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)

Trade and Convention Centre, Saint John, N.B., on November 27th 2007.

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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. Welcome to day two of the hearing. I will take the appearances at this time.

MR. MORRISON: Good morning, Mr. Chairman, Members of the Board. Terry Morrison and Ed Keyes for the Applicant. And with me at counsel table is Lori Clark, Mike Gorman and Darren Murphy. And of course our witness panel is seated behind me.

CHAIRMAN: Thank you, Mr. Morrison. Canadian Manufacturers & Exporters NB Division?

MR. LAWSON: Good morning, Mr. Chairman, Members of the Board. Gary Lawson and I expect after the Throne Speech to be joined by David Plante.

CHAIRMAN: Thank you. Conservation Council of New Brunswick?

MR. COON: Good morning. David Coon and Scott Kidd for the Conservation Council, Mr. Chairman.

CHAIRMAN: Thank you, Mr. Coon. Enbridge Gas New Brunswick? I think Mr. MacDougall said that he wouldn't be here today. Irving Oil Limited? JD Irving Pulp and Paper Group?

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

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

DR. SOLLOWS: Good morning, Mr. Chairman, panel.

CHAIRMAN: Utilities Municipal?

MR. ZED: Peter Zed. Appearing with me is Dana Young of Utilities Municipal, Marta Kelly, Saint John Energy, Dan Dionne of Perth Andover Electric Light Commission, and Charles Martin of Edmundston Energy.

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. I am joined this morning by Jayme O'Donnell and a short time later by Mr. O'Rourke.

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

MS. DESMOND: Ellen Desmond. And with me is John Lawton, Dave Young, Dave Keenan and Board Consultant Andrew Logan.

CHAIRMAN: Thank you, Ms. Desmond. Yesterday I advised the parties that Frasers had requested to withdraw as an intervenor. They have now clarified the situation as they wish to withdraw as a formal intervenor, but to remain as an informal intervenor. So if you have deleted them from your distribution list, I guess you should put them back on as an informal intervenor.

Mr. Morrison, are you prepared to proceed at this time?

MR. MORRISON: Yes, Mr. Chairman. Just a couple of preliminary matters. Yesterday the Board asked us to prepare sort of a revised schedule as a result of the Board's ruling and I have spoken to several of the intervenors and have circulated a revised list. And I think we have come to a consensus on where we think it is going to come out. And I have provided a copy of that to -- copies of that to the Board Secretary.

CHAIRMAN: Okay. Perhaps that could be distributed. And you are telling me that at least at this point in time everybody is in agreement with the proposed schedule?

MR. MORRISON: I haven't spoken to all the intervenors, but I have spoken to Mr. Zed and Mr. Theriault and Ms. Desmond. I had a brief conversation with Dr. Sollows yesterday. So I believe that we have consensus on it but it is being circulated and if anybody has any problems, they can come and see me and we can take it from there.

CHAIRMAN: Thank you, Mr. Morrison.

MR. MORRISON: The only other matter, Mr. Chairman, is believe it or not, I think there was an undertaking that came from yesterday's proceedings. There is now, I am happy to report, a hot link on DISCO's website directly to Efficiency New Brunswick.

CHAIRMAN: Thank you. I'm not sure I took that as an undertaking. But I am pleased to hear that that has been looked after.

So are we ready to -- are there any other preliminary matters? Okay. Ready to proceed then, Mr. Morrison?

MR. MORRISON: Thank you, Mr. Chairman. I am going to call the panel that will be dealing with fuel and purchase power costs, PPAs and underlying GENCO costs.

I would ask that Blair Kennedy, Sharon MacFarlane and Jeff Good take the stand please.

CHAIRMAN: I am going to ask Board counsel to come forward and swear the witnesses.

Blair Kennedy, Sharon MacFarlane and Jeff Good, sworn:

CHAIRMAN: All three witnesses have been duly sworn.

MR. MORRISON: Good morning, panel.

