. DUMONT: Thank you. That is all for me.

11 DR. SOLLOWS: Yes. Mr. Rosenberg, just a couple of  
12 preliminary matters here. You just mentioned that you  
13 toured a -- I think it must have been the Storer mill in  
14 Cape Breton?

15 A. That's correct.

16 DR. SOLLOWS: That has a thermomechanical pulping process.  
17 They also -- they make paper, don't they?

18 A. They make -- that's correct. Yes.

19 DR. SOLLOWS: So they must have fairly large thermal loads  
20 for drying the paper, am I correct?

21 A. Yes. They do have thermal loads.

22 DR. SOLLOWS: And do they have what most people call a  
23 combined heat and power plant or what you might refer to  
24 as a cogeneration plant?

25 A. They have a very small amount of cogeneration.

2 DR. SOLLOWS: And is that generally thought to be something  
3 that improves the financial efficiency and the thermal  
4 efficiency, the cost efficiency of such plants? I know  
5 they are fairly commonplace in many parts of the world.

6 A. Cogeneration?

7 DR. SOLLOWS: Yes.

8 A. There are -- they can't -- there is no -- first of all  
9 there is no easy access to natural gas up in Cape Breton.  
10 So they can't use gas-fired cogeneration.

11 DR. SOLLOWS: Right.

12 A. Okay. They could use what's called hog fuel for  
13 cogeneration. And I'm sure --

14 DR. SOLLOWS: I think for example the pulp mill here I think  
15 in this city, not the paper mill but the pulp mill I think  
16 does that?

17 A. Yes.

18 DR. SOLLOWS: I guess where I'm coming from here is you seem  
19 to have implied or suggested to us that industry does  
20 everything it can to control these costs, but the mill  
21 that you toured and were so impressed with doesn't appear  
22 to do one of the things that many plants do do to control  
23 its costs. So I'm just wondering how well founded your  
24 impression is.

25 A. They are -- obviously that's a capital project and,

2 you know, whenever industry decides to invest their capital  
3 they always look where they get the greatest return on  
4 that.

5 DR. SOLLOWS: As should utilities?

6 A. And -- but that's always a matter of consideration.

7 DR. SOLLOWS: Okay. One other thing that you said -- and I  
8 will stand corrected if the transcript doesn't reflect it,  
9 but it struck me as you said it so I jotted it down. You  
10 said that this Panel should think long and hard about  
11 increasing the large industrial rates or the industrial  
12 rates to somewhere near a revenue cost ratio of one  
13 "because I don't know the impact". And I'm curious as to  
14 why you would give us advice to do something because you  
15 don't know an impact?

16 A. Well I'm saying I don't -- we know that -- we know that  
17 some mills just can't compete when the price reaches a  
18 certain level. So all I'm saying is you -- and I'm sure  
19 the industrial customers in this province have made known  
20 to you their concerns, and all I'm saying is that's  
21 another consideration.

22 DR. SOLLOWS: I would agree that it is a consideration, but  
23 my concern is that you would advise us to take one side or  
24 another based on lack of knowledge?

25 A. Well maybe I was inarticulate in that. All I'm saying

2 is that I don't know at what point -- I haven't done a survey.

3 DR. SOLLOWS: Okay.

4 A. I don't know at what point when the electric rates --

5 DR. SOLLOWS: We will let them bring evidence in that  
6 regard?

7 A. Okay.

8 DR. SOLLOWS: I would like to go on and deal with your  
9 proposal regarding block size increases.

10 A. Yes.

11 DR. SOLLOWS: Now I understood from what I had heard from  
12 you and others and I think this Panel pretty much agreed  
13 that we should eliminate the declining block rate  
14 structure for residential rates. That's on the record and  
15 everybody is clear on that?

16 A. That's correct.

17 DR. SOLLOWS: So I'm curious as to why we are going in the  
18 direction and your support going in the direction of  
19 increasing the block size from 1300 to 1400 where in order  
20 to get to one block we would have to go up to, you know,  
21 hundreds of thousands given the residential rates that we  
22 have, rather than going towards zero which is the obvious  
23 place to go if you want to eliminate the two blocks?

24 A. Well let me answer that two ways. First of all, after

2 the third step when you have eliminated the differential it  
3 won't make any difference where you draw your block size.

4 DR. SOLLOWS: That's true.

5 A. There won't be any differential. So that's number 1. But  
6 while there is a differential the question is if you  
7 increase or decrease the block size how does that impact  
8 the revenue to cost ratio of the two classes, the heating  
9 class and the non-heating class?

10 You recall Mr. Larlee -- and I agree with him -- says  
11 that, well one nice thing about looking in the cost of  
12 service study at the residential class in the two groups  
13 is that you can then make changes to your rate design and  
14 see how that impacts the relative revenue to cost ratios,  
15 see whether you are going in the right direction or going  
16 in the wrong direction.

17 DR. SOLLOWS: Yes.

18 A. And when I looked at the data when you increase the block  
19 size, you do nothing else, okay, do nothing else, just  
20 hold everything else constant and just increase the block  
21 size, you are going in the right direction. You are  
22 throwing more revenue onto the heating and away from the  
23 non-heating. So that's the reason for my recommendation.

24 DR. SOLLOWS: So did you consider the notion of setting the

2 monthly service charge for residential customers at full cost  
3 recovery and reducing the first block, and then adjusting  
4 first and second block prices appropriately? And would  
5 that not also send an appropriate pricing signal to the  
6 larger customers that tend to use electricity?

7 A. If you increased the customer charge?

8 DR. SOLLOWS: The service charge so that it's full cost  
9 recovery? I guess what is motivating the question is when  
10 I examine the data I find a fairly large number of very  
11 small customers, zero bills, in the data set, 10, 20, 50,  
12 80 kilowatt hours per month, and if we are not recovering  
13 the full cost of service to customer cost in the service  
14 charge, then to some extent these people are being  
15 subsidized by other people that are paying the first block  
16 rate. And so in that sense I would expect that a proposal  
17 would come forward to charge the full service charge to  
18 cover the customer?

19 A. Well, as I tried to indicate in my testimony, there are --  
20 it's sort of a balancing act when you look at the customer  
21 charge. You are correct on a strict cost of service  
22 study, okay, if you don't increase the customer charge  
23 then a large customer is subsidizing a customer who is not  
24 using anything.

