

New Brunswick Board of Commissioners of Public Utilities

Hearing

In the Matter of an application by New Brunswick Power Corporation dated June 21, 2002 in connection with an Open Access Transmission Tariff

Delta Hotel, Saint John, N.B.
November 19th 2002, 9:30 a.m.

CHAIRMAN: David C. Nicholson, Q.C.

COMMISSIONERS: J. Cowan-McGuigan
Ken F. Sollows
Robert Richardson
Leon C. Bremner

BOARD COUNSEL: Peter MacNutt, Q.C.

BOARD SECRETARY: Lorraine Légère

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CHAIRMAN: Good morning, ladies and gentlemen. First off the Board will have to rise at quarter to 12:00 and reconvene at 2:00. Commissioner Sollows is a pallbearer at a funeral at lunch today.

Are there any preliminary matters?

MR. MORRISON: Mr. Chairman, yesterday there were I think three undertakings that were given. And I believe we are in a position to place some responses to those undertakings on the record.

CHAIRMAN: Good.

MR. MORRISON: Mr. Marshall?

MR. MARSHALL: Yes. The first one was about the amount of reserve capacity at the MEPCO interface. Of 700 megawatts at MEPCO 670 megawatts is with New Brunswick Power Marketing of which about 30 percent was done through the original open season and about 70 percent through renewals of contracts that were honored at that time when they came up for renewal.

28 megawatts is for the AVEC Wheeling contract from -- Wheeling contract from northern Maine through to MEPCO to southern Maine. That is 28 megawatts. And there is 2 megawatts of unsubscribed capacity available for anybody who is interested in purchasing it. And that total is 700 megawatts.

The second item related to the percentage of the 670 megawatts of NB Power Marketing reservations that are being used to deliver firm contracts.

And about 33 percent of that is under a long-term firm contract. And the remainder is used for the nature of the New England market for monthly firm capacity contracts.

It's utilized about 90 percent, up to the total -- about 90 percent of the total is utilized from April till October and about 50 percent of the total is utilized through the winter for firm contracts.

The third point was the differences between the White Paper and the market design committee report, was requested by JDI. One of the differences is that exit fees in the White Paper were to be based on the calendar year 1999 load. And that's at pages 23 and 25 of the White Paper.

In the market design committee report under Recommendation 990, the exit fees are to be based on the actual load at the time of notification of exit. That is at page 71.

Also in the White Paper, standard offer supply was to be provided to all customers who chose not to go into the competitive market under terms, conditions and prices similar to the service they now get.

Now that is similar to the White Paper -- to the market design. But the method of delivery was different.

In the White Paper that was to be done by entitlement contracts to the wholesale customers and the large industrial customers.

In the market design committee report it is to be done under a single vesting contract from the heritage assets to the standard offer supplier who would then in turn provide regulated rates to customers.

The other -- the last item that I came up with --

there may be a few others -- but the last one I found here is that the White Paper makes a clear recommendation related to performance-based rates to direct the Public Utilities Board to adopt lighthanded performance-based regulation. That is on page 29.

The market design committee noted the recommendation of the White Paper but said that it was not fundamental to the objectives of the market design committee. So it chose to make no recommendation related to performance-based ratemaking. That's it.

CHAIRMAN: Any other preliminary matters?

Mr. Marshall, just carrying on with the last difference between the White Paper and the market design committee. Yesterday you referred to the statutory ability of NB Power to increase its rates by up to 3 percent without appearing before the Board as a performance-based type of rate cap regulation.

MR. MARSHALL: Generically --

CHAIRMAN: Generically.

MR. MARSHALL: -- so --

CHAIRMAN: I had the same conversation with Ms. MacFarlane in the Lepreau hearing. The 3 percent cap on rates is not really price cap regulation at all, is it? In other words it is not a performance-based kind of ratemaking?

MR. MARSHALL: It is a limit on how our overall revenue requirement restricted increase to 3 percent in overall rates to all customers as the average rate.

It is not restricted to 3 percent. In each specific rate class there is some room for movement between that.

CHAIRMAN: I know. But what it is is it means that you can increase your rates by 3 percent each year without appearing before the Board?

MR. MARSHALL: That's correct.

CHAIRMAN: That's right.

MR. MARSHALL: That's correct.

CHAIRMAN: It is not a performance-based ratemaking methodology?

MR. MARSHALL: Well, not directly. But we want to perform as well as we can so that we -- not that we don't like to come down here all the time. But to avoid the need to come is an incentive for us to perform well enough to stay within the 3 percent.

CHAIRMAN: I'm not going to go any further with this.

All right. Mr. Smellie?

MR. SMELLIE: Thank you, Mr. Chairman.

CROSS EXAMINATION BY MR. SMELLIE (continued):

Q. - Mr. Marshall, just help me with the last of the discrepancies between the White Paper and the market

design committee's final report on the matter of PBR.

Did I hear you say that I should look at page 29 of the White Paper to find a recommendation related to PBR?

MR. MARSHALL: Yes. On page 29, the paragraph at the top, the last line in bold print, "The Province will direct the Board to adopt a lighthanded performance-based method of regulation."

That is page 29 in the official White Paper copy, okay.

Q. - Do you know what page it is in the exhibit?

MR. MARSHALL: No. But I could find out.

MR. SOLLOWS: Page 28. Page 28. The first paragraph -- the last line in the first paragraph.

Q. - Is the Province's direction an exhibit in this proceeding, Mr. Marshall? The statement says the Province will direct the Board to adopt the lighthanded performance based method of regulation. My question to you is is the Province's direction in evidence in this proceeding?

MR. MARSHALL: I believe you put in evidence the White Paper yesterday. The White Paper says the Province will direct the Board to adopt lighthanded performance based method of regulation.

Q. - So you take this to be the direction, do you?

MR. MARSHALL: I take it for what it says on the page.

Q. - Do you take it to be the direction?

A. I take it to be -- given that this is the -- a White Paper was accepted by the Province of New Brunswick as the policy under which they are going to move to develop an electricity market structure and remove to change the Power Act and implement policy, I take it as the policy of the Province of New Brunswick.

Q. - Thank you, sir. Gentlemen, when we left off yesterday we were having a discussion about and I think you had agreed with me that the Province depends on an energy intensive economy and that energy represents a significant input cost to many New Brunswick industries and so on and so forth. Do you recall that, Mr. Marshall?

MR. MARSHALL: Yes.

Q. - All right. And I had suggested to you that the U.S. northeast is a major market to which at least at the border today New Brunswick Power sells a lot of profitable surplus power. DO you recall that?

MR. MARSHALL: Yes.

Q. - Something in the order of 18 percent of your revenue comes from export power sales, have I got that right?

MR. MARSHALL: It's -- subject to check it would be -- it would vary from year to year depending upon the pricing of electricity in that northeast market, so it is somewhat

volatile driven by natural gas prices, so it changes from year to year, month to month, day to day.

Q. - I got that number from the White Paper, so at whatever timing the White Paper was focusing on it was accurate at the time?

MR. MARSHALL: I would say yes.

Q. - And in fact in the year ended in March of this year your gross margins on export sales were a record high of some \$170 million, do I have that right?

MR. MARSHALL: Are you referring to our annual report there where that number comes from?

Q. - We could do that if you would like.

MR. MARSHALL: Well if you could give me a reference I could check. It sounds about right but I would like to be able to verify it.

Q. - Tab 4, exhibit A-5. Sorry.

MR. MARSHALL: What page on the --

Q. - Page 21. And the penultimate paragraph.

MR. MARSHALL: Which one would that be?

Q. - The second last one. These negative pressures on income were mitigated by substantial gross margins from exports which reached a record high of \$170 million in 2001 and 2002. Do you see that?

MR. MARSHALL: I see that, yes.

Q. - And in your evidence you describe your business in the export/import market as vibrant, correct?

MR. MARSHALL: I think so. We historically -- I think in the evidence, Mr. Bartlett's evidence and Mr. Snowdon yesterday did the presentation to show the historical level of exports and imports and how they -- relatively they are significant, relative to in-province load.

And we have always stated publicly that the export business contributes about 10 to 15 percent of a reduction in rates. And I believe we responded to an interrogatory to that effect that it would range from 100 to \$150 million of margin contribution. Last year was a record of 170 million, so I guess it ranges from 100 to 170 now.

Q. - Thank you. We will come back to that point a little bit later. I had suggested to you yesterday in all of this, Mr. Marshall, that New Brunswick Power was taking advantages of electricity prices which were amongst the lowest in the region.

And you told me, if I recall correctly, that it really doesn't have anything to do with prices. Do you recall that exchange yesterday?

MR. MARSHALL: Yes, I do.

Q. - And your point was that it wasn't so much low New Brunswick Power prices but rather high prices in U.S.

northeast markets that allowed you to take advantage of that opportunity?

MR. MARSHALL: That's correct.

Q. - Whether New Brunswick Power's prices are regionally low or power prices in the northeast U.S. are high, it is also the case as I understand it, sir, that New Brunswick Power has one of the highest operating costs of any utility in Canada. Do you agree with me?

MR. MARSHALL: I don't have knowledge to the comparison of our operating costs relative to other utilities.

Q. - If Minister Volpe said to the Legislative Assembly of New Brunswick that New Brunswick Power has one of the highest operating costs of any utility in Canada on a kilowatt per hour basis, would you have any reason to dispute that?

MR. MARSHALL: Well I usually don't argue with the Minister.

Q. - I have that statement, Mr. Chairman. I'm happy to mark it if you wish but I don't really think it's necessary.

Thank you.

And the opportunity to participate in the vibrant export market, Mr. Marshall, can you confirm to me that's one of the reasons why New Brunswick Power wants to build a 345 kilovolt tie-line to Woodland, Maine?

MR. MARSHALL: The -- that's one of the reasons that --

Q. - Thank you.

MR. MARSHALL: -- has value to that tie-line. There are a number of reasons laid out in the application of the National Energy Board that outline the rationale for that line.

Lower losses cross that interface. As you saw yesterday there is no firm south to north transfer. A second line will allow firm transfer from south to north, which will allow then energy to come back into make this market in New Brunswick more viable. So there are a number of factors behind that application.

Q. - Thank you.

MR. SNOWDON: One additional one being the added reliability that -- as you see there is only the one AC interconnection with the northeast and this would provide a second one, so if one is out then we do have a second supply into the area.

MR. MARSHALL: I might also add that relative to the value that that second line would bring to access that export market, it is our intention that that transmission capacity would go up for an open season and be available to anybody as new capacity into the system.

So it's -- you are implying that it's for NB Power Generation to take that value -- it would be open to the marketplace and all participants to have access to that

value.

Q. - Well I didn't imply any such thing, Mr. Marshall, but I'm sure that Mr. Zed's client will be happy to have heard your answer.

I want to understand a little bit more, sir, if you can help me with the positive impact that these export transaction have in keeping rates in this province low.

Could I ask you to refer to your response to Saint John Energy interrogatory number 5, which is found in exhibit A-4?

MR. MARSHALL: Yes, I have it.

Q. - This is an interrogatory directed to Mr. Bartlett's evidence. And the response in the first line is that the in-province rate base is about \$900 million a year and the margin on export sales, revenue minus variable costs, is about 100 to \$150 million a year.

Can you explain to me, gentlemen, what is meant by in-province rate base?

MR. MARSHALL: Yes. That is the total amount of revenue that would be collected through rates charged to load customers inside the province of New Brunswick.

Q. - So if I scratched out the words rate base and inserted the word revenue, would that be a more accurate description? In-province revenue is about 900 million a

year?

MR. MARSHALL: You could say the revenue from in-province rates is about 900 million per year if we want to get specific, I guess.

Q. - I just want to be correct. I will come back to that in a minute. Let's just stay with that for a second. The answer suggests that New Brunswick Power expects export benefit opportunities to continue into the future but it is uncertain as to how the benefits will flow.

Help me with that, gentlemen? What is the uncertainty about?

MR. MARSHALL: The uncertainty in the benefits?

Q. - No. The question says, however, under the restructuring plan, it is not clear how the benefits attached to export transactions will flow.

Why is it not clear? Is it not clear because they won't flow entirely to New Brunswick Power? Is that the point?

MR. MARSHALL: That partly could be the point. Under the restructuring plan, part of that plan is a financing plan for the Coleson Cove and Point Lepreau projects. So to the extent of the value of some of those projects may relate to their share of interconnection value. So some of that value may flow back to one or two of those

projects or to New Brunswick Generation.

Also part of the value of exports, this is the total gross margin, of the 100 to 150 million, a share of that is in actual fact, transmission tariff. So depending upon the outcome of this hearing and the actual rates for transmission, a share of that revenue would be transmission and come back through the transmission entities.

The remaining part of the revenue then would go to the participants in the marketplace, being NB Generation or the Coleson project or Lepreau or third parties, Nova Scotia Power, Hydro Quebec, depending upon competition whether they erode that position.

Q. - Thank you. Looking at page 15 of exhibit JDI-3, the record copy of the White Paper, Mr. Marshall, there is a discussion which begins on the prior page about wholesale competition.

And if I understand this policy document, there is a concern that as power prices in the U.S. northeast decline, the competitive advantages that are and have historically been enjoyed by New Brunswick industry will decline. Do you agree with that?

MR. MARSHALL: Could you point me specifically to where that is?

Q. - Well let's deal with the first full paragraph on the page.

MR. MARSHALL: Which page again?

Q. - 15.

MR. MARSHALL: Could you give me the section number because my pages don't line up with yours.

Q. - No, I can't. I don't have section numbers in my exhibit copy. It is a paragraph that reads, second, New Brunswick industries today enjoy a competitive advantage with respect to the northeast markets. This is attributable to New Brunswick cost based Crown utility rates being below northeast market prices and the rates in the northeast being above the market price while stranded costs in that area are being paid down. However, competitors to New Brunswick industries located in its major export markets in the northeast are likely to benefit in the long run from reductions in the cost of electricity. If actions are not taken to ensure that New Brunswick's industries continue to benefit from power market reforms, competitiveness of New Brunswick industries could be adversely affected in the longrun.

Do you see that?

MR. MARSHALL: Yes.

Q. - Do you agree with it?

MR. MARSHALL: Yes.

Q. - Thank you. Could we also agree, sir, that if we turned that proposition on its head, that if rates for example that the pulp and paper industry pays for transmission increase in this province, that that industry's competitive advantage in the U.S. northeast market could decline as well?

MR. MARSHALL: The competitive position of the pulp and paper industry would depend on the total cost of their production of paper relative to the costs in the other market.

The fact that electricity prices are one component of that cost, it could influence that competitiveness.

Q. - In the manner that I suggested?

MR. MARSHALL: If prices go up, it would increase their costs and reduce their margin against the competitive prices in the market.

Q. - All right, sir. Could I just get you to turn over -- and I apologize for saying to you I didn't have section numbers, I certainly do. On page 18 of the exhibit copy, section 3.1.3.4., entitled "levelling the playing field".

MR. MARSHALL: Yes.

Q. - As I read this section, I take the thrust of it to be that the government of New Brunswick wants to ensure a

level playing field between New Brunswick Power and other electricity market participants in order to ensure that the market that is going to open in April of next year develops properly. Is that fair?

MR. MARSHALL: I think that is one of the drivers of the Province behind a level playing field. It is not just -- it is a question of the -- I think the position that the utility without making payment in lieu of taxes or a return on investment equivalent to private corporations is an advantage to the Crown utility in comparison in competition to other generation suppliers.

So to place it on a level playing field, it should have those charges added to it.

Also might say that there may be another overriding fact that the Province owns the corporation and using the corporation -- using the Province's money to fund the corporation and that that money comes out of money markets, the Province may view that they want an equivalent return on their money that they are putting into the corporation similar to private corporations as well.

Q. - Excuse me, Mr. Chairman. You have anticipated my next question, Mr. Marshall. The focus of the concern about level playing field is that the utility is tax exempt and

has its debt guaranteed by its owner at the moment, right?

MR. MARSHALL: That's correct today, yes.

Q. - And just to be -- just to be clear, crystal clear, we can agree can we that the notion of a level playing field concerns New Brunswick Power's generation activities and not its monopoly transmission services?

MR. MARSHALL: No. The issue of a level playing field would be that I think as the Province and owner of the corporation and the transmission system, where transmission services are provided not just to New Brunswick load customers, but also to third party external customers to the Province, that those external customers to the Province should be paying for the transmission services on an equivalent private competitive basis on a level playing field.

Q. - Maybe you misunderstood my question, Mr. Marshall. About in the middle of the paragraph that I have referred you to, having talked about tax exemption and guarantee fees I see this.

Therefore if the Crown utility is free to develop new generation projects in New Brunswick, it may be able to do so at a lower cost than its competitors.

The issue, I suggest to you, is competitive advantage in the generation market. Do you agree with me?

MR. MARSHALL: I agree that is one of the issues, yes. It's not the only issue.

Q. - No. I have come to understand there are a lot of issues in this case, Mr. Marshall.

Transmission is going to remain in monopoly service.

I thought we agreed on that yesterday?

MR. MARSHALL: That's correct, yes.

Q. - Transmission, as I understand it, faces no real threat of bypass. Do you agree with me?

MR. MARSHALL: That's -- we had talked yesterday that that would be NB Power's position to the government that it continue its franchise. That NB Power Transmission Corporation or whatever follows from that or its successors would have that franchise. But that is a government policy position that is yet to be determined that I'm aware of.

