

New Brunswick Board of Commissioners of Public Utilities

Hearing

In the Matter of a Board Order to Review Enbridge Gas New Brunswick Inc. Financial Results at December 21, 2002 and December 2003

PUB Premises, Saint John, N.B.
January 6th 2005, 1:30 p.m.

CHAIRMAN: David C. Nicholson, Q.C.

COMMISSIONERS: Ken F. Sollows
H. Brian Tingley

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CHAIRMAN: So we are back on the public record. And Mr. Easson has forwarded a few comments that he wanted put on the record concerning some of the matters that occurred previously. So, Ms. Desmond, do you want to read them into the record?

MS. DESMOND: Thank you, Mr. Chairman. The comments of Mr. Easson are as follows. In my report for 2003, I also brought to the Board's attention the situation regarding the distribution pipe removed by EGNB in connection with the improvements to the Vanier Highway.

I reported that EGNB had accounted for this event by removing the carrying value of the pipe, amounting to 955,000 from the cost of property, plant and equipment and charged it against accumulated depreciation.

Based upon my discussions with management and the evidence presented to me at that time, I concluded that this pipe could no longer be considered as "used and useful" and that it should be removed from rate base for regulatory purposes. Since the filing of my report, a considerable amount of evidence has been presented to the Board concerning this situation.

With regard to the accounting for it under the OEB Accounting Guidelines, the Board has concluded that it should be considered an extraordinary event and that the amount should be written off as a loss. I concur with that Board's decision.

The remaining question to be determined by the Board is whether or not the expenditure should be considered to be prudent or not. If it is considered to be prudent, the loss will be considered an expense for regulatory purposes and an adjustment of the regulatory loss for 2003 will be required and the deferral account will be increased accordingly.

If it is considered to be imprudent, the loss will be charged against the partners' equity for that year. When reflecting on the fairness of this latter treatment I would ask the Board to consider also that the utility requested and was granted a return of equity of 13

percent. This return was awarded in view of the fact that EGNB is in a start-up, greenfield situation which involves risks not encountered in a mature utility.

In reaching its decision, I believe the Board must consider if this event is an inherent risk of a start-up, greenfield utility, if it is so considered, the Board should charge the loss to the partnership.

Thank you for the opportunity to appear before the Board and the patience of the Chairman and the Commissioners for their attention to these matters.

CHAIRMAN: Thanks, Ms. Desmond. Did you want to break?

MR. HOYT: No. I would like to just respond to that?

CHAIRMAN: Sure.

MR. HOYT: And I guess just note that everyone through this process seems to have come to a conclusion I think that Commissioner Sollows raised initially that this should somehow be characterized as an extraordinary event. And I think that in fact is a good characterization for this. I think it's far beyond what would have been anticipated in a greenfield situation.

There was an opportunity I guess when Mr. Gruttner and Mr. Harrington were on the stand it could have been raised. I think Mr. Harrington in particular would have been the best one to respond to it. But based on

everything we are prepared to stand by our evidence as demonstrating that those costs were prudently incurred.

CHAIRMAN: Good. Thanks. That's it. Thank you very much for your co-operation. This has been quite an event. It's made me shy away from written proceedings, Mr. Hoyt, frankly.

MR. HOYT: Not forever I hope?

CHAIRMAN: No. No, not forever. No. Oh, no. And the other one we have on the go right now, I would perceive would probably be written, et cetera, that sort of thing. So if my memory serves me correctly.

But, no, there are some that it's the best way to go. There is absolutely no problem with it. And we are presently having a panel look at the one that I referred to that's ongoing. And that's perfectly satisfactory. No question about it.

Thank you very much. And we will get those copies made.

(Adjourned)

Certified to be a true transcript of the proceedings of this hearing
as
recorded by me, to the best of my ability.

Reporter