New Brunswick Board of Commissioners of Public Utilities

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

Delta Hotel, Saint John, N.B.
October 5th 2005

Henneberry Reporting Service

Index

Undertakings:

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Delta Hotel, Saint John, N.B.
October 5th 2005

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Arthur Adelberg
Steve Garwood

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CHAIRMAN: Good morning, ladies and gentlemen. Any preliminary mattes?

MR. MORRISON: Yes, Mr. Chairman, we have responses to two of the five undertakings that were given yesterday. Those would be undertakings number 2 and 3. Undertaking number 1 we should have ready at the break. That dealt with submitting a rate design with a 900 kilowatt first block. And we are just finalizing that and should have it ready at the break.

CHAIRMAN: Okay, undertaking number 2?

MR. MORRISON: October 4th.

CHAIRMAN: Will be A-34.

MR. MORRISON: And the second undertaking, Mr. Chairman, is undertaking number 3, October 4th, response to a request from Vice-Chairman Nelson to Mr. Larlee.

CHAIRMAN: Undertaking number 3 will be A-35.

MR. MORRISON: Just also for clarity, Mr. Chairman, the transcript is showing I guess a sixth undertaking but -- which is at page 1246. We responded to that yesterday afternoon by referring to an IR response which is exhibit A-16, IR-38.

CHAIRMAN: Who has asked for that?

MR. MORRISON: I think it was Commissioner Sollows.

MR. SOLLOWS: PI IR?

MR. MORRISON: PI IR-38. I just want to make sure that Commissioner Sollows is satisfied that that is responsive.

MR. SOLLOWS: Yes, it was clarified right in the hearing that the last column in the tables is the revenue that they would have earned --

MR. MORRISON: Right.

MR. SOLLOWS: -- if it had been billed at the firm rate.

MR. MORRISON: Okay. Thank you, Mr. Chairman. That's all.

CHAIRMAN: I got out of order here so I will have appearances for the record for today please? The Applicant?

MR. MORRISON: Terry Morrison, David Hashey, Lori Clark for the Applicant. And our witness panel of Neil Larlee and Malcolm Ketchum.

CHAIRMAN: Thanks, Mr. Morrison. Canadian Manufacturers & Exporters? Mr. Plante is not here? Conservation Council? Eastern Wind isn't here. Enbridge Gas?

MR. MACDOUGALL: David MacDougall for Enbridge Gas, Mr. Chair, and I am joined today by Ruth York.

CHAIRMAN: Thank you. The Irving Group?

MR. STORRING: Mr. Chairman, Thomas Storring on behalf of the Irving Group.

CHAIRMAN: Thanks, Mr. Storring. NBSO? Rogers? Mr. Hashey, were you able to get a hold of Rogers?

MR. HASHEY: We sent them a note. We are trying to find out this morning and confirm that at some point today, that they would be available in the morning.

CHAIRMAN: Okay, great.

MR. HASHEY: But at this moment, no.

CHAIRMAN: Thank you.

MR. HYSLOP: Mr. Chair, I spoke late yesterday afternoon with Ms. Vaillancourt. She is anticipating coming to the hearings at noon hour and I told her to look for Mr. Hashey at that time and we would probably have a pretty good idea where we are on schedule with regard to --

CHAIRMAN: Good. Thanks, Mr. Hyslop. Self-represented individuals? Municipals?

MR. GORMAN: Good morning, Mr. Chairman. Raymond Gorman for the Municipal Utilities. I am joined this morning by Dana Young.

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

MR. HYSLOP: Peter Hyslop with Mr. Knecht, Mr. O'Rourke, Mr. Barnett, Ms. Young and Ms. Power.

CHAIRMAN: Thanks, Mr. Hyslop. Mr. MacNutt, who is with you today?

MR. MACNUTT: I have with me today Doug Goss, Senior Advisor, John Lawton, Advisor, Arthur Adelberg, Consultant, Steve Garwood, Consultant, and John Murphy, Consultant.

CHAIRMAN: Thank you, Mr. MacNutt. Any other preliminary matters? Go ahead, Mr. Hyslop.

CROSS EXAMINATION BY MR. HYSLOP

MR. HYSLOP: Thank you, Mr. Chair and good morning. And good morning, Mr. Ketchum and Mr. Larlee.

Q.1174 - I guess start where were we and the next item is generation cost classification. And I guess a little bit of review, I know Mr. MacDougall may have covered this, but just to put things in perspective again.

The starting point for this application, of course, would have been the 1992 CARD decision in which the PUB approved NB Power's demand energy split for fix generation costs on the basis of 40 percent demand and 60 percent energy.

Was that the point where you started, Mr. Larlee?

MR. LARLEE: Yes.

Q.1175 - And with respect to the energy costs in that decision both for fuel and reclassified fix costs for the 1992 CARD decision, those were based on an energy charge over the whole test year, 1992. Is that correct, Mr. Larlee?

MR. LARLEE: Yes, that is correct.

Q.1176 - Thank you. And the -- one of the little edges on it the Board did approve the 40/60 demand energy split, but did so, I understand, subject to the NB Power doing a further study to confirm the results.

MR. LARLEE: Yes, that is correct.

Q.1177 - Right. And that study was the Reed report which has been often referred to in these hearings which was completed by a company with which you were associated with at the time, Mr. Ketchum?

MR. KETCHUM: That is correct.

Q.1178 - And as I do understand your evidence in front of Mr. MacDougall, in fact, sir, you were I think the lead person in the preparation of that report?

MR. KETCHUM: That is also correct, Mr. Hyslop.

Q.1179 - Thank you. And if you would refer to the Reed report, which is -- excerpts of it are contained in the binder which I passed out yesterday. And in particular starting at pages 20 -- I believe it is page 21 and 22.

MR. DUMONT: Under tab?

MR. HYSLOP: Be under tab 2, Mr. Dumont.

Q.1180 - And at page 21 of that report, the conclusion of your study, and perhaps just to give a little background, I read through the report and as I recall, with regard to different methodologies for the classification of fixed production costs, I think you analyzed five or six different methods that are sometimes used by cost allocation experts?

MR. KETCHUM: Yes, that is correct.

Q.1181 - And in addition, you identified I think two or three other methods that are sometimes used but because of the NB Power landscape, as it was at the time, you dismissed those as probably not being able to be fully considered?

MR. KETCHUM: That is correct.

Q.1182 - Right. But you did do a careful analysis of at least I think five or six methods separately before coming to your conclusions?

MR. KETCHUM: Yes, we did do that at that time.

Q.1183 - Yes. And I appreciate, Mr. Larlee and Ketchum, I am not in any way trying to take you automatically where you are going to disavow what you are going to tell me later. But I appreciate very much that it was at that time and that was the results of your analysis.

And in fact at page 21 of the report, and I think I am quoting accurately from it, you stated "Based on RCG's analysis of the various methods for classifying fixed production costs, including all the evidence presented in this chapter, the most appropriate method for NB Power at this time was the peaker credit method. Is that correct?

MR. KETCHUM: That is accurate.

Q.1184 - Yes. And if I look a little further, and I just again want to make sure we know how solid you were on that opinion, you set out some pretty good reasons for that, I suggest, at the bottom of page IV 21.

And again, I think you cited five reasons. You stated the peaker credit method was selected because it is a widely recognized methodology that directly addresses the production cost classification issue. Correct?

MR. KETCHUM: Correct.

Q.1185 - Right. You also said it is straightforward in its application, easily understood and can be readily updated to reflect actual changes in production capacity mix. Is that correct?

MR. KETCHUM: Yes.

Q.1186 - Right. It postulates the availability of combustion turbine technology and a diversity of resources, NB Power has CTs on its system in a diverse resource mix. Correct?

MR. KETCHUM: That is correct.

Q.1187 - It is a system planning approach because it incorporates the notion of trade-off of capital for lower energy cost, NB Power's planning process clearly fits this model.

MR. KETCHUM: Yes. Once again, that is an accurate reading.

Q.1188 - Yes. And other methodologies were rejected because they do not appear to reflect NB Power's situation as accurately as the peaker credit method, are not direct classification methods or depend on data not available at NB Power.

MR. KETCHUM: Once again, accurate reading.

Q.1189 - Okay. So it is fair to say that when this report was

finalized, and I forget the exact date, but 1992, 1993, you were pretty clear in your mind that the peaker credit methodology was a methodology that would certainly fit the NB Power situation.
MR. KETCHUM: Again, that is what our analysis showed at the time.
Q.1190 - Yes. And I appreciate the words "at the time".
MR. KETCHUM: Yes.
Q.1191 - And this, and I don't think it was coincidental, but one of the results of application of the peaker credit method at that time was that it very closely reached the same results that the approved method of NB Power in the 1992 CARD hearing?
MR. KETCHUM: It did in fact produce a result that was close to the Board approved classification split, yes.
Q.1192 - So the peaker credit method had been used during the NB Power hearings themselves the 40/60 split would have closely resembled what the Board actually approved? I'm sorry, I can see by the look on your face -- the results of the peaker credit method almost identical to the results of the Board approved, the 40/60 split?
MR. KETCHUM: Correct.
Q.1193 - And as part of the Reed Report, and I'm looking particularly at pages 2 and 2 (a) of that report, your

analysis also took into account the question of at that time the pending construction of the Belledune power plant, is that correct, Mr. Ketchum?
MR. KETCHUM: You are looking at the tables now?
Q.1194 - Yes. Table 2 and table 2 (a).
MR. KETCHUM: All right. Yes.
Q.1195 - Yes. And I hope they are contained in the booklet that I gave you?
MR. KETCHUM: Yes. The tables are.
Q.1196 - Yes.
MR. KETCHUM: You just said page. And I just --
Q.1197 - Okay. I apologize.
MR. KETCHUM: -- want to be clear.
Q.1198 - I'm looking at table 2 and table 2 (a).
MR. KETCHUM: Yes.
Q.1199 - And the table 2 is an analysis that was done with the peaker credit method but not including Point Lepreau. And that resulted in a fixed cost classification for demand of 38.72 percent and energy of 61.28 percent?
MR. KETCHUM: I think you misspoke. It -- the first table 2 did not include Belledune. It did include Point Lepreau.
Q.1200 - Yes.
MR. KETCHUM: That is yes.
Q.1201 - Yes. If I said Point Lepreau, none of the question

is supposed to have anything to do with Point Lepreau.

MR. KETCHUM: All right.

Q.1202 - And table 2 (a) included the results of adding Belledune into the system. And the fixed cost classification resulted in demand at 34.6 percent and energy at 65.4 percent, correct?

MR. KETCHUM: Yes. The company had estimates for the cost of Belledune although that wasn't complete at the time.

Q.1203 - Now -- and again I appreciate your sensitivity to making sure we are dealing at that time. Because I'm anticipating you are saying at this time we have Purchase Power Agreements. And we will get to that in a few seconds.

Now if I turn up Disco EGNB IR-36 which is an exhibit would be found for the record in exhibit A-16, for the record, what we asked in that IR, Mr. Larlee, was that we update the peaker credit method to the latest results that NB Power had.

And had the peaker credit method been applied this time, which I appreciate at this time it wasn't, the fixed and the energy costs would have been apportioned 39 percent, 61 percent.

Is that correct, Mr. Larlee?

MR. LARLEE: That is the updated results.

Q.1204 - Yes.

MR. LARLEE: We were able to update to 2001, 2002. And the results were approximately 39, 61 percent demand energy classification.

Q.1205 - So we have got that background out of the way. Now, you know, I'm just thinking a little bit about NB Power post Belledune, Mr. Larlee. You can help me here. But my understanding is the generation mix and the generation of plants that NB Power had in 1993 after it added Point Lepreau, there has been no significant additions to the NB Power group of generation assets since that time?

MR. LARLEE: You did say Point Lepreau again. I take it you meant Belledune?

Q.1206 - Belledune, I'm sorry. Yes. I will get my geography straight sooner or later.
So after the addition of Belledune we haven't added any significant new generation units or capacity to the NB Power system, Mr. Larlee?

MR. LARLEE: I'm just thinking about the time in Millbank. But I believe Millbank and St. Rose were completed prior to Belledune. So I believe that is correct.

Q.1207 - Right. And we haven't taken any significant capital assets out of the system. I know there was a couple of CT units at Millbank were sold off to Enron. But I think they have been purchased back.

Am I correct again there that we haven't removed any significant generation from the system?

MR. LARLEE: I'm just doing a quick comparison between the tables. In '92 when the Reed Report was done, at that time none of the Millbank units were considered part of the NB Power system.

Because they would have all been -- four of them would have been contracted to Hydro Quebec. So they are not included. And Courtenay Bay has considerably higher book value.

Q.1208 - Well, let's go through them.

MR. LARLEE: Well, I guess not book value but dollars. So there are some changes because of decommissioning of Courtenay Bay. So there are some changes.

MR. MACDOUGALL: Mr. Chair, if I may interject just for a second. At the moment I'm sort of sensing a tremendous amount of deja vu where a whole series of questions are identical to those that have been previously posed. And I'm just wondering how that is efficient for the process or how it is efficient for cross examination.

I'm pretty sure all of these questions -- I asked all of these questions pretty much in this order. And I'm wondering where we are going.

CHAIRMAN: Well, Mr. MacDougall, I think Mr. Hyslop has the right to conduct his cross. And if he wants to build something up and refresh this panel's memory of the questions that you asked then that is okay with this Board.

MR. MACDOUGALL: That is fine then, Mr. Chair. Thank you very much.

MR. HYSLOP: Thank you, Mr. Chair. I appreciate some of this is repetitive. But it is to get to a point. And I hope to get there fairly quickly.