Q.1 - Ms. MacFarlane, I would ask you for the purposes of this panel, although we have been through this once already, would you please state your name and position?

MS. MACFARLANE: My name is Sharon MacFarlane. I am the CFO and VP Finance for Distribution Corporation.

Q.2 - And have aspects of the evidence -- prefiled evidence, were they prepared -- aspects of it prepared under your -- either by you or under your supervision?

MS. MACFARLANE: Yes, they were.

Q.3 - And Mr. Kennedy, would you please state your name and position please?

MR. KENNEDY: Yes, me name is Blair Kennedy. I am the Director of Energy Supply and Contract Management for Distribution Customer Service.

Q.4 - Mr. Kennedy, first I would ask you to bring the microphone a little closer to you. And were aspects of the prefiled evidence prepared either by you or under your supervision?

MR. KENNEDY: Yes, it was.

Q.5 - And Mr. Good, could you please state your name and position.

MR. GOOD: My name is Jeff Good and I am the Finance Director for NB Power Generation Corporation.

Q.6 - And Mr. Good, I am going to suggest that you move closer to the microphone or bring the microphone closer to you. And were aspects of the evidence that was filed on behalf of DISCO, while I realize that you are going to be speaking to GENCO evidence, but were aspects of the GENCO information that was filed prepared by you or under your supervision?

MR. GOOD: Yes, it was.

Q.7 - And Mr. Good, do you have any clarifications or changes to the prefiled evidence that you would like to bring to the Board's attention?

MR. GOOD: Yes, I do.

Q.8 - Could you please explain what that is please?

MR. GOOD: Exhibit A-16.

CHAIRMAN: Perhaps you could just give us a moment to get that exhibit? It is A-16?

MR. GOOD: A-16, yes.

CHAIRMAN: Thank you.

MR. MORRISON: Mr. Chairman, we are circulating a revised table 4(B). And Ms. Poirier is circulating that perhaps to save you from bringing out the binders. And it is exhibit A-16. It is section 4 and it is page 3 of section 4.

MR. THERIAULT: I am sorry, Mr. Chairman. What binder was that in?

MR. MORRISON: It is exhibit A-16, section 4, page 3 and it is table 4(B).

CHAIRMAN: I think everybody has the exhibit now.

Q.9 - Mr. Good, can you explain what the changes or the corrections you want to make to that table are, please?

MR. GOOD: Yes. The figures in columns 2 and 3 are incorrect and have been updated.

CHAIRMAN: I am going to ask you to pull that microphone closer. It's difficult to hear in here. The acoustics are terrible.

MR. GOOD: The figures in columns 2 and 3 are incorrect and have been replaced.

Q.10 - And can you explain why they are incorrect, Mr. Good, just so that everyone knows what the correction is and why it is?

MR. GOOD: Right. When we prepared the evidence we used the similar template that DISCO had used to prepare a similar table for DISCO and we had not replaced the figures in those two columns. But the figures in column 1 are correct for GENCO.

Q.11 - So the changes relate to the Estimated Service Lives, is that correct?

MR. GOOD: That's correct.

Q.12 - Are there any other corrections that you would like to make?

MR. GOOD: No, there are not.

MR. MORRISON: With that, Mr. Chairman, the Panel is available for cross examination.

CHAIRMAN: Thank you. Mr. Lawson? Any time you are ready.

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

Q.13 - Thank you, Mr. Chairman. Good morning, Panel members. And nobody has asked me to move the microphone closer. In fact I was asked earlier to move it away, so hopefully you will be able to hear me adequately.

I have but a few questions. I will start just generally. Yesterday Mr. Hay pointed out, and I presume it's consistent with your evidence, that there is an order in which -- a stacking order basically in which the generation takes place. That when you need -- presumably call upon the cheapest generator of power generally, cheapest generator of power, and then work your way up until the most expensive one is delivering power. Is that correct?

MR. KENNEDY: I believe that there used to be some clarity perhaps it would be subject to certain operating conditions.