But currently that is the case. NB Power Transmission has a monopoly over construction of transmission in the province. And it is a monopoly service. And that's why we are here today to do a tariff for what are fair terms, conditions and prices for use of that service.

Q. - Now, of course, you know, Mr. Marshall, that the White Paper wasn't all about electricity. There was quite a considerable portion of it devoted to natural gas?

MR. MARSHALL: That's correct.

Q. - And penetration of natural gas is said in your application in one place or another to be a competitive threat for NB Power?

MR. MARSHALL: Could you reference me that point?

Q. - No, it's just -- it's just my take on it. Competition for NB Power may come from natural gas?

MR. MARSHALL: Yes.

Q. - You didn't like the word, threat?

MR. MARSHALL: Yes, I don't know that we use that word.

Q. - I can imagine. You take natural gas into account in your load forecast and your sales projections?

MR. MARSHALL: Yes, we do.

Q. - And I'm right, am I, Mr. Marshall, that the Province of New Brunswick has supported the introduction of natural gas into this market since the initial development of the Sable Offshore and the Maritimes and Northeast projects?

MR. MARSHALL: Yes, they have.

Q. - The Province of New Brunswick has fought to ensure whatever supply may be on the horizon in terms of natural gas for this province, that New Brunswickers and Maritimers get their fair share of it?

MR. MARSHALL: Yes, they have. And we have supported them in that fight.

Q. - Thank you. I am going to switch gears, Mr. Marshall. I want to talk to you about the benefits of open access.

I think we agreed yesterday that transmission tariff and transmission rates must be just and reasonable?

MR. MARSHALL: Yes.

Q. - And I don't know if we agreed yesterday, but let's see if we can agree this morning that transmission rates must balance the legitimate interests of ratepayers on the one hand and New Brunswick Power transmission on the other?

MR. MARSHALL: If that can be done in a just and reasonable manner, yes, without undue discrimination based on the cost of service.

Q. - Does New Brunswick Power in designing its transmission rates subscribe to the policy or principle of cost causation?

MR. MARSHALL: Yes.

Q. - Does New Brunswick Power agree that there ought to be no cross subsidization by transmission ratepayers of other New Brunswick Power business units?

MR. MARSHALL: Yes.

Q. - Thank you. I want to understand clearly your approach to this application, Mr. Marshall.

You were a witness, as I understand it, sir, in an application made by New Brunswick Power in 2001 for a

generic hearing to establish relevant issues and the nature and scope of the evidence for any specific hearing that might follow on the maintenance or upgrading of your generation facilities. Is that right?

MR. MARSHALL: That's correct.

Q. - And I was intrigued by that application in which you were asking the Board for assistance on what sort of evidence you might file.

What prompted that initiative? Was it because it was a complex application, it was an important application, it was a new matter? Why did New Brunswick Power approach this Board for guidance on the sort of evidence that it should file?

MR. MARSHALL: My understanding at that time the -- we had two projects that were coming up that were going to come to this Board. In an attempt to help streamline the process we applied to have the generic hearing on the type of evidence to be heard.

Now it goes back to, and I dare say not rate cap legislation, but to the legislation under which we operate. We can raise rates up to 3 percent without coming to the Board for a hearing. But that if we have to -- we are going to spend more than \$75 million capital on generation projects we require a prudency review and

approval of the Board.

And so that for the Coleson Cove project and the Point Lepreau projects there was going to be a need for a hearing. So that generic hearing was aimed at the specific issues related to those hearings that were upcoming at that time.

Q. - Is there any particular reason why you chose not to follow a similar strategy with respect to the issues in this case? Do you want to think about it?

MR. MARSHALL: No. I don't know why we did not -- did or did not. Other than that this -- there is enough clear jurisprudence from market design committee, from the work of the -- of the White Paper and market design committee through that whole process, that the recommendations were clear to be a FERC order 888 based tariff. And that there is enough jurisprudence around that that the information -- we knew what type of information would be required to be laid down in order to meet those -- those recommendations.

Q. - Thank you. I would like to know the corporation's position on this question, Mr. Marshall.

In addition to what I will call the usual components of a rate case, particularly in your situation, we have included in this application the concept of a payment in lieu of taxes and a return on equity as elements of or in

the context of a PBR methodology.

Is that a fair description?

MR. MARSHALL: Yes, it is.

Q. - And is it the position of New Brunswick Power that the application you filed is an all or nothing proposition for this Board?

MR. MARSHALL: That's up for this Board to -- we do not get to dictate to this Board whether we accept or don't accept a ruling. This Board has jurisdiction to hear this case and to make adjustments to our application if they deem that it is the right thing to do.

Q. - So it's not your position that if the Board determines, for example, that it's not persuaded to approve a payment in lieu of taxes, it doesn't in your view reject the whole package?

MR. MARSHALL: The Board is -- under the legislation of the Public Utilities Act the Board has the power to review and hear this filing. We are applying for a tariff which we think is reasonable, just and reasonable based on -- on revenue requirements that are justifiable to the Corporation and the owner of the Corporation, the Province, that work, that will provide fair nondiscriminatory access to all parties.

It is up to this Board to then make a ruling on that.

Q. - What I'm trying to get from you, Mr. Marshall -- perhaps I'm being obscure -- what I want to know is what -- I'm going to hear from your counsel at the end of the evidence.

I want to know whether it is your position, leaving aside the discretion and the authority of the Board, as to whether or not it is an all or nothing package?

MR. MARSHALL: I'm not going to speculate on my counsel's argument until all of the information on the record is laid down.

Q. - So you have no position at this point in the proceeding as to whether or not the application before this Board is an all or nothing proposition?

MR. MARSHALL: As I said, after all of the evidence is in and everything is laid down and we see all of the arguments of all of the intervenors and all of the parties, I think we would make a decision then as to exactly what will be written in final argument.

Q. - No, no. I'm not asking you what your argument is going to be. I'm asking you what your position is?

MR. MARSHALL: Our position -- well, we have laid down an application before this Board which we feel is fair, reasonable, meets all of the requirements of the tariff. And we would hope that it would be approved as presented

to this Board. That is our position.

Q. - All right. And if, as you say, in the exercise of its discretion there is a component of the application that the Board in its wisdom chooses not to agree with you on, does the whole proposal fall away? Is it an all or nothing proposition?

MR. MARSHALL: We will evaluate that after the -- based on the level of change of the decision, I guess.

Q. - All right, sir. Thank you.

An element of the rate design which underlies the rates in the tariff for which you have sought approval, Mr. Marshall, is a deemed capital structure of 65 percent debt and 35 percent equity.

Have I got that right?

MR. MARSHALL: That is correct. And that evidence is laid down in Panel B. And specific questions related to that and where it goes should really be addressed to Ms. MacFarlane who is the Vice-president of Finance for the corporation and their expert witness Dr. Morin.

Q. - I will just confirm to you, Mr. Marshall, that I'm going to be accepting your invitation in due course. I just want to get a couple of high-level policy comments from you if I can.

We discussed a moment ago the role of natural gas in

which from a regulatory perspective both yourself and the Province have been consistently involved.

It is my understanding that you have been involved and the Province has been involved in the development of the rates for the Maritimes and Northeast Pipeline.

That is your understanding?

MR. MARSHALL: The -- both the Province and NB Power have been party to the tolls and tariffs working group of Maritimes and Northeast Pipeline and have participated in some or all.

I believe the Province has participated in all of the hearings related to Maritimes and Northeast Pipeline. NB Power has not participated in all of them.

Q. - And Maritimes and Northeast Pipeline, to be clear on this record, is the transmission facility which delivers gas to this province via its main line and the Saint John lateral, correct?

MR. MARSHALL: That's correct.

Q. - Maritimes and Northeast Pipeline is a relatively new player in the energy business?

MR. MARSHALL: Yes. I believe the pipeline went in operation about two years ago.

Q. - And it represents --

MR. MARSHALL: Okay. Two, three -- almost three years ago.

Q. - Excuse me for interrupting. And Maritimes and Northeast Pipeline represents, as I think I have understood you to tell me earlier this morning, competition in a sense for New Brunswick Power transmission. Fair?

MR. MARSHALL: No.

Q. - Well, you are delivering power to markets. Maritimes and Northeast is delivering gas to markets. And gas is competition for you, correct?

MR. MARSHALL: I guess it depends on which market we are talking about. Inside the New Brunswick market I do not see Maritimes and Northeast as a competitor. They bring gas which is handed off through the Enbridge system.

And individual marketers are out marketing gas to customers at the end use. There is competition of those individual marketers for use of that gas as an end use against electricity. That is a competition.

I guess in the sense that Maritimes and Northeast is a bulk transmitter of gas through the province to the New England market, and that gas goes into production of electricity in New England, then in that sense the purchasers of that gas who turn it into electricity in New England would then be competitors of NB Power Generation in marketing electricity into New England.

But Maritimes and Northeast I do not see as a direct

competitor in the marketplace. They are a regulated transportation company just as transmission is a regulated transmission business.

Q. - Thank you. Do you know or do you recall, Mr. Marshall, what the position of the Province of New Brunswick and New Brunswick Power were as to the appropriate capital structure for Maritimes and Northeast Pipeline?

MR. MARSHALL: I do not recall.

Q. - If I told you that it was 70/30 debt equity would you have any reason to disagree with me, subject to check?

MR. MARSHALL: Subject to check I would not, no.

Q. - Thank you.

MR. MARSHALL: But I also know the rate of return on that project was 13 percent.

Q. - Is there some similarity between Maritimes and Northeast Pipeline as a green field project in new gas markets and New Brunswick Power Transmission?

MR. MARSHALL: The -- given that Maritimes and Northeast had backstopping agreements from parties behind it, I think they had some degree of risk. But they had backstopping agreements. And their gas was moving to the New England market.

I think the fact that New Brunswick Power has significant amount of transmission access that goes into

the New England market and revenues are tied to that access to those markets, there is actually some similarity between the two.

Q. - Are you suggesting in your answer to me, Mr. Marshall, that the Board should have regard to the affairs and the particular circumstances of Maritimes and Northeast Pipeline in determining the return on equity for New Brunswick Power Transmission?

MR. MARSHALL: I think Ms. MacFarlane and Dr. Morin will have more to talk about in terms of the risk related to rate of return.

Q. - But I asked you a question, Mr. Marshall, which was did you know what the capital structure was for Maritimes and Northeast Pipeline, and you said you didn't.

And subject to check you agreed with me that 70/30 was the recommended view of the Province and your company. And then you gave me a little bell and whistle on that. You said, yes, but they got 13 percent return.

And I asked you whether or not that had anything to do with the particular circumstances of Maritimes and Northeast.

Now I wish to know whether it is your position as to whether or not the circumstances of Maritimes and Northeast are relevant in this case for the purposes of

determining a return on equity for New Brunswick Power Transmission?

MR. MORRISON: Mr. Chairman, I fail to see how the Maritimes and Northeast situation is relevant to this hearing. We have -- and to ask this question whether -- the Board will make a determination whether it is going to consider extraneous considerations with respect to other entities in dealing with this application.

I just don't see the relevance. And perhaps Mr. Smellie can enlighten us on that.

MR. SMELLIE: Well, I'm happy to hear from my friend, sir, that the particular circumstances of other utilities are not going to be relevant to your determination of the return on equity and capital structure of this entity.

I'm not sure that that is what my friend really meant to say.

MR. MORRISON: No. That is not --

MR. SMELLIE: I'm prepared to drop it at this point.

CHAIRMAN: I think it is a good time for us to take a 10-minute recess.

MR. SMELLIE: Thank you, sir.

(Recess)

MR. HASHEY: We need a five minute warning buzzer.

CHAIRMAN: Yes. Well I'm just feeling very dedicated since

we are taking such a long lunch that I thought we should get back and at it.

Go ahead, Mr. Smellie.

Q. - If this was a golf game, Mr. Marshall, you would have a two stroke penalty for being late for your tee time.

MR. MARSHALL: Well actually it's disqualification if you miss your tee time.

Q. - I was trying to help you, Mr. Marshall. In the context of the post April 1, 2003 world, Mr. Marshall, does New Brunswick Power consider Hydro Quebec to be a competitor?

MR. MARSHALL: In the larger regional market Hydro Quebec has always been a competitor and will continue to be one.

All power marketing agencies, generators, power marketers are competing in the same marketplace. They may choose to do deals with each other and support one another or they may choose to compete, but they are all competitors in the larger marketplace.

Q. - New Brunswick Power intervenes from time to time before the Regie in Quebec?

MR. MARSHALL: Yes.

Q. - And are you aware, sir, as to the particular decision that the Regie arrived at in April of this year concerning Hydro Quebec's capital structure for its transmission activities?

MR. MARSHALL: I'm aware of the decision that came down, the details -- I have not reviewed the details on that. My participation on that hearing was related to cost allocation, rate design and those factors.

Q. - And if I --

MR. MARSHALL: But Dr. Morin I believe was their expert witness as well, so he would be able to answer all of your questions relative to Hydro Quebec's hearing and our evidence.

Q. - And subject to check, Mr. Marshall, will you take it from me that the Regie decided on a 70/30 capital structure for Hydro Quebec's transmission activities?

MR. MARSHALL: Subject to check. We can verify what that was.

Q. - You have applied for an order or orders of this Board concerning your open access transmission tariff which you want to be in place for a three-year period, as I understand it, is that correct?

MR. MARSHALL: That's our current application, yes.

Q. - And one of the reasons as I understand it for seeking a three-year period is that you want to be able to evaluate the effectiveness of the tariff, is that right?

MR. MARSHALL: That's correct.

Q. - Can you explain that to me, Mr. Snowdon? Effectiveness

in what regard?

MR. MARSHALL: The three-year application -- I think the intent behind a three-year application is to -- with a performance based rate is so that all parties in the marketplace will have a clear indication of transmission pricing and how it will move in time.

The intent of the incentives then is to -- NB Power would perform better than that and there would be some sharing if the rate of return deviated. That's the basic structure of the application.

And again, that evidence is all Panel B evidence and the parties that really should be speaking to that are Ms. MacFarlane and Dr. Morin.

Q. - Just refer to your response to PUB IR-1, gentlemen, which is in exhibit A-4. Now this is a response to an IR concerning Mr. Bartlett's evidence.

The question is please explain why the applied for tariff is for a three-year period rather than a longer or shorter period.

And the answer is concerning Mr. Bartlett's evidence, New Brunswick Power has applied for an initial three-year period for this tariff application in order to enable sufficient time to evaluate its effectiveness without overburdening the regulatory process.

Do you see that?

MR. MARSHALL: Yes.

Q. - And your answer to me when I asked you for an explanation about evaluating its effectiveness is that over the period there will be a clear indication of pricing and how the pricing moves.

Do you wish to expand on that?

MR. MARSHALL: No, I said that Ms. MacFarlane and Dr. Morin would expand on that. This response in -- to Mr. Bartlett's evidence, he was -- his evidence provides an overview of the tariff of what is in the application and is simply summarizing the three-year application.

All the details related to the performance based rate, the structure of it, the movement of it, and how it would be evaluated is evidence of Ms. MacFarlane and Dr. Morin.

And they should be the parties to address it.

Q. - All right, sir. And is your answer the same if I asked you or Mr. Snowdon to explain to me what the concept of overburdening the regulatory process is all about? You don't want to answer that one either?

MR. MARSHALL: Well similar to our quasi rate cap legislation as a matter of -- we just -- we may not want to come for a hearing year after year after year.

Q. - If I understand the PBR scheme at a high level correctly,

Mr. Marshall, the only occasion on which the tariff will come before the Board other than at the expiry of three years is if the return drops below a certain threshold, am I right?

MR. MARSHALL: That's my understanding. But again those are details related to the PBR mechanism, they should be addressed to Ms. MacFarlane and Dr. Morin.

Q. - One of the policy drivers in the restructuring of New Brunswick Power, gentlemen, as I understand it, is to see the company operate on the same basis as -- or more like a commercially driven utility, is that fair?

MR. MARSHALL: That's my understanding of one of the issues behind the restructuring.

Q. - And as far as we know New Brunswick Power Transmission will remain a Crown corporation, right?

MR. MARSHALL: As far as we know that's correct.

Q. - And can we agree at a high level, gentlemen, that an objective of a commercially driven entity is to maximize profit?

MR. MARSHALL: Yes, it is. For its shareholders.

Q. - Yes.

MR. MARSHALL: That's where -- in a -- but a transmission company being a regulated monopoly company that return to the shareholders is in a regulated rate of return that's

in the province of the Board to rule.

Q. - Thank you. And can we also agree at a high level to the extent that costs can be minimized, profits are maximized?

MR. MARSHALL: If costs are minimized and revenues remain the same then profits will be maximized, yes.

Q. - Thank you. And can we finally agree at a high level that it is a reasonable objective for a commercially driven entity to drive out unnecessary costs because paying them is contrary to that objective?

MR. MARSHALL: Yes, I think all entities are cost conscious.

Q. - I will take that as a yes. I want to understand a couple of things about -- and your position on them -- concerning, I will call it, customer rights, Mr. Marshall.

You told us in your presentation that the proposed tariff will be the foundation of the electricity market in this province, correct?

