

New Brunswick Energy and Utilities Board

IN THE MATTER OF an application by New Brunswick Power
Distribution and Customer Service Corporation (DISCO) for
approval of changes in its Charges, Rates and Tolls (Includes
Interim Rate Proposal)

Delta Hotel, Saint John, N.B., on December 10th 2007.

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approval of changes in its Charges, Rates and Tolls (Includes
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Delta Hotel, Saint John, N.B., on December 10th 2007.

BEFORE: Raymond Gorman, Esq., Q.C. - Chairman
Cyril Johnston, Esq. - Vice Chairman
Mr. Roger McKenzie - Member
Mr. Don Barnett - Member
Ms. Connie Morrison - Member
Mr. Yvon Normandeau - Member

N.B. Energy and Utilities
Board Counsel - Ms. Ellen Desmond

Board Staff - Mr. Doug Goss
- Mr. John Lawton
- Mr. David Keenan
- Mr. Dave Young
- Mr. Andrew Logan

Secretary to the Board - Ms. Lorraine Légère
Assistant Secretary - Ms. Juliette Savoie

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CHAIRMAN: Good morning, everyone. I will take the
appearances at this time.

MR. MORRISON: Good morning, Mr. Chairman, Members of the
Board. Terry Morrison and Edward Keyes on behalf of the
Applicant. And with me at counsel table is Blake Hunter,
Darren Murphy and Michael Gorman.

CHAIRMAN: Thank you, Mr. Morrison. CME?

MR. LAWSON: Good morning, Mr. Chairman. Gary Lawson for

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CME and with me is Mark Drazen and I expect to be joined shortly by David Plante.

CHAIRMAN: Thank you, Mr. Lawson. Conservation Council of New Brunswick?

MR. KIDD: Good morning, Mr. Chair. Scott Kidd here.

CHAIRMAN: Thank you, Mr. Kidd. Enbridge Gas New Brunswick?

MR. MACDOUGALL: Good morning, Mr. Chair. David MacDougall and I am joined today by Dave Charleson, General Manager of EGNB.

CHAIRMAN: Thank you, Mr. MacDougall. Irving Oil Limited? JD Irving Pulp & Paper Group.

MR. WOLFE: Good morning, Mr. Chairman. Wayne Wolfe.

CHAIRMAN: Thank you, Mr. Wolfe. NB Forest Products Association? Dr. Sollows? Utilities Municipal?

MR. ZED: Good morning, Mr. Chair, Members of the Board. Peter Zed and I am joined by Dana Young, Eric Marr, Marta Kelly, Dan Dionne, Jeff Garrett and Paula Zarnett of Barker Dunn Rossi.

CHAIRMAN: Thank you, Mr. Zed. Vibrant Communities Saint John?

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

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

MR. THERIAULT: Good morning, Mr. Chair. Daniel Theriault and I am joined today by Robert Knecht and Robert

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O'Rourke.

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

MS. DESMOND: Ellen Desmond, Mr. Chair. And with me is Doug Goss, Dave Young, Board Consultant, Andrew Logan and we expect to be joined by John Lawton very shortly.

CHAIRMAN: Thank you, Ms. Desmond. Mr. Morrison, are there any preliminary matters?

MR. MORRISON: None that I am aware of, Mr. Chairman.

CHAIRMAN: I understand that there may be a few more documents to mark as exhibits and perhaps I will do that before we call the panel.

I believe the last exhibit was A-47 and I understand that a list has been circulated to the parties of the other documents that have been filed.

So we received documents response of DISCO to IRs of CME in respect of DISCO's new evidence dated November 20th 2007 under cover letter dated December 3rd 2007. And that will become exhibit 48.

The next document was response of DISCO to IRs of the Public Intervenor in respect of DISCO's new evidence dated November 20th 2007 under cover of a letter dated December 4th 2007 and amendment under cover of a letter December 5th 2007. And that will be A-49.

1 - 1662 -

2 We have redacted response of DISCO to IRs of the Public
3 Intervenor in respect of DISCO's new evidence dated
4 November 20th 2007 under cover of letter dated December
5 4th 2007. And that will be exhibit A-50.

6 And there is an unredacted response of DISCO to IRs of
7 confidential nature from the Public Intervenor in respect
8 of DISCO's new evidence dated November 20th 2007. And
9 that came under cover of letter dated December 4th 2007.
10 And that will be exhibit A-51(C)

11 In addition I believe that there is one document that has
12 been filed by the Public Intervenor. And that is the
13 report of Kurt Strunk dated December 7th 2007. And that
14 would become exhibit PI-5.

15 Mr. Morrison, are you ready to call -- I believe it is a
16 panel of one today, isn't it?

17 MR. MORRISON: That is correct. And at this point I would
18 like to call Neil Larlee to the stand, please.

19 CHAIRMAN: And I will ask Board counsel to come forward and
20 swear Mr. Larlee.

21 For the record, the witness has been duly sworn.

22 NEIL LARLEE, sworn:

23 DIRECT EXAMINATION BY MR. MORRISON:

24 Q.1 - Good morning, Mr. Larlee. For the purposes of the
25 record, if you could state your name and position please.

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A. My name is Neil Larlee. I am Manager of Regulatory Studies and Load Forecast at NB Power DISCO.

Q.2 - And Mr. Larlee, have aspects of the pre-filed evidence - were they prepared by you or under your supervision?

A. Yes, they were.

Q.3 - And are there any changes or corrections you would like to make to any of the evidence that has been filed in this proceeding?

A. Yes, there is.

Q.4 - Could you please explain what that is?

A. DISCO responded to an IR by the Public Intervenor, PI IR-14, part 3. It is in exhibit A-20. There is really no need to turn it up because the response was by way of an electronic file. And that file contains several years of hourly data.

One set of data within that file is -- was the industrial transmission hourly data. Upon some discussion with Mr. Drazen, we determined that there are three years of that data that is not valid.

So for fiscal years 04/05 through to 06/07, the data was never verified and is not valid. However, I do want to note that this is historical data and therefore it does not impact either the cost allocation study or the revenue forecast.

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And as well this is what we refer to as totalized data.
So it is the total of customer data. The underlying
customer data is -- is not an issue. It is strictly the
totalization where we ran into the problems.

MR. MORRISON: Thank you, Mr. Larlee. I have no further
questions and Mr. Larlee is available for cross
examination, Mr. Chairman.

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

CROSS EXAMINATION BY MR. LAWSON:

Q.5 - Good morning, Mr. Larlee.

A. Good morning.

Q.6 - I have but a few questions which if they are technically
stumping, it is because I have asked the wrong question.
They aren't designed to be. You will see as soon as I
start asking the technical questions that I am stumping
myself. So bear with me, if you would, please.

I want to start by very simple. You would agree that,
obviously, and it is legislatively dictated, that the
objective of the Board in this application is to ensure
that the rates they set are fair and reasonable. Correct?

A. Yes, I think that would be my understanding.

Q.7 - Now you were involved in the CARD hearing about two
years ago. In fact the decision was rendered by the PUB
at the time, about -- on December 12th 2005, so almost

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2 exactly two years ago? You participated in that process?

3 A. Yes, I believe the decision was rendered later in December
4 -- the 19th, I think.

5 Q.8 - I apologized. I might have transcribed it incorrectly.

6 You are familiar, I presume, since you know the date of
7 it, you are familiar with the decision itself, as well
8 then?

9 A. Yes, I am.

10 Q.9 - Okay. And you are familiar that the Board, in that
11 case, had indicated that the Board must ensure that there
12 is a fairness in allocation of costs between classes?

13 A. I'm not familiar with that exact quote but it sounds
14 reasonable, yes.

15 Q.10 - And would you agree, as well, that as the Board had
16 commented in that same decision that it's critical to the
17 establishment of just and reasonable rates that there be a
18 correct allocation of costs between classes?

19 A. Again, unless you take me to the exact quote, but it
20 certainly sounds like that was the tone of the decision,
21 yes.

22 Q.11 - And you would agree that that -- for your own purposes
23 that would be your view that it is indeed critical for the
24 establishment of fair and reasonable rates, that there be
25 an allocation of costs to the correct classes?

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2 A. Yes, it is critical but it's not the only consideration.

3 Q.12 - Now am I correct in sort of making a statement that

4 cost allocation is essentially equivalent to cost

5 causation? He who causes the cost ideally would be

6 attributed the cost itself for that class?

7 A. I think generally yes, it is equivalent, that there will

8 always be costs that you can't directly relate to a

9 particular customer class or group of customers. So

10 really then we are left with apportioning those costs. So

11 I guess your first -- the first attempt is to assign cost

12 causation and assign those costs accordingly and then

13 absent of that, basically attempt to do a fair cost

14 apportionment.

15 Q.13 - But even when you are doing the fair cost

16 apportionment, the objective is to apportion them as

17 closely as one can to the causer of that cost. Is that a

18 fair statement?

19 A. Yes.

20 Q.14 - And I presume that it would be a fair description to

21 say that for at least some part of cost allocation, it --

22 there is some part art and some part science to it, as a

23 result?

24 A. I guess we tend to think of the -- tend to talk in

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terms of rate design as being part science and a large part art. I like to characterize cost allocation leaning more toward the science side. There is no question that there are areas of cost allocation that bring about a lot of controversy. So there will be judgements that have to be made, certainly.

Q.15 - And would it be your understanding, at least, that is part of the reason why a range is generally determined as to where the cost recovery should be, the .95 to 1.05, at least part of the reason is because it is not a pure science issue?

A. Yes. That definitely would be part of the reason. Yes.

Q.16 - And it is fair to say that there are many factors that go into determining what costs should be allocated to what class, a whole variety of factors. Is that a good general statement?

A. Yes, I guess you could call them factors. I mean, I have tried to lay out in our evidence as clearly as possible, sort of the steps that we have gone through to determine the cost allocation.

Q.17 - Sure. And fair to say also, as the Board I think said a couple of years ago in its decision on this issue, that the more detailed information that you have with respect

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2 to the costs, the more able a Board is able to determine who
3 should be attributed those costs for the cost allocation
4 study. Is that fair?

5 A. Well I don't think it is just a question of detail. There
6 is a difference between data and information. You want to
7 get the right information together so that you can make
8 those decisions. So detail to a degree is important but
9 there is certainly more to it than that.

10 Q.18 - I don't disagree there is more to it than that but
11 absence of detail will make the job very difficult. Is
12 that a fair assessment? In terms of deciding what has
13 been -- what the costs are and who has caused those costs,
14 you need detail? Detailed data, detailed information,
15 whatever you might want to call it?

16 A. There is a certain amount of detail required. And if you
17 are missing key detailed information it is going to make
18 the job more difficult. Or less precise or require the
19 insertion of more judgement than you might otherwise like
20 to.

21 Q.19 - And do you recall that in that CARD decision in 2005,
22 the PUB observed in its decision, that it didn't have
23 detailed cost information on the actual generation costs?

24 A. Yes, I recall that statement and I -- my reading of the
25 decision is that it was related specifically to what

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2 we have come to term in this hearing and the previous hearing,
3 as the Genco NUGS. That DISCO did not have access to
4 detailed information about the Genco NUGS.

5 My take on that whole process was we provided all other
6 detail that the Board required at the time.

7 Q.20 - You would agree though, the more detail that is
8 available, the better the decision can be by a Board in
9 deciding cost allocation? I think that -- never mind. I
10 think we already got that answer from you.

11 And fair to say, 80 percent of -- roughly 80 percent of
12 the costs previously in the last CARD hearing, and about
13 the same currently, are attributable to the costs of
14 energy generation supplied by Genco. Is that correct?

15 A. Yes, that's correct.

16 Q.21 - Okay. So the more detailed costs -- sorry, forget that
17 one. The next issue I would like to just chat about, or
18 ask you about, is the impact generally on DISCO first, as
19 a result of the loss of large industrial customers. As
20 you know, in August I believe it was of this year, there
21 was one large industrial customer whose plant closed down
22 in the Miramichi. And there has been a very recent
23 announcement of another mill, pulp mill, large customer of
24 DISCO's, closing down in January.

25 Can you just give us a general description of what

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2 kind of an impact that is going to have in terms of DISCO and
3 the cost allocation issues?

4 A. In terms of the impact on DISCO, we really have to slice
5 it into two timeframes. The first timeframe is the first
6 12 months of the reduced load. In both situations, both
7 mills, the load is reduced significantly but doesn't
8 completely vanish. There still will be some load, they
9 require some load just to keep the plant from freezing up,
10 for instance.

11 So in the first 12 months, because of the -- what we call
12 the ratcheting provisions of the large industrial rate
13 schedule, essentially the demand charge that is applied to
14 any large industrial customer is subject to five
15 conditions. And those conditions essentially allow for a
16 continuation of the demand charge -- 90 percent of the
17 demand charge for 12 months after a significant reduction
18 load.

19 So DISCO's position during those first 12 months is
20 slightly positive by about -- it is -- we answered this in
21 response to an IR. I can't -- I don't have the IR with me
22 but I'm sure I can get it for you after the break, if you
23 like. But it is in the order of 3' or \$400,000 per month.
24 And then after the first 12 months, DISCO's position goes
25 negative by about the same amount.

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2 Now both of these customers are approximately the same
3 size, so the impact is approximately the same for both of
4 them.

5 Q.22 - So for the first 12 months from their significant
6 reduction, I will call it, in their energy requirements,
7 is that what you are talking about? So from the time they
8 significantly reduce their operations, virtually eliminate
9 their electrical needs, that there is in fact a positive
10 to DISCO?

11 A. Yes, that's correct. It may seem counterintuitive but
12 what is happening here is that DISCO no longer has to pay
13 GENCO for the energy that they are consuming, and even
14 though we see a significant reduction in our revenue it's
15 more than offset by the continuing demand charge.

16 Q.23 - And what kind of an impact would that have on the
17 revenue to cost ratio generally, I'm not looking for
18 detailed calculations, but generally on the revenue to
19 cost ratio for the class as a result of those changes?

20 A. None. And the reason why I say that is because the cost
21 allocation study and the resulting rates are all done
22 prospectively. So we are looking forward into a future
23 year.

24 The forecast for the test year has both of those
25 facilities operating. So the large industrial load is at

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2 its normal level. So as far as setting rates for the long
3 term goes there is no impact. If we were to look beyond
4 the test year I think if I was to do a forecast looking
5 forward out beyond the test year, I would be hard pressed
6 to say that neither of those plants are ever going to
7 return.

8 Q.24 - If you were though doing rather than the projected
9 costs for consideration by this Board, but in fact doing
10 actual costs in the test year, what kind of a revenue cost
11 ratio impact would there be by virtue of the elimination
12 of or significant reduction of the loads for those two
13 operations?

14 A. I don't know. And I guess the reason why I don't know is
15 because there is no value in knowing. You set rates based
16 on your prospective information and that forecast
17 information should essentially be normalized information
18 so that you will have rates that are usable in the long
19 term. We don't do intra-year cost allocation studies for
20 that very reason, that there is really no value to it.

21 Q.25 - Perhaps just to get a sense of what the reality might
22 be in the test year, has an analysis been done on the next
23 year, the next forthcoming year for the company, and the
24 impact it would have on the revenue cost ratio for the
25 class as a result of the elimination or at least for some

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duration a substantial reduction of their loads?

A. Well as I'm sure you are aware, I think it has been said in this hearing already, that we are in the planning process for the 08/09 year. So the budget hasn't been finalized and for that matter we are still operating under a preliminary load forecast. So we haven't even started to assemble our cost allocation study for that year. So I really can't say.

Q.26 - Based on your experience, would you expect that there would be a negative or a positive impact on the revenue cost ratio as a result of the elimination or significant reduction of such a substantial -- two substantial loads such as those?

A. The loss of the load, we would lose -- DISCO would lose the revenue portion, we would lose all the costs associated -- or we would lose the variable costs associated with supplying that load. The revenue cost ratio of the class sits at .92, if our rate proposal is accepted. All things being equal, it should put upward pressure on the revenue cost ratio, but I can't say as to what amount it would be.

Q.27 - Thank you. Now just lastly, I believe you were here for the panel on the PPAs when I was examining -- I know it probably wasn't memorable -- but do you remember at

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2 least being here?

3 A. Oh, I remember being here. I was on the revenue -- what
4 we call the revenue requirement panel. I wasn't on the
5 PPA panel.

6 Q.28 - Right. I think you were in the audience because
7 everybody was volunteering you to look forward to today's
8 evidence, and one of the things that was asked of me was
9 to save a couple of my questions for your arrival. So I
10 will take that opportunity now.

11 In that hearing one of the -- I think the last part of the
12 evidence that that panel on my cross examination raised
13 was they had identified dealing with the variable -- the
14 cost of energy, unit energy, and production and generation
15 of that energy, in the summer time versus the winter time.

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17 Are you familiar with the questions -- do you recall the
18 questions -- line of questioning?

19 A. I recall the general line of questioning, yes.

20 Q.29 - And either based on your recollection of the evidence
21 or based on your knowledge, would you agree that the cost
22 of generating a unit of energy in the winter time is twice
23 as much roughly as in the summer time, generally speaking?

24 A. I dislike talking generalities when it comes to this type
25 of subject, that when you look at -- or when I look

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2 at GENCO's average cost of generation on a monthly basis of --
3 a monthly average cost, there is variability. And there
4 is a fair amount of variability largely because of spring
5 run-off.

6 So in some years the spring run-off is late in April,
7 other years it's in May. So if you include May in your
8 mix of summer months, it's definitely going to result in a
9 significant or -- it's going to give you basically what
10 you are describing as a 2-to-1 ratio in generation costs.

11 My recollection of the numbers that I have seen, it's
12 been a while since I have looked at it, it's more in the
13 order of about \$20 a megawatt hour if you are looking at
14 summer months versus winter months, which translates into
15 about two cents a kilowatt hour.

16 Q.30 - Now I haven't reviewed the transcript, but my
17 recollection is that the evidence that I took the panel
18 through compared January to August, so rather than an
19 average summer month. And I believe in that case, it
20 worked out to approximately for those two comparative
21 months about twice the cost of generation in the winter
22 than in the summer. Would you take issue with that?

23 A. No.

24 Q.31 - And would it be fair to say that the likelihood of that
25 is because in the winter months you have to call in the

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expensive troops for generation, Coleson Cove and the other higher cost units. GENCO has to call in the higher cost units for generation of power, is that a fair generality?

A. Yes. What is happening is more of the generation is coming from Coleson Cove. It is really Coleson Cove and the price of heavy fuel oil that is driving that difference.

So in the summer months when minimum load can hit 1,000 megawatts, bottom out at about 1000 megawatts, I mean, that's Point Lepreau and Belledune is supplying everything. And if there is hydro then it's just Point Lepreau hydro.

Q.32 - Okay. Now under the PPA between GENCO and DISCO there is no variable cost of power, is that right, between the summer and winter. It's what I will call levelized, is that fair?

A. Yes, that's correct. DISCO gets an annual average vesting price.

Q.33 - So sometimes they are getting -- in the winter that price looks relatively modest compared to actual costs of generation, in the summer time it's relatively expensive compared to cost of generation, is that a fair statement?

A. I guess to paraphrase, in the summer time it's more --

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it would be more than the actual costs for GENCO, and in the winter time it would be less.

Q.34 - Now am I correct though in understanding that when -- let me go back, if I could, just for a second. The load factor. In terms of the customer classes, the load demand for transmission and distribution for large industrial customers, is it fair to say it's fairly consistent -- I know that there are variables -- is it fairly consistent throughout the year? In other words, it doesn't have the same peaks and valleys as seasonal customers might have because of heat and so on.

A. Yes, that's true. The large industrial class has a load factor of around 85 percent. So by load factor, it's the ratio of your average demand and peak demand. Whereas the residential class would be more in the order of 40, 45 percent.

Q.35 - So residential customers, their peak of their power needs are in the winter time principally, I presume, because of heating costs. My wife likes the heat and so does some other people?

A. Yes. It's primarily electric heat which causes the residential costs to peak in winter.

Q.36 - And I assume that similar kind of load would be the same for wholesale customers as well because many of their

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2 customers are residential?

3 A. Yes. The wholesale class is made up of residential,
4 general service and some industrial distribution
5 customers. They have a heavier weighting towards general
6 service customers because they are both urban communities.

7 Q.37 - And general service customers, again they place a
8 higher demand for energy in the winter months than the
9 summer, generally speaking?

10 A. Yes. Especially the general service II class, what we
11 used to call the all electric class. They -- again,
12 electric heat drives their peak demand, although the peak
13 for the class, the work that we have done shows them
14 peaking several hours after residential.

15 Q.38 - But in terms of time of year, winter time rather than
16 the summer time is when their peak is?

17 A. Yes. Correct. Yes.

18 Q.39 - Okay. They don't peak until people finish their
19 showers and get to work basically?

20 A. That's right. The malls open, so on and so forth.

21 Q.40 - All right. Now in terms of allocating costs between
22 classes, you have indicated that the cost of generation of
23 power in the winter time is more expensive than in the
24 summer time.

25 Is there any -- in terms of allocating costs to

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2 different classes, is there any distinction drawn between the
3 cost of -- or the power supplied to residential customers
4 versus industrial customers because the residential
5 customer demand peaking in the winter?