Q.14 - For example the NUGS -- that's why I say generally speaking -- the NUGS for example, there are some must runs that you run regardless of the cost factor, is that right?

MR. KENNEDY: That's one of the criteria. The other one would be that you have to have sufficient capacity in your model that would take into account the necessary capacity base ancillary services and that type of thing, a reserve.

Q.15 - I'm having a hard time hearing. The last part of it, I apologize, Mr. Kennedy?

MR. KENNEDY: Certain operating criterias is also followed with respect to operating reserve.

Q.16 - Okay. But would it be fair to say that as a general rule that it is presumably the cheaper generation that is used first, followed by the stacking order, the more expensive subsequently?

MR. KENNEDY: The cheapest unit is dispatched first, but also there has to be a fact taken into with respect to the contractual commitments that exist.

Q.17 - I am just asking for a general comment.

MR. KENNEDY: Would you please -- you are just generally --

Q.18 - Generally speaking.

MR. KENNEDY: Generally speaking from an economic it's basically the cost of the generation, taking that into consideration, and any other criteria with respect to low cost units that would be -- for example, that can not be dispatched.

Q.19 - Okay. So would it be fair to say that in the winter time you would run the more expensive ones because you need the -- generally speaking again -- more expensive units because you need that extra power where those units may not -- not always will not -- but may not in fact run during the summer months when the power needs are less?

MR. KENNEDY: That's correct.

Q.20 - Now this probably comes as a surprise, but I did take a look at some of the PROMOD stuff and I was confused. In fact, I'm not even sure that what I looked at any more is even -- was the right stuff. So I just wanted to -- my purpose in wanting to ask you questions on the PROMOD was to get to something general, so I'm going to start with a general comment and if I have got the right analysis of it, then it will save having to go through any detailed ones.

First of all, under the PPAs I understand that effectively there is a levelized charge each month. In the various months of the year in which GENCO is supplying power to DISCO there is a "flat rate", is that right, annualized -- sorry -- levelized rate?

MR. KENNEDY: Yes. That's with respect to the vesting contract there is a capacity payment that is based on a nominated capacity.

Q.21 - Yes. So the energy piece is across?

MR. KENNEDY: Are you speaking about the fuel price piece?

Q.22 - Yes.

MR. KENNEDY: The cost?

Q.23 - Yes.

MR. KENNEDY: Fuel cost.

Q.24 - Yes. Is that right?

MR. KENNEDY: And your question was?

Q.25 - Is there one levelized charge across the year so that regardless of what the actual costs are in that particular year to GENCO, there is across the year a levelized charge for the energy piece?

MR. KENNEDY: Yes, that's correct.

Q.26 - Okay. Now I'm assuming it's fair to say that in fact during the course of the year there are different in fact energy costs incurred by GENCO for the energy that is being supplied to DISCO, is that a fair statement? I don't know if Mr. Good is more appropriate.

MR. KENNEDY: Yes. GENCO's cost, once the price is fixed, we get a flat price over the year and it's fixed, and GENCO takes the risk of the plant operation and the availability of fuel and that cost.

Q.27 - But as it relates to GENCO's cost of actually delivering that I assume that the cost -- there is a higher cost for delivering that energy in the winter months than the summer months, is that a fair statement?

MR. GOOD: That's correct.

Q.28 - And would it be -- looking from the PROMOD figures that I could figure out, it would appear as though that cost is significantly higher to GENCO in the winter time than in the summer time, is that correct?

MR. GOOD: That's correct.

Q.29 - Can you give us a sense of order of magnitude, or if you can't, can you show me where in this book I could find some sense of order of magnitude? I had an analysis that looked like it was twice as much and sometimes more than twice as much in the peak winter months than in the lower summer months, is that a fair assessment? Per unit of energy, I apologize, as opposed to total dollars.

MR. GOOD: Well I was actually going to answer in terms of total dollars, and it would be in the order of tens of millions of dollars, that would be correct.