25 DR. SOLLOWS: But in this particular case your evidence is



2 that the large customers are being in fact subsidized. So it  
3 would turn out that the middle customers tend to be  
4 subsidizing both ends, is that fair?

5 A. I haven't -- I haven't done that fine an analysis of it.  
6 I mean, you obviously -- it sounds like you have looked at  
7 this a longer time. All I can tell you is that it's a  
8 balancing act. When increasing the customer charge there  
9 is a question of cost and one size customer versus another  
10 size customer.

11 But you also have the other considerations, is that for  
12 the smaller use customers the customer charge is obviously  
13 a bigger portion of their bill than the others. And so if  
14 you go all the way to cost you have to look at yourself,  
15 well what -- you know, is that too disruptive of an  
16 increase to the --

17 DR. SOLLWS: Fair. You do have to balance it. But the  
18 direction should be towards cost, should it not, and --

19 A. Right. Right. And the third consideration is that  
20 obviously if you collect more revenue in the customer  
21 charge then where do you cut down, okay? If you cut down  
22 in the first block that's probably the best place to cut  
23 down. But --

24 DR. SOLLWS: And that would also go to eliminating the  
25 difference between the two blocks, would it not?

1 - 5135 - Dr. Rosenberg - By The Board -

2 A. But you have already said what you are going to do. I  
3 mean, I can't go any more that .58 cents because --

4 DR. SOLLOWS: But you could have done it in another way, is  
5 my point, by increasing the service charge, changing the  
6 block size or perhaps even holding the block size the  
7 same, and reducing the first block charge?

8 A. Well actually as I said before, I would have increased the  
9 block size because that throws more money into the heating  
10 class and reduces the cross-subsidization between the  
11 heating customers and --

12 DR. SOLLOWS: And is the basis of that analysis clear in the  
13 written evidence?

14 A. The basis of that analysis is --

15 DR. SOLLOWS: I guess the reason I'm asking is I don't  
16 recall?

17 A. I don't know whether I actually put it in there, but I  
18 looked at it and it appeared to me just going from the 13'  
19 to 1400 that's what I did with nothing else. And that  
20 moved stuff in the right direction.

21 DR. SOLLOWS: Can you provide the analysis that supports  
22 that?

23 A. Sure.

24 DR. SOLLOWS: That would be great. Now I have --

25 A. Let me write that down.

1                   - 5136 - Dr. Rosenberg - By The Board -

2       DR. SOLLOWS:   Okay.   Thank you.

3       CHAIRMAN:   Dr. Sollows has warned me he now has a long  
4       series of quesions and I need lunch before I sit through  
5       those.   We will break now and --

6       DR. ROSENBERG:   I hope they are not as tough as 21 divided  
7       by 3.

8       CHAIRMAN:   That was, I told you, a quick question.   I'm sure  
9       you will get some more.   We will break and come back at  
10      quarter after 1:00.

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

12      CHAIRMAN:   Preliminary matters, Mr. Morrison?

13      MR. MORRISON:   Yes, Mr. Chairman.   A couple more  
14      undertakings to put on the record.   They have been given  
15      to the Board Secretary.   The first is not technically --  
16      at least it's not listed in the transcript as an  
17      undertaking but it's a request for information.   It's  
18      Monday, February 20th.   And it was from Mr. Hyslop to Mr.  
19      Kennedy.   He wanted to see the month to month settlements  
20      on the hydro, and we have prepared that response.

21      CHAIRMAN:   All right.   That's A-139.

22      MR. MORRISON:   The next one, Mr. Chairman, is undertaking  
23      number 1 from February 22nd.   It dealt with maintenance on  
24      the PROMOD software.

25      CHAIRMAN:   That's A-140.

2 MR. MORRISON: The next one, Mr. Chairman, is undertaking  
3 number 4 from February 22nd.

4 CHAIRMAN: A-141.

5 MR. MORRISON: Next, Mr. Chairman, is undertaking number 11  
6 from February 22nd.

7 CHAIRMAN: A-142.

8 MR. MORRISON: And finally, Mr. Chairman, undertaking number  
9 15 from February 22nd.

10 CHAIRMAN: A-143.

11 MR. MORRISON: Mr. Chairman, perhaps I can get a little  
12 guidance from the Board. We are working on other  
13 undertakings, some will be ready tomorrow, but I expect  
14 some will become ready through the course of next week.  
15 Is it the Board's pleasure that we send those down as they  
16 are ready so that people get a chance to look at them  
17 before we resume, or wait until we come back on the 13th  
18 and file them all at the same time?

19 CHAIRMAN: No. Send them and we can enter them on the next  
20 day we sit. Okay.

21 MR. MORRISON: Thank you.

22 CHAIRMAN: Thank you. Any other matters?

23 MR. MORRISON: No, Mr. Chairman.

24 CHAIRMAN: Any other Intervenors with matters? Okay. Go  
25 ahead.

2 DR. SOLLOWS: Thank you, Mr. Chairman. Good afternoon, Mr.  
3 Rosenberg.

4 A. Good afternoon.

5 DR. SOLLOWS: I will try to be better behaved this  
6 afternoon. I have had a nice lunch.

7 A. I had a very nice lunch.

8 DR. SOLLOWS: I want to ask you two lines of questions.  
9 First on revenue cost ratios, as much as anything to clear  
10 up any misunderstanding that I may have about them and  
11 it's really drawing I think on your mathematics  
12 background, so I don't think it should be too much of an  
13 issue here.

14 Would you agree with me that both the revenue estimates  
15 and the cost estimates that form the revenue cost ratios  
16 are uncertain in that they are future -- estimates for the  
17 future?

18 A. The -- I would say the cost is more uncertain than the  
19 revenues.

20 DR. SOLLOWS: Both are uncertain but certainly the cost has  
21 more uncertainty associated with it?

22 A. It's more on the cost. The revenue of course depends upon  
23 the estimate of how they are going to use it, yes.

24 DR. SOLLOWS: So in that case you would agree it's  
25 reasonable to consider each revenue and cost as the likely

2 value or the expected values, what we should be looking at in  
3 terms of determining the revenue cost ratio?

4 A. You could look at expected value. If you want to look at  
5 more information you might want to look at the standard  
6 deviation.

