New Brunswick Board of Commissioners of Public Utilities

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

Delta Hotel, Saint John, N.B.
February 23rd 2006

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Undertakings

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CHAIRMAN: I'm certainly glad that you are ready to go. Because the Commissioners are in there attempting to quote poetry.

DR. SOLLOWS: What do you mean, attempting to?

CHAIRMAN: Good morning. And could I have appearances on the record please. For the Applicant?

MR. MORRISON: Good morning, Mr. Chairman and Commissioners. Terry Morrison and David Hashey. And with us at counsel table is Mike Gorman and Lori Clark.

CHAIRMAN: Thank you, Mr. Morrison. And for the Canadian Manufacturers and Exporters?

MR. LAWSON: Good morning. Gary Lawson appearing with David Plante.

CHAIRMAN: Thank you, Mr. Lawson. Conservation Council is not here. Enbridge Gas New Brunswick Inc.?

MR. MACDOUGALL: Good morning, Mr. Chair, Commissioners. David MacDougall for Enbridge Gas New Brunswick.

CHAIRMAN: Good morning, Mr. MacDougall. The Irving Group of companies?

MR. BOOKER: Good morning, Mr. Chair and Commissioners. Andrew Booker for JDI.

CHAIRMAN: Good morning, Mr. Booker. Mr. Gillis isn't here. Rogers isn't here. Self-represented isn't here. Municipal Utilities?

MR. GORMAN: Good morning, Mr. Chairman. Raymond Gorman appearing for the Municipal Utilities. This morning I'm accompanied by Eric Marr and Michael Couturier and will be joined by Dana Young later.

CHAIRMAN: Thanks, Mr. Gorman. And Vibrant Communities?

MR. PEACOCK: Good morning, Mr. Chair. Kurt Peacock here.

CHAIRMAN: Good morning, Mr. Peacock. And you were on time today because we started late. However, the record should show, and I forgot to put it on yesterday, that you were here for most of the day.

And the Public Intervenor?

MR. HYSLOP: Good morning, Mr. Chair. Peter Hyslop and Carol Power.

CHAIRMAN: Thanks, Mr. Hyslop. Informal Intervenors, if there are any, speak up.

Mr. MacNutt, who is accompanying you today?

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

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

MR. MORRISON: No, Mr. Chairman.

CHAIRMAN: I guess I anticipated something.

MR. MORRISON: I believe it will be dealt with in the course after the witnesses are sworn, Mr. Chairman, if you are dealing with an erratum.

CHAIRMAN: I see. Okay. Perhaps the Secretary would advance with the Bible.

MR. MORRISON: And of course Mr. Marois is already under oath and has been for quite some time now.

<u>ROCK MAROIS, NEIL LARLEE</u>:

MR. MORRISON: First Mr. Larlee, you have filed pre-filed evidence in this proceeding --

CHAIRMAN: I think Mr. Hyslop did put up his hand. And I let things go. And I might as well find out what it is that Mr. Hyslop wanted to do.

MR. HYSLOP: Mr. Chair, yesterday we had a scheduled meeting. And I won't go into that. Because I know that will be up to the Applicant.

But one of the issues I wanted to address the Board -- and this is partially on behalf of Mr. Peacock. And the issue is whether or not we have given any sense at all to the timing of when the customer service and procedures are part of this hearing and the future load forecast part of this hearing might occur.

I know Mr. Peacock has some concerns because there is a possibility he may wish to file evidence with respect to the customer service and policies part of that.

CHAIRMAN: Well, Mr. Peacock and Mr. Hyslop, the Board presently has two applications under the Gas Distribution Act, one under the new Pipeline Act and one under the Motor Carrier Act, all waiting in line so that we can find out when we will conclude this, including our decision. So it is going to be some time, Mr. Peacock. You will have plenty of notice, I assure you. The Board does not intend until after this matter is concluded with the decision out, to look to those various hearings, Mr.

Hyslop.

MR. HYSLOP: Thank you, Mr. Chair. I just wanted to get a sense of the Board. Thank you very much.

CHAIRMAN: Thank you. Go ahead, Mr. Morrison.

MR. MORRISON: Thank you, Mr. Chairman.

DIRECT EXAMINATION BY MR. MORRISON:

Q.1 - Mr. Larlee, your evidence -- and this aspect of the proceeding is contained in exhibit A-77. And was that evidence prepared by you or under your direction?

MR. LARLEE: Yes, it was.

Q.2 - And I believe there is also evidence by you prepared or filed under your name, Mr. Larlee, in exhibit A-76?

MR. LARLEE: Yes, there is.

Q.3 - And that evidence was prepared by you and under your direction?

MR. LARLEE: Yes, it was.

Q.4 - And you adopt that evidence as yours for the purposes of this proceeding?

MR. LARLEE: Yes, I do.

Q.5 - Mr. Marois, your pre-filed evidence in connection with this matter appears in exhibit A-76?

MR. MAROIS: Yes.

Q.6 - And was that evidence prepared by you or under your direction?

MR. MAROIS: Yes, it was.

Q.7 - And do you adopt that evidence as your own for purposes of this proceeding?

MR. MAROIS: Yes, I do.

MR. MORRISON: Thank you. Mr. Chairman and Commissioners, there are some documents have been passed out and have been provided to the Board Secretary and to the Intervenors here in the room. And I'm going to ask the panel to explain those documents in just a few minutes. But first I think it is important that everybody in the room, we all get on the same page in terms of the evidence that we are going to be dealing with, because there is a bit of -- because of the filings and the way they proceeded, there may be some confusion.

I think we should all be on the same page as we go forward so we are not scrambling around looking at the wrong version of whatever document we are referring to.

Q.8 - And perhaps, Mr. Larlee, if you could just please list the evidence that this panel has filed and will be addressing in the course of this aspect of the hearing?

MR. LARLEE: Yes. The first -- please refer to exhibit A-77. I prepared this evidence to explain how Disco complied with the December 21, 2005 CARD ruling.

Q.9 - Mr. Larlee, can I ask you to move your mic in a little closer or to speak up?

MR. LARLEE: Is that better? Yes. I compiled this evidence to explain how Disco complied with the December 21, 2005 CARD ruling and how new charges resulting from the power purchase agreements and the May 1st OATT changes were classified and allocated.

It also contains the 2006/07 Class Cost Allocation Study, which I will be referring to as the CCAS, at current rates. Those rates are effective July 7th 2005.

To ensure that everyone is working from the most recent CCAS, the words "Revised February 7th 2006" should appear in the bottom left-hand corner of each schedule of that appendix.

Second, we will be referring to exhibit A-76. This evidence presents Disco's rate proposal and the 06/07 Class Cost Allocation Study at proposed rates.

Again to ensure that everyone is working from the most recent CCAS, the words "Revised February 7th 2006" should appear in the bottom left-hand corner of each schedule.

Third, we will be referring to exhibit A-80. This exhibit contains Disco's responses to the February 9, 2006 interrogatories from Intervenors and Board Staff on the updated CCAS and rate proposal. And as well I'm sure we will be referring to exhibit A-50, the revenue requirement evidence.

Q.10 - Thank you, Mr. Larlee. In the course of this proceeding the Public Intervenor's expert Mr. Knecht filed evidence. And on page 12 -- I don't think anybody has to turn that up at this point in time. But at page 12 of his report he reports that Disco's interruptible revenue was understated. And could you explain that, Mr. Larlee?

MR. LARLEE: Yes. In response to a telephone inquiry from Bob Knecht concerning the adder revenue on interruptible surplus sales I determined that Disco understated the interruptible revenue by $2.1 million.

The filed revenue was based on a preliminary budget estimate of cost. Disco's revenue did not get updated accordingly when cost estimates were finalized prior to filing the evidence. The interruptible revenue should be $62.0 million, not 59.9 million as filed.

Q.11 - Thank you, Mr. Larlee.

Mr. Marois, could you explain how this understatement of the interruptible revenue impacts Disco's revenue shortfall?

MR. MAROIS: Yes. The understatement of interruptible revenue means that the revenue shortfall of $125.5 million should be $123.4 million, i.e. 125.5 minus the 2.1 understatement, all other things being equal.

Q.12 - Thank you, Mr. Marois. And can you explain what impacts this correction will have on the rate proposal?

MR. MAROIS: Yes. First this will reduce the overall increase in rates from 11.6 percent to 11.4 percent. And secondly to remain consistent with how we -- or the steps that Disco followed to develop the rate proposal, Disco is proposing that the large industrial revenue be reduced by the $2.1 million, the same amount of the interruptible revenue increase.

This results in the rate increase for large industrial customers being reduced from 12.9 percent to 12.1 percent.

Q.13 - Thank you, Mr. Marois.

Mr. Larlee, how does this change have any impact on the CCA' -- Customer Cost Allocation Study that has been filed?

MR. LARLEE: The results of the CCAS at proposed rates do not change. And the revenue to cost ratio for the large industrial class remains at 0.92. However revisions are required to three tables within the evidence and appendix 2 and 3 of exhibit A-76.

MR. MORRISON: Mr. Chairman, this is where I guess I will start referring to the documents that have been provided to the Board Secretary.

And I will have Mr. Larlee step through each of them.

And they will highlight where this correction appears. And there are obviously some key tables in this evidence. And the documents you will see as they come forward will have the changes highlighted.

CHAIRMAN: How are you suggesting we handle them, Mr. Morrison? Replace the pages in the existing exhibits or mark these separately or how?

MR. MORRISON: I would think it is probably easier to mark them separately, Mr. Chairman.

CHAIRMAN: Okay.

MR. MORRISON: Perhaps we should. The various tables that I'm referring to are sort of stapled together and I think it would be easier for everyone if we just marked it as one document, Mr. Chairman, rather than several. I think people would be able to access it easier.

CHAIRMAN: This is a six page document and it is A-121.

MR. MACNUTT: Would you just repeat that, Mr. Chairman, please?

CHAIRMAN: I think I said it's a six page document and it is A-121.

MR. MORRISON: Thank you, Mr. Chairman.

Q.14 - Mr. Larlee, if you look at exhibit A-121, the first page of that exhibit appears to be an updated version of Table 1 that appears in the direct evidence of Lori Clark in exhibit A-50, is that correct?

MR. LARLEE: Yes, that's correct.

CHAIRMAN: Mr. Morrison, can we mark those pages 1 through 6 --

MR. MORRISON: Certainly, sir.

MR. LARLEE: Yes.

CHAIRMAN: -- because I see there are two Table 1's, and so we will get mixed up that way. So the first page on the master exhibit is Table 1, Revenue Requirement/Revenue Shortfall. The second page is a Revenue and Rate Increase by Rate Class document. The third page is the 2006/07 Class Cost Allocation Study Results Revised February 22. That's page 3. Page 4 is an excerpt from the -- I guess it's the draft or proposed tariff page, and up in the top right hand corner is RSP N-9 on it. That's page 4. Then the next page 5 is again from that proposed tariff change and in the top right hand corner it's RSP N-11. That's page 5. And last but not least is page 6 which is a summary of the 2006/2007 proposed rates. Thanks, Mr. Morrison.

MR. MORRISON: Thank you, Mr. Chairman.

Q.15 - Mr. Larlee, could you explain what the table is on page 1 of exhibit A-121?

MR. LARLEE: Yes. This is a table from Ms. Lori Clark's evidence. If you look at the bottom of the page you can see the exact excerpt. And it describes the revenue requirement and revenue shortfall.

You can see what this table is really highlighting -- the numbers that have changed as a result of this revision are highlighted. You can see that none of the cost components, none of the revenue requirement components have changed. The only changed figures are in line 10 and 11 which are the forecasted revenue as a result of this revision and the revenue shortfall.

Q.16 - Thank you, Mr. Larlee. And if you could turn to page 2 of exhibit A-121 and explain what that table is, please?

A. This is Table 1 from Mr. Marois' evidence. And it basically shows the revenues and the revenue -- the proposed revenue increases to each class. Again the numbers that have changed are highlighted and you can see on line 5 the large industrial rate increase is now 12.1 percent, on line 9 the overall increase is 11.4 percent, and on line 12 the interruptible surplus sales figure is now $62,000,000.

You will note that we have included an arrow in there just to indicate that the change in revenue is dollar for dollar between interruptible surplus sales and large industrial.

The other thing that is important to note here as well is that even though we have shown large industrial and interruptible surplus sales on two separate lines in this table they are actually one rate class. So for cost allocation purposes, those two revenue figures are combined when we calculate the revenue cost ratio.

Q.17 - And turning now to page 3 of the same exhibit, Mr. Larlee, can you explain that, please?

MR. LARLEE: Again this is from Mr. Marois' evidence. And it shows the revenue to cost ratios. The three columns are at current rates, the rates that came into effect July 7th, assuming an across the board 11.4 percent rate increase, and you can see the heading in column 2 has now been revised to 11.4, and in column 3 the revenue to cost ratios at proposed rates.

What is most notable in this table is that the revenue to cost ratios or proposed rates under the revision has not changed. They are completely unchanged. What has changed is in column 1 the overall revenue to cost ratio at current rates is now 0.91. One would expect that the revenue to cost ratio for large industrial would change because we changed the revenue. It's an increase by $2.1 million. It hasn't changed. It remains at .84. That's simply because of rounding.

The same is true in column 2, the overall rate increase has dropped by .2 percent. One would expect the revenue to cost ratios all to change in that column. Again only some changed because of rounding. There was -- essentially there was insufficient change to flip the second digit after the decimal.

And finally in the footnote we have also updated to reflect the change in the interruptible revenue.

Q.18 - Thank you, Mr. Larlee. Could you turn now to page 4 of the same exhibit. I believe pages 4 and 5 come from the RSP manual, but we will deal with them separately. Could you explain page 4?

MR. LARLEE: Yes. This is an excerpt from the rate schedules and policies manual and it's the rates and rate application guidelines for the large industrial rate. So as a result of revising the increase to the large industrial rate to 12.1 percent, the rates that we had filed in the application have to be revised. So what you see here is highlighted the rate under the revision and what has been struck out is the current rate, the July 7th rate.

Q.19 - And turning now to the second page of that document -- or page 5 of the same exhibit. Could you highlight the changes on that page, please?

MR. LARLEE: The two rates that have been changed here are the start-up rate and these rates are linked to the large industrial rate. Again, it's a rate under the same rate class. So these rates as well have to be changed accordingly.

Q.20 - And finally, Mr. Larlee, would you turn to page 6 of that exhibit and explain what that table represents and why it has changed or how it has changed?

MR. LARLEE: This table was included in the evidence to summarize all of the rates and rate changes that would be required to be included in the rates schedules and policies manual. So as a result, the large industrial rate in line 27, 28 and 29 have been revised.

You can see in line 27 that the overall large industrial increase is 12.1. The actual rates themselves, the demand charge and energy charge, are increased 11.9, and that's simply because of the impact of the increase to the equivalent KVA rental charge on line 30.