MR. MARSHALL: Yes, that's correct. Actually it was Mr. Snowden's presentation but I agree with it.

Q. - Well I was being generic. And you have told us over the past day and a bit that the tariff will ensure open and nondiscriminatory access to service at rates which by definition are going to be just and reasonable?

MR. MARSHALL: That's correct.

Q. - And if I understand correctly, the tariff is going to be

subject to a regulatory environment to protect transmission customers, is that right?

MR. MARSHALL: That is why we are here.

Q. - And the tariff as I understand it includes a dispute resolution process in the event that disputes arise as between transmission customers and NB Power Transmission, is that correct?

MR. MARSHALL: That's correct.

Q. - Can I just get you to turn, gentlemen, to A-5, tab 1, which is a draft or a red line or a black line version of the New Brunswick Power open access transmission tariff.

Do you have that?

MR. SNOWDON: Yes.

Q. - Just turn to page 31 with me, will you? It actually begins at the bottom of page 30 under the heading "Dispute resolution procedures."

And I can assure you I just have two or three questions at a very high level.

If I understand paragraph 12.1, if there is a dispute between a customer and New Brunswick Power Transmission, it must firstly be referred to senior representatives for resolution on an informal basis, correct?

MR. SNOWDON: That's correct.

Q. - There is a clock on that of 30 days. And if that

informal solution doesn't work, then if both parties agree, the dispute can go to arbitration, correct?

MR. SNOWDON: That's correct.

Q. - And if I look over the page at line 4 on page 32, if the informal dispute resolution doesn't work, and if the parties agree to go to arbitration, the arbitrator's decision is final and binding, correct?

MR. SNOWDON: Yes, that's correct.

Q. - And if I look down at 12.5 under the heading "Rights under the laws of New Brunswick", I see that "Nothing in this section shall restrict the rights of any party to file a complaint with the Board under relevant provisions of the laws of New Brunswick."

Do you see that?

MR. SNOWDON: Yes.

Q. - Is it the position of New Brunswick Power that a transmission customer has such a right?

MR. SNOWDON: Yes, it is.

Q. - And are you able to enlighten me as to where I might find the statement of that right?

What law or laws are we talking about? I'm not going to get into the laws. I just want to know what it is.

MR. SNOWDON: I'm certainly not qualified to answer what laws that is.

MR. MARSHALL: The Public Utilities Board has jurisdiction
over transmission tariffs --

Q. - Right.

MR. MARSHALL: -- and ancillary services and rates.

Q. - Right.

MR. MARSHALL: They have been empowered with that
jurisdiction with changes to the Public Utilities Act last
spring.

Q. - Yes.

MR. MARSHALL: The -- this tariff, if approved by the Board,
then here is the terms of the tariff approved by the
Board, dictates the rules by which customers can take
transmission service --

Q. - Yes.

MR. MARSHALL: -- lays out their obligations and rights for
that service.

Q. - Yes.

MR. MARSHALL: The Board agrees that they can make a
complaint to the Board, I think the Board can then -- is
legislated with power to hear that complaint. So their
rights are basically embodied in the tariff document
itself.

Q. - The right in the tariff document is to file a complaint
with the Board under relevant provisions of the laws of

New Brunswick.

What I would like to know is, is it the position of New Brunswick Power that there is such a law?

MR. MORRISON: Mr. Chairman, I don't think these witnesses are qualified to answer. We would be prepared certainly to address that in argument in terms of the authority of the Board to rule on any aspect of the tariff.

MR. SMELLIE: Mr. Chairman, as I understand it, one of the things we really do want to get to here is a complete and clear understanding of the tariff.

The witnesses have told me that the tariff is subject to a regulatory environment which will protect the ratepayer.

I simply wish to know what New Brunswick Power intends by the inclusion of language such as I have described under this tariff.

I would be quite happy to have an undertaking from the witnesses to describe what relevant provisions of the laws of New Brunswick entitle a party to file a complaint with this Board to ensure that there is meaning to the evidence that there is a regulatory environment going to be in place which will protect transmission ratepayers.

MR. MORRISON: We can provide that undertaking, Mr. Chairman.

CHAIRMAN: Okay.

MR. SMELLIE: Thank you.

Q. - Mr. Bartlett at page 16 of his evidence, gentlemen, refers to -- this is in A-2 -- the development of the proposed tariff using a corporatized model for the transmission business unit.

Do you see that, gentlemen?

MR. MARSHALL: Question 22?

Q. - Question 22, line 17 to 19. Do you see that?

MR. MARSHALL: Yes.

Q. - Leaving aside the English, what is a corporatized model?

MR. MARSHALL: It is taking a business unit and putting it into a equivalent private corporate structure with a deemed capital structure, rate of return on equity, payment in lieu of taxes, all of those issues that Dr. Morin and Ms. MacFarlane will discuss with you.

Q. - Yes. And as Mr. Bartlett says, at least corporatized means establishing a revenue requirement including financial structure and costs consistent with a corporate structure.

Do you see that?

MR. MARSHALL: Yes.

Q. - Right. Just to refer please to your response to Mr. Gillis' IR number 3, exhibit A-4.

MR. MARSHALL: What number again?

Q. - 3. Page 127 of that volume.

MR. MARSHALL: We have it.

Q. - Again this is evidence by way of an interrogatory response to the particular portion of Mr. Bartlett's testimony that I have just referred you to. And he refers there -- or the answer refers to a model, which includes 6 bulleted items. Do you see that?

MR. MARSHALL: Yes.

Q. - Can you identify for me, gentlemen, which of these transmission cost components are not part of the current bundled rates of New Brunswick Power?

MR. MARSHALL: Again the evidence related to specific issues on revenue requirement will be dealt with on the O & M side in Panel C by Ms. MacFarlane and Mr. Lavigne.

Specific issues related to capital structure and rate of return be dealt with by Ms. MacFarlane and Dr. Morin.

Q. - Turn over to your response to J.D. Irving 5, which is at page 181 of this volume?

MR. MARSHALL: We have it.

Q. - Do we agree, gentlemen, that the transmission system

costs

embedded

in the

bundled
rates
would be
the same
as the
costs in
unbundled
rates? Do
you see
that?at?

MR. MARSHALL: Yes.

Q. - Do you agree with it?

MR. MARSHALL: Basically that's correct.

Q. - And the differences according to this evidence would arise from the deemed capital structure rate of return on equity and payments in lieu of taxes, correct?

MR. MARSHALL: That's correct.

Q. - And the purpose of including these items, as I understand it, is so that New Brunswick Power Transmission will look more like a typical corporation, as we have just discussed, correct?

MR. MARSHALL: That's correct.

Q. - And just finally on this line would you turn over to your response to Saint John Energy IR-59, page 536 of this same volume.

I would just like for you to confirm for me, because this response deals with the same components, if you look about five or six lines down in the answer, in addition to being on all fours with a corporate model, another reason for the inclusion of these costs is to help mitigate the loss of export and wheeling benefits of a closed transmission system, do you see that?

MR. MARSHALL: Yes.

Q. - And Mr. Porter in his response to Saint John Energy -- excuse me, it's not Mr. Porter -- in the response to Saint

John Energy 5 that we referred to earlier today about the in-province rate base, in-province revenue, you will recall we discussed that it wasn't clear how the benefits of export sales will flow, do you recall that?

MR. MARSHALL: That's correct, yes.

Q. - And Mr. Porter -- or this answer in response to IR-59 to Saint John Energy seems to suggest that there will be damage or a loss of export and wheeling benefits, which needs to be mitigated.

And I will give you one other reference in response to PUB IR-3, which asked for -- about the risks associated with open access, we are told that export benefits would be at risk to competition.

So what I would really like from you gentlemen is some clarification as to New Brunswick Power's position as to whether export benefits will be lost, whether it's unclear that they are going to be lost, or whether they are at risk?

I am getting conflicting signals and I would like some help from you. Can you do that?

MR. MARSHALL: I will attempt to.

Q. - Thank you.

MR. MARSHALL: The statement here about the inclusion of these costs helps to mitigate the loss of export and

wheeling benefits of a closed loop transmission system. I think it alludes to the statement I made earlier that this tariff is designed not just for load customers inside New Brunswick. It's designed for third parties outside New Brunswick who use the system as well. And that there should be no loss from the part of the view of the owner of this corporation that they get a rate of return equivalent to private capital structure for competition in the overall industry.

It goes partly back to our level playing field discussion we had earlier that transmission is also -- should be also subject to those same costs and structure.

So that somebody in Nova Scotia, or P.E.I., or Maine, or Quebec, is paying the same rates and a fair rate on the value of the transmission system.

That's what I think is being questioned here that if the rates charged were from a Crown corporation with government guaranteed debt financing, without any return, without an equivalent payment in taxes, that was deemed to be a subsidy in competition of generation, it's also essentially be a subsidy in transmission as well. And so that external parties should pay the same.

So that's part of the question of loss of paying the amount of that.

The issue of the 10 to 15 percent impact on rates, or the 100 to \$150 million of export benefits, as to how it gets divided up, okay, there is risk today in that. There has been risk in that export market from the first day we entered contracts and started selling power across inter-connections to exports. That risk exists today and it's - - there is a risk that's -- what is the value in the export market, because we have no control over what that is.

And that's no different than Irving Paper selling paper into the market. They have no control over the market price of paper. They take -- they are a price taker out of that market. So all they can try to do is control costs. So they are still subject to risk of the benefits that they accrue from exporting paper out of this province into other markets. In that sense, the 100 to \$150 million is subject to total risk.

From a transmission point of view, the risk is will customers ante up and contract long-term that you continue to have the load there long term and you continue to have customers long term that will pay the transmission charges.

Q. - Thank you.ou.

MR. MARSHALL: I hope that helps.

Q. - Yes. Let me see if I can look at this another way. Just look at Saint John Energy supplemental 8, the response to that which is volume 6, Mr. Chairman, at page 123.

As I understand this, gentlemen, this response shows us the effect of these new costs, I will call them that, by showing or comparing the proposed tariff rate for network integration transmission service excluding ancillaries as against the cost of services for those same services, that's what the answer says, right?

MR. MARSHALL: Yes.

Q. - And under the second column under Cost of Service, that is -- what is that, dollars per kilowatt month?

MR. MARSHALL: Yes.

Q. - The total is \$1.60, correct?

MR. MARSHALL: Yes.

Q. - And under the proposed network integration transmission -
- integration transmission service the rate is going to be \$1.84, correct?

MR. MARSHALL: That's correct.

Q. - And the difference is 24 cents and that is, I suggest to you, a 15 percent difference, will you accept my math --

MR. MARSHALL: About 15, yes.

Q. - -- subject to check. And the reason for the increase is the net of a decline in the interest component and the

addition of a return on equity and a payment in lieu of taxes, do I have that right?

MR. MARSHALL: That's correct.

Q. - Thank you. One last question, gentlemen. I need you to refer to exhibit A-4 one last time to page 208 which is the first IR number 1 of NMISA, and it concerns Mr. Bartlett's evidence at page 1. And I think actually that's not a correct transcription of the reference. I think the reference is to page 14, line 27, but it's not material.

You are asked whether New Brunswick Power considered a formula rate based on historical costs, and the answer is, yes, you did, but you rejected it or opted for a prospective cost of service using a test year, you see that?

MR. MARSHALL: Yes.

Q. - Why?

MR. MARSHALL: I think Dr. Morin and Ms. MacFarlane would be the best parties to answer that question.

Q. - You are here to discuss Mr. Bartlett's evidence.

MR. MARSHALL: Yes, we are.

Q. - This IR relates to Mr. Bartlett's evidence, correct?

MR. MARSHALL: It references his evidence. The information response relates to Ms. MacFarlane and Mr. Morin's

evidence.

Q. - And so you as the policy witnesses are not able to tell me, or choose not to tell me, why New Brunswick Power rejected rates based on historical costs, do I have that correctly?

MR. MARSHALL: I think that's part of the performance --

Q. - That's fine.

MR. MARSHALL: -- it's part of the rationale and the basis of the performance based rate design and structure. As I say, it relates more to Ms. MacFarlane and Dr. Morin's evidence and they will be able to discuss that with you.

Q. - Are you telling me, Mr. Marshall, that performance based rates cannot be premised on historical costs, or do you know?

MR. MARSHALL: They may be able to be. Our application is based on a prospective year, and they will be able to give you all the rationale why that is the case.

Q. - And you can't, or --

MR. MARSHALL: That's correct. I don't have all of that information.

Q. - Mr. Snowdon, can you help me?

MR. SNOWDON: No, I can't.

MR. SMELLIE: Thank you, gentlemen, Mr. Chairman. Those are my questions.

CHAIRMAN: Thank you, Mr. Smellie. Is Maine Public Service Company represented here today? They were not yesterday.

How about the Northern Maine Independent System Administrator, do you have any questions, Mr. Belcher?

MR. BELCHER: Yes, I do.

CHAIRMAN: All right. Would you like to come up to number 5 up here at the front.

MR. BELCHER: Thank you, Mr. Chairman, for allowing me to ask the witnesses some questions. I'm not counsel but I will be acting as a proxy lawyer for Northern Maine ISA.

CROSS EXAMINATION BY MR. BELCHER:

Q. - My first question begins with NMISA IR-1. Based on --

CHAIRMAN: I just wonder, people at the back of the room, can you hear the examination? You can? Good. Perhaps, Mr. Belcher, bring the mike in a little closer. I have been accused of having mine out too far as well.

Q. - Sorry. Based on just your last response you may not be able to answer this question, but what is the prospective cost of service? Is that imbedded or is that a marginal cost of service study?

MR. MARSHALL: The cost of service is -- again my understanding, you can get greater detail from -- I think in Panel C on the total cost of service, Ms. MacFarlane and Mr. Levine -- but it's based on the budgeted numbers

for next year on the projection of next year's budget of what the actual costs to run the business are, plus the deemed capital structure and payment in lieu of taxes and return on equity.

Q. - Okay. And it says using a test year. Is that for the load?

MR. MARSHALL: That's right. So the test year is essentially a budgeted number for next year. Subject to check, but I think that's correct.

Q. - So on Bartlett page 14, lines 25 through 29 --

MR. MARSHALL: I believe it summarizes the numbers that are in the test year.

Q. - Right. Those numbers are the budgeted for the prospective year?

MR. MARSHALL: Yes. They break down the revenue requirement into its particular pieces.

Q. - Okay.

MR. MARSHALL: And I believe the total revenue requirement is some 98.4 million, is that the total that he has there?

Q. - Yes.

MR. MARSHALL: Yes. That is the test year number.

Q. - Turning to Northern Maine ISA IR-2.

A. Yes, we have it.

Q. - In your response you say, If Northern Maine chose network

service I assume though then any entity outside of the province will be able to purchase network service?

MR. SNOWDON: Yes. As long as they are within the Maritime control area.

Q. - So Eastern Maine Electric Co-Op could have network service?

MR. SNOWDON: That's correct.

Q. - Could Houlton Water Company purchase network service if Maine Public Service wasn't?

MR. SNOWDON: If Maine Public Service was not doing what?

Q. - Yes, if Main Public Service was a point to point customer, could Houlton Water chose network service from New Brunswick Power?

MR. SNOWDON: I guess the issue there is if we could accommodate it we would do it. It would have to be worked out with the ISA.

Q. - Okay. And going back to this question I would like to -- IR-2, I would like to ask a hypothetical concerning net noncoincident peak demand.

Assume ISA as a whole was purchasing network service from New Brunswick Power and their noncoincident peak demand, or their separate peak for that month was approximately 100 megawatts, and at that time or in that hour they had 50 megawatts of generation on line, what

would be the billing determinant for network service for that month?

MR. MARSHALL: Run that hypothetical again specifically?

Q. - Sure. We are purchasing network service and our peak demand --

MR. MARSHALL: Who is -- who is purchasing it?

Q. - The ISA as a whole.

MR. MARSHALL: So the ISA as a whole is purchasing network service?

Q. - Right. Representing the four utilities in Northern Maine. And our peak demand for the month of say November was a hundred megawatts. And at that time 50 megawatts of that was being supplied by internal generation.

Would our building determinant for that month be a hundred megawatts or 50 megawatts for network service?

MR. MARSHALL: For the network service transmission I believe the billing determinant would be the net number at -- at the border. If the ISA is taking network service for the entire system, it would be the net number at the border. I believe that that's the intent.

Q. - 50 megawatts?

MR. MARSHALL: 50 megawatts. Subject to check.

Q. - Yes.

MR. MARSHALL: We will discuss it with Mr. Scott who is

really --

Q. - Okay. I can --

MR. MARSHALL: This may be an issue more for Panel D, all right, but --

Q. - Okay. I will ask Mr. Scott that question. Turning to MNISA IR-4. Your response there is that essentially the PSA would be eliminated by this proposed tariff except for the products that aren't included in the tariff that are covered in the PSA?

MR. MARSHALL: That would be our intent. Based on the PSA, and for the Board's understanding, the Products and Services Agreement with Northern Maine was a contractual agreement entered into between New Brunswick Power and Northern Maine in order to overcome concerns about market power that might be exercised from New Brunswick into that -- that small market because they were not connected into the rest of Maine.