6 A. The cost allocation study that we are using is the cost
7 allocation study approved by the PUB in December, 2005 --
8 is an average annual study.

9 So there is no -- there is no seasonality built into any
10 of the cost allocation. There is a separate allocation
11 for demand costs and energy costs. So although there is
12 no seasonality related to the allocation of energy, there
13 certainly is more cost allocated towards customers with
14 poor load factors because demand is allocated -- demand
15 costs are allocated separately.

16 Q.41 - But in terms of the cost of generation, the cost of
17 energy, there is those who take in the summer time their
18 power are attributed costs of energy the same as those who
19 are taking in the winter time so -- as if they cost the
20 same, is that right, aside from the comment that you made
21 with respect to the demand which I want to get to in a
22 second?

23 A. That's right. The cost of energy is done on an average
24 basis which is similar to the way the costs are flowing
25 from GENCO to DISCO.

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2 Q.42 - Right. But not the way GENCO's costs are incurred at
3 least and generated?

4 A. That's right.

5 Q.43 - Now GENCO incurs costs but the cost to incur that power
6 generation is not reflected -- the variable cost, seasonal
7 cost, is incurred by GENCO, but not reflected in DISCO's
8 costs, correct, because it uses the levelized approach?

9 A. Yes, that's correct.

10 Q.44 - Now you mentioned the component of the demand piece.

11 Can you refer me to the part in the decision of CARD where
12 that was acknowledged or recognized by the Board as the
13 basis for allocating costs because of the variable load
14 factors? I have a copy of the decision here if you want
15 it. I only have one, but --

16 A. I have a copy as well. I am just searching my memory.

17 Q.45 - And I might add we were both wrong on the date. It was
18 the 21st rather than the 12th or the 19th. But you were
19 right, it was later in the month.

20 A. I don't recall the PUB making specific reference to how
21 demand costs were to be allocated. Was that your
22 question?

23 Q.46 - Well you had stated that there was consideration given
24 in the allocation of the demand costs between classes --
25 as I understood it, maybe I misunderstood you -- but there

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was consideration given in doing the allocation of demand costs between classes to give consideration to the variable load factors, and I just wondered where that was.

A. That was -- that is built into the methodology that NB Power has been using since before the 1992 decision. So I think the fact that the Board didn't comment on it was basically an acceptance of that traditional methodology.

Q.47 - Just one second, Mr. Chairman. I would like to go back to this 2005 decision. Would it be a fair characterization, as you would see it, of the 2005 decision to say that there was some uncertainty on the Board's part in the 2005 decision with respect to various factors and effectively they chose to affirm their 1992 CARD decision?

A. Yes, I would agree with that.

Q.48 - Am I correct in my understanding that when DISCO made its application back in 2005, I think it was, I know there were a variety of iterations that took place. But I think it was an application in 2005 before the CARD decision that DISCO was of the view and sought to have a different allocation costs between customer classes, is that right, than the PUB's ultimate decision?

A. DISCO put forward a -- yes, it was different. DISCO put forward a cost allocation study that we felt better

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reflected the new situation as a result of restructuring at the time.

I believe the one that Mr. Lawson is most interested in was we had a different classification of the fixed generation costs than what is in the cost allocation study today and what was in the cost allocation study for 1992. We put forward a proposal that we felt more closely tracked the costs that were flowing to DISCO from the PPAs. And the PUB in its ruling essentially overruled those changes and went back to the 1992 classification that we have today, which is essentially 40 percent of all fixed generation costs are demand related, and 60 percent of fixed generation costs are energy related.

Q.49 - And would you agree that, having looked at the issue about the seasonality and some other of the evidence that has been filed, that in your opinion it may be appropriate to revisit, and I know this is an issue for the Board, but in your opinion it may be appropriate to revisit the cost allocation to try to better allocate costs in the world of today as they are, to revisit that issue again? Not that you would particularly want the job, I might add. That's not the question.

A. Well it is my job. I guess in my opinion we are still under the PPAs. The PPAs are what drives DISCO's costs.

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2 So there is really no change there. My understanding of the
3 evidence that is filed to date is that the GENCO NUG
4 information is still not on the record. So my opinion is
5 that if there was another examination of CARD issues,
6 there would be great risk that the Board would end up with
7 the exact same conclusion as the previous Board.

8 Q.50 - Would you agree that while the risk is there that there
9 are some things that have been put forth in this hearing
10 that would cause you to think that a review is an
11 appropriate course of action to see whether or not the
12 Board in the current cost environment agrees with the
13 previous decision?

14 A. No. And for the reasons I just stated.

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

16 CHAIRMAN: Thank you, Mr. Lawson. For the record I note
17 that Dr. Sollows is now in attendance.

18 DR. SOLLOWS: Yes, Mr. Chairman. Mr. Chairman --

19 CHAIRMAN: Yes.

20 DR. SOLLOWS: -- on that point I meant to arrive earlier.

21 And I apologize. I wonder if it would be all right if I
22 checked with Mr. Peacock. I'm wondering if we could trade
23 places in terms of the batting order today.

24 CHAIRMAN: Provided you and Mr. Peacock are okay with that,
25 the Board is fine.

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DR. SOLLOWS: Thank you.

CHAIRMAN: Okay. I will call upon Mr. Kidd now.

CROSS EXAMINATION BY MR. KIDD:

MR. KIDD: Good morning, Mr. Chairman and other members of the Board. Good morning, Mr. Larlee.

Q.51 - Mr. Larlee, just to confirm, it is DISCO's position that the declining block rate for its residential customers does not send a proper price signal to those customers?

A. Yes.

Q.52 - What is the main reason for DISCO not eliminating the entire residential declining block rate this year?

A. Well, I guess there is two reasons. One is gradualism, that doing it all in one step would be -- have significant rate impacts on a lot of customers.

And I think it's really -- it really would be not in DISCO's customers' best interests for DISCO to propose to eliminate declining block in one fell swoop.

The second reason is because the Board or the PUB in its December 2005 ruling ordered that it be eliminated in three steps. So DISCO is following that generic decision.

Q.53 - What percentage increase in rates for the residential customers would exceed DISCO's idea of gradualism?

A. It's really all relative. And it's relative to what

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the average rate increase is required overall, what the average rate increase for the class is and essentially what we think customers can reasonably tolerate.

And that's why, when we revised our evidence to reflect the benefits of the PDVSA settlement, we basically scaled everything relative to the new increase. Because I believe that the rate impact should be measured against the overall average increase for the class.

Q.54 - So that is the reason why you lowered or DISCO has lowered its percentage change in the residential declining block. Originally you filed and it was going to be 17.7 percent that was going to be a percentage change. And now it is going to be 13.8 percent?

A. Yes. That sounds right.

Q.55 - So that is the reason. Just keeping things in line basically is why you lowered that from 17.7 to 13.8?

A. Correct.

Q.56 - If I could ask you to turn to DISCO NEUB IR number 84 which is in A-19, exhibit A-19(1).

CHAIRMAN: Could you repeat the IR number please?

MR. KIDD: It is number 84, Mr. Chair.

CHAIRMAN: Thank you.

Q.57 - You are there? Okay.

The question from the EUB at that particular time was

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2 what impact would removing the entire declining block have on
3 rates. And in response is that it would increase the end
4 block by 25.5 percent, correct?

5 A. Yes. That's correct.

6 Q.58 - And is it your opinion or your position then that 25.5
7 percent exceeds the bounds of gradualism?

8 A. Yes.

9 Q.59 - But 17.7 percent originally didn't exceed that?

10 A. Correct.

11 Q.60 - Where would it end then? 17.7 percent or 20 percent,
12 21 percent? When would that gradualism -- to your mind
13 when would that be exceeded?

14 A. Well, again, I would look at it on a relative basis. So
15 here in this IR we are seeing that the very largest
16 customers would have rate increases approaching 25
17 percent. And the overall class increase is 6.4 percent.
18 So that is a significant difference between the class
19 average.

20 17 percent that we proposed, 17 percent increase to the
21 end block that we proposed in the original filing, when
22 the average increase was 9.6 percent, again so that was
23 less than twice the average.

24 So I think it's a relative position. And it's a judgment
25 that is made by the company and then put before

2 this Board for approval.

3 Q.61 - Why was it believed that residential customers could
4 originally bear the 17.7 percent increase?

5 A. Again, given the average increase that was anticipated at
6 the time of close to 10 percent, it was felt that that was
7 a reasonable increment above that for the largest
8 customers in order to get -- in order to meet the Board's
9 December 2005 direction to eliminate the declining block
10 in three steps.

11 Q.62 - The same line of questions. But wouldn't maintaining
12 that 17.7 percent increase and removing the declining --
13 wouldn't that remove the declining block that much sooner
14 and therefore send a better price signal?

15 A. Yes. It would remove the declining block sooner.

16 Q.63 - And would that not in turn send a better price signal
17 to those customers?

18 A. It would send a price signal. Whether or not such a large
19 increase relative to the average would be a better price
20 signal or not, I guess I will leave that up to others to
21 decide.

22 Q.64 - So you take -- it is the word "better" that you have
23 difficulty with?

24 A. Correct, yes.

25 Q.65 - Could you look at A-6(1) for me please under tab rate

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design, page 12?

Page 12 is Table 3. Am I correct then -- and I'm looking at the General Service 1 and General Service 2. Am I correct then there is a declining block for both of those customers after the first 5,000 kilowatt-hours are used?

A. Yes. That's correct.

Q.66 - Why is it acceptable for General Service classes to have a declining block but residential customers shouldn't have a declining block or it should be eliminated?

A. The reason why is related to the demand charges that are applied to General Service. General Service class is made up of approximately 25,000 customers. About 11,000 of those customers don't have demand meters.

And the reason for that is because demand meters are incrementally quite a bit more expensive than energy-only meters. And based on the size of the customer it's just not worth the investment in the more expensive meter, to put a demand meter on it when it's a small customer.

So what we have done is instead of having two classes of small, General Service class and a medium size class or a large class, the rate structure is such that the first 20 kilowatts that appears on a customer's demand meter, there is no charge.

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2 Now there is a big difference between saying no charge and
3 free. It's not free. And the reason why I say it's not
4 free is because those dollars are collected in the first
5 5,000 kilowatt-hours.

6 So it allows us essentially to have one rate that gives
7 the option for the customer to have a demand meter or not
8 -- of course the option is DISCO's, it's not the
9 customer's option -- and still recover those revenues from
10 the customers that are incurring those demand costs by
11 having a higher energy charge for the first 5,000
12 kilowatt-hours.

13 And with this proposal I have consciously set the energy
14 charges to line up with the demand charges, so that the
15 first 5,000 kilowatt-hours recovers approximately the same
16 amount of revenue as the first 20-kilowatt demand charge
17 would if it were in place, so that they are balanced.

18 MR. KIDD: I just need one minute, Mr. Chair.

19 Q.67 - And just as a point of interest, when does DISCO
20 envision eliminating the two General Service classes and
21 combining the two?

22 A. There is no -- there is no real time frame set on that.
23 The Board had some specific questions from the last --
24 from the CARD hearing in the fall of 2005 which DISCO

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2 commissioned Concentric Energy Advisers to do some study on.

3 And that has been filed with the Board. They concluded
4 that there was no reason to have separate rate classes
5 within the General Service class.

6 My position would be that if the Board agrees with that
7 conclusion then we would work towards to eliminate it
8 along the same timeframe as we would be eliminating the
9 declining block in residential.

10 Q.68 - Thank you. I would just like to turn to the PDVSA
11 settlement and its impact on the present class cost
12 allocation and rate design.

13 And specifically I'm still looking at exhibit A-6(1). And
14 I'm looking now at page 4.

15 A. Under the rate design tab?

16 Q.69 - Yes. Actually under the 2007/2008 CCAS. So that is
17 page 4 there.

18 Starting at line 3 -- well, there is three basic steps in
19 a class cost allocation study. And the first step is
20 functionalization, which is assigning all costs incurred
21 in a given time period to the three functions, the
22 production, transmission and distribution of electricity.
23 And I understand how the PDVSA regulatory deferral
24 adjustment, how it lowers DISCO's revenue requirement for

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2 the test year. But I don't understand how it lowers the
3 actual cost of producing, transmitting and distributing
4 electricity.

5 MR. MORRISON: Mr. Chairman, I'm really -- I guess I'm in a
6 bit of a quandary in terms of how we proceed. I have been
7 fairly I guess liberal in terms of the questioning,
8 because I know that there are rate design issues.
9 There is a line though that we may have crossed in terms
10 of getting into what is essentially cost allocation
11 issues. I know Mr. Lawson asked a number of questions
12 that dealt with information.

13 I guess the question is are we slipping into a situation
14 where we are actually doing a cost allocation hearing. Is
15 it mutton dressed up as lamb?

16 My only question -- and again, I have been fairly open in
17 allowing the questions to proceed. But if we start
18 drilling down into actual functionalization and allocation
19 then we are really doing a cost allocation hearing which
20 to date this Board has not ordered, so --

21 CHAIRMAN: Mr. Kidd?

22 MR. KIDD: No. I appreciate Mr. Morrison's comments. And I
23 will leave it at that. Thank you.

24 Thank you, Mr. Larlee.

25 CHAIRMAN: Those are all your questions?

2 MR. KIDD: Yes, they are, Mr. Chair.

3 CHAIRMAN: Thank you. Mr. MacDougall?

4 MR. MACDOUGALL: Thank you, Mr. Chair. Good morning, Mr.
5 Chair and Mr. Vice Chair and members. Good morning, Mr.
6 Larlee.

7 CROSS EXAMINATION BY MR. MACDOUGALL:

8 Q.70 - I think, Mr. Larlee, for my cross examination, for the
9 benefit of the Board, I think it would be useful if
10 everyone started out with two documents to keep in front
11 of them for the majority of this.

12 They would be A-6, exhibit A-6 which is your additional
13 evidence on rate design July 3, '07 and then A-22,
14 your revised rate design evidence.

15 And there will be times when I'm asking questions when I'm
16 referring to both documents. I believe it would be useful
17 for everybody to have both documents for the remainder of
18 the questions.

19 CHAIRMAN: Mr. MacDougall, I would just ask you to wait one
20 moment while we retrieve those exhibits.

21 MR. MACDOUGALL: Certainly, Mr. Chair.

22 A. Mr. MacDougall, could you give me the full title of A-22?

23 Q.71 - A-22 is your revised rate design evidence, revised
24 additional evidence -- rate design, exhibit A-22.

2 I'm told that that might have been a revised version that
3 is called A-6 (1). But I think that one would probably be
4 an update for the Board that had the new info in it.

5 What I want to look at is the initial evidence as filed
6 and then the subsequent evidence as filed. My

7 understanding was they were A-6 and A-22. I stand to be
8 corrected though.

9 CHAIRMAN: We will just go off the record for a moment while
10 you sort this out.

11 (Off the record)

12 MR. MACDOUGALL: Mr. Chair, it was filed as A-22. So I'm
13 correct. But it was also then broken up by the Board into
14 pieces, so that Mr. Morrison is correct. So the Board
15 should have it as A-6 and A-6 (1).

16 A. Thank you.

17 MR. MACDOUGALL: And I will try now as I go through it to
18 remember to say A-6 (1) instead of A-22 everywhere I have
19 that marked.

20 CHAIRMAN: Well, if you say A-22 we will know you mean A-6
21 (1).

22 MR. MACDOUGALL: Correct. Which are one and the same
23 document for the purpose of this.

24 CHAIRMAN: Anytime you are ready.

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2 Q.72 - Mr. Larlee, if we could go to A-6 (1) then, which is
3 your revised additional evidence on rate design. And if
4 we could go to pages 8 through 9. So starting at page 8,
5 line 20.

6 A. Yes. I have it.

7 Q.73 - Okay. And here you list Bonbright's three primary
8 criteria of a sound rate structure, correct?

9 A. Correct.

10 Q.74 - I would just like to briefly go through these. To
11 begin with these are what as noted as primary criteria,
12 correct, in Bonbright?

13 A. Yes.

14 Q.75 - Okay. And if we go down we will see they are listed as
15 (a) (b) and then on page 9, (c). And (a) is that the
16 revenue requirement or financial need objective, which
17 takes the form of a fair return standard with respect to
18 private utility companies.

19 So that is one of the primary criteria, correct?

20 A. Correct.

21 Q.76 - The second one is the fair cost apportionment objective
22 which invokes the principle that the burden of meeting
23 total revenue requirements must be distributed fairly
24 among the beneficiaries of the service, correct?

25 A. Correct.

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2 Q.77 - And number (c), which would be the third primary
3 criteria, this is the optimum use or consumer rationing
4 objective under which rates are designed to discourage the
5 wasteful use of public utility service while promoting all
6 use that is economically justified in view of the
7 relationships between costs incurred and benefits
8 received, correct?

9 A. Correct.

10 Q.78 - And you specifically listed these three primary
11 criteria of Bonbright in your evidence, correct?

12 A. Correct. Along with his entire list of criteria. On
13 number 8 I listed them as well.

14 Q.79 - Sure. If you go back on page 8 you list the eight of
15 them. But then you go on to specify in greater detail the
16 three or primary, correct?

17 A. Correct.

18 Q.80 - And then you go on on page 9 at line 6. And you say
19 that the rate design principles DISCO used to develop its
20 rate proposal draw upon Bonbright's three primary
21 criteria, correct?

22 A. Yes.

23 Q.81 - Okay. And then you immediately go on to say after that
24 that the magnitude of the overall rate increase requires
25 the customer impacts and gradualism be principles as well.

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And DISCO has included Bonbright's fifth criteria, stability of the rates themselves as a principle developed in your proposal, correct?

A. Correct.

Q.82 - Now Bonbright's fifth criteria is not one of his three primary criteria, correct?

A. No, it's not. But Bonbright says in his text -- I don't have the exact words -- but his three criteria essentially encompass all eight of his items as you refer to them, his criteria for rate design.

Essentially he is saying, when you read his text, that his three primary criteria encompass all of the criteria that he had talked about previously in his text, which are the eight listed on page 8.

Q.83 - I guess we are going to have to probe that.

Unfortunately I don't have Bonbright with me. Maybe we can go to his three primary criteria.

My understanding is Professor Bonbright lists eight. And then he goes on to say that of those eight, three are primary. That is in fact why you subsequently on page 9 indicated that you are also referring back to the fifth criteria.

Isn't that how the Bonbright text lays them out, that there are eight criteria but three of them are primary?

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2 A. I guess my reading of it is he is not selecting three from
3 the eight and saying they are primary. That's not the way
4 I read the text.

5 The way I read the text is that he has boiled down his
6 eight to these sort of three overriding primary criterias.

7 Q.84 - Let's go back to page 8 and take a look where we have
8 the eight of them and then the three below, okay.

9 If we take (a), the revenue requirement or financial need
10 objective. And you can come up and you can see number 3,
11 total revenue requirements under the fair return standard,
12 correct?

13 A. Correct.

14 Q.85 - So (a) only refers to 3, correct?

15 A. Yes. I agree with that.

16 Q.86 - Okay. And then the next one is (b), the fair cost
17 apportionment objective, okay?

18 MR. MACDOUGALL: I'm getting some assistance. But I'm just
19 going to put it to the side for a second, Mr. Chair.

20 Q.87 - If we could go to (b), the fair cost apportionment
21 objective?

22 A. Yes.

23 Q.88 - And then if we go up above we can see in 6, "Fairness
24 of the specific rates and the apportionment of total cost
25 of service among different customers."

2 So (b) refers to 6, correct?

3 A. And I might say it also refers to 7, the avoidance of
4 undue discrimination rate relationships.

5 Q.89 - But it is clearly not the wording that he is using
6 there. He is talking about the fair cost apportionment
7 objective, correct, not undue discrimination anywhere in
8 (b), correct?

9 A. That's correct. Yes.

10 Q.90 - Okay. And then if we can go to (c), the optimum use or
11 consumer rationing objective. And then if we can turn --
12 and then it goes on to say under which rates they are
13 designed to discourage the wasteful use of public utility
14 services.

15 If we go back to number 8 on the previous page, efficiency
16 of the rate costs and rate blocks in discourage wasteful
17 use of service while promoting all justified types and
18 amounts of service.

19 (c) really is 8, correct?

20 A. Yes, primarily. But I think you could also include 2
21 under (c), controversy -- freedom from controversy as to
22 its proper interpretation.

23 Q.91 - But that language isn't used anywhere in (c)?

24 A. No. No, it's not.

25 Q.92 - And in fact then if we go back to page 8, number 5 --

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2 where I will get into a lot of assistance, Mr. Chair.

3 If we go back to page 8, number 5, stability of the rates
4 themselves, which is the one we are talking about,
5 stability of the rates themselves is not found anywhere in
6 the language of (a) (b) or (c) is it?

7 A. No, it is not.

8 Q.93 - Now if we could turn back to exhibit A-6. That is the
9 other document I asked that you have in front of you.

10 MR. MORRISON: Just before we go three, to my point where I
11 was getting the understanding that Bonbright's three
12 primary criteria really were meant to be all-encompassing,
13 on page 292 of Bonbright's first edition, first sentence,
14 second paragraph, "Among these objectives three may be
15 called primary, not only because of their widespread
16 acceptance but also because of the more detailed criteria
17 are ancillary thereto."