MR. MORRISON: Thank you, Mr. Larlee. Mr. Chairman, I'm going to turn now, as is the practice before the Board, to deal with some rebuttal that arises from the evidence that has been filed on behalf of EGNB and the Public Intervenor, namely the evidence of Mr. Knecht, Dr. Rosenberg and Mr. Harrington and Ms. Black which was filed

I believe yesterday morning.

That would be EGNB-4 and 5, and PI -- excuse me -- I don't believe Mr. Knecht's report has yet been entered, Mr. Chairman, but we will address it in some of the questions to the panel. I am assuming that Mr. Hyslop will be moving to enter that at some point in time.

MR. HYSLOP: I believe it was entered on Monday, Mr. Chair.

DR. SOLLOWS: PI-18.

MR. MORRISON: It is PI-18? Thank you, Commissioner Sollows.

MR. MACNUTT: Yes, it is -- the evidence of Robert Knecht is exhibit PI-18.

MR. MORRISON: Thank you.

Q.21 - I'm going to turn first to PI-18. Mr. Marois and Mr. Larlee, I take it -- well have you had the opportunity to read the evidence that was submitted by the Intervenors and their experts, the documents I just referred to?

MR. LARLEE: Yes, I have.

MR. MAROIS: Yes, I have.

Q.22 - And again looking at PI-18, first I would like to ask the panel a series of questions on Mr. Knecht's evidence, to highlight any concerns and to address any issues that you believe need addressing in that evidence.

First, if you turn to page 3 of Mr. Knecht's evidence, in particular lines 1 to 5, and Mr. Knecht states that combustion turbines and emergency purchases are only allocated to residential general service and wholesale as these classes contain electric heat customers and is not consistent with the 1992 CARD decision.

Mr. Larlee, is his statement correct?

MR. LARLEE: No, I don't believe so. Combustion turbines and emergency purchase costs were allocated to electric heat classes. The rationale was dealt with at length during the first phase of the CARD proceeding. The Board did not specifically mention this allocation in its December 21, 2005 ruling and as such Disco considers the proposed methodology of allocating these costs to classes that use electric heat as being approved by the Board. The rationale for this allocation is explained in several interrogatories from the CARD phase of the proceeding. I don't believe there is any need to turn those up. But they are listed in PI IR-5, Exhibit 80.

Q.23 - Thank you, Mr. Larlee. And now if you would turn to page 4 of Mr. Knecht's report, particularly lines 24 and 25. There it states that Disco has changed the methodology to classify open access transmission tariff charges. Mr. Larlee, is that statement accurate?

MR. LARLEE: No. Disco continues to use the Board approved

OATT, open access transmission tariff, as the basis for allocating transmission costs. The new charges from the May 1st 2005 OATT revisions have been passed through.

Q.24 - Thank you, Mr. Larlee. Now turning to page 7 of the same report, Mr. Knecht's report, at lines 3 and 4 Mr. Knecht says that Disco's large industrial rate is in line with nearby jurisdictions.

MR. DUMONT: Excuse me, Mr. Morrison. When you read from the exhibit, would you read it exactly as it's written, please.

MR. MORRISON: Certainly.

MR. DUMONT: Thank you.

Q.25 - If you look at page 7 at lines 3 and 4, Mr. Knecht says, third, Disco's current rates for large industrial service are not out of line with nearby jurisdictions. Mr. Marois, do you have any comments with respect to that statement?

MR. MAROIS: Yes. I guess it's a clarification. PI IR-8 of August 19th in exhibit A-19 to which Mr. Knecht refers is for firm rates only. Disco's firm rates do appear to be in line with nearby jurisdictions, but does not consider incentives or interruptible products. Such information is difficult to gather and means a true comparison is not available.

Q.26 - Thank you. Turning to page 8 of his evidence -- I'm trying to find the line reference -- I will come back to that. I don't have the specific line reference but I will come back to that.

If you can turn to page 14, and it's at line 16 and 17. And there Mr. Knecht says that higher rates for interruptible service will cause those customers to use their own generating capacity rather than to switch to firm service. Mr. Marois, what is Disco's view with respect to that statement?

MR. MAROIS: Yes. About 60 percent of interruptible sales are actually surplus, which is not backed up with self-generation. These customers do not have the option to run their own generators and as such Disco feels that surplus load could switch to firm supply depending on economics.

Q.27 - And, Mr. Marois, if you turn to page 15 of Mr. Knecht's report at lines 5 and 6 he says, I recommend that the Board evaluate whether it can make any changes in the current proceeding in respect of reducing this flexibility. And basically he is talking about the flexibility of industrial customers switching to firm supply. Mr. Marois, can flexibility be changed?

MR. MAROIS: No. Disco is subject to contracts that stipulate the 12 month termination period.

Q.28 - Now staying on page 15, if you look at lines 21 to 24, Mr. Knecht is basically recommending a three megawatt hour contribution to be added to the interruptible rates. Now, Mr. Larlee, is this a reasonable contribution in your view?

MR. LARLEE: I do not know, as Mr. Knecht does not provide any basis for this contribution. As stated in Mr. Marois' evidence in exhibit A-76 on page 12, Disco recommends that a contribution only be added after Disco completes the interruptible studies ordered by the Board and its own internal review of the interruptible products.

Q.29 - Now if we can turn to page 17, and it's line 30, and it actually flows onto the next page as well. But basically Mr. Knecht states that the rates have already been set at what Disco deems they can afford. Mr. Marois, is this statement factual in your view?

MR. MAROIS: No, it is not. The proposed industrial rates were prepared using the steps described in my evidence. Disco believes that these rates are reasonable, but as stated in the evidence, Disco is concerned about a possible impact to load. Mr. Knecht provides no basis for this statement.

Q.30 - Thank you, Mr. Marois. I'm going to move on now to the evidence of Dr. Rosenberg which is EGNB-5. And if you would turn to page 5, particularly lines 9 and 10. Do you have that in front of you, Mr. Larlee?

MR. LARLEE: Yes, I do.

Q.31 - And he says that Disco's cost study unnecessarily mutes the primary fact that it was driving up Disco's costs, namely winter usage.

Do you have anything to say about that statement?

MR. LARLEE: Yes. Disco has followed the methodology approved in the December 21, 2005 CARD ruling, recognizing seasonal cost in the CCAS was not approved for this proceeding. And in fact the Board ordered Disco to provide seasonal rate proposals at the time of the next application.

Q.32 - Thank you, Mr. Larlee. And I would ask you to turn to page 11 of the same report. And he talks on that page about the percentage differential, one-third. And he indicates that it does -- in his view does not follow the Board's ruling.

In other words, it is the percentage differential by one-third that was used I believe with respect to the second block. And he indicates that it does not follow the Board's December ruling.

What if anything do you have to say about that?

MR. LARLEE: Disco strongly disagrees with his statement.

And it has followed the ruling. In fact Mr. Knecht on page 6, line 25 of his evidence, also states that Disco does meet the Board's directive.

Disco's approach takes into account the relative differences between rate blocks by reducing the percentage discount of the declining block rather than the absolute discount.

Q.33 - Thank you, Mr. Larlee. As a general overview of Dr. Rosenberg's evidence, generally Dr. Rosenberg bases his rate proposals on the revenue to cost ratios of residential electric heat customers.

Do you agree with this approach?

MR. LARLEE: The revenue to cost ratios for residential were segmented into electric and nonelectric customers for information purposes. And it was intended to provide directional guidance. And as such Disco's proposal is moving the segments closer together.

But it's important to note that the segments are not separate rate classes and that the Board's .95, 1.05 target range for revenue to cost ratios is for the rate classes and not for segments within the rate classes.

Q.34 - Thank you, Mr. Larlee.

And if you turn to page 18 of Dr. Rosenberg's report it has several recommendations. But one of those recommendations is to close the general service II rate.

And Mr. Marois, what are your thoughts on this proposal?

MR. MAROIS: Disco had originally proposed to close the GS II rate to new customers. But on page 31 of the December CARD ruling the Board stated that, and I quote, "It is appropriate that two classes be kept separate until further data is collected and more analysis occurs. It is Disco's view that closing the GS II rate will in effect merge the two rates for new customers which appears to run counter to the Board ruling. However Disco is still of the view that closing the general service II rate has merit."

Q.35 - Thank you, Mr. Marois. Staying on page 18, that was one of Dr. Rosenberg's proposed recommendations. But he makes others, including expanding the residential block size further. He proposes seasonal rates by April 2007. And he is also proposing to allow GS II customers to convert part of their load.

What are your thoughts on these other recommendations put forward by Dr. Rosenberg?

MR. MAROIS: Dr. Rosenberg's other recommendations appear to be counter to the December 21, 2005 CARD ruling. Disco feels these matters have been addressed as the Board specifically ruled on seasonal rates, the elimination of declining block and on the separation of the general service rates.

MR. MORRISON: Thank you, Mr. Marois. I have just a couple of questions more, Mr. Chairman. And they deal with the evidence filed by Mr. Harrington and Ms. Black which I believe is found at EGNB-4.

Q.36 - If you can turn to page 9 of that evidence. And I guess I will direct this to you, Mr. Larlee. They are talking about pricing signals.

And generally what they say in their evidence on page 9 is that a pricing signal to discourage heating with electricity has not been eliminated or decreased in the proposal put forward by Disco.

Do you agree with that statement, Mr. Larlee?

MR. LARLEE: No, I do not. Disco's proposal includes an increase to the end block rate which is much greater than the increase to the first block rate. And this does send a better price signal.

Disco's proposal is also consistent with the Board's December 21st 2005 CARD ruling to eliminate the declining block rate structure in three steps over five years.

Q.37 - Thank you, Mr. Larlee.

And Mr. Marois and Commissioners, if you can turn to page 12 of that same evidence. And there are a number of bullets on that page?

One of the recommendations that Mr. Harrington and Ms. Black recommend is that the general service II customers who convert from electric should remain on the GS II rate -- well, I guess it is convert from all electric should remain on the GS II rate.

Do you have any views with respect to this recommendations, Mr. Marois?

MR. MAROIS: Yes, I do. I guess first of all I do appreciate Enbridge's concern, but for equity reasons cannot support this recommendation.

Allowing GS II customers who convert from electricity, from all electricity and remain on that rate would create inequities between the two general service classes.

For example, this recommendation means that two identical nonelectric customers could be on different rates, one on GS I and one on GS II. So that's the equity concerns we have.

Disco believes that the best solution is to quickly merge the two rates. Disco's proposal moves the rates closer together by reducing the gap in demand charged by one-third and again still supports the closure of GS II rate to new customers and the merger of the two rates.

MR. MORRISON: Those are all of my questions, Mr. Chairman. And the panel is now open for cross examination.

CHAIRMAN: Okay. I think we will take our break now.

(Recess)

CHAIRMAN: I understand there has been a note of clarification.

MR. MORRISON: Actually two, Mr. Chairman. And I apologize. I said I was going to get back to something in Mr. Knecht's report. And I forgot.

Q.38 - But there was -- at pages 8 and 9 of Mr. Knecht's report he talks about basically the export credits and how they should be classified. And at the top of page 9 he says that -- at lines 3 to 5 he says "I recommend that the Board clarify its position with respect to the calculation of the revenue to cost ratio."

Does the panel have any comment with respect to that statement, particularly you, Mr. Larlee?

MR. LARLEE: Yes. The Board was very clear and specifically addressed export credits in its ruling on December 21, 2005 on page 26 and stated, and I quote, "We will accept the classification of the export sales credits as proposed by Disco for the purposes of this hearing", end of quote.

Q.39 - Thank you, Mr. Larlee. And I understand that there is still some confusion about A-76 and A-77. And I think we should get that clarified right now so that everybody is on the same page and understands on a go-forward basis.

Mr. Larlee, can you explain the difference between A-76 and A-77 in layman's terms?

MR. LARLEE: I can try. I think probably the best way to attack this is to go in chronological order. So on January 17th Disco filed evidence that included a description of how the cost allocation study was revised to meet the CARD ruling.

And the cost allocation study itself, using -- the calculation of revenue cost ratios using current rates, July 7th rates. And that got entered in evidence as A-77.

Then on January 24th Disco filed evidence on the rate proposal, the specific rate increases and a second cost allocation study that included those revenues under the rate proposal in that study to calculate the revenue to cost ratios.

That got entered in as evidence as A-76. So I'm sure part of the confusion here is that the numbers are reversed. The exhibit numbers are in reverse of chronological order.

MR. MORRISON: Thank you, Mr. Larlee.

DR. SOLLOWS: Just to carry on with that point so that it is crystal-clear, in the filing that is labeled A-77, the study which was to contain the study filed on January 17th, it in fact in my binder contains a study dated January 17th but revised February 7th?

MR. LARLEE: Yes. That's correct.

DR. SOLLOWS: Okay. So -- and I think that has been part of the confusion, that maybe all the binders have not been updated.

CHAIRMAN: Was A-76 not substituted with a new volume? No? Okay.

MR. LARLEE: A-76 -- both cost allocation studies should have at the bottom left-hand corner a revision date of February 7th. So both studies are on the exact same basis, the only difference being the revenue.

DR. SOLLOWS: One further question for clarification. The electronic versions of these, do we have the most recent revised electronic versions, the spreadsheets or the spreadsheet files?

MR. LARLEE: Yes. That's my understanding.

DR. SOLLOWS: They have been filed as well, have they?

MR. LARLEE: Yes. That's my understanding.

DR. SOLLOWS: Thank you.

CHAIRMAN: Okay. Thank you. Mr. Lawson?

MR. LAWSON: Thank you, Mr. Chairman.

<u>CROSS EXAMINATION BY MR. LAWSON</u>:

MR. LAWSON: Good morning, members of the panel.
Mr. Marois, I'm sure you are happy to be back again today.
Q.40 - Before I start on questions that I had, I would like to just make sure I understood correctly from the sort of change that was indicated this morning. I found the pace was faster than my mind was able to keep up.
Am I correct in my understanding that -- was it a $2.1 million error had been made in terms of the revenue that was forecast in the test year for interruptible power? Is that correct?
MR. LARLEE: $2.1 million was the result of timing issues in getting the right up-to-date costs into the revenue calculation. So yes.
Q.41 - It was understated by $2.1 million for the test year?
MR. LARLEE: That's correct. Yes.
Q.42 - Okay. And that revenue would be -- that extra revenue, if you will, comes from the large industrial customer class, is that right?
MR. LARLEE: That's correct. Yes.
Q.43 - Okay. And that is why the other revenue for the large industrial customer class would be dropped by $2.1 million? Would that be a fair analysis?
MR. LARLEE: Yes. By reducing the rate increase from 12.9 percent to 12.1 percent for the firm portion of that

class, effectively that's what we did. We dropped the revenue by 2.1 million.
Q.44 - The total revenue from both, from the large industrial class will still be the same amount as had been proposed, is that right?
MR. LARLEE: Yes. That's correct.
MR. LAWSON: I'm sorry, Mr. Marois.
MR. MAROIS: I guess the reason we are proposing to apply this additional revenue against the large industrial rate is consistent with how the rates were set in the first place.
Because the way the rates were set in the first place is after setting the increase for all rates we applied the residual to large industry. So if we would have known this in the beginning, that would have been the increase.
Q.45 - Thank you. And I'm going to -- I call interruptible interruptible. And I will for the course of the examination here. Because I would like to deal with some issues around interruptible.
But I take it there is a distinction between interruptible and surplus power, is that correct?
MR. LARLEE: Yes, there is, in the way that they are applied. But the actual calculation of the rate is identical between the two.