Q.30 - But in terms of per unit on a multiple cost of GENCO's generation in the winter months versus in the summer months would be what sort of order of magnitude?

MR. GOOD: I don't have that number with me.

Q.31 - Could you take a look through -- I'm assuming that number is fairly quickly generated from looking at A-16, the PROMOD -- or if you can give us at least an order of magnitude that you would be comfortable with. In looking for that, if you could also sort of consider the purchase power part as well as the GENCO generation piece.

MR. GOOD: If you turn to the PROMOD information on page 92, I believe it is -- page 92 of 95.

Q.32 - Sorry. Page 92 of 95 in which tab -- appendix?

MR. KENNEDY: Tab 24.

Q.33 - Is it appendix 1?

MR. KENNEDY: It's in exhibit A-16.

Q.34 - A-16. So we are looking at the public record document, I presume, just so we are looking at the same one, and are we under appendix A? I mean there are a lot of tabs in that book, so I just want to make sure I am at the right tab.

CHAIRMAN: Before you ask any questions, Mr. Lawson, I'm a little bit lost as to what exhibit we are -- A-16?

MR. LAWSON: A-16. I apologize.

CHAIRMAN: And where would we find that A-16?

MR. GOOD: A-16, appendix 1 --

CHAIRMAN: Thank you.

MR. GOOD: -- page 92.

Q.35 - Close to the back of the book.

CHAIRMAN: Did you say page 92?

MR. GOOD: That's correct. You will see at the bottom of that page a total --

Q.36 - Yes.

MR. GOOD: -- and in April for instance it's approximately $34,000,000, and as you go throughout the year in December it's approximately $82,000,000. So that gives you some sense if you look at those numbers how GENCO's costs actually change throughout the course of the year.

Q.37 - Those are total costs, am I correct?

MR. GOOD: Those are total costs, correct.

Q.38 - Now how about the megawatt hour cost? I think there is somewhere in here an indication of the megawatt hours in each of the respective months, is that something you could --

MR. MORRISON: Mr. Chairman, before the witness answers, I have no problem with the witness answering with respect to orders of magnitude in megawatt hour costs but the specific megawatt hour costs themselves are in the confidential portions of the evidence.

MR. LAWSON: I'm just looking at the total which is public and the megawatts which is public. So I think the mathematics would be public.

CHAIRMAN: Well I just caution the witness to make sure that -- the witness panel -- if it is confidential, that you advise us that it is, and we can -- if it is important to have that question asked and it is confidential information, then we can certainly go into an in-camera session with this panel after we are finished with everything that is not confidential.

So -- it's difficult sometimes I think when you are asking the question to know whether it is leading there and, Mr. Morrison, if you feel that it is then certainly let us know.

MR. MORRISON: And actually, Mr. Chairman, because of the nature of the information, the panel is probably better equipped than I am to identify when it is confidential. So I will leave it up to them rather than me to try to second guess and object. Quite frankly, I'm not entirely sure myself sometimes what is confidential.

CHAIRMAN: Thank you.

MR. LAWSON: Mr. Chairman, we are not looking -- what I am looking for I believe is not of confidential variety. In fact I used only the book of the redacted version. So --

CHAIRMAN: I think Mr. Morrison is going to put his faith in the panel to advise us if they feel it's confidential.

MR. GOOD: On that same page you will see a line quite near the top called Total Base Heritage Asset Energy for Vesting Load, and once again in April you will see a number of 1.1 million megawatt hours. So to get the figure you are looking for would simply be a matter of dividing in this case the 34.3 million by the 1.1 million megawatt hours.

Q.39 - So my quick lack of mathematical skills would suggest the order of magnitude is maybe double? The bottom lines are double and the top figures aren't terribly dissimilar, so --

MR. GOOD: Right.

Q.40 - -- double is twice as much?

MR. GOOD: Right. I don't have a calculator, but I will agree with you.

Q.41 - Just on that same page 92, the bottom right hand corner, the total column for the year is $508,000,000 more or less. That corresponds to the total fuel cost for the year, is that right?