Q.1209 - Sorry for the delay, Mr. Larlee. But perhaps to -- I was trying to get to a point. So maybe I will just ask the point.

And as I understand it, taking a look at the entire NB Power system today and comparing it to that in 1993, the basic tradeoff between peaking and base load units, that essential relationship remains much the same today as it did in 1993, is that correct?

MR. LARLEE: Yes. I agree with that.

Q.1210 - Okay. If I had asked that the first time we would have a lot less confusion. So I apologize. Okay.

So I want to just perhaps, panel, think about how this peaker credit method works. And I may not be using the right terminology, and if so I appreciate if you might take the time to correct me.

But the peaker credit analysis decides cost -- applies cost causation principles and what I would call on an economic cost causation. In other words there is an economic result from the monies that are spent, whether it be on fuel or capital.

Would that type of analysis of an economic cost causation carry some weight?

MR. KETCHUM: I would just make a distinction in that regard, Mr. Hyslop. Typically when we think about cost causation in terms of a class cost allocation study, we are thinking about the costs that come down through the various functions and are subsequently allocated to the customer classes based on a relationship that we trust reflects to a proper degree the cost causation.

In the system planning context the system planner has to look at the potential types of resources that may fit into or under if you will a load duration curve that indicates to the planner for the current time and in the future what resources would fit under that curve and produce a least cost result for production of power.

That sort of thing is something that was done -- has always been done by system planners I would say over the years in an integrated utility context.

And now with much broader markets and system operators and so on, that sort of thing has been sort of preempted by competitive kind of considerations and the ability to sell power into open markets, particularly in the northeast.

Q.1211 - Okay. Well, I think I understand your answer. But I'm not sure it answers the question.

And what I'm suggesting is when you are doing your class cost causation, you look at -- and you are using the methodologies that you used in 1992 and '93 -- you are looking at the question who is causing the cause -- or what is causing the cost to be incurred.

Is that correct, Mr. Ketchum? What causes it?

MR. KETCHUM: Well, once again, you know, if we selected a classification methodology for the generation fixed cost we look to the Board-approved methodology on a 40/60 split.

And that was based on the Board's approved methodology that was subsequently supported by what is often called a peaker credit methodology for classifying that fixed portion as we have discussed repeatedly.

Q.1212 - And I appreciate the methodology that you used. But I'm trying to just take it back to a more fundamental question than that.

And the fundamental question that I'm asking is if you are going in today anywhere -- and I'm not trying to do anything with PPA's or not with PPA's -- the fundamental question a guy doing a cost allocation study does is he is trying to figure out what causes each cost to be incurred. Who is causing the plant to be built? Who is causing the fuel to be billed?

Am I correct in that very basic premise?

MR. KETCHUM: Yes. That is correct.

Q.1213 - That is all the point I'm trying to make. I'm not trying to get any more esoteric than that. So who causes the cost? That is what we call cost causation, correct?

MR. KETCHUM: That is correct.

Q.1214 - Okay. So in 1992, '93 this Board decided that those parties that cause new facilities to be built, they are going to accept 40 percent of those fixed generation costs. And those that cause those buildings to be built for the purposes of energy, they get 60 percent.

And that was an analysis of who is causing those costs, correct, Mr. Ketchum? Whether they are right or whether they are wrong, that is the result?

MR. KETCHUM: I hate to sort of try to be more precise here. But I guess it is in my nature. The classification of

The cost, again of the fixed portion of the cost was determined to be on that 40/60 basis.

The allocation of the cost to the classes was done for the fixed peak, the demand-related piece on coincident peak. And the energy portion was based on each class' contribution to the total energy requirement.

Q.1215 - Well, I think the main point is the point I may have made earlier. But anyhow we will move on here a little bit.

So I want to kind of throw a little bit of a hypothetical out to you if I could. And that hypothetical is this. Let's assume that October 1st 2004 the energy advisers and the financial experts decided let's keep everything the same. Rather than do this financial and corporate reorganization of NB Power, we are going to leave it just the way it was.

And also -- I mean, your evidence seems to be that the basic tradeoffs between base load and peaker have not fundamentally changed at NB Power. And your ER 36, EGNB 36 suggests that if we use the same methodology we would be about the same place.

My question is a very simple one. If we hadn't done the reorganization would it be your evidence that the peaker credit method would still be the applicable method for determining the classification of demand in energy fixed costs, fixed generation costs for NB Power?

MR. KETCHUM: I think other experts have said Board-approved methodology.

MR. HYSLOP: Sorry for the delay, panel.

Q.1216 - So as I understand your evidence and the cross examination that you have put before some of your previous evidence on cross examination, the significance today is that on October 1st 2004 the financial and corporate reorganization of NB Power did occur.
Is that correct, Mr. Ketchum?

MR. KETCHUM: Well, I would say that that is correct. But I would add that there were, you know, some policy considerations that went into that reorganization, and that decision that provide policy direction as well.

Q.1217 - Okay. But we can only speculate on those?

MR. KETCHUM: I would suggest that it is mere speculation. I think some of the policy directives are fairly clear.

Q.1218 - Well, I'm just going back to the evidence the other day in one of the IR's where it was not -- anyhow where it wasn't -- it was thought we really shouldn't be speculating on what those policy things are. I'm not about to. But we will go.
So we have the financial reorganization. And if we

can just back up again, if we hadn't had this, the economics of the situation, we would be using the peaker credit methodology or the Board-approved methodology. And we would be coming forward.

So I understand that your evidence is that we are going to use the PPA's to classify Genco's fixed generation costs. That is what you have done, Mr. Larlee?

MR. LARLEE: Yes.

Q.1219 - Yes. And I'm just trying to get to the theory of why this was done.

And as I understand your position, it is your view that the billing determinants in some of the PPA's are better to be used for the demand energy split than the peaker credit methodology, correct?

MR. LARLEE: I think I have mentioned this before. But I will go through it again. Essentially we are in a situation where as a result of the restructuring of NB Power, functionalization within the cost of service study was no longer necessary or required.

So when it came to looking at the cost, of the supply cost and the generation cost, the PPA's were really the cost driver. So that was sort of the first step in the rationale in working down through and getting those costs classified.

So in the case of the Genco PPA, not only were the costs functionalized, already functionalized as being 100 percent generation cost, they were already -- they were classified as well as being either demand-related or range-related within that PPA.

Q.1220 - Well, again I want to try to simplify this. I think your answer is a long way of answering the question I have put to you, which is simply that you took the view that after analysis of the Purchase Power Agreement they better reflected the methodology to be used for the classification of demand and energy cost, correct?

It is not a trick question. I'm just asking you have you used the agreement to do the classification?

MR. LARLEE: I did use the PPA, the Genco PPA to do the classification.

Q.1221 - Yes. Just the Genco PPA?

MR. LARLEE: Yes.

Q.1222 - And we will get to what you did with the Nuclear PPA in due course.

So then -- and the question I'm having difficulty with is, you know, you were applying the terms of the Genco PPA, correct?

MR. LARLEE: I was applying the costs that were flowing from the Genco PPA.

Q.1223 - Yes. Okay. So the costs that are flowing, they would be part of the contractual terms?

MR. LARLEE: Yes.

Q.1224 - Yes. Okay. So you know, what you were doing -- and I tried to go down the line of economic cost causation a few moments ago. And I'm going to spring another little phrase on you. And then I'm going to see how you react to it.

But what I want to get at is what you were doing is applying shall we say contractual cost causation factors. Would that be right, Mr. Larlee? Is that too esoteric?

MR. LARLEE: Well, I would prefer to characterize it as essentially as-billed.

Q.1225 - Okay.

MR. LARLEE: As billed to Disco.

Q.1226 - So the terms "as-billed" would be the terms that were set out in the contract. So the billings reflect the terms of the contract don't they?

MR. LARLEE: Yes.

Q.1227 - Yes. So in other words when you reflect the as-billed invoicing from Genco to Disco, you are determining the energy, demand energy split on the basis of the terms of the contract itself, correct?

MR. LARLEE: Yes, to a large degree.

Q.1228 - Right. So my phrase "contractual cost causation" seems to have some meaning here?
MR. LARLEE: Yes, in the context you just laid out.
Q.1229 - Right. Thank you.
But as I also understand your evidence, contractual cost causation is not a reasonable approach with respect to the Nuclear PPA?
MR. LARLEE: Yes. That is correct.
Q.1230 - Rather with the Nuclear PPA you have made a decision that the Board methodology would appear to be more applicable?
MR. LARLEE: That is correct.
Q.1231 - Now let's talk about the Purchase Power Agreements. And as I recall the panel's evidence and the evidence that has been filed last Thursday, the Purchase Power Agreements are based upon advice and recommendations to government from financial advisers and industry experts, correct?
MR. LARLEE: Yes.
Q.1232 - And neither you nor Mr. Ketchum were involved in the development of these particular Purchase Power Agreements?
MR. LARLEE: That is correct.
MR. KETCHUM: That is correct.
Q.1233 - Thank you, Mr. Ketchum.

And they were done for the purpose of public policy decisions with respect to risk allocation and capital structures.
I think that is again the answer that was in Disco PI IR-57. And that is not in the book. But I think that was the evidence last Thursday, that the PPA's were created for that purpose, correct?
MR. LARLEE: I'm sorry. You are going to have to repeat the question.
Q.1234 - Okay. Well, the Purchase Power Agreements were created to carry out some public policy decisions with respect to risk allocation and capital structures?
MR. LARLEE: That is my understanding, yes.
Q.1235 - Thank you. Again I'm just trying to refresh the line of questioning.
And the -- well, when I look at the results of using the peaker credit method -- if I just use the peaker credit method or the Board-approved methodology as a whole and applying it, is it fair -- and I'm going to speculate and ask maybe you to speculate a little bit here.
Is it fair to suggest that perhaps these industry experts and financial advisers weren't really paying too much attention to the factors of economic cost causation?
Rather they were putting contracts together for financial

and other reasons? Can we speculate on that --
MR. MORRISON: I don't think --
Q.1236 - -- and voice a view?
MR. MORRISON: I don't think these witnesses can offer any comment on that, Mr. Chairman. They weren't involved in the process.
Q.1237 - Okay. Well, would it be fair to say then perhaps that we don't have any expertise on cost causation as an input into these Purchase Power Agreements? You don't know?
MR. LARLEE: I can't comment on that.
Q.1238 - Thank you. They didn't involve you or Mr. Ketchum. Maybe they should have. Anyhow, I will withdraw that. That wasn't -- that is not needed.
So just to pull it together with respect to the generation PPA, you are classifying fixed generation on the basis of how the bill comes to Disco, Mr. Larlee?
MR. LARLEE: The Genco PPA, yes, to a large degree. There is a fixed component of Genco's cost that is actually billed on a dollar per megawatt-hour basis. And consistent with how we treated the Point Lepreau PPA, we treated that the same way and classified that as 40/60 as well.
Q.1239 - Right. And the hazards of passing out my outline

ahead of time are noted.

So with regard to the -- you know, you have made an assumption, I would suggest, in the way you are dealing with the Genco PPA with regard to what these people may have thought was the true economic cost causation at the Genco level?

MR. LARLEE: No. I wouldn't agree with that. What we did was is we were reflecting Disco's cost causation, the costs flowing to Disco, which are the costs coming from the PPA's.

Q.1240 - Okay. So let's stay with that then for a moment if I can. You know, you get a bill for so much of a demand charge and you get a bill for so much of an energy charge from Genco. This may or may not reflect the demand energy split at the Genco level.

Would that be correct, Mr. Larlee?

MR. LARLEE: If you mean if it is a perfect reflection of Genco's fixed and variable cost mix, I don't know. And I don't believe it is. But I don't know for a fact.

Q.1241 - Well, we do know if we use the peaker method we get a considerably different result, correct?

MR. LARLEE: Yes. I would say that is correct.

Q.1242 - Thank you.

MR. KETCHUM: I would like to see if we can clarify that a little bit. I don't --

MR. MORRISON: I thought it was clear, Mr. Ketchum. The witness should be entitled to --

MR. HYSLOP: Well, no. I'm satisfied I have received a full answer.

Q.1243 - Now one of the problems I have got -- and we mentioned the Genco PPA which is -- instead of using the PPA billing determinants you have used the Board-approved methodology.

And one of the problems I have got, and I think my friend Mr. MacDougall had, was that there appears to be a lack of consistency in the treatment of fixed generation costs between the Nuclear PPA and the Genco PPA. And I trust I can be forgiven for that.

And in the Nuclear PPA the pricing is based on 100 percent energy charge, correct?

MR. KETCHUM: That is correct.

Q.1244 - Yes. But rather than use the PPA and create a demand energy split of zero percent to demand and 100 percent to energy, you used the 40/60 split that had been previously approved by this Board, correct?

MR. KETCHUM: It was first necessary for Mr. Larlee to split the cost of the Nuclearco costs that were passed down to Disco on the basis of a demand in energy component or a capacity or fixed cost and energy component. And then the 40/60 split was applied to the fixed cost portio.

Q.1245 - Okay. In other words you didn't treat it as 100 percent energy, is that correct, Mr. Ketchum?

MR. KETCHUM: That is correct.

Q.1246 - Right.

MR. KETCHUM: Mr. Larlee did not do that. Because it simply didn't make sense.

Q.1247 - Didn't make sense. So with regard to the Genco pricing, you accepted what the contract stated? Correct, Mr. Larlee?

MR. LARLEE: Accepted the billing charges as they appeared, yes.