Q.46 - And the primary difference or maybe the exclusive difference between them is that surplus power is just supplied on the same basis, sort of it can be clawed back at anytime kind of basis.

But it is just supplied to customers who don't have their own self-generation, is that right?

MR. LARLEE: I guess I would describe it the opposite way around, that interruptible is for customers who have self-generation. And surplus power, there is no requirement for self-generation.

Q.47 - Okay. So I'm going to call it interruptible for the sake of today rather than trying to sort of distinguish the two of them.

So just if I might then start to deal with the question of reserve margins that NB Power as a whole maintains.

There is a policy I gather with respect to maintaining a reserve margin by NB Power beyond its peak firm demand, is that correct?

MR. LARLEE: Yes. The planners are required, for the long-range plans, to include a certain amount for reserve margin in the long-term planning.

Q.48 - And is that usually about 20 percent? Or is it exactly 20 percent or -- there is some reference in some of the evidence to 20 percent?

MR. LARLEE: I think 20 percent is a good number for Disco. And that's because of a combination of plants and the rules. But 20 percent is a good number.

Q.49 - And am I correct in my understanding that that is you take your peak firm demand and say beyond that peak firm demand we need to have a further reserve amount of available power in case of problems of another 20 percent, is that a fair assessment?

MR. LARLEE: Yes, I think that's fair.

Q.50 - Okay. So if for example the firm -- the peak firm demand increased by another 100 megawatts, then presumably the planners would have to plan on another 100 megawatts of capacity plus 20 percent. So 120 megawatts of additional power capacity available because of the additional firm load?

MR. LARLEE: I am a little bit out of my area of expertise here, but I think you are correct.

Q.51 - Welcome to the club. Mr. Marois can provide some relief. The fact that I'm looking at you, Mr. Larlee, is no indication I am leaving Mr. Marois out here, but --

MR. MAROIS: I'm not offended.

Q.52 - And if I could just deal with this issue -- and, Mr. Marois, you may have a greater knowledge with respect to this specific area on the interruptible power. But my understanding is that with respect to this reserve capacity that's needed that this -- some of that capacity could be what is known as spinning or is operating and ready sort of to be charged up at any time in case of a problem, is that right? Either panellist, I don't want to discriminate.

MR. LARLEE: I was speaking in terms of the long range planning and the 20 percent. When you get into the requirements for ten minutes spinning reserve and 30 minutes spinning reserve, those are operational reserve requirements and I'm even less familiar with that area. I mean it depends on your largest contingency essentially and what your biggest plant is. So if you were to lose that plant you have to have the capability of maintaining your system.

Q.53 - But in terms of the capacity then for in the long-term you need 20 percent reserve margin for anticipated needs, at any given time during the course of daily operations though I understand that there needs to be power available in case for example something happens to one of the units. There needs to be another unit on standby and ready to supply the replacement power, and that generally that too is about an anticipated 20 percent extra capacity for just in cases, is that a fair assessment?

MR. MAROIS: My understanding is the same as Mr. Larlee in that you have to be able to back up your largest generator which in our case is Lepreau. So if Lepreau falls you have to have the capacity there, and there is further reserves, but I'm not familiar with the details unfortunately.

Q.54 - Now some of that I understand can be what is known as spinning capacity which is you are actual operating facilities, but not providing power from those facilities into the grid system for the firm demand because it's just ready to react in case of a problem, is that correct?

MR. LARLEE: There are several ways that the operators of the plants can do it. In New Brunswick we are lucky we have a hydro system. And one of the beauties of a hydro system is you don't have to heat up any boilers, you just open the wicket gates and away she goes. So that's obviously the first choice for reserve.

And then the other choice is if for whatever reason the hydro -- in the spring time if the hydro is being used at its full capacity, for instance, then they can operate units at below maximum. In other words, they are not sitting there doing nothing. They are operating rather than at their maximum, they are backed off and available to be ramped up very, very quickly. Those are the two examples that I'm familiar with.

Q.55 - Now the hydro may as you say be in fact in use in any event, so it can't be used as a back up if it's in fact being a primary source in the firm grid, is that correct?

MR. LARLEE: Right. But that occurrence usually only happens in the spring time.

Q.56 - Spring time. So there may be some extra capacity in equipment that is already running but there may actually be some other ones that are sort of spinning I gather literally perhaps, spinning, operating, and not actually sourcing -- supplying power into the -- to feed the firm demand. Again I'm just dealing with the firm demand at this point.

MR. LARLEE: I mean that's a possible -- that's a possible operating situation, but I would see that as being quite rare relative to just sort of operating Coleson Cove or some one or two units at Coleson Cove below the maximum level.

Q.57 - There must be some cost associated with respect to supplying this -- or having this reserve capacity -- operating costs -- having this reserve capacity available? I know there are capital costs.

MR. LARLEE: Yes. Yes, there are.

Q.58 - And I presume -- are those costs paid directly by Disco under the PPA or are they incorporated with part of the rates under the PPA, do you know? Sort of inclusive rates.
MR. LARLEE: I'm going to have to ask you to repeat the question.
Q.59 - Okay. Well I will make it simpler. I presume that the cost of sort of having -- the operating costs associated with having that capacity available directly or indirectly is paid by Disco?
MR. LARLEE: Yes, that's true, but the load is responsible for that type of service essentially.
Q.60 - And that cost would have to be paid by Disco regardless of whether it's getting any revenue for some of that power, correct?
And let me just point out where I am headed here. I understand that if there is what is called spinning, or at least what I understand to be called spinning power, and if it's being sold on an interruptible basis to large industrial customers, it still counts as spinning reserve, if you will? Do you understand that to be the case?
MR. LARLEE: You lost me when you said sold. What is it exactly that is being sold.
Q.61 - Some of these generators that are -- power generators

that are operating on a spinning basis can in fact generate power, correct?

MR. LARLEE: Well for instance, if you are in a situation where one of the units at Coleson Cove is operating at 50 percent, so that this buffer reserve -- obviously the 50 percent that it is generating is going out onto the system.

Q.62 - But the extra capacity -- the 50 percent that's not being used would be considered as a part of the reserve, correct?

MR. LARLEE: Correct, yes.

Q.63 - And there may be some costs associated with not using that extra 50 percent?

MR. LARLEE: That's right, yes.

CHAIRMAN: Mr. Lawson, where are you going?

MR. LAWSON: I'm just trying to get to the fact that there is some revenue being generated from that idle capacity, Mr. Chairman, by selling interruptible power. I'm almost there.

CHAIRMAN: Well you are talking about ancillary services?

MR. LAWSON: Yes.

CHAIRMAN: And that's a security issue that we are talking about now and that's the SO's responsibility.

MR. LAWSON: Mr. Chairman, all I'm trying to --

CHAIRMAN: Okay. You have obviously got the wrong panel, but go ahead.

MR. LAWSON: Yes. The objective here, Mr. Chairman is merely to identify that some -- there are costs associated with Disco in keeping the reserve. I recognize that perhaps would have been better addressed by other witnesses form a technical point of view. But there is revenue being generated to some of that reserve to cover their costs of having that reserve in place. And this goes to the interruptible power question.

Q.64 - So let me just ask you one hopefully final question with respect to this then. There are costs you have indicated associated with having reserve capacity, operating costs. That reserve capacity can in fact, while it's considered reserve, also generate power and be supplied on an interruptible basis to industrial customers, is that correct?

MR. MAROIS: I guess my understanding I would position it a bit differently which maybe answers your question. In my understanding is everything else being equal if we didn't have interruptible customers we would need a bigger reserve. So you would have this generation sitting idle that you could not use. So by having interruptible load you can have somewhat smaller reserve because they are

part of a reserve for all practical purposes.
Q.65 - In other words, if those customers instead of being interruptible were firm you would need a larger -- both a capacity and a larger reserve as well?
MR. MAROIS: Yes, because you would need to have the reserve there to meet that firm load.
Q.66 - But in addition to that I guess is some contribution -- we know from the evidence that marginal cost is what is being charged for interruptible power currently. Is that correct, as I understand it?
MR. MAROIS: Yes, plus an adder.
Q.67 - Plus an adder. That marginal cost is helping defray, do you agree, some of the costs of operating to have that reserve capacity available?
CHAIRMAN: Mr. Morrison, there are great concerns with the panel because we don't think that all of the appropriate evidence is getting out on the record in reference to this question. And for instance I -- to me the last panel would have been more appropriate for these questions to be put to with Mr. Kennedy, for instance, in charge of generation, rather than Mr. Larlee.
Of course the anchorman has a good knowledge of everything. But I really think on this one that the SO is very much involved in this and I really think we are

getting off base. All of that to say that if Mr. Lawson wants to pursue this line of questioning, I wonder if you would consider bringing someone back who has a better working knowledge of the subject matter that he is talking about.

MR. MORRISON: I wonder if it might be -- I'm trying to recollect my days during the OATT hearing and ancillary services and spinning reserve and ten minute reserve, and what interruptible is contribution to the overall reserve requirement is and how it contributes to that. It may be easier because I don't know for example Mr. Kennedy is the appropriate person. I am reluctant to try to contact someone from the SO who probably would be the best people to deal with this.

If perhaps, Mr. Lawson, over the lunch hour, if you want to formulate a question that we could take as an undertaking and then get the appropriate to respond. I think we could lay out exactly what it is that -- how interruptible interrelates with the whole reserve requirement.

CHAIRMAN: Yes. Why don't you do that and the Board on behalf of Mr. Lawson will ask if it can't be handled in that method, that you find the right person and ask him to make a trip down here so Mr. Lawson can question him. But we too sat through the SO hearing an it's -- we don't want to see the wrong thing on the record.

MR. LAWSON: Okay. Mr. Chairman, I think that's probably a good way to handle it. Thank you.

Q.68 - Now I would like to refer -- if I might for a second. I have -- I supplied yesterday to your counsel a copy of a chart which is being distributed currently.

CHAIRMAN: You would like to put that in as an exhibit, Mr. Lawson?

MR. LAWSON: Yes, Mr. Chairman, if I could please.

CHAIRMAN: My records indicate this should be <u>CME-4</u>. I presume if anybody has any quarrel with it going in they would have said something by now.

MR. LAWSON: The witnesses -- I want to ask a question of the witnesses who may have some comment with respect to it.

DR. SOLLOWS: What year is it?

MR. LAWSON: That is one of the questions.

Q.69 - So looking at CME-4, as I indicated this was supplied a couple of days ago and indicated that the base information from which this has been prepared came from PI IR-19. I'm afraid I couldn't find the exhibit number. But that was information supplied on August 5th. And it was for the period, as I understand it, 2004 and 2005.

Mr. Larlee, have you had a chance to take a look at this graph or chart?

MR. LARLEE: Yes. Yes, I have.

Q.70 - And is it your understanding that this is for the period for 2004/2005?

MR. LARLEE: Yes. It does appear to be 04/05. My only comment is it looks to me like it's just a net and not firm load. So that it would include the entire system, which includes interruptible, not just firm load as the title implies.

Q.71 - Well, I don't have the data in front of me. But I did go through some of the information last night. And just looking at for example the highest peak firm of 3187 which I believe occurred on August 17th perhaps of 2004, I don't know if you checked to see if that was the case or not. Did you check the data to see if in fact it did include the interruptible and the export?

MR. LARLEE: Yes, I did. I checked the series of hourly data that this chart represents. I did not confirm that on the peak hour whether or not the interruptible customers were in fact interrupted. But the hours in this series are system net which includes the total load in-province.

Q.72 - And that total load in-province, as you describe it, would include interruptible?

MR. LARLEE: Yes, it would.

Q.73 - You don't happen to have that exhibit with you from which this data came, do you?

MR. LARLEE: No, I don't. But if you look at it you will see that this series of numbers comes from a column titled "System Net".

So it may just simply be a misunderstanding of what system net includes. Our definition of system net is total in-province load.

Q.74 - I guess for the purposes of this discussion then, could we -- I know there are variables in terms of how much is firm and how much is interruptible at any given time, including during this 10-hour period in which I'm going to make reference here. This chart references all 300 hours.

So while the numbers may not be exactly right, would you agree that generally the relativity of the numbers are substantially the same in terms of the tenth highest demand and the peak firm demand?

MR. LARLEE: Yes, I would agree with that. But relativity brings up an interesting -- another comment that I have, and I think it's very important for the Board to understand, is that this is a magnification of the total load duration curve.

So if you look at the X axis for instance we are just looking at the top 300 hours. So we are looking at what -- you would normally show the entire curve. We are just looking at the left-hand side.

And the Y axis is just showing the top 800 megawatts. There is another 2400 megawatts down here towards the wall. So it's a magnification of the peak hours. So we know --

Q.75 - Right. And in fact --

MR. LARLEE: -- what the perspective is.

Q.76 - And I guess I just wanted to focus on a further magnification and most specifically the first 10 hours or the highest 10 hours in a given year.

So a year as I understand it represents about 8700 hours,is that correct, 8760 or something in that neighborhood?

MR. LARLEE: 8760 when there isn't a leap year.

Q.77 - Right. Okay. So this is only 300 of the hours. And in fact what I want to focus on is just the peak -- the highest 10 hours out of those 8760 hours.

So you would agree that there is a significant difference in any event in terms of for 10 hours of the year in this case on the net load basis. There is a 2809 megawatt-hour requirement on the 11th highest or tenth highest day. And yet or hour -- and the spread between it and the net of 3187 is 378 megawatts. Is that math correct?

MR. LARLEE: Yes, I believe it is.

Q.78 - Okay. So that am I correct in my understanding that 378 megawatt capacity is required for Disco's demands or requirements for only 10 hours of the year, at least in this year of 2005/2005?

MR. LARLEE: That's correct. In this year that's what it shows.

Q.79 - And is it fair to say that this would not be an unusual year? The numbers will vary. It may not be 300. It may be 400. It could be 200.

But there are peak periods of a few hours, 10 hours a year, where there is a significantly higher requirement for the system than there is for the rest of the year?

MR. LARLEE: I haven't looked at the weather data close enough to say just how typical 04/05 was. My general recollection is that over the space of the year the weather was relatively normal.

And that would be what's going to drive the short-term peaks. But it's very dependent on any cold snap and how sustained the cold snap is.