MR. KENNEDY: That's the total fuel cost for the purpose of setting the vesting energy price.
Q.42 - That more or less is what is reflected in the revenue requirement that you prepared -- the document you have prepared for obviously, I'm assuming?
MR. KENNEDY: Yes.
Q.43 - This is with respect to GENCO's energy. There is also purchase power, is that right, independent of this calculation?
MR. GOOD: No. Those figures are also included in this table.
Q.44 - Oh, I see. This includes all --
MR. GOOD: They are the the ones that are redacted, in large part.
Q.45 - Okay. So would it be fair to say that on the purchase power component, the multiplier is probably more than two and maybe averaged down a bit as a result of GENCO's which might be a little less than two, would that be, again order of magnitude, a fair statement?
MR. GOOD: Could you explain that a bit?
Q.46 - Is the purchase power in the winter months going to be more expensive than the GENCO power, and if I am in confidential territory please stop me -- megawatt hour in this case I'm speaking?

MR. KENNEDY: Those are the -- what is referred to as the GENCO NUGS, heritage NUGS, and the -- what the -- the costs on a production cost basis are contractual matters between the generation company and the third party that has the ownership of those particular NUGS.

Q.47 - That's fine. So is it -- knowing now that the cost of -- DISCO's charge for that energy from GENCO is a flat amount across the year, correct?

MR. KENNEDY: Yes, that's correct.

Q.48 - And that we now know that the actual cost of generating that is not a flat across the year, is that correct?

MR. KENNEDY: The cost varies from month to month, but basically it determines what is -- an economic dispatch and meeting contractual requirements dictates how much energy is required to meet GENCO's -- or DISCO's in-province load, and the total cost is determined and the average price is determined on a lump sum basis.

Q.49 - Now as it relates to charging customers the costs, allocation of costs to customers in a class, there is no distinction between winter consumption of energy and summer consumption of energy for the costs that are charged to the customers, is that right? You use this flat levelized charge?

MR. KENNEDY: It may be a little more appropriate for the rate design panel to answer that question.

Q.50 - You don't know?

MR. KENNEDY: With respect to spreading -- how it's spread, I'm not 100 percent sure.

Q.51 - That's fine. I thought it might be something you would be familiar with. Ms. MacFarlane, you don't know?

MS. MACFARLANE: No, I'm sorry, I don't.

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

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

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

Q.52 - Good morning. This is for anybody on the panel. DISCO's evidence states about 80 percent of your revenue -- DISCO's revenue is required for purchased power to meet load requirements, and that fuel costs and capacity related costs each amount to about roughly 50 percent of that? First off 80 percent, your purchase power is about 80 percent?

MR. KENNEDY: Yes. Approximately.

Q.53 - And that 80 percent is split 50/50 between fuel costs and capacity payments?

MR. KENNEDY: No.

Q.54 - What would be the split?

MR. KENNEDY: With respect to the power costs, with respect to fuel there is about $585,000,000 estimated to be required in '07/'08, and the capacity payment that is required to be paid by DISCO to GENCO is $292,200,000. So that gives you basically the magnitude with respect to the vesting energy that is paid to GENCO and the split between the capacity payment, the rough capacity payment. There are some adjustments that take place and it can be explained basically in the evidence that was presented in table 1(B), section -- exhibit A-2, if you so desire. That gives roughly the split.

Q.55 - I appreciate that. Would you agree that everything else being equal the underlying fuel costs, the price that you have to pay for the oil itself, or coal, and the price per megawatt of capacity charges -- if those things are all the same, if DISCO had a lower load requirement, its revenue requirements for purchase power would be lower?

MR. KENNEDY: Yes.

Q.56 - Would you agree with me that the residential electric space heating load is a significant portion of DISCO's overall load requirements?

MR. KENNEDY: It's a significant piece, considering the amount of electric heat that is in the Province of New Brunswick.

Q.57 - So based on that, reducing the residential electric space heating load would lower DISCO's revenue requirements, everything else being equal?