7 DR. SOLLOWS: That's where I'm going. And the standard  
8 deviation an associated range of uncertainty with the  
9 value?

10 A. That's correct. And not just in the data but also in the  
11 -- in your metric.

12 DR. SOLLOWS: In the process. That's right. So you have  
13 already covered off these. The revenue estimates are  
14 somewhat uncertain in that they are based on load  
15 forecasts. The cost estimates are probably quite a bit  
16 more uncertain in that they are based on certain  
17 assumptions about cost causation, is that right?

18 A. Correct.

19 DR. SOLLOWS: So we have got the situation where both the  
20 numerator and the denominator are built up from a series  
21 of uncertain estimates in values that are combined  
22 together to form the ratio, and when I look at that I jump  
23 to the conclusion that it's very likely that the error in  
24 the revenue cost ratio, if we have done everything right,  
25 should be normally distributed. Would that be reasonable,

2 invoking the central limits theorem, to harken back to  
3 statistics?

4 A. I don't know if it would be normally distributed, but you  
5 would get some type of Bell-shaped curve.

6 DR. SOLLOWS: Yes. In the limit it tends to be normally  
7 distributed?

8 A. Yes.

9 DR. SOLLOWS: So as long as we are dealing with central  
10 estimates then it's likely to be -- in any outcome it's as  
11 likely to be higher as it is to be lower?

12 A. Not always. I mean, for example I might estimate your  
13 height at 6 2, but I haven't measured you, so I don't  
14 know. I might estimate Mr. Nicholson's height at 5 8,  
15 okay. They are just estimates. But then if I see Mr.  
16 Nicholson standing next to somebody who is 5 7 and he is  
17 taller, then I could say, well I -- you know, I estimated  
18 him on the high side. And if I see you standing next to  
19 somebody who is 6 feet and you are taller, then I say I  
20 estimated you on the low side.

21 So it's not -- in that sense it's not always normal. It's  
22 not just an equal thing if you have additional  
23 information. And that's what I was trying to do with my  
24 Schedule 1 is to give you some additional information --

25 DR. SOLLOWS: Right.

2 A. -- and say, here is a phenomenon that's not really being  
3 captured in the cost of service study.

4 DR. SOLLOWS: And so what you are getting at, if I  
5 characterize it in the line that I'm thinking here, is  
6 what you would be really suggesting is that the cost  
7 number, the denominator, is probably not an unbiased  
8 central estimate?

9 A. Exactly right.

10 DR. SOLLOWS: Right. But if it were, just playing along the  
11 line here -- if it were then certainly we would have equal  
12 probability either side?

13 A. If it were an unbiased estimate, yes.

14 DR. SOLLOWS: Yes. That's right. So it all comes down to  
15 whether or not the estimates that we are dealing with are  
16 biased or unbiased?

17 A. Exactly right.

18 DR. SOLLOWS: Now in my line of work we deal with this  
19 nature of uncertainty with tolerance, and I don't know if  
20 you are familiar with it but if we have an expected  
21 value we will put a tolerance around it and an interval,  
22 as you said, a standard deviation. Familiar concept, is  
23 it?

24 A. I'm familiar with the concept, yes.

25 DR. SOLLOWS: Can you give me a very good reason why I



2 shouldn't apply it to this matter and have -- and treat the  
3 .95 to 1.05 range as a value of 1 plus or minus .05?

4 A. If everything were unbiased and normally distributed, yes.

5 DR. SOLLOWS: Okay. And again coming on that assumption?

6 A. Yes.

7 DR. SOLLOWS: And again having set that expectation the  
8 other thing that I do and we commonly do again in my line  
9 of work is test the outcome against that prior  
10 expectation. So we would look at the realization that's  
11 widget in production line and the thing is coming out  
12 within tolerance we are happy, if it comes in with means  
13 that are substantially one side or another of the  
14 tolerance we would be upset and we would work at that.  
15 We would either adjust the process to change the outcome  
16 or adjust our expectations for the outcome, one or the  
17 other, is that fair?

18 A. Absolutely.

19 DR. SOLLOWS: So that's sort of what we are doing in this  
20 process, right? We are testing against the test year and  
21 determining whether or not the history is reflecting our  
22 expectations for that history, and on the basis of that we  
23 are looking forward to the test year and making some  
24 decision as to what these numbers should be and what a

2 reasonable range of values around it should be, is that --

3 A. That's correct. But it's a little more complicated than  
4 knocking out widgets.

5 DR. SOLLWS: Fair enough. I mean, there is a lot more of  
6 uncertainty associated with it. I don't think there is  
7 any doubt of that.

8 A. You know, there is a limit to what that analogy would do,  
9 but --

10 DR. SOLLWS: Okay. So I want to go now to your rate  
11 proposal. Does it result in an expected revenue cost  
12 ratio above one for the strata of customers that you  
13 identify as not having electric heat?

14 A. As non-heat?

15 DR. SOLLWS: Yes.

16 A. They would come in -- well under both the company proposal  
17 and mine that strata comes in slightly above one.

18 DR. SOLLWS: Okay. And so that --

19 A. That's still within the bandwidth of 95 to 105.

20 DR. SOLLWS: Right. But the expectation is no longer the  
21 central estimate. It is -- expectation therefore is to be  
22 1. -- what is it, 1.01 or 1.02?

23 A. Something like that, yes.

24 DR. SOLLWS: And therefore it's equally likely to be above  
25 it and below it, given -

2 A. If you assume an unbiased estimate, yes.

3 DR. SOLLOWS: So those customers that are in this case  
4 assumed not to use electric heat, the expectation is that  
5 they will have to pay more than their cost of service  
6 under your rate design, is that right?

7 A. Well I'm going to say yes, but it's not my fault --

8 DR. SOLLOWS: I know.

9 A. -- because had you given me more latitude in the rate  
10 design I could have addressed that.

11 DR. SOLLOWS: I understand.

12 A. Unfortunately there were certain parameters that I had to  
13 stay within.

14 DR. SOLLOWS: But it is from the point of view of thinking  
15 of this as a tolerance about an uncertain future --

16 A. Yes.

17 DR. SOLLOWS: -- the probability is that they are going --  
18 they are being asked to pay more than their fair share of  
19 the cost?