Q.80 - And I recognize that. It is fair to say though that there are -- there is a fairly short period of time when there is a significant increase in the requirements for power by Disco, is that correct?

MR. LARLEE: Well, that's certainly what this chart is saying. I guess what I was trying to allude to, it really depends on several factors how short that period is.

Q.81 - No. But might it be, instead of 10 hours it may -- it is not likely to extend for three days or four days in terms of having a very high peak. Is that not likely, possible but?

MR. LARLEE: Well, what's going to happen for instance if you have a very long cold snap it's going to run from one Monday through into the next Monday, you are going to end up with two Monday mornings.

So instead of having one day here, is what it looks like, you have got one very cold day, you would end up having two. So instead of 10 hours you can have 20 hours with these types of loads. So that's the sort of thing you could have.

If we had a very sustained cold snap like we have had back in '95, and even in 03/04 we had quite a lengthy cold snap, you are going to see the numbers of hours where we see these types of loads are going to be in here.

Q.82 - But in any event, relative to the entire year, it is a very small part of the year where you have this high peak demand. Is that a fair statement?

MR. LARLEE: Yes. It's a fair statement, yes.

Q.83 - But there has to be a planning for capacity for that, even though it is a short time, for that peak period, correct?

MR. LARLEE: Yes. When we are doing the forecast upon which we base the planning, we use average sustained temperature, minus 24. So that's what the history tells us is likely to be the temperature of a cold snap.

And that's what we forecast the -- what we forecast the demand based on historical data. So that's what it's telling us.

Q.84 - And this peak period, short or perhaps a little longer than 10 hours is generally in January, February of each year? Is that a fair statement?

MR. LARLEE: Yes. That's true. We have -- we have peaked in late December one year you recall. It was '90 -- might have been '89 or '90. We had a cold front at Christmastime in December.

But normally it's January or February. And statistically I think the weather forecasters will tell you that the first week of February is likely to be the coldest week of the year.

Q.85 - And that I presume, and I think I have heard indications from previous witnesses, is generally as a result of sort of the heat requirements on residential side, for as it gets colder, the heat goes up in all of our houses?
MR. LARLEE: Largely that's the case. And people use lights more. And they use other appliances more. But it's driven by electric heat.
Q.86 - Now this concept of the capacity that the system requires and the more common during the year peak demand, sort of as this line does indeed drop off, as you say, and continues to drop off as the chart goes out for the full years' hours, there is then, I presume it's fair to say, a significant capacity during much of the year, capacity that would otherwise be sort of spare capacity if you will, or unused capacity for the in-province demand, is that correct?
MR. LARLEE: Yes, that's correct.
Q.87 - And I'm assuming that it is from this spare or unused capacity that interruptible power is being supplied to the industrial customers?
MR. LARLEE: I can't agree with that statement. Interruptible sales are part of the in-province requirement -- part of the in-provinces energy

requirement, and are really only interrupted for system requirements. So I don't think I could agree with your statement.

Q.88 - Well the capacity is built for the firm load in the province, correct?

MR. LARLEE: The system is planned for firm load, plus reserve is required.

Q.89 - And then in addition to that the reserve is built in, correct. And that firm load is built on the expectation averaged, I'm not sure how it's done, based on the firm load expectation in a series of given years, is that a fair assessment? Some years it will be a little different than others, so there is some formula that is used to determine what the firm load is for which the system should be built.

MR. LARLEE: We have load forecast to do that.

Q.90 - And that load forecast doesn't include interruptible power, correct?

MR. LARLEE: The load forecast includes interruptible power and the system planner when he goes and he looks at his requirements, he will remove out what -- he will remove what we have forecasted for interruptible.

Q.91 - Okay.

MR. LARLEE: Interruptible demand.

Q.92 - When determining what capacity the system needs it does not include the interruptible power for the purposes of building to peak capacity plus its reserve.
MR. LARLEE: For the peak hour demand that's correct, yes.
Q.93 - Okay. It's fair to say that there is no capacity that is being built in order to respond to interruptible power requirements, is that correct?
MR. LARLEE: I would say that's correct, yes.
Q.94 - Now if in fact some of those interruptible customers, the customers who are taking interruptible power, chose to convert their interruptible power to firm load, then in fact if you were maxed out at that point more capacity would have to be built, correct?
MR. LARLEE: I take it when you say maxed out you mean our resources and our requirements are in balance.
Q.95 - Right.
MR. LARLEE: And we had interruptible and/or surplus load firm up then we would have to acquire more capacity --
Q.96 - Right.
MR. LARLEE: -- either by building or purchasing it.
Q.97 - And in fact you would not only build more capacity to respond to that to convert it to firm, but you would also have to build more to reflect the reserve capacity requirements as well, is that right? Going back to this

question if you add 100 megawatts of convertible from interruptible to firm you have to actually add on the long-term at least another 20 percent on top of that again.

MR. LARLEE: It's my understanding that definitely we would have to include your reserve, just exactly what it is I can't say.

Q.98 - Okay. Now is there a concern then -- I think I have heard it expressed previously that some of Disco's customers could switch to firm power if there is an increase in the interruptible rates by having any further addition to those rates. Does that cause concern to Disco if people -- if the rates go up and any possibility of some of that interruptible power being switched to firm?

MR. MAROIS: I just wanted to go back to the evidence. Because we did address this in our evidence. And in my evidence in particular starting on page 11, line 29, I guess we state that "Disco's concern is that interruptible load could convert to firm supply should these customers determine that it is economic to do so. The negative impacts would include an increase in Disco's costs of supplying peak load, especially during the Point Lepreau refurbishment outage and advance the requirement for peaking capacity."

Q.99 - So you are forecasting obviously the planning around the prospects that Point Lepreau will be reducing and then for a period be out completely.
Why would that cause a concern to Disco then that there would be a conversion of interruptible power to firm power?
MR. MAROIS: Just to use numbers that are already on the record, the business plan we have on record includes a load and resource balance table that we referred to previously. It's on page 13.
What that load and resource balance tells us is, based on the current information or information that was used at the time, is during the refurbishment we would have a deficit of capacity of 200 megawatts.
So if we had an additional firm -- if the interruptible customers would convert to firm then it would exacerbate that situation. And we would need even more capacity.
And again based on this document, it would probably accelerate by a year the need for new capacity. Because based on again this document, we basically break even in 2014/15. In other words, we have no excess -- no surplus capacity at that time. And we have about 100 surplus in 2013/14 which would be wiped out by the --

Q.100 - Conversion?

MR. MAROIS: Yes.

Q.101 - And lastly, does Disco have any concern about the ability of its large industrial customers continuing to carry on its business as they are now with the now 12.1 percent rate increase that is being sought as a result of the implementation of the CARD decision in December, and specifically in light of the evidence that was given by Mr. J. Meyers for the CME previously and I guess, quote, unquote, what we read in the press about what is happening to some businesses?

MR. MAROIS: Well, I guess I do address that concern on page 9 of my evidence there at question 18 between line 10 and 16.

I guess in short we are aware of the challenges faced by industry or at least some of the challenges faced by industry, things like increased Canadian dollar and weak prices, competition and all that. So we are sensitive to that reality.

MR. LAWSON: Subject to whatever might come from the line of questioning that we might deal with on the SO issue, those are all the questions I have.

CHAIRMAN: Thank you, Mr. Lawson.

MR. LAWSON: Thank you, panel.

CHAIRMAN: Mr. MacDougall, do you want to start now?

MR. MACDOUGALL: Thank you, Mr. Chair.

CROSS EXAMINATION BY MR. MACDOUGALL:

MR. MACDOUGALL: Good morning, Mr. Chair. Good morning, Commissioners. Good morning, panel. Mr. Chair, if you would guide me. I do not wear a watch. So maybe you can judge the time accordingly and let me know.

CHAIRMAN: You have 21 minutes.

MR. MACDOUGALL: I won't be finished in 21 minutes. But we can break in 21 minutes.

CHAIRMAN: That is right.

MR. MACDOUGALL: Mr. Chair, panel, for most of the people's information I'm going to be working almost exclusively off of A-76. So I think if we have the binder which is A-76, which is the Class Cost Allocation Study at Proposed Rates and Rate Proposal.

And also I will be referring to some of the tables in there which were addressed by A-121 that was filed by Mr. Larlee this morning. Although I believe the items of the tables I'm referring to have not been changed by the revisions.

So I think we will be able to just deal with A-76. But if there is points where I note that there is any change, I will try and do that. But since I only had that this morning I'm not 100 percent sure.

But as we go we should keep A-121 next to us just in case we should refer to that rather than the tables in A-76.

Q.102 - I think, panel, my questions will be primarily directed to Mr. Marois.

Mr. Marois, if you could turn to page 5, line 27 of exhibit A-76, the portion of that binder entitled "Direct Evidence of Mr. Rock Marois"?

MR. MAROIS: Which line again?

Q.103 - Page 5, line 27?

MR. MAROIS: Yes.

Q.104 - And in essence what that says is that in accordance with the PUB's directive, the declining block residential rate structure is flattened by reducing the discount of the second block by one-third, correct?

MR. MAROIS: Correct.

Q.105 - And I believe either yourself or Mr. Larlee this morning explained your proposal. But I would like to just go through that a little bit.

MR. MAROIS: Sure.

Q.106 - From my understanding the differential between the first and second energy blocks under the existing rate design is 1.74 cents per kilowatt-hour, one-third of which would be .58 cents, whereas under your proposal you are proposing a reduction of .46 cents or 26 percent of the current differential.

Would you agree with those numbers?

MR. LARLEE: Without going through the math they sound about right. I'm just trying to think back at some of my analyses. But they sound about right, yes.

Q.107 - So would you explain exactly mathematically what you did in your proposal, because you are not reducing the 1.74 cent differential by 58 cents which is one third of 1.74. So I would like to know what it is you did?

MR. MAROIS: I will let Mr. Larlee expand on this.

Q.108 - Sorry, Mr. Marois. I thought most of the questions were for you. This first one probably is Mr. Larlee's no doubt.

MR. MAROIS: That's the privilege of being the anchorman.

Q.109 - And the boss I think.

MR. LARLEE: I just want to quote from the Board's ruling, just so we are all on the same starting point.

Q.110 - Certainly. Maybe you could refer us -- that's the Board's December 21 ruling -- decision.

MR. LARLEE: It is the Board's December 21 ruling on CARD, page 29, about the middle of the second paragraph.

Q.111 - Yes.

MR. LARLEE: The Board has analyzed the likely impacts and believes it is appropriate to eliminate the declining rate block in three stages. Each stage should bring a declining rate block one third of the way to the rate of the first block --

Q.112 - For the first block.

MR. LARLEE: -- the rate for the first block. Thank you.

Q.113 - Yes.

MR. LARLEE: So that's what I base my rate design on. Now if you look at the current rate, the first block is 8.37 cents. The second block is 6.63 cents. My concern was that I want to get the two blocks as close together as possible. I want to eliminate them. I want to eliminate the blocks in three steps but I wanted to take into account the fact that in my mind this is a significant rate increase for the class overall.

So I looked -- rather than look at the absolute number, the absolute cents per kilowatt hour difference between the two blocks, I looked at the percentage discount that the second block brings. And the reason why I did that is probably easiest to explain using an example.

If the current rate was two cents a kilowatt hour in the first block, a one cent differential would mean that the end block rate would be one cent. That is a very significant drop in rate. That's a 50 percent discount in the second rate, but it's still only one cent.

If the current first block rate was ten cents and the drop in the end block rate was one cent, the end block rate would be nine cents. That's not as significant a drop, not as significant a discount for the declining block rate structure.

So I wanted to take into account the absolute magnitude of the rates that we were dealing with. And I felt the best way to do that was to look at the discount that the end block rate gives.

So under the current rates the end block rate is 21 percent less than the first block rate. I was quite fortunate. 21 easily divides by three. So I dropped that discount by seven percent. So under the proposed rates of 9.22 cents to -- 9.22 cents for the first block rate and 7.94 cents, now the discount that the end block rate offers is 14 percent, one third of the discount under current rates.

Obviously the next step -- the next time we take a step to merge the rates we will reduce that discount by half from 14 percent to seven percent, and in the third and final step we will eliminate the discount.

So that was my logic and that's the way I interpret it and plan to implement the Board's ruling.

Q.114 - Okay, Mr. Larlee. I am going to stray from my questions because I have a whole host of questions on that. I am going to start with this one.

You said 21 divides by three evenly. If you take the 1.74 cent differential, you divide it and you get .58, correct? There is no mathematical difficulty with getting essentially one third of 1.74 cents, is there?

MR. LARLEE: No, there isn't.

Q.115 - No, there isn't. Okay. But you also say that you were concerned about rate impact. But let's go back to page 29. I mean, the Board asked you to do something and if we go to page 29 of the Board's ruling it says, the Board agrees that the declining rate block should be eliminated as soon as possible. We are concerned over the possible rate shock that this might create for certain customers if the change occurs too quickly.

The Board has analyzed the likely impacts and believes that it is appropriate to eliminate the declining rate block in three stages. Each stage should bring the declining rate block one third of the way to the rate for the first block.

So would you not agree that the first two sentences --

the first three sentences I read out indicate that the Board thought about the rate impact and analyzed it. That's what they said in their ruling, correct?

MR. LARLEE: Correct.

Q.116 - And then they asked you or ruled that you must bring the declining rate block one third of the way to the rate for the first block, correct?

MR. LARLEE: Correct.

Q.117 - But you decided in doing that that you should take into account some other sort of impart or the impact of what their ruling would have, that's what you alluded to this morning. Why would you do that? They made a ruling that said reduce it by one third.

To my reading it's extraordinarily simple. Yet you put in a whole bunch of extra analysis to come up with another result. Why didn't you just reduce it, the differential by one third?

MR. LARLEE: Well on your first point I wasn't concerned so much with the rate impacts. What I was trying to explain is that I was concerned with the relative nature of the declining block rate structure, that it's all relative to the size -- to the size of the discount and the overall rate.

So that by using the percentage -- using a percentage discount and taking one third of that then I could take that fact into account.

Q.118 - Well I guess -- let me come to a couple of other points and then I will come back to some of my prepared questions.

You used the example of moving from 21 percent to 14, correct, and said that was one third?

MR. LARLEE: That's what the proposed rate does.

Q.119 - That's what your proposed rate is. But then you just went on a minute ago and said in the next step you will cut that in half to seven. But the Board ordered you to do it in stages of one third, one third, one third, and you are -- this is going to help me take out a lot of my later questions. If you did it the way you did it this time you mathematically could never get it to zero in three steps, could you?

MR. LARLEE: I fail to follow your logic. I have reduced the discount by seven percent. In the second step I will reduce the discount by seven percent.

Q.120 - If you did that by the third step how would you possibly get rid of the full differential?

MR. LARLEE: Because in the third step the discount will be seven percent. By eliminating it the rates will be merged.