Q.1248 - So again, I go back. In one case you accepted the PPA billing methods and in the other case you ignored them?

MR. LARLEE: In the case of Genco, the costs were essentially pre-classified, demand and energy. In the case of the Nuclearco PPA, there was no demand component. So we have a very large plant with an obvious capacity value, an obvious demand value, and nothing reflecting that in the bills flowing to Disco.

So as Mr. Ketchum pointed out, it didn't make sense to classify that as 100 percent energy. So we felt we had to

-- we had to do something different and the Board approved methodology seemed like the way to approach it.

Q.1249 - Sure. Okay. I think the answer to my question is in there but we will move along. And in doing this, I want to refer to your evidence, Mr. Larlee, if I could. And I guess it is actually the evidence of Mr. Ketchum and page 9 there which is in the binder. Starting at line 22. And Mr, Ketchum, you stated "I believe that the approach used by Disco strikes the proper balance between the historically utilized PUB approved classification that in turn is supported by Disco supply mix and the new reality as reflected in the power purchase agreements."
That is what you said, Mr. Ketchum? I'm sorry.

CHAIRMAN: Mr. Hyslop, I think you should point out where in your new volume we are.

MR. HYSLOP: i am looking at page 9 of Mr. Ketchum's evidence. I think I --

MR. MORRISON: It is under tab 2, I believe.

MR. HYSLOP: Under tab 2, I'm sorry.

MR. MORRISON: At the beginning of tab 2.

Q.1250 - All the questions I am asking at this time are -- the references will be in tab 2. Do you have it, Mr. Ketchum? Do I need to repeat the question?

MR. KETCHUM: I have that. No. That is what I said on that page, yes, in that reference section.

Q.1251 - Sure. So what I want to deal with now is this proper balance issue. Now, if I might, I want to talk about the impacts of these decisions on the residential class. When you change the nuclear demand energy split from 0 to 100 to 40/60, this would allocate a significant amount of demand and would adversely affect on -- have an adverse impact on the residential sector. Would that be correct?

MR. KETCHUM: Again, as we indicated previously, there was no deliberate thought given to how this would affect the various classes. What was done was based on the logic of using the as-billed as well as the common sense approach with respect to the nuclear classification. The result is that previously the residential class was allocated about 38 percent of total production costs and under the current classification methodology, the total allocation was closer to 40 percent of the total production cost.

So the difference from the prior method, if we could have applied that, if restructuring hadn't have happened and we didn't have this restructured environment and the necessity to look at the as-billed situation and the difference would have been 38 to 40 percent, a 2 percent increase in the generation cost.

Q.1252 - But again, first Mr. Ketchum, I have heard your

evidence and I accept there is no deliberate slanting of anything. But my question was if you allocated -- I will rephrase it. If you had taken the Nuclear PPA and done the demand energy split, 0/100, that would have been a very favourable result to the residential class. Correct?
MR. KETCHUM: The classification would have been more in line with a historical just coincidentally, yes.
Q.1253 - Yes. And similarly and again, I am not trying to -- I am just trying to find out the impacts here. But if you had left the Genco split at 40/60, the residential class would have been better off than with the split that you finally came to, the 68/32. Correct?
MR. KETCHUM: Yes, I think that is more or less what I just said, yes.
Q.1254 - Yes. Okay. So again, each time that you and Mr. Larlee went about trying to strike the proper balance here, the result seems to be an adverse consequence to the residential sector. And I am not -- again, put it on the record, I am not saying that was an intention. I am just saying that is the result.
MR. KETCHUM: Again, I will just point out that Mr. Larlee did the study. My job was to review the results. I looked at what he did and the reasons he told me he did it and I thought that was a reasonable and sustainable

approach for going forward in the current environment, as I have discussed earlier in the proceeding.

Q.1255 - So Mr. Larlee and you must have had some significant discussions on how to determine and to strike this proper balance?

MR. LARLEE: As Mr. Ketchum noted, we basically had our cost allocation study almost entirely complete when he reviewed it. And it was his opinion that he agreed with the decisions that we did make.

Q.1256 - Okay. So striking this proper balance, there would be some underlying logic to it that could be applied no matter what took place in the PPA agreements. So regardless of what the PPA agreements stated, there would be some underlying logic to how you would go about determining the proper balance, Mr. Larlee?

You are the one that did this the first time so you know, when you looked at the -- the PPA agreements were billed differently. You must have developed an underlying logic as to how you would apply them?

MR. LARLEE: I think I went through the logic of how I applied it. My first notion was these are the costs that Disco is going to incur and they should be reflected as directly as possible in the cost allocation study.

When I came to the Nuclearco costs and the methodability, I couldn't accept 100 percent energy charge which would result in 100 percent energy classification, knowing that every generation facility has fixed costs regardless of the type of generation facility used.

Q.1257 - Well let's assume these industry advisers and industry experts and financial advisers had said it should be 80 percent energy and 20 percent fixed in the Nuclear PPA, using the same logic that you used when it was 100 percent and 0 percent, what conclusions might you have come to, Mr. Larlee?

MR. LARLEE: Well I think in your hypothetical example it would have significantly changed my thinking if any portion of that -- any portion of that supply cost had a fixed component. At least there would have been some recognition that there is -- that there is a fixed component in any facility.

Q.1258 - Well okay, so let's just pick it. If they had said it's 20 percent fixed and 80 percent variable, that's the way it came down on the billing determinant, would you have done your allocation on the Nuclear 20/80? Is that what you are telling me? Or would that still have been a little too unreasonable and you would have stuck with the 40/60? Go ahead.

MR. LARLEE: Again, at that point or at some point at least

there is a realistic recognition of the fixed costs.
Q.1259 - Okay. So would that mean you would have accepted the 20/80?
MR. LARLEE: I guess I think I would have. I would have at least seen that there is some recognition of the fixed costs.
Q.1260 - Let's think about the Genco one.
MR. KETCHUM: Can I follow up on that or --
Q.1261 - I have got the answer from the witness that how he would have done it, he did the cost allocation study first.
Let's talk about the Genco one. Say the billing determinants on Genco had come down to you the same as they did in the Nuclear one, 100 percent energy. Where would we have been? Would we have been with the 40/60? What would have been your rationale then?
MR. LARLEE: I would have come to the same conclusion, that obviously any supply has to have some fixed component. If there was no fixed component I would have come to the same conclusion as I did with the Nuclearco PPA.
Q.1262 - So would you have used 40/60 because the Board determined that was appropriate in 1992?
MR. LARLEE: Essentially there is no other guideline for classification. That is the classification, essentially

the classification that the knowledge that we have in lieu of any other and the one that we have used in all the cost allocation studies --

\Q.1263 - Sure.

MR. LARLEE: -- since.

Q.1264 - And let's just maybe pull one more example out just to see where we are at. Let's say that for example the Genco PPA had said let's bill this out on the basis of 20 percent fixed and 80 percent variable, so it would be 20/80.

I assume you would do the same thing with that that you told me you would have done if it had been 20/80 with the Nuclear one and gone on that basis?

MR. LARLEE: Again the PPA's are Disco's costs as Disco sees them. And I think really the first option is that, is to reflect the PPA's if at all possible. And that is what I would have done.

Q.1265 - So you would probably do the 20/80?

MR. LARLEE: Hypothetically, yes.

MR. HYSLOP: Mr. Chair, it might be -- I see were are about an hour in. It might be a good time for a 10, 15-minute break and kind of reorganize where we are at. And I do anticipate finishing by noon.

CHAIRMAN: I know where I'm at. Do you want to break? That is fine. We will take 15 minutes now, Mr. Hyslop.

MR. HYSLOP: Thank you.

(10:00 a.m. - 10:15 a.m. - Recess)

CHAIRMAN: Was that enough time, Mr. Hyslop?

MR. HYSLOP: Just great, Mr. Chair. I trust the Board --

CHAIRMAN: It made good use of the time.

MR. HYSLOP: Thank you.

MR. HASHEY: Mr. Chairman, on the Rogers issue, if you could do something about the fog, Rogers will be flying in and we will be here in the morning.

MR. SOLLOWS: Taken care of.

CHAIRMAN: If I could do something about the fog I would have done it a long time ago. I wanted to see the stern of the Queen Mary and I couldn't.

MR. HYSLOP: Thank you, Mr. Chair. I think the next couple of exhibits I will be referring to will be found in your binder under tab 3. And I have shortened some of the cross examination.

Under tab 3 there is exhibit A-3. It is page 3 of the evidence of Lori Clarke. And in particular I'm referring to table 1 (b) which appears near the top of the page.

Q.1266 - And before the break we were talking about billing determinants. And perhaps, Mr. Larlee, starting off quickly, I see a capacity charge of 2525 megawatt as at

$105,000 per megawatt per year for $254,600,000, correct?
MR. LARLEE: Yes. That is correct.
Q.1267 - And if I just show the connection between that and the classification. On schedule 5.1, if I look at line 22, that shows up as $254 million as Genco firm demand, is that correct?
MR. LARLEE: Yes. That is correct.
Q.1268 - And that is classified 100 percent to demand, correct?
MR. LARLEE: Correct.
Q.1269 - And on the next line of Mrs. Clarke's exhibit on the table, we have got the energy charge which is 10,000,000 and change megawatt-hours at $44.96 for a total of $460 million, is that correct, Mr. Larlee?
MR. LARLEE: Yes. That is correct.
Q.1270 - Right. And if I go over and look at schedule 5.1 that does show up. But from my observation it shows up in two places.
The first one is in the Genco, a firm energy of $387 million?
MR. LARLEE: Correct.
Q.1271 - And that would be on line 23. And then it also shows up, I'm assuming, and you can confirm this, as Genco contribution to fixed costs of $73 million on line 24,

correct?

MR. LARLEE: Yes. That is correct.

Q.1272 - Right. Now I was trying to figure out where that $73 million came from. And I do have one page of the Genco PPA agreement in the booklet. It is page 46. And under paragraph 6.2.6 it says the contribution to fixed --

CHAIRMAN: You are looking at the last page under tab 3, is that correct?

MR. HYSLOP: That would be correct. I believe it is the last page.

CHAIRMAN: Refer on the page to the paragraph.

Q.1273 - Okay. I'm looking at paragraph 6.2.6 which is the last one before "Third party gross margin credit." It says the contribution to fixed costs will be $7 for the fiscal year ending March 31st 2005.

MR. LARLEE: Yes. I see that.

Q.1274 - Right. And I'm not going to spend a lot of time. But it was a lot of fun to wonder why that fixed credit -- or contribution to fixed cost wasn't just $7.
But I assume that was $7 per megawatt-hour. Am I correct, Mr. Larlee?

MR. LARLEE: Yes. That is correct.

Q.1275 - Right. Okay. Maybe we should ask for a refund. I don't know.

But regardless that is the basis of the $73 million that shows up on line 24 of schedule 5.1?
MR. LARLEE: Yes, it is.
Q.1276 - Right. Now if I take the firm demand charge you have allocated that 100 percent to demand, zero percent to energy?
MR. LARLEE: Yes. I have classified it as --
Q.1277 - Yes, classified. And the Genco firm energy charge has been classified zero percent to demand and 100 percent to energy?
MR. LARLEE: That is correct.
MR. KETCHUM: Everybody looking at --
Q.1278 - I'm looking at schedule 5.1 at the bottom at line 23. And on the contribution to fixed costs I would have expected that to show zero percent, 100 percent. But I see that it is 40 percent, 60 percent for its classification, Mr. Larlee?
MR. LARLEE: Yes. That is correct.
Q.1279 - And again is that in any way related to the -- I assume that 40 percent, 60 percent was due to application of the Board's previous decision in 1992?
MR. LARLEE: That is correct. And it is a recognition of the fact that these are fixed costs, for whatever reason are priced on a per energy basis in the PPA.

Again it didn't make sense to classify them as 100 percent energy, knowing that they were full fixed cost. Similar logic as we applied to the Nuclearco PPA. And so therefore we classified them based on the Board-approved method.
Q.1280 - So even within this one particular agreement, the Genco agreement, sometimes you used the billing determinants and sometimes you used the methodology that was used by the Board in 1993?
MR. LARLEE: Yes.
Q.1281 - Thank you. The last line of questioning in this area -- and I will try to go slow. But I'm trying to put myself in the boots of -- perhaps Mr. Marois should still be here.
But on October 1st 2004 we have a new distribution company. And the new distribution company has customers, Mr. Larlee?
MR. LARLEE: Yes.
Q.1282 - Yes. The customers that the old NB Power had on September 30th, correct?
MR. LARLEE: Yes, in-province customers, correct.
Q.1283 - And if you are going to meet the demands of your customers you got to go out and find some electricity, correct?

MR. LARLEE: That is correct. Yes.

Q.1284 - Right. And what you did is you went to the two new companies that formed PPA's. But let's suppose as part of this big reorganization each and every generation unit had been sold off independently and they were all independently-owned, just for purposes of my hypothetical. Will you do that? Just assume this hypothetical.

MR. LARLEE: I can try. Yes.

Q.1285 - Okay. So you have got to go out and buy electricity from probably 10 or 12 different people in order to satisfy your clients.

So you would go out and negotiate contracts to purchase electricity from a one on one basis, correct?

MR. LARLEE: Perhaps Mr. Ketchum can come in here. I'm not really that familiar with how these things transpire.

MR. KETCHUM: That is sort of, you know, a brief explanation of the process of soliciting bids for power.

Q.1286 - Yes. Okay. So you go out and look for bids for power and negotiate.

And let's suppose as a result of these negotiations you have entered into contracts with these 10 or 12 people based on the fixed variable charges of them selling electricity to you.