20 A. I agree.

21 DR. SOLLOWS: Okay. That's fine. That's all I wanted to  
22 clearly establish and make sure that my thinking was  
23 consistent with yours on this notion of the uncertainty,  
24 because we have heard a lot about what -- how we should  
25 interpret this -

2 A. No. I agree and my wish when I was writing my testimony  
3 was that I had more latitude to do certain things, but --  
4 you know --

5 DR. SOLLOWS: Thank you.

6 A. -- there were certain rules I had to abide by.

7 DR. SOLLOWS: I understand. I want to move on to the  
8 second line of questioning that I have. And that relates  
9 to seasonality. Is it fair to say that you and your  
10 client are concerned that electricity be priced in a way  
11 that eliminates any subsidy for its use for space heating  
12 and hot water production?

13 A. I think that's a fair statement.

14 DR. SOLLOWS: And you are concerned with pricing -- less  
15 concerned with pricing where it relates to illumination or  
16 motive power or entertainment or those sorts of uses?

17 A. I'm sorry?

18 DR. SOLLOWS: Less concerned where it relates to motive  
19 power --

20 A. Yes.

21 DR. SOLLOWS: -- illumination, that type of thing?

22 A. That's correct.

23 DR. SOLLOWS: Now you have presented evidence that there is  
24 a seasonal variation in the cost of producing electricity.  
25 Is that right?

2 A. That's correct.

3 DR. SOLLOWS: And you also recognize and I think rely on the  
4 fact that there is a seasonal variation in the total  
5 system load in New Brunswick, with higher loads in the  
6 winter? Is that right?

7 A. That's correct.

8 DR. SOLLOWS: Have you done any analysis to determine how  
9 much of the load is seasonal in nature?

10 A. How much of the load?

11 DR. SOLLOWS: Yes.

12 A. I know I looked at that during the CARD hearing.

13 DR. SOLLOWS: Yes.

14 A. I don't think I reexamined --

15 DR. SOLLOWS: Is it on the record?

16 A. I am going from memory from the CARD hearing. I thought I  
17 had looked at a seasonal pattern of each class that I had  
18 asked for the monthly usage of each class.

19 DR. SOLLOWS: Okay. All right. So you got data and I guess  
20 what you are saying is you took that -- you asked for the  
21 information from Disco and Disco provided it. So my next  
22 question maybe is phrased incorrectly but I was going to  
23 ask if you had done any analysis to determine the  
24 contribution of each customer class to the seasonal  
25 variation?

2 A. Only in a rough fashion.

3 DR. SOLLOWS: Okay. And that analysis, is it on the record?

4 A. Well there was a data request that we asked for the  
5 monthly usage of each class and I am trying to see if I  
6 can --

7 DR. SOLLOWS: Well it would be fine if as an undertaking you  
8 just could point to it so that I can find it in the  
9 record. That's all.

10 A. Okay. Yes. If you look at EGNB's information request 2.

11 DR. SOLLOWS: I need to -- do you have the exhibit number?

12 A. I'm afraid I don't have -- this was --

13 MR. MACDOUGALL: It is the responses to interrogatories,  
14 Commissioner Sollows, February 9, 2006, volume 1 of 1.  
15 Responses to interrogatories in this phase of the hearing.  
16 I don't have the number on the binder.

17 DR. SOLLOWS: So that is A-80?

18 MR. MORRISON: A-80, yes.

19 A. And what I am looking at, Commissioner, is Enbridge's IR-  
20 1.

21 DR. SOLLOWS: Okay.

22 A. I apologize I can't give you a better reference.

23 DR. SOLLOWS: Okay. And it says the electronic version  
24 found in A-76 is available to all parties.

2 A. Yes. Okay, I'm sorry, look at IR-2.

3 DR. SOLLWS: Okay.

4 A. IR-2, the very next question. It says using the table  
5 below, please provide budgeted total monthly energy usage  
6 by class at the generation level for the test year. And  
7 there was a table that was provided in response to that  
8 question.

9 DR. SOLLWS: Okay.

10 A. And if you look at that table, I think that will give you  
11 a pretty good idea of which classes are seasonal in nature  
12 and which classes are not.

13 DR. SOLLWS: And so that is the basis that you used for  
14 your evidence?

15 A. Yes.

16 DR. SOLLWS: Okay. Now I want to ask you just a few  
17 hypothetical questions. If you had examined the billing  
18 data that is on the record and found for example that 9  
19 percent of small industrial customers consumed 80 percent  
20 of their annual electricity during the November to March  
21 period, would it have changed your recommendations in any  
22 way?

23 A. Would it change my recommendations?

24 DR. SOLLWS: Yes.

25 A. No.

2 DR. SOLLOWS: What if you had examined the data and found  
3 that 22 percent of rural residential customers had the  
4 same flat seasonal usage as 28 percent of small industrial  
5 class and 72 percent of the large industrial class. Would  
6 that have changed your recommendation?

7 A. No, it would not have changed my recommendation. I mean,  
8 I am aware -- I am aware that within classes, especially  
9 within the residential class, there are variations. There  
10 are some customers that are more seasonal nature, some  
11 customers with less seasonal nature. To some extent that  
12 is true in other classes as well.

13 DR. SOLLOWS: Right.

14 A. Okay. I am fully aware of that. And to me, that is the  
15 best way to address that situation is to have seasonal  
16 rates. I mean, that is why you have --

17 DR. SOLLOWS: But you don't propose setting seasonal rates  
18 for small industrial customers that under this hypothesis  
19 would have seasonal consumption.

20 A. I am not opposed to seasonal rates for any class. I was  
21 not given the charge in my directions I was not given the  
22 charge to say develop a rate for each and every class.

23 DR. SOLLOWS: Okay. So if we --

24 A. But in concept, in philosophy, I am fully in favor of  
25 seasonal rates for all classes.



2 DR. SOLLOWS: All classes that are subject to seasonal  
3 behaviour?

4 A. Correct.

5 DR. SOLLOWS: Okay. That's the end of my questioning.  
6 Thank you very much. I appreciate it.

7 DR. ROSENBERG: Sure.

8 CHAIRMAN: That's the first time I have heard my job up here  
9 described in engineering terms. I don't know if it added  
10 clarity or not. Thank you, Commissioner Sollows. The  
11 seasonal rates that you have talked about are as you  
12 indicated, time of use rates?