18 Q.94 - Okay. So the other ones are ancillary thereto. And
19 three of them can be considered primary with the others
20 being ancillary thereto?

21 A. Ancillary thereto, yes.

22 Q.95 - Okay. I perfectly accept that, Mr. Larlee. I know it
23 is important all good regulatory lawyers should have
24 Bonbright with them, the likes that Dr. Sollows has in
25 electronic form, so we can all have access to it.

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Some people do have a debate about whether the second edition should be referred to because it is not true to the original.

But we won't get into that today, Mr. Larlee. I won't ask you what edition was given. It seemed dog-eared. So I believe it was the first edition that you had.

MR. MORRISON: It is the Old Testament I believe.

CHAIRMAN: We do seem to be digressing just a little.

MR. MACDOUGALL: Yes.

Q.96 - So if we could turn to your original rate design evidence which is exhibit A-6. And if you could go to pages 8 and 9.

The wording we just went through in your original rate design evidence was identical to what we just went through in your revised rate design evidence, correct?

A. Yes. That's correct.

Q.97 - And in fact from my review of it the entire section Rate Design Principles, which is pages 7 through 9 in both of the documents, was not changed by a single word in the revised rate design evidence, correct?

A. Yes. That's correct.

Q.98 - Now in your original rate design evidence your rate design was based on an average 9.6 percent increase, correct?

2 A. Yes.

3 Q.99 - And your revised rate design evidence and the current
4 application which is before the Board is for only a 6.4
5 percent increase, correct?

6 A. Correct.

7 Q.100 - So that is a one-third reduction, correct?

8 A. Yes. That sounds right, yes.

9 Q.101 - 9.6 to 6.4. Yet you took the identical philosophy to
10 rate design as in your original evidence without any
11 modification in the philosophy, correct?

12 A. That's true. We did not modify the philosophy.

13 Q.102 - Do you think that a one-third drop in your revenue
14 requirement request was significant?

15 A. Yes. I think it was significant. It represents \$36.8
16 million to the benefit of the PDVSA settlement.

17 Q.103 - And if I could ask you, Mr. Larlee, to turn to page 10
18 of your revised rate design evidence. And now we are back
19 in 6(1).

20 I would also like you to have in front of you page 10 of
21 your original rate design evidence. So this is where we
22 have to refer back and forth between 6(1) and 6.

23 A. You are looking at page 10?

24 Q.104 - At page 10. In both documents it should have table 2.

25 A. Yes, side by side.

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2 Q.105 - Okay. And table 2 here is entitled "Class Proposed
3 Rate Increases and Resulting Revenue to Cost Ratios",
4 correct?

5 A. Okay.

6 Q.106 - And in both of those tables, under the heading
7 "Residential Class", you break that class into two
8 segments, the electric heat segment and the nonelectric
9 heat segment, correct?

10 A. Correct.

11 Q.107 - And if we could go to footnote 3. And it is the same
12 in both. But let's read it from the application as it now
13 stands, A-6(1).

14 Under the table you say in footnote 3 that residential
15 electric heat and non-electric customer increases are at
16 the average for the segment after intra-class adjustments,
17 correct?

18 A. Correct.

19 Q.108 - Now if we can look at the residential class in A-6(1),
20 and we go to column 3, we see with your proposed increase
21 of 6.4 percent, which is in column 2, for the residential
22 class you are showing a revenue to cost ratio of 0.95,
23 correct?

24 A. Correct.

25 Q.109 - And this was within the Board-approved zone of

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2 reasonableness of 0.95 to 1.05, correct?

3 A. Yes.

4 Q.110 - However, if we look at the electric heat segment, just

5 the intra-class piece, the revenue to cost ratio at your

6 current proposed rates is 0.94, outside of the zone of

7 reasonableness, correct?

8 A. Yes.

9 Q.111 - And the nonelectric heat segment is at a higher

10 revenue to cost ratio of unity, correct?

11 A. Yes.

12 Q.112 - Now if we can look back at your initial rate design

13 evidence, the same table 2, when you were proposing a 9.6

14 percent increase as the average for the residential class,

15 you were proposing a revenue to cost ratio of 0.96, right?

16 A. Yes.

17 Q.113 - And that would be closer to full cost recovery than

18 0.95 that you are currently proposing, correct?

19 A. Yes.

20 Q.114 - And if we look at the non-electric heat segment, in

21 your original evidence you were proposing a revenue to

22 cost ratio of 1.01, within the zone of reasonableness,

23 correct?

24 A. Yes.

25 Q.115 - And you have actually now brought the cost for the

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2 nonelectric heat segment down in the revenue to cost ratio

3 proposed in your revised current application, correct,

4 from 1.01 to 1?

5 A. I wouldn't say I have brought it down. It's just the

6 resulting revenue to cost ratio is lower.

7 Q.116 - But the application as DISCO is proposing -- and when

8 I say "you", DISCO is proposing --

9 A. Mmmm.

10 Q.117 - -- now for cost recovery of 1 as opposed to 1.01 for

11 the nonelectric heat segment?

12 A. I just would caution the Board here, especially if you

13 look at line 1, the residential class, if you look at the

14 numbers behind this in the cost allocation study, you will

15 see that in the original filing it was 9.55. So it was

16 rounding up to .96. In this filing, when we revised it,

17 it just rounded down to .95. Because they are not really

18 big changes that are taking place. But it's just because

19 of some rounding that's going on within the model. So

20 they are not big changes. But they are what they are.

21 Q.118 - Yes. But the original one you were at .96. Now you

22 are at 95?

23 A. Right. This is largely the result of rounding, but --

24 fine.

25 Q.119 - But it didn't go up. The residential class didn't go

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2 to --

3 A. In both cases --

4 Q.120 - -- a higher revenue cost?

5 A. In both cases the revenue to cost ratio remains stable.

6 And that was the intent.

7 Q.121 - So you have done nothing in the revised evidence to

8 move the electric heat revenue to cost ratio, correct? It

9 was 0.94. It is still 0.94.

10 A. When we revised the evidence we followed the same

11 principles that we did in the original evidence. We

12 flattened the residential declining block rate. And

13 that's why you see in table 2 of A-6(1), the revised

14 evidence, you see the segment revenue to cost ratio is

15 improving.

16 Q.122 - Yes. But just sticking with the electric heat segment

17 for a moment --

18 A. Mmmm.

19 Q.123 - -- initially you had filed evidence that a 10.7

20 percent increase, which gave you a revenue to cost ratio

21 of 0.94, correct?

22 A. Correct.

23 Q.124 - And then you subsequently revised your evidence based

24 on the PDVSA settlement to a proposed rate increase now

25 for the electric heat segment of only 7.4 percent and the

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2 revenue to cost ratio is still 0.94, correct?

3 A. The revenue to cost ratio improves from .93 to .94.

4 Q.125 - Not over your original filing. I'm just comparing,

5 Mr. Larlee, your original filing at 10.7 percent. You are

6 now moving back a step. So I will give you a chance to do

7 that if you want to.

8 A. Mmmm.

9 Q.126 - But right now, if we can go back to table 2 in A-6 --

10 A. Right.

11 Q.127 - -- you have proposed a 7.7 percent increase for the

12 class. And that was going to give you a revenue to cost

13 ratio for the electric heat segment of 0.94, correct?

14 A. Correct.

15 Q.128 - And now in your revised rate design evidence, you are

16 proposing an increase of only 7.4 percent rather than 10.7

17 percent. But the revenue to cost ratio for the electric

18 heat segment is going to be 0.94, the same as you

19 originally proposed, correct?

20 A. It's the same revenue to cost ratio as the original, yes.

21 Q.129 - And the electric heat segment of the residential class

22 is a significant contributor to your peak load, correct?

23 A. Yes.

24 Q.130 - And electric heat customers -- and I believe you have

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2 responded to the CME this morning on this, are generally
3 winter peaking customers, correct?

4 A. Yes.

5 Q.131 - So based on the revenue to cost ratios you are
6 proposing for the nonelectric versus the electric heat
7 segments, and your footnote 3 that we read previously,
8 nonelectric heat customers are subsidizing the electric
9 heat customers intra-class, correct?

10 A. Yes. I think that's a fair statement, yes.

11 Q.132 - Now Mr. Larlee, when DISCO proposed its 9.6 percent
12 increase in its revenue requirement, it was proposing an
13 average increase for the residential class of 9.6 percent,
14 correct?

15 A. Correct.

16 Q.133 - And you were comfortable at that time that the average
17 9.6 percent increase fit within Bonbright's criteria and
18 your rate design principles, correct?

19 A. Yes.

20 Q.134 - And you were proposing a rate design that you thought
21 would appropriately reflect the 9.6 percent average
22 increase in residential customer rates?

23 A. When you say it properly reflects the rate design --

24 Q.135 - I said "appropriately", sorry.

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2 A. Appropriately reflects?

3 Q.136 - Yes.

4 A. Well, the rate design was intended to increase rates on
5 average by 9.6 percent.

6 Q.137 - But it was supposed to reflect the principles that
7 were guiding you, correct?

8 A. Yes. It reflects the principles that were guiding me.

9 Q.138 - And you felt the rate design you were putting forward
10 at the 9.6 percent increase did appropriately reflect
11 those principles?

12 A. Yes.

13 Q.139 - Now if we could go to page 11 of each of these
14 documents. And if we could go to A-6, your original
15 evidence, line 14, you say here that the energy charge for
16 the first 1,300 kilowatt-hours consumed in each billing
17 period is increased by 8.3 percent and the energy charge
18 for the balance of energy consumed in the period is
19 increased by 17.7 percent, correct?

20 A. Correct.

21 Q.140 - And I believe that is the 17.7 percent number that Mr.
22 Kidd was talking to you about earlier?

23 A. Yes.

24 Q.141 - Okay. Now the 17.7 percent isn't an increase in the
25 customer's bill or the customer's rate. That was just the

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change in the second block, correct?

A. That's the increase to the second block energy charge.

Q.142 - Yes. But when you are looking at customer impacts, you don't look at the increase to the second block. You look at the overall increase, correct?

You have to blend the first block changes, the customer charge, the second block changes. This is just -- the 17.7 number was just a reference to the change in the declining block, correct?

A. It's the percentage increase of the second block energy charge. If you are looking -- if you want to look at particular bill impacts, of course you have to take into account any changes to the service charge. We are not proposing any under our proposal, any changes to the first block charge and the end block charge.

Q.143 - Yes.

A. What this particular number does tell you though is that very large customers will approach this. This would be -- basically it's the upper limit of impacts, so an infinitely large customer would see 17.7 percent increase in their bill.

Q.144 - That is great. That is perfect, Mr. Larlee. We are on the same page.

And some of those, for example the residential class,

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2 would include large farms, because they happen to be in the
3 residential class, correct?

4 A. That's right. Yes. Farms and churches are considered
5 part of the residential class.

6 Q.145 - And some of those are the bigger -- some of the big
7 loads?

8 A. That's right.

9 Q.146 - Thank you. And then you go on to say here that no
10 other changes are proposed to the rate, correct?

11 A. Correct.

12 Q.147 - And now if we can go to your revised evidence on the
13 same page, third paragraph, you say that the energy charge
14 now for the first 1300 kilowatt-hours consumed in each
15 billing period is increased only by 4.7 percent as opposed
16 to 8.3 percent, correct?

17 A. Correct.

18 Q.148 - And then you go on to say that the energy charge for
19 the balance of energy consumed in the period is increased
20 by 13.8 percent compared to the 17.7, correct?

21 A. Correct.

22 Q.149 - So that is your current application before the Board?

23 A. Yes.

24 Q.150 - And again no other changes are proposed for the rate?

25 A. Correct.

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CHAIRMAN: Mr. MacDougall, would this be a good spot to take a break?

MR. MACDOUGALL: Certainly, Mr. Chair.

CHAIRMAN: Okay. We will be back in 20 minutes.

(Recess - 11:00 a.m. - 11:20 a.m.)

CHAIRMAN: Mr. MacDougall, you may continue.

MR. MACDOUGALL: Thank you, Mr. Chair. Mr. Larlee, if we could again stay in the two documents A-6 and A-6(1), and if we could turn now to page 13 of each document. On page 13 in the first paragraph of A-6, your original evidence, you indicate that the overall residential class would see an increase in electricity bills, and you were talking about bill impacts of 9.6 percent, with the individual monthly bill impacts varying depending on consumption level from zero percent for bills with zero consumption to 16 percent for bills of very high greater than 10,000 kilowatt hours per month consumption, correct?

A. Correct.

Q.151 - And if we look at your revised evidence, again top paragraph of page 13, we now see the residential class with an increase on average of 6.4 percent, but the monthly bill impacts are now varying depending on consumption from zero to 12 percent, correct?

A. Correct.

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Q.152 - And if we can just go back again and look at the next paragraph of your original evidence, you state that the average electrically heated customer would see an annual increase, and now we are talking about the electrically heated segment, of 10.7 percent, the average non-electrically heated customer would see an annual increase of 6.5 percent, correct?

A. Correct.

Q.153 - And if we go back to your current application, the average electrically heated customer now sees an average increase of 7.4 percent, correct?

A. Correct.

Q.154 - And the average non-electrically heated customer will only see an annual increase of 3.6 percent, correct?

A. Correct.

Q.155 - Now just to sort of tidy this up, if we could go to the third paragraph of your original evidence, and table 4, which in our view is the most revealing of some of these impacts, you state in your original proposal that the majority of customers, 82.5 percent, will experience annual increases between five and 12 percent, while 99 percent of customers will see impacts of less than 15 percent, correct?

A. Correct.

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2 Q.156 - And in your current application and what is before the
3 Board, 82.5 percent of customers will experience annual
4 increases of only between two and eight percent, while 99
5 percent of customers will see annual impacts of less than
6 ten percent, correct?

7 A. Okay.

8 Q.157 - That's your current evidence.

9 A. With the exception of the word only, yes.

10 Q.158 - Yes, that's correct. Thank you, Mr. Larlee. Now if
11 we could look in table 4, and now let's stick with your
12 current application, the annual impact breakdown, okay.
13 We can see some substantial changes here. In particular I
14 would note that under your original proposal, 5.3 percent
15 of customers saw an increase of three to five percent,
16 correct? That's column 2, row 2 of your original
17 proposal.

18 A. Yes.

19 Q.159 - So 5.3 percent of customers saw an increase of three
20 to five percent, whereas if we now go under your current
21 proposal over 30 percent of customers see an increase of
22 between two and four percent, correct?

23 A. Correct.

24 Q.160 - So your current proposal is you have got 30.4 percent
25 of the customers, their impact will only be between two

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2 and four percent, correct?

3 A. Correct.

4 Q.161 - And if you can just stick with my lawyer's math here

5 for a second, in your original proposal if you add up the

6 first three columns, 38.4 percent of customers saw an

7 increase of under seven percent, is that correct?

8 A. That's about right, yes.

9 Q.162 - Whereas in your new evidence your current proposal

10 before the Board 67.5 percent of your customers have an

11 increase of less than the average increase of 6.4 percent,

12 correct?

13 A. That's correct, yes.

14 Q.163 - And as we noted earlier, once you get up to ten

15 percent in bill impacts in your current evidence the

16 percentage share of customers dramatically trails off and

17 in fact from table 4 only one percent of customers see an

18 impact greater than ten percent, correct?

19 A. Correct.

20 Q.164 - And those would be your larger customers?

21 A. Yes.

22 Q.165 - Thank you. And this was just brought up earlier this

23 morning, but if we could turn to -- I think the exhibit is

24 A-19(1), but it's DISCO's response to Board EUB IR-84.

25 Again it was mentioned this morning that you were asked by

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the EUB if the declining block was eliminated in its entirety
what impact would this have on rates, correct?

A. Correct.

Q.166 - And you stated in your response -- and here we are
dealing with your 6.4 percent revenue increase, correct?

A. Yes, that's correct.

Q.167 - But the maximum bill impact under your proposed
increase would be approximately 21 percent and that
electric heat customers would see approximately a nine
percent average increase and non-electric heat customers
on average would see little or no change in annual costs,
correct?

A. Correct.

Q.168 - Okay. And if we think back to your earlier evidence,
your original filing, there you were proposing an average
increase for the electric heat segment of 10.7 percent,
correct? You can go back to page 10 of A-6, column 2, row
2.

A. We were proposing reducing the declining block by
one-third and under an average increase of 9.6 percent the
resulting electric heat segment impact was an average of
10.7 increase.

Q.169 - Correct. So that was your original proposal to this
Board.

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A. Correct.

Q.170 - And if you eliminated the declining block completely the average impact to the electric heat segment would be a nine percent increase, a 1.7 percent smaller increase than what you had originally proposed to this Board, correct?

A. Correct.

Q.171 - Thank you. And the non-electric heat segment you were proposing an increase of 6.5 percent, correct? Row 3, column 2.

A. Correct.

Q.172 - And if it was eliminated in total there would be a zero increase, correct?

A. Correct. For that segment of the customers, yes.

Q.173 - Thank you. And then you go on in your response to EUB IR-84 to say that 63 percent of bills are for 1,300 kilowatt hours or less and therefore these customers would see bill increases of zero or slightly less, correct?

A. Correct. Just to be clear, that's not 63 percent of customers, that's 63 percent of bills.

Q.174 - Correct. Understood.

A. Yes.

Q.175 - And for EUB-84 for the table here you have of the rate changes, there would be a range of bill impacts for that similar to what we would have seen in table 4 in your

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2 original rate design evidence or your revised rate design

3 evidence, correct? I don't think there is one filed but

4 there would be -- you could do a residential customer

5 annual impact, right?

6 A. Correct. Just give me two seconds. I thought we had

7 filed them.

8 A. I'm sorry. If we did file it, I can't find it.

9 Q.176 - I believe, Mr. Larlee, if my memory is correct, we had

10 asked for it and you had politely declined as it was a

11 proposal that you weren't putting before the Board.

12 A. I have been known to change my mind.

13 Q.177 - And it might have shown up elsewhere, but -- maybe at

14 the break -- if that information is on the record, Mr.

15 Larlee, certainly at the break you could indicate that at

16 some time.

17 A. Thank you.

18 Q.178 - And to understand the breakdown of DISCO's customer

19 bill impacts and to look at that graphically, one can turn

20 to -- I guess you could use either of the appendices but

21 let's stay with your existing application, the one

22 currently before the Board, so A-61, if you go to appendix

23 A-4, and that shows the 63 percent residential bill

24 impacts up to the 1,300 kilowatt hour per month amount

25 that we were talking about earlier, correct?

2 A. Correct.

3 Q.179 - And the customers who would see the greatest increases
4 would be the ones who were out in the very high range of
5 energy usage, correct?

6 A. That's correct.

7 Q.180 - And just so that the Board understands, you have sort
8 of truncated this chart, so you pushed in the high energy
9 usage, and that's why you have the sort of little flags
10 down at the bottom there, correct?

11 A. Yes, that's correct.

12 Q.181 - And if the Board doesn't approve your entire 6.4
13 percent increase in your revenue requirement, then the
14 overall impact on the residential class will be lower,
15 correct?

16 A. That's correct.

17 Q.182 - Now if we could move to your response to EUB IR-86,
18 which is still in A-19, volume 1. In here you were asked
19 whether you have explored other options related to price
20 signals and whether you have considered time of day
21 pricing.

22 And at the last sentence of that response you state that
23 as the residential declining block structure is removed
24 and as smart metering technology becomes less costly,
25 opportunities may arise to implement alternate

2 rate structures, correct?

3 A. Correct.

4 Q.183 - My understanding is what you were partially alluding
5 to here, and we can follow up on this, is that it's DISCO
6 view that the residential declining block rate structure
7 needs to be removed before DISCO should move on to other
8 potentially viable alternative rate structures which could
9 further improve price signals, correct?

10 A. The declining block structure is an impediment to other
11 alternate type rate structures, yes.

12 Q.184 - And if we could go then -- if we could turn to Public
13 Intervenor IR-14 which is A-19 but volume 2.

14 A. Any particular section in 14 you would like to -- for us
15 to --

16 Q.185 - Pardon?

17 A. Any particular section in 14?

18 Q.186 - No. I think it is just IR-14. I just have a single
19 written response here to PI IR-14.

20 A. It has several subsections.

21 Q.187 - The September 10, 2007, response. Mine just has a
22 single paragraph response.

23 A. PI IR-14 has at least 48 subsections. So it's going to be
24 difficult to find.

25 Q.188 - I will just check with Mr. Morrison to see what --

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2 mine is marked just from the binders as PI-14.

3 MR. MACDOUGALL: There seems to be a bit of confusion, Mr.

4 Chair. If I could just have one moment.

5 CHAIRMAN: Certainly.

6 MR. MACDOUGALL: Thank you, Mr. Chair. It's 14(41).

7 Q.189 - Are you there, Mr. Larlee?

8 A. Yes.

9 Q.190 - There you say, "DISCO's rate design priorities are the

10 removal of the residential block, gradual elimination of

11 cross-subsidization between rate classes and closing the

12 price gap between the General Service I and II rates.

