New Brunswick Energy and Utilities Board

IN THE MATTER OF a Review of Enbridge Gas New Brunswick's Market Based Formula

held at the New Brunswick Energy and Utilities Board, Saint John, New Brunswick, on April 22nd 2009.

Charleson dated April 8th 2009 - page 8

3 - Amended evidence of EGNB Schedule 2, Derivation Tables, and Schedule 3, M.J. Ervin & Associates report provided under cover letter from Dave Charleson, dated March 19th 2009 - page 8

4 - Evidence of Kurt Strunk on behalf of the Public Intervenor provided under cover letter from Daniel Theriault dated March 26th 2009, which includes the introduction and qualifications, scope of evidence and summary of conclusions, reasonableness of stated objectives, evaluation of proposed formula against stated objectives. Application of the formula and practice and improvements to the market based delivery service rate - page 8

5 - c.v. of Jamie LeBlanc provided under cover letter from Len Hoyt dated April 2nd 2009 - page 9

6 - Responses of the Public Intervenor to interrogatories of the NB EUB and EGNB, provided under cover letter from D. Theriault dated April 16th 2009 - page 9

7(a) - Attachment 1 - page 50

7(b) - Attachment 2 - page 50

A - Copy two page document - page 24

B - Documents - page 156

Undertakings

page 71 - Including rate riders and rate reinstatements, how many times has the rate to residential customers changed since start-up

page 73 - check re number

page 73 - including rate riders and rate reinstatements how many times has the rate to the light fuel oil market customers changed since start-up

page 75 - advise me if there is any reference to market-based rate making or any reference to any type of rate making in the general franchise agreement

page 158 - provide the usage profile of the customers in LFO and HFL, the average usage profile

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PANEL: Raymond Gorman, Q.C. - Chairman
Cyril Johnston - Vice-Chairman
Donald Barnett - Member
Edward McLean - Member
Steve Toner - Member

NB Energy and Utilities Board - Counsel - Ms. Ellen Desmond
- Staff - Doug Goss
Dave Young
John Lawton

Board Secretary - Lorraine Legere

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CHAIRMAN: Good morning everyone. This is a hearing of the Energy & Utilities Board to conduct a review of Enbridge Gas New Brunswick's Market Based Formula. The hearing is being held pursuant to a Board Order dated December 15th 2008.

The Panel for today's Board consists of Steve Toner, Edward McLean, Don Barnett, the Vice-Chair, Cyril Johnston and myself, Ray Gorman, as Chair.

I will take the appearances at this time, starting with Enbridge Gas New Brunswick.

MR. MACDOUGALL: Yes. Good morning, Mr. Chair, and good morning Commissioners. Dave MacDougall, counsel for Enbridge Gas New Brunswick and I am joined today by co-counsel Mr. Len Hoyt. And to my left the general manager of Enbridge Gas New Brunswick will be on the witness stand shortly, Mr. Dave Charleson. And directly behind me Jamie LeBlanc, Manager of Finance and Control who will also be on the Enbridge Panel. And you will see sitting in the witness box as we call it today is Mr. Michael Ervin who is our expert. We will introduce Mr. Ervin later on.

CHAIRMAN: Thank you, Mr. MacDougall. Atlantic Wallboard?

MR. STEWART: Christopher Stewart for Atlantic Wallboard.

CHAIRMAN: Thank you, Mr. Stewart. And you have somebody with you today?

MR. STEWART: I do. Mark Bettle.

CHAIRMAN: The Competitive Energy Services. Mr. Sorenson not here? Flakeboard Company Limited?

MR. LAWSON: Mr. Chairman, Gary Lawson, and with me today is Barry Gallant the Flakeboard Company.

CHAIRMAN: Thank you, Mr. Lawson. Department of Energy?

MR. ROBERTS: Good morning, Mr. Chair. Steve Roberts, Department of Energy, and we are an informal Intervenor as you are probably aware.

CHAIRMAN: Thank you, Mr. Roberts. Public Intervenor?

MR. THERIAULT: Good morning, Mr. Chairman and Commissioners. Daniel Theriault. I am joined this morning by Kurt Strunk and Robert O'Rourke.

CHAIRMAN: Thank you, Mr. Theriault. The New Brunswick Energy & Utilities Board?

MS. DESMOND: Ellen Desmond, Mr. Chair, and from Board Staff, Douglas Goss, David Young and John Lawton.

CHAIRMAN: Thank you, Ms. Desmond. Now there is a number of documents that have been pre-filed which I think we should mark as exhibits at this point in time.

I believe that the list may be circulated, I'm not sure. Did everybody get the list of proposed exhibits? If anybody has any objections to raise we will discuss it, otherwise we will mark it as an exhibit. Normally we would put the party's initials before the exhibit number but we have got the documents that we have all marked consecutively, so in order to keep the Panel from losing its place, we are just going to mark the documents consecutively today.

So document number 1 becomes number 1 is the evidence of Enbridge Gas New Brunswick, dated January 26, 2009.

That consists of schedule 1, curriculum vitae of Dave Charleson, schedule 2 the derivation tables and schedule 3 M.J. Ervin & Associates report. So that will become exhibit number 1.

Exhibit number 2 will be the responses of EGNB to interrogatories of Atlantic Wallboard Limited, N.B. Energy & Utilities Board and the Public Intervenor, provided in a cover letter from Dave Charleson, dated February 23rd 2009.

Also responses to PI IR-2(3), 6(3), 9(1), 10(4) and 13(2), provided under cover letter from Dave Charleson dated March 19th 2009. I will just note that also included is a CD of electronic spread sheets for responses to PI 6(3), 9(1) and 13(2), also responses to PI IR-17(1), electronic file re distillate fuel price forecast, provided in a cover letter from Dave Charleson dated April 8th 2009. So that is exhibit number 2, subject to anybody having any objections.

Exhibit number 3 would be the amended evidence of EGNB Schedule 2, Derivation Tables, and Schedule 3, M.J. Ervin & Associates report provided under cover letter from Dave Charleson, dated March 19th 2009.

Exhibit number 4 would be the evidence of Kurt Strunk on behalf of the Public Intervenor provided under cover letter from Daniel Theriault dated March 26th 2009, which includes the introduction and qualifications, scope of evidence and summary of conclusions, reasonableness of stated objectives, evaluation of proposed formula against stated objectives. Application of the formula and practice and improvements to the market based delivery service rate.

Exhibit number 5 is the c.v. of Jamie LeBlanc provided under cover letter from Len Hoyt dated April 2nd 2009.

And exhibit number 6 are the responses of the Public Intervenor to interrogatories of the NB EUB and EGNB, provided under cover letter from D. Theriault dated April 16th 2009.

Those are all of the pre-filed documents that the Board has, so we have exhibits 1 through 6. Are there any other documents that should be marked as exhibits at this time? Hearing silence I assume that the answer to that is in the negative.

Are there any preliminary matters to be considered before we proceed with evidence?

All right. Mr. MacDougall, then I will ask you to proceed.

DIRECT EXAMINATION BY MR. MACDOUGALL:

Q.1 - Thank you, Mr. Chair. Mr. Ervin, could you confirm --

CHAIRMAN: Sorry. I don't believe that the witness has been sworn. Perhaps, Ms. Desmond, will swear the witness.

CHAIRMAN: For the record the witness has been duly sworn.

MICHAEL J. ERVIN, sworn

Q.2 - Thank you, Mr. Chair. Mr. Ervin, just going off the exhibit list that we have just discussed, as part of EGNB's evidence filed on January 26th 2009, there is a Schedule 3, M.J. Ervin & Associates report. And you are familiar with that, are you?

A. That's right. I have authored that report.

Q.3 - And then there was an amended version of that report filed on March 19th 2009, and you are familiar with that report, are you?

A. Yes, I am.

Q.4 - And with respect to exhibit number 2, the various responses to information request from EGNB, I understand that with respect to those responses you and your firm had involvement in response to AWL 7, AWL 8, EUB 15, EUB 16, PI 17-1 and PI 17-2, is that correct?

A. That's correct.

Q.5 - And with respect to your initial report, your revised report and the information request responses that I noted that those were prepared under your direction and control,

were they?
A. That's correct.
Q.6 - And do you adopt them as your testimony in this proceeding?
A. Yes, I do.
Q.7 - Now, Mr. Ervin, if we could turn to your report March 19th 2009.
CHAIRMAN: Give the panel one moment.
Q.8 - Certainly. If we could turn to your report March 19th 2009 and annex A to that report, page 13, you show your experience, and annex B to that report, page 15, you show your résumé, correct?
A. That's correct.
MR. MACDOUGALL: Mr. Chair, that information has been pre-filed with the Board and all participants and on the basis of the professional experience and résumé, i.e., the qualifications in annex A and annex B of Mr. Ervin's report, I would ask that he be accepted as an expert witness for the purposes of pricing of petroleum products.
CHAIRMAN: Thank you, Mr. MacDougall. Anybody wish to ask any questions with respect to the qualifications or does anybody have any objections to him being so qualified?
MR. THERIAULT: No objection.
MR. STEWART: No objection.

MR. LAWSON: No objection.

CHAIRMAN: All right. Then he will be qualified as an expert for the purposes of pricing of petroleum products.

MR. MACDOUGALL: Thank you, Mr. Chair. Mr. Chair, Mr. Ervin has a brief opening statement. I believe that this had been previously sent around. I would like to have Mr. Ervin now go through that opening statement. Maybe after he is done we can also have it marked as an exhibit and then he will be available for cross examination.

CHAIRMAN: Certainly, Mr. MacDougall. I'm not sure that we need to mark it as an exhibit because it is going to form part of the record in any event.

MR. MACDOUGALL: That's fine. So, Mr. Ervin, you can go ahead with your opening statement.

WITNESS: I am Michael J. Ervin. I am the president of M.J. Ervin & Associates Incorporated, which is a Calgary-based consulting firm providing a broad range of research, analysis and strategic insights relating to the refining and marketing sector in the petroleum industry.

My firm has been engaged by Enbridge Gas New Brunswick to assist in the determination of wholesale and retail distillate fuel prices in New Brunswick, which Enbridge would in turn use to establish market-based natural gas distribution prices.

Distillate fuel is more commonly referred to as furnace oil or heating fuel, but can also refer to a category of heavy distillates in the case of many industrial customers.

Our qualifications to have undertaken this project are based on our downstream sector experience. As consultants in this industry since 1990, our project résumé is extensive and diverse. We are specialists in petroleum marketing, including performance benchmarking, price and margin analysis, and industry economic research and analysis.

In addition, I have direct prior experience in heating fuels markets throughout my several years as a manager in the heating fuels sector of both Gulf Oil and Ultramar Limited in Atlantic Canada.

The original Enbridge price model used a crude oil futures benchmark as the floor basis for applying fixed differentials to arrive at a representative distillate value for each of their futures-based rate classes. Our recommendation, however, was to use the NYMEX futures price for Number 2 heating oil as the benchmark for all but one of the rate classes, since heating fuel and crude prices do not always move in unison, and the NYMEX number 2 benchmark is widely referenced.

Using this benchmark, we determined the typical differential between its related spot price at New York Harbour and the actual price in furnace oil for New Brunswick residential customers. The New York spot is also the basis for the New Brunswick EUB in setting the ceiling price for residential furnace fuel or furnace oil. Then based on interviews with a number of petroleum marketers, we established typical volume-based discounts from the residential posted price to arrive at the NYMEX differentials for each of Enbridge's volume-based rate categories.

In the case of the HFO rate class, the most appropriate reference product is not furnace oil but heavy fuel oil, also referred to as residuals or resids. As there is no applicable futures market for resids, the best alternative benchmark for this rate class was crude oil itself, for which the NYMEX of course provides a futures market.

Using the methodologies I have just described, we arrived at proposed benchmarks and differentials to those benchmarks, for each of the Enbridge rate classes, as tabled in our amended report dated the 19th of March, 2009.

MR. MACDOUGALL: Thank you, Mr. Ervin. Mr. Chair, Mr. Ervin is available for cross examination.

CHAIRMAN: Thank you, Mr. MacDougall. Mr. Stewart?

MR. STEWART: No questions.

CHAIRMAN: Mr. Lawson?

MR. LAWSON: No questions.

CHAIRMAN: Mr. Theriault?

CROSS EXAMINATION BY MR. THERIAULT:

Q.9 - Good morning, Mr. Ervin.

A. Good morning.

Q.10 - You look vaguely familiar. I just can't place it. Specifically what issue or issues were you asked to deal with in your report?

A. I was asked to effectively establish a methodology and quantitative differentials to a benchmark that we would have proposed in the methodology. So the scope of our work was really related to simply establishing the typical differential to an established benchmark for each of the rate classes based on volumes associated with customers in each of those rate classes.

Q.11 - Was there any specific aspects of the market based formula that you were asked to look at?

A. From the point of view of natural gas, no. And we were really set out to simply look at the furnace oil benchmark as a basis for then Enbridge establishing their own rates. That is pretty much the dividing line between what we did and what Enbridge would have carried forward.

Q.12 - So would it be correct to say that you examined certain historical crude oil and retail furnace oil prices?

A. Yes. In the course of establishing the differential for instance, yes, we would have looked at historical prices.

Q.13 - Did you restrict yourself to looking at the relationship between WTI, New York Harbour and rack furnace oil price in Saint John?

A. Yes. I mean, we used WTI as a comparator to basically validate or invalidate the use of WTI as a benchmark. We also used stock price for number 2 oil again as a comparative for residential. And although in our methodology we don't -- we do not actually reject the use of WTI as a benchmark, we certainly used that in our analysis to show that as a benchmark it was less desirable than the one that we had chose.

Q.14 - Now if I could ask you to turn to your report, specifically page 5 of your amended report.

Is it correct, Mr. Ervin, as illustrated in figure 2 on page 5 you first looked at the relationship between WTI crude price and the New York Harbour spot price?

A. That's right. That's exactly what it illustrates.

Q.15 - And these are spot prices?

A. They are both spot prices.

Q.16 - And what is the reason for making this comparison?

A. Well, the reason for making this comparison was simply to illustrate that there is a fair degree of variability between the price of WTI, which is a benchmark crude, and New York Harbour spot number 2 oil, and by doing so illustrate because of that variability building up an assumed furnace oil price using WTI as a benchmark would simply be at variance to what actual residential and commercial and industrial fuel prices would be. And we can see that in this chart. The variability is anywhere from two cents to 16 or 17 cents per litre throughout the historical period that we represented in that graph.

Q.17 - Now what benefit is there in knowing the relationship between WTI crude oil price and the New York Harbour spot price for number 2 furnace oil?

A. Well, the benefit in knowing the difference simply lies in the fact that to illustrate the fact that furnace oil prices and crude oil prices do not move up and down in unison. That is perhaps a popular misconception in the minds of many people not only with respect to furnace prices but gasoline prices. When we hear in the press that the price of crude oil has gone down by a few dollars per barrel, a lot of consumers are inured to the idea that somehow the price of fuel should go down by some equivalent amount.

This chart clearly illustrates that that is not the case nor should it be the case because furnace oil is a commodity just like crude oil is and as a commodity it is subject to the vagaries of supply and demand quite separate from supply and demand fundamentals that effect crude oil prices.

Q.18 - So essentially you are comparing a crude or unrefined oil price with a refined furnace oil price?

A. Yes, we are, for the purpose of illustrating the fallacy of trying to equate the two.

Q.19 - And what data source did you use for this comparison?

A. Well for WTI and the spot price we used data that is very freely available on a website administered by the US Department of Energy, known as the Energy Information Administration or EIA.

Q.20 - And what lag factors did you take into consideration when making this comparison?

A. Well we didn't take any -- into account any lag factor. The spot price and the WTI price are as on the dates shown in the graphical representation.

Q.21 - And I guess I have -- and you may have touched upon it

briefly, but I just like to be clear. What conclusion did you
arrive at with respect to the relationship between WTI
crude price and the New York Harbour spot price?
A. The conclusion we arrived at was that WTI as a basis for
establishing a nominal benchmark for number 2 residential
fuel oil is not a particularly good one.
Q.22 - And besides graphing this data set out in your report
what analysis did you do to support this conclusion?
A. Well this is the analysis. In other words having
highlighted the variability between those two benchmarks
we then go on to introduce another benchmark and contrast
the variability of that proposed benchmark to WTI to show
that its variability is much less and therefore serves as
a better benchmark.
Q.23 - Okay. Now again I don't know if it originally came out
in color, unfortunately mine is black and white and grey.
Would it be fair to say that the light grey line on the
graph represents the spread between WTI and New York
Harbour prices?
A. In figure 2, that's right.
Q.24 - And that your conclusion is that because this line
moves up and down in a significant manner, this indicates
that the spread is highly volatile?
A. That's correct.

Q.25 - Would you also agree that this spread has limited meaning since you are comparing a crude oil cost with the cost of a refined product?

A. That's precisely the finding that we are establishing.

Q.26 - Sort of an apples and oranges comparison?

A. Somewhat. Clearly the price of crude oil has some bearing on the number 2 fuel because after all the fuel is made from crude oil, but the relationship is not as tight as perhaps some people might expect or think.

Q.27 - Now, Mr. Ervin, would it be fair to say that this evaluation of the spread between WTI and New York Harbour prices is done solely for the purpose of providing an example of a highly variable spread which will then allow a more favourable comparison to be made about a less variable spread?

A. Yes, that's a fair thing to say.

Q.28 - Now I would like to look at the relationship between New York Harbour spot prices for number 2 furnace oil and the Saint John rack prices.

And I guess my first question is are both these spot prices?

A. The rack price is in effect a spot price, that's right, and the New York spot, of course that speaks for itself as a spot price.

Q.29 - What data source did you use for this comparison?
A. Well the New York spot again we used data from the EIA. We collect rack prices from across Canada ourselves and so that was our own data source, as provided to us pretty much on a daily basis by the various rack posters right across Canada.
Q.30 - And did you use the Natural Resources Canada data as a check against your data?
A. Natural Resources Canada get their data from us.
Q.31 - And what conclusion did you arrive at with respect to the relationship between New York Harbour spot price and the Saint John rack prices?
A. Well in comparing the New York Harbour spot price and the Saint John rack price we saw that there was a fair degree of correlation in that the degree of variability between those two is relatively small.
Q.32 - And besides graphing this data what analysis did you use to support your conclusion?
A. Again as in the previous case the graph itself is the conclusion. We can see that the variability between those two is very tight, in the order of two to three cents per litre.
Q.33 - So again looking at that figure 3, it would be fair to say that the light grey line on the graph represents the

spread between New York Harbour spot prices and Saint John rack prices?
A. That's correct.
Q.34 - And would it be correct to say that your conclusion is that because the line moves up and down in a less significant manner than the previous comparison this indicates that the spread is relatively stable?
A. That's right.
Q.35 - And relative to what?
A. Well relative to our previous comparison. Relative to the use of WTI and the New York spot price as opposed to New York spot versus the Saint John rack.
Q.36 - Just one moment, Mr. Chairman. I want to show you, Mr. Ervin, a spreadsheet table and a graph. This table comes from EGNB's responses to PI IR-17. And I have numbered the columns at the top of the spreadsheet. I will just give Mr. Chairman a minute.
CHAIRMAN: PI IR 17?
MR. THERIAULT: 17, yes. Except for the final column number 17 which I will explain, Mr. Chairman. And I have inserted column numbers at the top just for ease of reference.
MR. MACDOUGALL: Mr. Theriault, just for clarity here. Our understanding that the information that was provided goes

up to the last column. There is no column numbers.

Maybe for the record Mr. Theriault can explain where the last column of the next page comes from before we --

MR. THERIAULT: I was just going to --

MR. MACDOUGALL: That isn't EGNB data, I just wanted to make it clear for the record.

CHAIRMAN: And that was my understanding was that he intended to explain --

MR. THERIAULT: Exactly.

CHAIRMAN: -- the difference between this document and the one comes from PI IR-17.

MR. THERIAULT: Yes. I just wanted to make sure everyone had a copy.

Yes, Mr. Chairman. What I have done is I have added a column 17 to the end of this table. And this column simply divides the spread between New York Harbour spot prices as contained in the document and the Saint John rack prices, that is the figures in column 10, by the figures in column 7, and calculates the spread as a percentage of the New York Harbour spot prices. That is how column 17 comes into it.

CHAIRMAN: I think we should mark this document for identification.

MR. THERIAULT: Yes. I would ask. That was my next --

CHAIRMAN: This will become A for identification.

Q.37 - Mr. Ervin, the column I just referenced to the Chairman, column 17, you see this column?

A. Yes.

Q.38 - And subject to check would you agree that this column is a spread between New York Harbour spot prices and Saint John rack prices divided by New York Harbour spot prices to calculate a percentage?

A. I would have to check that. But I will --

Q.39 - Subject to check?

A. -- take that, yes.

Q.40 - And subject to check would you agree that the average percent given at the bottom of this column is 5.74 percent?

A. That's what I read there.

Q.41 - Now I would like to refer you to the graph on the subsequent page to the document marked for identification. And subject to check do you agree that this graph illustrates the percentages in column 17?
If you would like to take a moment to --

A. I will accept that as I see it.

Q.42 - Okay. And again subject to check, do you agree that in percentage terms the spread ranges from 2 percent to over 12 percent of the New York Harbour prices?

A. As I see it, yes.
Q.43 - And again subject to check, would you agree that at the start of the series, that is from January 2004 to April 2004, the percentage went from 7.9 percent to 12.4 percent to 10 percent to 7.5 percent?
A. That's what I see in the graph, yes.
Q.44 - And again subject to check would you agree that at the end of this series, that is from August 2008 to November 2008 the percentages went from 2.6 percent to 3.8 percent to 2.9 percent to 8.1 percent?
A. I will accept that as I see here, yes.
Q.45 - And so can you tell me how you describe these percentages as relatively stable?
A. Well, again relative to the variance between a crude basis and a residential furnace price basis, the variability is relatively yes, less.

MR. THERIAULT: Mr. Chairman, that is all the questions I have. Thank you, Mr. Ervin.

CHAIRMAN: Ms. Desmond, do you have any questions?

MS. DESMOND: Yes, Mr. Chair.

CROSS EXAMINATION BY MS. DESMOND:

Q.46 - Mr. Ervin, could you refer to schedule 3 of your report, page 8 I guess of that document?
A. Schedule 3?

Q.47 - No. Which is your report.
A. Oh, I see.
Q.48 - And page 8 of that document.
A. Yes.
Q.49 - And there is a reference in your report to buying groups who could get a better deal on the purchase of oil.