MR. KENNEDY: Yes, that's true, if that can be accomplished.

Q.58 - Is DISCO committed to reducing its overall load requirements?

MR. KENNEDY: As a standard service supplier our obligation of course is first to supply in-province customers, but in light of that, as mentioned yesterday, you know, NB Power Distribution and Customer Service is in support of the energy efficiency corporation and its initiative with respect to reducing the energy consumption of all forms, be it electricity or other forms of energy in the province. And from a DSM point of view I believe that the President talked about looking at it from the point of view that as we move forward that DISCO would be using more of an integrated resource plan, and we actually have been using an integrated resource plan when we determined how much capacity is required.

We both looked at the supply options as well as the -- any options that are available from DSM that would fit into the criteria that would be used in evaluating when a next source of generation would be required in the province.

Q.59 - We keep coming back to this idea of -- we brought it up again today -- that Efficiency New Brunswick is going to be delivering the DSM for DISCO?

MR. KENNEDY: In a large measure they will be working towards energy efficiency. However, as I mentioned, as we move forward and there is a requirement then when we look at certain things from an innovative resource plan NB Power would be looking at DSM options versus purchasing generation or future supply.

Q.60 - I'm not worried about future supply. I'm actually worried about this particular year, this test year. DSM, or demand side management, is that not a utility term -- a tool for utilities to manage their load?

MR. KENNEDY: Yes.

Q.61 - And yesterday Mr. Hay talked about DISCO having obligations to a shareholder, or shareholders, and to ratepayers, correct?

MR. KENNEDY: That's correct.

Q.62 - So if DSM is a utility -- is a utility term for managing their load and DISCO's obligation is to provide the cheapest power in terms of -- and maintain reliability, safety and meeting its environmental standards, what is it doing to reduce that load? Let me rephrase that. It has an obligation to its ratepayers to deliver cheap power, correct?

MR. KENNEDY: It has an obligation to deliver as cheap power as possible, taking in certain conditions with respect to safety and reliability.

Q.63 - And so on that basis, should it not be then DISCO who is doing the DSM programs?

MR. KENNEDY: From NB Power's point of view the government has moved some of those initiatives from an energy efficiency point of view to the Energy Efficiency Corporation.

Q.64 - Do you have a contract with Efficiency New Brunswick to deliver DSM programs?

MR. KENNEDY: No, DISCO does not.

Q.65 - Is there a reason why not? Is there a reason why not?

MR. KENNEDY: We do not, but we do have a close cooperation with respect to support the Energy Efficiency Corporation.

Q.66 - Have you provided Energy Efficiency New Brunswick with access to your customer accounts information -- information on your customer accounts?

MR. KENNEDY: Yes, we have with respect to a number of customers in light of their movement with respect to the data load, and keeping in mind it is mass with respect to groups in certain sectors.

Q.67 - Do you have access to the residential accounts?

MR. KENNEDY: Yes.

Q.68 - I'm sorry. Does Efficiency New Brunswick have access to the residential accounts?

MR. KENNEDY: They would have except for individuals, but by numbers. You know, not individual accounts with respect to that.

Q.69 - In one of the responses to the IRs -- I believe it was response number 74 to the Energy Utility Board -- actually it may have been 72 -- anyways, you talked about --

MS. MACFARLANE: Could you just give us a moment to find the reference.

MR. MORRISON: Can I just ask a question for clarification. Is that exhibit A-19 that you are looking at?

MR. KIDD: I believe so, yes. September 10th responses. And it's DISCO NB EUB IR-72 that I'm looking at.

MR. MORRISON: So that's exhibit A-19. I'm just clarifying for the panel and perhaps for the Board. It's exhibit A-19 and it's NB EUB IR-72.

CHAIRMAN: Mr. Morrison, I am going to ask you to repeat that. I was retrieving the volume as you were describing where the information could be found.

MR. MORRISON: It's exhibit A-19 --

CHAIRMAN: Yes.