Can we assume that, Mr. Ketchum?

MR. KETCHUM: Certainly.

Q.1287 - Right. And you would have these contracts on a system basis, all these independent people, on this assumption.

Would that look a whole lot different than NB Power looked in 1992, 1993 at the end of the day under the purchase -- under those hypothetical Purchase Power Agreements?

MR. KETCHUM: Yes, it certainly would.

Q.1288 - Well, if each of these plants used the same fixed variable type of proportions that they had in 1992 or had at the time you did the revision, in terms of the system, and you paid out the same capacity charges to them as you would have under the same system, wouldn't you come up with much the same results, sir, that you would have had you used the peaker system to an entire integrated utility?

MR. KETCHUM: That is a pretty big hypothetical stretch, if you are talking about soliciting bids. You know, again it wouldn't necessarily be from these plants. The market conditions would dictate, you know, what people bid the power in for.

Typically those contracts are for short periods of time. They might be specific to particular -- serving the needs of particular classes and that sort of thing.

So like I said, it certainly would be a very different situation. And that is the kind of thing that I was referring to.

Q.1289 - Okay. So in a different situation it is because of the nature of the negotiations on a plant-by-plant basis.

But just maybe come at it another way. You are in charge of procuring sufficient electricity to meet the demands of your customers. You need so much capacity, correct?

MR. KETCHUM: That is correct. Yes.

Q.1290 - And you need so much energy, correct?

MR. KETCHUM: Yes.

Q.1291 - You would need so much peaking electricity and a certain amount of base load, correct?

MR. KETCHUM: Again we are assuming some more underlying hypothetical sorts of things.

Q.1292 - I agree this is hypothetical.

MR. KETCHUM: Okay. I mean, if you sort of wanted to go out and replicate the kinds of needs that you had, maybe they would be provided by different suppliers using a different kind of resources, but still supplying the kinds of things that you have. But it may not be and probably wouldn't be utilizing the same resources.

After all these are vintage resources, you know. And if we are looking at the market there are changed technologies and that sort of thing, different situations with fuel. And a whole host of things have changed since '92.

So I think I understand where you are going. But you know, there is a lot of underlying hypothetical kind of assumptions here that we would all have to agree to before we could try to say that we would put the system back together on a competitive current basis the same way the resource mix is, you know, for the heritage facilities.

Q.1293 - Well, I guess what you are telling me is if you started at day one from scratch you might have a little different mix than you would -- that you were left with by the heritage assets on October 1st?

MR. KETCHUM: Yes. And probably more than a little.

Q.1294 - So just to back up, you know, we have heard NB Power say that, you know, what they have to do and always on an ongoing basis. It is an integrated unit.

They have to back up and they have to plan for their future capacity based on the demands that are out there and what they might need at a certain point of time, correct?

MR. KETCHUM: Yes, certainly.

Q.1295 - Yes. And on October 1st with this new plan, you know, you would either have somebody planning capacity or you have somebody at Disco on October 1st whose main job would be to ensure a supply.

So instead of building capacity and building for energy, he is purchasing capacity and purchasing energy. Would that be right, Mr. Ketchum?

MR. KETCHUM: I guess I can say yes, generally.

Q.1296 - Okay. Thanks very much.

MR. HYSLOP: This may simplify it again, Mr. Chair.

CHAIRMAN: Sure.

MR. HYSLOP: I'm just going to move on and look at the distribution costs. And the exhibits where I do refer to them will be under tab 5.

Q.1297 - Now just again to put in perspective, the starting point again was the CARD decision for your consideration of distribution costs, Mr. Larlee?

MR. LARLEE: Yes. I think that is --

Q.1298 - And from reading the report -- and I'm not going to take you through it -- but they approved a 50/50 split of distribution operating costs. But it was subject to a review being made, correct?

MR. KETCHUM: Could we get a reference for the 50/50 piece?

We know what the historical pieces were for the individual components.

Q.1299 - My reference would be on page 14 of the CARD decision, Mr. Ketchum, third paragraph.

MR. KETCHUM: all right. Thank you.

Q.1300 - Yes. And I think it may have been some reference in there to just O & M. But I think it was to all the operating costs.

And this is this 50/50 thing I wanted to have confirmed.

MR. KETCHUM: Yes. Go ahead. There were specific kind of, you know, functionalization and classifications for the various components of the distribution system as well.

MR. LARLEE: But I believe the 50/50 --

Q.1301 - I will go on. The point I'm asking is --

MR. LARLEE: For clarification I believe the 50/50 referred to O & M cost.

Q.1302 - And just to make my point, looking at the last paragraph on page 14 and the last sentence, it said "The Board accepts NB Power's classification of distribution costs pending a review and encourages NB Power to acquire more complete data for use in future and a cost of service studies."

So that was your starting point, Mr. Larlee?

MR. LARLEE: Correct. And that is what -- I believe that is what we did.
Q.1303 - And just to review, Mr. Ketchum, as part of your Reed study, you address some comments to distribution costs under section B (i) of that study?
MR. KETCHUM: That is correct.
Q.1304 - Now in the previous evidence it appears common I expect between the various cost allocation experts that, particularly in the area of distribution costs, there has to be a certain element of judgment applied?
MR. KETCHUM: Yes. I would agree with that, yes.
Q.1305 - Yes. And you know, just to paint the big picture, distribution costs have a demand component?
MR. KETCHUM: I would agree with that.
Q.1306 - And that is quite commonly accepted?
MR. KETCHUM: Yes.
Q.1307 - Yes. And in some jurisdictions at least distribution costs are also deemed to have a customer component?
MR. KETCHUM: That is correct.
Q.1308 - Right. And by customer we mean that the costs vary with the number of customers?
MR. KETCHUM: Correct.
Q.1309 - It is customer-related, I think is the phrase you people like to use?

MR. KETCHUM: That is right.

Q.1310 - Okay. And the more customers you have then the more costs that you allocate or are borne because of the increase in the number of customers, correct?

MR. KETCHUM: Yes. The theory is that there are elements of the distribution system that, you know, are required to connect all of the customers. And the more customers you have the more distribution system you have to have in order to serve. So they are directly related.

Q.1311 - Yes. That is right. And part of the problem though is being able to really zero in on how much is demand and how much is customers. It is one of those gray areas that requires the judgment?

MR. KETCHUM: Well, yes. And I'm sure you are going to get there. But there are various methodologies that are generally accepted that get us to that point.

Q.1312 - You have read my notes again.

Now just so we are clear on impacts, the distribution costs and the demand and customer components, I'm not -- there is no impact on the large industrial or wholesale customers because they are served at transmission voltages?

MR. LARLEE: Yes. That is correct.

Q.1313 - Okay. So know where we are coming from. And the

higher the allocation of costs to the customer component the more it gets allocated to the residential customers, particularly nonelectric heating residential customers.
Is that correct, Mr. Larlee?

MR. LARLEE: Yes. That is a direct result of the fact that there are so many residential customers. And they are small relative to the other distribution customers, the general service and the small industrial customers.
There are close to 300,000 residential customers out of a total of 330' or so thousand customers. Obviously the more cost that we allocate to the customer component then it tends to -- those costs tend to flow to the residential rate class.

Q.1314 - So if we went from a 50/50 classification of distribution costs to a 60 percent customer, 40 percent demand classification, we would be moving costs away from say general service customers and towards smaller residential customers.
That would be the results, Mr. Larlee?

MR. LARLEE: Yes.

Q.1315 - And one of the results of moving costs to be more customer-related, this would provide a cost basis for Disco to increase the customer charge to residential customers, would it not, Mr. Larlee?

MR. LARLEE: Now you are moving into the area of rate design. If you stay focused on cost allocation study, what we are trying to do is just simply reflect the cause causation.

How you interpret the actual customer cost, that is part of the rate design process.

Q.1316 - Okay. I appreciate it is part of the rate design. But it is pretty basic.

If there is higher customer charges it would stand to reason then you would be able to increase the residential charge for the customer or the customer charge for each customer, correct? It stands to reason?

MR. LARLEE: Well, I mean, one of the inputs you are going to use when we are looking at the potential increases to the monthly service charge is look at what is the customer cost coming out of the cost allocation study. But it is not the only -- it is not the only factor.

Q.1317 - Right. And so the answer is yes to my question?

MR. LARLEE: I don't think I can answer. I have to qualify. It is one of the factors. Yes, it is one of the factors that you look at when you are looking at changes to the monthly service charge.

Q.1318 - And assuming the monthly service charge goes up, this would tend also to result in a reduction to Disco's revenue volatility, wouldn't it, Mr. Larlee?

MR. LARLEE: Well, in that it is not related to whether consumption in the class goes up or down. Related to weather, that is true, that it tends to -- it is a more stable --

Q.1319 - Thank you.

MR. LARLEE: -- pricing mechanism.

Q.1320 - Now I want to refer you to exhibit P-3, PUB PI IR PUB (PI) 7(d). And that is in the booklet. About the 12th page in.

Q.1321 - Do you have it, Mr. Ketchum?

MR. MORRISON: Can we get the reference again? I don't which tab it is under.

MR. HYSLOP: It's under tab 5, Mr. Morrison. It's about the 12th page in.

CHAIRMAN: And the IR number again is?

MR. HYSLOP: It's IR PUB (PI) IR-1 to 7 to Energy Advisors. And I believe it's the 7th IR. And it's section D of that IR. It's page 14. And it would be at the bottom.

Q.1322 - Now this IR refers to something called the Basic Customer method, you would be familiar with that, Mr. Ketchum?

MR. KETCHUM: Yes.

Q.1323 - It's a methodology that classifies all poles and wires as demand related, considers only meter, meter reading and billing as customer-related. Would that be a correct statement of how the Basic Customer method works?

MR. KETCHUM: Well, it's applied slightly differently in various jurisdictions, but essentially that's, you know, a fair characterization.

Q.1324 - Right. And the -- as I understand this methodology, this would tend to be a methodology that would be most favourable to residential customers?

A. This would tend to shift costs more to the demand component as opposed to the customer component. Obviously, this is one way of doing things. We don't agree that it's the appropriate way. But nevertheless the result would be as you suggest.

Q.1325 - Yes. And we are not even suggesting the use of this one, Mr. Ketchum, if you read our evidence.

MR. KETCHUM: No.

Q.1326 - But what I did find unusual in this particular response, and I am looking at the bottom of the page under D where we put a question to the Energy Advisors, and we ask them to identify the U.S. jurisdictions where this basic customer method is used. And in the reply they indicated that this approach appears to be used at the present time in 30 states in the United States. And my

question on this, would you accept that as being an accurate statement?
MR. KETCHUM: No.
Q.1327 - No?
MR. KETCHUM: I think I would have to verify that. But in my experience, I don't think -- it sounds like a high number of states where it's --
Q.1328 - But you don't have any specific reason?
A. I don't have any -- you know, I can't really -- I haven't reviewed the study and I haven't reviewed the survey behind the study. I suspect that I have suspicions about the results.
Q.1329 - Fair enough.
MR. KETCHUM: Yes.
Q.1330 - And I am sure your counsel may want to take that up later. I don't know with other parties. But anyhow my understanding is that you have not selected this basic -- or this Basic Customer method for your methodology for part of this cost allocation study?
MR. KETCHUM: No, Mr. Larlee has not utilized that method. Nor have -- as you have pointed out -- the other experts in this proceeding.
Q.1331 - Thank you. Now there is another methodology that is sometimes used and that is the Minimum Size method. Are

you familiar with that, Mr. Ketchum?
MR. KETCHUM: Yes.
Q.1332 - And is that the methodology you used for purposes of -- Mr. Larlee used for purposes of his cost allocation study?
MR. KETCHUM: He used that for one component, the Minimum Size was used for the poles component of the distribution system and Zero-Intercept was used for transformers and then other direct methods were used for the other account levels.
Q.1333 - Do I understand it was used for conductors as well, the Minimum Size method?
MR. KETCHUM: Yes.
Q.1334 - Yes. But this system I suggest has been criticized by some experts for overstating the customer component of plant distribution costs?
MR. KETCHUM: It has indeed, but there is a counter argument that there is a very heavy labour component in the building of distribution systems. And that means that, you know, probably looking at a minimum pole or a minimum conductor size may be a good indication of the least of amount of money that one would have to spend to hook up a particular customer to the system.
Q.1335 - And then that's the counter argument that's given to

it, but we don't have a complete and full analysis as to the evidence that would either prove or disprove either your position or my position on this, is that correct, Mr. Larlee or Mr. Ketchum? Using judgment --

MR. KETCHUM: Yes, there has to be judgment, as we said before, involved in this kind of work like --

Q.1336 - And as I also understand some experts and not all, but many experts take the view that sometimes because of the demand portion being part of the customer costs, there is often an adjustment at the end to reflect some of these demand costs that may be included in the customer side? That often occurs?

MR. KETCHUM: Yes. Some analysts will do that, you know, because there is within the Minimum Size some capacity obviously to satisfy demands.

Q.1337 - Now I want to move on if I could and perhaps just to have some view of this and how it affects. I do have a table I would like to put into evidence and have some of your comments on it, if I could, Mr. Ketchum?

MR. KETCHUM: Certainly.

CHAIRMAN: That will be <u>PI-7</u>.

Q.1338 - Mr. Ketchum, you have the exhibit PI-7 in front of you?

MR. KETCHUM: Yes, I do.