13 Then you go on to say, DISCO believes that further

14 progress is required in these areas before additional rate

15 design changes are considered.

16 Is that still DISCO's position, that before you can

17 consider further additional rate design changes the

18 declining block should be removed?

19 A. Sorry. Could you repeat that last part?

20 Q.191 - Before you can -- before you would like to consider

21 additional rate design changes further progress is

22 required in the elimination of the declining block?

23 A. Yes. But this response is speaking specifically to

24 General Service 1 and 11. So really what we are saying

25 here is that we set our priorities for this particular

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rate proposal, what we see as priorities, and we think we should work towards those before we start introducing other alternate rate designs.

Q.192 - So the sooner we can eliminate the residential end block, the quicker we consider further rate design changes for the residential class such as seasonal rates, time of use rates, et cetera. Would that be a fair statement?

A. I think that's one of the pieces of the puzzle that we need. When it comes to General Service rates aligning the General Service revenue to cost ratios, getting them within the zone, the .95 percent to 1.05 zone, would definitely be required before we could look at any type of alternate rate structures for General Service.

But I mean fundamentally we have to keep an eye on the underlying costs that DISCO sees and I for one am not particularly interested in introducing a time of use rate or any other rate that really has no basis in cost. So we do have a situation in -- if you look at GENCO's underlying costs, because of the size of the Coleson Cove generating station and the costs that flow through from it, there is long periods where there is very little -- very little changes in the costs to GENCO.

Q.193 - But I guess, Mr. Larlee -- and I'm just trying to stick with the point and I think we can come back to maybe

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your words. You would agree that the existence of the residential declining block is an impediment to the further proper study of seasonal rates, time of use rates or other rate structures?

A. Yes, it's one of the impediments.

Q.194 - Thank you. And if we could turn now to your response to EUB IR-74, which is in A-19, volume 1. And about half way down your response, you see a heading "Residential Rate".

A. Excuse me, did you say 84?

Q.195 - 74.

A. I don't seem to have it in my binder here. I'm going to have to dig it out. Just a second. Yes, I have it.

Q.196 - Okay. And about half way down in the response there is a heading "Residential Rate". And here DISCO says that elimination of the declining block rate by December 2010 will align revenues closer to costs. Correct?

A. Correct.

Q.197 - And that this measure will encourage conversions to natural gas or other fuels and implementation of conservation measures. Correct?

A. Correct.

Q.198 - And with respect to that latter sentence, does DISCO see those as appropriate goals?

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2 A. Yes.

3 Q.199 - Thank you. And if we can go up a paragraph. You can
4 see starting with the word, "However". It says "However,
5 one of the most effective tools DISCO has at present is
6 rate modification. Changing rate sends a price signal
7 which will encourage consumers to modify their patterns of
8 energy usage." And do you agree with that?

9 A. Yes, I do.

10 Q.200 - Now if we could go to EUB IR-86. And in your response
11 you have a paragraph number 2. Do you see that?

12 A. Yes.

13 Q.201 - And it says "The declining block structure of the
14 standard residential rate does not reflect cost. Until
15 the residential rate is aligned to reflect cost, a cost
16 based time of use rate will not pass sufficient benefit to
17 customers." And that remains DISCO's position today?

18 A. Yes.

19 Q.202 - Thank you. And if we could go to Utilities Municipal
20 IR-29. And that is A-19 but in volume 2.

21 CHAIRMAN: I don't think there is an A-19, volume 2. I
22 think that is A-20.

23 MR. MACDOUGALL: It may be, Mr. Chair. Thank you very much.

24 CHAIRMAN: What was the number of the IR, Mr. MacDougall?

25 MR. MACDOUGALL: 29, IR-29. UM 29.

2 CHAIRMAN: Thank you.

3 Q.203 - And here, Mr. Larlee, if we can go to the third
4 paragraph, here you say "DISCO cannot verify that 100
5 percent of peak energy is required only due to electric
6 heat but is confident that seasonal variations in load
7 primarily result from electric space heating load. As
8 outside temperatures become colder, DISCO's load generally
9 increases as evident in the fact that DISCO is a winter
10 peaking system."

11 And can you confirm that DISCO's seasonal variations in
12 load primarily result from electric space heating?

13 A. Yes, I can confirm that.

14 Q.204 - Now if we could take a look at A-28. And this is your
15 response to EGNB IR-3, October 10. I believe it is A-28,
16 EGNB IR-3 October 10th.

17 And her you were asked to describe your plans to achieve
18 elimination of the declining block by no later than
19 December 21, 2010. And you referred to section 99(1) of
20 the Electricity Act that allows DISCO to make changes to
21 its rates, tolls and charges that do not exceed the
22 greater of the 3 percent or the consumer price index. And
23 you went on to state that removal of the declining block
24 is an intra class rate design change and can be
25 accomplished within its requirement. Correct?

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2 A. Correct. That is my interpretation, yes.

3 Q.205 - And without getting into a legal debate here about

4 what the interpretation may or may not be of section

5 99(1), my question is if this was to occur, then there

6 would be no Board oversight as to how it came about or

7 when it came about. Correct?

8 A. Again, that is my understanding, yes.

9 Q.206 - So your proposal is that you could do this outside of

10 the ambit of the Board as long as it wasn't causing a 3

11 percent percentage change or greater change in the average

12 consumer price index?

13 A. Well we would do it in compliance with any previous Board

14 rulings.

15 Q.207 - But the types of changes you were going to make or

16 what you were going to do, how would the Board oversee

17 what you were specifically proposing?

18 A. Similarly to what we are doing here, and that the Board

19 ruled in December 2005, to eliminate the declining block

20 in three steps. And that is what we have put forward is

21 this proposal. There would be no reason to deviate from

22 that. We will continue to follow the Board's ruling

23 unless the Board changes it.

24 Q.208 - Do you agree that there is interpretational issues

25 even in this hearing about what changing it in three steps

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means?

A. I don't have any interpretation issues. You may have but I don't.

Q.209 - Correct, Mr. Larlee. So matters such as that wouldn't be able to come before the Board under your suggestion. Correct? You are not proposing that there be a further process?

A. I don't believe there is an option in the Electricity Act that would allow us to come to the Board under a 3 percent rate increase but I'm not a lawyer.

Q.210 - No. That's fine, Mr. Larlee.

A. I would like to apologize to the Board for this response. There are several typographical errors in my quote from the Act. So please don't use this quote. I won't go into what they are but they don't change the substance of it. It did not get the review it should have.

Q.211 - And if we could turn now to your response to EUB IR-116 which I believe is in A-28, October 10. The same volume I think we are in, Mr. Chair. So EUB-116. And here you indicate at the beginning of the response that DISCO has not evaluated the impact on the revenue to cost ratios of a reclassification of large churches and farms to General Service, correct?

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A. That's correct.

Q.212 - Okay. And you go on to say in about the middle of the second paragraph of your response that before the details of the application guidelines are established, it would be beneficial to establish the rate design goals and principles that are to be achieved and applied in the reclassification, correct?

A. That's correct.

Q.213 - And in the last paragraph you state that other options are also possibly available other than reclassification. For example, the residential rate schedule could be revised to include a large customer rate that would capture the church and farm customers, correct?

A. Yes. That's correct.

Q.214 - So does DISCO believe that this is an issue that should be reviewed in a timely manner, the question of the churches and farms in the residential rate?

A. Well, I guess I would go back to what our priorities are in this proposal. And they are to reduce the declining block in residential, to continue to merge GS1 and GS2 and to make progress towards correcting the revenue to cost ratios. So those are our priorities today.

Q.215 - Okay. But going forward, do you think that this is an

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2 issue that should be dealt with in a timely manner I guess,
3 not today?

4 A. I think it's an issue that may warrant further
5 examination. I don't really think there is enough either
6 put on the record through this process or through the
7 Concentric Energy Adviser reports yet to make a decision
8 on this.

9 But certainly as the revenue to cost ratio for General
10 Service is brought more in line, then it may be an
11 appropriate time to look at this issue.

12 Q.216 - So this is another issue the timing of which is
13 impacted on how quickly one gets rid of the residential
14 declining block and brings the GS1 and GS2 into line,
15 correct?

16 A. Well, it's impacted by the residential declining block
17 only so much as that that should be done first. And then
18 possibly the landscape will change. And we may see some
19 different things happening. But certainly that should be
20 the first thing that should occur.

21 Q.217 - And just going back to my earlier question, when you
22 were talking about it being beneficial to establish the
23 rate design goals and principles to be achieved, how would
24 you envision that occurring?

25 How would those rate design principles and goals be

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2 established? Who would be involved? What would the process
3 be?

4 A. Well, the idea there is that because your rates are in
5 place for long periods of time on a go-forward basis is
6 that you wouldn't want to make any decisions that would
7 impact several rate classes or potentially all your rate
8 classes within a general rate proceeding. Because you
9 wouldn't want issues around the rate increase to impact
10 such a long-term decision.

11 So normally what the process would take place is there
12 would be some type of separate hearing just on the rate
13 design issues at hand.

14 Q.218 - So you could have a generic hearing dealing with cost
15 of service, rate design, other issues outside of a revenue
16 requirement hearing, correct?

17 A. Well, generic sort of implies all-encompassing I guess in
18 my mind. But it may not be generic. You could be focused
19 on specific issues, rate design issues around for instance
20 churches and farms, residential and General Service and so
21 forth. The issues could be quite narrow if that's what
22 the Board decided.

23 Q.219 - And that is, as you say, to the Board to decide
24 whether it would be appropriate to hold such a hearing.
25 That is your understanding?

2 MR. MORRISON: Well, I think we are going to be having some
3 legal argument on that point, Mr. Chairman.

4 CHAIRMAN: It strikes me that may be the subject matter of
5 Mr. Lawson's motion as perhaps modified by your comments
6 in your e-mail, Mr. MacDougall.

7 MR. MACDOUGALL: I wasn't trying to get to the legal
8 argument. So I stop it there, Mr. Chairman.

9 Q.220 - I guess is it your view as a rate design staff member
10 at DISCO that it would be appropriate to have such a
11 proceeding?

12 A. It's all a question of timing. I don't see it being
13 appropriate now or really in the near term. Because there
14 are other priorities, as I have pointed out, when it comes
15 to rate design. And I pointed out my thinking, as far as
16 cost allocation comes, in earlier questioning from
17 Mr. Lawson.

18 But the key point here is that rates really form a
19 package. So they should be looked at at a high level when
20 something as significant, I think as significant as
21 removing a group of customers like churches and farms from
22 residential, which have historically been there, were
23 there for specific reasons I believe in the past, and move
24 them to the General Service class, I think that requires
25 sort of a high level farsighted view and not something

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that should be decided in a general rate proceeding.

Q.221 - Understood, Mr. Larlee. If we could now then turn to -- and you had mentioned the Concentric report. That is where I would like to go.

If we could turn to EGNB IR-4 on October 10, so still in exhibit A-28. I think you just have to flip to the EGNB tab.

And in paragraph 1 there you noted that it was DISCO's view that the Concentric reports that were filed in this hearing in your view do not form part of DISCO's evidence for this hearing, correct?

A. Yes. That's correct.

Q.222 - And you said that you believe they should be treated as stand-alone information that is a direct result of the previous hearing, correct?

A. Correct.

Q.223 - Now Mr. Larlee, do you have a copy of the Concentric Energy Advisers report with you?

MR. MACDOUGALL: I know that they were filed, Mr. Chairman, with all the participants. But I don't think they would be given an exhibit number in this proceeding because of the statements and the approach that DISCO took. So I'm just wondering if Mr. Larlee has a copy.

A. Yes, I do.

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MR. MACDOUGALL: I don't know, Mr. Chair, if the Board has copies.

CHAIRMAN: I don't believe the Board does.

MR. MACDOUGALL: I'm just going to read a short extract from it, Mr. Chair. So I think the transcript will speak for itself. And Mr. Larlee can indicate if I read anything incorrectly from the page I have.

CHAIRMAN: And that is acceptable.

MR. MACDOUGALL: Thank you, Mr. Chair.

Q.224 - And if you could go -- if we could turn to page 54 of the report, Mr. Larlee.

And if we go to the last paragraph, you see at the beginning it says "As a final caveat, Concentric recommends that any changes such as the above in the residential rate or other existing rates be done as part of an overall review of all of DISCO's rate structures."

Correct?

A. Yes.

Q.225 - And then it goes on to say "This review should be a separate process where the parties are not burdened with the need for revenue changes." Correct?

A. Yes.

Q.226 - And I think you just agreed momentarily ago that that was your position as well?

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2 A. Yes.

3 Q.227 - And then it goes on to say "All parties would be
4 placed on notice of the scope of review and the potential
5 changes and would have a reasonable opportunity to
6 participate."

7 Do you agree with that statement from Concentric?

8 A. Yes.

9 Q.228 - "And making piecemeal changes to particular rate
10 classes without consideration of the impact on other rate
11 classes or effects on the company as a whole can lead to
12 unanticipated consequences."

13 And do you agree with that?

14 A. Yes.

15 Q.229 - And then if we go on at the very end it says "To
16 lessen the risk of unanticipated changes, all proposals
17 should be studied as a whole."

18 And do you agree with that statement from Concentric?

19 A. Yes, I do.

20 Q.230 - Thank you. Mr. Larlee, if I could just change to
21 another topic now then.

22 Can you confirm that combustion turbines and emergency
23 purchases are normally required during the winter heating
24 when loads are highest?

25 A. That normally is the rate I'm hung up on. It's in the

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evidence and responses to my IRs that DISCO has not had to purchase CT energy or emergency energy for several years.

So normally from the sense as are they forecast, assuming that we have normal weather conditions, yes. And will that result -- is that the result of DISCO being a winter-peaking utility and likely would occur during the winter peak, yes. Yes, it is.

Q.231 - So when they are required, they would be normally required during the winter season, if they are required?

A. That's exactly it.

Q.232 - And Mr. Larlee, would you agree that DISCO would support any change that is shown to further the goal of the CCAS to reflect causation?

A. Yes. I agree with that.

Q.233 - Now if we could go back to EGNB IR-6 again in A-28.

So EGNB IR-6.

You stated that the rate application guidelines -- and this is in response to question number 2 -- in your rate schedules and policies manual would determine which rate was applied to a co-generator requesting service.

You went on to say General Service, small industrial or large industrial rate would apply, is that correct?

A. Yes. That's correct.

Q.234 - Do you know were any of those rates designed for the

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2 purpose of providing backup service for a co-generator?

3 A. No.

4 Q.235 - And now, Mr. Larlee, I want to ask you a couple of
5 questions from the transcript. And the only transcripts
6 that I want to refer to is the transcript of December 3rd.
7 And I'm not sure, Mr. Larlee, if you have a copy or if
8 your counsel can provide it.

9 A. No. And I do not have a copy.

10 Q.236 - I think your counsellor --

11 MR. MORRISON: We will get a copy of that momentarily,
12 Mr. Chairman.

13 MR. MACDOUGALL: Yes. It is a transcript of December 3rd.

14 Q.237 - Mr. Larlee, at this time I might ask a couple of
15 questions arising from this morning, if it is going to
16 take a minute to get --

17 A. I have it now, Mr. MacDougall.

18 Q.238 - Mr. Larlee, if you could go to page 1483. And here at
19 Q.37 you were asked "Do you know what percentage of a rate
20 increase would be necessary to have customers invest in
21 home retrofits or fuel switching?"

22 Do you recall that?

23 A. Yes.

24 Q.239 - And about halfway down in your response, starting at
25 line 19, you say -- you have a response. And then when

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2 you are finished that you are talking about what it is based
3 on. And you say "When we did that work it's a few years
4 ago now"?

5 A. Yes.

6 Q.240 - Could you advise the Board when that work was done?

7 A. It would have been done just prior to the last rate
8 hearings of 2004.

9 Q.241 - 2004?

10 A. Yes.

11 Q.242 - And has there been any update on any of that since
12 2004?

13 A. Not that I'm aware of.

14 Q.243 - Then would it be fair to say over the past number of
15 years consumers' attitudes towards conservation and
16 climate change have become heightened?

17 A. I would say that's fair, yes.

18 Q.244 - And here in part you are talking about fuel switching?

19 You say "We have in the past" -- at line 12 -- "we have
20 done some analysis on fuel switching"?

21 A. Right. Yes.

22 Q.245 - Okay. And again was that in 2004?

23 A. That's right. Yes.

24 Q.246 - And were you aware that Enbridge Gas New Brunswick's
25 rates were revised as of January 1 of this year to bring

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2 in place in part a residential electric rate?

3 A. Yes.

4 Q.247 - And that occurred commencing the beginning of this
5 year 2007?

6 A. I wasn't aware of the exact date.

7 Q.248 - But you would take that subject to check?

8 A. Yes.

9 Q.249 - And then if we could go to page 1486 of the
10 transcript. And here again we are talking about people
11 may be making decisions to change fuels or retrofit or
12 whatever.

13 And in response to Q.42 you say "So you really have to get
14 into the larger homes before you get paybacks for the
15 customers likely to accept a reasonable payback", correct?

16 A. Correct.

17 Q.250 - And the larger homes are the ones that benefit the
18 most now from the declining block, correct?

19 A. That's correct.

20 Q.251 - Thank you. Mr. Larlee, just bear with me for a
21 second. You have made a few responses to the Conservation
22 Council this morning. And I just want to check my notes.

23 I just have a couple of follow-up questions. I might
24 have picked them up in my other question.

25 MR. MACDOUGALL: I think, Mr. Larlee, that is the end of my

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2 questions. Thank you very much. Thank you very much,
3 Mr. Chair and Board members.

4 A. I did find that table by the way that shows the rate
5 impacts with the flat rate. It's in response to DISCO
6 EGNB IR-1, October 17th, in exhibit A-29.

7 Q.252 - If I could just stay with that for a second, Mr.
8 Larlee. I was aware of that. But that is not -- that is
9 a breakdown of the rate structure. Okay. I see. Page 2.

10 Thank you, Mr. Larlee.

11 And I do recall now there was a follow-up. And you
12 responded to it the second time around on that question.

13 Thank you very much.

14 MR. MACDOUGALL: Thank you, Mr. Chair and Board members.

15 CHAIRMAN: Thank you, Mr. MacDougall. Mr. Wolfe?

16 MR. WOLFE: Thank you, Mr. Chair.

17 CROSS EXAMINATION BY MR. WOLFE:

18 Q.253 - If you would go to book A-2, subsection (1), section
19 1, page 8.

20 Mr. Larlee, if I'm reading this correct, it says that the
21 increased volume or load increase for the test year will
22 be 325,000 megawatt-hours. Am I correct?

23 A. Yes. That's over the 06/07 estimate at the time that the
24 evidence was prepared, yes.

25 Q.254 - Okay. This morning Mr. Lawson talked about the

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reduction of two large loads in the province. What he didn't talk about was the loss of many, many sawmills in the province.

And I would assume that some of those would be large industrial and some would be small industrial. Am I correct with that?

A. Yes, you are.

Q.255 - Okay. So by the end of January when the large load in Dalhousie disappears, the peak outside of weather conditions will reduce by more than 200 megawatts compared to say last year?

A. Well, the firm load related to the Dalhousie mill is not -

MR. MORRISON: I would caution Mr. Larlee however that in answering the question he doesn't reveal any customer-specific information with respect to load. Because that is confidential.

A. Thank you. The load at that particular sawmill does not achieve the levels that you indicated in your question.

Q.256 - From my calculations, from the load that is reduced in the province, about to be reduced, I come out to a reduction of more than 325,000 megawatt-hours. Whether you have done it or not I don't know.

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But in fact the actual test year is going to have a reduction in load, of course depending on the weather, as compared to the year 06/07.

A. I didn't bring my revenue information with me. But I think our year to date numbers are below forecast at this point largely because of weather. But it's not to the point that it couldn't be made up with some colder months. By all accounts from Revenue -- or from Environment Canada, we could end up with some colder months this winter. That being said, the closure of the paper mills will put downward pressure on sales, no question.

Q.257 - Did I hear correct this morning when you told Mr. Lawson that the large load reduction in Miramichi was equivalent to about \$400,000 a month?

A. Yes. In the long run there will be a negative or a loss, unfavorable position to DISCO of about \$400,000 a month.

Q.258 - So 400,000 times seven months is 2.8 million?

A. That sounds right, yes.

Q.259 - And do I assume then it is a similar amount of money when the large load in Dalhousie disappears?

A. Yes. It's in the same order. They are about the same size load.

Q.260 - So if that happens the end of January there is another

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2 two months times \$400,000?

3 A. That's correct.

4 Q.261 - So now we have 2.8 million plus 800,000. So we are
5 pushing \$4 million negative to DISCO for this year?

6 A. That's correct. And that's not negative revenue. That's
7 the negative margin. Just so we are clear.

8 Q.262 - Would you have any idea what that means to Genco for
9 the same period for the same reasons?

10 A. No. I don't have those numbers.

11 Q.263 - Can we go to page 18? In page 18, starting with line
12 6, you talk about the System Operator settlement. And
13 down at the very last paragraph you -- the very last line
14 says "In 06/07 DISCO accumulated credit of \$3.9 million
15 from the System Operator."