Are buying groups common or a dominant part of the marketplace to your knowledge?
A. No. To my knowledge they are not. They certainly have been around for a long time. When I worked in the industry we dealt with some buying groups then. And certainly in the -- we have conducted there still exists buying groups for which members would receive a discount off the posted residential rate.
But as a percentage of volume we didn't pursue that. But in my estimation it would represent volume wise probably certainly less than majority of residential business but, you know -- and perhaps in the order of 10 to 20 percent at most.
Q.50 - Does that percentage then have an impact on your recommendation in terms of the appropriate market spread? And should that be in some way incorporated into the formula?

A. I don't believe so. One might presume that in an open market buying groups could also apply pressure on any competitive sector to establish some sort of discount. But the buying groups are just that. They are groups who by virtue of the ability to switch from one supplier to another can negotiate the discount. So they in effect represent almost, you know, a different rate class. I wouldn't put that into the methodology for changing the residential rate class per se. I'm not suggesting that a separate rate class be established for buying groups. But their relevance in the context of natural gas markets is perhaps not there.

Q.51 - Our next reference is to an EUB response, IR 15 which I believe is in exhibit A-2?

A. You will have to help me. Is that a -- it's not PI?

Q.52 - EUB IR 15.

A. Sorry. That is one I did not flag in advance. Thank you. Okay.

Q.53 - And just for the purpose of clarifying the use of the market spread, could you expand in terms of what the market spread is intended to be used for and why you have calculated market spread?

A. Well, we calculate the spread between the spot price for furnace oil, or on a forward looking basis the NYMEX price for furnace oil and the actual residential price for furnace oil.

And that spread for the Saint John market came out to 22.5 cents per litre based on actual posted prices as we surveyed as opposed to the EUB ceiling prices.

So once we have established that spread of 22.5 cents per litre and our methodology looked at discounts from that residential price to establish additional spreads for each of the rate classes based on the volume, the volume that would typically be associated with a discount off the furnace oil price by furnace oil marketers.

Q.54 - And you have referenced the fact that you looked at the Saint John data. Why did you only use the Saint John data and not look at some more regional representations?

A. Well, we use it for a couple of reasons. One is it is the largest single market in the province. Secondly, that it is the market that lies alongside the Saint John rack. It is geographically coexistent with the Saint John rack. And the variance between that and other key markets in the province were and would have been very minimal. And certainly in the IR response we showed that if we had included other markets such as Moncton and Fredericton for instance the variance to what we had used would only be in the order of .3 cents per litre.

Q.55 - But is there any reason why you wouldn't use perhaps the data from three of the largest cities, Saint John, Moncton and Fredericton?

A. No specific reason why we wouldn't other than when we did this we certainly knew intuitively that the difference would be small. And so we simply used Saint John as the benchmark.

Q.56 - If you were to use that difference, using the data from the three cities, what would the impact be on the delivery rate to your knowledge?

A. Going from a 22.5 to 22. cents per litre. I expect that the difference would be relatively small. Again we didn't -- we didn't carry forward with applying that to the actual labour rates.

Q.57 - Subject to check would you accept that the ultimate impact would be in the range of 8 cents?

A. I would have no way of knowing that off the top of my head.

Q.58 - Just looking at your amended evidence which is in exhibit A-3. And we were wondering about the heavy fuel oil.

Can you give some explanation as to why the price of heavy fuel oil would be lower than the crude price total?

A. Well, two reasons. One is that the price of any product, whether it is heavy fuel oil, diesel, gasoline, et cetera, the price of that commodity is really based on the supply and demand fundamentals.

There have been times within the last 12 months for instance that the wholesale price of gasoline in some markets in the United States was actually below the price of crude oil. So that illustrates that commodity prices for finished products are very, very heavily sold, so supply and demand is driven.

In the case of heavy fuel oil, frankly the value of a barrel of heavy fuel oil is less than the value of a barrel of crude oil. Because crude oil contains many of the hydrocarbons that are useful for making gasoline and diesel and high value products.

So on a routine basis we see heavy fuel oil prices, resids being less than crude oil because it's the bottom of the barrel. It's the least desirable part of the barrel of the crude oil.

Q.59 - And at page 11 of your amended evidence your conversion percentage went from 62 percent to 72 percent.
Can you give some explanation as to how that change occurred? On what basis you made that change?

A. Simply when we were doing a time series comparison of WTI to resids, we took the wrong data set for resids. We didn't use a resid data set. And that resulted in the wrong set of results.

And we detected that and corrected it as resulting in the amended report.

Q.60 - And I believe you quote a standard deviation of 6 cents per litre. Can you explain to the Board what a standard deviation is and what it is used for?

A. Standard deviation is just a way to measure the variability of a range of data variables so that it gives some idea of just how either tight or loose the data is relative to the average or relative to the mean.

Q.61 - And is it fair to say that the conversion percentage could be anywhere between 66 cents per litre and 78 cents per litre?

A. Could you repeat the question?

Q.62 - Is it fair to say that the conversion percentage could be anywhere between 66 cents per litre and 78 cents per litre?

A. I just want to be clear on what you are referring to, the conversion of --

Q.63 - On the heavy fuel oil?

A. Yes. I will just turn to the graph.

Q.64 - The mean itself could be anywhere between 66 to 78 percent for heavy fuel oil?

A. Well, the mean itself of course would be a representation of the values over a period of time. So there is only one mean for any given range of time.
But if you mean the variability range, the variability in terms of percentage, comparing resids to WTI, as shown in our graph, ranges from 60 percent to roughly 80 percent.
I hope that's in response to your question.
Q.65 - Yes.
A. But to be clear it's a percentage that we are looking at, not a cent per litre.
Q.66 - Is there any seasonality to that percentage?
A. Not really in the case of resids compared to WTI, no. The resids' market is subject to a number of factors, perhaps the most important not being necessarily seasonal in nature.
If for instance a refinery loses its ability to co-product or to do vacuum distillation, as it's called, then that can result in either a great surplus or a great deficit of resids in the local market. And again that isn't necessarily seasonal in nature.
Q.67 - Should that percentage be updated annually?
A. I don't think so. You know, certainly we see in the time range that we have variability between 60 and 80 percent. I have no reason to believe that that would

change in the medium term.

It will likely change over a longer term as refineries for instance upgrade their heavy oil processing capacities. Then that could very well reduce the availability of resids on the market and perhaps to the point of raising the price. But that is probably more over a five to 10-year time horizon than in a short one to two-year time frame. Because it takes a great deal of time and investment for refineries to reconfigure and invest in heavy and upgrading capacity. That doesn't happen overnight.

Q.68 - For the calculation of heavy fuel oil, I appreciate that you have recommended -- you have referenced WTI. But is it perhaps a different reference, a benchmark that we should be looking at? And one I would suggest to you perhaps is Brent? Are you familiar with that?

A. Yes.

Q.69 - Would that be a more appropriate reference point?

A. For the Atlantic Canadian market it may very well be but with very few exceptions. WTI and Brent track relatively close to each other. So with this being a forward-looking exercise, in other words, what we propose would be based on futures, not current spot prices, the NYMEX for WTI we feel would be the best benchmark because it is a well established forward based market.

The NYMEX view of WTI will never take into account short-term actual gluts or deficits of inventory at cushing which is the trading point for WTI. That happens in a spot market. But on the futures basis WTI and Brent really wouldn't be any different from each other. Because the futures market cannot take into account short-term actual inventory variances that recently have caused WTI and Brent to trade at fairly considerable variance to each other. But again we are looking at futures not past.

MS. DESMOND: Those are all of our questions. Thank you.

CHAIRMAN: Thank you. Ms. Desmond. Any questions from the panel? Mr. Toner?

EXAMINATION BY MR. TONER:

Q.70 - What other jurisdictions in Canada use this methodology?

A. To my knowledge, none. Certainly we haven't been asked by any other gas utility to do this. We don't follow natural gas markets in any significant way. But certainly to my knowledge, other natural gas markets that have been well established for years are more cost-based than they are market-based.

My understanding would be that it's market-based here because it's an emerging market.

Q.71 - And in your opinion is that still the most -- the best method to go forward or --

A. Well, we weren't asked to -- you know, to render an opinion as to the overall methodology. But it seems to me to stand to reason that in a merging market that the utility provider, in this case Enbridge, would really require some sort of market-based approach in order to establish itself within the market before -- then it could transition to -- at some point in time to a regulatory system that is more in keeping with the markets.

Q.72 - Within your conclusion -- just to clarify your conclusion, when you say our methodology and associated price differential, you are referring to the methodology of determining the benchmark or the methodology determining -- like what methodology?

A. We are referring to the methodology of establishing the furnace oil benchmark as well as of course the associated differentials to that benchmark for each of the rate classes.

CHAIRMAN: Again, Mr. McLean, any questions? Mr. Barnett?

EXAMINATION BY MR. BARNETT:

Q.73 - Mr. Ervin, Board Counsel directed you to I think it was page 8 and "buying groups". Would that be akin to someone I would understand to be aggregators? Or would that be something different?

A. That would be something different. And an aggregator, as I understand it, it would be an organization that physically would buy and deliver and invoice to a group of customers.

In this case a buying group is simply -- and to use an example would be for instance the -- the one that I was familiar with when I dealt with them, was the public sector union, the federal -- I forget its exact name. But basically the federal civil servants in Atlantic Canada dealt with the organization that I was with and basically representing employees as a group that would at their choice buy with one supplier who provided them with a discount. And that discount if I recall correctly was in the order of 2 cents per litre.

The invoicing arrangements were all the same. The company continued to supply and bill those customers directly. And the public sector didn't take over that role which would then -- would put them in the role of an aggregator. But again to my understanding of what that term would mean.

Q.74 - Just for clarification. I understand in your answer to an earlier question to the Board as well, you saw no -- there were no benefits in these buying groups and in --

any sort of special classification, rate classification as far as Enbridge was concerned. Is that something you expressed an opinion on?
A. Yes.
Q.75 - You saw no advantage in that whether I -- I understand there would be aggregators or whether they would be buying groups?
A. Well, I guess there may be an advantage to those consumer. I guess one enters into a semantic realm here where you are dealing with one supplier of a product versus in the furnace oil sector dozens -- up to dozens of potential suppliers competing for the business of individual and -- individual indicates in my example, a collective group of customers. So it's a bit of an apples and orange situation when you look at that.
It would be hard, to my mind, to establish a buying group in a regulated setting where there is effectively only one supplier.
Q.76 - I guess the last question relates to WTI. And I understand you are saying on a future basis, the NYMEX futures, you don't see the variability between WTI and Brent. And in fact on the spot market you can at times see 4 or $5 a barrel difference in US dollars in price between the two -- the two referenced crude prices?

A. That's right. Exactly.

CHAIRMAN: Mr. Johnston, do you have any questions? And I guess I have no questions.

So Mr. MacDougall, any redirect?

MR. MACDOUGALL: Yes, Mr. Chairman. Just a couple of questions I believe.

<u>REDIRECT EXAMINATION BY MR. MACDOUGALL</u>:

Q.77 - Mr. Ervin, if we could go to the document marked A for identification that was given to you by my friend Mr. Theriault.

And the following at the end says Saint John rack spread over New York Harbour. And on the attached chart says Saint John rack spread over New York Harbour.

I just want to ask can you indicate whether or not there is a forward market for New Brunswick rack prices?

A. No, there is not.

Q.78 - And just one clarification. I think you made it yourself. But just so we are very clear, if you can go to page 11 of your amended report.

And if we could look at the second full paragraph under the title "Heavy Fuel Oil" it starts, over the past five years.

And I think Ms. Desmond made an initial reference in her line of questions around this to 6 cents per litre. I think you subsequently made the point, you talked about this, that was percentage.

I just wanted to point out the reference there. Would you just read that first sentence and what the reference is to the actual standard deviation?

A. Percent of -- the second paragraph?

Q.79 - Second paragraph.

A. Over the past five years the New York Harbour spot price for residual fuels has averaged 72 percent of the WTI crude spot price with a standard deviation of 5 percent.

Q.80 - 6 percent?

A. Sorry. 6 percent.

Q.81 - So that is a percentage differential, not a per litre differential, is that correct?

A. Right. Correct.

MR. MACDOUGALL: Thank you, Mr. Chair.

CHAIRMAN: Thank you, Mr. MacDougall. And thank you, Mr. Ervin, for your attendance here today to give evidence at this hearing.

Perhaps we will take a short break. We will take a 15-minute break.

(Recess - 10:30 a.m. - 10:45 a.m.)

CHAIRMAN: Ms. Desmond, do you want to come forward and swear this panel?

(Jamie LeBlanc and Dave Charleson sworn)

CHAIRMAN: The witnesses have been duly sworn. Mr. MacDougall?

MR. MACDOUGALL: Thank you, Mr. Chair. I would like to introduce the witnesses, Mr. Dave Charleson who is the General Manager of Enbridge Gas New Brunswick and Mr. Jamie LeBlanc who is the Manager of Compliance and Control for Enbridge Gas New Brunswick.

DIRECT EXAMINATION BY MR. MACDOUGALL:

Q.1 - Mr. Charleson, you have in front of you exhibit number 1, evidence of Enbridge Gas New Brunswick dated January 26th 2009 which includes the evidence of EGNB, schedule 1 in your c.v., schedule 2 derivation table and schedule 3, M. J. Ervin & Associates report?

MR. CHARLESON: Yes, I do.

Q.2 - And was all of that evidence prepared by you or under your direction and control with the exception of schedule 3, M. J. Ervin & Associates report?

MR. CHARLESON: Yes, it was.

Q.3 - And did you commission M. J. Ervin & Associates report at schedule 3?

MR. CHARLESON: Yes, I did.

Q.4 - And you have in front of you exhibit code number 2, responses from EGNB to various interrogatories, follow-up responses to the Public Intervenor and then electronic response to PI IR-17(1)?

MR. CHARLESON: Yes, I do.

Q.5 - And were those prepared -- were all of those interrogatories, with the exception of the specific interrogatories I directed to Mr. Ervin earlier today, prepared under your direction as a result?

MR. CHARLESON: Yes, they were.

Q.6 - And you have in front of you exhibit number 3, amended evidence of EGNB, which have both the amended evidence and amended schedule 2 derivation table and amended schedule 3, M. J. Ervin & Associates report?

MR. CHARLESON: Yes, I do.

Q.7 - And was all of that information, with the exception of schedule 3, M. J. Ervin & Associates report, prepared under your direction and control?

MR. CHARLESON: Yes, it was.

Q.8 - And do you adopt all of the information that was just indicated was prepared under your direction and control, the evidence of Enbridge Gas New Brunswick in this proceeding?

MR. CHARLESON: Yes, I do.

Q.9 - And as we previously mentioned, your curriculum vitae was attached as schedule 1 to the evidence that you filed on January 26th 2009, correct?

MR. CHARLESON: That's correct.

Q.10 - And Mr. LeBlanc, your c.v. is noted as exhibit 5 and was provided to the Board and parties on April 2, 2009?

MR. LEBLANC: Yes, it was.

Q.11 - Before we go to your opening statement, Mr. Charleson, are there any corrections that you would like to make to any of the evidence filed by EGNB?

MR. CHARLESON: Yes. We have got one minor typo that we identified in preparing for this proceeding. And that is in the response to Public Intervenor interrogatory number 7.

CHAIRMAN: Okay.

MR. CHARLESON: And in the first line of the second paragraph of the response in part 2 of that interrogatory, the sentence begins "Given the transparency of EUB and EVP pricing." And it should be EUG instead of EUB.

Q.12 - And are there any further corrections?

MR. CHARLESON: No, there aren't.

MR. MACDOUGALL: Mr. Chair, there is no need to qualify Mr. Charleson or Mr. LeBlanc. They are not being put forward as expert witnesses but as company witnesses. There was an opening statement sent to the Board yesterday. So just point out I have put forward Mr. Charleson on the Enbridge Gas New Brunswick opening statement.

CHAIRMAN: Thank you, Mr. MacDougall.

MR. CHARLESON: On December 16, 2008 the Board issued a Notice indicating that it would "hold a public hearing to examine all of the elements of the market-based formula" used by EGNB for deriving its rates. This hearing arose from the Board's findings in the two rate applications that EGNB brought forward late in 2007 and for which the Board issued its Decisions on April 9, 2008. On January 26, 2009 EGNB filed its evidence, with amendments filed on March 19, 2009 in support of its proposal for the market-based rates formula (the "Formula").

EGNB's proposed Formula builds on the fundamental building blocks of the formula that has been used since its rates were first approved in 2000 and has supported the development of EGNB's customer base. The fundamental elements remain the estimation of the total cost for a typical customer to use a competing fuel, oil or electricity, and then the deduction of each of target level of savings, the estimated cost of the natural gas commodity, and any other customer charges to arrive at a delivery rate. There are however revisions to the Formula proposed to improve the transparency and estimation of the competing fuel costs.

To ensure improved transparency, furnace oil has standardized all calculations, with a few exceptions that are identified, to be rounded to 4 decimal places. Also, based on the findings of the Board in EGNB's 2007/08 rate applications, EGNB has proposed that 2 calendar months of trading data be used for establishing the maximum rates instead of the 21 trading days that have been used historically.

The determination of the retail oil prices has been refined to rely on trading data for No. 2 NY Harbour oil for all retail oil prices, excluding Heavy Fuel Oil, instead of using a conversion process to translate WTI crude prices to NY Harbour. The retail margins have also been updated to reflect the findings of M. J. Ervin & Associates in its report prepared to his hearing. These changes support a clearer, straight forward, transparent means of determining the estimated forward 12 month retial oil prices in New Brunswick.

Annual consumption data and customer usage profiles have been updated to reflect recent experience with EGNB's existing customer based, and a process for updating these numbers on a go forward basis has been proposed.

EGNB is not proposing any changes to other elements of the Formula as it believes the bases for the remainder of the Formula remains sound."

I would like to just briefly address elements of the Public Intervenor's evidence. There are three specific proposals that are made in this evidence. Each of these proposals would result in rates that are lower than the proposed Formula would support. It is important to note, that in each case these lower rates are applicable to all customers, resulting in reduced revenue from existing customers as well as those that the proposals may attract.

The first proposal suggests that a single residential rate be established that would effectively be set as the lower of the existing SGSRE and SGSRO rates. This fails to recognize the impact that this is likely to have on the deferral account. By providing typical customers with a level of savings that is more than sufficient to incent conversion, additions to the deferral will not be minimized, and the necessary level of savings will be overstated (possibly significantly) for many customers, including many who have already converted. This later point is noteworthy, customers who were already incented to convert would get higher savings than they had anticipated and that they required to convert. This proposal would also create a confusing patchwork of target savings levels which would be counter-productive to EGNB's marketing activities.

When asked by the Board in interrogatory No. 3 if the impact of this proposal on revenues and the deferral had been calculated, the response provided assumes growth rates in prior years that may ave been achieved if such a proposal had been implemented in January 2007. EGNB submits this is a confusing and misleading analysis that has no basis on where the customer base and revenues stand today. EGNB has conducted its own assessment based on the information on record in this proceeding and has provided this assessment as Attachment 1 to its opening statement that was circulated yesterday. This analysis shows that an immediate increase of 33 percent and 65 percent in the number of SGSRO and SGSC customers respectively would be required to offset the loss in revenue by implementing the Public Intervenor's proposal when using the rates found in Exhibit A, Schedule 2. EGNB does not believe it is reasonable to assume that customer growth at these levels would be achieved by implementing the proposal and therefore unnecessary additions to the deferral would occur.

The second proposal suggests that a cap be implemented on the rates the formula may provide for. Again, any cap would have the same impact as the first proposal, greater savings than necessary, unnecessary additions to the deferral would occur if the cap were reached and existing customers would see higher than required savings. In addition, capped rates would no longer demonstrate any relationship to the market on which the rates are to be set, essentially nullifying the intent of market-based rates during the Development Period. Again, the Public Intervenor was asked by the Board in Interrogatory No. 4 if any calculations on the impact of such a cap had been done. The response suggested that the analysis used for Board Interrogatory No. 3 would also be applicable in this case, where customer growth due to lower rates could offset lost revenues. EGNB has attached its analysis of the impact on revenues and required growth to offset these impacts if an inflation based cap had been applied to EGNB's 2008 rate increases as Attachment 2. This analysis shows that $9.5 million in annual revenue, which represents 28 percent of the forecast annual revenue arising from the approved 2008 rates, would have to be recovered through significant customer growth. EGNB does not believe this growth would be achieved through capped rates, and the deferral would again increase.

The final proposal made by Mr. Strunk suggests that another "optional" rate be designed to provide a fixed-price delivery service for customers who have elected for a fixed price commodity offer. EGNB foresees various issues with this proposal. It fails to recognize the postage stamp nature of EGNB's delivery rates by providing a different price for the same class of firm service. EGNB would be unable to maintain a target level of delivery rate savings as commodity prices moved during the course of the year, either leading to an insufficient incentive for customers or unnecessary additions to the deferral. And other gas marketers would likely see this as an unfair advantage tied to the Enbridge fixed-price commodity offering depending on the nature of their commodity offerings.

EGNB submits that none of these so-called refinements, which are in reality much more than refinements, support EGNB's, and to date the Board's, objectives for the Formula and the Development Period.

We would also note that the Public Intervenor's response to EGNB Interrogatory No. 1 discusses a number of concerns "in areas that will be the subject of other proceedings before the Board." EGNB doe snot intend to comment on these areas or any inaccuracies in the information associated with them in this proceeding. We will comment on these in the relevant proceeding.

In summary, EGNB's evidence is clear. The Formula proposed by EGNB improves the transparency of the manner in which delivery rates are to be established. EGNB's proposal achieves the stated objectives for establishing rates during the Development Period.

With its proposed adjustments to the Formula, EGNB believes its proposal provides a solid foundation for establishing just and reasonable rates through the Development Period. As a result, EGNB believes it is appropriate for the Board to approve the Formula as proposed by EGNB.

MR. MACDOUGALL: Mr. Chair, before the witness panel is made available for cross examination, Mr. Charleson referred to attachments 1 and 2 to the opening statement.

We do not propose to go through those in detail. They speak for themselves. And Mr. Charleson spoke to the results of them.

But because they won't be prescribed I would suggest that they would be marked as an exhibit or for identification purposes.

CHAIRMAN: Well, I guess I will ask the parties their view with respect to that. And we will mark this as an exhibit.

Mr. Stewart, any comment?

MR. STEWART: I don't have any objection.

CHAIRMAN: Mr. Lawson?

MR. LAWSON: No, Mr. Chairman.

CHAIRMAN: Mr. Theriault?