13 A. A seasonal rate is sort of like a poor man's time of use  
14 rate, yes, in the sense that you don't need the metering  
15 that is necessary for that.

16 CHAIRMAN: You are speaking from a utility perspective when  
17 you say a poor man's time of use rate. Let's look at it  
18 from a residential consumer's point of view. The most  
19 effective time of use rates from a residential consumer's  
20 perspective in this province in this day and age would  
21 probably be daily time of use rates, would it not?

22 A. The most effective?

23 CHAIRMAN: From the aspect that at least the consumer who  
24 doesn't have the capital to be able to make those changes  
25 that you discussed with Mr. Morrison, that he or she would

2 be able to at least within the day, change when discretionary  
3 consumption was made?

4 A. That's correct. They could wash their clothes at night.

5 CHAIRMAN: That's right. Now to your knowledge, with the  
6 existing PPAs that are in present -- presently enforced in  
7 this province, would either your seasonal or time of day  
8 use rates be possible and practical?

9 A. Absolutely. You have to separate the PPA, which is a  
10 mechanism by which Genco charges Disco from the rates that  
11 you are involved in in this proceeding, which is what  
12 Disco charges its customers. Two separate items. Are  
13 they related? Yes. But they are separate.

14 I think your task, if I were in your shoes, would be to  
15 try to get the rates that Disco charges its customers as  
16 cost-based as possible to reflect the actual costs that  
17 are being incurred in the production of electricity.

18 CHAIRMAN: All right.. But Disco will argue that their  
19 actual costs are the costs that flow to them pursuant to  
20 the PPAs.

21 A. That's right.

22 CHAIRMAN: And that's not the actual cost of production of  
23 each additional kilowatt hour or megawatt.

24 A. But I recall in the CARD hearing asking a question of

1           - 5152 - Dr. Rosenberg - By The Board -

2   that nature and my recollection, sir, was that the answer that  
3       I recall was that ultimately, ultimately, maybe not in the  
4       short-term, but ultimately the PPAs would have to reflect  
5       the actual costs that the Genco is incurring.

6   CHAIRMAN: Do you remember of whom you asked that question?

7   A. No. I believe it was -- and I am going from memory now --  
8       I believe it was during the discovery phase of the  
9       company, of Disco.

10   CHAIRMAN: Oh all right. 5147 then?

11   A. Interrogatories, yes.

12   CHAIRMAN: All right. I that comes to mind, would you  
13       remind me of which one it was?

14   A. I would be more than happy to.

15   CHAIRMAN: Great, thank you. Those are all my questions.

16       Mr. MacDougall, do you have any redirect?

17   MR. MACDOUGALL: I do, Mr. Chair. I have a little bit of  
18       redirect. If you bear with me a moment, I am just going  
19       to flip back through a couple of my --

20   CHAIRMAN: Certainly.

21   REDIRECT EXAMINATION BY MR. MACDOUGALL:

22   Q.208 - Dr. Rosenberg, if you could go to a copy of the  
23       Board's ruling of December 21 in the CARD phase?

24   A. I have it burned in my memory.

25   Q.209 - If we could go to it to page 29. And Mr. Morrison had

1                   - 5153 - Dr. Rosenberg - Redirect by Mr. MacDougall -  
2 asked you some questions. But I think in a few instances, I  
3 think just for a matter of brevity, he might have parsed  
4 some of the words. I just want to go through and get some  
5 clarity here.

6 On page 29 dealing with the 1/3 reductions in the  
7 residential rate, if we can go to the last sentence above  
8 the heading "Farms and Churches", I just want to read that  
9 through.

10 That says "The remaining two adjustments can occur at the  
11 time of the future general rate changes. But the Board  
12 orders that process must be completed within five years of  
13 this date."

14 And in that language, when Mr. Morrison took it through  
15 you, is it your understanding that all that this meant was  
16 that it could occur during that time period?

17 A. That's correct. That is my understanding of it, yes.

18 Q.210 - And did you read anything further into the Board's  
19 ruling?

20 A. No, I did not.

21 Q.211 - Thank you very much.

22 Now if we could go to page 34 of the decision. And here  
23 Mr. Morrison was referring you to your recommendation with  
24 respect to seasonal rates. And again the last sentence  
25 before the heading "Standby Rate" it reads "We

1           - 5154 - Dr. Rosenberg - Redirect by Mr. MacDougall -  
2 direct Disco to provide a proposal for seasonal rates at the  
3 time of the next review of rates."

4           And what is your understanding of the record to date with  
5 respect to when the next review of rates would occur?

6 A. My understanding with respect to the record is that there  
7 is no definite time with respect to the next review of  
8 rates. And therefore I was trying to add a little urgency  
9 and specificity to that.

10 Q.212 - Thank you very much.

11           Next, Mr. Morrison -- and if you could try and recall back  
12 to this morning -- he asked you a series of questions  
13 about costs that parties may have to incur to either  
14 switch to gas or oil.

15           Do you remember that discussion?

16 A. Yes, I do.

17 Q.213 - Are you aware of anything on the record that Disco has  
18 put forward indicating any data whatsoever with respect to  
19 costs of conversion from electricity to gas or oil?

20 A. I can't recall any.

21 Q.214 - Thank you. And Dr. Rosenberg, are you aware of any of  
22 the incentives that may be available in the marketplace  
23 currently for conversions either to gas or oil or away  
24 from electricity?

25 A. Just in a general sense.

1           - 5155 - Dr. Rosenberg - Redirect by Mr. MacDougall -

2 Q.215 - But you are not aware of the specific ones that may be

3       available now in New Brunswick?

4 A. No. I haven't done a study of New Brunswick.

5 Q.216 - Thank you. Now Dr. Rosenberg, if we could go to

6       exhibit A-121. And this is a -- these are the revisions

7       that were proposed by Disco last week to the A-76

8       evidence?

9 A. I have A-121.

10 Q.217 - And if you go to table 1 which is on page 2. And here

11       Mr. MacNutt was asking you a couple of questions on table

12       1?

13 A. Yes. I recall that.

14 Q.218 - And if we could look at the first --

15 CHAIRMAN: Would you wait just a second, Mr. MacDougall --

16 MR. MACDOUGALL: Certainly, Mr. Chair.

17 CHAIRMAN: -- until we get hold here.

18 MR. MACDOUGALL: If your binders were updated, Mr. Chair, it

19       may be in A-76, the replacement table 1.