Q.121 - Well I guess I will have to come back to my other questions later because I don't believe mathematically that's correct. Because you just said earlier that you were going to move it from 14 to seven in the next time. Well that isn't a one third reduction?

MR. LARLEE: We have to go back to the way the rates are now. The way the rates are now is there is a 21 percent discount between the front block and the end block. Reducing that discount by seven percent reduces it by one third.

Q.122 - Okay. I can agree with that, Mr. Larlee. Your proposal continues to leave a more substantial differential between the first and second blocks than if there was an actual one third reduction in the 1.74 cent differential, correct?

MR. LARLEE: I'm going to have to ask you to repeat the question.

Q.123 - Sure. My question is that your proposal will leave a more substantive differential between the first and second blocks than if there was an actual absolute one third reduction in the 1.74 cent differential?

MR. LARLEE: Yes, that's true. Yes.

Q.124 - Thank you. In coming up with your approach to the proposal did you go back to the Board to ask them if they were approaching it this way, or was this just your interpretation of their ruling?

A. I didn't have any discussions with the Board or Board staff.

Q.125 - You said you didn't have any discussions with Board or Board staff, is that correct?

A. That's correct. Yes.

Q.126 - Thank you.

MR. MAROIS: Mr. MacDougall, maybe in the spirit of trying to shorten the cross examination -- I mean, at the end of the day we only want to comply to the decision. So I mean, if the Board prefers one approach or the other, we are indifferent. I mean -- so it's not -- we just interpret it one way. If there is a better interpretation, that's fine.

Q.127 - Yes, that's very helpful, Mr. Marois. And I guess just on the point that the concern is that when other parties spend considerable time and believe have helped the Board come up with a decision and then find out that the impact when it's applied by Disco is different that that is problematic for those parties. And I guess that's what we are getting to and it has forced us to file evidence on this point explaining, you know, what we think was meant by a one third reduction, but --

MR. MAROIS: I just want to reassure, we just want to comply with the decision.

Q.128 - That's terrific, Mr. Marois. I greatly appreciate that. I think that may be helpful in me moving quickly. I think Mr. Marois also wants this proceeding to end quickly. So maybe because I am at the end, I am going to get a little -- a few more answers than I would have at the beginning.

MR. MAROIS: We are all a bit weaker.

Q.129 - I think that will allow me to stay away from the math. I know Commissioner Sollows probably would like these questions, but I think Mr. Marois has supplanted some of them for me. I will leave that to Dr. Rosenberg. He is the mathematician when he gets here. So if you give me a moment, I can knock a few questions out here.
I guess, Mr. Marois, though a lot of things you talk about are sending the right price signal. Considering the evidence to date, would you not think that the one third reduction, i.e., the .58 cents, which is a larger reduction in the tail block would not send a better price signal than what you are proposing?

MR. MAROIS: I agree.

Q.130 - Now if we could go again to your evidence, which is A-76. And page 3, line 5. And here you say the residential rate was set to achieve a .95 revenue to cost ratio, correct?

MR. MAROIS: Correct.

Q.131 - And if we can look at page 4, table 2.

MR. MACDOUGALL: And again, Mr. Chair, this is the table that is revised by A-121.

Q.132 - If you have A-121, you could flip it open to page 3. But I am going to deal primarily with column 3, which is not impacted. So there is no difference in both. Although A-121, page 3 is obviously now the most current information for the record.

And here if we go to column 3, the revenue to cost ratio at your proposed rates for the residential class, which is line 1, is .95 as you suggest, correct?

MR. MAROIS: Correct.

Q.133 - However, I know Mr. Larlee explained or mentioned this morning that there is only one residential class, and we have no issue with the fact that currently there is one residential class. However, you have continued for informational purposes as Mr. Larlee stated, to break the residential class into electric heat and non-electric heat customers, again to point information out to the Board and to the other parties, correct?

MR. MAROIS: Correct.

Q.134 - Now if we go to column 2, the revenue to cost ratio for electric heat customers would be .93, correct, under your proposal?

MR. MAROIS: I believe you said column 2?

Q.135 - I am sorry. Line 2, column 3. So now we are talking about the electric heat customers?

MR. MAROIS: Yes, which is a subset of the residential rates.

Q.136 - Yes.

MR. MAROIS: Yes.

Q.137 - And their revenue to cost ratio would not be at the average of the class. It would be below it at .93, correct?

MR. MAROIS: Correct.

Q.138 - And then if we go to line 3, column 3, the non-electric heat customers, their revenue to cost ratio is above unity at 1.01, correct?

MR. MAROIS: Correct.

Q.139 - So the reason your proposal is able to get the residential class as a whole to .95 is because the non-electric heat customers are above 1, which counters the fact that the electric heat customers are not at 95, correct?

MR. MAROIS: Mathematically, that's correct, yes.

Q.140 - Thank you. Would it be fair to say in that case that residential users of less electricity are in your proposal continuing to subsidize residential users of more electrically intra-class, within the class?

MR. MAROIS: Yes.

Q.141 - And under your proposal, the average cost per kilowatt hour for non-electric heat customers is obviously higher than for electric heat customers, correct?

MR. MAROIS: I will have to ask you to repeat that, sorry?

Q.142 - Sure. The average cost per kilowatt hour over the year for a non-electric heat customer is obviously higher than for electric heat customers, correct?

MR. MAROIS: Yes.

Q.143 - It would have to be?

MR. MAROIS: Yes. Well, the only small hesitation I have is naturally the revenue to cost ratio is a combination of both cost and revenue. And the average revenue is lower for residential. So there is a combination of both going on here. A higher cost, lower revenue.

Q.144 - Yes. But my question is that the average cost per kilowatt hour for non-electric heat customers would be higher than for electric heat customers?

MR. MAROIS: So the average cost for non-electric heat is higher?

Q.145 - That's right. Is higher on a kilowatt hour basis?

MR. MAROIS: Yes, it is.

Q.146 - Yes, it is. Thank you. Now you can defer to Mr. Larlee at any time. No problem.

How do you determine electric heat customers from non-electric heat customers for the purposes of presentation of this data?

MR. LARLEE: Now we estimated the segmentation using information from our energy planning surveys, percentage of electric heat customers within a class. And primarily the other source was from load research data.

Q.147 - And when you said you estimate it in load research data, could you give us an example of what you call a non-electric heat customer as opposed to an electric heat customer based on a kilowatt hour per month figure? Is that what you did? Did you stop at a certain kilowatt hour usage or what did you use as the differentiator?

MR. LARLEE: Within our load research data set, we have certain number of customers who have self-identified as being either primarily electrically heated or non-electrically heated. So from that data, we have estimated what their -- essentially what their load shape is and what their contribution to peak is.

So that number combined with our knowledge of the overall penetration of electric heat, we are able to estimate what a lot of the allocation factors would be for electric heat and non-electric heat customers.

Q.148 - But there is no clear-cut differentiator based on monthly usage? There is no figure where it ends? It's a real mixed bag of customers that you have got broken down into these two categories?

MR. LARLEE: Absolutely. There is no -- there is no clear-cut differentiation. And that's why we have to be very clear that these aren't rate classes. And nor would it be practical for them to be rate classes, because it would be very difficult to lay out any application guidelines that would allow you to break out electric heat and non-electric heat customers.

I am sure you are all aware that there are many homes in New Brunswick that have electric baseboard, that have stoves, wood stoves in their basements or have fireplaces or they might have a furnace in part of their house and electric baseboard in part of their house. So we have lots of customers with -- that have primarily electric heat with oil backup and/or wood backup. And we have customers that are primarily wood or oil heat with electric heat backup.

So it's a very -- it would be very, very difficult to try and create any clear, unambiguous differentiation between the two.

Q.149 - Understood. But for the purposes of this information, you felt you had enough data within your load research and otherwise to make the differentiations you have made here?

MR. LARLEE: That's right. And it's primarily to give us -- directionally to make sure that as we change -- make changes to the residential rate, directionally we are going in the right direction.

Q.150 - Yes. Perfect. Thank you, Mr. Larlee.

CHAIRMAN: This would be a good spot to take a break?

MR. MACDOUGALL: Yes, it would, Mr. Chair.

CHAIRMAN: All right. We will reconvene at 1:15.

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

CHAIRMAN: Good afternoon, ladies and gentlemen. Any preliminary matters?

MR. MORRISON: Yes, Mr. Chairman. I have two undertaking responses to put on the record. The first is undertaking number 6 from February 13th dealing with the deviation from budget for the forecast transmission expense of 1.6 million.

CHAIRMAN: My records indicate that will be A-122.

MR. MORRISON: And the next one is undertaking number 6 from February 20th. And it is the Ernst & Young audit that was requested by Mr. Hyslop.

CHAIRMAN: And that is A-123.

MR. MORRISON: Nothing further, Mr. Chairman.

CHAIRMAN: Anybody else anything? Just to let you know, we had the week of March -- I'm trying to remember now -- I think it was 23rd -- sorry, 20th in Fredericton. And we were put on the spot and had to cancel out on that. However, we have arranged to have the 20th and 21st at this hotel. And we are looking -- and that will be summation time anyway. So that shouldn't be a great problem.

Mr. MacNutt casually indicated to me that you may be still having some difficulty with what I suggested after Commissioner Sollows' examination yesterday concerning the NUGs and natural gas. Or do you think that is crystal-clear as to what my question was?

MR. MORRISON: I think we understand it, Mr. Chairman. And we are -- we have turned our minds to it, let me put it that way.

CHAIRMAN: Yes. Okay. Well, that is fair enough. Because you can't -- we cannot order you to put the NUG contracts in.

But we would like to know where in the contracts or the PPAs the blockage would be that would stop Disco from being able to, through the various committees and whatnot, arrange that -- pay for capacity, and if there is any profit there to the NUG operator, so that if you in your system had cheaper units that you could dispatch to put that electricity on the wires, why you would choose that and pay for capacity.

And I can't see any merchant generator who wouldn't decide, if he could make the same amount off of not running his plant and saving his plant, that he wouldn't do it. So anyway, that is what we want to see. And we would like you to come back to us on that.

Okay. Mr. MacDougall?

MR. MACDOUGALL: Thank you, Mr. Chair. Good afternoon, Commissioners. Good afternoon, panel.

Q.151 - Mr. Marois, sticking with A-76 and again the tab which is the direct evidence of yourself, Mr. Rock Marois. If we could go to page 5, line 13.

And there you note that one of the factors that allows Disco to present its current proposal before the Board is that the impact of the Board's CARD ruling is to allocate less cost to the residential class thus moving the residential revenue to cost ratio closer to the target range, all other things being equal, is that correct?

MR. MAROIS: That is correct.

Q.152 - So the CARD ruling in and of itself, all other things being equal, has given you that latitude?

MR. MAROIS: Yes.

Q.153 - Thank you. Now if we could turn back to the Board's ruling of December 21st and again at page 29. And we are in the same paragraph that myself and Mr. Larlee were discussing earlier today with respect to the one third reduction. So again it is the December 21 ruling, page 29.

And here I'm just going to focus on I guess the sentence we haven't read in yet which reads, The first adjustment should occur as part of the rate changes for the 2006/07 year, which is what is being proposed. The remaining two adjustments can occur at the time of future general rate changes. But the Board orders that the process must be completed within five year of this date.

Could you advise at this time when you anticipate your next future general rate change?

MR. MAROIS: I cannot.

Q.154 - So you can't advise any of the parties here when you would anticipate making the next one third adjustment?

MR. MAROIS: No, I cannot.

Q.155 - How does Disco plan to deal with this issue if it does not come in for a general rate case above the 3 percent cap within the next five years?

MR. MAROIS: It's something I haven't given any thought to. So I don't have an answer.

Q.156 - Could you give a bit of thought to it right now?

MR. LARLEE: The Board's ruling relates specifically to the declining block rate structure which can be adjusted or even eliminated without an overall rate increase to the class. So there is really -- there would really be no need for a rate application that would have any rate increase at all whether 3 percent or any other percentage.

Q.157 - And how would that work then, Mr. Larlee?

MR. LARLEE: When you say how would that work, you mean how would the rate be altered? Are you talking about the rate?

Q.158 - Yes, without having to come to the Board?

MR. LARLEE: Well, my understanding of the Electricity Act is that if any rate increase is under 3 percent for any class overall, that a hearing is not required in front of this Board.

Q.159 - So your view is that you could actually make these changes without the Board looking at them again. And you could do it within the five years without necessarily coming to the Board?

MR. LARLEE: I think we could do it conceivably without having a hearing in front of the Board. In the past we have always filed any changes to the rate schedules with the Board, so --

Q.160 - Well, you are saying without a hearing, i.e. without seeking the Board's approval?

MR. LARLEE: Well, it's my understanding of the Act is there is no requirement if we are under 3 percent.

MR. MAROIS: And again that's the context that we do not -- you are asking us how could we achieve this ruling if we don't come in before the five years?

Q.161 - And I want to get your views on what you think you can do. So your answers are fine.

But right now you can't tell us when there may be a future general rate change or when you may decide to make these changes with or without application to the Board, correct?

MR. MAROIS: Not at this stage, no.

Q.162 - Thank you. On a similar note then, at page 34 of the CARD decision or the CARD -- I think it is -- let's call it what it is, the December 21 ruling, page 34, and this isn't -- these paragraphs and the lines aren't numbered here, but I'm just dealing with the sentence above the heading, "Standby rate", and there it says, We, being the Board, direct Disco to provide a proposal for seasonal rates at the time of the next review of rates. Correct?

MR. LARLEE: That's a correct reading, yes.

Q.163 - And if you can't tell us today when the next review of rates is going to be, I assume none of us can have any idea when you would anticipate providing a proposal for seasonal rates, is that correct?

MR. MAROIS: I guess that's correct, yes.

Q.164 - And let's flip to page 35, and again the very last sentence, we therefore order Disco to develop a proposal for a standby rate for cogenerators and to include it in the evidence for its next rate application. So again I guess today none of us have any idea when your next rate application will be, correct?

MR. MAROIS: The same answer to the same question.

Q.165 - And that one refers to a rate application. So I guess the requirement is you do it when you have a rate application, correct?

MR. MAROIS: That's what the ruling says, yes.

Q.166 - And if we just flip back just to make the same point with respect to seasonal rates, it said at the time of the next review of rates. So that would require a review of rates unless you wanted to do it earlier, correct?

MR. MAROIS: Yes.

Q.167 - The mandate is you don't have to do it until the next

review of rates?
MR. MAROIS: Yes, that's what the ruling says.
Q.168 - Okay. And you haven't given any consideration as to doing it earlier than your next review of rates at this time, have you?
MR. MAROIS: No. Our focus is getting through this rate application.
Q.169 - Okay. Now, Mr. Marois, in your initial application you proposed that the GS II class be closed to new customers, is that correct?
MR. MAROIS: Yes.
MR. MACDOUGALL: And what I would like to do, Mr. Chair, I am going to make some reference to Mr. Marois' evidence that was filed on April 18th 2005, and that's filed in the proceeding now as exhibit A-3.
But for ease of reference I have made copies of that document which we can hand out. It does not have to be marked but I can give it to the Board and everyone else. We can just use that document, but it is a --
CHAIRMAN: That would be appreciated. I think those volumes are back at the office. We have A-3 here, I am told.
MR. MACDOUGALL: I can still -- this makes it a lot easier, because there is no need for a big binder. Mr. Chair, as I say, this is already an exhibit, so for the record

everything will be in A-3. What I handed out was just the text of Mr. Marois' evidence in A-3.