16 Is it correct that there is zero money assumed in this
17 year's test case budget -- test year budget?

18 A. Yes. That's my understanding. The settlement -- well,
19 the market operates under what is scheduled. So
20 everything -- all the charges that flow back and forth is
21 based on the schedule, similar -- I guess it's consistent
22 with our idea of budgeting.
23 So obviously everything is scheduled to balance. So
24 everything is budgeted to balance. There is no settlement
25 charges in the budget. So I think the logic is quite

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2 consistent.

3 Q.264 - So are you aware that the System Operator has a
4 proposal in front of the EUB to distribute I guess last
5 year's income?

6 A. No, I'm not.

7 Q.265 - And I don't know whether it has been approved or not.

8 But in that proposal to the EUB the System Operator is
9 saying there is \$1.6 million to go to DISCO.

10 So that would be on top of whatever your income is this
11 year if that does happen, is that correct?

12 A. I'm really not familiar with that process. As I said, I'm
13 not -- I wasn't aware of the application before the Board.

14 But the rates are set on a prospective basis.

15 It sounds to me like this is an intra-year variance, not
16 unlike many other intra-year variances, and really doesn't
17 impact the setting of rates.

18 Q.266 - No. It won't impact the setting of rates. But there
19 will be some money coming to DISCO if that is approved by
20 the EUB?

21 A. Yes.

22 Q.267 - Could I go to book A-4 please in appendix F, page 1?

23 On the very first line we have the forecast for 07/08.

24 Would it be possible to have an undertaking to reforecast
25 that line with what we know today?

2 MR. MORRISON: Well, it may be possible. But it would have
3 no bearing on the revenue requirement for 07/08. Because
4 the Board is bound by the Act to base its determination on
5 forecasted revenues, not on actual.

6 MR. WOLFE: That is true enough. But it at least would give
7 us an idea of what the effect is on DISCO with the changes
8 that are happening and the unprecedented changes in the
9 province.

10 CHAIRMAN: Mr. Wolfe, I just want to clarify precisely what
11 it is you are asking. I'm looking at appendix F in
12 exhibit A-4.

13 And what is it that you have asked for an undertaking to
14 do?

15 MR. WOLFE: To reforecast the first line, line 2007/2008,
16 now that we have eight months of actual behind us and four
17 months of a forecast ahead of us, now that we know large
18 industrial has decreased a substantial amount.

19 MR. MORRISON: I have just been advised that would be the Q3
20 forecast. That has not been completed yet. So what -- in
21 terms of gigawatt hours, that wouldn't be available yet.
22 I would point out that the dollars of course -- because
23 the Board ordered us that we file our quarterly -- DISCO
24 files its quarterly financial statements with the Board.

2 But that particular breakdown is not available yet. And
3 to date we have not been filing any quarterly forecasts
4 for the reasons I mentioned earlier, Mr. Chairman, because
5 they are quite frankly not relevant to the rate
6 application.

7 CHAIRMAN: Well, let's put the relevancy issue aside for a
8 moment. Do I take it from your response, Mr. Morrison,
9 that the information wouldn't be available to carry out
10 that study at this time? Is that what you are telling us?

11 MR. MORRISON: No. I believe the information may be
12 available. It is just that analysis hasn't been done yet.

13 And I believe it is done in conjunction with the normal
14 forecasting, intra-year forecasting process. And it has
15 not been done yet.

16 CHAIRMAN: The Board doesn't see how that would be relevant
17 to the matter that is before us. So we are not going to
18 order that undertaking.

19 MR. WOLFE: Okay. Thank you.

20 Q.268 - Mr. Larlee, last week I learned a little bit about NB
21 Power hedging. Whether I understand it or not is another
22 thing. But for the test year, when the fuels were being -
23 - or hedged 18 months ago, more than that from now -- when
24 you would see, as a rate designer, when you would see the
25 fuel being forecast -- or the hedging and the forecast of

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2 that hedging resulting in such huge losses, would you
3 contravene with DISCO or Genco, whoever does the hedging,
4 to try to mitigate some of those rather than accepting the
5 fact that we are going to have such huge losses in the
6 test year?

7 A. There is really no -- there is no role -- rate design
8 doesn't really have a role to play in the hedging. Our
9 role is to take the costs that flow to DISCO through the
10 PPAs and put them into the cost allocation study, and then
11 use the results of that study to make the proposed rate
12 design changes that we think meet the objectives. So
13 there really isn't -- there really isn't a role for rate
14 design to play in the hedging.

15 Q.269 - So you just accept whatever comes. And if it is a
16 high number it is a high number and would go on and do
17 your test year and do your forecasting from that then?

18 A. We use the costs that flow to DISCO from the PPAs.

19 Q.270 - Okay. My last question then is on hedging. When you
20 price power for the interruptible surplus users, is it
21 prices off of the hedge price or off the spot price?

22 MR. MORRISON: I don't believe this question has anything to
23 do with rate design. If it is a rate design question then
24 Mr. Larlee can't answer it.

25 CHAIRMAN: Mr. Larlee, are you able to respond to that

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question?

A. Yes, I can. The interruptible surplus rates are, as laid out in the RSP manual, are based on the incremental cost. and those values are not hedged.

MR. WOLFE: Thank you, Mr. Chairman. That is it.

CHAIRMAN: Thank you, Mr. Wolfe. So I guess that the next spot that we have is Dr. Sollows. And I understand that Mr. Peacock will be asking questions in that time slot. We will break now for lunch and come back in one hour at 1:25.

(Recess - 12:25 p.m. - 1:25 p.m.)

CHAIRMAN: Good afternoon. Mr. Peacock, are you ready to proceed with your cross examination?

MR. PEACOCK: Yes, indeed, Mr. Chair. And for the benefit of the Applicant I can state that essentially all of my questions involve the responses to VCSJ IRs essentially 1 through 5 which was given on September 10th, 2007. I believe that's probably one of the earlier IR binders.

CHAIRMAN: Does anybody know the exhibit number?

MR. LARLEE: IR-3 is A-20(1). I don't have the other IRs right in front of me.

MR. PEACOCK: Actually I apologize, Mr. Chair. I said it was responded to on September 10th, but according to the on-line version of the IR it was in fact dated September

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14th, 2007. I don't know if that provides slightly more clarity. On-line they are all grouped together, VCSJ IR - essentially it appears to be a total of 23 pages.

CHAIRMAN: The VC IRs that you submitted on September 10th?

MR. PEACOCK: Yes. Yes. And I guess now that I'm looking through them I recognize the reason for the two dates. Some of the IRs that were responded to on September 14th I believe had a specific number, a numerical analysis that the applicant had a few days that they needed.

MR. MORRISON: I believe it is exhibit A-20(1)

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

CROSS EXAMINATION BY MR. PEACOCK:

Q.271 - Thank you. Before I actually get into the specifics of the IR responses, I guess I would just like to address a few of the comments that Mr. Larlee had made earlier today. In discussing the declining block rate and essentially the guidance that the Board had taken in terms of its eventual removal, Mr. Larlee had mentioned the December 2005 ruling which would have -- essentially suggested that the declining block rate would be -- should be eliminated in three essentially equal steps. Would it be fair to state that the 2005 Order in regards to the declining block rate was ultimately

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2 superseded by the Public Utilities Board in their 2006 June
3 decision which took a more aggressive approach in regards
4 to the declining block rate?

5 A. Yes. The June decision from the PUB did take a more
6 aggressive approach. But that decision in turn was
7 essentially modified or reversed by the Order-in-Council.
8 So we took it upon ourselves to use the CARD ruling
9 simply because it was a generic ruling, not linked to any
10 particular rate increase, as guidance in developing this
11 proposal.

12 Q.272 - Thank you. And I guess as a follow up I would just
13 ask in preparing your current rate case, did the Applicant
14 ever consider using the June 2006 decision as an
15 appropriate starting point towards the elimination of the
16 declining block rate?

17 A. No.

18 Q.273 - Okay. Thank you. I guess I will now go into the
19 specifics of the IR responses.
20 I will start perhaps with IR -- of VCSJ IR-2. And I --
21 yes, it's table 1 that was -- no. Actually I apologize.
22 I believe it may in fact be table 2 that I am seeking to
23 find. And that dealt with the -- okay. Sorry. Sorry
24 about my own confusion here. The IR I'm speaking to is
25 IR-3 and there is in response to question 2 a table 1

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2 which is a comparison of residential urban service charges
3 across the country. Are you able to see it?

4 A. Yes, I have it.

5 Q.274 - Okay. Thank you. In examining this table we see that
6 NB Power and the Maritime Electric are both at the very
7 high end of this national comparison.

8 Could you offer some insight as to why there is this --
9 there appears to be such a large difference between -- as
10 a monthly service charge applied by the NB Power group and
11 those of other utilities?

12 A. Well it's likely a result -- I say likely because I
13 haven't really talked to these utilities to find out the
14 reasons behind it, but it's likely a result of, one, that
15 their evaluation of customer costs or, two, their
16 historical charges that they have decided to do, or it
17 could well be a philosophy in rate design that they are
18 applying.

19 Q.275 - Okay. Perhaps we would move to table 2 which I
20 believe responds to question 3 of that same IR, and that's
21 where you have kindly provided a recent history of monthly
22 service charges in the urban sphere as well as the rural,
23 alongside energy and block rates.

24 And earlier I tried to determine essentially the increase
25 over the last essentially 15 years, from 1992 to

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2 2007, and I determined that the monthly service charge
3 increased roughly 98 percent over this period.

4 Would that be a fair assessment?

5 A. Well 98 percent implies that it's almost doubled and, yes,
6 it's almost doubled. Yes.

7 Q.276 - And I also found during the same period that the first
8 -- the effective price per kilowatt hour for the first
9 block rate increased by roughly 52 percent. So not quite
10 as significant an increase as you did see with the monthly
11 service charge?

12 A. Yes. That looks about right, yes.

13 Q.277 - And finally the second block rate per kilowatt hour I
14 saw that it -- that the effective rate charged to that
15 second block increased by roughly 39 percent over this
16 period?

17 A. Yes, that looks about right.

18 Q.278 - Would it be fair to state that the historical trend
19 that you see in the rate design proposed by NB Power
20 before and after reorganization, that this historical
21 trend that you observe in this chart, would it favour
22 large homeowners over renters of small apartments?

23 A. Well I guess I'm not really clear what you mean by favour.
24 I mean all customers are paying more for electric service
25 as the years go by, as this table points out.

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2 Your question seems to imply that there is a change in the
3 trend from before and after restructuring and I don't see
4 that.

5 Q.279 - Okay. I perhaps shouldn't have thrown that rejoinder
6 in. I didn't in fact see any change before and after
7 restructuring.

8 I guess what I was trying to look at was whether or not
9 there was a systematic discrimination towards low income
10 houses. But I guess -- I don't want to put words in your
11 testimony because I know some of this can be saved for
12 argument.

13 But I guess perhaps what I may want to look at in the form
14 of the next question is that if you take those 15 years
15 since 1992 and you average out the urban monthly -- the
16 increases in the urban monthly service charge, it appears
17 that in any given year the monthly service charge
18 increased over six percent essentially in the urban class.

19 I would assume in the years since 1992 the residential
20 load in New Brunswick has in fact been easier to service
21 in the sense that an increase in trend towards
22 urbanization in the province has produced opportunities to
23 achieve economies of scale.

24 Why then has -- why has the monthly service charge
25 increased at an average rate of six percent a year if --

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or why for that matter is that increase higher than the rate of inflation.

A. I will just take a minute to confirm the six percent.

Q.280 - Okay. Yes. Absolutely.

A. I am getting a little bit less than that for 4.7 percent annually. But I would agree with you that it's above the rate of inflation certainly in the last ten years or so.

Q.281 - And I guess maybe if I could have some insight in terms of the urban load, the urban residential load, facing DISCO over this period. Has there in fact been increasing density or -- I guess what I'm trying to understand is how the monthly service charges continues to increase. Because from my perspective I would assume that the fact that so many new homes in the province are being constructed outside of say the urban centres, that that would provide opportunities to in fact reduce the monthly service charge because there would be maybe increasing economies of scale.

A. I think it's not so much that there has been a change in the underlying cost between urban and rural because the cost allocation study first off doesn't make any urban and rural distinction. So there is no real way for us to do that analysis that you are basically alluding to.

2 What you are seeing here I think is -- this is stretching
3 back to almost before my time in rate design, but there is
4 a conscious decision to increase the service charges in
5 general, both urban and rural, to better match the
6 customer costs that were coming through the cost
7 allocation study.

8 So for many years -- this only goes back to '92, but I
9 think if you look prior to '92 you will see that the
10 service charge -- the monthly recurring service charge was
11 fixed at \$10 and didn't change regardless of whatever the
12 rate increase was required up until that time.

13 So after '92 I think there was a recognition given that we
14 had a regulator approved cost allocation study that we
15 should increase the service charge to better align with
16 the customer costs that that study was telling us.

17 Q.282 - Thank you. I will move on to your response to
18 question 6 within IR-3. And in that response the
19 Applicant has suggested that they have no specific plans
20 to implement an inclining block rate. And I was just
21 curious if NB Power's board of directors has ever in its
22 recent history set as a policy goal the establishment of
23 an inclining block rate?

24 Has there ever been any discussion that has been recorded
25 in the minutes or elsewhere?

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A. Yes, I believe there was a policy of the Board established in 2005, some time in 2005, and I believe Mr. Hay might have alluded to it in his testimony, that those policies are -- now that the board of directors may or may not have a different mandate, but obviously there is a different government in place, that they are subject to review. But that really doesn't affect the proposal for 07/08, because in my view we have to get to a flat rate before we can get to an inclining rate. Basically that's a weighing station we have to go through. So it's really not -- I don't see it as an issue for this rate proposal.

Q.283 - Okay. I guess in your proposed rate design you essentially hope to respect the Board ruling of December 2005 and essentially eliminate the declining block in three equal parts. I know that this rate proposal is essentially based on this test year, but if we could at least bring it forward a few years. Would it be fair to state that consumers may not see a totally flat rate until 2010?

A. Well I think ultimately it's subject to the ruling of this Board, but certainly under the existing ruling that this proposal was developed under, that is the plan, that there be a flat rate by 2010.

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Q.284 - Okay. The current provincial government was elected in part because of a pledge that they have made to introduce time of use rates. And if the declining block rate is to remain in place for most of this government's mandate, how will it be possible to introduce time of use savings in the near future?

A. Well I mean it's always possible. The question is will the benefits of doing it be worth the endeavour. It's -- basically it's an ongoing evolutionary process.

We have -- we have one hurdle which is the fact that customers -- all they have to do is consume more to get a discount. They don't have to shift their time of day usage to get a discount. So that's one hurdle.

The underlying costs are a hurdle. We have one type of fuel that basically sits on the margin for many, many hours during our high peak period, and if there are any needle peaks they are shaved off by hydro. So that's one hurdle.

The other is that customers, if they are going to change their lifestyle, which time of use rates require them to do, they want to see significant savings. They are not -- they don't want to see nickels and dimes. And this has been shown time and time again with other utilities.

2 So, you know, that is another hurdle that has to be met I
3 think before time of use starts to make any sense. Now
4 one thing that is on the horizon and that we are working
5 in is smart metering, and it may offer opportunities for
6 instead of the classic time of use rate which is sort of
7 flat for many, many -- or not flat but predefined and set
8 out on a schedule ahead of time -- offers opportunities to
9 have a more flexible rate structure, so that you can
10 reflect changes in costs that are more dynamic, like unit
11 outages or severe cold snaps or abnormally low hydro and
12 so on and so forth.

13 Q.285 - Thank you. And just before I move on to the next
14 question, just a final question in reference to the time
15 of use proposal, have you discussed with the new
16 government some of these hurdles?

17 A. I haven't been involved in any discussions, but my
18 understanding is the government is aware of our plans
19 going forward.

20 Q.286 - Okay. I will now take you to question 7 of VCSJ IR-3.

21 That question examined specifically the consumption
22 pattern of the top ten percent of the residential class.
23 From the figures it would appear that 57 percent of the
24 energy consumed by the top ten percent is charged in the
25 cheaper second block.

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Would it be fair to assume that if we looked at the bottom ten percent, there would be much less penetration in usage of this second cheaper block?

A. Yes.

Q.287 - Would it be fair to say then that the greatest economic advantage provided by the cheaper second block is held by the largest residential consumers?

A. I guess I'm not quite sure what you mean by economic advantage. If you mean that the largest consumers are paying an all-in average rate that is lower than other consumers, then yes, that's true.

Q.288 - Thank you. I guess I will flip this question on its head by asking would it be fair to state that these large customers, these top ten percent, they would be most likely to face rate shock if the declining block rate was in fact aggressively dismantled say in one or two years?

A. Well rate shock is relative, but I mean these customers will see the largest impacts, there is no question about it.

Q.289 - In examining issues involving say rate shock, has the Applicant ever considered that a significant proportion of these large customers may have the financial capacity to switch fuels?

A. No.

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2 Q.290 - I guess I would now like to get into the actual level
3 of cross subsidy inherent in the Applicant's proposed rate
4 design. And I believe the table I want to examine in some
5 detail is table 3 which was response to question 8 in IR-
6 3. And this I think is a very informative table that
7 essentially looks at the effective price per kilowatt hour
8 for a bunch of different consumers within the residential
9 class.

10 I think the first one is say an example of a renter who
11 would be consuming an equalized billing of 700 kilowatt
12 hours. Further down you see perhaps a homeowner that
13 would be consuming the equivalent of 2,500 kilowatt hours
14 each month over the year, and finally I threw in a very
15 large consumer.

16 One of -- I guess part 6 of that table is the part that I
17 am most intrigued by, and that's where you essentially
18 determine the effective kilowatt hour for these different
19 sorts of residential consumers under the proposed rate
20 design.

21 And I was just trying to understand to see if I actually
22 have my numbers correctly. You have what appears to be
23 12.98 cents per kilowatt hour charged to say an apartment
24 renter, and that contrasts to 9.82 cents per effective
25 kilowatt hour for a homeowner that would consume

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2 2,500 monthly.

3 I determined that that worked out to be a situation where
4 the apartment renter pays roughly 32 percent more per
5 kilowatt hour than the residential homeowner at 2,500
6 kilowatt hours. Is that roughly correct? Am I reading
7 the numbers correctly?

8 A. Yes and no. But before I go on in my response, there is a
9 typo on this table. Some of you may have already picked
10 it out. On column 4, line 2, where it says 150.48, that
11 should read 12.54.

12 You started off your question by saying that this was an
13 indicator of cross subsidization, this table. Well I
14 disagree with that.

15 Q.291 - Okay.

16 A. Really the only indicator we have of cross-subsidies is
17 the cost allocation study. I think that's what the Board
18 in the past has ruled on, and I think that's what we
19 should look at when we are talking about cross-subsidy.
20 The reason -- one of the reasons why we split out electric
21 heat and non-electric heat in residential and created
22 those two segments was so that we could look at the intra-
23 class cross-subsidy between electric heat and non-electric
24 heat customers, which really is looking at, you know,
25 large winter users versus flat users.

2 So that's probably a better indicator of cross-subsidy
3 than this table. The reason why I say that is because
4 there are costs. Every residential customer has costs
5 that are fixed in nature. They are not going to change
6 with consumption. And that's why the cost allocation
7 study shows a customer cost which essentially are those
8 fixed costs.

9 So as long as there is a service charge -- a monthly
10 service charge, even if you have a flat energy charge you
11 are going to see these average sets of kilowatt hour
12 declining with consumption. As long as you have any
13 service charge at all.

14 What the declining block does of course is it accentuates
15 that. But everyone here so far I believe is agreed that
16 we should eliminate the declining block. It's just a
17 question of --

18 Q.292 - Timing.

19 A. -- of time, right. But I mean the numbers you have here I
20 believe are correct. They should be because we prepared
21 them.

22 Q.293 - Yes. I guess the one number I found most striking was
23 when you compared say the proposed apartment renter, their
24 effective kilowatt hour with those at the high end of the
25 residential class say consuming 10,000 kilowatt hours a

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month, and looking at your numbers it would appear that the renter ends up paying 51 percent more per kilowatt hour. And while I think some of your statements in regards to the basic cost of service I think are very important, you know, to examine in terms of intra-class subsidies I guess we find it troubling, but I know that you yourself will be glad to get rid of the declining block rate as well, so perhaps we will leave it at that.

Maybe I will ask this. Given that a lot of the consumers that our organization represents are in fact renters, many of them living in poverty, would you agree that the current rate proposal has a negative economic -- socio-economic effect on a lot of New Brunswick households?

A. I don't think really I'm qualified to say. I mean what I would like to do I guess is draw people's attention to column 7 in the rate increase. The rate change for the smaller users is considerably lower than the larger users.

So on a change -- from a change perspective, the rate increase is much smaller for smaller users. And that's what we are trying to balance.

We are trying to balance the rate impacts with the desire, everyone's desire, to eliminate the declining

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2 block. So our proposal we feel strikes that note.

3 Q.294 - Okay. I guess really one final question and that is
4 given that the utility generates a significant amount of
5 its energy through carbon intensive thermal plants, would
6 it be fair to state that the continued existence of the
7 declining block rate would have a potentially negative
8 effect on the province's pledge to reduce green house gas
9 emissions by 2012?