Q.1339 - And what I am trying to get at here is there is another system that is called the Zero-Intercept method that is sometimes used by cost allocation experts?
MR. KETCHUM: That's correct.
Q.1340 - Right. And the minimum or the Zero-Intercept method is a methodology that goes and takes a line that is established by costs at various points. And it says what would be the costs be at the Y intercept, is that correct?
MR. KETCHUM: Yes. We are regressing the costs against capacity. And at zero capacity then the theory would be that that would be customer-related, there is no demand component.
Q.1341 - So in this hypothetical -- and I think we have used the hypothetical of conductors and I point out for the record, this is completely hypothetical. It is not based on any of the evidence. But for example, for the smallest conductor, which wold be a 5 kVA capacity conductor, the cost of that per meter would be $2.80. And under the minimum system methodology, am I correct that you would just move the line across to the Y axis and that $2.80 would be the declining point between customer and demand capacity?
MR. KETCHUM: Yes, that is correct in the hypothetical.
Q.1342 - Yes. And if we were to use what is used in some

jurisdictions, the basic customer method, the cost would be at 0?
MR. KETCHUM: I wouldn't say that for meters. For some other components.
Q.1343 - Yes. Okay. But using a basic customer method generally, that would move you down to 0? Perhaps if we used conductors, poles and transformers?
MR. KETCHUM: I think with the basic customer method the meter would be 100 percent customer so -- but other components would be 0, yes.
Q.1344 - Yes, okay. And what we proposed in Mr. Knecht's evidence is Zero-intercept and this is only for illustration purposes. But the Zero-intercept method appears to fall somewhere between the minimum system and the basic customer system. Would that generally be the case, Mr. Ketchum?
MR. KETCHUM: Yes. I think I misinterpreted -- I should look at the top and it does say conductors on the top and I guess this is per customer or per meter so it is not regressing meters, it is regressing conductors.
Q.1345 - But my basic point is is amongst the different methodologies, the one that seems to come most in the middle would be the Zero-intercept method.
MR. KETCHUM: In this hypothetical but you know, that

depends a great deal on the data and oftentimes of course, as your expert will acknowledge, depending on the slope of the line, the intercept could be below -- below 0 and can give you some pretty screwy results.

Q.1346 - Yes, I understand that from reading the literature. I want, if I could, to just refer you on to the evidence that was a part of the evidence of your evidence in this matter where you looked at -- and I'm looking at page 11, Mr. Ketchum, of your evidence?

MR. KETCHUM: Yes, I have that.

Q.1347 - Right. And this is just the last line of questioning and I appreciate it is an issue of judgment but --

CHAIRMAN: Sorry, Mr. Hyslop. Where are we now?

MR. HYSLOP: I believe it is the last -- it is under tab 5, Mr. Chair, and I believe it might be the last page in the tab.

CHAIRMAN: Okay.

MR. HYSLOP: No, I'm sorry, it's not. Page 11 Mr. Ketchum's evidence. I will give you the exhibit because maybe we missed it. It would be in A-3 under the evidence of Mr. Ketchum.

MR. MORRISON: It is 11 pages in under the tab 5 in that binder.

MR. HYSLOP: Thank you, Mr. Morrison.

Q.1348 - You have the tab and in particular looking at tab 2 I just want to go through some of the historical and recommended decisions and how they impact.
CHAIRMAN: Table 2?
MR. HYSLOP: Yes.
Q.1349 - Okay. And these are your -- you are confirming Mr. Larlee's decisions on these points, Mr. Ketchum?
MR. KETCHUM: That's correct.
Q.1350 - Right. And if I look at poles and fixtures, historically they were allocated or classified 50 percent demand, 50 percent customer and you are recommending that it be switched to 40/60, correct?
MR. KETCHUM: Yes, that -- again, I am confirming that the results that Mr. Larlee and his team did to produce that result are reasonable.
Q.1351 - Yes. And I appreciate it is your view that they are reasonable and -- but my point is -- and the only point I want to make is this reclassification has -- would adversely affect the residential class. Is that correct?
MR. KETCHUM: That particular change could again, if I could just jump ahead in that testimony, after all was said and done we did look at the impact of the change that was done by Mr. Larlee on page 14 of my direct evidence. And the overall change to the residential revenue to cost ratio

was only in the third decimal place for all practical purposes, the residential revenue to cost ratio remained the same.

Q.1352 - I'm not asking how significant it was but it did adversely or would adversely affect the residential class?

MR. KETCHUM: That one particular piece of the allocator there or the classification between demand and customer would tend to put more cost onto the customer allocator and since as Mr. Larlee said, there are a lot more residential customers than other customers, that would tend to, in this case very very slightly, increase the cost being allocated to the residential class relatively speaking.

Q.1353 - Sure. And just to lump it together, there is four of these that have been affected historically and recommended and those poles and fixtures, conductors and accessories and then transformers, there is three. In each of those three categories of fixed plant distribution costs, your change in allocation would vary insignificantly according to your evidence, would adversely impact against the residential class. Is that correct, Mr. Ketchum?

MR. KETCHUM: That is correct. Again, I found that to be reasonable and I didn't conduct the study.

MR. HYSLOP: That is correct. Just check my notes. Mr.

Chairman, that completes my cross examination of this panel.

I would like to thank both Mr. Ketchum and Mr. Larlee for their cooperation and assistance throughout. Thank you.

MR. KETCHUM: Thank you, Mr. Hyslop.

CHAIRMAN: Thank you, Mr. Hyslop. My memory is that Mr. MacNutt, you would be the last to examine this panel.

MR. MACNUTT: That is my understanding, Mr. Chairman.

CHAIRMAN: Okay. Would you like to start now?

MR. MACNUTT: I would prefer to take -- start lunch now and perhaps come back earlier because we may be able to reduce the number of questions.

CHAIRMAN: Well you know that is the way to tease me if anybody says they are going to reduce the number, why we will do it. We will break now but we will come back at 1:00.

(Recess - 11:30 a.m. - 1:00 p.m.)

CHAIRMAN: Let the record show that the fog has lifted and Rogers is represented this afternoon. Any preliminary matters?

MR. MORRISON: Yes, Mr. Chairman. I think we can complete the record on the undertakings with the exception of that one number 4 from day 2 and which is the StatsCan thing. But we have responses to all the others. Copies have been given to the Secretary. And we can just proceed in the normal fashion.

The first one is undertaking number 1 from October 4th. It was a question from the Chairman to Mr. Marois. And it had to do with restoring the block size to 900 kilowatt-hours and doing another calculation. So that response is being distributed.

CHAIRMAN: This is undertaking number 1. And it will be A-36.

MR. MORRISON: The next undertaking response is undertaking number 4 from October 4th, a question from the Chairman to Mr. Larlee regarding the anticipated number of interruptible and surplus customers for '06, '07.

CHAIRMAN: A-37.

MR. MORRISON: And finally, Mr. Chairman -- finally the response to undertaking number 5 on October 4th, a question from Commissioner Sollows to Mr. Larlee. And that deals with the sample design report.

CHAIRMAN: It is A-38.

MR. MORRISON: So that satisfies all of the undertakings save for one. And we are checking the progress on that daily.

MR. SOLLOWS: Just for clarification, I'm looking at this A-38, and I see it is a report dated July 1993. Am I to infer from that that none of the calculations have been updated for this hearing?

MR. LARLEE: The original load research sample was done at that time. And that report reflects that particular sample. The sample has been updated since then.

MR. SOLLOWS: So no new calculations have been done and a report generated to support them? Or you simply plugged the numbers into the presentation here? I see there are computer code outputs and all sorts of things here. Is that from 1993 or from 2005?

MR. LARLEE: Those are all the detailed calculations from 1993.

MR. SOLLOWS: So where are your calculations from 2005, 2004?

MR. LARLEE: We have those calculations. But I don't believe that we have produced the formal report. But we do have calculations that would support the refreshed sample.

MR. SOLLOWS: So you have the equivalent computer program runs and things like that?

MR. LARLEE: I believe so, yes.

MR. SOLLOWS: If you could file those?

MR. LARLEE: Yes.

MR. SOLLOWS: Thank you.

CHAIRMAN: Kind of discouraging, isn't it, Mr. Morrison. You get two off and another is added.

MR. MORRISON: It comes with the territory, Mr. Chairman.

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

CROSS EXAMINATION BY MR. MACNUTT:

MR. MACNUTT: Thank you, Mr. Chairman. Good afternoon, Mr. Chairman and Commissioners and Panel. Now I'm going to -- the first question is comprised of nine -- reference to a particular document. And there are nine questions concerning it. I'm going to read a little preamble which will make sense of the document we are ultimately going to go to.

And Mr. Larlee in his direct evidence in exhibit A-3 at page 1 identifies the 2005 and '06 class cost allocation study relied upon by Disco and states that it is attached to his evidence as appendix 1 which is the tab marked appendix 1.

In appendix 1 under the heading classification net plant assets the statement is made that schedule 3.1 details the classification and some functionalization (primary and secondary systems) of net distribution assets. Schedule 3.1 is a table entitled net plant asset classification by function, Fiscal Year 2005-2006 budget.

In PUB IR 2 in exhibit A-12 Disco was asked to provide the data upon which each of the allocation factors shown in column 1 of schedule 3.1 are based for primary and secondary.

The response referred to and attached, a report entitled "Class Cost Allocation Study Review Of Distribution Allocations" dated December 2004.

It is that last document that I wished the Panel to turn up. And that is found in the response to PUB IR 2 in exhibit A-12.

CHAIRMAN: Okay. A-12. And what is the IR?

MR. MACNUTT: PUB IR 2.

Q.1354 - Now there is nothing on the face of that report to show who prepared the report, who prepared it?

MR. LARLEE: The report was prepared under my direction.

Q.1355 - On page 4 of the report in the first line of the last paragraph the statement is made that "The derived factors in the two preceding tables are largely consistent with the historical values." Can we assume that this is because the basic methodology is the same?

MR. LARLEE: You are referring to the methodology used to develop the historical factors versus the methodology used to develop the new factors? Is that what you are referring to?

Q.1356 - Well, yes. Was the methodology used to develop the new factors the same as the basis on which the historical data was developed?

MR. LARLEE: I'm not completely familiar with the methodology used to develop each of these factors, in the historical numbers. But those are the factors that were used in the CARD proceeding in 1992.

Q.1357 - Okay. Now on page 5 of the report under the heading "Poles and Fixtures" it states that there are 362,089 NB Power-owned poles in the distribution system, and then deals with the cost of them. Are all these poles presently owned by Disco?

MR. LARLEE: Yes. These are accounting record numbers. So these are numbers that would be owned by Disco.

Q.1358 - Are all these poles supporting electricity lines operating at less than 69 kV?

MR. LARLEE: Yes.

Q.1359 - Please explain how the estimate of $147,436,000 in 1992 dollars was derived and why it uses 1992 dollars?

MR. LARLEE: The number is adjusted and to constant dollars using the CPI. And 1992 was chosen just simply to put it on a common basis, put all the dollars on a common basis.

Q.1360 - The minimum cost of a pole and fixtures is estimated to be $247.98, how is that figure derived? And it is found in that first paragraph under "Pole and Fixtures."

MR. LARLEE: In the second paragraph under "Poles and Fixtures", in that same section, we talk about the fact that we used the minimum system approach. And in that approach you use the smallest size that you can practically build to service a customer. So that $247.98 would represent the cost adjusted to 1992 dollars to construct the smallest size pole and the equipment required.

Q.1361 - Thank you. Now would you please explain why it is assumed that the minimum cost of poles does not change for rural versus urban installations?

MR. LARLEE: Well, regardless of where a pole would be located, the cost wouldn't change based on simply its ruralness or its urbanness.

What affects the cost of installing a pole primarily is the hardness of the ground. If you try to plant a pole in solid rock it is much more costly than in sand. And particularly in New Brunswick we have both characteristics. So it is not a question of urban and rural. It is more a question of other factors. And this would represent an average cost of that installation.

Q.1362 - Now does Disco track these rural and urban costs? Or does it have any data to support this assertion?

MR. LARLEE: We don't track our costs on the basis of urban and rural.

Q.1363 - Yes. Now still on page 5 under the heading "Poles and Fixtures" in the second paragraph is stated that the cost of the distribution poles and fixtures is approximately 60 percent to customer-related costs and approximately 40 percent to demand costs. Is that not correct?

MR. LARLEE: Yes.

Q.1364 - What is your definition of customer as used in that question?

MR. LARLEE: Well, again it is following the minimum system approach. So that the minimum system costs are considered to be customer-related. In other words, those are the costs incurred just solely because the customer is there regardless of how much they consume or what demand they place on the system.

Q.1365 - Now you would agree with me that where every customer had a constant demand year-round, that the cost allocation would be 100 percent to the customer?

MR. KETCHUM: No.

MR. LARLEE: No. And I wouldn't agree with that either.

Q.1366 - And would that be due to a fixed charge or a surcharge on energy?

MR. KETCHUM: No.

Q.1367 - Would the allocation of 40 percent of the cost of distribution poles and attachments to demand be split in the same proportion as energy in the case of constant demand?

MR. KETCHUM: In other words if all customers had a 100 percent load factor?

Q.1368 - Yes.

MR. KETCHUM: Then the customers' contribution to demand and contribution to energy would be the same as -- that obviously is not something that is the case. I mean -- but hypothetically, yes.

Q.1369 - Now looking at the other extreme, where a customer consumed all of its annual energy in the shortest possible period, you would agree that such customer would place a much greater demand on the distribution system?

MR. KETCHUM: Well, there is -- yes, I guess you could say that if it was -- you would have to just look at the very local, most local facility that you are talking about, if you are talking about a single customer.

I mean, it is the greatest demand on his service drop and meter. If his -- would be measured at his peak demand. If you want to talk about that hypothetical as well.