So we can -- our tariff at that time again was not subject to regulation, so we agreed contractually to fix the prices in the tariff, not change them, to offer the services that were required, auxiliary services required so that Northern Maine could go forward and operate its market. So that agreement lays down a number of transmission services and ancillary services that are now

in the tariff before you at this time.

The intent of the agreement was that when our tariff was regulated by this Board what services would be available through that tariff from this Board the service -- the services in the PSA would get replaced with those services, subject to a condition written in the contract, that the ruling and the rates that came out of this Board would not be discriminatory to participants in Northern Maine. Subject to that condition they would be replaced with this tariff. That was the intent of the -- of the Products and Services Agreement. And that's what our response to this interrogatory says, we would -- we would want to do that.

But I think in the Products and Services Agreement there is a condition to change the agreement requires approval of the parties. So again our intent would be to change it. But it requires that we would need to have discussions with the Northern Maine Administrator and the parties, the actual utility parties who are counterparties to the agreement that they agree.

Now if they don't agree, there is provision in the -- in the agreement that we could take it to the FERC, I believe, as an overriding body, if one of the parties refused to accept this Board's ruling we could take the

ruling to FERC and have them rule and then make it mandatory for those parties to accept it.

That's my understanding of the agreement and our position on it.

Q. - Okay. So you would say that this PSA is very critical to the efficient operation of the Northern Maine market?

MR. MARSHALL: At the time it was certainly critical to the operation of the market. We would believe that it would - - if this tariff is approved and accepted by this Board as filed, when it goes into implementation a significant number of items in the PSA are no longer essential to the operation of the Northern Maine market. They can be replaced by this tariff.

Q. - Okay. You mentioned a tie-line interruption service. We would have to come up with an agreement for that?

MR. MARSHALL: There are services in the Products and Services Agreement which are outside the scope of this tariff. And our intent there is clear that those -- those products would continue to be offered to Northern Maine, and that the Products and Services Agreement would not be cancelled in total, but it would still remain in force for those other -- other products.

Q. - What about balance in energy?

MR. MARSHALL: Our position would be that energy imbalance

as agreed by this Board in our tariff would be available.

There -- again there are some issues related to operator to operator handling of that in terms of the inadvertent exchange that there are details under that that may be negotiated between the Northern Maine operator and the NB Power operator. But that energy imbalance service as regulated by this Board should be adequate. It's nondiscriminatory to all parties in New Brunswick, and we see no discrimination to Northern Maine either.

Q. - My understanding of balance in energy, Schedule 4, is that true? It's Schedule 4?

MR. MARSHALL: Schedule 4 of the --

Q. - Proposed tariff?

MR. MARSHALL: -- tariff.

Q. - Yes. That would be the service that we would be -- the Northern Maine ISA would be subject to to run their market would be Schedule 4?

MR. MARSHALL: Is that the one that has the diagram --

Q. - No, this is in your proposed tariff.

MR. MARSHALL: Oh, it's Schedule 4 of the -- of the -- for energy imbalance before this Board, yes.

Q. - Right. And that is different for point to point then for network?

MR. MARSHALL: Yes, it is.

Q. - Why?

MR. MARSHALL: We have added in the network service an additional bandwidth to try to provide for some variation in loads. Whereas under the FERC tariff and standard point to point service it's much more important that schedules be balanced and matched. And that the energy imbalance in there is essentially a penalty mechanism to keep people within balance. We felt we didn't want to as punitive to load customers that were taking network service, so there is an additional bandwidth of market related pricing outside the inadvertent range in the network service.

We are prepared to offer that same bandwidth to Northern Maine.

MR. SNOWDON: The primary driver for that is the -- is the metering that's available between the operators. On a point to point it's generator to load, or operator interconnection to interconnection, the metering information is accurate.

Whereas on a network service you are using metering that's not readily available to the operator instantaneously. It's only read at the end of the month and then that information is provided. So there is less opportunity for the load to actually make adjustments to

the schedule to stay on schedule. And that is why we introduced this extra bandwidth on network.

Q. - You don't feel that you are charging a different price for the same service?

MR. MARSHALL: Well relative to the -- I guess relevant to the PSA, the bandwidth under the PSA for energy imbalance is one megawatt under the old tariff, and then there is an additional megawatt to get equivalent to what is before this Board.

So inadvertent will be in plus or minus 2 megawatts, which is what the PSA is. So the energy imbalance before this Board is equivalent to the energy imbalance in the PSA for the plus or minus 2 megawatts.

And beyond that energy imbalance there is an optional piece in the PSA for purchase of additional bandwidth at a capacity price with energy associated with it. But if you choose not to purchase it it goes to the penalty mechanism of, you know, essentially gas turbine prices or down to the \$18 price, which are similar to the penalty mechanism prices in the current tariff.

So if Northern Maine does not choose to select the option piece in the PSA, the energy imbalance service available to it under point to point is identical to what is in this tariff.

If you choose to take Network Service then you have some additional value in that there is a wider bandwidth at more market-related prices rather than the penalty prices. And that is your choice to whether you want to do that or not.

Q. - Under schedule 4 of your proposed tariff when do you settle the inadvertent?

MR. SNOWDON: The inadvertent is settled between the two operators.

Q. - Yes, at what time period though? Daily, hourly, at the end of the month?

MR. SNOWDON: A mutually agreed upon time, generally within the month.

Q. - Under the Products and Services Agreement do we keep track of inadvertent and we settle that hourly?

MR. SNOWDON: Yes.

Q. - Are you familiar with the Northern Maine market rules?

MR. SNOWDON: Personally I'm not that familiar with them.

MR. MARSHALL: Vaguely but not in detail, no.

Q. - But you do agree that the PSA is very critical to the efficient operation of the Northern Maine ISA inasmuch that two of your employees are non-voting board members of the ISA?

MR. MARSHALL: Yes, we are aware of that.

Q. - And it is New Brunswick's position that we would have to purchased schedule 4 from the tariff and no longer would be able to utilize bands 1, 2 and 3 of the PSA?

MR. MARSHALL: Well, bands 1 and 2 merge into the inadvertent band that is in this tariff, so there is no difference.

Q. - They are priced different?

MR. MARSHALL: Well, they are -- well, they are inadvertent.

MR. MORRISON: I'm not trying to -- well, I am trying to deflect some of these questions, but in a helpful sense.

I think the Panel D witnesses are more familiar with the actual nuts and bolts of how this agreement operates and market rules in Northern Maine and so on.

And I'm happy to have the questioning continue. But it may be more helpful to the intervenor to direct those questions to Panel D.

Mr. Scott actually is very familiar with this agreement.

CHAIRMAN: Is it NB Power's intention to introduce as an exhibit that agreement?

MR SNOWDON: We had not planned to do so. If it is the Chairman's wish we will see that it is entered.

CHAIRMAN: Well, certainly --

MR. MARSHALL: It is not our exhibit. If it is -- it's

Northern Maine's --

MR. BELCHER: Northern Maine would certainly like to enter it, if we could have the opportunity. And I would also put off my questions to Panel D. I have no problem with that.

CHAIRMAN: Well, Mr. Morrison is probably correct, if that will handle it better, yes.

MR. MORRISON: Just trying to be efficient use of time, Mr. Chairman, that is all.

CHAIRMAN: Okay.

MR. MORRISON: I'm happy to have the intervenor continue.

But I think he will get more fulsome responses from Panel D.

CHAIRMAN: Okay.

MR. BELCHER: I agree. I will hold those questions on the Products and Services Agreement to Panel D.

Q. - Okay. Turning to Mr. Marshall's testimony on page 8, line 19?

MR. SNOWDON: Page 8, did you say?

Q. - Page 8, line 19?

CHAIRMAN: What exhibit?

MR. BELCHER: A-2.

Q. - You mentioned that this tariff will enhance the Northern Maine market. Could you explain that a little bit for me

please?

MR. MARSHALL: That is -- this tariff as filed will provide transmission service to Northern Maine at a lower price than is available under the Out and Through tariff. There is a reduction in transmission costs. There is provision of all of the ancillaries through the tariff.

So that it will replace pieces again if we agree to negotiate and go through the process to replace pieces of the PSA agreement, which is essential to the operation of the market. So it will -- it will support the market to the level that it is operating today.

To the extent that the tariff is lower, it will provide access to parties from farther away to be able to compete in that market. So it should improve the competition access to that market.

Q. - Okay. Under the tariff on scheduling and system control and load dispatching, is that cost for the energy control centre?

MR. SNOWDON: Yes. That's correct.

Q. - Is that just the costs associated with transmission or for all operations in the energy control centre?

MR. SNOWDON: The cost of the distribution operating centre has been removed from those costs. Those are the transmission-related costs.

Q. - What about any costs associated with generation?

MR. SNOWDON: There are no generation costs.

Q. - And in reactive supply and voltage control, those are costs associated with generation, or --

MR. MARSHALL: Yes.

Q. - -- not capacitors and --

MR. MARSHALL: No. Capacitors, inductors, any equipment of that nature is in the transmission tariff cost. That is a transmission asset.

The voltage support and reactive is a service from generators for field support and operation of generators to provide voltage support to the system.

Q. - But it is going to be priced based on a synchronous condenser?

MR. MARSHALL: Yes. That --

Q. - Is that a generation asset?

MR. MARSHALL: That is -- it uses a proxy of a synchronous condenser in order to price the equivalent value of it. Again the specifics of that are panel C evidence, although I am familiar with that, being on Panel C.

But the details of that, specifically to get into some of the details I would prefer to have Mr. Porter with me at the time I answer the questions.

CHAIRMAN: Mr. Belcher, I'm going to --

MR. BELCHER: I'm done.

CHAIRMAN: -- break for lunch now and come back at 2:00
o'clock.

MR. BELCHER: Thank you, Mr. Chairman.

CHAIRMAN: You're welcome.

(Recess)

CHAIRMAN: Any preliminary matters before we start this
afternoon?

MR. MORRISON: Just one matter, Mr. Chairman. The witness
may have misspoke this morning in connection with the
reference to FERC.

And I would ask either Mr. Marshall or Mr. Snowden to
correct the record on that.

MR. MARSHALL: We were speaking with reference to the
Products and Services Agreement for Northern Maine. And
there is a reference in there to the commission. We
thought that it was to FERC.

In actual fact the commission referenced is the Maine
Public Utilities Commission, the board comparable to this
Board in the State of Maine.

CHAIRMAN: Yes. I wondered -- I frankly wondered why you
would have an appeal immediately to FERC.

MR. MARSHALL: Well, FERC is referenced in the document and
defined up front. In reading it last night it said

commission. I was trying to find out where commission was. It is actually not in the list of definitions. It is in the text that it is defined as commission. So there was a little bit of confusion on that. We clarified that at noon hour.

CHAIRMAN: Thank you.

MR. SMELLIE: Mr. Chairman --

CHAIRMAN: Yes, Mr. Smellie.

MR. SMELLIE: -- one minor matter, sir. I was a little late when I tendered copies of the White Paper yesterday. And Ms. Legere reminded me. So I'm just going to hand a few more to her. And there are more for intervenors who wish to have them.

CHAIRMAN: Yes. Good. Thanks, Mr. Smellie.

Anything else?

MR. BELCHER: Yes, Mr. Chairman. I would like to enter the Products and Services Agreement into the record as exhibit NMISA-1.

And my one final question for --

CHAIRMAN: Just a second, if I could, Mr. Belcher, while I will mark that.

MR. BELCHER: Okay. I'm sorry, sir.

CHAIRMAN: No problem. So this Products and Services Agreement between New Brunswick Power Corporation and

Eastern Maine Electric Cooperative, Houlton Water Company, Maine Public Service Company and Van Buren Light and Power District dated April of 1999 will be exhibit NMISA-1.

Okay. Thank you, Mr. Belcher. Go ahead, sir.

Q. - And Mr. Marshall just cleared up my last question. What I was going to ask, if you just walk through it real quick, on page 14, section 21.2 --

MR. MARSHALL: Yes.

Q. - -- item 2, the termination of this agreement.

And my question was which commission does this refer to?

MR. MARSHALL: And that has been corrected from FERC to the Maine Public Utilities Commission.

Q. - And that is referenced on the first page, I believe?

MR. MARSHALL: I believe it is the third "Whereas" from the bottom, "Whereas the Maine Attorney General Department and the Maine Public Utilities Commission (Commission)."

So it is defined at that point.

MR. BELCHER: Thank you. I have no further questions.

CHAIRMAN: Mr. Zed, you have already had your opportunity with this panel.

MR. ZED: Yes, Mr. Chairman.

CHAIRMAN: Mr. Dionne from Perth-Andover Electric Light?

MR. DIONNE: Yes. We will be doing ours with Saint John

Energy.

CHAIRMAN: Okay. Thank you, sir.

Department of Natural Resources and Energy?

MR. KNIGHT: Nothing at this time.

CHAIRMAN: Thank you, Mr. Knight.

And of course the Province of Nova Scotia is not here.

So it is Saint John Energy. Would you like to move up to the front table?

MR. YOUNG: Mr. Chairman, would it be all right if we stay right here? Your preference, sir.

CHAIRMAN: If that is your preference, unless it causes the witnesses some problems, why okay, go ahead. Sometimes those who examine like to be able to see the witness square-on.

CROSS EXAMINATION BY MR. YOUNG:

Q. - Well, good afternoon, Mr. Snowden and Mr. Marshall. Now from the municipal utility's point of view I think we have just seven areas of focus that we would like to talk about here.

And in fact for this cross examination all it is going to be is just a continuation of our interrogatories and our supplementals. This is just a continual focus on some of these areas that we are looking for some more answers on.

I said again seven areas of focus. I'm going to turn the mike over to Mr. Dionne here in just a moment. He will handle one of those issues.

Mr. Marshall, the first policy goal of the White Paper is to ensure a secure, reliable and cost-effective energy supply for residential, commercial and industrial customers.

Do you agree with that?

MR. MARSHALL: Yes.

Q. - In there somewhere do you read in wholesale customers?

Are wholesale customers included in that also?

CHAIRMAN: Mr. Young, would you bring the mike in front of you, sir. I'm losing you on occasion here.

MR. YOUNG: No problem, sir.

MR. MARSHALL: Could you point us to where that is written?

Q. - In the White Paper in JDI number 3 on page number 2?

MR. MARSHALL: That is section 1.2.1?

Q. - That is correct.

MR. MARSHALL: Yes. Your question?

Q. - You mentioned previously that you do agree that that is the first priority of the policy goals?

All I was asking as a follow-up was do you read in there, or is it included in there, wholesale customers?

MR. MARSHALL: It is not explicitly stated. But inherent in

residential and commercial, wholesale customers are buyers on behalf of residential and commercial and then supply to them.

So I think wholesale customer interests are generally included in the objective.

Q. - Thank you, Mr. Marshall. Just to continue on that focus, will the status quo change in any way with respect to wholesale customers, i.e. their contracts with the implementation of the open access transmission tariff?

MR. MARSHALL: My understanding at this time is there is no intention to change those contracts, that the standard offer service would be provided by NB Power Distribution and Customer Service as the standard offer supplier.

And they will do so under -- respect all existing contracts to customers. So as long as wholesale customers remain standard offer customers of NB Power Distribution and Customer Service, there is no reason for any change.

That is my understanding at this time.

Q. - You mean that on April the 1st Saint John Energy will be a standard offer service provider or that we will be under our existing contract on that date?

MR. MARSHALL: On that date, unless Saint John Energy exercises its right under the marketplace to become a separate transmission customer and to then procure its own

supply in the marketplace -- if it does not exercise that right, it has the right to continue as a standard offer customer of NB Power Distribution and Customer Service under its current contract.

That is my understanding at this time.

Q. - To sidetrack a little bit, could you explain to me -- yes, I guess the best word is to explain to me the role of the OATT of this tariff in the contract starting April the 1st?

Is there any role that this tariff will play with current contracts?

MR. MARSHALL: This open access transmission tariff will apply to transmission customers under the tariff. Now by a transmission customer under the tariff, the one transmission customer we know that will exist will be NB Power Distribution and Customer Service as a network service customer.

It will not apply to any other customers inside the province of New Brunswick unless they explicitly exercise their right to procure service in the marketplace and become a transmission customer under the tariff.

If Saint John Energy choose to remain a standard offer customer of NB Power Distribution and Customer Service under their current contracts, they will not be subject

specifically to the terms and conditions of this tariff.

NB Power Distribution and Customer Service will be subject to the terms and conditions of this tariff at all delivery points in the system including the delivery points to Saint John Energy.

Q. - So that would mean NB Disco will be the holder of the contract?

MR. MARSHALL: That is correct. The holder of the transmission network services contract, yes.

Q. - Would they also be the holder of the contract with Saint John Energy?

MR. MARSHALL: They would be the holder of -- the current contract that Saint John Energy has with NB Power Corporation for delivery of bundled service, that contract will be -- will be administered through NB Power Distribution and Customer Service. So they will hold that contract, yes.

Q. - That would be that the only change required to own that contract as it sits right now would be the name of NB Power, what form it is going to take to hold that contract?

Would it be NB Disco taking the place of NB Power, not NB Transco?

MR. MARSHALL: You are getting into the restructuring and

the outcome of the restructuring and where that goes. If restructuring does not take place, the legal entity would be NB Power.

It would be administered through NB Power Distribution and Customer Service. And all rights under that basis would be provided to Saint John Energy under its current contract.