10 A. Well the only work I have done on how prices impact
11 consumption, and we spoke about this before, is related to
12 long term price elasticity, and I guess I honestly -- I
13 honestly don't know given that the analysis that we have
14 done is over a much longer period of time.

15 MR. PEACOCK: Thank you, Mr. Larlee. That's all.

16 CHAIRMAN: Thank you, Mr. Peacock. Mr. Zed?

17 CROSS EXAMINATION BY MR. ZED:

18 Q.295 - Good afternoon, Mr. Larlee. I don't think you need
19 turn to this. I'm just going to refer you to A-16(1) and
20 it's the introduction tab. I'm just going to read from
21 your revised evidence. It says, "DISCO's CCAS methodology
22 is unchanged from that approved in the December 21st,
23 2005, CARD ruling." Is that true?

24 A. Yes, that's true.

25 Q.296 - Now do you recall earlier in this very proceeding that

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this Board dealt with the issue of whether or not that CARD ruling would apply in this application?

A. Yes, I do.

Q.297 - And what was your impression of the Board's ruling?

A. That for the purposes of 07/08 they accepted the cost allocation methodology?

Q.298 - And I have heard some questioning, some discussion,

about -- and there will be a motion put before this Board on whether or not there be a subsequent CARD hearing.

So what is your position -- your position I take it is that certain information, certain studies, certain experiences, are not yet in your possession that would make a CARD hearing in the near future difficult, is that true?

A. I think what I said earlier today was that part of the reason why the Board -- the PUB went back to the 1992 methodology was because of an inability for them to see all of the generation costs, specifically the GENCO NUGS. They also had some issues around data related to distribution classification and some other issues which I believe had been dealt with in the Concentric Energy Advisor report. And finally I don't believe anything has changed in relation to power purchase agreements which drive a large portion of DISCO's costs.

2 So essentially nothing has changed. So to have a CARD
3 hearing would have a very high risk of producing the exact
4 same result, which is why I don't think now is the time or
5 any time in the near future to have another CARD hearing.

6 Q.299 - Well then just take your answer to the next level.

7 What would have to happen in your view before it would be
8 worthwhile to have a CARD hearing?

9 A. Well I think we would want to have more information
10 available. I think if there was a significant change to
11 the structure of the electricity market in New Brunswick,
12 those two items, I think then some serious consideration
13 should be given to it.

14 Q.300 - Are there any studies you would wish to undertake and
15 have available before a CARD hearing takes place?

16 A. I guess I haven't really considered it. I mean, my
17 position is that we would want to have or want to make as
18 many improvements to the methodology as we possibly could.

19 So certainly as part of the process we would undertake
20 whatever we thought was necessary to achieve that end.

21 Q.301 - Could I ask you, please, to turn to -- I have A-6 with
22 me but I have modified mine -- so A-6(1), please, and the
23 rate design tab, page 10. If you look at table 2 on page
24 10, the revenue cost to cost for wholesale class is what,
25 1.04?

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A. Yes.

Q.302 - And I guess it's a bit of a rhetorical question, but you would agree that wholesale is to some degree over paying?

A. Well the revenue to cost ratio is saying that the revenue is four percent above cost. The Board has in the past ruled on several occasions that essentially within a zone of .95 to 1.05 no cross-subsidies. It's essentially a dead zone and the way we have structured our proposal is that if a rate class is in that zone of reasonableness, if you will, then we haven't made any differential increases to that particular rate.

Q.303 - Well thank you for the rationale and I understand and appreciate it, Mr. Larlee, but you would agree that there is a four percent differential between revenue and cost?

A. Yes.

Q.304 - And would you agree that that situation has existed since at least 1992? Perhaps the numbers are slightly different but wholesale has been overpaying to some degree since that time?

A. Yes. To my recollection, wholesale has always been slightly above 1.

Q.305 - Thank you. Now if you look at large industrials, clearly we are below the zone of comfort. We are at .91

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2 and the rate increase suggested would take them to .92, is
3 that correct?

4 A. That's correct, yes.

5 Q.306 - And is it true -- and again if you would like to
6 refresh your memory by just turning over to page 16,
7 footnote 6, that in order to get large industrials to .95
8 -- not to 1, but to .95 -- the increase for large
9 industrials would have to be 12-and-a-half percent?

10 A. That's correct.

11 Q.307 - And you do recall that the previous Board recommended
12 a 15.36 percent increase for large industrials through the
13 last rate hearing?

14 A. Yes, that sounds about right.

15 Q.308 - And the government over-rode that and limited the
16 increase to eight percent, is that correct?

17 A. Yes.

18 Q.309 - So therefore based on the numbers that were accepted
19 by the previous Board, customers in this rate class
20 benefited by government's action by 7.36 percent, is that
21 correct?

22 A. Yes. That's the difference between the two rate
23 increases.

24 Q.310 - Thank you.

25 MR. ZED: No further questions.

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CHAIRMAN: Thank you, Mr. Zed. Dr. Sollows?

CROSS EXAMINATION BY DR. SOLLOWS:

Q.311 - I want to take you to the CCAS briefly which I think is appendix 2, schedule 5 (1). It is in exhibit A-6 (1) I think.

A. That is page 20?

Q.312 - Just going back a page here, yes. Page 20, that is correct.

Now when I look at that layout I see that you have \$1.4 million of peaking energy that is being charged to residential, General Service II and wholesale customers. And if I look a little further I see the basis of that charge is a provision in the PPA, is that correct?

A. The basis for the 1.4 million flows from the charges from Genco. I guess I can't --

Q.313 - Related to emergency power purchases and peaking energy?

A. Yes. I can't comment on whether it's a specific clause in the PPA or not.

Q.314 - Fair enough. When I refer to the Board's ruling of December 21st 2005 with respect to cost allocation I find the following sentence.

Now you don't need to -- but if you have it you can refer to it. It is on page 24. But I will just read it

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into the record.

The Board therefore orders DISCO to redo its cost study using the same method for the classification of generation cost as was approved in the April 15th 1992 decision.

You understand that to be the case for -- your marching orders for that hearing?

A. Yes. That's correct.

Q.315 - And is it also your understanding that that Order stands for the purposes of this hearing?

A. That is the approach that we have taken, yes.

Q.316 - Right. Okay. So is it -- I think we can all agree that the PPA's did not exist at the time of the 1992 decision did they?

A. No, they did not.

Q.317 - So how are these costs that are allocated based on PPA provisions, this 1.4 million, how would they have been allocated under the customer cost allocation study from 1992?

A. They would have been -- they would have been allocated, basically grouped with all of the other generation costs.

So the fixed costs associated with the combustion turbines would have been treated just like the fixed costs

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2 of the remainder of the fleet.

3 And the energy would have been treated just like the
4 energy costs for the remainder of the fleet. So there
5 would have been no segregation.

6 Q.318 - So given that you were ordered to use the 1992 CARD
7 decision, and that was reaffirmed by this Board, why did
8 you not allocate those costs on that basis?

9 A. Because as part of that decision, the December 2005 CARD
10 decision, the Board asked us to do a study on this very
11 issue. So until the results of that study were put before
12 the Board and the Board had a chance to consider it, we
13 left the allocation the way it stood.

14 Basically my reading of the request to do a study on the
15 allocation was that the Board needed more information.

16 But they didn't necessarily agree or disagree with it.

17 But they needed more information. So we left it as is.

18 That was the way we interpreted the decision.

19 Q.319 - So you felt the sentence that I read in had some other
20 context around it that doesn't appear here in the actual
21 decision that allowed it to be conditional?

22 A. No. The request or the ruling to study this particular
23 allocation of peaking energy cost is in the decision.

24 It's contained in the decision.

25 Q.320 - What I'm referring to here is the cost allocation

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design. And the Board ordered to use the same method for the classification of generation cost as was approved in the April 15th '92 decision.

You are saying something else somewhere made that order conditional?

A. I'm saying that when we read that Order and the Order around to study this issue further, we came to the conclusion that we would leave it as is until the results of that study were filed with the Board and the Board had time to consider it.

Q.321 - Thank you. Now the energy that we are referring to here, is that the cost of energy from gas turbines basically?

A. Yes. It's combustion turbines and emergency purchases.

Q.322 - So why is it charged to these three customer classes, the residential, the General Service II and the wholesale classes?

A. There is several IR's that go into this in some detail.

Q.323 - Could you just summarize quickly?

A. But I can summarize it. I will say it's an attempt. Because I'm getting the distinct impression that no one agrees with me. But it was an attempt to allocate these

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2 costs based on cost causation principles.

3 And that peaking -- let's just call it combustion turbines
4 are only going to run in the wintertime, if we make that
5 assumption. It's not necessarily true though.

6 But if we make the assumption they are only going to run
7 in the wintertime, then to the largest degree it will be
8 the result of electric heat load. So it made sense to me
9 at the time that they should be allocated to customer
10 classes that have significant amounts of electric heat
11 load.

12 Q.324 - Thank you. When I checked the billing data that you
13 had filed under this proceeding, I found that both the GS
14 1 class and the small industrial rate class had loads that
15 increase as temperature falls, quite significantly for
16 both of them.

17 I guess my question is, if you are trying to -- if the
18 argument is that these gas turbines operate mainly in the
19 winter and that it is temperature-correlated load, why
20 shouldn't those two classes therefore should have the
21 peaking energy cost?

22 A. Well, there is no reason why they shouldn't. I guess the
23 intent here was to introduce this particular allocation
24 while the dollar values were considerably small, very
25 small, 1.4 million out of over a billion, and

2 that it could be refined out in time.

3 Q.325 - Thank you. I would like to now refer you to -- I

4 apologize -- it is the response to interrogatories that I

5 filed. I think it was marked Sollow probably 3. It has

6 the three little colored tabs in the corner.

7 A. I have that marked as exhibit SOL-7.

8 Q.326 - 7? Okay. I guess I have been piling more paper on

9 you than I remembered. Thank you.

10 For the benefit of the panel it is the bound document with

11 the three little colored tabs in the corner.

12 CHAIRMAN: Just give us one moment. Okay.

13 DR. SOLLOWS: Thank you.

14 Q.327 - I'm going to take you to the collection of slides at

15 the very back of that document after -- at the every end

16 of that blue -- I guess it is a blue tab labeled "Slide

17 Number 7."

18 And these are Power Point slides from a presentation given

19 to the Board November 2004. Slide number 7 appears at the

20 top of the page labeled "Owned and contracted generation

21 facilities."

22 Do you have that? In this slide which was done by Genco,

23 the peaking plants are identified as hydro plants and

24 combustion turbine stations.

25 And the hydro stations have an all-in cost of 1.4

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cents per kilowatt-hour and energy cost of zero cents a kilowatt-hour. The combustion turbines have cost us 70 cents per kilowatt-hour all-in and 14 cents per kilowatt-hour for energy.

My question is is the low cost hydro energy also allocated in total to those same three classes?

A. Well, I could say yes because it's zero it doesn't make any difference to the energy cost. But no, there is no -- the hydro costs are all considered fixed costs. So they would come through to DISCO through the capacity payment.

Q.328 - If I understand the direction we are taking in this proceeding, they would be allocated 60/40 based on the CCAS methodology, is that not right, 60/40 demand energy?

A. That's right. They would then get classified 60/40, correct.

Q.329 - So really these three classes have been singled out for the more expensive peaking energy.

And the larger amount of peaking energy that is available from the hydro plants is spread out amongst all the customers. Is that a fair statement?

A. The 40 percent of the fixed costs goes to demand. And 60 percent would go to energy. So that is 60 percent of the hydro fixed costs is spread out among all the classes.

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2 Q.330 - The fixed costs being 1.4 cents a kilowatt-hour?

3 A. In this slide it is 1.4, yes.

4 Q.331 - So the thing that I'm finding troubling here is that

5 it appears that three classes have been singled out to

6 carry one particular expensive resource.

7 And that is somewhat inconsistent with the treatment of

8 the other peaking plant that we have. It seems

9 inconsistent.

10 I guess I wouldn't just leave it at that. I will let you

11 comment if you wish.

12 A. Well, there is no question that the hydro facilities in

13 part are used for peak shaving. They are also used for

14 base loading when the river flows allow it.

15 So when river flows are low, other than just maintaining

16 the run of the river, they are there for the peaks, which

17 may or may not occur in the wintertime. And during the

18 spring runoff when water flows are high, it is base-

19 loaded.

20 So I guess I don't have a feel for what percentage of the

21 energy produced by the hydro is used for one or the other.

22 I would think intuitively the amount of energy used for

23 peak shaving would be quite small compared to the

24 remainder. But I honestly don't know.

25 Q.332 - That is fine. Wouldn't it be more consistent with the

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2 1992 CCAS if that \$1.4 million was just bundled in and split
3 60/40 with the rest of the generation assets?

4 A. It would be more consistent with the way it was done in
5 '92, yes.

6 Q.333 - Thank you. Okay.

7 I want to move on to briefly investigate residential rate
8 design. And in response to Mr. Peacock's question
9 earlier, you said that the cost allocation study did not
10 distinguish between rural and urban customers.

11 Did I hear you correctly on that point?

12 A. Yes. That's correct.

13 Q.334 - I think you also suggested that residential customers
14 will always face a declining price of energy with
15 increasing use because of the effect of the monthly
16 service charge, is that right?

17 A. Yes. As long as there is a monthly service charge that
18 will be the case.

19 Q.335 - So are you aware that some utilities and their
20 regulators deal with just that matter by setting an
21 initial block of energy at zero cost and simply saying
22 100, 200 kilowatt-hours -- the first 200 kilowatt-hours is
23 paid for in the service charge and then the permanent
24 energy charge kicks in?

25 Have you not seen that in some other utilities' rates?

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2 A. Yes, I have seen that. It's very similar to having a
3 minimum -- a minimum charge with a set block of energy
4 consumption.

5 Q.336 - Right. So that is one way to deal with that issue, is
6 it not, the issue of trying to reduce the volume discount
7 that occurs when you have a fixed service charge and then
8 an energy charge?

9 A. If your goal is to eliminate that changing price as volume
10 increases, yes, that's one way to do it.

11 Q.337 - Fair enough. Thank you.

12 So in the matter -- in relation to service charges, is it
13 correct to state that DISCO refers to the customer cost
14 allocation study outcomes when setting its service
15 charges?

16 A. No. I wouldn't -- I wouldn't characterize it that way.
17 When we looked at increasing the rates for this
18 application, I did look at the customer cost that was
19 coming from the cost allocation study and basically came
20 to the conclusion that there was no need -- or that we
21 shouldn't increase the service charge anymore.

22 Because we were essentially bumping up against what the
23 cost allocation study was saying as to the customer cost.

24 Q.338 - So in that sense you did refer to the cost allocation

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2 study. So you looked at it and said well, I don't want to go
3 to the full indication, so I will leave it where it is?

4 A. That's right. I guess I sort of took your question to be
5 more in a historical sense. Have we been setting it equal
6 to the customer costs in time?

7 Q.339 - Understood.

8 A. No, we haven't. It has been more of a directional
9 indication.

10 Q.340 - Okay. So in the current evidence that you have filed,
11 what is the basis for the difference between the urban and
12 rural seasonal rates, the difference in the monthly cost?

13 Where in the evidence do I find that?

14 A. It's in the historical rates. It's in the rates that were
15 in place July 6th 2006.

16 Q.341 - It is traditional?

17 A. It's traditional.

18 Q.342 - Okay. So then there is no further evidence for that
19 other than the fact that it is just a tradition?

20 A. That's right.

21 Q.343 - Okay.

22 A. And all of my research in our files as far back as I can
23 go is just that.

24 Q.344 - Fair enough. On the energy block size, where in the
25 evidence do I find the procedure used to determine the

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2 size of the energy block, first energy block?

3 A. We have been -- we had been increasing the energy block

4 size over time in the last few years. But with the

5 Board's ruling to eliminate the declining block structure

6 in what I consider to be quite a rapid period in three

7 steps, I didn't -- I really didn't think there was any

8 advantage to changing the block size.

9 So essentially we left the block size where it is.

10 Because in three years or so it wouldn't matter anyway.

11 It will be eliminated through a flat rate.

12 Q.345 - Okay. In general then what -- how would you proceed?

13 If you hadn't had that -- I guess what I'm trying to get

14 at is the process or the procedure that you would normally

15 follow to pick the block size.

16 And I think I heard you say that you had been increasing

17 it over the recent history, which is fine. But my

18 question is why?

19 A. The rationale for doing that in the past, and we didn't

20 increase it for this proposal, was to try and levelize the

21 rate impacts.

22 So we would look at the rate impacts and try and levelize

23 them as much as possible over the full range of

24 consumption for customers' bills.

25 Q.346 - So you didn't give consideration of cost allocation

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2 principles when doing that?

3 A. No. It was strictly for rate impact purposes.

4 Q.347 - Okay. Thank you.

5 And the energy prices, is it fair for me to say -- I won't
6 ask the question in exactly the same way. But having
7 figured out what energy blocks are as the service charges
8 you had, you have got an estimate of the split between
9 first and second block energy.

10 And you just calculated the prices according -- to give
11 you the revenue you need, is that fair?

12 A. By applying the constraint from the Board's ruling that it
13 be reduced by one-third.

14 Q.348 - Right.

15 A. Yes. The math just -- the energy prices fall out.

16 Q.349 - Well, that is fine. Thank you very much.

17 I would like now to -- I circulated earlier a short
18 discussion of the differences in the demand of rural and
19 urban customers. And I guess the purpose of circulating
20 it was to enter it as an exhibit in this so you could
21 discuss it.

22 But given what you have told me, I'm not sure that it will
23 have much value in the sense that -- if the record is
24 already clear that there is no real rationale for
25 differences between urban and rural service charges, then

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2 I guess I probably don't have to go down the path that I was
3 intending to go, which was to establish that rural
4 customers would appear to have a lower cost of service in
5 terms of demand than urban customers. Is that statement
6 something that you would find contentious or --

7 A. I guess I would find it on the surface counterintuitive.
8 I wouldn't say there was no rationale for having urban and
9 rural service charges. It's just that there is no --
10 there was no empirical cost information or no empirical
11 cost analysis.

12 I think conceptually everyone accepted that there should
13 be a difference because rural customers should be more
14 costly to serve.

15 Q.350 - In terms of their service charge, their customer cost?

16 A. That's right.

17 Q.351 - Yes.

18 A. In their customer cost.

19 Q.352 - But you had no analysis one way or the other to
20 suggest whether or not the other portions of the bill
21 which -- the larger portions, the demand and energy, are
22 different from urban customers, is that correct?

23 A. That's correct.

24 Q.353 - Oh, I guess I will ask the advice of Mr. Morrison. Is
25 the best way to handle this to enter this as an exhibit

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2 and question or what are your thought on it, Mr. Morrison?

3 Should I just let this go?

4 MR. MORRISON: Well, my thoughts on it are, Mr. Chairman,

5 that this was e-mailed to us last week. And if the

6 intervenor was going to file evidence it should have been

7 filed on November 5th.

8 Obviously -- I don't know how much time Mr. Larlee has had

9 to even look at it. I guess I would object to it being

10 entered as evidence.

11 DR. SOLLOWS: No, as an exhibit only, just for questioning.

12 MR. MORRISON: Have it marked for identification and you can

13 cross examine him on it if he wishes.

14 CHAIRMAN: The practice has been to mark these types of

15 documents for identification to allow you to use it as an

16 aid in your cross examination.

17 Q.354 - Mr. Larlee, have you had a chance to look at the

18 document that I'm referring to? Are you up to speed to

19 answer questions on it or to even comment on it?

20 DR. SOLLOWS: As much as anything, it would give him an

21 opportunity to comment on it.

22 A. I looked at it quickly a week or so ago. I can do my best

23 to comment on it.

24 DR. SOLLOWS: Okay. So with your permission, Chairman and

25 Mr. Morrison, I would like to have it marked as an exhibit

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for questioning.

CHAIRMAN: All right. The Board has not seen the document that you are referring to though. I believe that would become number 6 for identification. I'm told that would be number 7.

So the document marked "Differences in the average demand of rural and urban customers of Disco, Ken Sollows, December 01, 2007" is number 7 for identification.

Q.355 - May I proceed, Mr. Larlee?

A. Yes.

Q.356 - I guess what I would like to take you to is shown on page 4. There is a figure that is a graph of the residential customers average loads, both rural and urban.

And these have been -- I took them from the -- they are procedures outlined in the text. But basically I took them from the billing records, took an average temperature for the billing period for each customer and then did the regression.

I noticed when I did this I found that there was a difference in the temperature sensitivity of the loads, that urban customers seemed to have a greater sensitivity of their load to temperature than rural customers.

Would that have an impact in terms of the cost of

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serving them, if one group of customers' load increases more quickly with temperature than the other?

A. Yes, it would. Because you would end up -- if you were going to subdivide the class into those two groups, you would end up with more demand cost allocated on a per customer basis to the urban customers.

Q.357 - Okay. Thank you.

And DISCO does subcategorize the residential rate into those three classes, but doesn't do the analysis to support a differential in the block size or the energy rate, is that fair?