Just so the record is clear there are some figures attached to his full evidence in A-3, along with a copy of a bunch of tariff pages. But I'm not referring to those, so I didn't bother making copies of all of that for completion. All I have handed out is the text and that's all that I will be referring to, and I don't believe there is any tie-in to the other pages for this series of my questions.

Q.170 - Mr. Marois, if we can go to page 4 of exhibit A-3, and I will just refer to this throughout as your April 18 evidence. In question 8 you state, the fifth objective is to send better price signals. Why is this important? Correct?

MR. MAROIS: Correct.

Q.171 - And then if we could just go to page 5, because I'm on the topic now of the GS II class, and with respect to the GS II class I would just like to read into the record the second and third full paragraphs of your response.

"Similarly it is expected that no longer offering the general service II all electric rate to new customers will remove a financial incentive for businesses to use electricity for space heating. This could result in an overall reduction in energy consumption because natural gas and oil end use heating equipment is far more efficient than electricity generating plants. These changes are also consistent with the government's objective to encourage conservation as evidenced in the White Paper New Brunswick Energy Policy and White Paper Energy Efficiency System for New Brunswick." And that was your testimony on April 18th, correct?

MR. MAROIS: Correct.

Q.172 - Now if we could go to line 25 on the same page, you also stated at that time, closing the all electric rate to new customers would make it easier to merge the two rates compared to allowing the number of customers served under this rate to grow. Correct?

MR. MAROIS: Correct.

Q.173 - And I know you mentioned some of this this morning I believe in your direct comments. But in your January 24 evidence -- so we are back in A-76 -- if we go to page 7, line 12, you state now that Disco is not proposing that general service to all electric rate be closed to new customers at this time. And then you go on to say that this is consistent with the Board's CARD ruling that states the Board considers that it is appropriate that the two classes be kept separate until further data is collected and more analysis occurs.

So what I would to like to ask you was, was your interpretation of the Board's ruling the only reason why you are now not proposing that the GS II rate be closed to new customers?

MR. MAROIS: Yes. Definitely.

Q.174 - So all the other rationale that you have put forward, you still adopt that as your testimony today?

MR. MAROIS: Yes. I believe the general service II rate is an aberration. I mean, it's -- I believe we had the discussion the other day which as things such as time of use rates, and my comment at the time was we need to resolve more urgent issues, and this is an example of one of them. These rates clearly send the wrong price signals. So our proposal was again simply to -- because we -- that was our interpretation of the decision -- or the ruling.

Q.175 - But again on this one where you fundamentally believe the GS II should be closed for going forward, you didn't go back to the Board to seek any clarification on their interpretation of their language, did you?

MR. MAROIS: No, we did not.

Q.176 - And just to re-read it, the language you were depending on was the Board considers that it is appropriate that the two classes be kept separate until further data is collected and more analysis occurs, correct?

MR. MAROIS: Correct.

Q.177 - Do you still agree that closing the rate would make it easier to merge the two rates in the future compared to allowing the number of customers served under the rate to grow?

MR. MAROIS: Yes, because it stops the bleeding.

Q.178 - Thank you. And then also on page 7 of your January 24 evidence at line 19, you state that there is no cost causation reasons for all electric customers to receive a lower rate than other general service customers, correct?

MR. MAROIS: Correct.

Q.179 - And then just one more, if we could just refer back to A-3, your April 18 evidence, at page 6, line 5. And here you stated, Sending better price signals with help new general service customers make better choices with respect to their energy source for space heating, water heating and cooking.

And here you are talking about new general service customers. Under the existing rate options customer decisions may not reflect the plans to merge the two rates. Again is that first sentence still your evidence today?

MR. MAROIS: Yes.

Q.180 - Thank you. And at line 7 -- sorry, at page 7 -- again sorry to be flipping back and forth but I want to try and do a tie-in here. At page 7 of your January evidence, line 20, you are proposing rate changes that will continue reducing the gap between the GS I and the GS II rates. And I guess my question is does your goal remain to merge the two rates?

MR. MAROIS: Yes.

Q.181 - Thank you. Now on a related topic but not totally similar, if we could go to page 6 of your April 18 evidence. And the paragraph starting at line 1 which states, The all-electric rate as it exists now is difficult and costly to manage. Also it can potentially result in inadvertent discrimination because of the difficulty of ensuring that customers are truly all-electric.

Can you elaborate on what you mean by inadvertent discrimination because of the difficulty of ensuring that customers are truly all-electric?

MR. MAROIS: Yes. An example could be a client -- a customer that no longer qualifies for the all-electric rate but if we are not aware that -- for example they have

converted part of their equipment to another source of electricity, then they would still benefit from the rate but without really qualifying for it. So in my mind that would create discrimination versus a customer that truly qualifies for it.
Q.182 - Okay. And let me do some examples then, because I want to probe that because I think it's very important particularly in light of some of the comments you made earlier today with respect to issues around closing the GS II.
So for example if a restaurant -- let's just pick a restaurant -- is an all-electric customer and is using electric stoves, and then it replaces those stoves with propane, how do you know that this change has occurred?
MR. MAROIS: Well really the two ways that come to mind is if the customer tells us and --
Q.183 - Absent the customer telling you.
MR. MAROIS: Well it's really -- I think we would -- for example if they got a visit from one of our energy advisor account managers, that would probably be it.
Q.184 - So if the customer doesn't tell you the only way you may know that this restaurant has changed to propane is if one of your energy advisors happens to visit?
MR. MAROIS: Yes.

Q.185 - Now how often is the average general service customer visited by an energy advisor?
MR. MAROIS: It's very difficult to answer that. I mean, some customers may be visited more often, some may not.
Q.186 - Just a ballpark? How many general service customers are there?
MR. LARLEE: There is about 25,000.
Q.187 - How many energy advisors are there?
MR. LARLEE: Six or seven I think.
Q.188 - Six or seven, and there is 25,000 customers. Of their job how much of a percentage of their job is visiting customer sites?
MR. MAROIS: But they also do residential.
Q.189 - But they also do residential. So would it be fair to say that very few general service customers are ever visited by energy advisors and, if so, on a very, very infrequent basis, unless these people are really, you know, running around on segues or something at a rapid pace?
MR. MAROIS: I guess -- yes, that's a fair statement.
Q.190 - Thank you. So how do you ensure that these customers in these situations start paying the GS I rate for their electric usage if they haven't told you?
MR. MAROIS: Well that's the only reason we want to close

the rate is the rate is almost impossible to manage. The same comment we made this morning about residential. I mean, you couldn't have a residential rate for heating and a residential rate for non-heating. It could not be managed. So this is the same thing. This rate in my mind is not manageable.

Q.191 - Thank you, Mr. Marois. I am going to ask for this by way of an undertaking but only if it requires it. You might be able to respond to it just on the stand. Could you tell us -- so I will just ask it as a question. Can you tell us if you have any reports that you would have done in the past two years analyzing whether customers have ceased to be all electric?

MR. LARLEE: So you are asking if we have any reports counting the number of customers that have converted or --

Q.192 - Yes. Analyzing the switch from GS II to GS I?

MR. LARLEE: No, we don't.

MR. MACDOUGALL: Mr. Chair, if you bear with me I can get rid of a lot of my questions?

Q.193 - Mr. Marois -- go ahead, gentlemen, if you need a minute. That's fine.

MR. MAROIS: Sorry.

Q.194 - No problem. And again just coming back to a comment I made earlier then. Leaving the GS II rate open to even more customers could only exacerbate the situation, correct?

MR. MAROIS: Yes.

Q.195 - Thank you. Okay. If we could go to page 9 of your January 24 evidence, line 13. And here I think Mr. Lawson probably asked you a few questions around this topic area, I only have a couple. You say that Disco is concerned with the impact that a 12.9 percent increase to the firm rates charged to the large industrial class will have on the economics of operating industrial facilities within New Brunswick, correct?

MR. MAROIS: Correct.

Q.196 - Is it fair to say that the largest industrial customers generally have a relatively high load factor?

MR. MAROIS: Yes.

Q.197 - And is this because they are using electricity for process needs and not specifically for winter peak heating needs?

MR. MAROIS: Yes.

Q.198 - So for example, pulp and paper mills would be using electricity for mode of power such as running grinders, pulp refining lines, things like that?

MR. MAROIS: Yes.

Q.199 - And these process requirements if they are motive

would require electricity to run, correct?
MR. MAROIS: Yes.
Q.200 - So unlike heating load that can be served with competitive fuels such as gas or oil motive power electricity requirements require electricity by definition, correct?
MR. MAROIS: By definition,yes.
Q.201 - So is sending a price signal to the large industrial class where they have no alternative to respond as efficient as sending a price signal to those customers who have competitive alternatives for their electricity needs?
MR. MAROIS: From that specific perspective maybe not, but I guess industry do have an alternative. They need the electricity but they can generate their own electricity or they can generate electricity from another source.
Q.202 - Where can industry in New Brunswick get electricity from another source?
MR. MAROIS: They could self-generate or they could do generation -- have generation built to meet their needs.
Q.203 - Okay. But I mean currently. We are not talking about new generation. And if they are not a self-generator they would have to -- you are saying they would have to build their own electricity generating facility.
MR. MAROIS: In the very short term there is not that many

options, no.

Q.204 - Thank you. Now if we could go to page 6 of your January 24 evidence. At line 15 there is a reference to the residential customer class that says, the residential customer class would see an overall average increase of 13 percent, correct?

MR. MAROIS: Correct.

Q.205 - And these might be for Mr. Larlee, I'm not sure, but what I am going to try to do is -- I'm having some difficulty with some of the language issues here, so I'm going to try and to go through a bit of this slowly and make some reference to some of the appendices. You then go --

MR. MAROIS: I presume it's not French and English, your problem.

Q.206 - No. You then go on to say that the bill impacts vary from 10.4 percent to 19.7 percent, depending on the customer's consumption in any month, correct?

MR. MAROIS: Correct.

Q.207 - And that's under your current proposal, correct?

MR. MAROIS: Yes.

Q.208 - And just for the record, because I don't think any documentation is in the record on this, my understanding from the January 27 technical conference was that bill

impacts at the higher end of the range were only with respect to non-residential customers, such as the churches and farms we have been referring to, but that for households -- I think it was Mr. Larlee, he had said the maximum bill impact was 16.9 percent, is that correct?
MR. LARLEE: Yes, that's correct. And the presentation used in the technical session is on record as part of the -- in answer to an IR.
Q.209 - Okay.
MR. LARLEE: So you can look at that if you like, but --
Q.210 - I don't have to. I was just --
MR. LARLEE: Your interpretation is correct. We used a different range in that because we wanted to talk about households, whereas this range is the full range of customers we have in that rate class.
Q.211 - Okay. And that's fine. If it is on as an IR that's good and it's already in the record. I just wasn't aware of that, Mr. Larlee. But I just want to make sure that the range of bill impacts at your proposal for households, what I would call true residential, is from 10.4 percent to 16.9 percent, correct?
MR. LARLEE: Well perhaps we should take the Board to the presentation, shall we? It's in UM IR-2 in exhibit A-80. It's on page 12 of the response to that IR. And the top

slide, the first bullet.
Q.212 - Yes. Those are the exact numbers that I was referring to.
MR. LARLEE: That's correct.
Q.213 - I must have just missed that. In all the documentation I didn't see the one line there, but I did write it down at the technical conference, so I'm not surprised it's there. But those are the numbers, 10.4 to 16.9?
MR. LARLEE: That's correct. Household bill impacts vary from 10.4 to 16.9.
CHAIRMAN: Did you do a spreadsheet on that? Because I like the sound of this better than staff has been telling me, because my consumption in my own home put me up at 19 percent.
MR. LARLEE: Well if it's not on the record we certainly have the analysis already done.
MR. MACDOUGALL: I'm going to get into a lot of that, Mr. Chair. I don't think it's on the record but I think some of the diagrams that I'm going to get into will get to these questions and we can -- you can certainly ask follow up questions.
CHAIRMAN: I will be very interested.
MR. MACDOUGALL: I think we all will. This is interesting.

MR. LARLEE: Just one more note. The top end of this range, 16.9, is based on 5,000 kilowatt hours consumption. So -- and we tend to use that as the high end of residential consumption. 5,000 kilowatt hours in one month.

Q.214 - That's useful, Mr. Larlee, because I was going to come to that when we get to some -- so you use 5,000 kilowatt hours per month as your cut-off for what you believe is a household.

MR. LARLEE: That's right. And just for comparison purposes, the absolute maximum that we would see from any customer would be in the order of 600,000 kilowatt hours in a month in that class.

Q.215 - Wait a sec'. Can I -- I would like -- I'm just going to wait a second for the Board, because I think they should hear that. Did you say in the residential class that you use a cut off of 5,000, correct, for a household, kilowatt hours a month?

MR. LARLEE: That's correct, yes.

Q.216 - And then you said the maximum in that same class is what number?

MR. LARLEE: 600,000.

Q.217 - You have --

MR. LARLEE: Very, very few customers.

Q.218 - Oh, that's okay, because this is going to feed into my question. But the fact that you have even one -- you have a customer that uses 600,000 kilowatt hours a month in the residential class currently?

MR. LARLEE: I'm sure you can appreciate that there are farms, essentially agri-businesses --

Q.219 - Yes.

MR. LARLEE: -- that are heavy consumers of electricity.

Q.220 - Yes. Well that is perfect, Mr. Larlee, because I think that is going to feed in very clearly to what we are going to try and show your numbers really show here. 600,000. Okay.

CHAIRMAN: We have done an analysis too. I should point out to you that there are some urban residential customers that are in that class.

MR. LARLEE: You are referring to very, very large homes?

CHAIRMAN: At 600,000, that's a biggy.

MR. LARLEE: Yes.

MR. MACDOUGALL: As they say in Vancouver, Mr. Chair, Monster Homes.

CHAIRMAN: That's right.

MR. MACDOUGALL: I didn't think we had them in Saint John but maybe I haven't been rolling around the neighbourhood.

CHAIRMAN: Well we have done an analysis of two-and-a-half million data entries as you know -- sorry -- but the residential class shows some wild anomalies. That feeds right into your line of questioning?

MR. MACDOUGALL: It certainly does, Mr. Chair.

MR. LARLEE: Just by comment, I know when you are referring to urban you are referring to separate sub-classes, urban and rural. We just have to remember that we have communities, for instance, like the Miramichi which are quite spread out and in between the centres we might think of them as rural type areas but in fact we would classify them as urban because it's one large community. So there may well be farms in that particular community.