MR. MORRISON: -- and it's DISCO NB EUB IR-72.

MR. KENNEDY: Yes, I have it. It's IR-71, is it --

September 10th, just to confirm -- 72?

Q.70 - Number 72, yes.

MR. KENNEDY: Yes, I have it.

Q.71 - In there it talks about DISCO -- or I guess it would be NB Power in total at that time -- discontinuing its DSM program in the late 1990s?

MR. KENNEDY: Yes, that's correct.

Q.72 - And the last DSM study was filed in 2002? That's response number 2 there.

MR. KENNEDY: That's correct.

Q.73 - How many years would you estimate it takes to develop a DSM program?

MR. KENNEDY: I'm not sure but I don't think it would take very long from a point of view of getting it running. It's just a matter of the test as such that it can justify itself, that it would take resources to -- and dollars to implement such a program.

Q.74 - Would two years sound reasonable?

MR. KENNEDY: Basically as I mentioned prior to this, the issue with respect to distribution and customer service comes with respect to DSM which is usually part of an integrated resource study that would be used to determine when future capacity would be required, and at this particular moment we do not -- distribution and customer service does not require additional capacity to meet its load.

It's out into the neighbourhood of 2016 or '17 that would indicate that we would be short of resources. And in determining that we would use the model where we would look at if it was cheaper to implement a DSM program than purchasing or contracting for new capacity that would be our -- the alternative that we would pursue, and base it against any other alternatives of purchasing additional capacity through an RFP process.

Q.75 - Earlier you agreed with me though that one way for DISCO to reduce its revenue requirement was to reduce its load for the test year, correct?

MR. KENNEDY: Yes.

Q.76 - And the DSM programs, do they not reduce load?

MR. KENNEDY: DSM typically looks at with respect to capacity meeting peak load or meeting peak capacity at the time, whereas an energy efficiency program perhaps is better suited to reducing the amount of megawatt hours or energy that is required on the system.

From an energy efficiency point of view, you know, that is better with respect to reducing the amount of energy that we need to buy and therefore include on our revenue requirement.

Q.77 - So -- and you referred to this earlier -- then to deal with peak load though say in the winter time you have to have more of your systems -- higher dispatch order, correct, more expensive ones on line?

MR. KENNEDY: These assets are already in place and they are there to meet the in-province load and peak load at the time of peak during the winter. And if they are not required at other times they are not operated and the fuel is not burnt.

Q.78 - So if they are not required to operate you don't run?

MR. KENNEDY: They run with respect if there is opportunities to export the power off of any surplus energy or capacity that we have on the system to come back through export benefits that can be passed on to the ratepayers in the province, if the sale can be made of export, either firm export or interruptible export, into the surrounding market.

Q.79 - Has DISCO done a study to show whether or not it's cheaper for its ratepayers to turn off its most expensive assets versus exporting that power? Which one is a better revenue -- lowers its revenue requirement?

MR. KENNEDY: The benefits that are generated by the export sale coming back to keep rates in the neighbourhood of 15 to 20 percent lower than they would be.

Q.80 - Did you have any DSM programs in place between 2000, 2005?

A. To the best of my recollection, I don't believe we did.

MS. MACFARLANE: I would just like to add, the NB EUB IR-70 describes what DSM programs are, and as you can see there, they are generally, as Mr. Kennedy has said, they are related to long term integrated supply planning. They are designed to avoid future capacity. They are not something you can do in a year to affect the year. NB Power's load forecast for a number of years has indicated it does not need new capacity for some significant period of time. So those types of initiatives that would be driven by capacity requirements that arise through an integrated resource plan have simply not been used because they haven't been required.

Energy Efficiency are the types of programs that you can use in the near term to affect the energy load, and those, based on a legislative change made by the Government of New Brunswick, have been given to another Crown corporation as a mandate. They have not been NB Power's mandate. We continue to co-operate with the Energy Efficiency group and support them, but energy efficiency initiatives that will reduce load in the short-term are not NB Power's mandate. They are by legislation the mandate of another Crown corporation, and that's common in a number of jurisdictions.