A. The rates themselves, the residential rate -- there is basically three residential rates, the rural rate, the urban rate and the seasonal rate.

The rural rate and the seasonal rate are virtually identical. They are identical. And the urban and rural are different only in the monthly service charge.

Q.358 - So --

A. And the exact difference, it's in the order of a dollar.

Q.359 - Something like that, I think. \$2 I think. And it averages halfway between when you look at them.

So any change in terms of costs that the temperature sensitivity of one group would have relative to the other

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would be expressed in the rate design as a change in either the block size or the first or second block energy price. Would that be reasonable, if you were going to take into account different demand profiles?

A. If you were going to --

Q.360 - Yes.

A. -- those would be the only tools you would have available to you. Because there is no demand charge.

Q.361 - Right.

A. It's dollars per kilowatt charge.

Q.362 - Fair enough. Thank you.

I would like you now to move to the next page of that which has an indication of the trends in the fractions of invoices for the rural, seasonal and residential urban customers.

And these again data that I have taken from the billing records. And it goes for seven years and projected out.

In this case I think I did that projection myself.

The general trend seems to be that you have rural and seasonal customers decreasing in number, urban customers increasing. And that has been fairly consistent over maybe 20 years, is that the case?

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2 A. I -- I haven't looked at the data in this way. And I
3 guess I can't -- I can't comment on how far back that
4 trend would go. It's certainly consistent with the
5 demographic data that I have seen of people moving to
6 rural --

7 Q.363 - And it is likely to be consistent on a go-forward
8 basis for at least a few years, would you agree?

9 A. Yes. I would agree.

10 Q.364 - Okay. That is fine. Thank you.

11 And similarly we see that urban customers are increasing
12 in number and rural customers are decreasing in number,
13 customers as distinct from the numbers of invoices on that
14 same page?

15 A. Yes.

16 Q.365 - And I'm just going to leave that one now.

17 A. I guess one of the interesting things that we have to
18 remember here is there was a series of amalgamations of
19 smaller communities --

20 Q.366 - Yes.

21 A. -- would have impacted these numbers as well.

22 Q.367 - It might well have --

23 A. Yes.

24 Q.368 - -- over this last seven to 10 years, yes.

25 A. And our criteria is to be urban is a town or village

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with a population of 2,000 or more, and a city obviously. So as mergers would happen we would have to adjust customer accounts.

DR. SOLLOWS: Okay. I would like to leave that now. And I would like to again enter for just again examination purposes a second single page that is marked "Historical and projected numbers of invoices." I think I circulated it at nearly the same time, Mr. Morrison.

I want to put on the record for cross examination.

Because it depicts the trends that we have historically in a number of invoices in the classes and compares them with the projected numbers that DISCO projects for year 2008.

And I also include on it projections that I would have made based on the trends.

Is that acceptable?

MR. MORRISON: I have no problem with it being marked for identification.

DR. SOLLOWS: Thank you.

CHAIRMAN: Perhaps you could circulate that, Dr. Sollows.

So the document entitled "Historical and projected numbers of invoices" will be marked as number 8 for identification.

DR. SOLLOWS: I'm sorry, Mr. Chairman.

Q.369 - Mr. Larlee, do you have this chart or graph of the

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historical and projected numbers of invoices?

A. Yes, I do.

Q.370 - Okay. Again the data arises from the customer billing records that you have provided. And you will see what I have plotted are the number of rural, urban and seasonal invoice numbers in each fiscal year based on the invoice date.

So there is some sort of -- there is always some error in this depending upon which year you put it. But basically I took the invoice year and month and put it in that fiscal year.

What I found when I plotted the data, I see fairly regular trends. But when I put on them the data that you are using in your -- I think the final point for 2018 from the proof of revenue that was filed -- I think it is appendix 5 of exhibit 6(1), if I recall correctly -- I found that there was -- most of the points departed from the trends in that it seemed to me that we had -- you were projecting more seasonal invoices being sent that I would have anticipated and more rural invoices being sent that I would have anticipated based on the trend, and fewer urban invoices being sent.

Now I'm just wondering. How did you go about trending and estimating the number of invoices that you expected to

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send to each group?

And the reason I'm focusing on this is of course because there is a difference in the service charge per invoice.

A. Yes. That's between urban and rural and --

Q.371 - And seasonal?

A. Yes, and seasonal. The process for selecting the number of invoices, really we just look at recent history. So one to three years of what our billing analysis would be telling us.

And that billing analysis would have been snapshots taken at that time. What you are looking at is you are looking at a snapshot of the database taken at a particular point in time.

So our snapshot might have been slightly different. But really I think we are looking at a much shorter period of time than what your trend lines are looking at. That's the likely reason for the difference.

Q.372 - Would you agree with me though looking at this that even if I looked at the most recent three years, 2005, 2006, 2007 for urban customers, it would seem to me where you have consistently increasing numbers of invoices being sent, it is more likely that you will send more than less, which is what the implication of the numbers in your proof

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of revenue are.

I guess this is a little bit from left field in the normal sense of a regulatory proceeding. Because the implication of this is it seems to me that based on the trends that are obvious in the historical data, you may be overestimating the revenue that you will earn from the residential class.

Because you have -- appear to be overestimating the number of rural and seasonal customers and underestimating the number of urban customers by a similar amount.

A. So we are ending up with the same number of customers.

It's just that --

Q.373 - You have got them skewed to the -- you are expecting them to be in the higher service charge rate. And they probably won't be. They will be getting the cheaper service charge.

A. I think what we are not taking into account likely is what you have identified here as the decreasing number of rural accounts. And we are just -- we are using more -- I guess we are not taking into account that trend.

DR. SOLLINGS: Okay. Fair enough. That is all I wanted.

Thank you very much.

Thank you, Mr. Chair.

CHAIRMAN: Thank you, Dr. Sollows. Mr. Theriault, I think

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2 we will take a short break and let you get organized. Can you
3 give me an estimate as to how long you think your
4 questions might last?

5 MR. THERIAULT: I would say 20 minutes to half an hour, Mr.
6 Chair.

7 CHAIRMAN: We will take a 15 minute break.

8 (Recess - 2:45 p.m. - 3:00 p.m.)

9 CHAIRMAN: All right. Mr. Theriault, are you ready to
10 proceed?

11 MR. THERIAULT: Yes, I am, Mr. Chairman, thank you. Before
12 I start, Mr. Chairman, maybe I could refer the Board
13 members and the witness to the exhibits I will be
14 referring to. And if I have my exhibit numbers correct,
15 it will be A-6(1), A-28 and A-20.

16 CHAIRMAN: Thank you.

17 CROSS EXAMINATION BY MR. THERIAULT:

18 Q.374 - Now, Mr. Larlee, before we get into those particular
19 exhibits, I would like to refer you to chapter 1 of the
20 CEA Report, which was filed in compliance with the Board
21 decision dated May 31st 2007?

22 A. Yes, I have a copy.

23 Q.375 - Now in the last proceeding the Board directed that you
24 or DISCO use the 1992 method for classifying distribution
25 plant, as well as distribution O&M costs, is that correct?

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2 A. That's correct, yes.

3 Q.376 - And in this proceeding, you have just applied that
4 method again?

5 A. We have applied the percentage classifications.

6 Q.377 - Now what specific method provides the basis for the
7 plant classification factors used in the 1992 study?

8 A. The short answer is I don't know. We looked at some of
9 our historical files on that and weren't really able to
10 come to a clear understanding. I think it was really an
11 iterative process whereby we or NB Power proposed a
12 particular classification. The Board examined it. The
13 Board examined some other classifications of distribution
14 plant that other utilities were using at the time and they
15 ruled on those percentages that we are now -- that we are
16 using now and used in 1992.

17 So I don't think you can put your -- or at least I
18 couldn't put my finger on a solid analytical basis. It
19 was more something that was achieved through an iterative
20 process.

21 Q.378 - And can you tell us what specific methods provide the
22 basis for the O&M classification for the 1992 study?

23 A. The same answer.

24 Q.379 - The same answer. Okay. Now when CEA looked at the
25 issue of plant cost classification, they evaluated the use

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2 of a minimum size and zero intercept approaches. And I would
3 refer you to table 1-6 on page 19 of the report?

4 A. Yes, I have that.

5 Q.380 - Would that be correct?

6 A. On that table they compare the percentage classification
7 between demand and customer of the -- what they refer to
8 as the NB Power methods. So that's the 1992 method,
9 minimum size and zero intercept.

10 Q.381 - And those are standard methods found in the NERUC
11 Manual?

12 A. Yes.

13 Q.382 - Would you agree that some experts argue that there
14 should be no customer component to distribution plant
15 costs? I am not saying you, but I am saying some experts
16 would argue that.

17 A. Well my reading of it is -- would tend towards no. I
18 think it -- my reading again is that there is some
19 customer-related component. Bonbright argues that it is
20 just a billing and the metering costs. In other words,
21 those costs that go up and down as customers are added and
22 removed from the system. I think --

23 Q.383 - But if you are talking about poles, conductors and
24 transformers?

25 A. Poles, conductors and transformers? Well in

2 Bonbright's view, those shouldn't be included in the
3 customers' cost.

4 Q.384 - And would you agree that table 1-5 at page 10 of the
5 CEA report, shows that quite a number of utilities in the
6 survey -- in the survey used demand only for poles,
7 overnight conductors, underground conductors and conduit
8 and transformers?

9 A. You refer to table 1-5?

10 Q.385 - Yes, 1-5 at page 10. That's the one.

11 A. So this is a table survey of sampled utility distribution
12 cost classifications.

13 Q.386 - Right.

14 A. So could you repeat the question, please?

15 Q.387 - Sure. Sorry. I would just ask if you would agree
16 that Table 1-5 of page 10 shows that quite a number of
17 utilities in the survey used demand only for poles,
18 overhead conductors, underground conductors and conduit
19 and transformers?

20 A. So your question was related to demand?

21 Q.388 - Yes.

22 A. Well there seems to be quite a few that argues in demand
23 for land and structures as well and station equipment. So
24 I guess, no, I can't agree with that.

25 Q.389 - But they use demand only for -- for poles, conductors,

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2 overhead conductors, underground conductors, conduit and
3 transformers? Demand only?

4 A. I guess I am having a difficult time reaching the same
5 conclusion as you are.

6 Q.390 - Well if you look at poles, it looks like there are
7 seven utilities that use demand only for poles is all I am
8 getting at?

9 A. Yes. Okay. I agree with you. I am sorry.

10 Q.391 - Thank you. Did CEA or DISCO evaluate the implications
11 of a zero customer component for distribution costs?

12 A. My reading of the CEA report is that they did not. And I
13 certainly haven't.

14 Q.392 - And can you tell us why not?

15 A. I can't speak for CEA. I don't see a whole lot of value
16 in it, but I am not sure if that was CEA's opinion.

17 Q.393 - Now would that option have a material impact on
18 allocated costs?

19 A. It would have an impact. I can't speak to the materiality
20 of it without actually running some numbers.

21 Q.394 - And would it have a material impact on the cost basis
22 for the residential or General Service customer charges?

23 A. It would impact the costs of all the distribution classes.
24 So that would include those classes, plus the small
25 industrial.

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2 Q.395 - Now, I would like you to refer to the CEA conclusions
3 and recommendations on --

4 MR. MORRISON: Mr. Chairman, I don't mean to interrupt and I
5 have let it go on for quite awhile believing that it was
6 going to get to what I consider a rate design issue. But
7 really it seems to me that we are going down the road to
8 examination of cost allocation. And the Board hasn't made
9 a determination on whether we are going to do that or not
10 -- well, the Board has made a determination that it is not
11 going to do that in this hearing.

12 Whether that happens at another time and place, I guess
13 will be argued at some point.

14 CHAIRMAN: Well, Mr. Theriault, I think was just getting to
15 the conclusion. We have gone through a whole series of
16 questions. I think we might just as well hear what it is.

17 MR. THERIAULT: I have maybe three more questions, Mr.
18 Chairman.

19 CHAIRMAN; Proceed, Mr. Theriault.

20 MR. THERIAULT: Thank you.

21 Q.396 - At page 21 of the CEA Report, now I see that CEA
22 concludes in item 5 that the use of alternative
23 classification methodologies does not have much of an
24 impact on allocated costs, would you agree with that?

25 A. Yes, that's what item 5 says, yes.

2 Q.397 - And would you agree that the choice of the
3 methodologies has a very significance implication for the
4 cost basis for the customer charge for residential
5 customers?

6 A. Well it is not included in this report. And I am
7 searching my memory. I believe it may have been a
8 question or it may have been in Mr. Knecht's evidence
9 where he did --he did include the impact on the customer
10 cost as a result of using the zero intercept method.

11 Q.398 - Well in fact, Mr. Larlee, CEA zero intercept analysis
12 indicates that the cost basis for the customer charge
13 should only be \$10.92 per month?

14 A. Oh, yes, now I remember. It's actually in an IR where you
15 quote that number. Let's see if I can find it. I can't
16 find the IR. But I do recall verifying that number, tab
17 92.

18 Q.399 - I believe it is electronic?

19 A. Right. It's in the electronic file. When I looked at the
20 electronic file, I think you picked the wrong number.
21 It's the number right next to 10.92 is the customer class,
22 and it's \$12 and something for customers. So it's still
23 considered well, about \$10 less that the current
24 methodology.

25 Q.400 - Yes.

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A. A couple of things impact that number. One is that CEA used the 05/06 study. But other than that, yes, it shows a lower customer cost.

Q.401 - You would agree then that it is far below the \$19.16 charge for urban customers now and even further below the rural charge or \$21 per month?

A. It is lower, yes.

Q.402 - Now I also see in the CEA recommendations that they advocate that you re-examine your CCAS methods for functionalization and classification when your GIS information database is more fully completed?

A. I guess I would ask you to take me to that recommendation.

Q.403 - Okay. That would be at page 21. I believe it's item number 2. Second item number 2 on the page. There is a listing of five and then three. It would be the second number 2.

A. Yes, what CEA is referring to is our geographic information system, which is essentially a database of distribution assets located in geographical states. So you know where things are on a map. And that is an ongoing process that started I believe in 2003 or 2004 when we bought our new system. And it is essentially one of the core databases used in our workforce management

2 project that's ongoing today.

3 So this database is growing and becoming more populated
4 and more useful everyday. So I believe what CEA is
5 alluding to here is that over time this is going to be a
6 real wealth spring of information that we should be able
7 to use for cost allocation.

8 Q.404 - So it would be fair you believe that this GIS database
9 would help in that respect?

10 A. Yes.

11 Q.405 - And when would you expect the information to be
12 suitably complete to allow for an updated analysis?

13 A. I guess I don't have a real firm sense of it. The last
14 time we looked it would have been for the cost allocation
15 study we did for the 2005 hearing. And at that time, you
16 know, we did look at it quite closely and there wasn't
17 sufficient information. There is a lot of activity in
18 that area now. And I would say, you know, sometime after
19 the completion of the WFMS project in 2008/2009, I guess
20 the WFMS will be completed in 2009, so sometime after
21 then.

22 Q.406 - Now I am going to refer you, Mr. Larlee, to exhibit A-
23 6(1). And with respect I am going to refer you to the rate
24 design tab in the evidence, which commences I think at the
25 first page under that tab, is page 7. And on that page

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2 you lay out four principles of rate design, is that correct?

3 A. Yes, that's correct.

4 Q.407 - And the first issue is making sure you get your full
5 revenue requirement, would you agree?

6 A. Yes.

7 Q.408 - And can we agree that this issue is not particularly
8 important for determining how much each class pays?

9 A. Well it is important in aggregate, because it affects the
10 amount of the increase overall.

11 Q.409 - But whether the residential class gets a 4 percent
12 increase or an 8 percent increase does not have a big
13 impact on this criteria?

14 A. That's right. Not this criteria.

15 Q.410 - Now your second criterion is that you reduce inter-
16 class cross subsidies, is that correct?

17 A. Inter-class, yes.

18 Q.411 - Yes. And is it fair to say that the third criteria is
19 more of an intra-class issue where rates are better
20 aligned with cost causation?

21 A. Yes.

22 Q.412 - And the fourth criteria is the -- I guess we will
23 refer to it as the dreaded gradualism criteria, which
24 really serves to temper both criteria number 2 and number

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2 3?

3 A. Yes.

4 Q.413 - Now let's start with the revenue allocation for
5 General Service II. And I would refer you to table 2 on
6 page 10 of this evidence. Now, Mr. Larlee, would you
7 agree that your CCAS shows a revenue cost ratio of 119
8 percent at present rates?

9 A. For General Service II, yes.

10 Q.414 - Yes. And this is well outside the 95 to 105 target
11 range?

12 A. It is outside the target range, yes.

13 Q.415 - And your proposed increase will simply leave that the
14 same at 119 percent?

15 A. That's correct.

16 Q.416 - And Mr. Larlee, I guess I hate to ask an open-ended
17 question here, but can you tell me how that proposal is
18 consistent with the four criteria that we just reviewed?

19 A. Well first off, when you look at the General Service I and
20 General Service II aggregate, there is an improvement in
21 the revenue to cost ratio. We are improving General
22 Service I by a point, which is similar to the improvement
23 to the large industrial only in the other direction.
24 We are improving price signals by bringing the General
25 Service I and General Service II classes closer together.

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2 And it speaks to gradualism, because any further decrease in
3 General Service -- in the General Service class -- General
4 Service II is what you were asking about will result in
5 further increase to some other class that is outside the
6 bottom of the range.

7 Q.417 - But you would agree -- would you agree I guess that
8 not moving it very much?

9 A. Well from my point of view, it's moving an immeasurable
10 amount.

11 Q.418 - Now I am going to refer you to Exhibit A-28 and PI IR-
12 42, item 3. Now if I look at the large industrial firm
13 transmission class or subclass, I see its revenue cost
14 ratio at present rates is 88 percent. Would that be
15 correct?

16 A. I guess I would refer to that as a segment of the large
17 industrial class. But the large industrial firm
18 transmission before rate adjustment is .88, yes.

19 Q.419 - Yes. And that is the lowest of all the rate classes
20 shown?

21 A. Well again I wouldn't refer to it as a rate class. And
22 the reason why I wouldn't refer to it as rate class is
23 because those customers, those transmission customers take
24 a blend of product. So they are taking -- many of them
25 are taking a blend of firm transmission and interruptible

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2 surplus.

3 So the lowest rate class is the large industrial class at

4 91.

5 Q.420 - And you propose an increase of overall 7.4 percent,

6 which is 1 percentage point higher than the average of 6.4

7 percent?

8 A. That's correct.

9 Q.421 - Now of your four criteria that we talked about earlier

10 can I confer that the only one that limits the increase

11 for this class is the gradualism criteria?

12 A. Yes, gradualism, and that's why it's one of the criteria

13 that we have -- or one of the principles that we have

14 listed here is a concern, especially given the overall

15 level of the increase.

16 Q.422 - Now can you help me out at all about why gradualism

17 limits the increase for this class to 7.4 percent rather

18 than 10 or 12 percent? In other words, does, you know,

19 DISCO have a particular in-house standard for gradualism

20 that we can understand?

21 A. Well the standard is to provide a balanced rate proposal.

22 And by balanced, we want to work towards achieving the

23 goals that I think we all agree on and that is to improve

24 the revenue to cost ratios and to send better price

25 signals. But at the same time, keep our eye

2 on the customer impacts and make sure that we use -- apply the
3 principles of gradualism so that customer impacts don't
4 become unruly.

5 Q.423 - Now, Mr. Larlee, I am going to refer you back to the
6 CEA Report, chapter 2. And dealing with residential rate
7 design.

8 Now in the last proceeding DISCO was asked to evaluate the
9 issue of farms and churches in the residential class?

10 A. Yes.

11 Q.424 - And that issue is addressed in the chapter 2 of the
12 CEA study?

13 A. Yes, it is.

14 Q.425 - And I go -- if I can refer you to page 23, Table 2-1,
15 now does DISCO allow all farms to take service under the
16 residential rate with no conditions?

17 A. No, it doesn't. If you look in the RSP Manual, they are
18 conditions that would apply to all residential customers,
19 especially when you get into customers that do have a
20 nonresidential-type operations on the same service.
21 So in this case it would be really nonfarming type
22 operations. So there are conditions.

23 Q.426 - Would it be fair to say that conditions are nonforming
24 conditions -- nonfarming conditions?

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2 A. Well maybe the best way is to answer by example. If you
3 have a farm that has a roadside store, roadside vegetable
4 stand, if it's a significant operation, if it has
5 refrigeration, and maybe a snack bar, and is heated in the
6 fall and in the spring, then there would be a requirement
7 for that particular retail operation to be metered
8 separately on the General Service rate. Most people would
9 think of those roadside facilities as part of the farm,
10 but if when you apply the application guidelines in the
11 RSP Manual, we require customers to put those in the
12 General Service rate.

13 Q.427 - Now just referring back to Table 2-1 again, and maybe
14 you can help me out, am I interpreting CEA's table
15 correctly in that of the 12 utilities they surveyed, which
16 specified the treatment of farms, only one of them allows
17 farms to take a service at the residential rate
18 unconstrained?