Q.221 - I think this is important because what we are trying to do and certainly we have seen in the press numbers that show impacts. And I think we have to look at real impacts and how many people they really impact. And that is where my questions will be going.

The variance in bill impacts is based generally on consumption within the first or second block, correct? That is why there is a spread. And let's just talk about households for now.

MR. LARLEE: Well, it's actually a three-part rate. So there is three -- there is three things that come into play.

Q.222 - Yes.

MR. LARLEE: There is the change that we made in the customer service charge --

Q.223 - Yes.

MR. LARLEE: -- and then the front block and the end block. So as consumption increases the impact of those three changes impact the overall.

Q.224 - I agree. But the customer charge is the same for everyone. But it gets back to my comment earlier of asking who had the bigger kilowatt-hour average. That gets spread out or changed based on the usage people are using in the first and second block, correct? The customer charge is no different for those customers?

MR. LARLEE: That's correct.

Q.225 - Thank you.

MR. LARLEE: Yes.

Q.226 - Okay. Can we go then now to Appendix 4? Because I think Appendix 4 is what really ties into these numbers. And you will see actually on page 6 the next sentence of where I was reading line 16 says "Appendix 4, figure 1 illustrates the range of impacts by usage level." So I would like to go to Appendix 4, figure 1. And just for the record, figure 1 is residential bill impacts. I'm going to deal with this for some period of time. And then we will look at one of the figures dealing with the

GS II rate.

Now going back -- and we don't have to turn back to it -- but the page 6 I was at. And this is where some of the terminology issues come in.

You are saying the bill impacts vary from 10.4 to 19.7. And we have now clarified, based on the technical conference, that the bill impacts vary per households, as you define them under 5000 kilowatt-hours, from 10.4 to 16.9 percent, correct?

MR. LARLEE: Correct.

Q.227 - What I would like to talk about here is bill impacts. Because on page 6 you talk about the residential customer class would see an overall average increase of 13 percent. But then your next line you talk about bill impacts. And when you look at Appendix 4, figure 1 you see right around the 6 percent point you just show this in percentage of bills. And then across from that we see 62 percent, 3 and 35, correct?

MR. LARLEE: That's correct.

Q.228 - So is this figure showing bills or customers?

MR. LARLEE: No. It's very important this figure is showing bills.

Q.229 - Yes. That is what I thought.

MR. LARLEE: Yes.

Q.230 - So when you are saying bill impacts, you are saying in a certain month, or I guess bimonthly, depending on how you are billed, these are the impacts people may see. You are not saying these are the average percentage increases that a customer will see, correct? This is just a bill impact?

MR. LARLEE: This is just a bill impact. So it is one -- it would be what a customer will see in any given month, not over a period of an entire year.

Q.231 - Yes.

MR. LARLEE: Right.

Q.232 - Yet when you talked about your 13 percent average increase, what is that?

MR. LARLEE: That's for the entire year.

Q.233 - That is for the entire year?

MR. LARLEE: Yes.

Q.234 - So you talked about the average increase 13 percent. And we know for residentials it is a different number from that, because they are not at the average.

But then when you showed the range of impacts you didn't show it by customer on a yearly basis. You showed it by bill impact by month or bimonthly. Maybe you can clarify?

MR. LARLEE: The 13 percent is the overall increase in revenue for the class. So it's going to be the average increase for any given customer over the test period, over the year.

When we are looking at how does that impact customers, we normally looked at bill impacts. Because let's face it, that's what customers see. And they see a bill in January. They expect to see X. They are going to see Y. What's the difference going to be between those two numbers?

Q.235 - Yes. But if someone saw in the press that their rates were going to increase by 10.4 to 16.9 percent, they couldn't base that on this, because that is not necessarily true. These are bill impacts. These aren't increases in someone's rates over a year, correct?

MR. LARLEE: What a customer could base it on is base it on that that's the range that they are likely to see. Some customers will be at the low end of the range for the entire year. Other customers will be at the high end of the range for the entire year. And most customers will be in between.

Q.236 - Yes. But these ranges aren't annual ranges. Your numbers 10.4 to 16.9 have nothing to do with an annual average, correct? They are a range of bill impacts?

MR. LARLEE: Yes. That's true. But the annual average or the annual amount a customer will pay will be made up of the sum of 12 of these impacts.

Q.237 - Understood. And when you do that -- you said at the sum of 12. So you bill monthly for all residential customers?

MR. LARLEE: We bill monthly, yes.

MR. MACDOUGALL: And I think that was important, Mr. Chair. Everyone else might have understood it. But I thought it was important that we all know that that is what this document is showing. Because I have a series of questions on it as well.

Q.238 - Now, Mr. Larlee, just to go through this chart though. So from a bill impact perspective, if I look at this chart, what it is showing is that for 62 percent of the customers they will see a bill impact. And that is up to just above the 1300 KWh per month.

So 62 percent of customers do not see a bill impact in any month in excess of 10.4 percent, correct?

MR. LARLEE: Yes. That's correct.

Q.239 - So a large portion of the customers, much above the average, even under your proposal, aren't seeing an increase in any month let alone annually of greater than 10.4 percent?

MR. LARLEE: I don't -- I don't know if you can say that.

Because really what you have to do, if you want to look at the annual increase, the annual impact, you have to make some assumptions about a customer's consumption pattern. And really the only assumption -- or the division we tend to use is all electric and non all electric.

So your non all electric customer is going to tend to have consumptions below the 13 kilowatt-hour consumption level.

Q.240 - Yes. That is exactly what I'm getting at, Mr. --

MR. LARLEE: And your electric customer is going to have some consumption months below that level and some well above that level, so that their increase will be higher. So it depends on the consumption pattern what the average increase is going to be.

Q.241 - Okay. That is fine.

MR. LARLEE: What I'm getting to I guess is that 60 percent of our customers are electrically heated. So you can't say that a large majority of customers are going to be below -- consuming below 1300 every month.

Q.242 - Okay. But what you can say is that 62 percent of the bills will be less than 10.4 percent, correct?

MR. LARLEE: That's correct. Yes.

Q.243 - Thank you. And if a customer is at 1300 -- or let's even pick a number a little higher, it is 13', maybe '40 or below -- their average will also be 10.4 or below, for all of those customers, because it would only be made up of the bill impacts up to that number, correct? I think mathematically that has to be true.

MR. LARLEE: You are going to have to repeat the question. I'm sorry.

Q.244 - If someone is consuming less than 1300 -- and I'm just -- I can't find the exact figure there -- at the end of the straight line sort of or the decreasing line, 1340 kilowatt-hours per month on average, then their increase would have to be 10.4 percent or less, because it would be the average of all of their bill impacts?

If they didn't have a month when they weren't above 13' and change, and the average would be, of the sloping line that starts at 10 and a bit and goes down?

MR. LARLEE: Excuse me. I just want to verify one thing. It will only take me a second.

CHAIRMAN: I have got a restless panel up here, Mr. MacDougall. When you are through this line of questioning, let me know.

MR. MACDOUGALL: Certainly. I think what would be useful then, Mr. Chair, is all of my questions -- most of my remaining questions are on this topic. But maybe we could finish the residential slide, if that would be useful.

MR. LARLEE: Okay. Just so we have the math right here, you have to look at the components of the rate. When you are looking at a customer consuming 1300 kilowatt hours a month, there are basically two components in the rate that are giving the rate increase line that you are seeing on this chart.

The first component is service charge, which has gone up 11.6 percent. So we can easily figure that if a customer consumes nothing, 0 kilowatt hours in a month, their bill is going to go up 11.6 percent.

So if I were to carry this line all the way back to 0, it would eventually hit 11.6 percent. So there is a slope to the line. It is going from 11.6 to 0 to 10.4 at 1300.

So if your consumption is lower than 1300, you are going to actually see a little bit more of an increase than 10.4. So 10.4 is the absolute minimum of any bill.

Q.245 - So because you collapse this at the beginning where you show I guess that's a flag, you didn't show all of the increase. Would it be fair one of those reasons is how many customers do you have who are only using 100 or 200 kilowatt hours a month?

MR. LARLEE: Well what happens in the residential class is we have quite a few customers that use nothing because they are seasonal accounts or for whatever reason they are not using that particular meter that month. You know, some people have residential meters on their garage attached to their house or maybe for a trailer lot or these sort of things. So we have quite a few accounts with 0 consumption.

Q.246 - But would it be fair to say the reason you are showing this like this though is because you are trying to get rid of outliers? Because I am going to get to that at the other end. But I mean, that's what we're trying to get at is how many people are really being impacted and how, Mr. Larlee? So I am not trying to cause any confusion here. I want to -- I want us and the Board and everyone because we are going to argue around this about impacts. You didn't show this owed at 0. Because that customer, even if their increase was 100 percent it wouldn't really matter because as my father always told me, 100 percent of nothing is nothing.

I mean, what we really care about is impacts here, correct?

MR. LARLEE: It's true, there are fewer accounts down in those very low consumption range just like there are fewer accounts at the very high consumption ranges.

Q.247 - Thank you, Mr. Larlee.

MR. MACDOUGALL: Mr. Chair, I think because this is a bit complex and I am going to go through it, if it is a good time for a break, maybe we can and then we can start fresh.

CHAIRMAN: All right. Just before we do, I have sat and listened to your cross examination concerning general service I, general service II patiently. It's correct, is it not, Mr. Marois, that even if customers remain in general service II, which did you say it is an aberrant class, what was the adjective you used?

MR. MAROIS: Abberation.

CHAIRMAN: Abberation. If anybody in that class still pays 17 percent more than it costs to serve them if they were to move to general service I, they would be paying 23 percent more than it cost to serve them?

MR. MAROIS: It's true that both those class over-contribute compared to their allocated costs but then that being said, the general service II rate in itself doesn't make any sense because it provides a discount compared to general service I, while the load profile is worse.

CHAIRMAN: I speak for myself. Personally I have no problem with some of the arguments that you are making.   But certainly as things stand now, in reference to this proceeding, allowing those two classes to stand is certainly not going to cause anybody any harm and probably some benefit because of the simple fact that both of them are paying more than it cost to serve them. If the cost of service is right, Commissioner Sollows says. And it certainly is, we have decided that.

MR. MAROIS: The fundamental problem remains, I mean, if the desire is to merge these two rates if you allow our general service II to grow, then you are just compounding your problem. You are making it more complicated --

CHAIRMAN: Well they are closer to unity than general service I is. That is my point. I mean, general service I, it is revenue to cost at the proposed rates is 1.23. General service II, the all electric, is 1.17. So if you collapsed II, then you would be moving those customers up to where they would be paying 1.23 times.

Anyway, you can carry that on after the break. We will take our break.

(Recess)

CHAIRMAN: The Secretary informs me that the hotel has made arrangements so that we can have this ballroom on the 24th of March. So we now have 20, 21, 24. Anyway we will see how it unfolds.

And the Secretary has just delivered to me a pink sheeted exhibit which is going to be marked as A-80(c) for confidential. And those are the confidential portion of responses to interrogatories that are set forth, interrogatories themselves in A-80.

And if anybody wants to see them, I'm informed that if they let the applicant know and sign a confidentiality agreement they can see them, is that correct, Mr. Morrison

MR. MORRISON: That is correct, Mr. Chairman.

CHAIRMAN: Okay. So that is A-80(c). Just give me a minute. Okay. Go ahead, Mr. MacDougall.

MR. MACDOUGALL: Thank you, Mr. Chair.

MR. MAROIS: Mr. MacDougall, we may have some information that could maybe help shed some light in terms of annual versus monthly impacts.

MR. LARLEE: I just wanted to direct the Board to a response to an IR that does have some annual analysis. And it might just help things. It is PI IR-10 in exhibit A-80. So those are the responses to IRs filed February 9th, PI IR-10. And it's the answer to part (a).

MR. HYSLOP: Excuse me. What was the exhibit?

MR. LARLEE: Exhibit A-80. IR-10. And it's pages 2 through 6. Just take a few moments perhaps and explain what you are looking at here.

If you look at page 2, what we have done is we have taken what we would consider to be typical consumptions. And these typical consumptions are for different types of customers. The information that this is derived from is from our energy planning survey information.

So in this first page it's for an electric only customer. And the reason why it is overall average there, it would be an average size electric to only customer. So we have the consumption estimates for each month.

And then at the bottom line of each of the column or the totals you can see the overall annual increase would be 13.9 percent. And then directly under that 13.9 percent, it's the maximum and minimum of the monthly consumption.

And then the following pages -- the next page is the same analysis but for an electric only large home, so considerably more kilowatt hours consumed. The average increase on an annual basis there is 15.2 percent.

At page 4 is for an oil only consumption. So this is for a customer with no supplementary heat for their -- or no electric supplementary heat at all. And you can see the consumption on an annual basis is quite a bit lower, 10.5 which is what we would expect.

And then we also have oil electric backup which is quite common in New Brunswick, where customers might have some electricity in the cold part of their room. They have added a baseboard in their family room, what have you. So here the annual impact is a little bit higher, 10.8 percent.

MR. TINGLEY: Excuse me, Mr. Larlee. Would that include wood as well, oil or wood backup?

MR. LARLEE: No, it wouldn't. In this case we are looking at customers who have identified themselves as having oil as their primary source of heat with some electric backup. So I haven't shown any cases here that include wood.

MR. TINGLEY: Again how would you know?

MR. LARLEE: What we do is in our energy planning survey we send out approximately 25,000 surveys, paper surveys and ask customers specific questions about how they are heating and what appliances they are using and so on and so forth.

Every -- although it's anonymous every survey has a number. And then we link that number to the account without actually knowing who the customer is. And then once we have identified what type of heating source they have, then we can then track their usage.

MR. TINGLEY: I don't every remember -- I don't know -- I don't ever remember getting one of those surveys.

MR. LARLEE: Well --

MR. TINGLEY: I have lived in my home for 30 some years.

MR. LARLEE: -- we do extract certain people from it. But I do not believe that we extract members of the PUB, so --

DR. SOLLOWS: Not a random sample?

MR. TINGLEY: Nothing personal.

MR. LARLEE: No. I haven't received one either.

DR. SOLLOWS: Just on that topic, what is the response rate?

MR. LARLEE: Actually it's quite good. We get back somewhere in the order of 4' to 5,000.

The final page of the response gives some indication of the number of customers in each of the consumption ranges. And the consumption ranges here were identified in the question. So that gives some idea of where most of our annual consumption lies.

DR. SOLLOWS: And is this for both urban and rural together?

MR. LARLEE: Yes, it is.

DR. SOLLOWS: And it doesn't include seasonal or it does?

MR. LARLEE: I believe it includes seasonal, yes.

DR. SOLLOWS: So all three subclasses --

MR. LARLEE: Yes.

DR. SOLLOWS: -- or classes? Thank you.