20 CHAIRMAN: Okay. And in that volume it is where?

21 MR. MACDOUGALL: I just have A-21. But it would be Mr.

22       Marois' evidence, page 2, table 1.

23 CHAIRMAN: Great. Thank you.

24 MR. MACDOUGALL: And it should -- just so that we are all on

25       the right table, it should say "Revised February 22,

1 - 5156 - Dr. Rosenberg - Redirect by Mr. MacDougall -  
2 2006."

3 Q.219 - Mr. MacNutt this morning, Dr. Rosenberg, was asking  
4 about some of your revisions. And dealing particularly  
5 with line 1, the residential?

6 A. Yes.

7 Q.220 - And he indicated, when he was talking about the  
8 increase in revenue with the rate increase I believe --  
9 and I just took these notes down. But I believe he said  
10 the increase would go to 531.5 million, approximately 16.5  
11 million more.

12 And I believe you agreed with him that that would be  
13 generally in the ball park?

14 A. That's correct. That's certainly within the ball park.

15 Q.221 - Could you indicate to us though what the revenue cost  
16 ratio would be for the residential class though with that  
17 cost increase?

18 A. The revenue to cost ratio for the residential class?

19 Q.222 - Yes.

20 A. It would be as I recommend, 0.98.

21 Q.223 - So even with that increase it would still not be at  
22 unity, correct?

23 A. That's correct.

24 Q.224 - And what would be the revenue to cost ratio for the

25

1 - 5157 - Dr. Rosenberg - Redirect by Mr. MacDougall -

2 electric heat component of that class?

3 A. The electric heat component under my proposed rate design

4 would be 0.96, I believe.

5 Q.225 - Thank you, Dr. Rosenberg.

6 And Dr. Rosenberg, are you aware of the situation now with

7 respect to exit fees in New Brunswick if industrials

8 wanted to leave the system?

9 A. Well, when I was here in the fall, that issue I recall had

10 not been decided on exit fees.

11 Q.226 - And if a customer left the system, an industrial

12 customer, would they still likely need standby

13 electricity?

14 A. If they left the system?

15 Q.227 - If it went to cogeneration?

16 A. If they went to cogeneration they would need standby

17 service, yes.

18 Q.228 - Just in that circumstance?

19 A. In that sense, yes. I didn't know what you mean by left

20 the system. But yes, if they -- for the cogeneration they

21 would need standby service.

22 Q.229 - And what is your understanding of the status of

23 standby service currently?

24 A. My understanding is that Disco is under a requirement to

25 propose that type of service, a specific rate for that



2 MacDougall - purpose at their next rate  
3 proceeding.

4 Q.230 - And again what is your understanding of when their  
5 next rate proceeding will be?

6 A. My understanding of -- Mr. Marois said that he did not  
7 know when that would occur.

8 MR. MACDOUGALL: That is great, Dr. Rosenberg. That is all  
9 my questions, Mr. Chair. Thank you very much.

10 CHAIRMAN: Good. Thank you, Mr. MacDougall. And thank you,  
11 Doctor, for your testimony today.

12 WITNESS: You are quite welcome.

13 CHAIRMAN: And you probably won't have to come back for a  
14 third time in this hearing. Thank you.

15 Mr. Morrison, what do you propose to do here, sir?

16 MR. MORRISON: I would propose to have Mr. Marois and  
17 Mr. Larlee resume their place on the stand. And they would be  
18 open for continued cross examination.

19 CHAIRMAN: Okay. We will take a 10-minute break now and let  
20 you folks move up there and the good doctor leave. And  
21 then we will come back in.

22 (Recess)

23 CHAIRMAN: I have spoken with Mr. MacNutt over the break.  
24 And he indicates to me that counsel have gotten together  
25 and agreed that Mr. Peacock would go first on his cross at

1 this time.

- 5159 -

2 And then, Mr. Gorman, you are going to take up the slack  
3 as it were for this afternoon?

4 MR. GORMAN: Yes, Mr. Chairman. I guess given the time left  
5 this afternoon and the amount of time Mr. Peacock says  
6 that he has to ask questions, I'm assuming he is going to  
7 use up the available time. We just thought it would be a  
8 little more efficient than splitting my questions.

9 CHAIRMAN: Well, if you split them why then you might cut  
10 out some on the back side?

11 MR. GORMAN: I would be afraid that I would ask them again.

12 CHAIRMAN: Good point. Mr. Peacock, would you like to come  
13 up to the front please?

14 MR. MORRISON: Mr. Chairman, I do have one preliminary  
15 matter.

16 CHAIRMAN: Yes. Good.

17 MR. MORRISON: We have another undertaking that we can file.

18 CHAIRMAN: That is good.

19 MR. MORRISON: It is undertaking number 10 from February  
20 22nd. And the Board Secretary is distributing that now.

21 CHAIRMAN: This will be A-144. Go ahead, Mr. Peacock.

22 MR. PEACOCK: Thank you, Mr. Chair. And given that everyone  
23 sitting in front of me is likely suffering from Board  
24 fatigue, I will keep my questions brief.

25 To the panel I should mention that I will be returning

2 to two of our favorite hobby horses. And that is the Board's  
3 -- or NB Power's participation in demand side management  
4 as well as the monthly service charge.

5 CROSS EXAMINATION BY MR. PEACOCK:

6 Q.319 - On the question of demand side management there was  
7 something in February 23rd's transcript that caught our  
8 eye. And that was something that Mr. Marois had said  
9 regarding the newly established Efficiency New Brunswick.  
10 The transcript I think was page 4542. And it was in  
11 response to some questioning from Dr. Sollows. Mr. Marois  
12 stated, It's difficult for us to know where we fit with  
13 the new Energy Efficiency Agency , because we don't really  
14 know their platform. We don't know their initiatives.  
15 Once we better know where they are going it's going to  
16 allow us to determine our role.  
17 He then said, So we see ourselves playing an active role  
18 with the new agency. But at this stage it's premature  
19 because I don't think that they know their own role.  
20 Given that Efficiency New Brunswick was established late  
21 last year and has now launched its first residential  
22 program with a budget of roughly 5 million we were  
23 somewhat surprised by that response.  
24 Would Mr. Marois like to elaborate on his statement

2 that in his opinion Efficiency NB does not know their own  
3 role?