MR. THERIAULT: No objection.

CHAIRMAN: Ms. Desmond? All right then. Attachment number 1 will become exhibit number 7. Actually why don't we mark attachment 1 as 7 (a) and attachment 2 as 7 (b).

MR. MACDOUGALL: With that, Mr. Chair, the panel is available for cross examination.

CHAIRMAN: Thank you, Mr. MacDougall. Mr. Stewart?

CROSS EXAMINATION BY MR. STEWART:

Q.13 - Mr. Charleson, could I refer you -- I suspect you have it in front of you there -- to your response to Public Intervenor interrogatory number 4?

MR. CHARLESON: Yes. I have that.

Q.14 - And the first question that is asked in this interrogatory was "What are the objectives EGNB believed should guide the specification of the market-based formula?"

And the response is "Provide customers with a sufficient level of savings to incent to conversion to, in the continued use of natural gas, and minimize the additions to the deferral account."

MR. CHARLESON: Yes.

Q.15 - And I take it that, as it points out, is the objective that you think the formula as revised, and as you suggested in this proceeding, still hopes to achieve?

MR. CHARLESON: Yes. We believe what we have proposed achieves those objectives.

Q.16 - And I take it you -- is it also your belief that it has achieved those objectives since 2000 when the formula was put in place?

MR. CHARLESON: Yes.

Q.17 - Now how many LFO customers have been added to your system in the last 12 months?

MR. CHARLESON: Sorry. Can you repeat the question?

Q.18 - How many LFO class customers have been added to the Enbridge distribution system in the last 12 months?

MR. CHARLESON: There hasn't been any.

Q.19 - And how many have been lost in the last 12 months?

MR. CHARLESON: I believe there is one customer that we lost.

Q.20 - So at least in the LFO rate class the formula hasn't been meeting its objective in that regard?

MR. CHARLESON: I would disagree with your characterization

of that. The loss of a customer in the LFO class is due to factors outside EGNB's control.
We are all aware of the current economic conditions. And there are economic factors that have impacted some businesses within New Brunswick. And as a result of that it has -- can contribute to some lost business.
Q.21 - Okay. Has it incented any LFO class customers to convert in the last 12 months?
MR. CHARLESON: No. Because at this time there are no additional LFO customers that are on main at this time. But we continue to look at opportunities to convert additional LFO customers out of the three that we have identified that remain as opportunities to convert.
Q.22 - And the second objective you talk about is minimize additions to the deferral account. And I guess that is another way of saying keep your operating losses at a minimum, is that correct?
MR. CHARLESON: Keep the difference between the revenue requirement and the revenues to a minimum.
Q.23 - Right.
MR. CHARLESON: Because that's what -- those losses then get added to the deferral account.
Q.24 - And in the analysis that you were just talking about, in the two attachments that were part of your opening

statement or attached to your opening statement, you talked about doing a bit of analysis and saying well, you know, if we have caps on rates, you know, there would be -- that would result in $9.5 million worth of revenue lost, is that correct?

MR. CHARLESON: Yes.

Q.25 - And your analysis that well, we won't make that up by adding customers, enough customers to make the difference in the revenue?

MR. CHARLESON: Yes. That's correct. I think if we look at attachment 2 which is exhibit 7(b), if we look at what has contributed to that $9.5 million reduction, and the revenues that would -- the customer additions that would have to be made up, we show that you have to add 27 additional LFO customers to overcome the shortfall in the capped revenues in the LFO class. And as we had indicated earlier, at this point we have identified three potential LFO customers.

Q.26 - And even those three you haven't been able to incent to convert at least so far?

A. So far.

Q.27 - And so then you agree with me that revenue -- I guess that is translated into profitability, whether there be a profit or a loss, is an objective of the formula?

MR. CHARLESON: I guess the objective of the formula is to --

Q.28 - Minimize additions to the deferral account?

MR. CHARLESON: -- derive the optimal amount of revenue that minimizes additions to the deferral account while also achieving the other objective.

Q.29 - Right. So -- and I think I'm saying the same thing. But one of the objectives of the market-based formula is to keep the profitability of Enbridge as good as it can be and still incent customers to attach.

Is that a fair comment?

MR. CHARLESON: Yes.

Q.30 - And -- but your formula only addresses the revenue side. It doesn't address the expense side, does it, or the operating cost side?

MR. CHARLESON: Correct.

Q.31 - And the operating cost side isn't part of the formula or part of this consideration in terms of what rates you charge a customer?

MR. CHARLESON: Correct.

Q.32 - Profitability is an objective of the formula?

MR. CHARLESON: Yes.

MR. STEWART: Those are my questions.

CHAIRMAN: Thank you, Mr. Stewart. Mr. Lawson?

CROSS EXAMINATION BY MR. LAWSON:

Q.33 - I just have a few questions. Start with what I think is probably a fair conclusion, everybody will agree on. And that is the obligation for this Board and for you as the supplier of the service is to have rates that are just and reasonable, correct?

MR. CHARLESON: Correct.

Q.34 - And just and reasonable is giving the balance to the interests of EGNB as well as to the customers, correct?

MR. CHARLESON: Correct.

Q.35 - And I think we have been through this before. But it is agreed that the purpose of the development period formula rates were to keep the costs to the customer below what would have been the actual cost of delivery of service.

Because if you had charged a cost of delivery of service, the actual cost of delivery of service from day one, given the price that would have been involved for the few customers initially, you would never have had any customers.

Is that a fair assessment?

MR. CHARLESON: Yes. An aggregate of the total revenue requirement would have exceeded what we would have been able to charge the customers.

Q.36 - So the development period formula was designed to make it cheaper for customers to be -- for rates to be less than what the cost formula would be?

MR. CHARLESON: You (inaudible) all the classes.

Q.37 - And the discount is offered to customers obviously as part of that formula?

MR. CHARLESON: Yes. The target savings level is part of the formula.

Q.38 - Yes. Target savings level.

Now you weren't involved I believe -- weren't with EGNB at the time that the LFO class discount was targeted, the amount was reduced from 15 percent to 10 percent, is that correct?

MR. CHARLESON: No, I wasn't at that time.

Q.39 - Have you had occasion to review the evidence that was filed with the Board at the time that that change took place to justify that decrease?

MR. CHARLESON: Yes, I have.

Q.40 - Have you? And can you give us a summary of what that was and the extent of the evidence that was provided?

MR. CHARLESON: I indicated that when I reviewed it. But unfortunately I didn't memorize it.

But my recollection of the evidence at that time was that it was believed that due to the change that had happened in terms of the absolute value of the savings that were being seen in comparison to the absolute value of savings that were available when the target level of savings was first established had grown.

And the company believed that a reduction in the target level of savings would not impact its ability to achieve the objectives of growth and continued use of natural gas.

Q.41 - Do you recall how many people there were who participated in that hearing? How many parties?

MR. CHARLESON: No, I don't.

Q.42 - Would it surprise you if I told you that besides EGNB there was only one, that being Flakeboard?

MR. CHARLESON: No, that wouldn't surprise me.

Q.43 - And would it surprise you that this was in fact only part of -- this was one piece of another part of a hearing by this Board with respect to EGNB and its rates?

MR. CHARLESON: No.

Q.44 - And would you agree from your review that there was almost no discussion and very little evidence on the issue relating to the 15 percent to 10 percent?

MR. CHARLESON: My understanding that EGNB filed its evidence and the Board provided opportunity for a full examination of that evidence. And the Board reached its conclusions based on the evidence brought forward in the report.

Q.45 - Now I will ask you the question again. Do you agree there was very little evidence that was provided on the issue?

MR. CHARLESON: I think I just answered that question.

Q.46 - No, you didn't. Was there very little evidence in terms of volume?

MR. CHARLESON: There was limited evidence.

Q.47 - Very limited evidence, correct?

MR. CHARLESON: Yes. But obviously sufficient evidence for the Board forward to be satisfied and reach its conclusion.

Q.48 - Yes. But very little evidence.

And did you review the transcript from those hearings?

MR. CHARLESON: I skimmed them. But I just haven't reviewed them in detail.

Q.49 - Do you recall there being any real consideration or discussions by any of the parties on this issue at that hearing?

MR. CHARLESON: No. I don't recall.

Q.50 - No. You would agree that the -- would it be a fair assessment to say that the formula approach is designed to attract the maximum number of customers while giving the minimum deferral account accumulation?

MR. CHARLESON: I would say it's attract and retain the maximum number.

Q.51 - Okay. Fair enough.

And if we for the moment ignore the deferral account piece, the larger the discount presumably the more customers are going to be attracted?

MR. CHARLESON: Yes. I would agree.

Q.52 - But based on the evidence you just gave a few minutes ago, that isn't true, is it, for the LFO class?

MR. CHARLESON: Perhaps you can clarify your question.

Q.53 - Okay. I understood your evidence to be that there were no other customers, LFO potential customers on the main, as you described, is that right?

MR. CHARLESON: That's correct. We have identified some other LFO customers that are in reasonable proximity, but not close enough at this point in time to go and attach them.

Q.54 - Would a large -- a 15 percent discount likely attract those customers?

MR. CHARLESON: It's not so much a matter of attracting. A 15 percent discount would actually harm the attachment of those customers.

Because the revenues would be less, leading to a higher contribution required to build a main -- or to build a main in economic means to reach those customers.

It's a balancing of the revenues that you need to generate from those customers to offset the capital cost is going to reaching those customers.

Q.55 - I guess I should have been clearer. The premise on which I'm operating for these purposes is that we are taking out of the equation for the moment the deferral account piece.

So as it relates to the customers being attracted to join you as opposed to you wanting to have them join you, that a 15 percent discount would be more attractive to them to join?

MR. CHARLESON: Yes. If there is no consideration given to the cost of attaching that customer, yes, a larger discount would make it more attractive.

Q.56 - Now at least the attracting and maintaining maximum number of customers would be met by a larger targeted discount, I will call it?

MR. CHARLESON: Yes.

Q.57 - Now am I correct that the evidence of -- I think it was about 18 months ago -- three customers, potential LFO customers -- are they the same three potential LFO customers that were identified in the last hearing back in the fall of '07, I believe it was?

Q MR. CHARLESON: Actually at that time I believe we identified there were at least five potential LFO customers. And since that time two of those we no longer see as being prospects.

Q.58 - And why is that?

MR. CHARLESON: One of them has gone out of business. And the other one hasn't been able to secure the funding or support from its parent to justify the commitment that would have to be made for us to justify the expansion of our main.

Q.59 - Now I can't recall precisely. But when a new line is being built does the capital cost -- what happens? What is the consequence to the deferral account as a result of a new line being constructed by EGNB?

MR. CHARLESON: The capital cost will end up going into our rate base. And then that rate base, the depreciation expense and return on rate base form part of the overall revenue requirement.

So those components would then go in as part of the total, would increase the total revenue requirement. And then the revenues that you get by having expanded that line would be kind of the offset to that. And the difference between the two would be the net impact on the deferral.

Q.60 - And included in those costs with respect to that is the capital -- the borrowing costs with respect to the capital construction, is that right?

MR. LEBLANC: Yes. That is one of the costs.

Q.61 - I know that you have not I guess up until very recently done a cost of service study. But based on your intuition from experience in business, would it be safe to say that very few -- perhaps there have been some, but very few lines have made money in the first year, based on the cost of that particular line versus the revenue generated from that line?

MR. CHARLESON: Yes. I would agree that it would be very rare do we see the cost recovery within the first year.

Q.62 - And often the second or third year similarly, is that correct?

MR. CHARLESON: As with any business, when you look at your capital expansion and you look at the net present value over a certain time horizon.

Q.63 - Using that rationale I presume then there could be an argument that says that it makes no sense to build any more lines. Because you are increasing the deferral account by building more lines.

Because in the first year you are going to lose money probably. The second year you may very well lose money. The third year you may very well lose money on that line. Therefore maximizing -- minimizing the contribution to the deferral account could be argued as being very effective by just stopping construction?

MR. CHARLESON: However stagnating growth would also be detrimental to the deferral account. When we are assessing expansion projects, the ability to attach more customers on main, we are looking at the contribution or the impact that that has on the deferral account in the near term and over what time horizon that it starts to have a positive impact.

But if you just stop building pipe then you also basically stunt the ability for growth. Your only opportunities for growth are customers that already exist where mains are in place, which limits your growth potential both in the near term and for the longer term. And longer term growth is in the best interest of all rate payers.

Q.64 - And would it be fair to say that same rationale would apply in terms of attracting customers, that you have to look at it in the longer term, not necessarily today or tomorrow.

And that is why a larger discount, while it might be expensive in the short term, might in the long term be beneficial?

MR. CHARLESON: It's always important to balance both aspects, yes.

Q.65 - Just finally I just wanted to take you through the rates. And I'm not sure exactly the starting rate. But the rate the LFO class set for January of last year as the result of the fall of '07's hearing before the Board. I believe the LFO rate came in at about $4.08 or something of that nature?

MR. CHARLESON: Yes. It's 4.0861.

Q.66 - Okay. And that was the rate set in January of '08. And then --

MR. CHARLESON: Actually that rate was set in April of '08.

Q.67 - Oh, I'm sorry. Okay.

And then the next LFO change I believe took place sometime in -- almost immediately -- sorry, in December of '08 there was a decision that the rate could drop to $2, roughly $2, is that right?

MR. CHARLESON: Effective January 1st 2009.

Q.68 - Right. And then the rate -- and I'm not sure what the date effective of this was. But sometime in January of this year the rate dropped again in the LFO class to $1.28 roughly?

MR. CHARLESON: Yes. That was effective February 1st, as we continued to monitor the market conditions and adjust our rates in response, so that the target savings levels could continue to be achieved.

Q.69 - And then again the rates got changed again in the LFO rate to about $1.85, is that correct, just in February or --

MR. CHARLESON: That was effective March 1st, correct.

Q.70 - Would it be fair to say, having heard Mr. Ervin's evidence, talking about standard deviation and variability, that that would have to be described as a wildly variable price of delivery of service that you folks charged the LFO customer class at least?

MR. CHARLESON: I would agree that there has been a great deal of variability in the delivery rate over the -- in the first quarter. When combined with the total cost that probably stabilizes it a bit because natural gas commodity costs have also been moving in the opposite direction.

Q.71 - But you don't -- you don't sell LFO customers or very many of them at least anyway, gas, correct?

MR. CHARLESON: No. But the formula takes into consideration --

Q.72 - No. I recognize that. But you would agree that there can be hedging by customers with respect to their gas prices?

MR. CHARLESON: Yes, definitely.

Q.73 - They can't hedge your prices, can they?

MR. CHARLESON: No.

Q.74 - There is nothing they can do but suck it up or stop using your service?

MR. CHARLESON: Correct.

MR. LAWSON: Those are all the questions I have. Thank you.

CHAIRMAN: Thank you, Mr. Lawson. Mr. Theriault?

CROSS EXAMINATION BY MR. THERIAULT

Q.75 - Good morning, Mr. Charleson, Mr. LeBlanc.

MR. CHARLESON: Good morning.

Q.76 - Before I get into the specifics of the application and your evidence, I would like to ask a few questions about your understanding of the objectives of the market-based formula.On page 11 of your evidence, if you could turn to that -- on page 11 of your evidence you comment on the basis for the target savings levels, and your commentary refers to the Board approved savings levels and indicates EGNB's believe that, quote, the current savings levels will continue to provide a sufficient incentive for customers to convert to and continue to use natural gas while also minimizing additions to the deferral account.

I have correctly stated that, have I?

MR. CHARLESON: Yes, you have.

Q.77 - And is it EGNB's position that these are the objectives that guide the utility in the design and implementation of the market-based formula?

MR. CHARLESON: Yes. As identified in the discussion with Mr. Lawson in our interrogatory response, those are the objectives we identified.

Q.78 - And is it the position of EGNB that these are regulatory objectives for a market-based regime?

MR. CHARLESON: Perhaps you can clarify what you mean by regulatory objectives?

Q.79 - In other words, the objectives for Board approval as you see it -- as EGNB sees it.

MR. CHARLESON: The only addition I would also see one of the objectives the Board is looking at is that the resulting rates are just and reasonable.

Q.80 - So EGNB is a gas distributor under the meaning of the Gas Distribution Act?

MR. CHARLESON: Yes.

Q.81 - Now does EGNB take the position that the utility's objectives of a sufficient incentive for customers to convert to and to continue to use natural gas, while also minimizing additions to the deferral accounts, constitute a demonstration of just and reasonable rates under a market-based regime?

MR. CHARLESON: Yes. But ultimately it's the Board that decides whether the outcome of the formula is just and reasonable that we take as a given.

Q.82 - So you would agree then that if either or both of these objectives are seen by the Board as not being met then EGNB would have failed in its burden to demonstrate just and reasonable rates?

MR. CHARLESON: That's correct. And the Board would provide some other outcome.

Q.83 - Now before I get further into your evidence I want to raise the matter of your response to PI IR-1, if I may. And this deals -- among other things this response deals with the background to market-based rate setting methodology, and I think maybe you and Mr. Lawson touched upon this a bit earlier.

But in the response you specifically make reference to NBPUB 299 proceeding and the decision of the Board that was issued on June 23rd, 2000. So I just have a couple of questions on that. And perhaps since you referenced that decision in PI IR-1, could you tell me what customer classes did EGNB propose to the PUB in the 2000 application?

MR. CHARLESON: If I recall correctly, there was a small general service customer class which would constitute what a current customer is captured in the SGS RE, SGS RO and SGS C classes.

Q.84 - We will get into what it covers. I am just wondering what you proposed then, so --

MR. CHARLESON: At that time there was an SGS C class, an SGS class, there was a general service rate class, there was a contract general service rate class, CGS, there was contract large general service light fuel oil, or LFO rate class, contract large general service, heavy fuel oil, or HFO class. There was the off peak service, OPS, contract large volume off peak service, CLVOPS, and the natural gas vehicle fuel.

Q.85 - And at this hearing did EGNB propose -- at the 2000 hearing did EGNB propose a rate for customers using electric space heating?

MR. CHARLESON: No, they did not.

Q.86 - And why not?

MR. CHARLESON: Again, it's my understanding that at the time this evidence was being prepared and when that hearing was ongoing, that the competitive position of natural gas against electricity was quite favorable, and as a result the oil and oil-based price was deemed to provide the lower cost option for customers at that point in time.

Q.87 - Now at that time was EGNB aware that NB Power was serving the largest portion of the market for space heat in New Brunswick.

MR. CHARLESON: I wasn't directly involved. I would imagine.

Q.88 - And if it was aware of that why did it not propose a rate for these customers?

MR. CHARLESON: Again, not having been directly involved in the discussions and decision making it is difficult for me to surmise me what what was behind that but my assumption behind it would be that a single SGS class was deemed to be representative enough to capture customers across the various classes based on the economics of that time.

Q.89 - And at that hearing did EGNB propose distribution rates be set so that the burner tip cost on an annual basis to the customer would be 30 percent below the fuel oil costs in the residential market?

MR. CHARLESON: That's my recollection.

Q.90 - And 15 percent below the fuel oil costs in the light fuel oil markets?

MR. CHARLESON: Again that's my recollection.

Q.91 - And five percent below fuel costs in the heavy fuel oil market.

MR. CHARLESON: Yes.

Q.92 - I would like to focus for a minute on the residential market. For the first set of rates proposed by EGNB what was this market called? What was the name or names of the customer classes that made up the residential market?

MR. CHARLESON: It would be the small general service class.

Q.93 - And how many different customer classes has it had since start-up?

MR. CHARLESON: The small general service class was subdivided into three additional classes effective January 1st, 2007. This is when the SGS RE residential electric rate was established, the SGS RO residential oil rate was established and the SGSC or small commercial rate was established.

Q.94 - How long was the 30 percent saving in effect before it was changed?

MR. CHARLESON: Now you are testing me. I believe it was until 2004, but I would have to check.

Q.95 - Okay. Fine. And how many times has the savings percentage changed since start-up in that class?

MR. CHARLESON: In that class just the one change.

Q.96 - Including rate riders and rate reinstatements, how many times has the rate to residential customers changed since start-up?

MR. CHARLESON: I couldn't give you that number.

Q.97 - Could you undertake to provide it?

MR. CHARLESON: I could.

CHAIRMAN: Just to be clear, that's undertaking number 1, an undertaking to provide the number of times the residential class rates have changed since the start-up?

MR. THERIAULT: Including rate riders and rate reinstatement.

MR. CHARLESON: Perhaps we can get some clarification. Would a change to the RE and the RO be deemed to be the status?

Q.98 - Yes. Now I'm going to focus on the light fuel oil market. For the first set of rates proposed by EGNB again what was this market called? With respect to the light fuel oil market, for the first set of rates proposed by EGNB what was this market called?

MR. CHARLESON: The same as it was today. Contract large general service light fuel oil LFO.

Q.99 - And how many different customer classes has it had since start-up?

MR. CHARLESON: It has remained as just one class.

Q.100 - And you say it's still known by the same name today.

MR. CHARLESON: That's correct.

Q.101 - And how long was the 15 percent saving in effect before it was changed?

MR. CHARLESON: I don't recall if that was also done in 2004 or whether it was in a subsequent proceeding. I would have to check on that.

Q.102 - Would you mind checking?

CHAIRMAN: Was that again by way of an undertaking?

MR. THERIAULT: Yes.

CHAIRMAN: That will be undertaking number 2 and that was --

MR. THERIAULT: How long was the 15 percent saving in effect in the LFO class before it changed.

Q.103 - Now, Mr. Charleson, can you tell me how many times the savings percentage has changed in the LFO class since start-up?

MR. CHARLESON: Just that once.

Q.104 - And again, and you may want to take this by way of an undertaking, but including rate riders and rate reinstatements how many times has the rate to the light fuel oil market customers changed since start-up.

MR. CHARLESON: I suppose that is undertaking number 3.

CHAIRMAN: Undertaking number 3 it is.

Q.105 - I just want to conclude this line of questioning with the heavy fuel oil market. And again for the first set of rates proposed by EGNB, what was this market called?

MR. CHARLESON: It is called what it is today, contract large general service heavy fuel oil.

Q.106 - And how many different customer classes has it had since start-up?

MR. CHARLESON: It has remained as the one class.

Q.107 - And how long was the five percent saving in effect before it was changed, or was it changed?

MR. CHARLESON: It has not been changed.

Q.108 - And including rate riders and rate reinstatements how many times has the rate to the light fuel oil market customers changed since start-up?

MR. CHARLESON: This one I can do. It hasn't.