Now until restructuring occurs, I'm talking about speculation as to exactly who will have what rights and when and what entity it will be.

But our intent clearly at this time is that it is the Distribution and Customer Service division which under restructuring is to become a separate corporation. That successor corporation will take on the Saint John Energy contract with it.

Q. - So in fact since it is undecided at this point, it could be NB Power holding, be the holder of that contract, or NB Power Transco, since it is undecided, is that correct?

MR. MARSHALL: The contract with Saint John Energy will not be held by NB Power Transco. And our intention is it would be held by NB Power Distribution and Customer Service.

That is the intent of the White Paper. Our understanding -- or excuse me, of market design committee

recommendations as to who the standard offer supplier would be. And they will carry on those services.

Q. - Another area of focus. Boundaries to the transmission system. Could you please describe the boundaries to the transmission system being considered in this application, just to reiterate it one more time from your Panel A presentation?

MR. MARSHALL: There is two boundaries that have to be clarified and they are really in the evidence of Panel C and we will deal with it in detail in the presentation of Panel C, but just for clarification again, the transmission assets that incorporate the revenue requirement of \$98.4 million include the generation step up transformers, the connections of generators to the system, synchronizing breakers and all transmission assets in the system down to the high voltage side of distribution sub-station, wholesale energy sub-stations, large industrial customer sub-stations. So it's all the voltage equipment from 69 kv down to the low side of the generator step up transformers. That's what the transmission assets are.

For purposes of the tariff the generator step up transformers and the connection of the generator cost to the system are directly assigned back to the generators

and are not part of the tariff.

The tariff, open access tariff, for transmission services for network and point-to-point, begin at the upsystem side of the synchronizing breaker of the generator to the high voltage side of the distribution sub-station transformers.

Q. - Do you own -- excuse me -- does NB Power own the entire transmission system in that area that you just explained from end to end, or are there other entities that would have ownership of pieces of equipment in there?

MR. SNOWDON: The only -- we -- NB Power owns all the facilities that you spoke of. There is one line that goes from Tinker into Perth-Andover that is not owned by NB Power today.

MR. MARSHALL: But it is not subject to this tariff at this time?

Q. - Mr. Marshall, did you mention that it goes to the low side of the power transformer? I think Saint John Energy owns all the power transformers in the sub-stations.

MR. MARSHALL: No. I said it goes to the high side --

Q. - Oh, excuse me.

MR. MARSHALL: -- of the power transformers. So if Saint John Energy owns their transformers they are not included. It goes to the high voltage side of those transformers.

Q. - Would there be any equipment on the line side of those power transformers that would not be owned by NB Power?

MR. MARSHALL: There is no equipment in the revenue requirement that is not owned by NB Power, as far as I am aware. They are -- and just to clarify -- there have been some contributions to capital costs for some portions of the system. I believe Maritime Electric is one, have made some payments to upgrade the line from -- to Murray Corner and to PEI. Those direct payments which are also not in the tariff, they have been taken out and they are not in, because they have been paid for. So it's the remaining costs associated to the provision of service that's accessible to all that makes up the 90 -- the money that goes into the tariff.

Q. - I'm just under the belief that Saint John Energy owned a number of high voltage breakers on the line side or high side of their power transformers that they also own, and that these are -- in the definition what you just explained as the transmission area we own it. We own those pieces of equipment, yet we are being made to pay for the use of them. I'm wondering if it could be turned around to be more fair that NB Power would rent that piece of equipment from us, the use of it.

MR. MARSHALL: Well it's my understanding the costs of

equipment are the cost of equipment owned by NB Power. This is the first time I am aware that there are high voltage equipment owned by Saint John Energy. If there is legitimate high voltage equipment owned by Saint John Energy that would form part of the transmission system under that definition, then I suspect that under the jurisdiction of this Board they should submit a revenue requirement for that equipment to this Board that would then be rolled into this tariff.

Q. - Would that be something that would have to come before the Board or something that could be handled outside of this hearing, in your view?

MR. MARSHALL: Well I would hope it would have been handled before we got to this hearing, but since it wasn't I suggest we could meet outside and talk about it or we can file it with the Board. It's your choice. You know, we are prepared to discuss it. If it's a real issue to be resolved we are certainly prepared to discuss any way that we can deal with it.

Q. - Okay. Thank you, Mr. Marshall, for your honesty there. Are the high voltage protection devices at NB Power distribution sub-stations included in this tariff?

MR. MARSHALL: Could we just check? We will do an undertaking to verify exactly whether the line is at the

terminal of the sub-station or at the disconnect -- the high voltage disconnect switch before the transformer, and whether or not that disconnect switch is included or not included exactly where that line is.

Q. - And could you include in that undertaking if there are high voltage protection devices in those subs, could you tell us how many of these devices NB Disco really has?

MR. MARSHALL: We can do that. Again I think this level of detail might add -- from a policy point of view we are prepared to discuss the need to address it. The specific details related with this are really issues for Panel C in terms of breaking down what costs are actually included in the tariff and what are not.

Q. - Okay.

MR. MARSHALL: So I really prefer -- we can -- I would suggest the best way to deal with it is we will review this, we can talk to you, get all the information and bring it forward for Panel C for at that point in time.

Q. - It was not -- the issue was just the principle of it, that was all, not -- the nitty-gritty, the details, we will work that out.

MR. MARSHALL: Okay.

Q. - Next issue, separating interconnectors from the transmission system. Either one of you, could you please

explain again why you have included the interconnectors to the neighbouring systems in the basic transmission system?

MR. MARSHALL: We have included interconnections into the basic transmission system for the same reason we have included radial lines to loads inside the transmission system.

They provide an opportunity for access of power to eligible customers in the system in the marketplace. They provide reliability value to all load customers in the system.

So we think it's only prudent that they be included in the system as are the radial lines to loads included in the system, because really they are just radial lines from the system to another load outside the system or to another generator outside the system.

Q. - Is this a common practice or is it not also possible to have them in a separate cost pool that recovers revenue only from those who use them, that approach where user pays?

MR. MARSHALL: No. In actual fact the common practice under FERC order 888 is that they all be included in the transmission tariff, and in our Out and Through tariff we unbundle interconnections into a separate cost pool and charge them only to users of those interconnections.

That was one of the objections Hydro Quebec had about the design of that tariff in that it caused different rates for Out and Through.

Under FERC order 888 all those interconnections would be included into the basic system. The only system I am aware of where there are different charges for interconnections to get out of a system of the tariff is Ontario.

Q. - Mr. Marshall, who is the main user of the inter-ties?

Who holds most of the rights?

MR. MARSHALL: Say your question, who is the main user of the inter-ties?

Q. - That's correct.

A. The inter-ties are used to export power from any entity who makes a transmission reservation to access the external market. They are used by NB Power Generation to bring power into the province for supply to distribution.

They are used for external parties outside the system to go through the system to other jurisdictions. And they are there at all times available to provide reliable operation of the system and can be relied upon in times of emergency to maintain the reliability of all connected load in the Maritime area.

Q. - Would NB Power Genco be the largest user of these

inter-ties?

MR. MARSHALL: Beg your pardon?

Q. - Would NB Power Genco be the largest user of these inter-ties?

MR. MARSHALL: You have to break down the specific types of use. I gave you all the uses. And the question is whether commercial use of the interconnections to access markets is the major use, or whether the existence of the interconnections and their reliability value to all load customers is the major value of them we have to sort out. That value is all to load customers. The commercial value of accessing other markets is to merchant functions.

Now NB Power Generation and Marketing is the largest user of NB Power interconnections today for the purpose of merchant function. But they are not the only user of those interconnections.

Nova Scotia Power deliver power across the system and into Prince Edward Island to a contract in Summerside. Hydro Quebec deliver power across the system and through to Mepco. Very often, many times -- transmission cannot be hoarded. It has to be made available. Unless energy is scheduled in the transmission a day ahead the transmission is released and available to anyone in the

market to use.

Hydro Quebec and Nova Scotia Power have made use of that release many times. Nova Scotia Power has taken energy from Nova Scotia, through New Brunswick to Quebec.

So there -- and there are many parties that use the system.

Q. - Okay. That was my only focus was just to -- there were three entities from what you have just said, they are the major players and users of this system while the rest of the province is paying for it. That was my own only input. My next question is --

MR. MARSHALL: No. I just want to qualify again that that -
- they are the major users of the inter-ties for commercial purposes.

The load customers in the system are the major beneficiaries for the reliability value of the access from the external areas to bring power into the system to guarantee reliable supply.

Q. - Another question. Is the Eel River high voltage DC system -- the inter-tie system -- part of the transmission system in the tariff?

MR. MARSHALL: Yes.

Q. - My next question would be sequence of application in enabling legislation. Since the application contains many assumptions about enabling legislation that has not yet

been produced, e.g. or i.e., corporatization of NB Power with commercial rates of return, commercial capital structure and payment in lieu of taxes, what is your suggestion on dealing with differences between your assumptions and the actual situation of (a) if legislation is introduced before the PUB makes a decision and (b) if legislation is introduced after the PUB makes a decision?

MR. MARSHALL: At this point in time we did not prepare this application contingent on any type of restructuring, any required legislation to go forward.

This is the -- the tariff is our application, what we consider to be the fairest level of rates, terms and conditions on which a bilateral market can operate in New Brunswick for the benefit of New Brunswick customers and external users of the system.

This Board has been empowered to hear the tariff in changes to the Public Utilities Act last spring. Our choice of a deemed capital structure is our recommendation for the proper pricing of the services. It has nothing to do with the government's restructuring plans, whether they are completed before, after or ever.

This tariff is the basis of a market that can operate next spring. The only change in Act in legislation that would have to be made for this market to go into operation

next April 1st is a simple Order-in-Council of the Lieutenant-Governor's Order-in-Council to simply give large industrial customers and municipal wholesale customers the right to purchase energy from any competitive supplier, and they can do so under this tariff.

So this tariff is sufficient in itself for this Board to hear. And whether or not restructuring occurs or does not is irrelevant to this application.

Q. - By restructuring, you mean corporate restructuring of NB Power, is that correct?

MR. MARSHALL: I said the corporate restructuring of NB Power is irrelevant to this application before this Board.

Q. - In the event that transmission constraints prevent meeting the needs of all users, will the tariff allow in-province users to have priority over out of province users?

MR. MARSHALL: In the terms and conditions of the tariff there is provision that firm service, long-term firm service, network integration service have equal treatment. When it comes to short-term firm service, there is -- still firm service is firm.

Network integration service, however, has preferential treatment over non-firm service. So network integration

customers can use interconnections to access non-designated resources external to the system to bring in energy to supplement their supplies without any additional charge ahead of non-firm service, if such transmission is available, but not ahead of firm.

So they do have a preferential treatment relative to non-firm point to point. But not -- and they are equal with firm point to point.

Q. - In planning the system, will enhancements needed to serve in-province loads be considered separately to those for out of province loads?

MR. MARSHALL: No. The --

Q. - Thank you.

MR. MARSHALL: Our understanding is they are treated equally. That if an external customer wishes to take delivery out of the province, and it requires construction of a line, the costs of the line to the border would be rolled into the tariff up to the value of the additional reservation revenue that would come in to that level.

And that is the same for a load customer inside the province, if it requires construction of a line to a mine in the middle of central New Brunswick, then that line would get constructed and rolled into the tariff up to the value of the revenue generated from the load. So I think

they are treated equally.

Q. - Another question. Will a transmission franchise that you have assumed NB Power Transmission will have obligate it to build all transmission facilities that are needed?

MR. SNOWDON: Yes, that's correct.

Q. - Who will decide what needs to be built? Who will authorize construction?

MR. SNOWDON: NB Power Transmission would do the studies and they would authorize the construction.

MR. MARSHALL: The issue is who pays for it.

Q. - And the other issue is what role does the Public Utilities Board have in this matter?

MR. MARSHALL: The Public Utilities Board rules on the tariff rates, and if there is not enough money in the services sold to that customer, then there would be an aid to construction required out of that customer to pay the additional costs.

So the Board will rule on what is the reasonable rate and what is a reasonable part of that can be rolled into the rate and recovered through all customers.

So it comes down to how do you -- if you -- if the expansion is uneconomic, in that there is not enough revenue from the sale of services across it to justify its expense, then the customer has to pay the additional cost.

Q. - One of my last questions. Since the tariff results in unbundling the rates now charged by NB Power, in-province customers can only determine the cost impact of the tariff if NB Power also states what the cost electricity commodity will be when the tariff is implemented.

Do you think this statement is correct, Mr. Marshall?

MR. MARSHALL: Basically yes.

Q. - While electricity cost is not at issue in this application, customers do need to know the cost impact of the tariff. Is this correct?

MR. MARSHALL: Not necessarily. Because you said in order to understand the costs, you need to know the total rate effect of the other costs. The tariff in isolation does not give you an indication of what the total costs are.

Q. - Will you, therefore, undertake to prepare a before and after cost comparison for the wholesale supply of electricity and transmission to distributors, including NB Power Disco?

MR. MARSHALL: This is before and after what?

Q. - Cost comparison.

MR. MARSHALL: Before and after what?

Q. - OATT. Before it's implemented and once it's implemented.

MR. MARSHALL: I need a lot more information. Is Saint John Energy going to remain a wholesale large industrial -- a

wholesale standard offer customer or are you going to go into the marketplace?

Q. - Once you show us this undertaking and we feel that we look at the price and the price is right and our customers are happy with it, our decision will be quite easy.

MR. MARSHALL: I can tell you that it is NB Power's intention at this time, we are under again -- I hate to use the words -- price cap legislation -- we are under some form of legislation that restricts what we can do with our rates.

Given that, that we would be held at 3 percent, we would only increase rates by 3 percent without coming before this Board, and that we would increase rates 3 percent, then whatever impact this tariff has would be accommodated within that 3 percent, and so that the maximum impact on general customers should be in the range of 3 percent increase.

Q. - Was that a yes or no?

MR. MARSHALL: That's 3 percent. I can't tell you what the before or after is. That is what our intention is in terms of how rates would go.

We expect that -- today we are under this legislation. Until it is changed this is what we have to go by. What our expectation is, even if restructuring goes forward,

even if legislation comes in on a marketplace, the Minister has said clearly in his statement to the House on May the 30th that there is going to be controlled move without rate shock to customers. We presume that that means we are still going to be held to some form of a rate cap. And I am assuming at this point in time 3 percent.

Q. - Would you consider to do an undertaking for us to take our current -- now listen to me just for a moment, please, Mr. Marshall -- to take our current contract of what we are purchasing from NB Power and just unbundle it?

That is all I am asking is could you take that current bundled amount and supply it to me unbundled as it would exist under this tariff, which we have been trying a number of times to get from a number of different people at NB Power and it would be nice to find one person that could do it?

MR. MORRISON: Well it can be done. I guess the question is before we give an undertaking --

MR. MARSHALL: Yes.

MR. MORRISON: Really these should have been addressed, Mr. Chairman, by way of an interrogatory. Really something like this should have been addressed by way of an interrogatory rather than raise it here.

CHAIRMAN: Mr Young, what I heard you say was that you have

been attempting to get the answer to this question. Has it been through this process, i.e. through the interrogatory process? Have you attempted to ask that question before?

MR. YOUNG: No, sir.

CHAIRMAN: It has been in negotiations directly with NB Power. Well, Mr. Marshall, can you provide that kind of information?

MR. MARSHALL: I'm not quite sure what he is asking. I can take their --

Q. - Mr. Marshall, I will give you a hand with that. I'm not trying to be evasive on this and I don't think you are trying to be evasive on this.

MR. MARSHALL: No.

Q. - All I'm asking is our contract the way it is right now, can you unbundle it and give it to me unbundled period, just as it sits right now signed and sealed in that contract?

MR. MARSHALL: I'm not familiar with all the details of the contract. I'm not sure. Given that the billing determinate in the transmission tariff is 15 minute non coincident peak demand and that the billing determinant for Saint John Energy for wholesale customers is 15 minute peak demand of systems. Now I'm not quite sure whether or

not there is some consideration of each individual point or some are considered together. But given that we can attempt to take their bill under that basis and say here is what the transmission charges under this tariff would be out of that bill. And then whatever is left over is whatever is left over. I think that -- is that what you are asking for?

Q. - Except for that whatever is left over part.

MR. MARSHALL: Whatever is left over is the other charges in the system, presumably generation and administration overhead or whatever.

CHAIRMAN: That would be a partial on the bundling, I guess, would it?

MR. MARSHALL: That's all I can do at this point in time.

CHAIRMAN: You are not separating Genco and Disco?

MR. MARSHALL: That's correct.

CHAIRMAN: Is that of any help?

MR. YOUNG: That is a first step. I would appreciate that, Mr. Marshall. And can I also ask the same for Edmundston too, for their contract?

MR. MARSHALL: We can't do Perth-Andover because they are not our customer.

MR. YOUNG: That's why I didn't ask. Thank you, Mr.

Marshall. With that I just want to turn it over to Mr.

Dionne.

CROSS EXAMINATION BY MR. DIONNE:

Q. - Thank you. I won't keep you too long, Mr. Marshall. I hear it's good snowmobiling weather up home.

As a result of our Perth-Andover's interrogatory regarding pancaking, Mr. Marshall, as you know our utility has existed now for 100 years and we are concerned about through the deregulation process of pancaking of rates.