4 MR. MAROIS: Well, I don't remember all the context of that  
5 discussion. But I mean, I think you will admit that these  
6 things are just coming together. I believe the programs  
7 have just been announced very recently.

8 And I think as we stand today, in my mind the ball is a  
9 little bit in their court. We have offered to work  
10 collaborately with the agency. And the door is open. And  
11 if there is anything we can do. Some of the things we  
12 have offered, for example just to promote their programs  
13 to our bill inserts for example. So I mean, again these  
14 things remain to be worked out.

15 Q.320 - Okay. On that very point do you know how many  
16 meetings NB Power officials have held with Ms. Weir's  
17 agency since her appointment?

18 MR. MAROIS: I have personally met with her once. And we  
19 have had informal meetings. But again the offer was made  
20 to them, if they want anything from us, to come and see  
21 us. So that's where it was left.

22 Q.321 - Other than perhaps the bill inserts in the immediate  
23 future, do you anticipate establishing any coordinated  
24 programs with Efficiency NB in 2006/07?

25 MR. MAROIS: I'm not able to answer that. Like I responded

1  
2 before I believe in the revenue requirement statement, is we  
3 do not have any specific budget item in our cost of  
4 service to do any significant demand side management plans  
5 or programs.

6 So anything we do we will have to be resourceful to do  
7 within our existing means.

8 Q.322 - Okay. Well, perhaps you have actually answered this  
9 question I guess. But I may ask it just because it deals  
10 with exhibit A-26 which is the White Paper delivered by  
11 the Department of Energy on the question of energy  
12 efficiency.

13 And in the original idea as outlined in that White Paper,  
14 one idea that caught out eye was that Efficiency New  
15 Brunswick would in fact be funded by the distribution  
16 utilities.

17 We know that Efficiency NB's first residential initiative  
18 has a budget of roughly 5 million compared to your total  
19 budget of roughly 1.3 billion. So clearly Efficiency New  
20 Brunswick has relatively limited resources in its first  
21 year, at least in comparison to your group of companies.  
22 Give that the White Paper talked about the utility  
23 supporting Efficiency NB, do you expect to provide  
24 financial support to this utility in the years ahead?

1  
2 MR. MAROIS: To be honest I do not know. I mean, first of  
3 all the agency is a creature of the government. And I  
4 guess they decided to fund it the way that they have just  
5 done.

6 I know for a fact that the initial model as outlined in  
7 the White Paper provided that it would be funded by the  
8 utility. That has changed. And to be honest I do not  
9 know why.

10 So I guess the only two elements I could add to that is --  
11 like I mentioned, currently we do not have anything  
12 specific in our budget for that. But at the same time, I  
13 mean, if there is a desire by the government to have us  
14 fund part of it, I presume they will be the one that will  
15 let us know.

16 Q.323 - My remaining questions deal with the specifics of your  
17 latest rate proposal. In EGNB exhibit 4, the testimony of  
18 Harrington and Black, we were pleased to see that another  
19 Intervenor, in this case Enbridge, highlighted how your  
20 residential rate design imposes the highest unit cost for  
21 electricity on those households that are most likely to be  
22 low income. As you know this has been a great concern for  
23 us.

24 Given that your rate proposal continues the apparent  
25 subsidy of larger residential units by smaller units that

1  
2 are more likely to be populated with low income households,  
3 does Disco see the need to develop specific policies to  
4 reduce customer impacts on those households that have the  
5 highest unit cost?

6 MR. MAROIS: I'm not certain what you mean by policies to  
7 reduce the impact. You are talking about other than in  
8 terms of rate design or in terms of rate design?

9 Q.324 - Well, I guess -- you know, obviously the rate design  
10 is partly in response to the Board's ruling in terms of  
11 eliminating the declining block rate and all of those  
12 specifics.

13 But I know that as a corporation you are always concerned  
14 about customer impacts and price signals, and also  
15 essentially ensuring that households are fairly treated.  
16 I guess there is another way to ask this question. Has  
17 Disco examined how other utilities across Canada have  
18 supported specific endowments for rate relief of low  
19 income households, like Share The Warmth as an example in  
20 Ontario?

21 MR. MAROIS: I guess maybe two things. First is -- and I  
22 believe it's implied in your question, is we believe we  
23 have proposed a balanced rate proposal which takes into  
24 account the factors such as the ones you have just

2 mentioned.

3 But to directly respond to your question is no. And from  
4 my perspective the government has made it clear that they  
5 do not want us to look at policy or social programs for  
6 customers. They told us clearly that that was the role of  
7 the government.

8 Q.325 - Do you -- just as a tangent of that, because I find  
9 that an interesting response, the Premier in his State of  
10 the Province address of course highlighted that poverty  
11 reduction should be in fact a goal for New Brunswick. It  
12 was one of his Five and Five.

13 In that same speech he highlighted that it wasn't up to  
14 government alone to achieve those goals. Does NB Power  
15 feel that it can contribute to poverty reduction given  
16 that electricity is an essential service?

17 MR. MAROIS: Well, I believe the best way we can do it is to  
18 run a tight ship and control our costs, which is what we  
19 are trying to do.

20 But in terms of policy I believe the government has been  
21 clear on many occasions that it's not our role to do that.

22 Q.326 - Now concerning the -- in the last cross examination we  
23 had with you, you had highlighted that in your opinion  
24 electricity is in fact an essential service for New



2 Brunswick households.

3 We are concerned about the high monthly costs assigned to  
4 this essential service in the form of your monthly service  
5 charge. The increase of 11.6 percent to the service  
6 charge represents roughly \$24 a year, added to the cost  
7 that low income households have to pay simply to turn on  
8 one light.

9 In response to our VCSJ IR-1 given on February 9th, Disco  
10 noted that the service charge increase improves the cost  
11 recovery of this component of the rate. Given that cost  
12 recovery is an often stated objective for Disco, can we  
13 eventually anticipate a time when the monthly service  
14 charge will be at or near Disco's stated monthly cost of  
15 roughly \$23?