MR. MACDOUGALL: I think, however, Mr. Theriault, you said light fuel oil --

MR. THERIAULT: Sorry. Sorry. I meant heavy fuel oil.

MR. MACDOUGALL: I think we know but I think the transcript might say light.

CHAIRMAN: So to clarify, that was heavy fuel.

MR. THERIAULT: Heavy fuel oil, yes, that's correct.

Q.109 - Now I would like to look at the type of information EGNB might have provided to the PUB in that hearing, and again in your response to PI IR-1 you make the following comment, quote, EGNB filed evidence describing the market-based approach to setting rates in the NB PUB 299

proceeding in 2000. It was indicated in that evidence that the methodology being proposed was consistent with the proposal accepted by the province in awarding the general franchise to EGNB, end quote.
Did I capture that correctly?
MR. CHARLESON: That's correct.
Q.110 - First of all, does EGNB agree that the general franchise agreement and any amendments to it constitutes a contractual arrangement between the parties for the provision of gas distribution services in the Province of New Brunswick?
MR. CHARLESON: That's my understanding.
Q.111 - And can EGNB advise me as to where I might find reference to market-based rate making in the general franchise agreement?
MR. CHARLESON: I would have to dig out the six binders. I would have to undertake to do that.
Q.112 - Okay. Maybe I can expand this. Could you undertake to advise me if there is any reference to market-based rate making or any reference to any type of rate making in the general franchise agreement?
CHAIRMAN: That undertaking has been given, has it? Undertaking number 4.
Q.113 - Does EGNB -- and maybe you can't answer this -- but

does EGNB claim that the market-based formula currently under review in this application was a condition of the general franchise agreement?

MR. CHARLESON: If I recall correctly, I believe it was something that was addressed within the essential elements which formed part of the general franchise agreement. That's part of what I would be looking at in terms of undertaking number 4, and see what our proposal at this time and consistent with that.

Q.114 - Thank you. And does EGNB claim that the market-based formula is consistent with the market-based approach to rate making?

MR. CHARLESON: Yes.

Q.115 - And does EGNB claim that the specific market-based formula submitted in this application is the only way to set rates using a market-based approach?

MR. CHARLESON: We are not aware of any other proposals but we are not saying that it is the only way that a market-based rate could be established. However, we haven't identified any alternatives.

Q.116 - Have you looked?

MR. CHARLESON: We are not aware of any other jurisdictions -- no, we haven't looked.

Q.117 - Now if we could turn to the -- I guess for a few minutes on the evidence that you filed in this application.

Specifically, I would like to turn you to page 2, Mr. Charleson. And on page 2, lines 12 and 13, you state that this evidence presents EGNB's proposal regarding formula and information supporting the proposed derivation. Is that correct?

MR. CHARLESON: That's correct.

Q.118 - Now the Board in calling for this generic hearing issued as part of its order the following instruction. Enbridge shall file with the appropriate financial and marketing information which will permit a thorough examination of the said formula. You are aware of that?

MR. CHARLESON: Yes, I am aware of that.

Q.119 - So it is fair to say that EGNB interprets a thorough examination to mean explaining how the formula is calculated and the inputs that go into it.

MR. CHARLESON: Yes, our view was that the evidence that we provided here satisfied the direction of the Board.

Q.120 - What financial information did EGNB file in this application specifically?

MR. CHARLESON: I would view the resulting rates and the revenues that comes from that as being the financial information.

Q.121 - So that would be what you consider to be the total financial -- I just want to be clear what you consider to be the total financial information?

MR. CHARLESON: Yes, it's really the rates and there is a lot of dollars that show up through the evidence.

Q.122 - And I'm assuming the market we are talking about is the market for gas distribution in New Brunswick.

MR. CHARLESON: Yes.

Q.123 - And if it is the market for gas distribution in New Brunswick, what market information did EGNB supply in your application?

MR. CHARLESON: We provided -- specifically the market information would be the various commodity prices, whether it be wholesale oil, retail oil prices, natural gas commodity costs, exchange rates, all of those are elements that have direct impact in terms of that is all market data that is relevant to this market place.

Q.124 - And that would be your complete answer?

MR. CHARLESON: Yes.

Q.125 - And so I can conclude that what you supplied in terms of both financial and market information represents all that you believe, or EGNB believes, is necessary to support the thorough examination called for by the Board.

MR. CHARLESON: Yes. We believe the evidence that we put forward was sufficient to support the thorough examination of the market formula.

Q.126 - Okay. Now again on page 2 of your evidence under question and answer 3, you discuss the number of decimal places involved in rounding.

MR. CHARLESON: Yes.

Q.127 - In fact you suggest for consistency and replication the number of decimal places should be four, is that correct?

MR. CHARLESON: That's correct.

Q.128 - And what numbers would be rounded to four decimal places?

MR. CHARLESON: Just about every number that is in there, with a couple of exceptions being the typical natural gas consumption which was taken to the whole unit, and contract demand which was taken to whole units.

Q.129 - And what difference does it make to a rate if the rounding was to three places instead of four or maybe even five places?

MR. CHARLESON: It would be minute in terms of the impact, but what it does provide for is by using a consistent approach allows for others that are looking at the formula and trying to replicate EGNB's results, that they don't -- they don't get those variances because of differences in rounding.

Q.130 - Does this rounding make a rate any more stable than it
has been in the past?
MR. CHARLESON: I don't believe so.
Q.131 - And would this rounding make it easier for a customer
specifically in the residential market to understand how a
rate is calculated?
MR. CHARLESON: Yes.
Q.132 - Could you explain how it would help them?
MR. CHARLESON: Again if they were trying to -- the method
for calculating the formulas is a matter of public record.
A residential customer has the opportunity to get the
evidence, to see the formula and understand the means in
which the formula is being calculated. They have the
ability to go and access the market data and try to
replicate what the formula -- and would have the ability
to replicate the formula. My understanding they would
have to be a somewhat sophisticated residential customer.
Q.133 - The typical average residential customer probably
wouldn't be able to do that?
MR. CHARLESON: Probably not. But --
Q.134 - So it would be fair to say that the four decimal
points doesn't assist the typical residential average
customer in understanding how the rate was calculated?
MR. CHARLESON: It helps them more than they are not being a

consistent rounding.

Q.135 - And how would this rounding assist the Board to understand if the rate was just and reasonable?

MR. CHARLESON: Ultimately I don't believe it would assist the Board in determining whether the rate was just and reasonable. It would help the Board to understand whether the rate had been calculated in the manner that was consistent with the formula approved by the Board.

Q.136 - And would this rounding make it easier for EGNB to grow its customer base?

MR. CHARLESON: No.

Q.137 - Now on pages 2 and 3 of your evidence under question and answer 4, you talk about retail oil prices. And as I understand the process, you describe it as -- as you described, it has the following steps. First, future prices for number 2 oil trading on the New York Harbour market each of the 12 months of the test year will be collected for two calendar months, is that correct?

MR. CHARLESON: That is correct.

Q.138 - And for each of the 12 months, the two months of data will be averaged resulting in an average price for each quarter, is that correct?

MR. CHARLESON: No, that's not correct.

Q.139 - Okay. And how did I misstate that?

MR. CHARLESON: What we do is they are averaged the resultant 12 future prices you would have an average future price for each of the 12 forward looking months.

Q.140 - So for each of the 12 months the two months of data will be averaged resulting in 12 future prices in US dollars per US gallons?

MR. CHARLESON: That's correct.

Q.141 - And then quarterly future prices for the US dollar, the Canadian dollar exchange will be collected, is that correct?

MR. CHARLESON: That is correct, yes.

Q.142 - And these prices in Canadian dollars per US dollars will be averaged resulting in an average price for each quarter, is that correct?

MR. CHARLESON: For the exchange rate conversion factor, that's correct.

Q.143 - And the number 2 oil prices are converted to Canadian dollars per litre by using the appropriate quarterly foreign exchange average for the corresponding month, and then converting to litres by dividing by 3.785 litres per gallon?

MR. CHARLESON: That's correct.

Q.144 - That's not four decimal points.

MR. CHARLESON: There were a couple conversion factors.

Q.145 - The market spread in Canadian per litre for each class will be added to each months' price to arrive at a New Brunswick market price for each class, is that correct?

MR. CHARLESON: That's correct.

Q.146 - And a weighted average is created using a usage profile for each class, is that correct?

MR. CHARLESON: That's correct.

Q.147 - And the resulting weighted average is inserted in line 1 of the derivation table, is that correct?

MR. CHARLESON: That's correct.

Q.148 - Now what is the likelihood, Mr. Charleson, that a typical or average residential customer would understand any of this process?

MR. CHARLESON: It would depend on their degree of sophistication and the degree of interest they had in trying to understand the process.

Q.149 - It would be fair to say that probably most wouldn't. I mean you have anecdotal evidence --

MR. CHARLESON: Yes. My sense would be there would be very few that would have the level of interest that would warrant them wanting to get into that level of detail.

Q.150 - And what is the likelihood that anyone would understand that this process is designed to set a delivery charge, not a charge for the commodity itself?

MR. CHARLESON: Again, it depends on the level to which they review the evidence and understand the rate setting formula.

Q.151 - Okay. Does EGNB have any position on what oil price they think the average residential customer in New Brunswick would look at when comparing the cost of oil versus the cost of natural gas in New Brunswick?

MR. CHARLESON: My sense would be that they would likely look towards the approved maximum price set by the EUB as being the benchmark.

Q.152 - And is it correct, Mr. Charleson, that New York number 2 oil prices vary over time?

MR. CHARLESON: Yes. As with any traded commodity.

Q.153 - And is it correct that the exchange rates between the US and Canadian currencies vary over time?

MR. CHARLESON: Yes.

Q.154 - And is it correct that market spreads vary over time?

MR. CHARLESON: Yes.

Q.155 - So how could this process produce the delivery rate that is stable over time?

MR. CHARLESON: The process provides a delivery rate that is --again there is going to be volatility and variability, because we are looking at the overall target savings related to the total cost of using natural gas, the fact that it is tied to different market indexes will lead to a certain degree of volatility, depending on the volatility that is occurring in the market.

Q.156 - Well with this volatility why should the Board conclude that this process will produce a delivery charge that is just and reasonable?

MR. CHARLESON: Again, the objectives of the formula are to look at a rate that provides the appropriate level of incentive for customers to convert to using natural gas and minimizing additions to deferral. It's in that context and in the context of having a formula and methodology for identifying that rate that the Board is able to determine whether the resulting rate, and any adjustments to that rate, are just and reasonable. Any change that occurs to our delivery rate requires the approval of the Board. Any approval by the Board should be applying to just and reasonable standards.

Q.157 - And should volatility enter into that?

MR. CHARLESON: If the Board determines that that is a concern of theirs terms of just and reasonableness of the rate, then obviously that's something that they would consider.

MR. THERIAULT: Mr. Chairman, not to try to control the Board's schedule, I'm going into an area of cross that's probably going to be longer than any other area I just covered so far. So I wonder if now might be an appropriate time for a dinner break.

CHAIRMAN: This will be an excellent time. We will come back at 1:15.

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

CHAIRMAN: Mr. Theriault, are you ready to resume your cross-examination?

MR. THERIAULT: Yes, I am, Mr. Chairman.

CHAIRMAN: Proceed.

Q.158 - Thank you. Mr. Charleson, if I could ask you to pull out your response to PI IR-3. Now with respect to your response to PI IR-3 there is a reference to a typical customer in your response to question 1. And I just want to be sure I understand the substance of your answer. Is it correct that by typical you mean an average customer?

MR. CHARLESON: You mean average under all the different elements or an aggregate -- the average of the different elements, yes.

Q.159 - And is it also correct that the targeted savings would only be achieved for the average customer if all of the inputs to the formula remain unchanged?

MR. CHARLESON: For the typical customer if all the inputs of the formula remain unchanged, that's correct. For other customers they could achieve the target savings by all the different variations that could occur to those variables.

Q.160 - So in other words, if the inputs change from time to time the targeted savings would change until EGNB applied for either a rate rider or a rate reinstatement, is that not correct?

A. Yes.

Q.161 - So would it be fair to say that given the current design of the market-based formula it is extremely unlikely that any one customer would ever receive the targeted savings promised for any consistent period of time, if at all?

MR. CHARLESON: No, I wouldn't agree with that.

Q.162 - And why would you not agree with that?

MR. CHARLESON: Well again I think because there is a -- we are looking at a large range of customers and there is a variety of factors that come into play. So you have customers that are achieving beyond the target level of savings as market conditions change, that may diminish some of the savings that they are seeing, but that may still be in excess of what the target is.

In other cases customers who may have been kind at the boundary, other elements move that cause them to actually improve their savings depending on which variables are moving. So I don't think there can be a blanket statement that would just kind of say if something moves all of a sudden they are not getting target savings.

Q.163 - Well could you explain to us under what conditions a customer would actually receive and maintain the targeted savings?

MR. CHARLESON: There is too numerous conditions to really cover that off. As I indicated in part 2 of the response to PI interrogatory number 3, there are so many permutations of customer circumstances that would come into play that would support the ability for a customer to achieve or exceed the target savings, but to try to articulate them all here would be a very lengthy process and likely still would miss some.

Q.164 - Can you articulate any?

MR. CHARLESON: Again, say a customer is able to get a natural gas commodity price that is lower than the price that Enbridge -- of the EUG, then their savings are going to be greater than what the formula is going to articulate. So even if other prices move, the lower commodity cost that they are incurring is going to increase the level of savings that they are going to see.

That's one example.

Q.165 - Just so I am clear, in the example you gave, were you talking about commodity prices or distribution prices?

MR. CHARLESON: I was talking about the commodity price.

Q.166 - Now with respect to PI IR-4, I asked you about any documents you would have related to the formulation of EGNB's opinion on the objectives of the market-based formula, and your response was that you were unaware of any such documents, is that correct?

MR. CHARLESON: Yes, that's correct.

Q.167 - Now can I conclude from this response that there are no documents that EGNB has or might have had that contain information about the formulation of the objectives of the market-based formula?

MR. CHARLESON: That's correct.

Q.168 - And in particular can I conclude that there was no written communication from EGNB to the general partner about this matter?

MR. CHARLESON: None that I am aware of.

Q.169 - And can I conclude that there was no written communication of any type from EGNB to any other partners about this matter?

MR. CHARLESON: None that I am aware of.

Q.170 - And finally can I conclude that there was no written communication about this matter between EGNB and the province?

MR. CHARLESON: Again none that I am aware of, outside of the statement that we made within that response, that the objectives are consistent with what was in the proposal provided to the province, which would form some sort of communication with the province.

Q.171 - Okay. If we could go over to PI IR-6, in particular your response to PI IR-6, question 2. I asked you about the objectives behind EGNB's development of the -- sorry -- question 1. I asked you about the objectives behind EGNB's development of the Enbridge variable product for EUG commodity services. You responded that this was a commodity offering for commercial customers, which, and I quote, provided the customers with the pricing through a transparent formula that was simple for the customers to forecast forward for budget purposes.

Did I state that accurately?

MR. CHARLESON: Other than I think you changed your reference back to number 1 but now you are talking about number 2.

Q.172 - Okay. Sorry. But that is correct under question 2.

MR. CHARLESON: Yes.

Q.173 - And how long has the EVP been available?

MR. CHARLESON: It has been available since April of 2007.
Q.174 - And what customer classes have access to EVP?
MR. CHARLESON: It's the commercial customer classes, including the large industrials as well.
Q.175 - And in your response what do you mean by a transparent formula?
MR. CHARLESON: Again the formula for EVP is such that we take the NYMEX price, add 225 US to that, and then convert in US dollars per MVTU, convert that to Canadian dollars and into GJs. It's a fairly open formula and it's something I think as we indicated in our response to one of the AWL interrogatories, that information is something that is posted on our website, it's available for customers to understand how that pricing is done.
Q.176 - Would you agree that the transparent formula applies only to the commodity cost, not the delivery charge?
MR. CHARLESON: In this case we are only talking about EVP which is a commodity cost.
Q.177 - So I guess that would be a yes?
MR. CHARLESON: Yes, although I would also indicate that there is transparency regarding the formula that is used for setting the delivery rates as well.
Q.178 - All right. We will get into that. What has been the take up rate for this EVP as a percentage of the sales of

EUG commodity?

MR. CHARLESON: I believe there is a response to one of the Public Intervenor interrogatories that shows a breakdown of all the different commodity offerings.

Q.179 - Would you -- is it broken down in percentage of sales?

MR. CHARLESON: Yes. I'm just trying to -- that would be the response to Public Intervenor IR-10. Page 2 of that response there is two tables there that show the take up of EVP and as well an aggregate when we look across the total customer base it rounds to a number that's less than -- significantly less than one. It's a small percentage. When we look at some of the classes that it's targeted to, you know, the LFO class, it's 20 percent, HFO is 14 percent there. So that lays out the uptake there.

Q.180 - Now just going backwards again with respect to your response to PI IR-6, question 1. I asked you about the objectives behind EGNB's development of the FPO or the fixed price offer for EUG commodity service, and your response indicate that the FPO provided commodity costs certainly for customers, and that this objective was different from that associated with the standard offer, is that correct? Did I interpret that correctly?

MR. CHARLESON: I think our statement was that the objective differs from the objective used in setting the formula.

Q.181 - And how long has the FPO been available?

MR. CHARLESON: It has been available since November of 2007.

Q.182 - And what customer classes have access to it?

MR. CHARLESON: It's predominantly focused on the residential customer class. We do have a few small commercials that have taken up on it as well.

Q.183 - And is it correct that this offer provides only commodity cost certainty, not delivery cost certainty?

MR. CHARLESON: Yes.

Q.184 - And do customers pay a premium for this commodity cost certainty?

MR. CHARLESON: They -- a premium in comparison to what?

Q.185 - In comparison to the standard offer.

MR. CHARLESON: That depends on how the standard offer moves.

Q.186 - So you can't answer?

MR. CHARLESON: Well in the case of 2007 it actually provided them with a discount. The winter of 2007, winter 2008, it provided them with a discount in comparison to the standard offer. Over the past winter it has cost more than what the standard offer was.

Q.187 - And I assume if I ask you about the take up for the FPO, that would be referenced in the previous interrogatory we have just looked at?

MR. CHARLESON: That's correct. It's in response to number 10 -- PI number 10.

Q.188 - Now if we could turn briefly to PI IR-9. And in this I had asked you to provide historic pricing for EUG standard offer. fixed price offer and all other EUG commodity offers. Could you explain why the off peak rate was higher than the standard offer for February, March of 2007?

MR. CHARLESON: Sorry. Can you repeat that question?

Q.189 - Sure. Could you explain why the off peak rate was higher than the standard offer for February and March of 2007?

MR. CHARLESON: The table that I am looking at which is the amended response --

Q.190 - Right.

MR. CHARLESON: -- has them actually lower -- in February 2007, the off peak was at $8.17, whereas the standard offer was 10.95. In March of 2007 it was $8.80, whereas in the standard offer it was 10.95. In the original response the price in the off peak had actually included the penalty that is applied for consumption during the off peak months.

Q.191 - Okay. Now with respect to PI IR-11, questions 1 and

3, I asked about your knowledge of pricing options available and chosen by customers who chose a fuel other than natural gas. And EGNB's response to both questions, you indicated that you had not reviewed data or conducted any analysis related to these pricing options, is that correct?

MR. CHARLESON: That's correct.

Q.192 - And does this mean that EGNB has no knowledge of pricing options for alternative fuels?

MR. CHARLESON: I would say we have very limited knowledge of pricing related to alternative fuels. I think in one of our other responses we have indicated that during the sales process, especially in the commercial sector, we will talk with a customer around their oil pricing and what they may be paying. And through that, you know, we get some insights in terms of the type of pricing they are paying or the type of arrangements they may have been able to get. We have also been made aware in some cases of where a customer may be part of a buying group, something that was discussed earlier this morning, and as a result of being part of that buying group it may preclude them from converting to natural gas because they would lose that benefit in other buildings that they aren't able to convert. So there is limited knowledge.

Q.193 - But you say you have no analysis, so without any analysis how do you know your -- that your pricing is competitive and that it offers the targeted savings that you claim?

MR. CHARLESON: Again the analysis that we -- we look at what the retail price is and we have done the comparison to what the -- you know, what our retail oil price would be through the formula and how that compares to the EUB maximum retail oil price and the ENERCAN price survey, and based on that we determine that in the residential sector that our price is at least a reasonable proxy, if anything a conservative proxy, for what the retail prices are. This question refers to pricing options, which we understood to be things like fixed price offers, you know, bulk purchase -- you know -- a variety of things other than just strictly what retail prices may be.

Q.194 - With respect to Public Intervenor 12, I guess I have a number of questions of clarification. In your response to question 1, Roman numeral I, do I understand you to say that you determine the number of residential customers not captured by EGNB in the market it serves as the number of non-customers where EGNB currently has main in place?

MR. CHARLESON: That was the basis for arriving at that number, correct.

Q.195 - And again do I understand you to say that the number of commercial customers not captured by EGNB in the markets it serves is based on the total number of businesses within the community served by EGNB?

MR. CHARLESON: Correct. And again we have to base that on market data from 2006.

Q.196 - And do I understand you to say that the number of LFO and HFO customers not captured by EGNB in the markets it serves is based on EGNB's understanding of the current market potential?

MR. CHARLESON: That's correct.

Q.197 - What does that mean?

MR. CHARLESON: That's our -- we obviously have some awareness of where there are large businesses that may be in reasonable proximity to where we have main that a certain extension, whether it be ten kilometres, 20 kilometres, 30 kilometres, that may be reasonable to try to pursue in terms as additional LFO customers. So that's really our understanding of what businesses are sitting out there in areas of the province that are at least in proximity -- a reasonable proximity to a gas line, whether that be the Maritimes line or a distribution system.

Q.198 - Now in the same IR in question 1, Roman numeral II, I asked you what percentage of customers and what percentage of eligible demand does EGNB estimate as being supplied as an alternative fuel under a fixed price supply arrangement. And in your response you indicated that you do not have any market information regarding alternative fuel offerings, is that correct?

MR. CHARLESON: That is correct.

Q.199 - And does that mean that there is no market information available, or that you have made no effort to obtain it?

MR. CHARLESON: We are not aware of any market information that is available. Also we haven't actively pursued it.

Q.200 - And why do you think it's not available?

MR. CHARLESON: Again, what we have seen is there is very little transparency related to fuel oil prices. You know, one of the challenges that this formula has faced has been identifying a reasonable proxy for fuel prices because there is little transparency. It's a competitive market and the various fuel oil providers tend not to be very open in terms of providing what their prices are and how they go about pricing their product.