In our interrogatory you responded that you will be in favour of rolling the future WPS tariff into the NB Power tariff. How would you see this process proceeding in the future?

MR. MARSHALL: I think one thing in response to that. I just want to clarify in -- because I was anticipating you may ask about this, so I went back through that question again. The contract between Perth-Andover and WPS Energy Services ends the end of December 2004. And I think in the response to the interrogatory we said 2005, so I would like to correct that in the interrogatory.

And the Public Utilities Act as amended last spring exempted WPS from filing a tariff until such time as January 1st 2005, which coincides with the ending of that contract. At that point in time our view is that this is transmission inside the Province of New Brunswick, it's

subject to the regulatory approval of this Board, that the reasonable thing to do would be for WPS Energy Services to prepare a revenue requirement for that transmission. And that Perth-Andover prepare their load, profile a historic load on that transmission. And that we jointly could get together and go to this Board and roll that into this tariff. But is subject to a process that this Board would approve.

Q. - So you are in favour of no pancaking of rates obviously?

MR. MARSHALL: That's correct. We would think that the reasonable thing to do would be to roll in the revenue requirement approved by this Board of WPS's transmission. The load of Perth-Andover in with the load. And recalculate the tariff on that basis. And it will make very little change because of the relative sizes of those things, but it will -- that would then allow Perth-Andover to access the market under the exact same terms as every other eligible customer in New Brunswick.

Q. - Okay. As you mention with our contract or agreement expiring in 2004, if we extended that agreement beyond 2004 with WPS, what effect, if any, would the open access transmission tariff have on the extension?

MR. MARSHALL: I guess then that also becomes the jurisdiction of this Board because WPS has to file a

tariff application with this Board, you know, for service effective January 1st 2005. If they choose to do an independent tariff, then the Board -- the issue of pancaking is one now left with the Board. Do they agree to have pancake tariffs? Or do -- would they agree no, the prudent thing is to roll it in and make one tariff? That is up to this Board to decide.

We would support one tariff regardless of Perth-Andover's contract I think as being reasonable in the marketplace but that's --

MR. DIONNE: Okay. Perfect. No more questions, Mr. Chairman.

CHAIRMAN: Thank you, Mr. Dionne.

MR. YOUNG: That is the end of our questions, Mr. Chairman.

CHAIRMAN: Thank you.

MR. YOUNG: Thank you both to Mr. Snowden and Mr. Marshall.

CHAIRMAN: Mr. MacDougall, would you like to move up or do you have a great many books spread out as well?

MR. MARSHALL: I don't, Mr. Chair, but I had no questions. I only have one, so I can move up to ask one.

CROSS EXAMINATION BY MR. MACDOUGALL:

Q. - Good afternoon, Mr. Chair, Panel Members. Good afternoon, gentlemen.

MR. MARSHALL: Good afternoon, Mr. MacDougall.

Q. - Mr. Chair, just one question arising actually out of the Perth-Andover questions. Maybe two questions. Mr. Marshall, when you were talking there about NB Power's view with respect to the pancaking of tariffs, you acknowledge, however, that the transmission assets that you are discussing are owned by another entity, not NB Power, correct?

MR. MARSHALL: That's correct.

Q. - And it is up to that entity to determine what application and the type of application they may make to this Board?

MR. MARSHALL: That's correct. And this Board has jurisdiction over transmission services in New Brunswick so it may have some opinion as to how that tariff be implemented.

Q. - That's right. But that matter isn't before the Board at this point in time?

MR. MARSHALL: No. And it's not the jurisdiction of this Board until January 1st 2005.

MR. MACDOUGALL: Thank you very much. Mr. Chair, just so that you know we probably won't be here for the next week or so, but we will be back for Panel C. Thank you very much.

CHAIRMAN: Mr. MacNutt, how long do you think the Board counsel's cross will be?

MR. MACNUTT: I have been notoriously incorrect in the past.

CHAIRMAN: I am always hopeful for a change.

MR. MACNUTT: I'm saying now 40, 45 minutes and you can --
based on past estimates you can predict.

CHAIRMAN: All right. What we will do is give Mr. MacNutt -
- we will take a ten minute break right now and go to his.
And probably the other Panel could be put on tap.

(Recess)

CHAIRMAN: I have been informed that the Town of Summerside
is represented here today and had some questions they
wanted to put to the panel. So accept my apologies. I
didn't realize. You weren't here yesterday, I guess.

MR. GAUDET: Thank you, Mr. Chairman.

CHAIRMAN: And your name, sir, for the record?

MR. GAUDET: Greg Gaudet from Summerside.

CHAIRMAN: A Gaudet from the Island of course.

MR. GAUDET: Just one real question for the panel.

Basically my understanding of reading the documents, one
question that arose to the City of Summerside was how or
what would be the position of NB Power in exercising the
OATT with regards to Summerside being classified as a
network service customer operating through a third party?

Would they be classified or available to get that
service under OATT?

MR. SNOWDON: Is that third party Maritime Electric? Or could you clarify what you meant by through a third party?

MR. GAUDET: Sure. We have arrangements or contracts with parties outside the province of New Brunswick which we are buying electricity from, wheeling it through New Brunswick through a second entity, Maritime Electric to ourselves.

So the question becomes would Summerside be eligible to be classified as a network service customer under the OATT as it is presented to the Board in its current state?

MR. SNOWDON: Our hope would be that that would be possible.

We would have to work with Maritime Electric to see if they would change the -- or bring the delivery point of Summerside back to the cable and administer the account as they are today. If that were possible then we could treat it as a network customer.

MR. GAUDET: Thank you very much.

CHAIRMAN: Thank you, Mr. Gaudet. Mr. Morrison?

MR. MORRISON: Mr. Chairman, just an undertaking that was given earlier this afternoon that had to deal with high-voltage protection devices. And I believe Mr. Snowdon is prepared to answer that question.

CHAIRMAN: Yes.

MR. SNOWDON: Yes. The question was asked, are the high-voltage protection devices that are physically located in

distribution substations part of the tariff or not?

And we reviewed that at break time and determined that there are no assets in the distribution substation that are part of this tariff.

So the breakers at Saint John Energy we are talking about would be treated the same as the high-voltage protection devices in the NB Power Distribution substations.

CHAIRMAN: Just before I ask Mr. MacNutt to go ahead for Board counsel, Mr. Marshall, I had just one question. And it flowed out of Saint John Energy's questions of you.

And you were talking about the interconnects with the other systems and where the cost was to go and the benefit of those interconnections. One was on the commercial side. But the other is on reliability, as I understand it.

What about the DC interface with Quebec? Could that be called up on the 10-minute reserve? Or is it only on the basis of 30-minute that you would be able to use that on a reliability basis?

MR. MARSHALL: Mr. Snowdon is more qualified to answer the operational aspects of that.

MR. SNOWDON: Certainly the DC interconnections can be called on virtually instantaneously.

CHAIRMAN: Is that right?

MR. SNOWDON: It is a matter of whether or not there are rights to -- or contracts in place to obtain the energy from Quebec, to provide that as 10-minute reserve.

CHAIRMAN: Are there?

MR. SNOWDON: No, there are now. Where the interconnection with Quebec would be would be during an emergency the control area operator would go through a series of what we call emergency operating procedures.

And part of the step in those procedures are when your in-province operating reserve is down to a zero point then you call on your interconnections for support.

And we could call on Hydro Quebec -- or Trans Energie to provide us with emergency energy that would allow us to back down generation inside the province that we would count as 10-minute reserve on our own system.

CHAIRMAN: Yes. Okay.

MR. SNOWDON: So from reliability, it is the effect of 10-minute reserve. But you have to be into your emergency operative procedures before the operator can take over that right to access that emergency energy.

CHAIRMAN: Yes. Okay.

MR. SNOWDON: Up to that point in time it has to be a commercial arrangement between the load responsibility and

a generator in Quebec.

CHAIRMAN: Yes. Okay.

MR. MARSHALL: But such a commercial arrangement has significant reliability value. Parties in New Brunswick are free to go to contract with Hydro Quebec or parties through Hydro Quebec or in Quebec, and can contract for energy.

If that energy supply is coming then across that interconnection, that is generation resource that doesn't have to exist inside the province.

CHAIRMAN: Yes.

MR. MARSHALL: So whenever there is any unavailability of generation in New Brunswick, it can be made up for by shortterm contracts.

And it doesn't necessarily have to be within 10 minutes. It can be after an outage occurs, this could happen in an emergency for the first 10 minutes or for a short period of time.

Then there could be a commercial contract put in place after an hour or two to buy energy and capacity to bring it in in order to keep the lights on in New Brunswick to serve all the customers.

CHAIRMAN: Yes. My understanding after the tour of your centre was that with the AC it is an instantaneous thing.

You know, if Lepreau goes down or off the system, why then everybody nudges theirs up all the way to the Mississippi River, kind of thing?

MR. MARSHALL: Yes. That is correct. Okay. That happens. But the DC -- the DC still can ramp very quickly. It is not instantaneous. It doesn't occur on the first cycle. But it can occur within a few cycles.

So it can occur within less than a second in ramping up DC. So it is still very rapid.

CHAIRMAN: Okay. Good. Thank you, gentlemen.

Go ahead, Mr. MacNutt.

MR. MACNUTT: Thank you, Mr. Chairman.

CROSS EXAMINATION BY MR. MACNUTT:

Q. - Now Mr. Bartlett says at page 1 of his evidence, which is exhibit A-2, and it is not necessary to turn this up, because I think we can go pretty far without looking at --

CHAIRMAN: I'm sorry. I can't hear you, Mr. MacNutt.

MR. MACNUTT: I think we can go pretty far without looking at -- turning up documents for the moment.

Q. - Mr. Bartlett says at page 1 of his evidence, which is in exhibit A-2, that the tariff would be defined for a three-year period.

At page 2 of his evidence Mr. Bartlett says that the tariff that is required is the foundation for the

bilateral contract market to be implemented in New Brunswick in 2003.

Am I correct in assuming that NB Power wishes the tariff to operate for an initial period of three years?

MR. MARSHALL: That is correct.

Q. - What date does NB Power wish the Board to set as the effective date of the tariff?

MR. MARSHALL: I think the effective date of the tariff should be April 1st when the market opens, or whatever date the Province passes either an Order-in-Council or legislation or whatever enables large industrial and wholesale customers to access a competitive supplier.

So it should be coincident with the availability of wholesale access on the customer side because the tariff provides the availability on the delivery side. So the two should be coordinated.

Now that -- so whatever date they coordinate those is when it should go into effect.

CHAIRMAN: I would like to see when the Board's decision was actually rendered.

MR. MARSHALL: Right now our target is April 1st.

Q. - Now if the Board approves the tariff for a three-year period commencing April 1st 2003, the last day of the three-year period would be March 31, 2006, correct?

MR. MARSHALL: Yes.

Q. - In its application NB Power has requested the Board approve, as a part of its approval of the tariff, a performance-based rate with price cap, correct?

MR. MARSHALL: Yes.

Q. - I assume that at the conclusion of the present tariff hearing, NB Power wishes the Board to set the rates for the initial year of the tariff, is that correct?

MR. MARSHALL: Yes.

Q. - Therefore the PBR with price cap would apply beginning with the effective date of the tariff?

MR. MARSHALL: Yes. We would expect -- and again the details on this are probably handled by Ms. MacFarlane and Dr. Morin.

But we would expect the Board to approve the tariff for the first year. And the PBR would not kick in until the second and third year, okay, as you --

Q. - Well, that is where we are going. But if the Board approved the tariff, the PBR would be effective from the initial date but not have an effect or be applied to the rates until the end of the first year, is that not correct?

MR. MARSHALL: That is correct.

Q. - So just let me go through this. So as a practical

matter, assuming the tariff, including PBR with price cap is approved for a three-year period, PBR with a price cap would apply to the initial rate established for the tariff at the end of the first year and cause the rates to change for the second year effective April 1, 2004?

MR. MARSHALL: I think that is basically correct.

Q. - Yes. So you would agree with me that the PBR with price cap would effectively set the rates for the tariff for each of the years commencing April 1, 2004 and April 1, 2005, correct?

MR. MARSHALL: Yes.

Q. - What happens in the fourth year following the initial date of the application of the tariff?

MR. MARSHALL: I think at that point in time it would depend on what the performance was, whether there was a need to have another hearing or not, or whether the TBR was working effectively and could just continue on beyond that point. But that would be under the jurisdiction of the Board at that time.

Q. - But if the tariff were to apply for a three-year period only, would you not expect NB Power, or Disco at that time, to apply before the expiration of the third year period for the extension of the tariff beyond the initial three-year period?

MR. MARSHALL: I guess -- yes, it is a question of semantics.

If the application is granted for three years -- specifically for the three years then there would be need to be some application to say this works, just continue the same process.

Q. - What is it that NB Power is applying for? You advised me earlier in my questions that it was for a three-year period.

MR. MARSHALL: I think my understanding -- and again the details would be better with Ms. MacFarlane -- but my understanding is we are applying for an initial three-year period. It's three years to see how PBR works based on the formulas put in place. And that it could continue beyond the three years but it would be a minimum of three years. Again, subject to check. I think Ms. MacFarlane is the correct one to respond to that but we can undertake to get that specific answer.

Q. - Yes. Would you do that for me, please? Because this is a policy matter and goes to the fundamental tariff being applied for.

Now in response to Bayside Power supplemental 26, which is in A -- exhibit A-6. NB Power states that: The tariff is proposed to be implemented prior to the opening of the market on a date to be determined by the PUB. What

is the date that NB Power expects the market to open?

Perhaps you have already answered that.

MR. MARSHALL: April 1st.

Q. - Subject to the qualifications you gave us earlier?

MR. MARSHALL: Yes.

Q. - Why is it necessary for the tariff to be implemented prior to the market opening -- open date?

MR. MARSHALL: Because the bilateral market can't function without transmission access to customers inside the market. The tariff is the vehicle or the foundation upon which that -- those bilateral transactions can occur. And it's essential to the operation of the market.

Q. - Now the legal entity applying for the approval of the tariff is the New Brunswick Power Corporation?

MR. MARSHALL: That's correct.

Q. - How does NB Power propose that the approved tariff as a result of these hearings would be made -- apply to what has been called NB Power Transco if and when it is created?

MR. MARSHALL: The -- this tariff application again is from the legal entity, NB Power Corporation. It would be whether or not NB Power is restructured with separate corporations or not, that NB Power Transmission as a business unit is the entity that administers the tariff

today and would be the entity that would administer the tariff and do all the legal work to deliver the services under the tariff.

So whatever successor corporation or entity replaces NB Power Transmission would take on that responsibility. And the tariff rights and obligations could be assigned to that entity for delivery of service.

Q. - And are there any provisions in the tariff as applied for which address that transition or bestowing on the newly created entity assuming that it is created?

MR. MARSHALL: I am not aware of any at this time. This tariff is an application of the integrate NB Power Corporation as the foundation for a bilateral market for next year. It is not conditional upon restructuring. It is conditional only on an Order-in-Council for wholesale and large industrial customer access to be the basis of a market.

Q. - Now I am going onto another matter. I am going to refer to page 61 of the tariff which is in appendix C A-3, exhibit A-3. And it is page 61, paragraph 26 of the tariff, appendix C of A-3. Where under the heading of stranded cost recovery, the following appears. And I will read the quote so it may not be necessary for you to turn it up. Because it is a stand alone paragraph under the

heading stranded costs recovery.

Appendix C, exhibit A-3, the tariff itself, page 61, paragraph 26. It states -- paragraph 26 states: The transmission provider must seek to recover stranded costs from the transmission customer pursuant to the tariff. However, the transmission provider must separately file any specific proposed stranded cost charge with the Board.

Now in NB Power's response to PUB IR-91, which is in exhibit A-4, but I will quote from it. It is stated, quote, NB Power's premise is that the legislative changes that give authority over stranded costs to this Board will be in place before this hearing is concluded. Reference is then made to the MDC recommendations that the Board be given authority to determine stranded cost review and adjust them as necessary. Correct?

MR. MARSHALL: Yes, that is what it says.

Q. - Right. Now do you accept that the Public Utilities Act as currently amended does not include any authority in the Board to deal with stranded costs?

MR. MARSHALL: That is my understanding.

Q. - What does NB Power propose to do with this provision should the legislation not be enacted by the time the Board is in a position to approve the tariff at the conclusion of the present hearing? That is with respect

to stranded costs.

MR. MARSHALL: If there are no changes in legislation or no provision going forward, then we could itemize what we think is right. But if there is no power to the Board to deal with stranded costs at that point in time, then I guess we don't get to apply for any.

Q. - So that if the -- you would agree with me then in conceptual terms that should the legislation not be enacted in time for the Board to deliver its decision, that NB Power would probably best follow the procedure of withdrawing the reference to stranded costs from the tariff. Would that not be appropriate?

MR. MARSHALL: This wording in the tariff is -- I believe is standard FERC proforma wording on stranded costs from Order 888, where the FERC commission has been replaced with Board, other than that the wording I believe is proforma.

It's NB Power's intent that if there are stranded costs we have an obligation to our customers to pursue them so that there is no cost shifting to other customers.

That's a principle that is enshrined in the White Paper policy document that there -- opportunity for people to participate in the market be there but it not be subject to cost shifting to other customers.