16 MR. MAROIS: Well ultimately that's going to be decided by  
17 the Board. But if the sole objective was cost recovery,  
18 yes, but as we all know, I mean there is many other  
19 factors that go into setting rates. And that's one of the  
20 reasons why our service charges are quite a bit below the  
21 costs.

22 Q.327 - In evidence filed by the Public Intervenor, I think it  
23 was PI-2, it was one of the -- I think the reports filed  
24 by Robert Knecht, page 41 of the redacted evidence, Mr.  
25 Knecht estimated the actual customer cost to be roughly

1  
2 \$17.75 monthly for Disco residential customers. Given this  
3 evidence and the much lower monthly service charge found  
4 in virtually every other province in Canada, we are  
5 concerned that you are in fact over estimating your true  
6 costs to be \$23. Does Disco have an opinion as to why  
7 other Canadian utilities managed to keep their monthly  
8 service charge lower? Is it a deliberate action on the  
9 part of the utilities to subsidize the basic cost of  
10 providing electrical service to households in the spirit  
11 of good corporate citizenship or is it a result of greater  
12 efficiencies on the grid?

13 MR. MAROIS: Well, I would like to maybe let Mr. Larlee  
14 comment on it from a technical point of view. But my  
15 experience was that typically utilities would want to be  
16 able to recover as much of their costs as possible. And  
17 sometimes it's difficult to do for different reasons. And  
18 often it's because of again trying to balance pressures  
19 from different groups and that's part of a regulatory  
20 process where they are not able to get their fixed charges  
21 in line with their costs.

22 So it's not because they are more efficient or they don't  
23 want to do it. They are unable to do it for a variety of  
24 reasons.

25 MR. LARLEE: And I would like to comment on your reference

2 to Mr. Knecht's evidence. I think you were referencing the  
3 evidence he filed as part of the CARD Hearing, is that  
4 correct?

5 Q.328 - Possibly. It was last December I believe.

6 MR. LARLEE: Right. So that would be under a cost  
7 allocation study that's really no longer relevant. It  
8 would have been his recommended methodology. So under the  
9 methodology that the Board has approved in the December  
10 ruling, we are showing a customer cost of a little over  
11 \$23 per customer a month for residential users.

12 Q.329 - Well perhaps then you might be able to respond to the  
13 comparison to the other provinces. Do you have any  
14 thoughts in terms of a technical perspective? I know we  
15 had had a discussion some months back in terms of  
16 densities and that sort of thing?

17 MR. LARLEE: I think really Mr. Marois covered it. I don't  
18 have too much more to add.

19 Q.330 - Near my father-in-law's farm, there is a rural  
20 streetlight that is serviced by Disco. And I am sure he  
21 will be quite pleased that under your rate proposal, the  
22 cost of having that streetlight won't be going up. I may  
23 -- I think it may impact -- been addressed in your filed  
24 evidence, but could you -- could Disco further explain the  
25 rationale behind no cost increase for streetlights?

2 MR. LARLEE: And for streetlights, it's a function of the  
3 revenue to cost ratio --

4 Q.331 - Okay.

5 MR. LARLEE: -- as a class -- that class has among the  
6 highest revenue to cost ratio. I will just look it up  
7 here. Even with no rate increase, the revenue to cost  
8 ratio is 1.63. And that's largely a result of efficiency  
9 programs that we have put in place for streetlights over  
10 the past years has driven up revenue to cost ratios. So  
11 it really is the reason for the zero rate increase is a  
12 function of that.

13 Q.332 - Okay. I guess that's quite a suitable response. That  
14 really brings me to my final question. And that's  
15 throughout these hearings, we have heard how Disco has  
16 used the balance score card and other methods to ensure  
17 maximum internal efficiencies and maximum savings for  
18 ratepayers.

19 Does Disco know of any specific evaluations undertaken by  
20 the utility to see how the differential and monthly  
21 service charge between New Brunswick residential  
22 ratepayers and those from other parts of Canada can be  
23 kept to a minimum? In other words, have you ever examined  
24 ways in which you may be able to reduce the differential  
25 between customers in New Brunswick and customers from

2 across Canada?

3 MR. MAROIS: No, I mean our fixed cost is an issue of our  
4 reality. The system we have, the geography we have, the  
5 dispersion we have. And it ends up with a fixed cost that  
6 we have to recover.

7 Q.333 - So the other -- the residents living in other  
8 provinces are really just more fortunate in that their  
9 fixed costs somehow don't seem to be as high?

10 MR. MAROIS: Well, I think that's an unfair statement,  
11 because you have to look at the total price they pay. In  
12 some jurisdictions they may have a lower fixed cost, but  
13 they may pay overall. I mean what's important at the end  
14 of the day is what the customer pays overall. And I mean  
15 I believe our rates are quite competitive.

16 So I mean the only utilities that are really cheaper than  
17 us are utilities that have access to huge and large hydro  
18 facilities.

19 Q.334 - I was going to finish with that, but your last  
20 statement made me think. If in fact the ultimate goal is  
21 in terms of being competitive is your overall rate costs,  
22 would you agree that it -- you certainly could if you  
23 wanted to effectively subsidize the monthly service charge  
24 and receive that -- make up for it essentially in terms of  
25 in other measures, like say being more aggressive in

2 eliminating the block rate, as one example?

3 MR. MAROIS: Well, I believe that's partly going on right  
4 now, because again the service charge or the fixed cost  
5 charge is lower than the cost. So there is some of that  
6 going on right now.

7 MR. PEACOCK: All right. No further questions.

8 CHAIRMAN: Thank you, Mr. Peacock. What do you think, Mr.  
9 Gorman?

10 MR. GORMAN: I can certainly start. My difficulty is I  
11 really don't want split my cross examination. So my  
12 preference would be to let it go. But whatever the wishes  
13 of the Board is. I know there is probably another 25 or  
14 20 minutes left.

15 CHAIRMAN: Yes. Well knowing the day that the panel has to  
16 look forward to tomorrow, I think we will break now. We  
17 have a very, very full day tomorrow that's probably going  
18 to go to 4:00 o'clock or later. So I think we will  
19 break. May you all have a good March Break and come back  
20 refreshed. And I guess we are back here on Monday the  
21 13th at 9:15. Thank you.

22 (Adjourned)

Certified to be a true

23 transcript of this hearing, as recorded by

24 me, to the best of my ability.

25  
26

Reporter