Q.201 - Now in response to the same IR question, 1, Roman numeral III, where I asked you if non price terms could impact a customer's decision on whether to take natural gas as compared to an alternative fuel, you gave the same answer as in the previous answered question, Roman numeral

II, which is, and I quote, EGNB does not have any of the market information regarding alternative fuel offerings. Is that correct?

MR. CHARLESON: I'm sorry. I think you were reading question 3 but referring to it as being Roman Numeral III?

Q.202 - Question 1 I believe.

MR. CHARLESON: The question that you just read into the record is actually question 3, not question 1, Roman numeral III.

Q.203 - Okay. Yes. You are correct. So the quote -- your response is EGNB does not have any of the market information regarding alternative fuel offers?

MR. CHARLESON: Yes. But in response to the question, for all customers in 1 what percentage of customers and what percentage of eligible demand does EGNB estimate as being supplied in alternative fuel under a variable price arrangement, what does EGNB estimate to be the frequency with which those rates reset the alternative fuel. And our response to that was the same as what we put in Roman numeral II.

Q.204 - Just one second, Mr. Chairman. Okay. With respect to PI IR-12, question 2, I asked you if EGNB had examined non-price terms for alternative fuels in the context of supply of natural gas under the EGNB delivery tariff, and the terms of EUG or alternative market or commodity service. In other words I would suggest I was asking you if you looked at your own non-price terms and compared them with those of suppliers of alternative fuels, and your answer was no, you did not compare?

MR. CHARLESON: That's correct.

Q.205 - And does this mean that EGNB has no interest in knowing what competitors are doing with respect to non-price terms?

MR. CHARLESON: It indicates that what we have looked at is what are the types of non-price terms that we believe are of interest to natural gas customers, and that's where our focus sits.

Q.206 - Well does EGNB believe that non-price terms might have an impact on a customer's decision to switch to alternative fuels?

MR. CHARLESON: I think in the further part of that response to number 2 we have indicated that we do not see that playing any role in estimating the alternate fuel price for arriving at a distribution rate, and also for arriving at an interest in terms of conversion to natural gas. We further talk about that in our response to question 3, and this is what I made reference to earlier, where we are aware of circumstances where some of the non-price terms may be a barrier towards conversion to natural gas. However, those terms, they are a change to the derivation of the delivery rate. We have not overcome those barriers.

Q.207 - But I guess my question was does EGNB believe that non-price terms might have an impact on a customer's decision to switch to alternate fuels. Did you answer no to that?

MR. CHARLESON: No. We looked at our response to 3. We did indicate there are some non-price terms that will impact the customer's decision to convert.

Q.208 - So if that's the case why has EGNB made no effort to identify what a competitors are doing in this regard?

MR. CHARLESON: Again as I indicated a few moments ago, the non-price terms that we are aware of we don't see the formula being able to overcome those barriers, and as a result we focused on the elements that we can address.

Q.209 - Okay. Now if we could move on to IR 13. I'm sorry. There is one more in IR-12, and that's question 5. I asked you if EGNB had conducted any research on customer fuel purchasing decisions in the past five years, and you answered no. And my question is could you explain to the Board why a company with $300,000,000 in planned investment and deferred expenses and which I suggest has failed to meet any of its customer acquisition targets on schedule could assume that this is a reasonable response?

MR. CHARLESON: I won't address all the assertions that you made in that question. I will just focus on the question. Correct. We haven't conducted studies on customer fuel purchasing decisions. We have done studies on the market place. We do an annual survey of residential customers, not just gas customers, to understand market perceptions around the use of natural gas, understand the perceptions around different elements related to natural gas and other fuels. So a fair amount of market research is done in support of the growth of our system so that we can target our marketing efforts. However, that customer survey does not focus on fuel purchasing decisions.

Q.210 - Now does EGNB not believe it has a responsibility to understand the market within which it operates?

MR. CHARLESON: Yes. And that's why we conduct the survey that I just discussed.

Q.211 - Does EGNB not believe that it has a responsibility to understand what motivates a customer or consumer to switch fuel sources?

MR. CHARLESON: Yes. And that's part of the question -- we believe the questions we ask in our survey address those issues.

Q.212 - And so I guess what -- so it would obviously be research relating to customer fuel purchasing decisions?

MR. CHARLESON: No, because we don't ask any questions around what drives their decision to buy oil, what pricing points and what are they looking at in buying oil, which is how I interpreted fuel purchasing decisions to be, not their choice of energy for heating their home.

Q.213 - Does EGNB believe that the reasons customers in New Brunswick switch to natural gas are limited to target savings and the environment and nothing else?

MR. CHARLESON: No. We have identified in previous proceedings there are other considerations that customers will look at.

Q.214 - And what happens if you are wrong about the reasons why customers switch fuel sources if you haven't done any specific research on that?

MR. CHARLESON: I think I have indicated we have done specific research on the reasons for customers switching and what drives market behaviours and perceptions.

MR. THERIAULT: If we could just have a moment, Mr. Chairman.

CHAIRMAN: Certainly.

Q.272 - Moving on to IR-13, question 3. I asked you if you have any studies related to the price elasticity of the demand of natural gas customers. You responded that you did not review or perform any studies related to price elasticity, is that correct?

MR. CHARLESON: That's correct.

Q.273 - And what is your understanding of the term price elasticity?

MR. CHARLESON: My understanding of the term would be the demand response that will occur with movement in price. So if a price moves up to what extent will that reduce demand or consumption, to the extent that a price moves down to what extent will that increase demand or consumption.

Q.274 - What would the price elasticity be for the SGSRE customer class?

MR. CHARLESON: I don't know because we haven't performed any studies on that.

Q.275 - And so I assume the same answer would be with respect to the SGSRO customer class?

MR. CHARLESON: That's correct.

Q.276 - So if you don't know or can't estimate what these are, how do you know what the impact of a change in rates for these classes will be?

MR. CHARLESON: Again the focus of our approach and the focus of the formulas toward the delivery of target savings, and that's part of the -- part of the sales process, part of the conversion process, is the opportunity to achieve savings, that is something that we monitor on a weekly basis looking at the forward savings and the ability for customers to achieve the target level of savings. And to the extent that these savings aren't being achieved we adjust the rates. To the extent the savings are being exceeded then we will adjust as well. So that we maintain that target for a typical customer.

Q.277 - Which is one of the many permutations?

MR. CHARLESON: Correct.

Q.278 - I'm interested in one of your responses to a Board IR, and specifically I guess I would ask you to turn to IR 5-A posted by the Board secretary. Now in your response to this interrogatory you provide an explanation of the assumptions and data underlying your efficiency numbers. And in A in your response you state that you relied on data from Natural Resources Canada's Energuide for Houses program which audited a non-random sample of homes in New Brunswick between August '02 and September '05. You also state that homeowners that are interested in participating in the Energuide for Homes programs likely have higher than average energy bills. Has any adjustment been made to compensate for the selection bias that EGNB has identified in the sample?

MR. CHARLESON: No, there hasn't been. However, I guess I would add that the -- while the target -- while the expectation is that it tends to be the older homes, older parts of the cities, as we indicate in that response, those are also likely the initial customers, the bulk of the customers, that are going to have the principal interest in converting to gas and therefore would constitute a large share of the -- kind of your initial conversion targets and customers that you would have captured.

Q.279 - But the answer to my original question is no, you haven't.

MR. CHARLESON: That's correct.

Q.280 - And I note in the response to EGNB notes, the difference between the steady state efficiency for an old furnace and the seasonal efficiency is about 10 percent?

MR. CHARLESON: Correct.

Q.281 -What is the corresponding difference for a new furnace?

MR. CHARLESON: I don't have that information at hand, but I would expect it to be just slightly less. You are still going to have seasonal efficiency gains or the difference between a seasonal efficiency and the steady state efficiency will always exist.

Q.282 - So it's fair to say that the difference between the steady state and the seasonal efficiency for newer furnaces was not relied upon in calculating relative efficiencies here?

MR. CHARLESON: Again because the focus being on the types of furnaces that would likely be the initial -- the bulk of the customers you are going to capture.

Q.283 - But isn't the company attempting to provide the 20 percent savings to a typical customer?

MR. CHARLESON: Yes.

Q.284 - Now if there is a mix of newer and older oil furnaces among potential SGSRO customers, wouldn't using the difference between the steady state and seasonal efficiencies for only older furnaces result in only providing that level of savings to a customer with an old furnace?

MR. CHARLESON: Again if you assume that the steady state efficiency, the equipment that is replacing it or going in is also at the lower level, we have taken a conservative view in terms of the steady state efficiency of the natural gas appliance that is going in there. So you really have to look at both sides to assess the efficiency gain.

Q.285 - So is the answer yes?

MR. CHARLESON: Maybe repeat the initial question. I thought had answered it.
Q.286 - Sure. If there are a mix of newer and older oil furnaces among potential SGSRO customers wouldn't using the difference between steady state and seasonal efficiencies for only older furnaces result in only providing that level of savings to a customer with an old furnace?
MR. CHARLESON: Yes. Subject to the conditions I gave you in my original answer. So I stand by the original answer.
Q.287 - Now EGNB I note also states while the average efficiency of existing oil equipment in the residential and small commercial market is likely improving, it would be doing so at a relatively slow rate as equipment reaches the end of its economic life 20 to 30 years. Does EGNB have any support for the assertion that the typical life span of oil furnaces is over 20 years?
MR. CHARLESON: Nothing empirical, but I believe there is a general understanding that that's the life you would normally see out of a furnace.
Q.288 - So the answer would be no, you don't?
MR. CHARLESON: Other than the experience we have in terms of servicing and installing equipment.
MR. CHARLESON: Now if one relies on the middle of the study

period and the middle of EGNB's life span or range, yielding roughly five year old data and 25 years to replacement, this would indicate that 20 percent of the oil furnaces in the study would have been replaced by the end of 2008, correct?

MR. CHARLESON: Step me through the math again?

Q.289 - Sure. I will repeat the question. If one relies on the middle of the study period, in the middle of EGNB's life span range, yielding roughly five year old data and 25 years to replacement, this would indicate that 20 percent of the oil furnaces in the study would have been replaced by the end of 2008?

MR. CHARLESON: Yes.

Q.290 - What calculations has EGNB made to adjust for the effect of replacing 20 of the oldest and thus lowest efficiency oil furnaces with oil furnaces of at least the statutory minimum 78 percent AFUE?

MR. CHARLESON: We haven't replaced oil furnaces with oil furnaces. At least that's the way I heard your question.

Q.291 - No.

MR. CHARLESON: Perhaps you can repeat the question.

Q.292 - Has EGNB performed any calculations in arriving at the efficiencies used for CS and CGS rate classes?

MR. CHARLESON: No. We have assessed that based on the information that we provided in the response in this interrogatory.

Q.293 - Okay. And has EGNB considered calculating efficiency for its gas customers in the various rate classes from the data produced in response to Board interrogatory number 5-B?

MR. CHARLESON: No, we haven't.

Q.294 - And why not?

MR. CHARLESON: Again because we look at the general efficiencies that are made available through the equipment that we install. We look at the typical efficiencies that we are seeing there and based on the kind of the distribution of the different types of equipment, the efficiencies that are in there, what we see is those efficiencies would tend to exceed the threshhold that we have put in as the natural gas efficiency in arriving at our efficiency factor.

MR. THERIAULT: Thank you. Mr. Chairman, if I could just have one moment.

Q.295 - I'm just going to go back to a question I asked you earlier. And it is what calculations has EGNB made to adjust for the effect of replacing 20 percent of the oldest and thus lowest efficiency oil furnaces with oil furnaces of at least the statutory minimum, 78 percent

AFUE?
Have you made any calculations?
MR. CHARLESON: Sorry. I'm still having difficulty understanding. Can you ask -- try asking it maybe one more time?
Q.296 - Well, in other words there would be a change in the inventory. And I think in one of the -- yes, with oil furnaces. One of the previous --
MR. CHARLESON: Oil furnaces as they have upgraded --
Q.297 - Yes.
MR. CHARLESON: -- and what adjustments have we done there? Well, I think if you looked at the -- you know, on page 3 where we talk about the old furnaces, where the steady -- the seasonal efficiency being around 65 percent. Well, the efficiency factor that we assume is at 68 percent. So you will have -- the efficiency factor isn't sitting at the bottom end. It's obviously accommodating some of the newer equipment that has come into play.
Q.298 - Do you -- I guess my question was do you have any calculations to support that?
MR. CHARLESON: No, I don't.
Q.299 - Now I just have some questions with respect to some of the interrogatories put by EGNB to Mr. Strunk.

And specifically interrogatory number 6, if we could turn to that. All right. EGNB interrogatory number 6. Do you have that, Mr. Charleson?

MR. CHARLESON: Yes, I do.

Q.300 - Okay. Now you asked Mr. Strunk to provide a copy of all studies carried out or relied upon by Mr. Strunk on the issue of natural gas acquisition rates in New Brunswick and specify all factors identified by such studies as determinative factors in the decision to convert to natural gas.

And I would suggest obviously that is I think a pretty good question. And it goes to the issue of what influences customers to convert to natural gas from other sources.

Did EGNB file studies with the Board that identified the factors that influenced the decision to convert to natural gas?

MR. CHARLESON: No, we didn't.

Q.301 - Okay. And does EGNB agree that a price differential between natural gas and alternative energy sources is certainly one factor that influences the decision to convert to natural gas?

MR. CHARLESON: Yes.

Q.302 - And what elasticity rates did EGNB find when it studied the impact that price makes in the decision to convert to natural gas?

MR. CHARLESON: I think we have already indicated that we haven't done any price elasticity studies.

Q.303 - And could EGNB advise us of any studies it has done that would contradict the information provided by Mr. Strunk in his response to this IR?

MR. CHARLESON: No, we wouldn't.

Q.304 - Now with respect to interrogatory number 8, part (d) EGNB asked about the nature of the non-cost of service rate regimes that are in place in the many jurisdictions to which the comment was applicable. Again I would suggest probably another good question.

Did EGNB file studies with the Board that identified other non-cost of service rate regimes and the particular aspects of these regimes?

MR. CHARLESON: No. But we weren't the ones making this assertion in our evidence.

Q.305 - No. I'm just wondering if you had filed any similar type evidence?

MR. CHARLESON: No. We filed evidence in support of our proposal. And you asked these questions on the basis that we assumed Mr. Strunk would have done work in support of his proposals.

Q.306 - Now does EGNB agree that there are other market-based ratemaking regimes in the gas distribution marketplace?

MR. CHARLESON: Are there other ratemaking regimes in the gas distribution?

Q.307 - Other market-based ratemaking regimes?

MR. CHARLESON: We haven't -- as I indicated before, we haven't done research on that. So we are not aware of any.

Q.308 - So you don't know?

MR. CHARLESON: Don't know.

Q.309 - Could EGNB advise us of any studies it has done that would contradict the information provided by Mr. Strunk in response to this IR?

MR. CHARLESON: No.

Q.310 - Now with respect to IR number 11, EGNB asked for among other things the data Mr. Strunk used in his analysis of the fixed price offer.

Does EGNB recall that I asked for all data reviewed by EGNB in connection with the introduction of the fixed price offer, specifically PI IR-6, Question 3?

MR. CHARLESON: Yes.

Q.311 - And do you recall what your response to me was?

MR. CHARLESON: Yes. I believe our response was that we didn't believe that was information was relevant to this proceeding.

However based on that response, the Public Intervenor evidence prepared by Mr. Strunk still looked to address the fixed price product, which gave us the reason to look for this response.

Q.312 - So it is correct that EGNB is asking Mr. Strunk to provide data they refused to provide to my response?

MR. CHARLESON: No. Because we didn't put that chart entry in our evidence. We asked for data related to a chart that was filed in the Public Intervenor's evidence, which I think is a reasonable request.

Q.313 - So is it correct that EGNB has not provided any data in this proceeding to dispute the accuracy and reliability of the data used by Mr. Strunk in his analysis of the fixed price offer?

MR. CHARLESON: That's correct.

MR. THERIAULT: Now may I just have a minute, Mr. Chairman, just to get some --

CHAIRMAN: Certainly.

MR. THERIAULT: Mr. Chairman and panel, I have a series of decisions issued by the Board in the past that I would like to hand out that I will be questioning the panel on, if that is okay.

CHAIRMAN: Yes.

MR. THERIAULT: Mr. Chairman, this is a series of decision. There is one document that I will get into later that is attached to the back of this.

I'm not asking at this time that it be introduced or anything outside of being able to question the witness. And when I get to the table at the end I will stop and explain to the panel and to --

CHAIRMAN: Okay.

Q.314 - Now Mr. Charleson, what I have just handed out is a series of natural gas decisions issued by this Board in the previous Public Utilities Board. No, I guess, yes, it is this Board.

These decisions have been posted on the website. And they have the following dates, October 22nd 2007, May 16th 2008, September 19th 2008 and January 22nd 2009 and February 20th 2009.

Do you have those ones?

MR. MACDOUGALL: Mr. Chair, Mr. Charleson does. I don't know that I do. I have a bunch of dates that are different. December 11, '08. And maybe we could go through them page by page and slowly, because I --

CHAIRMAN: That might be worthwhile.

MR. MACDOUGALL: -- didn't follow it. And I don't have some. And I have some others.

Q.315 - Okay. The first one should be a decision dated October 22nd 2007?
MR. CHARLESON: I have that.
Q.316 - And the next one should be a letter dated September 19, 2008?
MR. CHARLESON: Yes.
Q.317 - And the next one should be a similar letter dated May 16th 2008?
MR. CHARLESON: Yes.
Q.318 - And the next one should be a letter dated December 11th 2008?
MR. CHARLESON: Yes.
Q.319 - And the next one should be another letter dated December 14th 2008?
MR. CHARLESON: Yes.
Q.320 - And then a January 22nd 2009 letter?
MR. CHARLESON: Yes.
Q.321 - As well as one dated February 20th 2009?
MR. CHARLESON: Yes. I think the initial confusion was the May 16th went out of sequence.
Q.322 - Yes. I just have a few questions with respect to each of these.
Now could we deal with the October 22nd 2007 decision?
And is this an application for a rate reinstatement?

MR. CHARLESON: Yes, it is.
Q.323 - Okay. And did this rate reinstatement application result in increasing a rate or rates?
MR. CHARLESON: That's correct.
Q.324 - And which rates were affected?
MR. CHARLESON: In the case of this application it was the SGSRE, SGSRO, SGSC, GS and CGS.
Q.325 - And did EGNB initiate this application on its own? Or was it ordered to do so by the Board to file?
MR. CHARLESON: We initiated on our own.
Q.326 - Now did EGNB utilize the market-based formula in developing this application for rate reinstatement?
MR. CHARLESON: Yes. Any of our rate rider and reinstatement applications used market formula as the basis, first for determining whether a rider or a reinstatement application should be put together to continue to maintain the ability for customers to achieve target savings on an annual basis.
Q.327 - So the answer is yes?
MR. CHARLESON: Yes. But with a lot of clarity added.
Q.328 - Did EGNB file documentation that demonstrated that demonstrated that the formula supported the rate reinstatement during this decision? Do you recall?
MR. CHARLESON: There would be some documentation. There is

typically a table that's provided that shows the derivation of rates that's included.

So similar to a derivation table that would appear in our rate applications. We provide one of those tables in our rate rider application or reinstatement application.

Q.329 - Okay. And did the application of the formula result in supporting the rate reinstatement to the level proposed in the application for all rates to be changed?

MR. CHARLESON: I believe so in this case.

Q.330 - Okay. Could we move on to the May 16th?

MR. CHARLESON: Perhaps if I can -- perhaps I need to just revisit that question.

Q.331 - No. No problem.

MR. CHARLESON: In the case of this reinstatement, as I took a closer look at what the proposed delivery rates are, since some of these rates were reinstated to the maximum level approved by the Board, it's my expectation that in this case the formula would have shown it supported rates that were in excess of what were applied for in this rate. But however because it is a maximum -- there is a maximum rate -- we couldn't apply for anything further.

Q.332 - So if we could turn to the May 16th.

And as I read this would I be correct in assuming this was an application for a rate rider?

MR. CHARLESON: That's correct. Or the Board's --
Q.333 - Yes.
MR. CHARLESON: -- decision.
Q.334 - The Board's decision relating to an application --
MR. CHARLESON: Yes.
Q.335 - -- for a rate rider?
And did this rate rider application result in increasing or decreasing the rate?
MR. CHARLESON: In this case it resulted in a reduction to the rate.
Q.336 - And this application was only for the SGSRE class?
MR. CHARLESON: That's correct.
Q.337 - And again did EGNB initiate this application on its own? Or was it ordered by the Board to file?
MR. CHARLESON: EGNB initiated the application.
Q.338 - And for this application did EGNB vary any of the inputs from those approved by the Board?
MR. CHARLESON: No, not that I'm --
Q.339 - So you used the formula?
MR. CHARLESON: We used the formula.
Q.340 - And did EGNB file documentation that demonstrated that the formula supported the rate rider?
MR. CHARLESON: Again a derivation of rates table was included -- would have been included with the application.

Q.341 - And did the application of the formula result in supporting the rate rider to the level proposed in the application?

MR. CHARLESON: Yes, it would have.

Q.342 - And did EGNB provide any documentation to support the exclusion of all other classes from the rate rider at this time or --

MR. CHARLESON: No. We would have just filed information related to the rate in question.

Q.343 - Okay. Now if I could look at the September 19th 2008 decision.

And again as I read this this is also a decision from an application for a rate rider?

MR. CHARLESON: Yes. In this case it's a partial reinstatement of a rate.

Q.344 - Okay.

MR. CHARLESON: It's a rider application but for a reinstatement -- for a rate reinstatement.

Q.345 - So it would increase the rate?

MR. CHARLESON: That's correct.

Q.346 - And again this was for the SGSRE class?

MR. CHARLESON: Correct.

Q.347 - And did EGNB initiate this application on its own? Or was it asked by the Board to file?

MR. CHARLESON: EGNB initiated the application.
Q.348 - And for this application did EGNB vary of its inputs from those approved by the Board? Or was the formula --
MR. CHARLESON: The formula was applied. And the derivation of rates table was provided.
Q.349 - And did EGNB file documentation that demonstrated that the formula supported the rate rider?
MR. CHARLESON: The derivation of rates table was provided.
Q.350 - And did the application of the formula result in supporting the rate rider to the level proposed in the application?
MR. CHARLESON: Yes, it did. And again in any of these cases I would assume that it supported because the Board approved the application.
Q.351 - Okay. And did EGNB provide any documentation to support the exclusion of all other classes from this rider at this time?
MR. CHARLESON: No. The application would have strictly focused on earlier.
Q.352 - Okay. Could you turn to the December 11th decision. Again would I be correct in assuming that this is a decision from an application for a rate rider?
MR. CHARLESON: Yes, it is.
Q.353 - And just for the record could you tell me what rate

classes were affected by this application?