Market design upheld the same position and recommended some additional means of how stranded costs might be recovered.

It's our position that if the restructuring in the legislation does not get all in place for a completely restructured market at NB Power, we would petition the government to at least get in minimal changes to the Public Utilities Act so the Board would have the power to deal with stranded costs strictly within the terms of the tariff.

Q. - But if the legislative provisions were not in place by April the 1st how would NB Power handle that? Of stranded costs.

MR. MARSHALL: I guess I -- we would have a discussion with our legal counsel to see what legal box we were in to deal with it.

Q. - Now on the same topic, but assuming that there is approval of authority for stranded cost to be handled by the Board, please describe the process you would follow if it was necessary to recover stranded costs, indicating in your answer what would happen, what information would be filed with the Board and what approvals from the Board would be required in matters of a like nature?

MR. MARSHALL: That's a little speculative at this time.

Stranded costs in our view would constitute essentially lost revenue from a customer exiting the system so based on what is the lost revenue of the total integrated service. So there may be some transmission stranded costs, there may not be. There would likely be some generation fixed costs, stranded costs. So the issue is on a lost revenue basis we would try to evaluate what revenue is lost, how much of that revenue could be mitigated by taking the resources to other markets or other opportunities. And the stranded costs would be the residual between the lost revenue and the mitigation amount.

Now that's the standard approach on a lost revenue basis of evaluation of stranded cost. Right now that's our thinking but we have not come to a definitive policy position in NB Power to say, this is exactly how we are going to do it.

We do not foresee at this point in time that there will be significant to the customers and significant amount of stranded costs at the opening of this market.

Q. - But if there were stranded costs as perceived by NB Power would you not agree that you would file with the Board any specific proposed stranded cost charge as stated in paragraph 26 in the tariff that we just discussed?

MR. MARSHALL: When the legislation would be changed to empower the Board to hear and approve stranded costs we would propose a methodology to the Board. We would propose detailed information under which it could be calculated and a process at that time.

Q. - So your understanding that the paragraph calls for the information that would be filed with the Board and that the approval of the Board would be sought as a result of that filing?

MR. MARSHALL: It says literally the transmission provider separately file any specific proposed stranded cost charge with the Board. So our mechanism for recovery of stranded costs we expect to be under the regulation of this Board and we would file a procedure when the Board is empowered to hear it.

Q. - And you would be seeking approval of the Board for the stranded costs you had identified in the filing?

MR. MARSHALL: I would expect so.

Q. - So perhaps -- would you not agree then that the words -- that paragraph 26 would perhaps be amended in the second sentence to read now however, the transmission provider must separately file any specific -- for approval any specific proposed stranded cost charge with the Board. Would that not be appropriate to insert the words "for

approval"?

MR. MARSHALL: It's subject to what the legislation would change that would empower the Board to hear.

Q. - Okay. And if the Board was empowered to hear and give approval it would be appropriate to amend the provision in the --

MR. MARSHALL: If the Board is empowered to approve the rates then for approval would be correct.

Q. - To add it to that paragraph.

MR. MARSHALL: If the Board is empowered to simply approve a methodology, then the methodology is what they would approve, but until the power is given to the Board I can't -- you know, we are into some semantics over what the word should be. This particular clause 26 at this point in time is difficult to deal with because the Board is not empowered to deal with stranded costs.

Q. - Okay. Well I will ask my final question on this and you have already touched on it. Would it be your intention that the methodology would be subject to review and approval by the Board or would the approval of the Board be required only with respect to the calculations within the methodology?

MR. MARSHALL: If that's what the methodology -- if approval of the methodology, then I would say yes, that's probably

reasonable.

Q. - Now on to a different topic. In this application NB Power has filed for rates based on estimates of costs and revenues for a future test year. Certain aspects related to the operation of the transmission market in New Brunswick will undergo significant changes in 2003. Given the additional uncertainty that this creates, what information with respect to the operation of the transmission provider does NB Power consider it would be appropriate to file with the Board on a monthly basis? What I'm talking about, there is monthly filing of cost and revenue information, or additional information.

MR. MARSHALL: One months' information is other than a cash flow issue of the transmission business unit, really doesn't have a whole lot of information in it. The tariff is designed on a 12 coincident peak basis, or annual revenue requirements, collected on the -- allocated on a 12 coincident peak basis across the system and collected on monthly noncoincident peaks. So revenue will be very different in some months compared to others. And costs are not really assignable by month. Costs -- a lot of the costs are only annual costs, so its monthly allocation is really not relevant.

Q. - Well perhaps we can come at it from a slightly different

direction. What information was NB Power planning on filing and with what frequency?

MR. MARSHALL: I don't know, and again I would suggest that that question be addressed to Ms. MacFarlane. She is the Vice-president of Corporate Finance and she will be able to deal with that.

Q. - So you are deferring to another panel. Still on the same topic though, would you not be -- Transco be operating on a monthly budget system that -- and then you would be doing comparison -- a monthly comparison budget versus actual?

MR. SNOWDON: Yes, that's true.

Q. - Would it be appropriate or inappropriate for that type of information to be filed with the Board so it could be kept current with what is going on in the changing market?

MR. SNOWDON: Procedurally the information would be available and could be filed. Like Bill said -- or Mr. Marshall said -- I'm not so sure of the relevance on a monthly basis. Certainly on a yearly basis it has much better comparatives.

Q. - Do you consider it appropriate to file at least the annual information with the Board for information purposes?

MR. MARSHALL: We think that that would be required under the PDR to show what the annual performance was and then

how the adjustment would go forward.

This is an area that we really don't have a lot of expertise in. I would suggest Ms. MacFarlane certainly can handle it in terms of the filing of information.

We expect again relative to operation of the market place -- there have been recommendations for market design, about monitoring of the market, about responsibilities that the -- an independent system operator may have relative to the Board to monitor the market, the need to publish information relative to use in the system.

So I think that there is room here for a filing of what is prudent information in terms of the use of the system, collection of revenues, whatever they are, on a regular sort of a basis.

So if that's what you are looking for, information so that the Board can carry out its job to overview and monitor the market place, we are prepared to do whatever is required to fill that function.

MR. SNOWDON: I might just add to that answer, with the PBR and the performance measurements that are included with that, there will be a need to have an ongoing relationship built with the Board to monitor that and certainly more frequently than yearly is appropriate for that. I would

suggest quarterly for that.

Q. - Yes. Because this is due to the uncertainties and unpredictability of the initial market, is that correct?

There is a need to monitor this on a fairly close basis?

MR. SNOWDON: I'm not sure what you mean by uncertainty of the market, but generally speaking I agree with you.

Q. - Now let's leave that at that point. We will perhaps look at the other panel for the particular information.

Now on another matter, Mr. Smellie questioned you with respect to NB Power intentions with the tariff in respect of FERC this morning, or late yesterday. For FERC to consider the tariffs reciprocity provisions acceptable, must the tariff be FERC compatible or FERC compliant, and at the same time explain the difference between the two concepts in relation to FERC?

MR. MARSHALL: I think the question comes down -- FERC have in their Order 888 tariff laid down reciprocity conditions. As I said yesterday to Mr. Smellie, they are looking for comparable service that you treat yourself and take service under the tariff with your own facilities the same way as you treat anybody else. That's the golden rule of transmission pricing and access, the comparability principle.

And that the tariff be actually designed based on the

revenue requirement to collect a revenue requirement.

Now FERC has gone further in saying what defines transmission and what does not, and it made some lines as to what costs should or should not be included in transmission.

Everything in this application meets all of those requirements that FERC have laid down.

But FERC do not require non-jurisdictional utilities to file their tariffs for approval by FERC. They do provide an opportunity if you choose to and you want to say this means that you can file that but it's not required to be filed. FERC essentially has said that, you know, even in its RTO order we can have a dotted line at the border and sovereignty has to be respected and the regulatory jurisdictions have to be respected.

So my view is that this tariff as applied is compatible with FERC Order 888 and this Board can then review it and make recommendations on it and accept it as is or with some minor changes. FERC will accept that as being compatible and it will meet the needs of reciprocity.

Q. - Now on a different topic again. In your discussions with Mr. Zed yesterday with respect to inadvertent energy exchange energy imbalance, did you mean to indicate that

the decisions of the operating committee would supersede the decisions of the Board?

MR. SNOWDON: Inadvertent is operator to operator deviations off schedule. It's not really in -- dealt with as energy imbalance. Energy imbalance is before the Board in terms of how that will be dealt with. Inadvertent is not part of the tariff.

Q. - Is it NB Power's position that the tariff apply equally to all parties, or can some parties negotiate different terms?

MR. MARSHALL: No, this is a non-discriminatory tariff. We would treat all parties equally including ourselves.

Q. - Now is it your -- onto another topic. Is it your understanding that one of the requirements with respect to a FERC pro forma tariff is that the rates recover the revenue requirement as established by the regulator?

MR. MARSHALL: That's correct.

Q. - Now, Mr. Snowdon, is it the evidence of NB Power that for the purposes of establishing rates the transmission business unit should be treated as a stand-alone company? Or Mr. Marshall?

MR. MARSHALL: That's what I -- in our application we have put forward the revenue requirement based on an equivalent private corporation.

Q. - Now as a stand-alone company you would expect that there would be a chief executive officer in charge of that company that would make the final decision on key policy issues. Is that correct?

MR. MARSHALL: If it was a completely independent company, yes.

Q. - For the purposes of this application who is the chief executive officer with respect to this application?

MR. MARSHALL: With respect to this application the chief executive officer is Stewart MacPherson, President and -- Acting President and CEO of NB Power.

Q. - Now it's my understanding that Mr. MacPherson is not scheduled to be one of the witnesses on any of the panels here in this hearing. Is that correct?

MR. MARSHALL: That's correct.

Q. - To whom should we be addressing our questions with respect to policy matters in relation to the transmission division of NB Power, and ultimately the proposed separate entity known as for discussion purposes, NB Transco?

MR. MARSHALL: You can address them to Mr. Snowdon or I. Again, as I said earlier, I think they are irrelevant to this hearing.

This hearing is an application of an integrated utility NB Power Corporation for a transmission tariff for

a bilateral market that can open next April 1st.

Restructuring is irrelevant to the application.

Q. - Now, okay, you are answering, you are speaking on behalf and binding NB Power on policy issues with respect to the transmission division, and one assumes the proposed Disco.

Is it the intention of NB Power that the provision of ancillary services be done on a breakeven basis, that is, that the revenues from the providing of the ancillary services would equal the cost of providing the services?

MR. MARSHALL: In the application the ancillary services are based on proxy unit costs. The generation related capacity services are based on proxy unit costs. The system control and dispatch is based on the transmission system costs of the energy control centre. Voltage control is based on proxy unit costs based on a synchronous condenser.

Q. - So you have broken down the various ancillary services and addressed the cost. You haven't answered my question.

And that is, is it the intention of NB Power that the provision of ancillary services on a conceptual basis be done on a breakeven basis, that is, that the revenues from the provision of the ancillary services would equal the cost of providing the services, yes or no?

MR. MARSHALL: No. They are based on proxy unit costs which

are reflective of the value of those services, are reflective of the costs of providing those services by different competitors in the marketplace.

Q. - Okay. I'm going to ask you to turn to page 2 of Ms. MacFarlane's evidence at tab A-4 in exhibit A-2. And I want you to turn to table 1-A.

CHAIRMAN: Mr. MacNutt, just pull your mike just a bit.

Q. - Yes. Okay. Exhibit A-2, tab A-4, Ms. MacFarlane's evidence page 2 there is a table, 1-A.

MR. SNOWDON: Yes, we have it.

Q. - Okay. Go to line 4 and you will see that the expenses for ancillary services to be 38 million -- 38.7 million?

MR. MARSHALL: Yes.

Q. - Now in the same table on line 1 the total revenue requirement is shown as 137.1 million?

MR. MARSHALL: Yes.

Q. - Okay. Now I now want you to turn to page 1 of Mr. Levine's evidence in the same exhibit. And there is a table 1 on that page.

MR. MARSHALL: Yes.

Q. - Now table 1 shows a total revenue requirement for the transmission business unit excluding ancillary services to be 98.4 million?

MR. MARSHALL: Yes.

Q. - Now the difference between revenue requirement is 38.7 million?

MR. MARSHALL: Okay. Yes. Your question now?

Q. - So I'm correct in assuming therefore that the provision of ancillary services is to be done on a breakeven basis?

MR. MARSHALL: From the transmission provider, that is correct. From the transmission business unit it is a pass through cost.

The proxy unit costing is methodology using to price and cost the value of those ancillary services from the generation provided. So that is the value or cost of the service.

The transmission business unit would purchase those services from Generation and pass them through in the tariff, collect the money from the tariff. And the money would just pass back through to Generation.

Q. - So you are saying that Transco -- let's talk in terms of Transco -- would pay out 38.7 million to Genco?

MR. MARSHALL: Yes. Well, the 38.7 million is the generation-related ancillary service costs, for voltage control, spinning reserve, 10-minute reserve, supplemental reserve and regulation and frequency control.

Q. - That is four of the six ancillary services identified in the tariff, is that correct? Or am I confusing the issue?

MR. MARSHALL: Well, the issue is energy imbalance is a service. But it is not really a cost -- it is more of a penalty mechanism to stay on control.

So it is settled monthly. And it would be -- any value in it gets credited back into customers across the system.

Q. - Well, let's --

MR. MARSHALL: The 38.7 million is for the capacity-related generation ancillary services.

Q. - So that is payable by Transco to Genco?

MR. MARSHALL: Yes.

Q. - So in that situation it is breakeven for Transco?

MR. MARSHALL: Transco breaks even, yes.

Q. - Correct. How do you arrive at that 38.7 million?

MR. MARSHALL: That is detailed in Panel C evidence. And I would prefer that we wait till Panel C. There is a significant amount of detail into the proxy units and the methodology.

We will be dealing with that in the detailed presentation, in that methodology at that time.

Q. - Are there any existing contracts that would call for that payment?

MR. MARSHALL: Would you repeat that please?

Q. - Are there any existing contracts or obligations that

would see that amount paid in the first year following the implementation of the tariff?

MR. MARSHALL: At this point in time?

Q. - Correct.

MR. MARSHALL: At this point in time there is no contract per se. Those -- the value of those ancillary services today is provided in the bundled rates of NB Power to all of its load customers, inside the bundled rates.

It is provided from NB Power Generation as a service.

The rates of NB Power Distribution to all of its customers include the value of distribution, transmission, ancillary services and capacity and energy.

Q. - And how are they arrived at? What is it based upon, actual, an estimate, a study? How do you arrive at the amounts that are included for that in the bundle?

MR. MARSHALL: They are not costed out individually in a bundled rate. Bundled rates are based on the total costs of generation, total cost of service of distribution, transmission, generation.

Q. - Do you keep records for internal purposes to identify these ancillary service costs, so you know whether they are going up or down, increasing or decreasing?

MR. MARSHALL: I'm not aware of any. Other than the study that we have done that is detailed in the Panel C

evidence, and I believe it is in a document in the evidence, appendix B, transmission tariff rate design does a detailed cost of service study on transmission and ancillary services for the purposes of this tariff.

Q. - So what you are telling us, that you do not know how NB Power has arrived at that 38.7 figure?

MR. MARSHALL: No, I did not say that. I said I do know, and it is detailed in Panel C evidence in appendix B of Panel C entitled "Transmission tariff design."

Q. - Now looking at this from -- backing up a bit from the detail we just went into and looking at it from a policy point of view, if NB Power agrees that the ancillary services are to be based on a cost pass-through, then why should there be any automatic increase in rates?

And what I'm looking at here is assuming that PBR with price cap is included, which is a concept of an automatic increase in rates every year based on the formula.

MR. MARSHALL: The generators that provide ancillary services out in the marketplace, the costing of that \$38.7 million, as you will see when we get to Panel C and go through it in detail, is based on an escalating cost. So it should increase as we go forward in time.

Q. - Let's shift gears a little bit and we will look at PBR. You are speaking as if you are the CEO of this Transco on

policy.

And what from your perspective is the main purpose of the PBR methodology?

MR. MARSHALL: It -- it relieves some of the regulatory burden. It provides an incentive for good performance of the utility. It provides transparent fair prices for customers and overall is an efficient mechanism to deliver rates.

Q. - Now with respect to providing an incentive for efficient operations, what other options or methods did you consider?

MR. MARSHALL: The PBR is based on a straight rate of return regulation for the first year and is a mechanism then to reward good behavior as you move out in time.

Q. - Did you consider any other options or methods of providing incentive to the company other than PBR?

MR. MARSHALL: I'm not aware of any other method. But that may be better addressed by Ms. MacFarlane and Dr. Morin.

Q. - Do you believe that the company would have an incentive to be efficient if it was permitted to earn a return on equity within a given range?

MR. MARSHALL: Yes, that is what we have applied for.

Q. - Now I'm going to ask you to turn -- I'm going to refer to Section 62 of the Act. And I will quote it. The first --

"The proposed PBR approach is stated to break the connection between the company's costs and its prices."

Is that not correct?

MR. MARSHALL: Where are you quoting that from?

Q. - I ask you to refer to Dr. Morin's evidence, exhibit A-2, page 18, lines 1 to 2. Exhibit A-2 of Dr. Morin's evidence, page 18, lines 1 to 2.