And obviously there is a lot of diversity among customers. And the individual peaks of all the customers wouldn't occur at the same time. So that is why we use different measures of demand.

Q.1370 - Now would you agree that a variance in consumption patterns could affect such things as wire size and other like matters that are necessary to supply a customer's demand?

MR. LARLEE: The size of the wire -- let's use that as an example. The size of the wire to service a customer is related to their demand. It is really -- it is only related to their consumption pattern inasmuch as their consumption pattern is related to demand. But it is really a demand requirement.

The wire has to be sized such that it doesn't melt when the customer uses their maximum amount.

Q.1371 - Thank you. Now the cost of some items like poles would not be affected by the demand pattern, is that not correct?

MR. KETCHUM: Well, obviously there are different sized poles depending on, you know, voltage levels and the kinds of equipment and the spans and all of that sort of thing. But there wouldn't be the same kind of direct one-to-one correspondence with respect to customer demands and size of pole. But that is all part of the system that needs to be built.

And what we are trying to do here is simply decide how much of that is -- of the whole distribution system is customer-related and what part is demand-related.

And it is, you know, a process that certain methods have been applied to, in this case a minimum system method.

That is one of the accepted methods in the NARUC manual that we have referred to and we discussed this morning.

So it is a way of deciding how much is customer-related and how much is demand-related.

And it really should be looked at I think in terms of the distribution system as a whole. And we looked at these components because if we have accounting records then we can do things like regression analyses or look at the smallest size and apply some of these methodologies we have been talking about.

Q.1372 - Thank you. Now the result would be that there should be a requirement for a minimum number of poles, is that not correct?

MR. KETCHUM: Maybe -- I'm not quite sure I understand what your question is.

Q.1373 - In defining a minimum system should there not be a requirement to set a minimum number of poles?

MR. KETCHUM: Well, probably there is, you know, again some minimum span. So there would be some number of poles that would be required depending on again the density of the customers, the population and the carrying capability of the various types of poles and that sort of thing.
So there would be some obviously engineering considerations about, you know, what the fewest number of poles you could get away with I suppose for any number of customers.

Q.1374 - So assuming that there is a requirement that there be a minimum number of poles then you could multiply the minimum number of poles by their average cost and charge that amount to the customer and allocate the balance of the cost to poles and fixtures to demand, is that not correct?

MR. KETCHUM: I mean, I guess we could agree generally with your proposition and your hypothetical but form an engineering standpoint, depending on voltages and kinds of poles that are erected, that the number would vary.
So, you know, there would be some engineering considerations underlying -- I mean, obviously bigger and stronger poles can support larger spans so maybe at higher voltages or more demand you might actually have less poles.

So there is a lot of things underlying the hypothetical but in a general sense I guess we could agree with you hypothetical.
Q.1375 - Thank you. Now on page 5 of your report under the heading "Conductors and Accessories", there is stated that the NB Power annual report of 2003/2004 identified that there were 12,305 miles of distribution pole line miles. Also that the total cost of conductors in 1992 dollars was estimated at $119,611,000. And the minimum cost of conductors was estimated at 54 cents per foot in 1992 dollars.
Now with the figure of 12,305 pole line miles derived from the number on page 49 of that annual report, was the number converted from kilometers to miles?
MR. LARLEE: I don't know. If I had a copy of the annual report, I could do a calculation.
Q.1376 - Well just so we can go on with the question, would you accept subject to check that the NB Power annual report -- excuse me -- yes, subject to check, would you accept that figure?
MR. LARLEE: Yes.
Q.1377 - Now would you accept, subject to check, that the NB Power annual report for 1992/1993 shows 15,926 miles of distribution lines?

MR. LARLEE: I would subject to check.

Q.1378 - Yes. Because my question arising out of those two sets of numbers is what explanation can you provide with respect to the difference in the number of miles of distribution lines just described i.e. between the two annual reports. Why would they have gone down? Perhaps this could best be -- in view of the fact that in fairness to you, you should have a chance to check the --

MR. MORRISON: I understand that we will have access to the explanation and it will only take a few minutes.

MR. LARLEE: So I will undertake to get that answer for you.

Q.1379 - Excuse me, I didn't hear you.

MR. LARLEE: I will undertake to get the response to that last question for you. I will undertake to do that.

Q.1380 - Thank you. Now going to go on in reference that on page 4 of the cost allocation report we have been looking at contains an executive summary. In that summary historical allocation factors are provided. Are those historical allocation factors based on 15,926 miles of distribution lines shown in the NB Power annual report for 1992/1993 or the 12,305 miles of distribution lines derived from page 49 of the NB Power annual report of 2003/2004?

MR. LARLEE: As I mentioned earlier, those historical factors in table 1 on page 4 are the factors that were used in the CARD proceeding and I'm not familiar with the precise derivation of those factors. Those are the ones used in the CARD proceeding from 1992.

Q.1381 - Would you please undertake to determine the source of the -- undertake to determine which number of miles was used in the report?

MR. LARLEE: We can look in our files and see if we can determine the derivation of those -- that allegation and if we can we will provide you with that information.

Q.1382 - Thank you. Now coming back to page 5 of the cost allocation report, the estimate for the total cost of conductors in 1992 dollars was $119,611,000. How was that estimate arrived at?

MR. LARLEE: In the same manner that we would have done the poles and fixtures. It was -- the values were all adjusted to 1992 dollars using CPI -- CPI de-escalators.

MR. SOLLOWS: Can I just ask you a question? I am having a hard time understanding -- just clarify -- why did you have to go back to 1992 dollars as opposed to coming forward to 2004/2005? I assume that there were asset additions and retirements in between and you are trying -- is that the reason that you are taking it to a constant base back then?

MR. LARLEE: Yes, that is correct. I don't believe it was -- there was any particular reason other than just to get it to constant dollars.

MR. SOLLOWS: Right. Okay. I see.

MR. LARLEE: There is no reason to choose '92 over any other year.

MR. SOLLOWS: And it is just because the original report used '92 dollars, it was easier taking your -- your yearly data back than bringing it all forward and making it current.

MR. LARLEE: I am not sure it is related to the original -- to the 1992 report or the CARD hearing. It is more the data we had available went back to '92, so we started there and brought all the dollars back to '92. We could have just as easily moved it all forward to 2004.

MR. SOLLOWS: Often easier for us to think in current dollars than it is historical.

MR. LARLEE: Yes, perhaps.

MR. SOLLOWS: I guess the question I have is arises from something we saw earlier today, when updating your book values on various power plants you used an adjustment that was a construction cost index. There was some sort of a construction cost index that was used. And I am wondering why you wouldn't use a construction cost index rather than a CPI to do this?

MR. LARLEE: We used the construction cost index to update the peaker credit analysis to be consistent with the Reed report methodology. I don't believe the construction cost -- there is a construction cost index produced by StatsCan any longer that we could have used for these numbers. So we just used CPI.

MR. SOLLOWS: But you couldn't use one of the more commercial construction cost indices that are out there? I am just concerned that of course, your costs really don't seem to be driven by the price of groceries or whatever else is in the CPI. And there might be a better index to use to shift the values.

MR. LARLEE: In the past we have used StatsCan indices and with them no longer available we felt that CPI was the next best option.

MR. SOLLOWS: Okay. Thank you.

MR. KETCHUM: The other index, Commissioner, is the Handy-Whitman index it is called and I think as Mr. Larlee says, this was done to be consistent with past practice with respect to these kind of costs.

And I guess there are no longer, you know, specific construction costs in the StatsCan indices.

Q.1383 - Just coming back to the last question I asked. And that was the -- how you arrived at the estimate of $119,611,000 for the total cost of conductors. Can you tell me if that was taken from the accounting records?

MR. LARLEE: Yes, it was.

Q.1384 - In the same paragraph, page 5, the minimum cost of conductors was estimated at 54 cents per foot in 1992 dollars. How was that estimate arrived at?

MR. LARLEE: Subject to check I believe that was based on the average cost of the smallest conductor, historical average cost of the smallest conductor.

Q.1385 - Thank you. Now finally in that same paragraph it is stated that if the entire distribution system were built with a minimum conductor cost, that the cost would be about $69.6 million. This would appear to support your allocation of 60 percent of the conductor cost to customer.

Now if we take the 12,305 miles of distribution pole line, multiply it by 5,280 feet, that is convert miles to feet, and multiply that total by the 54 cents per foot conductor cost, we would arrive at a cost, subject to check, of approximately $35.1 million. Is that not correct?

MR. LARLEE: Yes, that's correct.

Q.1386 - Now using your methodology, this would seem to support an allocation of 30 percent to 35 percent to customer, would it not?

MR. LARLEE: No. Because every distribution line has at least two conductors. There is the primary conductor and then there is the neutral conductor that runs underneath it. Although if you look at a line, you tend to just sort of focus on the one line up above. But in actual fact, there is always a line below. It's usually part of the secondary system that is feeding the homes or it is a separate -- an uninsulated line running between the poles about one-third of the way down or a couple of feet below the primary line.

So in essence there is two conductors -- a minimum of two conductors in every line.

Q.1387 - Thank you. Now under the final heading on page 5 of the report, there is a heading, "Protective and Operating Equipment". In that paragraph it is stated that data has not been obtained to determine an actual estimate of the allocation of costs between demand and customer. In the absence of empirical data a 50-50 split has been used, consistent with historical estimate.

Was this data available from the Disco GIS system, which is the Geographic Information System?

MR. LARLEE: No.

Q.1388 - Why didn't Disco obtain the actual data for the purposes of that calculation?

MR. LARLEE: The data is not -- it's not available.

Q.1389 - Now is it fair to say that equipment under this heading include such things as protective equipment, reclosures, switches, voltage regulators, capacitors and switch gear?

MR. LARLEE: All of the switch gear that we would have in our system I think, or at least a vast majority of it, would be contained in substations and would be considered part of substations.

In addition to your list, I might include the cutouts, which are essentially fuses that are out on the distribution system. But otherwise, yes, I agree with your list.

Q.1390 - Now would you agree that it would be more -- excuse me, now is it fair to say that capacitors are used for power factor correction in that the larger demand, the more significant the problem of a poor power factor may become?

MR. LARLEE: Yes. Power factor correction is another way of saying voltage correction or just maintaining the voltage in the line. In New Brunswick we have a large rural distribution network. So capacitors are also used in long lines out in rural areas to maintain the voltage on line. So it's not strictly a question of loads, but it's a question of line length as well.

Q.1391 - Now this context what is the difference between switches and switch gear?

MR. LARLEE: Well, if you have ever walked down the street and you see this big steel handle stuck on the side of a pole with rods running up to the top of the pole -- I know there is a few around town in Fredericton that I have seen. I am sure there is some in Saint John. I would call that a switch. It's simply a switch out on the system manually operated. Switch gear usually relates to more automated equipment like breakers connected to some kind of protection system that would automatically open. These are the types of things that you would find in a substation.

Q.1392 - Thank you. Now could you configure a minimum system that would operate safely without switches or a switch gear?

MR. LARLEE: No, I don't believe I could.

Q.1393 - Would you agree that the number of switches and switch gear required to operate the system safely would increase as the load factor increases?

MR. LARLEE: Not necessarily. I guess I am struggling with the connection between load factor and this context. Perhaps I can help by describing, you know, what this protective systems are used for.

Essentially in the distribution system, particularly at the primary levels, there is a significant amount of energy available there should a fault occur. And if that fault is not quickly interrupted, a significant amount of damage will occur to the distribution system and to whatever happens to be in the vicinity of the fault. So that equipment is designed to very quickly interrupt the flow of energy and limit the damage. And that's the intent of this equipment.

Q.1394 - Thank you. Now as a follow-on, would you agree that the percentage of switches and switch gear required to build a minimum system should be assigned to customer and the balance to demand?

MR. LARLEE: If you could ascertain what the minimum system size would be for your switches and operating equipment, then I would agree with you. In absence of that, we have the 50-50 classification that was used in 1992 and that's what we have relied on.

Q.1395 - Did you make any attempt to determine what a minimum system would be and in turn the percentage of switches and switch gear that would be involved in such a minimum system?

MR. LARLEE: Yes. I believe we had some discussions about if we felt there was any new information available or any new analysis we could do to refine this. And we came to the conclusion that there wasn't.

Q.1396 - Now, excuse me, I didn't hear you?

MR. LARLEE: We came to the conclusion that there wasn't. There wasn't any new information available or any new analysis that we could rely on to refine this number.

MR. KETCHUM: I would also like to say that, you know, as a general proposition, we talked about different methods that we could use. The Minimum System, Minimum Size System, the Zero-Intercept, and maybe Minimum Intercept, these are listed in the NARUC Manual.

But we had a fourth method and that was the Board-approved methodology. And we thought that the best -- I say we, Disco thought, and I agreed, that the best thing to do would be to look to see if we could -- or they could improve on what was there by better and newer information that was available that could be relied on. And if not, the position was to use the Board-approved method from the prior CARD hearing. So that was our -- the fourth methodology that Disco used, if you will.

Q.1397 - Thank you. Now what is a reclosure?

MR. LARLEE: A reclosure is a device that's normally out on the distribution system. And it acts as a protective device and it has limited intelligence, let's say. So what it will do is it will detect -- it will detect a fault or high current. It's essentially deigned to detect a current well above normal operating currents. And it will open, wait for a specified period of time and reclose. And normally they are set just to do that once. Sometimes they are set to do it several times.

And the idea here is that most faults out in the primary distribution system are either animals or trees. And that the initial fault, which usually causes an arc, will burn off that fault, the animal or the tree and that it can be safely reclosed back in.