19 A. I guess that it's difficult for me to comment without
20 knowing specifically what they mean by the terms with
21 conditions. But I mean certainly we have conditions for
22 our farm rate. Another condition is customers on the --
23 that go on residential that are farms, if they require a
24 three-phase service, and it's not that uncommon for very
25 large farms, then they have to pay the incremental cost of

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2 the three-phase service. So there are conditions associated
3 with farms.

4 Q.428 - Now I am going to refer you to page 36. And that's
5 Table 2-5. Now, Mr. Larlee, am I correct that the largest
6 urban farm customer had an average load of over 50,000
7 kilowatt hours per month in 2004-2005, but in 2005-2006
8 the largest urban farm customer's load was some 18,600
9 kilowatt hours per month?

10 A. Can you give me a little bit of navigation on these
11 statements?

12 Q.429 - Sure. If you look at the table 2004-2005 and if you
13 go down to urban farms, there is the 50,480?

14 A. Okay. Yes, I see it.

15 Q.430 - And in the table above, if you look at urban farms,
16 there is the 18,627 under the highest average monthly?

17 A. Yes. I don't -- I think what we are seeing there is that
18 there is probably few in number of urban farms. If you
19 can appreciate the concept, we are talking about a farm
20 that is within a community of 2,000 or more. So a small
21 change in the denominator is going to give you a large
22 change in the average.

23 Q.431 - Now, Mr. Larlee, staying with that document, the
24 largest rural farm customer average is over 100,000
25 kilowatt hours per month, is that correct?

2 A. Yes.

3 Q.432 - And would you agree that that would be considerably
4 more than 50 times bigger than the average residential
5 customer?

6 A. Did you say more than 50 times?

7 Q.433 - Roughly, yes.

8 CHAIRMAN; Mr. Theriault, perhaps while he is doing that
9 calculation, I don't have that report in front of me. Is
10 that part of evidence?

11 MR. THERIAULT: It was filed pursuant to the Board's
12 decision dated May 31st 2007. But I don't think it ever
13 has been entered as an exhibit.

14 MR. MORRISON: It has not been filed as evidence.

15 CHAIRMAN; Thank you.

16 A. No, I can't agree with that. The average residential
17 customer is in the order of 17,000 kilowatt hours. So
18 it's about six times.

19 Q.434 - But we are talking 100,000 per month?

20 A. Oh, yes, it is monthly. Okay. Thank you. Yes, it's in
21 excess of 50 times.

22 Q.435 - And you would agree that would make that customer --
23 actually a fairly large customer, if it were on the
24 General Service schedule?

25 A. Those larger farms, yes. No, they are large

2 customers, no question.

3 Q.436 - Now I am going to refer you to page 54 of this report.

4 And Mr. Larlee, the CEA concludes and I will quote, "the
5 review of the usage characteristics suggests that farms,
6 particularly rural farms may be a better fit in the
7 General Service class as opposed to the residential
8 class." Now would you agree with that statement?

9 A. Well I think what I said earlier was that before we start
10 looking at moving customers from one rate class to another
11 really requires a higher level view of all of the rates as
12 a package. So I would not agree that that recommendation
13 should be adopted without a more high level review of
14 rates to go along with it.

15 Q.437 - But would it be fair to say then, CEA cautions also
16 that a general move to get large farm customers out of
17 residential could have a -- could have significant
18 impacts?

19 A. Yes, I mean I agree with that. There is no question about
20 that.

21 Q.438 - Now is there some reason then why we might not want to
22 make some progress towards achieving CEA's
23 recommendations?

24 A. Yes. I think the primary reason is we have to be cognizant
25 of the rate impacts. I think in some respects

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2 by working towards flattening the residential rate, we are
3 making progress in that direction. And that is an area I
4 think that will probably be worth looking at once the rate
5 is flat to see if there are things that we can now do in
6 residential rate to better reflect the cost causation of
7 these larger residential customers that aren't really
8 domestic customers, but they are in a residential class.

9 Q.439 - Now at the bottom of this same page, page 54, CEA
10 recommends that no changes be made to rate design without
11 an overall review of all the rate structures? Would you
12 agree they make that statement?

13 A. Yes, they do. Yes.

14 Q.440 - And CEA indicates that this should take place outside
15 of a rate hearing?

16 A. Yes.

17 Q.441 - And does DISCO agree with these two recommendations?

18 A. Well, I agree that the issues that would surround a
19 general rate application should not be part of this type
20 of radical change let's say from a historical application
21 of rates. Farms have been part of the residential rate
22 structure I would hazard since the 30s, but certainly
23 since the 50s. And it is a conscious effort on the part
24 of policymakers I believe to electrify the province. So
25 there is a longstanding tradition in New Brunswick to have

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farms in the residential rate. So I don't think it's the right form really as a general rate application.

Q.442 - Now has DISCO made any proposals to that effect?

A. No, the only analysis and recommendations that are before the Board are part of the CEA study.

Q.443 - Now I would like to move over to the large industrial service, firm versus interruptible surplus if we could.

And again I am just going to refer you to page 87 of the CEA report.

Now I would just like to make sure I understand the implications of some of your interruptible or surplus service customers switching to firm service. And so referencing page 87. In the last proceeding the Board directed you -- or directed that you review issues related to interruptible surplus customers to make sure that firm customers are adequately protected.

A. That's correct, yes.

Q.444 - And chapter 5 of the CEA report addresses this issue?

A. Yes, I believe so.

Q.445 - Now at page 87 CEA says, and I quote, "as long as the revenues received from converting customers are equal to or greater than the incremental cost of services the other firm customers will not be harmed." Does DISCO agree with that statement?

2 A. Can you point me to where I can read that?

3 Q.446 - Sure. Page 87, be the paragraph entitled 5.5, about
4 half way down or a little more than half way down. It
5 says, as long as the revenues received --

6 A. Yes, I see that. I just wanted to make sure I had the
7 context. Yes, I agree with that.

8 Q.447 - Have any customers switched from interruptible or
9 surplus service to firm service in 2006 or 2007?

10 A. No, not to my knowledge.

11 Q.448 - Do you anticipate any -- whether any customers will
12 switch during the test year?

13 A. No, I don't.

14 Q.449 - Now have you done any analysis of the test year to see
15 whether the revenues under firm service from a converting
16 customer would exceed the incremental cost of providing
17 service?

18 A. We have -- I guess as part of the budgeting process it
19 just falls out as to what the different unit rates are.
20 My recollection is that the unit rates are quite close
21 between the forecasted interruptible service and the firm
22 revenue.

23 Q.450 - Now I am going to refer you now to exhibit A-20,
24 specifically PI IR-14, item 47.

25 CHAIRMAN: Just one moment, Mr. Chairman.

2 Q.451 - Now if you look at Table 1 in that response, am I
3 correct that you show a 201 megawatt shortfall in the
4 winter while Lepreau is out?

5 A. Table 1 --

6 Q.452 - The third page in on item 47.

7 A. I just wanted to make sure that --

8 MR. MORRISON: I would just like to point out, Mr. Chairman,
9 that that's for 2009. It doesn't relate to the test year.

10 MR. THERIAULT: It's in reference, Mr. Chairman, to an
11 interrogatory that was answered and I would submit that I
12 have a few questions on it.

13 CHAIRMAN: Proceed.

14 MR. THERIAULT: Thank you.

15 A. That's in response to part D, and it's the load resource
16 balance filed as part of the 06/07 rate case.

17 Q.453 - That's correct. If I look again at Table 1 in that
18 response that you show a 201 megawatt shortfall in the
19 winter while Lepreau is out?

20 A. That's right. So that would be for 08/09 and this was
21 what we would have had at the time.

22 Q.454 - And in that response you also referred us to the NBSO
23 10- year load and resources review.

24 MR. THERIAULT: Now, Mr. Chairman, this was contained in a -
25 - was referenced in the IR to a site which we were able to

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2 get off an NB Power site. It's URL number referred to here in
3 paragraph D of item 47, and Mr. O'Rourke has some -- what
4 I have done is I have taken the whole document, it's
5 entitled Ten Year Outlook, An Assessment of the Adequacy
6 of Generation and Transmission. So rather than copy the
7 whole thing which is not relevant I have simply taken
8 three pages out of it which I have a few questions for,
9 and I would like to introduce that at this time. I have
10 provided a copy to my friend at dinner.

11 CHAIRMAN: Is this the document that you want marked for
12 identification?

13 MR. THERIAULT: I would say as an exhibit because it's
14 referenced in the interrogatory that NB Power responded
15 to. It's just that if you recall, Mr. Chairman, we talked
16 about how to deal with computerized -- with disks. This I
17 would suggest is similar to it. Rather than print the
18 whole page, which would just crowd up the record, I have
19 simply have some questions on I think two pages.

20 MR. MORRISON: I have no objection, Mr. Chairman.

21 A. Just a clarification, it's not an NB Power website. It's
22 the NBSO website.

23 MR. THERIAULT: That's correct.

24 CHAIRMAN: So there are two documents as I understand.

25 MR. THERIAULT: That's correct.

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CHAIRMAN: And they both come from the NBSO website essentially.

MR. THERIAULT: Yes. The article or the document is entitled Ten Year Outlook, An Assessment of the Adequacy of Generation and Transmission Facilities in New Brunswick 2007 to 2016.

CHAIRMAN: All right. I guess the documents that have come from NB Power's website or from them generally I have given them an exhibit number beginning with A. I'm not sure if this is a PI exhibit or an applicant's exhibit. Would you gentlemen might like to give me a little guidance?

MR. THERIAULT: Well, Mr. Chairman, I have no problem in introducing it as an exhibit from the Public Intervenor.

MR. MORRISON: I think that might be easier.

CHAIRMAN: All right. What I have is three sheets of paper but they are all from the same source.

MR. THERIAULT: The same source, that's correct.

CHAIRMAN: All right. Then the three sheets of paper together, the summary of results in the load and resources review, 2007/'08 to 2016/'17, become PI-6.

MR. THERIAULT: Thank you, Mr. Chairman.

Q.455 - Now, Mr. Larlee, I am going to refer you to the document that is marked page 4 which contains a table,

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load and resources review, 2007/2008 to 2016/2017. And am I correct that it shows a 346 megawatt shortfall in 2009 before wind and DSM, and a 208 megawatt shortfall after wind and DSM? Am I reading that correctly?

A. Would you repeat the last part of your question, please?

Q.456 - Sure. That it shows a 346 megawatt shortfall in 2009 before wind and DSM and a 208 megawatt shortfall after wind and DSM -- sorry -- 280?

A. 280. Yes.

Q.457 - And that shortfall occurs even with all of your interruptible and surplus customers shut off?

A. Yes, it does. You can see they characterized it here on line B as non-firm industrial load, 140 megawatts. That's included in the calculation.

Q.458 - Thank you. And at page 41, 42 which is the other part of the document that I gave you, would it be correct starting at page 41 that it says that NB Power Distribution and Customer Service is in the process of identifying the capacity requirement for the refurbishment period and is looking at ways to meet this requirement.

Is that a fair -- did I read that correctly?

A. If I could find it --

Q.459 - On page 41, last bullet --

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2 A. Last bullet.

3 Q.460 - -- and going on to page 42 I guess is where the
4 statement is I believe.

5 A. Yes. At the time that this document would have been
6 written I mean that's likely correct. My understanding is
7 that capacity has now been acquired through an RFP
8 process. So it's no longer an issue.

9 Q.461 - Could you perhaps explain that a little more?

10 A. It's DISCO's responsibility to meet its load, and DISCO
11 through Genco issued an RFP to meet this load requirement,
12 and Hydro Quebec was the successful bidder. It is a
13 short-term load requirement just for this single -- it's
14 just for the peak period. It's not for the entire fiscal
15 year. It's just to get us through the peak.

16 Q.462 - Now, Mr. Larlee, in your opinion will the outage of
17 Point Lepreau have any impact on the incremental cost of
18 energy that serves as the basis for the interruptible
19 surplus energy charge?

20 A. Yes and no. Yes, if the costs aren't deferred. No, if
21 the costs are deferred.

22 Q.463 - What do you mean by deferred?

23 A. Well it's DISCO's intention to defer the cost around the
24 Point Lepreau refurbishment. The details of that I don't
25 believe have been established yet, but that's the

2 intention. The intention also is to include interruptible
3 surplus as part of that deferral and it would be collected
4 out over time. But as counsel pointed out this doesn't
5 impact the test year.

6 Q.464 - Now all other factors being equal, Mr. Larlee, would
7 you agree that Lepreau being off line will tend to
8 increase the incremental costs?

9 A. Yes. I mean you are taking over 600 -- well almost 600
10 megawatts out of the base and it's going to be replaced
11 likely with more expensive generation, although I don't
12 know the details of the Hydro Quebec contract.

13 Q.465 - Now, Mr. Larlee, suppose DISCO does not come in for a
14 rate hearing for the period in which Lepreau will be out
15 and suppose some interruptible customers switched to firm
16 service during that firm period, and that the firm service
17 rates are below the incremental costs of service, is there
18 any way that the firm service ratepayers can be on the
19 hook for that shortfall?

20 A. Well there is a lot of supposing in your question. I
21 believe that if the costs are deferred then they won't be
22 recovered in a fair and equitable manner out over time.

23 Q.466 - Will power replacement costs be part of the overall
24 cost of the Lepreau refurbishment costs?

25 A. It's part of the cost, there is no question about it.

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2 What will be included in any deferral, I'm certainly not privy
3 to that and I'm not sure that any decisions have been
4 made.

5 Q.467 - Now I'm going to -- and I'm almost done, Mr. Chairman,
6 just a few more questions. Could I refer you to exhibit
7 A-20, and it would be PI IR-48.

8 PI IR-14, item number 48. Do you have that in front of
9 you yet, Mr. Larlee?

10 A. Yes, I do.

11 Q.468 - Now this response shows a listing of interruptions for
12 almost the last 20 years, is that correct?

13 A. It goes back to December of '89.

14 Q.469 - And again if I have counted correctly, there were 49
15 hours in which service was interrupted over the December
16 1989 to January 2005 period and none since? Obviously
17 subject to check if you like.

18 A. Yes. That looks about right.

19 Q.470 - Okay. So interruptions are not very likely?

20 A. Nobody wants to interrupt customers. I guess it depends
21 on your perspective. Just the risk of being interrupted
22 at all is enough to make many of these customers quite
23 nervous.

24 Q.471 - Well, that leads into my next question. Under what
25 conditions will DISCO interrupt a customer?

2 A. DISCO doesn't interrupt customers. The NBSO does. And
3 the terms under which a customer's contract for those
4 interruptions are in the RSP manual on page -- just get
5 the reference for it. Starting on page N-11.

6 Q.472 - Page N-11?

7 A. N-11, yes.

8 Q.473 - Now Mr. Larlee, will Lepreau outage increase the
9 likelihood of interruptions?

10 A. I can't see why it would. My understanding of the
11 purchases from Hydro Quebec it's for firm energy. So I
12 can't see why it would.

13 Q.474 - Now Mr. Larlee, can you advise us of the applicant's
14 progress with respect to load research? Specifically can
15 you advise the Board of the classes of customers for whom
16 load research would be done? Secondly, the number of
17 customers in each class surveyed? Thirdly, the date when
18 data collection is expected to be complete, at least as to
19 the initial phase? And fourthly, the date at which a
20 report would be submitted to the Board?

21 I can go back and repeat them. I just wanted you to have
22 a general flavor for the question.

23 A. Well, we do -- we do active load research on the
24 residential class. And the previous hearing I believe it
25 was a significant topic of discussion. It's a statistical

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2 sample.

3 So we can, within relatively high statistical accuracy we
4 can load-profile a class with about 200 customers, 200
5 data points. So I believe we are operating around that
6 right now. It's an ongoing program. We are continually
7 -- we continually collect the data.

8 And as I mentioned earlier today, data is not information.

9 So once a year we try to perform the analysis to
10 basically bring the data into a usable format. We
11 started the program in '94. I believe we issued our
12 report, which was filed in the last hearing, in '95, '96.

13 I may be off by a year or two. And since then we
14 suspended the program for a period in the late '90s.
15 Because at the time everyone thought deregulation was
16 going to change the face of utilities and the research
17 wasn't going to be required. Anyway that didn't come
18 about. So we restarted the program in 2001 and have been
19 collecting data ever since.

20 Q.475 - And that is on residential?

21 A. And that's on residential.

22 Q.476 - What about other classes?

23 A. The large industrial transmission class, they are metered
24 on an integral basis just as part of their normal
25 metering. Wholesale, similarly although not 100 percent.

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2 And we do have meters on the General Service class. But
3 we don't have a statistical sample. And we don't
4 similarly on the small industrial.

5 Q.477 - Now so it is fair to say that the research is ongoing?

6 A. The research is ongoing, yes.

7 Q.478 - And do you think it would be appropriate to proceed
8 with any new initiatives in rate design without having
9 adequate load research data available?

10 A. I think load research can be helpful in the rate design.
11 But it's not a prerequisite. Load research can be used in
12 both rate design and cost allocation.
13 We have tended to use it more to verify our cost
14 allocation estimates. But I don't think load research is
15 an absolute prerequisite, no.

16 MR. THERIAULT: That is all I have, Mr. Chairman. Thank you
17 very much. And I apologize for taking longer than I
18 anticipated.

19 CHAIRMAN: Thank you, Mr. Theriault.

20 Ms. Desmond, are you going to have any questions for Mr.
21 Larlee?

22 MS. DESMOND: Board Staff have no questions. Thank you,
23 Mr. Chair.

24 CHAIRMAN: Well, I think normally I might have adjourned for
25 the day. But I think if we have got this far, I'm going

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to canvass the Board.

Mr. Barnett, do you have any questions?

MR. BARNETT: Just a couple, Mr. Chairman.

BY MR. BARNETT:

Q.479 - Mr. Larlee, the Public Intervenor raised a question of interruptible rate and the frequency or lack of interruption over the recent years. And certainly I agree nobody wants to interrupt any of the customers. How do all the utilities function this way? The frequency of interruptions is rare? Or do some actually use their IT service as part of for example their reserve in handling their load, as far as the -- and specifically I'm thinking in terms of the regulators vis-a-vis something like the Northeast (inaudible) Liability Council for example meeting their requirements?

A. I think it varies between utilities. The utility I'm most familiar with is Nova Scotia Power. And my understanding is that they interrupt rarely, similarly to ourselves. It's only when they absolutely have to.

I have read terms of service of other utilities where they actually require that a test be done every year, to know that customers can interrupt. So in those utilities they would be interrupting at a minimum of once a year. So I think it varies between utilities.

2 I guess I'm not sure and I can't really comment on how
3 either the RTO's or the coordinating councils would treat
4 it. I'm just not familiar with it.

5 Q.480 - That is fine. The last question I have, you made
6 reference I believe in Mr. Peacock's questioning in regard
7 to the Order-in-Council that was passed subsequent to the
8 Board -- the previous Board decision around about June
9 19th I think it was. And the OIC came shortly after that.

10 Just an observation maybe on your part. What did that do
11 insofar as the progress you were on in regards to such
12 matters as amalgamating the GS I, GS II rate or
13 eliminating the declining block rate? Did it have any
14 impact?

15 A. I guess it impacted those two very areas. It did not --
16 because it was an across the board increase for
17 residential, there was no improvement in declining block
18 structure.

19 So we lost -- essentially we lost one opportunity, if we
20 want to stick to the Board's schedule that was laid out in
21 December 2005. But we still can meet that deadline of
22 five years within the date 2005.

23 In the case of GS I and GS II, the OIC closed the GS II
24 rate. So in a sense that was a big step towards getting
25 those rates closer together in that we don't have

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2 any new customers being added to the General Service all
3 electric rate. So there is a little good and a little bad
4 perhaps I would say.

5 MR. BARNETT: Thank you.

6 CHAIRMAN: I understand there is no other questions from the
7 Board. Mr. Morrison, do you want to do your redirect now?

8 MR. MORRISON: I have no redirect, Mr. Chairman.

9 CHAIRMAN: Thank you. I guess then that looks after your
10 evidence on this panel, Mr. Larlee. Thank you for your
11 attendance.

12 Tomorrow I see on the proposed schedule that we have two
13 witnesses scheduled, Mr. Drazen and Mr. Knecht. And I
14 just would ask the parties if at all possible that maybe
15 some of the witnesses that had been scheduled for
16 Wednesday, in the event that we do go more quickly
17 tomorrow than anticipated, may be available.

18 I don't know. I'm not looking to canvass the room. But I
19 do see for Wednesday we have Vibrant Communities, Dr.
20 Sollows and EGNB.

21 MR. MORRISON: That is correct, Mr. Chairman. And I
22 anticipate that -- I hate to say this because I have been
23 wrong many times -- but I anticipate that we will finish
24 with both Mr. Knecht and Mr. Drazen before the end of the
25 day tomorrow. That is my anticipation.

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And if Dr. Sollows and Mr. Peacock and perhaps even EGNB could be available then we could move right along.

CHAIRMAN: Well, in the event that they are available. I will just put them on notice today at least that if the opportunity is there.

And I guess right now we are on schedule. It would be nice to even be ahead of schedule. So we will see how the morning works out.

So we will adjourn until 9:30 tomorrow morning.

(Adjourned)

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

Reporter