MR. CHARLESON: In this case it was the SGSRO, the SGSC, the GS, CGS, LFO, CLVOPS and OPS.

Q.354 - Would that be every one but electric?

MR. CHARLESON: The electric in HFO and also the natural gas vehicle fueling.

Q.355 - And did this rate rider application result in increasing or decreasing a rate for each class?

MR. CHARLESON: This was for a reduction.

Q.356 - And I'm assuming that EGNB initiated this as the previous ones on its own?

MR. CHARLESON: Yes.

Q.357 - And that the formula was used?

MR. CHARLESON: Yes.

Q.358 - And it was used for every class covered by this application?

MR. CHARLESON: Yes. Recognizing that the CLVOPS and OPS rates are derived by taking 75 percent of the GS and CGS rates.

Q.359 - Okay. Aside from them?

MR. CHARLESON: Aside from that, yes.

Q.360 - And the derivation of rates was provided I guess as documentation demonstrating that the formula supported the rate rider?

MR. CHARLESON: That's correct.

Q.361 - Now for the January 22nd decision did this application cover all of the customer classes?

MR. CHARLESON: With the exception of HFO.

Q.362 - And is this an application for a rate reinstatement, a rate rider or both?

MR. CHARLESON: It's for both. There was a rate reinstatement for the SGSRE class and a rider of all the other classes.

Q.363 - And did EGNB initiate this application or --

MR. CHARLESON: Yes.

Q.364 - -- the Board?

MR. CHARLESON: EGNB initiated.

Q.365 - Okay. Just for a second here dealing with the rate reinstatement portion.

For that portion, the rate reinstatement portion of this application, which rate class was affected by the application?

MR. CHARLESON: There was the small general service residential electric, SGSRE.

Q.366 - And for the rate reinstatement portion of this application did EGNB vary the inputs from those approved by the Board? Or did it follow the formula?

MR. CHARLESON: I'm just being cautious here. We followed the formula.

Q.367 - And did EGNB file documentation that demonstrated that the formula supported the rate reinstatement?

MR. CHARLESON: Yes, it did.

Q.368 - So it would be the similar documentation?

MR. CHARLESON: The derivation.

Q.369 - And I'm assuming that the formula -- the application of the formula resulted in supporting the rate reinstatement to the level that was proposed in the application?

MR. CHARLESON: Yes, given that the Board approved it.

Q.370 - Now for the rate rider portion, did this rate rider application result in increasing or decreasing rates for each class?

MR. CHARLESON: Decreasing rates in all these classes. And I guess just to clarify on one of the questions you asked regarding this application, our application didn't actually request an adjustment to the natural gas vehicle fueling rate.

However the Board in its decision directed us to make a corresponding adjustment to that rate.

Q.371 - Okay. Dealing with the rate rider portion, did EGNB utilize the market-based formula in developing the application for a rate rider?

MR. CHARLESON: Yes, it did.
Q.372 - And did you use that formula for every class covered by this rate rider application?
MR. CHARLESON: Were applicable, yes.
Q.373 - And when you say "were applicable" --
MR. CHARLESON: The vehicle fueling, the OPS, the CLVOPS.
Q.374 - For some reason I want to call that CYCLOPS, but --
MR. CHARLESON: Yes. I know.
Q.375 - So aside from that --
MR. CHARLESON: Aside from that.
Q.376 - And did EGNB file documentation that demonstrated that the formula supported the rate rider for each class?
MR. CHARLESON: Yes, the derivation table.
Q.377 - Okay. Now for the February 20th 2009 decision, this to me looks like a decision resulting from an application for a rate reinstatement. Would that be correct?
MR. CHARLESON: Yes, it is.
Q.378 - And did this rate reinstatement application result in increasing a rate or rates?
MR. CHARLESON: They result in an increase in the rates, yes.
Q.379 - And which rates did it affect?
MR. CHARLESON: All of the rates with the exception of HFO.
Q.380 - Okay. And did EGNB initiate this application on its

own?

MR. CHARLESON: Yes, it did.

Q.381 - Now something different here. And I want to quote from paragraph 1 if I may of the decision.

It says at paragraph 1 "Requesting approval to partially reinstate distribution rates for most customer classes using the reinstatement mechanism approved by the Board."

And then at paragraph 2 there is a quote. "The mechanism incorporates a formula using 21 days of energy future markets data."

And then at paragraph 3, "Calculations based on the 21 days of data would result in rates significantly higher than those applied for. In this application EGNB indicates that it applied its judgment and altered the formula using one day of market data."

Now I have some questions for you arising from these three quotes.

And the first one is when EGNB applied the 21 days of data did the formula generate rates that would have produced the targeted savings levels for each customer class covered in the application?

MR. CHARLESON: Yes. At the time the -- it would have provided those at the time the formula was being applied and calculated.

Q.382 - Then why did EGNB opt to use one day of market data?

MR. CHARLESON: Again I think one of the quotes -- if you looked in the second paragraph of this decision where it indicates that the mechanism allows management to apply its judgment in determining the level of reinstatement.

Q.383 - Yes.

MR. CHARLESON: At that time there had been a significant move in the market in just a few days leading up to us preparing our rate reinstatement application, where there had been a significant downturn in the price of crude oil. Had we retained the 21-day average -- we were concerned that by the time the rider was actually put into effect on March 1st that the rates would have been at a level that would not have supported achieving the target level of savings.

So as a result we applied to the Board to apply our judgment and use the one day of market data, which we felt would be -- had a higher likelihood of being representative of where pricing would be -- where the 21-day average would be at the end of the month.

And the Board in its decision accepted that but did caution as in terms of the use -- applying that discretion and that judgment.

At the end when we have assessed the impact of the two options that could have been applied, the one-day average was much closer to the market conditions than what the 21-day average would have dictated.

Q.384 - The 21-day average would have --

A. Would have led to a price that would have been too high.

Q.385 - Too high. So obviously the optics of that wouldn't be very good?

A. That's right. Our goal is always to try to do what we can to ensure customers are going to achieve the target level of savings.

And in this case, because of the movement in the market, we applied the judgment that we have always had available to us. But this was the first instance where we actually used it.

Q.386 - I'm just curious. I hope debating -- part of the debate here is on four decimal places when EGNB feels free to change any input into the formula in order to produce what it perceives to be a palatable result.

Do you feel that you can change inputs into the formula anytime you wish or --

MR. CHARLESON: We feel that when it comes into the process of applying for rate riders and rate reinstatements that there is a certain degree of judgment that needs to be able to be applied to respond to the market conditions at the time.

When we are talking about the general formula we are talking about a formula for establishing the maximum rates to be approved by the Board. It is then used as the basis for establishing or looking at rate riders and rate reinstatements.

However, EGNB needs to be able to respond to changes in market conditions. And that is one of the reasons that EGNB was given the rider and reinstatement mechanism, to be able to apply a certain round of judgment.

And again the Board has to look at that judgment. And EGNB has to justify to the Board that that judgment was reasonable at the time and has the opportunity to revert and say no, we don't agree that judgment should be applied in this case, stick to the formula.

Q.387 - Now I just want to quote from some additional passages from the decision at paragraph 3. I think you alluded to this somewhere along the line.

It says "EGNB stated that in management's judgment this, i.e. one day of market data, better reflected future market prices."

And my question to you, Mr. Charleson, who at EGNB has the requisite experience in oil futures to support a claim that one day of data is superior to 21 days of data as an indicator of future prices?

MR. CHARLESON: I would say none of us have that level of experience. However what you look at is how much a 21-day average can move over a 10-day period.

And when you have about a $10 -- or I think at that point in time oil moved from about $45 to $33, if I recall correctly, in a matter of a day or two. To strip out the 45 and $50 prices at that point in time would have taken 21 days, which would have extended well beyond the March 1st.

And our customers I'm sure would not have been happy to see a higher rate than what would deliver the target savings at that point in time.

Q.388 - Now --

MR. CHARLESON: We do have experience in terms of watching market conditions and monitoring the market. Are we experts?

Can we accurately predict? No. If we did we would probably be in a different business and making a lot of money.

Q.389 - At paragraph 4 -- I will leave that one alone -- "In its application EGNB stated that the applied-for rates will continue to deliver an economic benefit to customers, whereas implementing rates derived from the use of the 21 days of future energy prices would not."

Now do I interpret -- am I correct that this means that the formula would have produce less than the targeted savings if the 21-day were used?

MR. CHARLESON: That was our expectation at the time we applied, yes.

Q.390 - And would this have been true for all classes covered by the application?

MR. CHARLESON: Yes, it would of.

Q.391 - And did EGNB file documentation that demonstrated this behavior by the formula?

MR. CHARLESON: We filed documentation showing both the formula calculation on a 21-day average basis and on the one-day spot market basis. So we provided the two outcomes.

Q.392 - Would it be fair -- and I say this seriously. Would it be fair to conclude that EGNB's position with respect to the market-based formula could be summed up as the formula if necessary but not necessarily the formula?

MR. CHARLESON: I don't think I would characterize it that way. I think the formula is the key consideration. However, there is always a need for a certain degree of judgment when it comes to riders and reinstatements.

We have got the experience in the market. We are the ones that are looking at market and trying to grow it.

MR. THERIAULT: If I may just have one second, Mr. Chairman.

Q.393 - Now I had asked you to look at the last page of the document that I handed out.

In the first table it shows changes in the SGSRE delivery rates for the period covered by the decisions that we have discussed earlier?

MR. CHARLESON: Yes.

Q.394 - And the second table shows the changes in the SGSRO delivery rates for the same time period as a result of the same decisions?

MR. CHARLESON: Mmmm.

Q.395 - Now subject to check would you confirm that the SGSRE rate decreased by 18 percent from October '07 to May '08?

MR. CHARLESON: Yes.

Q.396 - And again subject to check that it increased by 62.9 percent from May 2008 to September 2008?

MR. CHARLESON: Yes.

Q.397 - And again subject to check that it increased by 7.8 percent from September '08 to January '09?

MR. CHARLESON: Yes.

Q.398 - And again subject to check that it increased by 26.9

percent from January '09 to February '09?

MR. CHARLESON: Yes.

Q.399 - Okay. And again I would ask subject to check would you confirm that from October 2007 to February 2009, a period of 16 months, there was an 82.8 percent increase in the SGSRE delivery rate?

MR. CHARLESON: In the delivery rate. However at the same time there would have been a dramatic movement in the commodity market as well, in the commodity cost reductions.

So the overall cost, the total cost of using natural gas would continue to deliver target savings against the electricity.

Q.400 - But the answer would be subject to check, yes on the delivery rate?

MR. CHARLESON: Yes, on the delivery rate. But the formula looks at the total cost.

Q.401 - Yes. And subject to check would you confirm that from October '07 to February '09, a period again of 16 months, there was a 24.5 percent decrease in the SGSRO delivery rate?

MR. CHARLESON: Between those points in time I would agree. However there was an increase in the delivery rate in April of 2008 that was done through a rate application.

So it went up. And then it came down.

Q.402 - Right. But I'm correct in my -- subject to check I'm correct in that assertion?

MR. CHARLESON: The total movement between those points in time is that amount.

Q.403 - Okay. Now let's suppose we have two neighbors in a residential section of Moncton. One of the neighbors used to heat with electricity, the other with oil. Both now heat with natural gas.

They both avidly -- and one of these customers we talked about earlier-- they follow their bills from EGNB. And they have done so during those 16 months.

How do you explain to those two neighbors the logic of a system that increases the delivery charge for one neighbor by 82.8 percent while decreasing the delivery charge for the other neighbor by 24.5 percent?

MR. CHARLESON: You indicate to both those neighbors that if they look at what they were paying to heat their homes before, the cost of heating that home now is 20 percent less.

Q.404 - And how do you explain that these variables out -- I think to quote Mr. Lawson, these widely variable changes relate to delivery charge for the same commodity, that is, natural gas?

MR. CHARLESON: Again the ability to save target savings of 20 percent on the total cost of using natural gas when you factor in commodity cost as well, which were you moving widely at the same time.

Q.405 - And how would you explain that the gas as delivered to each neighbour using exactly the same infrastructure, the pipeline?

MR. CHARLESON: I indicate that -- this is -- these are the rates that have been approved and put in place by the Board. It allows for a target level of savings. And we have seen -- and you see this in other industries.

On the electricity side, there was commercial electric rates that allowed for discrimination. They had the all electric rate for a period of time, where you could have two commercial customers side by side that were using electricity coming through the same wires, but there was drivers behind providing a different delivery rate.

Similarly, today in residential new home construction, you could have a house that was built last year on an electric rate that is getting the declining block structure, and you have one that is built today that doesn't get the declining block structure.

So again, there is different factors that are used to help to develop a market and to send market signals. The rates -- the difference between RE and the RO rates, are meant to ensure that there is the ability to provide signals to the marketplace that will incent conversion, while at the same time will also minimize additions to the deferral account.

Q.406 - Do think the neighbour would understand that response?

MR. CHARLESON: I won't bothering answering.

Q.407 - No, that's fine.

CHAIRMAN: Mr. Theriault before you move away from those documents, I don't think we marked them at all.

MR. THERIAULT: Yes, perhaps we could mark them for identification.

CHAIRMAN: I think that the series of documents will be <u>marked B for identification</u>.

MR. THERIAULT: Thank you, Mr. Chairman.

MR. MACDOUGALL: Is that just B?

MR. THERIAULT: B as in Bob.

MR. MACDOUGALL: Thank you, Mr. Chairman.

Q.408 - Mr. Charleson, or Panel, I just have a series of questions I guess related to your opening statement, and then I believe I will leave you alone.

The third paragraph of your opening statement begins, to ensure improved transparency, EGNB has standardized all calculations, with a few exceptions are identified to be rounded to 4 decimal places. And I would ask you to explain how rounding to four decimal places will improve transparency?

MR. CHARLESON: Again, I think when you talked this morning a bit about the impact of four decimal places and that when you have differing degrees of rounding that's applied within a formula, it can lead to different outcomes. I know from discussions I had had with Board Staff, even around some of our applications, there has been questions raised around how did you arrive at that number? I don't get the same answer. And a lot of that can be driven by the fact that, you know, that they are looking at what is showing on the page, but there is actually numerous decimals that are still showing behind there, so that can lead to variations that occur, by knowing that the calculations are done to a consistent number, it allows for another party to replicate that calculation.

Q.409 - Okay. And when you addressed Mr. Strunk's proposal on the seventh paragraph of your opening statement you state, it is important to note, that in each case these lower rates are applicable to all customers, resulting in reduced revenue from existing customers as well as those that the proposal may attract. Did I quote that correctly?

MR. CHARLESON: Yes, you did.
Q.410 - And if the proposal attracts new customers that would not otherwise have chosen natural gas, is it not the case that EGNB's revenues from these new customers would be higher, not lower as a result of the proposal?
MR. CHARLESON: They will be higher than if the customer had never been attracted. But if you were going to get the customer anyways with the existing rate levels, then it is going to be lower.
Q.411 - But my question as very specific. I said if the proposal attracts new customers that would not otherwise have chosen natural gas, is it not the case that EGNB's revenues from these new customers would be higher, not lower, as a result of the proposal?
MR. CHARLESON: If the proposal is the sole reason for the customer being attracted then, yes, I would agree.
Q.412 - And you would characterize this as reduced revenue in that circumstance?
MR. CHARLESON: In that circumstance, no, I would not. The only reason that they join is because of Mr. Strunk's proposal, then yes, it would be incremental revenue.
Q.413 - With regard to the proposal made by Mr. Strunk, you state that the first proposal, quote, would also create a confusing patchwork of targeted savings levels, which

would be counterproductive to EGNB's marketing activities. Is it not the case that SGSRO, SGSRE and the SGSC classes rely on a 20 percent savings rate?

MR. CHARLESON: Yes, they do. But, however, in the case of this proposal, you would now be looking at SGS, say the SGSRE rate was the lowest, well now an SGSRO customer may have the ability to get 30 percent savings, because oil is 10 percent higher. Or the SGSC customer maybe they are getting 22 percent savings because of where the oil price is for that. So by blending them together into one, there is -- there could be widely different -- differing types of savings activities that may be there that again could draw some confusion.

Q.414 - But again my question is it not the case that these classes, the RO, the RE, and the SGSC all rely on a 20 percent savings rate?

MR. CHARLESON: Yes.

Q.415 - Now I am going to ask you a couple of questions from attachment number 1 if I may. Do you have that in front of you?

MR. CHARLESON: Yes, I do. I believe that is exhibit 7(A).

Q.416 - Yes, I do believe you are correct. You criticize Mr. Strunk for looking at the historic period beginning in 2007, you stated that his analysis, quote, has no basis on where the customer base and revenues stand today. So my question is it your position that your analysis, as shown in attachment 1, is in fact based on where the customer base and revenues stand today?

MR. CHARLESON: With the exception of the formula rates are based on what the formula would arrive at to date, but in terms of the actual number of customers, it is where it stand -- well where it stood say at the end of March, and I guess we are later into April, so there are some different customer numbers now.

The typical customer annual consumption is based on the most recent information that we have brought before the Board. So I would say it is reflected as possible of where things stand today.

Q.417 - Now could you read me the rate used for the SGSRE class for column 3 in attachment 1, is that rate --

MR. CHARLESON: It is $4 and 21 34.

Q.418 - And is that a rate that is consistent with where EGNB today expects revenues from that class to stand?

MR. CHARLESON: No.

Q.419 - Now can you calculate an annual revenue loss in column 6 on attachment 1 -- or sorry, yes, you calculated an annual revenue loss on column 6 on attachment 1, and what time frame does your analysis consider, just the one year?

MR. CHARLESON: It's a one year. That's why it's an annual revenue loss.
Q.420 - And wouldn't benefits accrue to EGNB from having those customers on the system in the years following the year you analyzed?
MR. CHARLESON: You are going to continue to lose revenue from those customers. Which -- are you talking -- this is the revenue lost from the existing customer base, so to the extent the rate continues to be lower than what the formula would provide for in that particular class, you are going to continue to lose revenue for those customers.
Q.421 - But, Mr. Charleson, to the extent that these customers are incremental customers, who would not have switched to natural gas, but for the proposal, then wouldn't their revenue add to EGNB's revenue in the second year?
MR. CHARLESON: The only place we identify any incremental customers is in column 8, and that would be the number of incremental customers required to offset the loss in revenue. The annual revenue loss is based strictly on the revenue you would lose from the existing customer base.
Q.422 - But you wouldn't lose those revenues once the development period ends, because the rate making mechanism would reset, correct?
MR. CHARLESON: Yes. It still remains to be seen what the

rate mechanism looks like post-development period.

Q.423 - Yes. And there still would be benefits from having added the additional customers, correct?

MR. CHARLESON: Any incremental customers that you got from the proposal, yes, there is ongoing benefit from there.

Q.424 - Now --

MR. CHARLESON: But if we look at the number of incremental customers, you know, is it realistic to get those immediately? No.

Q.425 - Now turning now to attachment 2. Is this support of this analysis -- this attachment to show the impact of Mr. Strunk's second proposal which involves or surrounds the introduction of a cap?

MR. CHARLESON: Yes, it is.

Q.426 - And the idea is that EGNB believes a cap will lead to reduced revenues for EGNB, is that correct?

MR. CHARLESON: That's correct.

Q.427 - But Mr. Strunk has suggested that EGNB may make up any lost revenues, if any exists, by adding new customers, correct?

MR. CHARLESON: That's correct. And the intent of this attachment as well was to show the number of incremental customers that would be needed to replace that lost revenue.

Q.428 - And what you are trying to show here is how many -- yes, how many new customers would be needed to make EGNB revenue neutral from the cap?

MR. CHARLESON: That's correct.

Q.429 - And column 7 shows the loss -- revenue -- lost revenue as a result of the cap, correct?

MR. CHARLESON: Correct. And again this is based on the rates that came out of our 2008 rate applications.

Q.430 - Now I am trying to figure out how you arrive at column 7. You say it is the forecast revenue at the maximum allowable rate, less the forecast revenue at the current rate adjusted upwards by 2.5 percent, is that correct?

MR. CHARLESON: That's correct.

Q.431 - And the 2.5 percent is intended to reflect the inflation rate, correct?

MR. CHARLESON: Yes. A proxy for where inflation has been tracking.

Q.432 - Now in this analysis of yours in attachment 2, is I guess -- is this analysis of yours retrospective? In other words, backwards looking?

MR. CHARLESON: It uses information from the past. It is using the last say time that a rate application was put before the Board. So it tries to use that as the basis to show that if this approach had been used the last time we filed the rate application, this would have been the implications on that. So to that extent, yes, it is retrospective.

Q.433 - So it is an analysis that examines what would have happened to the revenues had the cap been in place for the rate application filed by EGNB in December of 2007 or thereabouts?

MR. CHARLESON: Yes. November and December.

Q.434 - So because it was retrospective or backward looking, it does not take into account where the maximum rate is now?

MR. CHARLESON: Yes, it does.

Q.435 - And where does it --

MR. CHARLESON: What you see in column 5 are the maximum rates that are approved by the Board at this point in time. It may not be showing what the effective rates are that this point in time, because of the riders that have been put in place, but it is the maximum approved rate.

Q.436 - Now does Mr. Strunk in his evidence propose to apply the cap retrospectively? And if he does, please show in his evidence where he does?

MR. CHARLESON: No, he does not propose to provide -- apply it retrospectively.

Q.437 - Now in incentive-wise switching is the core of EGNB's market-based framework, is it not?

MR. CHARLESON: Yes, balancing that with additions to the deferral.

Q.438 - Now does EGNB's application do anything to address the issue Mr. Strunk raises that EGNB may at times not be setting its prices off of the most competitive fuel and that EGNB is thereby not doing all it can to incentive-wise switching?

MR. CHARLESON: I disagree with Mr. Strunk's assertions.

MR. THERIAULT: Mr. Chairman, if I may have just a few moments, I think that concludes it, but I would just like to go through my notes to make certain.

CHAIRMAN: Certainly.

MR. THERIAULT: Mr. Chairman, that's all the questions I have. Thank you, Panel.

CHAIRMAN: Thank you, Mr. Theriault. Ms. Desmond, do you have some questions?