Q.1398 - So it is fair to say it is similar to a fuse or a circuit breaker a homeowner would see, but more elaborate as you have just described?

MR. LARLEE: It is similar, but then it has this capability of reclosing in automatically.

Q.1399 - Thank you. Now could you configure a minimum system that would operate safely without reclosures, fuses or circuit breakers??

MR. LARLEE: No, I don't believe you could.

Q.1400 - Now would you agree that the number of switches and reclosures, fuses and circuit breakers required to operate the system safely would increase as the load factor decreases?
MR. LARLEE: I guess I will give the same answer I gave in the previous line of questioning. I am not sure I see the connection with load factor.
MR. KETCHUM: Are you perhaps referring to maximum load on that segment of the system as opposed to load factor?
Q.1401 - Yes. Perhaps it's just the load as opposed to the load factor.
MR. KETCHUM: Yes, that would seem to make more sense to me.
Q.1402 - And in that context what would your answer be?
MR. KETCHUM: Could you repeat the question with that, please?
Q.1403 - Would agree that the number of switches and reclosures, fuses and circuit breakers required to operate the system safely would increase as the load decreases? That's -- I we are talking in the context of a minimum system here.
MR. KETCHUM: No, that -- it sounded like the inverse to me.
Q.1404 - Would it not --
MR. KETCHUM: I guess you would -- you know, in all things being equal, if there was more load on the system, you

might either use larger equipment or there may be more equipment for a particular segment in the system required. And so there would be a correspondence I would believe with respect to the total coincident load on that particular part of the system.

CHAIRMAN: Excuse me, Mr. MacNutt, we will take a 10-minute recess now.

(Recess - 1:55 p.m. to 2:05 p.m.)

CHAIRMAN: These breaks are dangerous. Commissioner Sollows has a couple more questions.

MR. SOLLOWS: Thank you, Chairman. I guess like you I was struggling with some of the questions that you were trying to answer before the break. And I know this issue about the variation in items with load factor was hard to grapple.

I'm wondering if in the context of a utility like Disco that presumably has to serve a certain amount of energy during next year, during the rate year, then would the question make more sense that if the load factor increases would there be a change in any of these parameters versus a lower load factor given that you have to serve a certain amount of energy?

MR. LARLEE: Yes. Because if your load factor goes up with the same amount of energy, your demand -- the demand

requirement has gone down. So now conceivably you could install smaller equipment.
MR. KETCHUM: Thanks for that clarification. That makes sense.
CHAIRMAN: Go ahead, Mr. MacNutt.
MR. MACNUTT: Just catching up for a second, Mr. Chairman.
Q.1405 - Now would you agree that voltage regulators are needed because demand is not constant year-round but varies with time and location?
MR. KETCHUM: Sorry, Mr. MacNutt. Could you please rephrase that for me?
Q.1406 - Well, I would have difficulty rephrasing it. But I will state it again if you would like?
MR. KETCHUM: Thank you.
Q.1407 - Would you agree that voltage regulators are needed because the demand is not constant year-round but varies with time and location?
MR. LARLEE: If by location you mean the length of the lines, the location of the customer relative to substations, yes, I agree with you.
Q.1408 - Now should not their costs be allocated to demand and if not, why not?
MR. LARLEE: I wouldn't say they should be allocated to 100 percent demand for the very reason of location. Customers

tend to locate in remote areas. And as a result getting the electricity to them requires voltage support and voltage regulators.

Q.1409 - Thank you. Now is the 50-50 split for protective equipment shown -- the heading we were referring to -- an assumption? Or has the allocation been assessed and allocated after study of its usage?

MR. LARLEE: Again that split was based on the split used in the 1992 CARD proceeding. So there was no analysis associated with it for this particular cost allocation study.

Q.1410 - Thank you. Now I'm going to ask you to turn up page 8 of the report. And then I'm going to refer you to an IR in exhibit A-19.

CHAIRMAN: And what is the IR, Mr. MacNutt?

MR. MACNUTT: PUB IR 139 (A).

Q.1411 - So I will just repeat, exhibit A-19, PUB IR 139, paragraph (A). And it was a supplemental round IR that questioned a discrepancy in the data with respect to poles and fixtures found on page 8 of the report we have been referring to for the last half-hour or so.

And the discrepancy is in respect to the number of poles in the Disco distribution system. The response to PUB IR 139 (A) identifies two sources used to obtain the data.

One was the asset management summary for fiscal year 2003-2004 which was cited as the source of the 362,089 pole figure used on page 5. The second refers to the GIS database which is listed as the source of the 343,000 pole figure used on page 8 of the report.

First of all, just to set a background, what is the GIS database?

MR. LARLEE: It is -- GIS stands for the Geographic Information System. And it essentially places all of the equipment geographically on a map. And that provides useful information.

Primarily I believe at this point it is used for the outage management system which basically is a system that is used to restore power when there is outages.

Q.1412 - Now what level of detail does that GIS database have?

MR. LARLEE: Well, the level of detail is growing as we speak. And that's the -- one of the -- I guess the nature of a GIS system is they take time to populate. But my understanding at this point is that the pole data in that system was certainly adequate enough for us to use as part of our analysis here.

Q.1413 - Now the response to PUB IR 139 (A) suggests that the GIS database is incomplete and there are possible errors in it. Isn't that found in the response?

MR. LARLEE: No. I don't believe that is what the response is saying. The response is clearly stating what the differences are, why the numbers vary.

It is not saying that either one is either correct or incorrect. They are simply different. And the differences are as stated in the response.

Q.1414 - So Disco is comfortable with the sufficiency of the data with respect to poles and fixtures found in the GIS database, is that correct?

MR. LARLEE: Yes.

Q.1415 - Now would you expect the additions to the GIS database to lead to refinements in the distribution allocation factors in future cases? You have said it was a dynamic growing thing as we speak.

MR. LARLEE: Yes. I believe that is the case. As we have more and more information available to us, hopefully we will be able to refine and improve the numbers in all aspects of the cost allocation study.

Q.1416 - Now I would like you to turn to pages 6 and 7 of the CCAS and the heading "Transformers". That is back to the original document we have been referring to. Yes. I'm sorry. It is not CCAS. It is back to the Class Cost Allocation Study Review Of Distribution Allocations.

And we are going to refer to pages 6 and 7 and under the heading "Transformers". And your response stated that a linear regression of transformer cost against transformer size yields the cost of hypothetical zero kVA transformer. And that zero kVA transformer may be used to determine the customer cost associated with distribution transformers. Is that not correct?

MR. LARLEE: Yes. That is correct.

Q.1417 - Are all of the transformers owned by Disco included under this heading, and if not please identify those that are not and how their costs are allocated?

MR. KETCHUM: The transformers that were used in the regression analysis are those up to and including the 200 kVA transformers. And that is obviously the vast majority of the transformers.

The larger transformers have different characteristics in terms of cost and size. Many are pad-mounted. There are lots of contributions and aids of construction associated with those. And so they behave with respect to a different cost regime.

So the best information in terms of linear regression here is found in the majority of the transformers that are under the 200 kVA size. And those transformers were used to develop the equation. And then the results were applied to the total number of transformers.

Q.1418 - How are the costs of the excluded transformers allocated?

MR. KETCHUM: The customer component, though it would be very small, was allocated to those just as it was -- or to those customers that may be associated with those transformers -- let me back up and restate that. Those -- the customer component of those transformers was determined to be the same as the customer component of the vast majority of the transformers. The result was $780 zero-intercept and that was the customer component. If you used the big transformers in there, the size of those and the cost of those may be 10 times as much as say a 200 kVA transformer. So in doing the regression analysis, if we have points that like this and then we have one that's way up here, the slope of the line becomes very steep. And then we have the problem of the intercept being at or below zero and getting a messy result.

MR. SOLLOWS: May I? So if I understand correctly, you -- looking at the table on page 6, Table 3 Transformer Data, you used the first three sets of data points for your regression and omitted the last four?

MR. KETCHUM: Yes, that's what the -- what the Disco analyst working for Mr. Larlee did. And I thought in light of that explanation that it was a reasonable thing to do.

MR. SOLLOWS: So you had -- I am just trying to think, what I understand is if you -- from what you had said just previously is if you had included these for -- you would have got an answer -- a number for the intercept that would have been troubling to you, is that right?

MR. KETCHUM: Yes. This is one of those cases where some judgment has to come into play. I mean, obviously a negative intercept or, you know, a negative customer component wouldn't make any sense.

MR. SOLLOWS: But I guess my problem with that is certainly this is a statistical regression or analysis. So if it was near zero, the fact that it was negative or positive wouldn't much matter. What that says is it's within the band containing zero, so it's zero.

So the fact that it's negative -- if it was very largely negative -- was it? Or I am just having trouble grappling with the notion of throwing data away to get a regression analysis that we like.

MR. KETCHUM: Well, this is something that often has to be done with this kind of data, because these are really truly outliers. And as I am sure you are familiar with the notion that sometimes when you are looking at data sets and if you have outliers that are -- you know, look to be grossly different than the rest of the data, analysts will sometimes exclude those data points.

MR. SOLLOWS: Yes, it -- certainly that is -- can be done. Are there any -- if you don't mind, are there any other methodologies that you could have -- you could use that wouldn't cause you to exclude your cost data?

MR. KETCHUM: One of the things that could have been done here was to look at the smallest size transformer and use a minimum size as opposed to a zero intercept. And the average cost of that smaller size transformer and the 25 kVA category would have been $946. It would have been a little more actually than the $780 that the analyst working for Mr. Larlee came up with.

So I thought based on that that this was -- that was also an indication that the result was reasonable.

MR. SOLLOWS: And again because of the historical context?

MR. KETCHUM: Historical context and also considering the smallest -- the cost of the -- the average cost of the smallest size transformers. I think they correspond fairly well and actually would have given a little more customer cost than the analysis that he did.

MR. SOLLOWS: So a very small intercept value would have been equally troubling to you if you had got instead of -- I don't know what the number -- maybe minus -- do we know what the number was when you did the regression with all seven data points?

MR. KETCHUM: I don't have that in front of me. I think we could easily find out.

MR. SOLLOWS: Well, I guess I would be interested just in the magnitude --

MR. KETCHUM: Yes.

MR. SOLLOWS: -- if it was very much less than zero or near zero? And I guess where I am coming from is if it's within the probable error around zero, then the question arises is this indicating something significant? Are these truly outliers or is this suggesting that really a large part of your transformer capacity should be allocated to demand?

MR. KETCHUM: A fair question from a statistical point of view. I think that was very near to zero, the intercept. But I think -- again when you look at the smallest size transformer that you could possibly put in for a customer that gave me enough comfort in the result that -- along with the way that the results came out and their impact on the split, that it seemed to me that that was -- what was done provided a reasonable result and it was based on a lot of data and over 100,000 observations in terms of numbers of transformers and just excluding these very large ones that have a very different cost sort of scheme to them.

They are not a typical full mounted transformers. They are very large pad mounted with costs of, you know, something in the order of $20,000 and up, as opposed to this 780 for the small one.

MR. SOLLOWS: Thank you.

MR. KETCHUM: You are welcome.

Q.1419 - Now when you indicated that you had examined a minimum system, does your minimum system analysis -- assume that the minimum system is capable of serving all system energy requirements?

MR. KETCHUM: No. The minimum system wouldn't -- would not serve all the energy requirements. It requires a larger system than the minimum in order to serve the demands of the customers. And that therefore provides us with the demand-related portion of the system.

Q.1420 - What does your minimum system assume as to system energy requirements?

A. Everything is based on the assumption that the system in place serves all of the requirements and what the analyst is trying to do is parse the system to see if we can determine in some fashion, again with these various methodologies that are commonly used, what piece of that we could say is truly related to the numbers of customers and what portion is therefore -- the other portion of which would be related to the demand on the system.

Q.1421 - Thank you. Does it assume that there is no energy on the system?

MR. KETCHUM: No. When you say "does it assume" the minimum system?

Q.1422 - Yes.

MR. KETCHUM: The minimum system -- actually we would assume essentially that there is no demand for that minimum system. However, there is controversy about that and we have discussed that. Obviously even the tiniest conductor and the tiniest pole, probably you could imagine would be able to provide some energy for a 60 watt lightbulb or something.

So there is always that issue have you sort of taken out everything that might be demand related or not? So that's something that needs to be considered when looking at these things. There is that element of judgment. There are they standard methods. There are approved methodologies and so on. But there is a -- in a minimum system, one of the areas of controversy is, is there anything left over in that minimum system to provide demand more than the tiniest you can imagine?

And the logical answer is well probably, yes. But then there is the countervailing argument about -- it's -- even if you could do -- serve that tiniest load and you had to install poles and so on and so forth to get out there in the country, there is a linear component to the system that -- and a lot of labour involved. And you can't take that away no matter how small you go.
So it's a question of judgment and estimates and sort of accepted methodologies.
Q.1423 - Thank you. Finally on this document we have been referring to under the heading "Transformers" we find that estimates were used rather than actual data, can you tell us why? That's at the top of page 7.
MR. KETCHUM: That I think refers to the utilization of the results of the regression.
Q.1424 - Yes. Okay. Thank you. Are there any customers served from the primary distribution lines?
MR. LARLEE: Yes.
Q.1425 - Now we are going on to a different document. And I'm going to -- it may not be necessary to turn up the document, but I will give you the reference anyway.
In the response to PUB IR-95, which is in exhibit A-12, Disco was asked to deflate the average electricity prices down -- shown in the annual reports of NB Power

using the Bank of Canada Core CPI.