MR. LARLEE: That was all I had.

Q.248 - Mr. Larlee, maybe I can ask you a bit on this, just to make this clear as well to people.

The question you were asked in PI IR-10 broke down into seven headings, correct, under 12,000, 12,000 to

15,000 et cetera, et cetera?
MR. LARLEE: Correct. Yes.
Q.249 - Okay. And then you filed in response 1, 2, 3 -- four what you referred to I guess as representative analyses. But those weren't specifically in response to these heading categories, correct?
MR. MAROIS: Well, the seven categories are just for (b).
Q.250 - Pardon?
MR. MAROIS: Are just for (b).
Q.251 - Okay. My apologies, Mr. Marois. But the analysis you did in (a) then doesn't follow these same categories? It is just the analysis that you had done?
MR. LARLEE: No. In (a) the question is looking for any type of analysis on a seasonal basis. So this is what we had available.
Q.252 - Okay. And that is the first four pages. And then (b) you have set out the numbers?
MR. LARLEE: Correct.
Q.253 - So what I would like to do though is if we can go to page 6 of your answer. And you say for the number of residential customers. Let's just look under 12,000. You have 124,000 customers, right?
MR. LARLEE: Correct. Yes.
Q.254 - Okay. Now if we could go back to page 2 where you are

showing a residential urban bill comparison. And this you are saying is an electric customer. That is what you said earlier, correct?

MR. LARLEE: Yes.

Q.255 - Electricity Only, that is --

MR. LARLEE: Yes.

Q.256 - -- the heading? But this is a customer using 24,000 kilowatt-hours, correct?

MR. LARLEE: Correct.

Q.257 - So that customer, if you flip back to page 6, he is not in the 123,000 customers or the 32' or the 44'. He is in the next one, 64,000, correct?

MR. LARLEE: Correct. Yes.

Q.258 - So you do have at least -- because that range is 20' to 29'. And we don't the break from 20' to 24'. You would have at least, very quick math, 200,000 plus customers below what you are showing as a representative electric only customer, correct?

MR. LARLEE: That sounds about right, yes.

Q.259 - Okay. And at the most you have above that the remaining 96'. And that would be if all of the customers were above 24,000 rather than 20,000, correct?

MR. LARLEE: I'm not sure what you are getting in '96, but –

Q.260 - Well, I just added up the difference. We said 200'. The total is 296'. So the 96' is roughly the 64 28 --

MR. LARLEE: Yes.

Q.261 - But you picked someone at 24,000. And we don't know the breakdown between 20' to 24,000, do we?

MR. LARLEE: Not from this table.

Q.262 - No. Could you update this table to break down the 20' to 29' from 20' to 25' -- because it 24,953 on page 2 and 25' to 29,999?

MR. LARLEE: Yes, I could.

Q.263 - Okay. So all I wanted to point out there was at least two-thirds of the customers are below your representative example electric only, correct?

MR. LARLEE: Yes. That's about right.

Q.264 - So even this average increase would be on the high side for an overall increase for the majority of the customers?

MR. LARLEE: Yes. That's right.

MR. MACDOUGALL: Thank you. I would like to come back just very quickly -- the Chair raised some points. And I think it is always useful to try and follow up on what the Commissioners are thinking, since they are the arbitrators at the end of the day.

Q.265 - Mr. Marois, the Chair was talking about revenue to

cost ratios. And we will have more discussion about that when other witnesses come up. But just for the purposes of this, the GS II customers pay less, correct, than the GS I customers, on a --
MR. MAROIS: Yes.
Q.266 - So if they switch to GS I they have to pay more, correct?
MR. MAROIS: Correct.
Q.267 - Do you think a GS II customer would rather pay more or less?
MR. MAROIS: Less.
Q.268 - Do you think they understand revenue to cost ratio or what they are concerned about is what they have to pay?
MR. MAROIS: What they have to pay.
Q.269 - Thank you. Maybe we could go back to Appendix 4, figure 1. And I don't know that I will spend a lot more time on this now that we have raised some of the other questions.
But the bill impacts here are if you get your full revenue requirement, correct?
MR. MAROIS: Yes.
Q.270 - And if you get somewhat less than your full revenue requirement these bill impacts would reduce, correct?
MR. MAROIS: God forbid, yes.

Q.271 - But again I'm just saying, you know, everything you are presenting to date is based on your entire revenue requirement?
MR. MAROIS: Yes.
Q.272 - Thank you. Now if we can go to the average increase line here for bill impacts. And that is the 13 percent line. On a bill impact basis that is a customer somewhere above 1800 kilowatt hours consumption per month, correct?
MR. LARLEE: Yes. A customer has to consume more than 1800 kilowatt-hours in the month to see a bill impact greater than that.
Q.273 - So again if we can add up the numbers. 62' and 3', that gives us 65'. And then the 1800 is some portion of the 35'. Let's even stay on the low side. Let's say it was only 5 percent.
So at least 70 percent of the bill impacts are below the average, correct, and possibly more depending on how you have dealt with the collapsing of the horizontal axis?
MR. LARLEE: It's in that order, yes.
Q.274 - Yes. So is it fair to say, since 70 percent of the bill impacts are below the 13 percent average -- and I'm thinking that it is at least 70 percent -- that the average is somewhat skewed by the people at the far end who we quickly see a very steep curve, correct?

MR. LARLEE: Yes. The average is the average of the class.

Q.275 - Well, that is what I'm coming to.

MR. LARLEE: I wouldn't characterize it as being skewed.

Q.276 - Okay. Well, that is what I'm coming -- okay. That may be fair. But let's come back to it. And I have to harken back now to Mr. Gorman who brought us all back to statistics. But this is where statistics is important. You are just doing a simple average to come up with the 13 percent, correct?

MR. LARLEE: That's correct.

Q.277 - It is the mean?

MR. LARLEE: It's an increase in revenue in the class.

Q.278 - So what you are showing is the mean?

MR. LARLEE: I wouldn't even characterize it that way. I mean --

Q.279 - Just the simple average?

MR. LARLEE: It's the simple -- the increase in revenue for the total class.

Q.280 - And if we can look --

MR. LARLEE: At curve rates versus the proposed rates.

Q.281 - But if we look at the 13 percent -- and, you know, I'm not trying to cause any problems here. It is just visually this diagram is useful.

Once you hit the 13, at about the 1800, right, the line then starts to rapidly increase, correct?

MR. LARLEE: Well, yes. You have to remember the axis on the bottom is compressed.

Q.282 - That is correct.

MR. LARLEE: Right. So really --

Q.283 - You compress the axis.

MR. LARLEE: -- it should be out here somewhere.

Q.284 - Sure. But you don't --

MR. LARLEE: It is a little -- it is a little distorted.

Q.285 - Distorted, okay, rather than skewed. And here you are showing 10,000. But you mentioned earlier today that some customers in this class are at 600,000. But you didn't show a flag at the end. But this continues out significantly farther?

MR. LARLEE: If I wanted to include every possible bill, yes, it would.

Q.286 - And how steep would the line become then?

MR. LARLEE: Well, you can easily figure it out. Because it's -- the absolute maximum increase is in the order of 19.6 percent. So all you have to -- it does go to 20. So you can just put a dot there and draw it.

But I think you have to remember that these customers, these large customer, although there is few of them are large, there is a lot of revenue that comes in from those

customers.
Q.287 - That is exactly the point I was getting to. Thank you very much, Mr. Larlee.
If we could now go to figure 4 which is the general service II all electric. And as some people would say, this slide is a little busy. But we will try and go through it. You have used three load factors, correct, 10 percent, 40 and 70?
MR. LARLEE: Yes. That's correct. And I will apologize in advance for the busyness of the slide.
Q.288 - No, no. That is no problem. Could you explain why you used 10, 40 and 70 to show representative bill impacts?
MR. LARLEE: Well, I wanted to show a range of possible load factors. And all three of those are possible within the class.
Q.289 - Okay. But is 70 a large portion of the class, general service all electric? Or would most general service who are using electric heat be at the much lower load factor levels?
MR. LARLEE: Well, that is why I have included the number of bills there, just to give some indication. So you could see that most of the bills are in the range -- I'm sorry, the number of bills is for size.

Q.290 - That is right. It is for size.

MR. LARLEE: The load factor, typical load factor would be in the order of 40 to 60 percent for that class.

Q.291 - 40 to 60 --

MR. LARLEE: Yes.

Q.292 - -- did you say?

MR. LARLEE: Yes.

Q.293 - So 70 wouldn't be a typical load factor for an all electric?

MR. LARLEE: No. Although you do run into situations, especially where there is a heavy air-conditioning load where you would get a high load factor electric heat customer. Office buildings -- large office buildings --

Q.294 - Sure.

A. -- that have a heavy air-conditioning load can have quite a high load factor.

DR. SOLLOWS: Just for clarity purposes, I just noticed that we are talking about monthly load factors here and not annual ones, right?

MR. SOLLOWS: Yes. That's correct.

Q.295 - Now the average increase for this is the dotted line for this class is 9.5. And if we flip back to page 8 -- I don't think we have to do it -- of Mr. Marois' testimony, the range of bill impacts was shown to be from 5.5 percent to 12 percent, correct? I mean we can flip back if you want?

MR. SOLLOWS: Correct.

Q.296 - 5.5 to 12. But again I would like to go through this because the majority of the bill impacts are less than the average, correct? I think you can see -- let's just pick 10 percent load factor --

MR. LARLEE: Yes. Okay. It just took awhile for me to register exactly what you were saying.

Q.297 - Sure.

MR. LARLEE: Yes. Yes, you are correct.

Q.298 - And, for example, at 10 percent load factor, over 90 percent of the bill impacts are below the average, correct? You can add up the numbers at the bottom of the bills. 44 percent and 45 percent is 89. And we don't have the 10 percent load factor line coming up until sometime into the 11 percent number?

MR. LARLEE: Yes. The 44 percent is basically -- what the 44 percent is saying is that 44 percent of the bills are less than 20 kilowatts. Correct.

Q.299 - Sure.

MR. LARLEE: You follow that?

Q.300 - Yes.

MR. LARLEE: The number of bills isn't linked to the load factor. The load factors there are just there to give representative bill impacts.

Q.301 - No, I know. But if you look at the 10 percent load factor's billing pattern, right, it's always below the 9.5 percent with the exception of a tiny bit at one, until you get over till about 92 percent, correct?

MR. LARLEE: Correct.

Q.302 - So the bill impacts for the 10 percent, 90 percent of them are below the average? That's what the line shows?

MR. LARLEE: Yes, that's correct.

Q.303 - And then if we do the same analysis for 40 percent load factor and for 70 percent load factor, we are probably up at about 70 percent, correct? That's where those lines cross the 9.5 percent horizontal axis?

MR. LARLEE: That's right. Yes.

Q.304 - So again in these classes would it be fair to say that it's an uneven distribution, i.e., that it's a few larger customers at the outer end that are creating the average 9.5 percent increase, because the majority of the bill impacts are below 9.5 percent?

MR. LARLEE: It is the larger customers that are seeing the higher bill impacts.

Q.305 - Yes.

MR. LARLEE: That's really what I think you have pointed out and what this graph is showing.

Q.306 - Yes. And what I am doing is just saying this is similar to the residential customer. I think earlier I had talked about that with residentials. Now, I am rasing it with respect to GS II, and it's similar, correct?

MR. LARLEE: Yes. In that regard, yes.

Q.307 - And again if we look here, you have significantly collapsed the outer end of the horizontal axis, correct?

MR. LARLEE: That's right. Just to capture the largest -- the largest bills.

Q.308 - Sure. And what would be -- because we know on the residential one we didn't go all the way out, what would be the maximum monthly demand for your largest GS II customer? Would it be 3000 or is it some much larger number that you just haven't shown on here?

MR. LARLEE: I think it's probably in the order of 5 to 6,000.

Q.309 - Thank you.

MR. MACDOUGALL: Mr. Chair, I am just going to quickly flip through my questions. I think I can get rid of some of these.

CHAIRMAN: While you do, Mr. Larlee, if you think that's a busy slide there, you should see some of Commissioner Sollows.

Q.310 - Mr. Larlee or Mr. Marois, I just have a couple of questions arising out of your comments this morning. So I am just going to have to shoot from the hip as they say, because I -- and I apologize, if I requote back to you anything that you think was incorrect, it's just because I don't have the transcript and I am just using my notes. With respect to Dr. Rosenberg's testimony, I think at one point, you were making comments about the fact that you were only showing certain information with respect to the breakdown of the residential class into electric and non-electric for informational purposes and not as separate rate classes, correct?

MR. LARLEE: Yes, that's correct.

Q.311 - But you raise that I think in reference to I believe what Mr. Morrison said was some general comments about the residential electric heat class in Dr. Rosenberg's testimony. But Dr. Rosenberg's proposal with respect to the residential rate doesn't propose splitting the residential rate up does it?

MR. LARLEE: Oh, no, it does not.

Q.312 - So he is just proposing -- he makes some comments about the differences, but his proposal is the same as yours. It just deals with the residential class as you put it forward, correct?

MR. LARLEE: That's correct. But he does reference -- if I remember correctly, he does reference the electric heat revenue to cost ratio.

Q.313 - Sure. But you show the electric heat revenue cost ratio in your information. So he references it for informational purposes and guidance for the Board as well, correct?

MR. LARLEE: Correct. But I was left with the impression that he used it as a rate design objective. That he actually targeted .95 for electric heat.

Q.314 - But in his rate proposal, he is not suggesting a different rate for electric heat customers than non-electric heat customers?

MR. LARLEE: No, he is not.

Q.315 - Thank you. And I guess we might have dealt with this. But we were talking about pricing signals and I think at one point you referred back to the Board's ruling of three steps over five years. The ability to increase the end block greater than the front block consistent with the decision. Do you remember that?

MR. LARLEE: Yes.

Q.316 - But I assume you like Mr. Marois aren't in a position to say when that's going to happen over the five years?

MR. LARLEE: That's correct as well, yes.

Q.317 - And Mr. Marois, you, when you were talking about the GS II rate said that in your view -- and these words I do want to say back to you. So I want to make sure that you agree with them. That it was your view that the appropriate thing to do is to quickly merge the two rates. Do you agree you said that this morning?

MR. MAROIS: Yes, I agree I said that.

Q.318 - And that is your evidence that Disco would like to quickly merge the two rates?

MR. MAROIS: Yes.

MR. MACDOUGALL: Mr. Chair, if you just bear with me one moment, I think that's all my questions.

Thank you, Panel. Thank you, Mr. Chair. Thank you, Commissioners. That's all my questions.

CHAIRMAN: Thank you, Mr. MacDougall. It's five to 3:00. So we will adjourn until Tuesday morning at 9:15 in this hotel. And that's Rogers' day is it not?

MR. MORRISON: It is.

CHAIRMAN: Well thank you all. And have a good long weekend.

(Adjourned)

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

Reporter