MS. DESMOND: Yes, Mr. Chair.

CHAIRMAN: We will take a 15-minute break and then we will have your questions.

(Recess 2:45 p.m. to 3:00 p.m.)

CHAIRMAN: Any time you ready, Ms. Desmond.

MS. DESMOND: Thank you.

<u>CROSS EXAMINATION BY MS. DESMOND</u>:

Q.439 - Our first question refers to your evidence, and it is the Derivation Table, Schedule 2, page 1. And then actually, page 4. So both on oil and electricity.

So perhaps first if you look at the Derivation Table as it relates to electricity, which is page 4 of 4. And at the bottom of the page, there is a reference for water heat -- water heater rental, 734. Can you explain how that number is used in the calculation for this particular Derivation Table?

MR. CHARLESON: Yes. The water -- if you look at the table it is just above that water heater rental reference, you will see in the second column from the right, there is a water heater rental charge that's applied to each of the 12 months and that's rolled in as part of the total electric cost. So the $88.08 on an annual basis ends up getting added into -- added with the other costs for actual electricity uses to -- electricity usage to arrive at the $2.461.83 as the total electric cost.

Q.440 - And is a water heater rental included in the cost for the residential oil class of customers?

MR. CHARLESON: No, it is not. And we have provided an explanation for that rationale in our response to the Board's -- I believe it is interrogatory number 5(c). And in that response, we indicated that it is only included in the SGSRE class, because in that class we do know that a very high percentage of electricity -- electric heat customers do rent water heaters. So at the time of conversion they are going to forego that rental cost.

However, for other customer classes in the RO, there is less certainty that way, because their alternate appliances may be used. They may be heating their water with oil, propane-fired water heater, or using an oil boiler. So because there is less certainty in there, we don't include a rental cost, because we don't have the same certainty that a typical customer will see that savings.

Q.441 - Do you have any sense how many in that particular class, the residential oil class, would have water heater rental?

MR. CHARLESON: No, I don't.

Q.442 - And could I suggest to you and would you agree that there is a likelihood that a large percentage of residential oil customers would have a hot water heater rental?

MR. CHARLESON: I would agree there is a likelihood that a fair number of oil customers, yes, could be renting a water heater.

Q.443 - And is it fair then to include that calculation simply for the residential electricity class and not for the other residential classes?

MR. CHARLESON: To the extent that it is a large enough percentage then perhaps it should be included as well for the oil class, but given that we don't have any certainty or empirical evidence around what percentage of oil conversions would have been renting a water heater, that's why we have excluded it this time.

Q.444 - Now looking at the Derivation Table for oil, which is on page 1 of your four pages on Schedule 2, and in particular line 10, which is the typical annual natural gas consumption. And our understanding is that's the average annual use by your customers in the previous year, is that correct?

MR. CHARLESON: Yes, it is.

Q.445 - And when and how do you see that number being calculated? Would you suggest that it be just the prior 12 months before an application is brought to the Board? Would it be a 12 month calendar year? What 12 month period would you suggest is appropriate?

MR. CHARLESON: We would look for it to be the 12 months prior to an application being brought to the Board, so that way it is the most recent consumption data that is being considered at the time an application for the maximum rate to increase is being made.

Q.446 - And if that is the date that is chosen as most appropriate is EGNB prepared or is there any reason why you could not file the data in advance perhaps on a more regular basis than simply on an annual period?

MR. CHARLESON: There is no reason that the information can't be filed at any point in time. It is just for -- I guess it is just understanding for what purpose it would be used or how -- or the driver behind it.

Q.447 - And my first question was with respect to usage data, but what about the other data that supports the formula, could that data also be available perhaps on a quarterly basis, for example?

MR. CHARLESON: The other data being the market data, like the --

Q.448 - Yes. Yes.

MR. CHARLESON: Again, we have that information at all points in time. And it is data that is available publicly as well, but there is no -- yes, there is no constraint in terms of being able to provide the data.

Q.449 - Thank you. Our next question relates to EUB IR-4.

And behind your response is provided usage information, usage data. And if I turn to the tab marked for the residential electricity usage, 2008, and we are looking at the last piece of data under that tab. So I think it is page 18 on the bottom it is marked.

CHAIRMAN: Sorry, Ms. Desmond, which tab are you at?

MS. DESMOND: It's EUB IR-4.

CHAIRMAN: Yes, I am that far.

MS. DESMOND: And then it is 2008 residential electricity usage. So it is RE usage.

CHAIRMAN: Yes.

MS. DESMOND: And those pages are numbered at the bottom and we are looking at page 18, which is the last page under that tab.

CHAIRMAN: Thank you.

Q.450 - And is it correct, Mr. Charleson, that this is the monthly usage of all of those customers and who were on the system for the full year?

MR. CHARLESON: The average monthly usage for all those customers who were on the system for the full 12 months.

Q.451 - And the last particular customer that you have noted as customer 1184, and the usage for that particular customer is, if I am correct, shows an entry of 695?

MR. CHARLESON: That's correct.

Q.452 - Is that above the maximum usage for that particular rate class?

MR. CHARLESON: Yes, it would be. The maximum usage identified in that class is 400 Gj's, so actually there is a number of customers at the top end that are above the maximum.

Q.453 - And what happens to those customers, do they get reclassified?

MR. CHARLESON: The likely should be getting reclassified. We have a -- we haven't been -- we monitor some of the commercial rate classes to look for movement between rate classes and try to identify when some of those customers should move, but haven't necessarily monitored to the same extent as the residential rates.

Q.454 - Were those customers used in your calculation in terms of your average usage?

MR. CHARLESON: Yes, they were.

Q.455 - And why was that?

MR. CHARLESON: Again, because we were looking at the consumption for all the customers that were billed within that class during that time period.

Q.456 - Would you agree that by including those customers, the calculation results have higher than typical annual natural gas consumption, and thus as a result, results in a higher delivery charge?

MR. CHARLESON: Yes, it would drive the consumption slightly higher.

Q.457 - And I believe -- and I don't have to take you through each of those customer classes, but I think there are various examples of that?

MR. CHARLESON: Yes, there would be.

Q.458 - In each class?

MR. CHARLESON: Yes, I believe so.

Q.459 - Is there any suggestion that you might offer to the Board in terms of how that might be dealt with moving forward?

MR. CHARLESON: Oh, I think we are always going to see some fluctuations within the class where a customer in a given year, especially when you look in the commercial classes, may have higher consumption depending on the type of load profile, also depending on temperature sensitivity and the weather within that year. You know, beyond -- so our view -- mean to include them, because they were a customer within that class for that year and so the consumption was there. I guess I don't have any specific recommendations for the Board in terms of how -- whether they should or should not be excluded for the purpose of our calculation. We believe that they should be included and have left them there.

Q.460 - Is it possible to include those customers that are outside of the usage, allowable maximum for that class, be moved then to the next class for the purpose of your usage profiles?

MR. CHARLESON: That's a possibility.

Q.461 - The next issue is a statistics one. And perhaps you could explain just to start what you would see as the difference between the mean and median?

MR. CHARLESON: I always get stumped with this question when my kids have their math homework. And I have a math degree, that's embarrassing.

I believe the median is kind of the average or the middle. Oh, okay. It is the other way around.

MR. LEBLANC: Yes.

MR. CHARLESON: The median is kind of the mid-point of all the data points, and then the mean is the average. See I told you I get it wrong all the time.

MS. DESMOND: No, that's what I Googled as well.

Q.462 - So if we look at the customer usage profile data that you provided, it would appear that a lot of the customers are actually on the low end of usage for their customer classes?

MR. CHARLESON: Yes.

Q.463 - And what impact, if any, would that have in terms of if you were to calculate the median, as opposed to the mean for their usage?

MR. CHARLESON: Well it would have a lower, typical consumption, which would then lower the delivery rate.

Q.464 - And is there any reason why EGNB has not used the median, as opposed to the mean in terms of trying to determine the best sort of average typical usage?

MR. CHARLESON: Well we -- we have looked at -- I guess our view is to look more at the average consumption, and so on, on an average basis, because you capture all the -- everything that sits kind of above and below and draws in some of the larger consumption, so that you are not over-delivering excessive savings to those larger consumers.

Q.465 - But I think you would agree though if you were to use the median result, as opposed to the mean result, then more customers could arguably be achieving their target savings?

MR. CHARLESON: I guess the challenge you might fact with that is that the median result may not have the same consumption profile as the mean, because you are only taking one data point.

Q.466 - If we could turn now to your evidence, page 11. And we have heard -- sorry, I will wait till you get there.

MR. CHARLESON: Okay.

Q.467 - And we have heard -- I believe the Public Intervenor asked questions around if more people attached to the system then perhaps the target savings level might be achieved or might be greater, and we talked about price elasticity, but is the target savings level actually linked to any sort of measurement?

So, for example, you know, a 15 percent target saving, is that reflective of the cost of conversion for example?

MR. CHARLESON: No, it is not directly related to that. What is really looked at is the type of absolute savings that can be achieved through that level of savings to help to incent' someone go and spend the capital cost. So I guess there is a loose relationship that way and you can tie back to saving some of the incentives that we provide, and how do you minimize some of those incentives by -- again finding that balance is always a challenge in terms of what type of absolute savings are there versus incentive spend to encourage someone to convert. And the target savings levels were seen as being the appropriate, you know, at the level, it helps to strike that appropriate balance, but there is no say pure calculation.

Q.468 - And are you able to confirm that the target savings does in fact cover the cost of converting a home to natural gas?

MR. CHARLESON: Over what time horizon? It won't -- it wouldn't cover it within a one year period.

Q.469 - Have you any studies or information that would identify over what period of time the costs were recovered?

MR. CHARLESON: For a residential customer with the typical incentives, typical conversion costs, the absolute savings would likely be in say a four to five year time payback period.

Q.470 - When you say typical conversion costs, what would those costs mean or include

MR. CHARLESON: We are looking -- well I to convert the heat and hot water, looking at that would be in the 1,500 to $2,000 range after incentives.

Q.471 - And page 5 of your evidence. Again just looking at usage profiles, in your evidence you comment that all rate classes except LFO and HFO are adjusted based on usage -- or based on temperature sensitivity. Is there any seasonality then attached to LFO or HFO?

MR. CHARLESON: In terms of actual consumption or in terms of the formula?

Q.472 - For the actual consumption?

MR. CHARLESON: In actual consumption, yes, there is a certain degree of seasonality that does come into play in those. However, there is also -- those rates are targeted more to larger usage that also includes industrial use that have a lower degree of -- there is definitely a lower degree of temperature sensitivity. I can't say there is no temperature sensitivity.

Q.473 - Do you have that data to support your comment that there is some sensitivity?

MR. CHARLESON: We have the information. It's not anywhere within our evidence.

Q.474 - Would you be prepared to undertake to provide that?

A. Yes. We would provide it on where we just averaged the customers together. We wouldn't want to provide a monthly breakdown for the individual LFO and HFO customers because of the small number of customers.

CHAIRMAN: So that undertaking, again just repeat it just to be sure we are certain what it is you are undertaking?

MR. CHARLESON: My understanding is it's to provide the usage profile of the customers in LFO and HFL, the average usage profile.

CHAIRMAN: And my understanding is that would be undertaking number 5 I think --

MR. CHARLESON: Yes.

CHAIRMAN: -- if my numbering is correct?

MR. CHARLESON: That's what I have.

Q.475 - And based on the fact that there is some sensitivity for those rate classes, should that sensitivity be in some way reflective or reflected in the formula?

MR. CHARLESON: Perhaps. It's just that to this point, because of the type of loads that you would expect to see on those types of rates, we have typically disregarded the temperature sensitivity and looked at it as being a flat profile.

Q.476 - There has been some discussion and Mr. Ervin this morning talked about the market spread. Is it your understanding that that -- the data to support that market spread would be provided to the Board or a Board consultant for verification to assure the appropriateness of that figure?

MR. CHARLESON: In relation to this proceeding?

Q.477 - Yes. For natural gas?

MR. CHARLESON: Sorry. I'm --

Q.478 - For future applications that would be filed before the Board the market spread --

MR. CHARLESON: We would continue to update the market spreads each -- we would have to undertake a study each time. So we would have to hire a consultant each time to do that. And I think Mr. Ervin in one of his responses this morning talked about -- I know it was focused more on the HFO rate, but the frequency to which some of those spreads would move, that it requires say changes in the industry, and it tends -- it would be relatively stable at least for over the short term. And so I guess I would be concerned about having to incur a consulting report cost every time we file an application as those -- especially if there is an expectation of limited price movement.

Q.479 - Okay. Mr. Theriault earlier today talked about the rate rider application and rate reinstatement application, and the most recent one wherein only one day of data was used to support that application. And I believe your evidence in response to his questions were essentially that management judgment was used and that a degree of management judgment is required for rate rider and rate reinstatement applications?

MR. CHARLESON: Yes, that's correct.

Q.480 - How do you see the interplay between management judgment and transparency?

MR. CHARLESON: There is definitely a bit of a disconnect there between those two elements, other than for -- you know -- on the transparency side if judgment was applied to ensure that there is a full description within an application in terms of the rationale and the drivers supporting the use of management judgment.

Obviously it does diminish the degree of transparency because you can't simply apply the formula.

In the case of this application -- that rider application where we change the sample period, I would say the transparency remains the same because the sample period was identified, so somebody could replicate the calculation just using that shorter sample period. To the extent of management judgment was some other factors or, you know, something else that believe need to be considered, then yes, that would diminish the degree of transparency other than the obligation or the requirement for the company to clearly articulate the basis for that judgment in its application.

Q.481 - Is there value to customers in having rate stability?

MR. CHARLESON: I would say not at the cost of not achieving savings.

Q.482 - Do you believe the formula should be used in a consistent or a mechanistic fashion?

MR. CHARLESON: Other than instances where a certain degree of judgment may need to be applied, in the case of a rider, reinstatement.

Q.483 - How do you then measure that judgment? How can consumers be sure that that judgment is transparent or being applied appropriately?

MR. CHARLESON: The only way that I could see that being achieved is through the -- you know -- the evidence that would be required from the company to justify the reasons for applying that judgment.

Q.484 - There has been some reference to the fact that an application for an increase to rates can happen only once a year. Are you familiar with this? Is there legislative provision that dictates that? I'm not familiar with that, but --

MR. CHARLESON: My understanding there is something within the Act that only allows for an application once every 12 months. But I don't have the specific provision, but I do recall there being something there.

Q.485 - Is there value in -- or would there be some advantage if the rate itself was set maybe quarterly and the rate riders and rate reinstatements being less frequent?

MR. CHARLESON: Do you mean in terms of even the maximum rate being able to be adjusted quarterly?

Q.486 - Yes.

MR. CHARLESON: I guess it would depend on the nature of the proceeding that is required to go with that. What we see right now is the time period to adjust the maximum rate is -- well it would exceed a quarter. So if it was purely a mechanistic approach there may be some merit to just establishing that on a quarterly basis, you know, the formula is applied and the rates that arise from that are dealt with. However, then, you know, the riders in between there is -- well they could still be riders on an interim basis because sometimes if you delay a -- if you only allow for quarterly changes then that becomes a bit of a concern because as we have seen heading into the first part of 2009 there has been more than a couple of rider or reinstatement applications because of the volatility there has been in the marketplace. So if it's purely the maximum being set on a quarterly -- or the rate being set on a quarterly basis with no opportunity for riders, then that could negatively impact the ability to achieve annual savings. But if the riders were available in conjunction with that, then it's difficult I guess to assess whether are you really into a basis where you should be setting it on a monthly basis if it's just a mechanistic approach, so that there is the best opportunities to achieve target savings. And I'm not sure if that also serves kind of the rate stability issue, and then it also puts an extra burden on the Board in terms of having to review and validate the applications.

Q.487 - Our next reference is to the EUB response IR-5. We have a line of questions that we would like to present in an effort to clearly determine how the efficiency factor is determined in line 2 of the derivation table. And if I refer you first to your response, you indicate that the efficiency assumptions are based on industry knowledge. What industry knowledge are you referring to there?

MR. CHARLESON: I believe a lot of the information that follows within that response is really the industry knowledge that is coming into play, whether it be the Enercan information in terms of furnace efficiencies, whether it be information related for commercial applications in terms of different types of equipment that can be put in place, the different means of achieving the same level of comfort with different types of solutions. You know, there is a lot of different factors and different measures that come into play that are articulated within that response. And that would be the industry knowledge that we are referring to.

Q.488 - Okay. And at the bottom of the first page of that response you talk about the manufacturer's efficiency factor, and for almost 100 percent of natural gas furnaces sold in New Brunswick are high efficiency condensing models. What is that efficiency factor?

MR. CHARLESON: Those will tend to vary between -- somewhere between 92 and 97 percent.

Q.489 - And if we look under the gas equipment installed, and I believe under this tab which is behind response number

5, you have provided a full list of what has been installed by way of --

MR. CHARLESON: To the best of our ability.

Q.490 - Right. With respect to equipment and their efficiencies,is that correct?

MR. CHARLESON: That's correct.

Q.491 - And the first page there is a reference to boilers that have been installed and just very roughly there is approximately 300 boilers with less than 90 percent efficiency, is that correct?

MR. CHARLESON: I will accept that, subject to check. I haven't done a breakdown of that, but there are some.

Q.492 - Okay. And the same thing I guess on page 2 there is approximately another 200 boilers, and again with less than 90 percent efficiency?

MR. CHARLESON: Yes. These are boilers that we are talking about.

Q.493 - Are these high efficiency condensing models?

MR. CHARLESON: The high efficiency condensing is referring to natural gas furnaces, not boilers.

Q.494 - Okay. So on page 5 then, if we flip over to page 5 under that same information, you have got a number of high efficiency furnaces listed?

MR. CHARLESON: Yes.

Q.495 - And are those for warm air heating installations?
MR. CHARLESON: Yes, they would be.
Q.496 - And the boilers on the first couple of pages are for hot water heating then?
MR. CHARLESON: Well it can also be used -- boilers can be used as part of a radiant heating system. So boilers are also part of a heating system, depending on the nature of the system that you are replacing. But furnaces are definitely the predominant heating source.
Q.497 - Yes. Okay. So even just based though on the results on page 5 and then on page 1 through 3, they are very different efficiencies, would you agree with that?
MR. CHARLESON: Yes, I would agree.
Q.498 - And yet these customers are in the same customer class, is that correct?
MR. CHARLESON: Yes.
Q.499 - But yet the same efficiency is assumed for both type of conversion customers?
MR. CHARLESON: Yes, that's correct.
Q.500 - Are these customers likely to receive the same percentage of savings even if they are having -- or the efficiency factors are very different with different heating equipment?
MR. CHARLESON: Well there is still the potential there

because in a lot of cases the boiler is also used for generating the hot water, the domestic hot water. And domestic hot water heaters on their own will have -- tend to have a lower efficiency factor. So when you combine, you do a weighted efficiency of say the furnace and hot water and you are going to get it in the same ball park as water -- as a boiler. And also if you look at what we use as a natural gas efficiency number we assume 87 percent efficiency, which is more in line with where you have seen some of the boiler efficiencies. Boiler efficiencies tend to be a bit below that, but it's in the same realm. And also typically you will have seen a lower efficiency out of a boiler that you are pulling out of a building. The oil boiler would have a lower efficiency than an oil furnace. So the efficiency gained still stays there.

Q.501 - Are these calculations provided in your response or in your evidence?

MR. CHARLESON: No, they are not.

Q.502 - What are the comparable manufacturer's efficiency rating for oil fired furnaces that have been sold over the last 10 years, sir? Are you able to respond to that question?

MR. CHARLESON: No, I'm not.

Q.503 - And to your knowledge would that efficiency factor have changed at all? Do you have any reason to believe it would have changed?

MR. CHARLESON: In terms of oil equipment sold over the last 10 years as opposed to what would have been in place the 10 or 20 years prior to that?

Q.504 - Yes.

MR. CHARLESON: I would assume that the efficiency factors would have improved, but not to the same level that natural gas equipment operates on.

Q.505 - In your written response back at page 2 under IR-5, under paragraph 4, you indicate that many of the customers EGNB is targeting will have oil fired appliances manufactured prior to the AFUE test procedure. Do you have any data or information to support that comment?

MR. CHARLESON: No. That's more looking at the timing of when those procedures were being used and kind of the age of a lot of the equipment that we would have captured during the early stages of growth within our system. But no, I don't have data to support that.

Q.506 - Are you familiar with what the start date would have been for that procedure or test?

MR. CHARLESON: No, I'm not.

Q.507 - Does EGNB know the penetration rate for electric furnaces in New Brunswick?

MR. CHARLESON: I believe it's somewhere in the 10 to 15 percent range, but I don't know offhand.
Q.508 - When you talk about efficiency gains for newly constructed customers or newly constructed homes would you agree that there really is no efficiency gain in that the customer didn't have a prior heating system? There is really no demonstrated loss.
MR. CHARLESON: But there is -- a gain is when compared to the system that would have been put in in the alternative. So there is still an efficiency gain when compared to the alternative appliance.
Q.509 - What portion of those customers are in your electric customer profile?
MR. CHARLESON: Well I think -- well again I think if you are talking electricity we don't assume an efficiency gain in that case anyway. We assume 100 percent efficiency of an electric appliance. So we actually downgrade the efficiency of the -- we downgrade the consumption for the efficiency loss that comes with natural gas.
Q.510 - Okay. But even aside from electricity customers, any new constructed home you have an efficiency. Is there no efficiency --
MR. CHARLESON: Any new construction that goes natural gas we assume would have been electric in the alternative.

Q.511 - So there was no efficiency factor at all?
MR. CHARLESON: So there is no efficiency factor.
Q.512 - Our next question now again is with schedule 2 on the derivation table. This is everybody's favourite topic, the rounding issue.
MR. CHARLESON: I don't know where that one came from.
Q.513 - And there is an interest in confirming the rounding in the table that has been provided.
MR. CHARLESON: Okay.
Q.514 - And the Excel spreadsheet that has been provided appears to round numbers at a certain place but it's actually doing calculations using a number with more decimal places. Is that your understanding as well?
MR. CHARLESON: There is definitely the potential that that's occurring.
Q.515 - And the result of that could be -- could have an impact on the final delivery rate?
MR. CHARLESON: Yes.
Q.516 - And perhaps we could just give you a couple of examples of that and maybe confirm what decimal points you feel would be most appropriate. So if we look at the market data for oil and natural gas calculations, and I believe that's on page 2, just behind the table itself.
MR. CHARLESON: Yes.