MR. SNOWDON: Sorry, what was that reference?

Q. - Exhibit A-2.

MR. SNOWDON: Yes.

Q. - Dr. Morin's evidence. Page 18, lines 1 to 2. And actually the whole thing starts on page 17 where Dr. Morin in question 17 is asked the question, Based on these criteria what are the benefits of the price cap framework relative to the traditional RORR?

He states on page 17, there are several benefits, at line 8. And then he lists in a series of paragraphs. The paragraph I want you to address is paragraph 5 at the top of page 18 where he states: The incentive for cross subsidation disappears as well because the plan breaks any linkage between rates and company costs of service. Do you see that?

MR. MARSHALL: Yes, I see the statement.

Q. - Thank you. Now I'm now going to quote to you Section 62

of the Public Utilities Act which reads as follows: The Board -- sub section 6 2 (1). The Board shall when considering an application by a public utility in respect of an approval of a tariff pertaining to transmission services base its order or decision respecting the tariff on all of the projected revenues and all of the projected costs of the provision of transmission services.

Now what I would like you to explain is did you see how PBR can be proposed within this legislative requirement?

MR. MARSHALL: The legislation says to base its order or a decision respecting the tariff on all projected revenues and all projected costs. It doesn't say anything about some range of rate of return that those costs may vary, or some deviation. It doesn't say to match all revenues and all costs. It says the decision respecting a tariff on all projected revenues and costs.

I think there is sufficient latitude here for the Board to make a decision based on whether our application, the latitude of matching or deviation, whether that's sufficient or not, all right, and based on the costs. I don't see any conflict between them.

Q. - But your own expert is saying that the plan breaks any linkage between the rates and company costs of service.

Your own expert is saying that there is a disconnect there.

MR. MARSHALL: He is talking about an incentive for cross subsidization. And I don't want to speak for Dr. Morin. I suggest that you cross examine him relative to what exactly he meant by that statement.

Q. - Now I want you to turn to Ms. MacFarlane's evidence, and that's exhibit A-2, page 21, table 14-A. I will just run through that again. It's exhibit A-2, the evidence of Ms. MacFarlane, page 21, table 14-A. Are we there?

MR. MARSHALL: Yes, we have it.

Q. - Yes. The table shows the revenue required to cover all expenses including the request at return on equity. Is that correct?

MR. MARSHALL: That's my understanding.

Q. - Now the percent increase in revenue in 2004 over 2003 is .8 percent. And for 2005 over 2004 is 1.6 percent. Do you agree with those figures?

MR. MARSHALL: Basically.

Q. - Thank you. Now with such moderate increases in revenue requirements, why does NB Power want the ability to raise prices higher with the proposed PBR approach than what is indicated or needed?

MR. MARSHALL: Without having detailed knowledge of whether

or not this table includes the increase, the underlying assumption for inflation whatever it is, I really feel that this -- the question is related to Ms. MacFarlane's evidence. And the specific details you should address to Ms. MacFarlane.

MR. MACNUTT: No further questions, Mr. Chairman.

CHAIRMAN: Thank you, Mr. MacNutt. That was just about an hour. That's really getting close to accurate.

MR. SOLLOWS: Mr. Marshall or Mr. Snowden, either of you could answer this. When you were answering questions I think from Mr. Young of Saint John Energy, you indicated that the interconnections with adjoining utilities and transmission companies have value that is commercial in nature and that could -- that you can quantify, but were also of value in terms of reliability to the system as a whole that really accrues to the people on the system?

MR. MARSHALL: Yes.

MR. SOLLOWS: How -- what is the breakdown in those values?

I mean, how do we break it down? Is it -- how much can be attributed -- of that value is attributed to the commercial side and how much is attributable to reliability enhancement?

MR. MARSHALL: We have done no analysis to try to allocate the value between the two.

MR. SOLLOWS: Okay. Essentially it is all in then as a part of the rate base --

MR. MARSHALL: Yes.

MR. SOLLOWS: -- rather than any cost recovery for the commercial value?

MR. MARSHALL: That's what we -- we have not tried to separate them. The total cost of the interconnections is included in the revenue requirement of the transmission system. Because it serves point-to-point going out of the system, as well as, it could serve a purchase energy coming back into the system, to going to load customers. We put it into the one and it's a postage stamp rate, the same for all.

MR. SOLLOWS: Fair enough. Okay. And it was -- I think further on in the same questioning you indicated that the way you handled radial loads -- or new lines to a single customer you looked at the cost and would deduct the value of the sales to that customer and then the difference they would have to pay. Is that -- did I get that right?

MR. SNOWDON: That would be the value of the reservation or the capacity.

MR. SOLLOWS: Value of the reservation from your prospective?

MR. SNOWDON: Right.

MR. SOLLOWS: So how far out do you go in that estimate?

Do you estimate it for five years, for 10 years, for one year? I mean, how is that figured?

MR. SNOWDON: I believe it's over the life of the asset.

MR. MARSHALL: I'm not sure of the details on that. That's in the -- I think there is -- in appendix -- in the tariff document, in one of the appendices of the tariff document lays out the transmission expansion policy which lays out the terms and conditions as to how that would go.

Q. - If someone could just --

MR. MARSHALL: Today -- it's in line with what we do today.

Today if a large industrial customer, a new mine opens in the centre of the province and you have to build a transmission line to get to it, today we require that they make a deposit to cover off the costs. So you are building the lines so that the existing customers will not be stuck with additional costs. And the amount of that deposit today -- and again subject to check -- is something in the order of 10 percent of the rate. Well 10 percent of the rate is in essence about what the transmission costs are. So basically we are looking at a minimum five year contract with some amount that that amount of money is set aside that it phases in over time.

So the tariff essentially takes the same policy that

we used today and applies it independently just for the transmission piece. And I might add that this -- that's consistent with Order 888, FERC practice where a user of the system has a right to come and use this system and you will expand the system to meet that user. But they pay the higher of the cost of the tariff or the total cost of whatever the requirement is. So whatever money is collected through the tariff they pay that and then to make up the difference they pay an aid to construction on the difference.

MR. SOLLOWS: And the extra charge is sort of spread out over a number of years --

MR. MARSHALL: You could be financed in a different way, as an issue of financing of it, but it's the obligation of the customer to pay it.

MR. SOLLOWS: The only other question I had was from your slides -- on page 9 of your slides you show an arrow indicating 700 -- and I assume they are megawatts -- into Maine, that I think is the MEPCO tie-line?

MR. MARSHALL: That's correct.

MR. SOLLOWS: And it shows zero coming back. And my notes on that say that that was on a firm basis capability. Does that mean that should New Brunswick require energy from the Maine area to meet winter peak there would be no

way that it could be brought across that tie-line?

MR. MARSHALL: Not on a -- firm transmission is not available south to north. And I might say that that tie-line has very specific operating requirements that are tied to the reliability of the whole Maritime area. The --

MR. SNOWDON: Do you want me to add to it?

MR. MARSHALL: Do you want to add to that?

MR. SNOWDON: Well I would like to.

MR. SOLLOWS: My question really -- okay. My question really comes to why can't it flow south to north and --

MR. MARSHALL: I'm sure he can answer.

MR. SNOWDON: It relates to the capacity on the line, with a large generator like Point Lepreau on line at the time. If you brought energy south to north and you were to lose that generator, that 650 megawatt loss would be shown as a south to north flow on that line.

MR. SOLLOWS: I see.

MR. SNOWDON: And it would overload the line --

MR. SOLLOWS: I see.

MR. SNOWDON: -- and trip it out.

MR. SOLLOWS: So presumably if and when the Point Lepreau reactor is not refurbished and decommissioned then there would appear capacity to transfer south to north?

MR. MARSHALL: There could be some 100 to 200 megawatts. If Lepreau is not running you can bring some power north. To can bring some power north on a nonfirm basis from time to time.

So again, it's conditional on the operating nature of what's operating in our system, plus what's operating in the Maine system and the voltage profile on the line all the way through Maine that determines what that limit is.

MR. SOLLOWS: Gotcha.

MR. SNOWDON: There is actually a nonlinear calculation that determines what that bias on that line has to be maintained at any point in time. And if Point Lepreau is off line and the load ratios are appropriate, energy can be brought south to north on -- but it's on a --

MR. SOLLOWS: It really --

MR. SNOWDON: -- nonfirm --

MR. SOLLOWS: But that --

MR. SNOWDON: -- transmission basis.

MR. SOLLOWS: -- zero is driven by your first contingency basis?

MR. MARSHALL: That's -- yes, that's --

MR. SNOWDON: And the load in New England and the load in the Maritimes, so it varies anywhere from -- I mean, there are times when we have to bias that 200 megawatts north to

south. It's not only zero. It's a negative. And then there is other times it could go as high as 200 south to north depending on what else is going on.

MR. SOLLOWS: Thank you.

CHAIRMAN: Mr. Morrison, any redirect?

MR. MORRISON: No, Mr. Chairman.

CHAIRMAN: I will say thank you to the Panel. I won't say good-bye because I know you are coming back again.

We will take -- what's your pleasure, Mr. Morrison?

Shall we do the slide presentation for the next panel today and --

MR. MORRISON: I believe we could get through the presentation today or -- yes, I think we could do the presentation and then probably start cross in the morning.

CHAIRMAN: Okay.

MR. MORRISON: It's up to you, Mr. Chairman.

CHAIRMAN: Oh no, that's fine.

MR. MORRISON: Unless you want to do it in one piece.

CHAIRMAN: And we will do that. We will take a five minute recess and you can change.

(Recess)

BRIAN SCOTT and WAYNE SNOWDON sworn:

CHAIRMAN: Mr. Morrison?

MR. MORRISON: Mr. Chairman, I believe the Panel D witnesses

have been sworn. Mr. Snowdon, you are still under oath.

DIRECT EXAMINATION BY MORRISON:

Q. - Mr. Scott, could you state your name and your position with NB Power?

CHAIRMAN: Just before we start that, Mr. Morrison. The slide presentation for Panel B has not been introduced -- or D, excuse me, has not been introduced in evidence. Is this the one, Mr. Smellie, that there is some contention about or --

MR. SMELLIE: Absolutely none, Mr. Chairman.

CHAIRMAN: Great. So this will be A-10 then. All right. Then this panel slide presentation will be A-10. Go ahead, Mr. Morrison.

Q. - Mr. Scott, could you please state your name and your position with NB Power for the record, please?

MR. SCOTT: Yes, my name is Brian Scott. I am Director of Transmission Business Development.

Q. - And the Panel D evidence which has been filed in this application, do you adopt that as your own evidence?

MR. SCOTT: Yes, I do.

Q. - And Mr. Snowdon, do you adopt the Panel D evidence filed
as your own evidence?

MR. SNOWDON: Yes, I do.

MR. MORRISON: At this point, Mr. Chairman, I would ask Mr.

Scott to give a brief presentation.

MR. SCOTT: Good afternoon, Mr. Chairman, Members of the Board. My presentation this afternoon, I am going to cover a number of points.

First of all, I will be talking about the tariff principles. There is a number of other things that I will be talking about relative to the tariff. These include the contents, the OASIS Reservation System. OASIS standing for Open Access Same Time Information System. The terms and conditions of the tariff. I will also be speaking briefly about the standards of conduct. And then I will be talking about two agreements. One is a network operating agreement that would be for loads. And a generator interconnection agreement for generators.

In terms of the development of this tariff, we adopted a number of principles. Those principles include providing open non-discriminatory access to the transmission system. However, at the same time we wanted to ensure the overall reliability of the system.

The tariff also establishes interconnection obligations for both generators and loads. We have a standards of conduct in place and we want to ensure that there is compatibility with the North American practice. And that is currently defined by the Federal Energy

Regulatory Commission in Order 888.

The tariff itself is composed of three main parts. The first part are common service provisions and in -- that part contains general terms and conditions that apply to the tariff. The remaining two parts of the tariff are the transmission services that are offered, that includes point-to-point service and network integration service. At the back of the tariff document are a number of schedules and these schedules contain the rates for transmission service, as well as, the rates for ancillary services.

There are a number of attachments as well included with the tariff. The first set of attachments are the service agreement forms, and these are the contracts that the transmission customers must enter into in order to take transmission service.

There is also an attachment that describes the methodology that we use to assess the transmission capability. This would be both the overall transmission capability, as well as, the capability after reservations have been made.

There is also a system impact study requirement there, and that is used whenever a customer applies for transmission and there is insufficient capacity to meet

the requirements. And so we would do a system impact study, and this particular attachment describes how that is done.

We do have a transmission expansion policy there as well, and this relates primarily to the cost allocation in terms of how NB Power would deal with transmission expansion.

As I mentioned before, there are two types of agreements. One is an operating agreement for loads, the other is an interconnection agreement for generators. And I will be speaking a little bit more about those later, as well as, the standards of conduct.

The OASIS Reservation System, this is the Open Access Same Time Information System. This is an Internet-based electronic reservation system. It's the method by which customers will request transmission and receive confirmation of that transmission. We use industry standard protocol and rules. And so if a customer were applying for transmission capacity on the New Brunswick system, it would be very similar to -- except for perhaps the screen layout would be the same way that they would apply for a reservation on another transmission provider system.

We do -- the OASIS system is really the primary method

by which open non-discriminatory access is provided. All transmission information is provided via the OASIS, as well as, all requests for service are done via the OASIS.

And as I said all the transmission information is available to everyone and it's posted there and that's the way that transmission customers would receive the transmission information. Reservations are generally accepted on a first come, first serve basis.

I would just like to give you a bit of a pictorial view of the two types of service. On the left is point-to-point service. This type of service provides a path between a specific point of receipt, that is a generator, and a specific delivery point, which would be a load, or if it's a wheeling transaction, it could be from one point in the system to another.

For example, a path from Nova Scotia to Prince Edward Island would be a point-to-point service. Typically this type of service is used for exports and for wheeling transactions.

On the other hand, on the right you see a representation of network integration service. In this case, they are generally multiple generators supplying multiple loads. And typically this type of service would be used for in-province load.

A little bit more about point-to-point service. There is a specific path between two points. We do require balanced schedules. That means that the generation or the supply side must equal the amount that is therefore the load. Losses, of course you need to include those as well.

Secondary points of receipt and delivery is probably best explained by using an example. The example that I used before of a path from Nova Scotia to Prince Edward Island, if that -- if the supply side was changed to come from Quebec then that would be a secondary point of receipt.

So it is really changing either the receipt point or the delivery point. And there are terms and conditions that relate to secondary points of receipt. Generally they are at a lower priority.

The billing for point-to-point service is done on the contract at reservation. Whatever the amount has been in terms of reservation, whether it is a monthly amount, a weekly amount, whatever, it is billed on that contract at reservation.

There are different types of transmission services available. The two primary ones of course are firm and nonfirm service. And the types of service relate to the

priority in terms of reservations and also the priority in terms of curtailment or interruption when there is insufficient transmission capacity.

Network integration service on the other hand is -- applies to multiple receipt points and delivery points. Just like point-to-point service balanced schedules are required. These balanced schedules are done on an aggregate amount in terms of the energy.

And unlike point to point service the billing is done on a net noncoincident peak at each delivery point. What I mean by that is that if there are a number of load points or substations then each substation would have a monthly peak that is different in all likelihood from all the other substations. So you look at that. And it is also probably different from the overall system peak. So noncoincident means it is not coincident with each other or with the system peak.

In addition to transmission service the customer would require ancillary services and these ancillary services are the -- ancillary services are required to ensure the overall reliability of the transmission system while the energy is being delivered.

The system control and voltage support are mandatory services and they must be purchased from the transmission

provider. That would be for both point-to-point and network service.

Losses -- we have stated in our tariff that losses must be self-provided. There are other ancillary services like reserve services, regulation, load following, those types of services, they can be purchased from the transmission provider, they can be self-supplied, they can be purchased from a third party, and they may or may not be required. Certainly network loads would require all of these services.

Standards of Conduct defines the rules for information exchange. The Standards of Conduct are -- that we proposed are compatible within industry standards. The Standards of Conduct do ensure that confidential customer information is protected. There is non-discriminatory treatment of all customers, and as I said before the primary way that that is done is through the OASIS system.

There are restrictions on the information flow within NB Power and those are stated within that document and there are sanctions for failure to comply.

Network Operating Agreement is a type of agreement that a load has to enter into. It defines the obligation of that load customer and of NB Power Transmission and it's to ensure the overall reliability of the transmission

system. It does have information about metering points, the facilities and the points of delivery.

Generation Interconnection Agreement is a similar type of agreement, but it is for generators. It does define the obligations for the generator and for NB Power Transmission to protect the facilities and to ensure reliability. It does define all the technical and operational requirements of -- for interconnecting to that transmission system, and there are terms in there that lay out the obligations regarding costs.

Finally in summary, our -- NB Power's tariff proposal provides open non-discriminatory access. It supports reliability, forms the foundation of the NB market. It is compatible with the standard North American practice and is consistent with the recommendations of the New Brunswick market design committee.

Thank you.

MR. MORRISON: At your pleasure, Mr. Chairman, I believe it's probably appropriate to perhaps put off cross examination until tomorrow morning.

CHAIRMAN: Yes, we will do that. And so we will adjourn now until 9:30 tomorrow morning.

(Adjourned)

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