The Disco response used the New Brunswick All Item CPI.

In PUB IR-125, Disco was asked why this was done. Disco said in its response that, "There is no Core CPI for New Brunswick, therefore, CPI for New Brunswick was used. The response provided the original information reworked accordingly and advised that it was redone to reflect the average monthly CPI on a fiscal year basis."

Now one of the items in the New Brunswick All Item CPI is electricity, is that correct?

MR. LARLEE: Subject to check, yes.

Q.1426 - Thank you. Would you not agree that the New Brunswick All Item CPI is fairly sensitive to the New Brunswick price for electricity?

MR. LARLEE: I can't comment on the sensitivity, but it would have an impact.

Q.1427 - Would you not agree that the Canada All Item CPI is more sensitive to the New Brunswick price for electricity than either the Canada All Item CPI or the Bank of Canada Core CPI?

MR. LARLEE: I am going to have to ask you to repeat the question?

MR. MACNUTT: Thank you, Mr. Chairman. Just give me a moment.

CHAIRMAN: We think there should be a rewording, Mr. MacNutt.

MR. MACNUTT: We are trying to come up with it.

Q.1428 - I am restating the question from, would you not agree that in New Brunswick All Item CPI is more sensitive to the New Brunswick price for electricity than either the Canada All Item CPI or the Bank of Canada Core CPI?

MR. LARLEE: Yes.

Q.1429 - Therefore by using the New Brunswick All Items CPI rather than the Canada CPI as requested in the IR, the results in the tables are distorted. The tables would distort the New Brunswick electricity rates in comparison to the broader based rate of inflation. Is that not correct?

MR. LARLEE: I don't believe the results in the tables are distorted. We chose the New Brunswick CPI because we couldn't respond explicitly to the question originally. And it has been our practice to use the New Brunswick CPI in correcting and adjusting dollar values.

So because it is our practice because we feel that it is the appropriate index.

Q.1430 - Isn't there an element of circularity in using the New Brunswick CPI in this area?

MR. LARLEE: There may well be. But at the same time, using the national index doesn't necessarily reflect price changes in New Brunswick. We felt that it would be better to use the New Brunswick index.

Q.1431 - Thank you. Now I am going to ask you to turn up schedule 5.1 to Disco's class cost allocation study for the fiscal year 2005/2006. It is in appendix 3 -- A-3, excuse me, exhibit A-3, appendix 1, direct evidence of Mr. Larlee.

I will repeat that. Exhibit A-3, appendix 1, to the direct evidence of Mr. Larlee.

CHAIRMAN: Just a minute, Mr. MacNutt. Let us get the volume down and then get to the rest of it please.

MR. MACNUTT: Thank you.

CHAIRMAN: And while we are doing that, Mr. Larlee, just going back to the last series of questions. If you have reason to believe that a CPI from New Brunswick is better to use, then in the future use the CPI that the question requests that you use and then provide the additional data and explain why in your opinion the New Brunswick should be used. Okay.

Rather than making the decision not to do it the way you are asked to do it, then provide the additional information. That makes it simpler for everybody.

MR. LARLEE: Very well.

Q.1432 - Yes. I think we were at exhibit A-3, appendix 1 to the direct evidence of Mr. Neil Larlee. And we should go to schedule 5.1.

Now the subtitle of this is "Supply cost classification allocation power purchase agreements fiscal year 2005/2006". I would like you to go to column 4, which is firm energy cost. And also look at column 5, which is peaking energy cost.

Now I would like you to go to line 15 which provides the total for each column. And you will find that the total for column 4 if $573,849,000. And the total for column 5 is $1,190,000. Is that not correct?

MR. LARLEE: Yes, that is correct.

Q.1433 - Now you would agree with me that the total in column 4 reflects several different kinds of fuel, all of which have different costs?

MR. LARLEE: Yes, that is correct.

Q.1434 - Now in column 5 you have chosen to separate one element of energy cost. Is that not correct?

MR. LARLEE: Yes. I have separated out the highest cost energy source.

Q.1435 - Why do you think it is fair to separate one element and directly assign it to specific classes?

MR. LARLEE: In this case these energy costs are related directly to gas turbines and gas turbines are only forecast to be used during times of winter peak. And the winter peak is directly related to the use of electric space heating. So just using cost causation, I felt that it was a good approach to assign those costs or allocate those costs, rather, to the classes that had electric heat as part of their load. That was my rationale and I think I have laid it out in several IRs and I can give you those references, if you like.

Q.1436 - Yes. Do you have them at hand or would you undertake to get those?

MR. LARLEE: No, I have them at hand although I don't have --

Q.1437 - Well perhaps you would just read --

MR. LARLEE: -- the exhibit numbers.

Q.1438 - -- the reference numbers to us?

MR. LARLEE: All right. EGNB IR-16 from August 5th.

MR. MORRISON: A-17.

Q.1439 - Yes.

MR. LARLEE: UM IR-14 from July 14.

MR. MORRISON: A-11.

MR. LARLEE: And PUB IR-9 from July 14.

Q.1440 - What was the -- do we have the last exhibit number? PUB IR-9, July?

MR. MORRISON: Exhibit A-11, I believe.

Q.1441 - A-11 as well. Thank you. Now I am going to ask you to turn to the Disco's response to PUB IR-119, which is in exhibit A-17.

CHAIRMAN: Do you want us to keep this other volume up, Mr. MacNutt?

MR. MACNUTT: No, I don't think so, Mr. Chairman.

CHAIRMAN: Thank you.

Q.1442 - What we are looking for is PUB IR --

CHAIRMAN: Hang on just a sec'.

MR. MACNUTT: Okay. I will wait. Exhibit A-17, PUB IR-119.

Q.1443 - Now it is stated in that response that nonelectric heat customers are allocated their share of annual nonpeaking energy costs which includes energy consumed during the time of the system peak.

The response also stated "The cost portion of energy supplied by peaking units or purchases has been assigned as 100 percent related to rate classes with electric heat load. This reflects that electric heat load is the driver of the system peak."

In the last sentence the statement is made that "Electric heat load is the driver of the system peak."

What is meant by the use of the term "driver" in this context?

MR. LARLEE: Well, as I alluded to earlier, the peak, the wintertime peak occurs almost coincidentally with residential heat. And it occurs at almost invariably at the time of the coldest sustained weather.

So I think you can infer from that that the peak is driven by electric heat load to the largest degree.

Q.1444 - Now do all members of rate classes to which the cost of peaking energy and purchase is assigned have electric heat load?

MR. LARLEE: If you are referring to the cost of the peaking energy, yes, I have assigned it to the rate classes with electric heat load.

Q.1445 - Thank you. Now perhaps I will just restate the question again. Because we may have sort of misaligned the question and answer. And I will restate it.

Do all members of rate classes to which the cost of peaking energy and purchase is assigned have electric heat load?

MR. LARLEE: Oh, I see what you are saying now. You are saying the individual customers within the class. If all of the individual customers within the class have electric heat?

Q.1446 - Correct.

MR. LARLEE: No. No, they do not. I think we have got it on the record that about 60 percent of our residential customers have electric heat.

Q.1447 - Now how does Disco's cost allocation and rate design methodology ensure that customers who do not have electric heat, but belong to a class that has been assigned cost of peaking and purchased energy, do not pay for the cost of peaking and purchased energy?

MR. LARLEE: Disco can't do that. There is averaging in any cost allocation study. And there is averaging in this study. So within the class the costs are all averaged between the customers.

Q.1448 - Do members of rate classes that are not assigned the cost of energy from peaking units and purchases have variations in their seasonal usage profiles that exhibit higher usages during winter months?

MR. LARLEE: They may and they may not. I think I have said before that, particularly in the general service class, it is a very, very diverse class. And small industrial as well.

Certainly there are small industrial customers that tend to operate more in the summer than in the winter, just simply because of the seasonal type of food processing that they are doing. So some customers may and some customers may not.

Q.1449 - Assuming that some do, please explain why they do not pay a portion of the cost of peaking and purchased energy?

MR. LARLEE: Again the peaking cost is assigned that way just to reflect the cost driver. The cost driver is electric heat.

So within those classes, even though there may be some seasonality to their load, there isn't a significant amount of electric heat that would necessitate the allocation.

CHAIRMAN: Mr. MacNutt, is this a good place for us to break?

MR. MACNUTT: Yes, Mr. Chairman.

CHAIRMAN: How much longer do you think you will have tomorrow, Mr. MacNutt?

MR. MACNUTT: Probably -- I would say an hour and a half to two hours.

CHAIRMAN: We apologize to Rogers. Quite often if counsel has an opportunity to review their notes and whatnot, they find that their cross diminishes in length of time.

So I'm just wondering, is it an idea, or would you prefer not to do so, that we tackle the Rogers thing first thing tomorrow morning and then come back to your cross?

What is your preference, Mr. MacNutt?

MR. MACNUTT: Oh, I have no problems with breaking and then coming back after Rogers.

CHAIRMAN: Mr. Morrison?

MR. MORRISON: I would have very, very little redirect, Mr. Chairman, depending obviously. At this point I have very little redirect depending on what comes out of Mr. MacNutt's further cross. I'm not anticipating much more anyway.

CHAIRMAN: Okay. What about us going ahead with Rogers in the morning and then --

MR. MORRISON: Fine with me. I think that is okay, Dave (Mr. Hashey)?

MR. HASHEY: It is no problem.

CHAIRMAN: And Rogers?

MR. ARMSTRONG: Thank you, Mr. Chairman. Yes, that is fine with Rogers as well.

CHAIRMAN: Pardon me?

MR. ARMSTRONG: I said thank you, Mr. Chairman. Yes, that is fine with Rogers as well.

CHAIRMAN: Okay. I would suggest -- I have no sense of the timing. But Mr. Hashey was thinking out loud I think the other day in saying that he couldn't see that argument lasting much more than an hour or an hour and a half, somewhere thereabouts?

MR. HASHEY: That was my sort of general thinking. I would expect the order -- we would be going first. You have already heard part of the argument.

I intend to just deliver a short brief on what that was but sort of summarize what was said. I don't intend to be probably much more than half an hour.

MR. ARMSTRONG: Mr. Chairman, I can't speak for our legal counsel. But I don't expect that she would be much longer than that either.

CHAIRMAN: I would suggest that we break now and come back at 9:30 tomorrow morning. And we will start off with the Rogers' question.

And then after that is concluded we will continue with Mr. MacNutt's cross and your direct, Mr. Morrison.

MR. HASHEY: Mr. Chairman, could I address one other issue just so that I can get it on the record?

CHAIRMAN: You were nearly on the table earlier.

MR. HASHEY: Yes. Under the table not on the table. It was exciting, wasn't it?

In any event, on a very serious note, I'm pleased to report to the Board that the evidence on the revenue requirements has gone for production if you like. And what I would like to have from people is that -- we believe that this will be sent out by courier on Friday. Now we are looking at a long weekend.

And I have also checked with Ms. Clarke. And we at this point sense that we could have, as you know, the English version only at this point, because it has gone to translation as well. We will be filing the translated version in the normal course.

But there may be some Intervenors, since everything that they are conducting is in English, that might like to have that for the purpose of spending a wonderful Thanksgiving weekend preparing Interrogatories.

But on a very serious note, that could be made available. And if people want to go to the NB Power offices mid afternoon Friday, we believe that it could be available, rather than have it couriered.

And I would just ask that people give us an indication if they would wish to pick it up rather than have it couriered to them, so that we can get on with it.

And I would be hoping that by delivering this substantially earlier than was initially scheduled that if people do have Interrogatories that they want to pose on that, they can pose them a little earlier if they like than the designated date.

Because as you know, we are into a very tight schedule in relation to the next portion of this hearing. In other words, our answering to Interrogatory process completely overlaps the finalization of this portion of the hearing, the CARD portion.

So you know, we would not be objecting to receiving things earlier, if some people want to send a few along or their whole along. And we have got a crew that will get at that. Because we do have the break in time in this hearing which would give all of us time to deal with that I think.

CHAIRMAN: Well, Mr. Hashey, the Board has always put forth the notion of a last time date to ask a question, but always encouraged that if anybody has them ready prior to that time to send them out. And certainly that holds true for the upcoming portion of the hearing as well.

Well, I suggest that parties that are prepared -- I presume that offer was not the NB Power office on Manawagonish Road, but rather the one in Fredericton.

MR. HASHEY: Unfortunately it is the one in Fredericton --

CHAIRMAN: Yes.

MR. HASHEY: -- Mr. Chairman. I'm sorry --

CHAIRMAN: I suggest that anybody who wants to can approach you after. And Municipals are asking for the floor.

MR. GORMAN: Well, Mr. Chairman, to avoid a trip to Fredericton, I'm going to assume -- but perhaps Mr. Hashey can clarify this -- that it will be made available on

Friday electronically in any event.

MR. HASHEY: We are going to have to tell you that in the morning. I don't know. We are checking on that. A good point. The intent was to post it Monday on the Internet. But I don't know if we can post it earlier or not.

CHAIRMAN: Well, you check on that?

MR. HASHEY: We probably can. And we will try.

CHAIRMAN: You check overnight and let us know?

MR. HASHEY: We can solve that tomorrow, we will all be here.

CHAIRMAN: Yes.

MR. HASHEY: I was concerned about raising this today because of some people might not be here for the Rogers portion. I was recognizing that, that is all.

CHAIRMAN: Okay.

MR. HASHEY: Thank you.

CHAIRMAN: All right. We will see you at 9:30 tomorrow then.

(Adjourned)

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

Reporter