Q.517 - Those calculations appear to be going to the fourth decimal point, is that correct?
MR. CHARLESON: The market spreads or --
Q.518 - Yes. The market spreads.
MR. CHARLESON: Yes.
Q.519 - Okay.
MR. CHARLESON: Although there is only three significant digits because the fourth decimal is zero in all cases.
Q.520 - Right. But you are using I guess four -- if there was a fourth digit to be applied there?
MR. CHARLESON: Yes. But all the spreads recommended in the Ervin report are three decimals.
Q.521 - But if we look at the usage profiles, they appear to be rounded to the nearest percentage or tenth of a percentile.
MR. CHARLESON: Yes, I would agree.
Q.522 - Is there -- is the fourth decimal point being used there but we don't see it?
MR. CHARLESON: No, I don't believe so.
Q.523 - It's not being used?
MR. CHARLESON: I don't believe so.
Q.524 - If we go to the electricity calculations on page 4 of 4, the usage profile again, it doesn't appear to be using the four decimal point, is that correct?

MR. CHARLESON: That's correct.

Q.525 - Which -- I believe your evidence suggests that you want to be consistent in terms of the rounding issue. This would appear to be inconsistent. How and what number do you suggest is most appropriate so that that issue can be resolved in its entirety?

MR. CHARLESON: Again I am quite comfortable to doing everything to four decimals. It's the application perhaps was less than 100 percent, given the number of different calculations and variables that come in, but --

Q.526 - So moving forward we would expect to see that on a consistent basis?

MR. CHARLESON: If the Board believed that that was consistent in all cases then definitely that would be -- we would apply that.

MS. DESMOND: If I could just have a moment, Mr. Chair. I think we are just about concluded.

CHAIRMAN: Certainly, Ms. Desmond.

Q.527 - We do have one other question. When do you think this new formula once the decision has been rendered by the Board would go into effect? Would it necessitate a new rate application by EGNB or is this something if a new formula is crafted that that could apply immediately?

MR. CHARLESON: My expectation would be that if when the formula is determined by the Board that that then should become the formula that is used for any rate riders or reinstatements and for any rate applications, to the extent that the existing maximum rates still exceed what the formula would dictate, then it would only be applicable to the riders until such time as rates hit a point that required an increase to the maximum rate approved by the Board.

MS. DESMOND: Those are all of our questions. Thank you.

CHAIRMAN: Thank you, Ms. Desmond. I just want to follow up on that last point that you made, and I guess the Public Intervenor and Ms. Desmond both talked about the rate riders and the rate reinstatement and the formula. My understanding from the last response that you would say once a formula is set by the Board that that would apply to both rate applications and to rate riders and rate reinstatements, that the formula would be used in each and every case as opposed to judgment.

MR. CHARLESON: No. I would still see judgment playing a role in the rate rider applications, but that the formula as approved by the Board -- and also recognizing that our proposal is that for riders you would continue to stay with the 21 day average as opposed to two calendar months of data for applying a rider, but that you would use that as a basis of identifying the need for a rider, but without completely removing the judgment option. And again that judgment has only ever been exercised once.

CHAIRMAN: I appreciate that. The purpose of the hearing today as set out in the order was to examine all of the elements in the market based formula used to derive the rates charged to customers. So if I understand what you are saying, perhaps what we are really talking about are two different formulas, is that a fair statement, one for a rate application and perhaps for another one for rate riders?

MR. CHARLESON: Yes. Some with -- you know -- the difference on the -- having the same fundamental framework, the same fundamental calculations and basis, the difference for riders being 21 days as opposed -- 21 trading days as opposed to two calendar months, and a potential for judgment.

CHAIRMAN: The reason I bring it up I think is that there was enough concern about the formula in the first instance to I guess require today's hearing. I would hate to think that we have this hearing and then leave something left unsettled if you would. So perhaps all of the parties might address that issue in final argument quite frankly as to whether or not a single formula should apply to both a rate application and rate rider applications, or whether or not there should be a separate formula which might include judgment I guess as you suggest. So just to give a heads-up to the parties that I would expect to hear on that issue.

Any questions, Mr. Toner?

BY MR. TONER:

Q.528 - My question relates a bit to the Enbridge business completely different from anyone else's questions. At this Point Enbridge is a profitable company, correct?

MR. CHARLESON: Enbridge Gas New Brunswick?

Q.529 - Yes. EGNB.

MR. CHARLESON: We are -- existing revenues don't recover a full revenue requirement. We are still --

Q.530 - Because of the deferral account --

MR. CHARLESON: Yes.

Q.531 - -- in relation to the deferral account?

MR. CHARLESON: Yes.

Q.532 - So in your forecasts internally as a -- at what point do you believe that you will be starting to repay on the deferral account?

MR. CHARLESON: That's a difficult question at this point because of the volatility that we have seen in the market. It will largely depend on market conditions and what

revenues we are able to generate while still delivering the target savings. Because of recent marketing conditions it's at a later point than we would have anticipated a year ago, but it's also been shifting over the past couple of months as some of the market conditions have improved. But I don't have a definitive answer.
Q.533 - But month over month --
MR. CHARLESON: Yes.
Q.534 - -- is EGNB --
MR. CHARLESON: We are getting closer, but no, we are not profitable at this point.
Q.535 - Because of the deferral account?
MR. CHARLESON: We continue to add to the deferral account.
Q.536 - So what would your break even point be? Is it double whatever you are making now? Is it -- you must have an idea of what it needs to be?
MR. CHARLESON: If we look at where our forecasts were over the past few months we almost have to double the revenue.
Q.537 - You would have to double?
MR. CHARLESON: Yes. Because of where the market conditions have--
Q.538 - So -- okay. That being said, if you invest a thousand dollars tomorrow or a dollar for example, you are moving your target?

MR. CHARLESON: Hopefully drawing it in.n.

MR. LEBLANC: Yes.

Q.539 - But you are moving it out?

MR. LEBLANC: No.

MR. CHARLESON: No. Because --

Q.540 - If you invest a million dollars in pipe, you are going to do that expecting revenue?

MR. CHARLESON: That's right.

Q.541 - But your return on -- you changed your formula, have you not?

MR. CHARLESON: No, because when we make that investment what we look at is how quickly will we start to recover on that investment through the revenues that it generates. So how quickly will we attach customers, how much revenue will come. Three new customers that we get by making that investment, does that help to draw in the period of when we reach profitability.

Q.542 - Okay. So if you need to invest $100,000 on a pipe, what is your rule? What is your internal rule to say we are going to return on two years, three years? At what point are you making money with that new customer?

MR. CHARLESON: Well on each specific case you are going to have variations. When we look on an aggregate basis you are probably looking at about four or five years if it has got to be profitable within that time horizon.

Q.543 - So with every new investment you make now it's going to be five years. I guess that's why I'm saying I feel like it's pushing it out.

MR. CHARLESON: Some are going to be shorter.

MR. LEBLANC: Yes.

MR. CHARLESON: Some may be a little bit longer, but --

MR. LEBLANC: The way we try to look at it is every time we invest -- like our investment decisions are aimed at drawing in the deferral. So we look at getting more revenue between now and when we see the deferral peaking, then we incur costs. That's how we make a decision on whether or not to go down another street or build another piece of pipe. So we look at the potential revenue associated with the customers we get. We look at the costs associated with those customers and if they are neutral or better than neutral to the deferral and then we decide to go down that street.

Q.544 - Do you track all that?

MR. LEBLANC: We actually have.

MR. CHARLESON: Yes. We evaluate all of our expansion that way.

Q.545 - So if I was to ask you in a time frame of -- pick a time frame. If I was say the investments you made in 2008 and the return on those investments, would you be able to tell me the revenue generated by that, to see if you are on track? As a regulator I would like to know is your policy working.

MR. CHARLESON: We have the information. We would have to assemble it and calculate it. Yes.

MR. LEBLANC: We don't look at in on an annual basis. We look at it on an individual decision basis. We would have to aggregate it and try to put it together.

Q.546 - It is just because every case is different --

MR. LEBLANC: Yes.

Q.547 - -- had you said every case wasn't different, I would say take two and bring it over, but now I'm saying no, I think you should pool them, I would think. How much work would that be? You could pick a region? Would it be easier to do by region or would it be easier to do it by --

MR. CHARLESON: Because the other part we have to draw in as we do that we look at what is going to attach immediately and also some of the prospects we expect to see, you know, in the near term. So some of those attachments may -- but the analysis from it, yes, we could pick a region, look at all of the -- kind of the approval forms that were done in terms of the expansion and aggregate that information.

Q.548 - I guess the whole point would only be to know are you going in the right direction or is it in the wrong direction? Like is there -- how would we know?

MR. CHARLESON: We definitely expect we are going in the right direction.

Q.549 - But do you understand what I mean?

MR. CHARLESON: Yes. No, I understand. I guess I'm trying to --

Q.550 - Because if I look at the financials I see it's a ballooning deferral account. It's not going down. It hasn't gone down yet. And it's a concern obviously because it's -- so are the investments paying off? Who knows.

MR. CHARLESON: Yes. I guess I'm just trying to understand that in the context of our formula other than there is the cost part of it and the formula is dealing with the revenue side of the equation. But we have the information.

Q.551 - Okay.

CHAIRMAN: Mr. Toner, I don't take it that you are asking for --

MR.TONER: I am not going to an IR. No, I'm not asking for an undertaking.

CHAIRMAN: You are not asking for an undertaking to provide that for purposes of this hearing. I didn't understand that probably what he --

MR. CHARLESON: But no, we do -- we do hold that information. That's part of our decision making process.

MR.TONER: Okay. No, that's it. Thanks.

CHAIRMAN: Thank you, MR. Toner. Mr. McLean?

MR. MCLEAN: Just a couple. In a number of places -- exhibit 7(a) for example, the annual customer consumption for the electrical class versus the oil, why is electrical at 111 and oil -- is there any intrinsic reason you know that electrical is so much bigger than the oil customers?

MR. CHARLESON: Again it's when we look at the total aggregate customer base and there is an IR response that dealt with that difference -- anyway we looked at that -- aggregate consumption by just looking at the customers within each of the classes and averaging that, you come to a different number. One of the big drivers behind say lower consumption in the RO class would be the attachment of the PMQ's the private married quarters at Base Gagetown. We added say 1,500 small bungalows to the system in RO, which have a much lower consumption profile. So that's brought the average down. Whereas in the RE, you are still dealing with a lot of new construction --

MR. MCLEAN: Bigger home?

MR. CHARLESON: -- which tend to have some bigger homes and supporting the average where it is.

MR. MCLEAN: The second one, and it has been discussed a lot today, is the concept of just and reasonable, in to help up -- or what we should think of. How do you people interpret just and reasonable? And do you have any benchmarks? Many times what's just and reasonable depends on what you are comparing it to. So when we are trying to decide if these rates are just and reasonable, how do we benchmark that and what do we compare them to or how do we decide?

MR. CHARLESON: That's a tough question. My understanding of just and reasonable would be rates that are -- that balance the interest at the various stakeholders. So it protects the interest of the investors, so that they have an opportunity to earn a fair return over the lift of their assets, but also protects the interests of the ratepayers, so that the rates that they are paying aren't an undue burden or aren't say providing more of a return to the investors than they should be entitled to. That it is, you know, over-recovering costs, that it is not burdening the ratepayers with costs that they shouldn't reasonable incur. So it is kind of trying to balance the interest of both of those parties.

I think that test becomes a little more challenged in the development period, because we have this concept of the deferral and so minimize -- you know, we are part -- as we have indicated our objectives of trying to grow the system, but also minimize additions to the deferral, and we see that as balancing the interests of both parties as well. If you are minimizing the additions to the deferral, you are protecting the long-term interests of ratepayers, because that deferral is ultimately to be recovered from ratepayers.

MR. MCLEAN: Yes.

MR. CHARLESON: If you are incenting the growth of the system and adding more customers, that's also in the interest of ratepayers, because you are helping to grow that customer base, to spread the cost that have been incurred over, which will help to reduce rates for the longer term.

So we see both of those objectives as feeding into kind of the just and reasonable tests. And if both of those objectives are being achieved, we would see that as contributing towards rates that become just and reasonable.

MR. MCLEAN: So it's really an internal discussion within the deferral account and the savings, as opposed to just and reasonable versus external rates at this stage?

MR. CHARLESON: I think -- at this stage, I think it does come -- it does have to focus more on those areas that under a traditional cost of service were, you know, it is really the -- you know, are the costs that are being recovered through the revenue requirement reasonable? And is the return that is being provided to the investor reasonable? And if that -- and then how those costs reallocated? But in this case, because of the development, I see kind of the objectives that we have set out as being the balancing of those supporting the test of just and reasonable.

CHAIRMAN: Mr. Barnett?

BY MR. BARNETT:

Q.552 - Thank you. I guess first a follow-up to Mr. Toner's question, Mr. Charleson. In looking at new attachments, are there occasions where you may look at an aid to construct as well as part of the arrangement with potential customers? And what sort of customers would you -- if so, if the answer if yes, what sort of customer categories would that fall into?

MR. CHARLESON: Well the answer is yes. And in the case of say on the residential category if somebody is looking to attach for something other than heat and hot water, or if the revenue that we expect to see coming from that residential customer is less than what would justify the cost of putting that pipe in the ground, then there is an aid to construct that we would look for. So even a -- a service line for a residential customer that just wants it say for a fireplace or just for a barbecue, they may have to pay $600 to get that service line.

In some cases we will ask for that aid to construction, and then we will monitor their consumption during the first year because they are saying well I plan on using that fireplace for -- to really heat a lot of my house and my consumption is going to be there. We will ask for the aid to construction -- construct -- monitor their consumption during the first year, and if it hits a certain threshold where we would recover the cost here, then we will refund the aid to construct. So residentially that's examples of what we do there.

On the commercial, it will tend to be where you are looking at expanding the system much further. We -- on an individual basis, you tend to have higher throughput from a commercial customer. And so just to qualify with those rate classes, I mean you have to have over a certain threshold of consumption. So there tends to be less of a need that way, unless you are looking at long extension main. And so in the case of say expanding -- extending Main into -- to reach a new customer, you may look for a commitment for them to have -- you know, they can either provide you with an aid to construct or provide you with a guarantee that they are going to contribute a certain amount of revenue within a certain time period, to the extent they don't, then they would have to make up for that gap. You know, that was -- you know, we have talked over the past year and a half about these LFO customers and prospective LFO customers, and one of those that has now dropped off was one where there was say 35 kilometers of main that would have needed to go in. We needed a commitment from them that for X number of years that they would consume gas at a certain level, and to the extent they didn't, then they would owe us money, as an aid to construction. But to the extent that they did consume at that level, then that proved out the economics of the pipe.

Q.553 - Thank you. And before I get to just a few other questions, I just want to clarify, I think everybody probably knows, but I don't think it is on the record, and it is around these four decimal places. It is a very simple question. Rounding. You know, what do you consider to be rounded to the fourth decimal place? What happens if it is five? What happens if it is four, that type of thing?

MR. CHARLESON: It's whatever the Excel function does. Whatever the round function in Excel does.

Q.554 - Oh, well, I don't know the answer to that.

MR. CHARLESON: I don't know the answer to that unfortunately.

MR. BARNETT: David?

MR. YOUNG: Five and up.

MR. BARNETT: Five and up. Thank you, David (Mr. Young).

Q.555 - The next question, Mr. Charleson, take me through an example where you are going in -- somebody has contacted you, I want to put natural gas in my house. Okay. Under two scenarios, an existing home and new construction. And I guess maybe, that other -- you can look at in the context of I am considering electric furnace or baseboard. I am considering a high efficiency oil furnace. What does the advisor from Enbridge do to that customer, in this case, the residential homeowner, who has come to you seeking that I would like to consider putting gas in my house. I haven't made a decision yet, but I would like to get the details?

MR. CHARLESON: Well we would -- one of our representatives would go out and meet with that customer and we would talk with them about the merits of natural gas both in terms of -- try to provide a cost comparison in terms of -- especially if it is -- if it is an existing customer, you can say well show me what your heating costs have been? What type of consumption have you had there? So that you can conduct an analysis and say well this is what your -- say oil consumption as being, here is what you would expect your gas consumption to be following conversion. And then here are the costs associated with doing that conversion. And any incentives that may be available that can be applied, any other grants that may be available, identifying those to the customer, so that we can identify the cost that is going to be there. If they were on main or off main, we would also -- if they were on main, we would also -- if they were on main, then we would also -- if they were on main, then you would also try to provide a potential time frame for being able to get them attached. If they are off main, then we have to warn them that we also have to ensure that there is enough interest within the area to extend the main to serve that, especially at the residential level.

In the case of new construction, a lot of cases you are dealing with the builder on it, but for people that are building their own homes, again, it would be the similar type of discussion. Here is the type of cost that you are looking, but here is the benefits that you are going to see. Here is the cost comparison versus other alternatives that may be considered in terms of building the home. Plus all the other -- all the other intangible benefits that are there from converting to natural gas.

Q.556 - Would you in effect be helping the homeowner to do a simply payback analysis, along with all the incentives you have got and the capital costs and --

MR. CHARLESON: Yes, you would talk about here are the savings you should see on an annual basis. So this is the cost you come up with. You know, this is what it may cost you and here is what you are going to save on an annual basis.

Q.557 - I only have one question and it relates to an IR from the Public Intervenor. And I think it is IR 10, page 2, and it is exhibit 2, I believe, if I have got my reference correct. Yes, it is page 2. There is a table -- there is a footnote at the bottom. And I know you don't want to identify the customer, I appreciate that. But what I would like to hear from you, without identifying the customer, particularly, is under what circumstances would EGNB entertain any special arrangements for any sort of offer? In this case, it was a standard offer service, I believe?

MR. CHARLESON: It really would depend on the type of load that's coming from that customer and what would be involved in terms of trying to provide that service or accommodation for the customer.

Q.558 - I guess finally just to understand the pricing. I mean you are a price taker, as far as natural gas is concerned. You make arrangements for your gas supply and you take ownership of the gas at the gate station of MN&P or something is that how it works in that regard?

MR. CHARLESON: Yes, that's correct.

Q.559 - So when you are talking gas price before you put your admin' cost on, you are actually included in that gas prices, MN&P's rate -- federal regularly approved toll, right, do I understand?

MR. CHARLESON: Yes. A lot of the supply we buy will tend to be on a delivered basis, so that's all rolled into the price that we are paying to the supplier.

Q.560 - Yes.

MR. CHARLESON: But, yes, that's part of the gas cost.

MR. BARNETT: Thank you, Mr. Chairman. Those are my questions.

CHAIRMAN: Mr. Johnston? No questions. Any redirect, Mr. MacDougall?

MR. MACDOUGALL: Yes, Mr. Chair. I think just a couple of items I believe.

REDIRECT EXAMINATION BY MR. MACDOUGALL:

Q.561 - Mr. Charleson, this morning Mr. Theriault took you through a series of questions, where he had referred to typical savings, and also questions referring to price elasticity. And then he took you through some of the PI IRs. I would like to refer you to -- in regard to those questions to one that he didn't take you to. If we could turn to EGNB's response to PI IR-13(2). So that's Public Intervenor IR-13(2).

MR. CHARLESON: Yes.

Q.562 - And we could go to page 2 of that, you will see that there is a chart there. And could you explain to the Board -- and let's use, because it is for different years -- but let's use the most recent years, could you explain to the Board what is shown in the last two columns in the middle component of that chart savings targets for 2007 and 2008, what those figures represent?

MR. CHARLESON: Those figures represent the threshold or target level of savings that we -- that are monitored against for each of the individual rate classes. So the 20 percent for the residential and small commercial classes, the 15 percent for the general service and contract commercial classes and then the 10 percent for the LFO.

Q.563 - And so are those what you refer to as your target savings level?

MR. CHARLESON: Yes, those are our target savings level.

Q.564 - Now we could go up into the block directly above that, the historic savings, for the same two years, could you explain what those figures represent?

MR. CHARLESON: Again on an ongoing basis, we are monitoring the level of savings that are being achieved. So we will look at the actual commodity cost that came into play, what the actual oil cost or at least based -- or do a calculation of the oil on an actual basis. And from there determine on a month-by-month basis the savings that would have been achieved by a typical customer in those months and then look at what the aggregate annual savings are. So what it shows is within 2007, again the savings were for the residential and the small commercial were around the 20 percent, but then in 2008 were in excess of 20 percent or at the 20 percent. Similarly, in the general service classes, you know, around the 15 percent in 2007, but well in excess in 2008.

And for the LFO customers, in both years, well in excess of the target savings level.
Q.565 - And these historic savings numbers are they based on using the market-based formula?
MR. CHARLESON: Yes, they are.
Q.566 - Thank you. And if I could just go to one other area for redirect. This afternoon, Ms. Desmond, asked you some questions with respect to target savings that you referred to on page 11 of your evidence, and we don't have to go there, that was just the reference that Ms. Desmond had made. And then she talked to you about the typical residential customer -- typical savings and what the payback period was and you referred to I think four to five year conversion payback, do you remember saying that this morning?
MR. CHARLESON: Yes, I do. This afternoon.
Q.567 - This afternoon. Sorry. Could you explain to the Board if there is anything EGNB does other than the target savings with respect to incent and conversion?
MR. CHARLESON: Yes, we do also provide cash incentives to help to pay down the cost of -- the capital cost of conversion. For residential, the typical incentive is $3,000.
Q.568 - And why do you provide conversion incentives, as well

as, the target savings?

MR. CHARLESON: And that's to help to draw in the payback period. In -- I think in responding to Ms. Desmond, I had indicated, you know, a typical conversion cost of being, you know, 1,500 to $2,000 range, whereas that's after the application of the $3,000 incentive.

So in the absence of that incentive, the payback period would be much greater. You know, we look at a target savings amount of being say around $500 for a residential electric customer, the payback period becomes quite long and makes it difficult for a residential customer to kind of accept that type of outlay for protracted payback.

MR. MACDOUGALL: Those are all my questions, Mr. Chair.

CHAIRMAN: Thank you, Mr. MacDougall. And I guess subject to the responses to -- I think there are five outstanding undertakings, that is I assume all of the evidence on the behalf of Enbridge Gas New Brunswick Inc.?

MR. MACDOUGALL: That's correct, Mr. Chair. And I have five as well.

CHAIRMAN: Thank you. The only other witness I guess that we anticipate hearing from is Mr. Strunk, and given that it is ten after four at this point in time, I think that the prudent thing to do would be to adjourn for the day and we will come back tomorrow morning at 9:30 a.m.

MR. MACDOUGALL: Thank you, Mr. Chair.

(Adjourned)

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

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