That move has been made and I think the President said yesterday, the model in New Brunswick is based on Vermont. It's quite common in the US.

Q.81 - Okay. I would like you to turn back to the residential electric. My question is on space heating load for residential people, residential customers. So you said before everything else being equal, if we reduce that space heating load, you would reduce DISCO's revenue requirements?

MR. KENNEDY: Correct.

Q.82 - Are you committed to reducing that space heating load?

MR. KENNEDY: Space heating load would -- again it's our form that we are following out with respect to that is that we are supporting the Energy Efficiency in their initiatives that they have in place that would result in a lower consumption from residents that are using baseboard electric heat in the province to heat their homes.

From a point of view of sharing information, as mentioned yesterday, energy advisors go out into the province and provide input to the various customers. So we are -- basically the form is taken as mentioned in the IRs that were previously presented, that's the methodology that we are using today with respect to that.

Q.83 - What is the expected impact then, or what is the predicted impact of Energy Efficiency's programs on your residential space heating load?

MR. KENNEDY: I have no information at this time on that. Some of this direction with respect to what the residential heating load and what it amounts to could perhaps be handled later on through the panel that will be dealing with the rate design and, you know, that particular aspect of this hearing. But I do not have any information at my fingertips to provide studies that have been done.

Q.84 - Would DISCO undertake to provide those studies?

MR. MORRISON: No, quite frankly, Mr. Chairman, we won't, unless ordered to do so by the Board. These are not studies that were done by DISCO. I don't know what Efficiency New Brunswick has done. Certainly that type of question could have been asked in an IR and I don't think it's appropriate in the middle of this hearing that we start running around doing research and providing information when it could have been asked in an IR and perhaps we could have been in a position to respond to it before the hearing began. But my understanding is if there are any studies they haven't been done by DISCO.

CHAIRMAN: Do you have any comments on that?

MR. KIDD: Well, this -- it is in their IR. And they just told us today that they are working very closely with Efficiency New Brunswick to deliver their energy-specific programs.

So they are working closely, which suggests to me that they have some idea of what is going on, when these plans would be delivered and what the outcome of these plans would be.

CHAIRMAN: Is this a matter that is better dealt with by another panel? I get the suggestion from the respondents that perhaps there would be another panel that would be in a better position to deal with this?

MR. KENNEDY: I believe that the panel that will discuss with respect to load forecast and rate design and the aspects of allocation of the various rate categories would better respond to it.

And I believe there also is a certain amount built in to respect to load forecasting. The more information that we can get from the energy efficiency programs, we would build into our load forecast at the time.

MR. MORRISON: I have been advised, Mr. Chairman, that perhaps the panel that Neil Larlee is going to be, perhaps the only member of that panel actually, may have some more additional information as to what efficiency measures and what their impacts may be with respect to load forecasting. So he may be in a better position to respond.

CHAIRMAN: And that is tentatively scheduled for week three, is that correct?

MR. MORRISON: I believe so, yes.

CHAIRMAN: So the only other issue here is with respect to these reports. Does NB Power have the reports that are being requested?

MS. MACFARLANE: NB Power does not have the reports that are being requested. I'm not sure -- Energy Efficiency is a reasonably new agency. And the types of questions that you are asking, with respect, are probably best put at the Standing Committee on Crown Corporations, where in fact your legislated representative could ask for the nature of the programs that are delivered, the intent, the objectives that are to be reached by them, et cetera. When the Electricity Act changed and when the Energy Efficiency Agency was brought into creation under an Act, the mission for NB Power changed. It used to say it was responsible for efficient use of energy. That was the last piece of the objects of the NB Power. That was taken out of the Act in October 2004. And a new agency was created.

And as I say, I believe it is their mandate by legislation. It is in our interest to make whatever information we can available to them and to build into our load forecast whatever information we can get from them. But I'm not aware of any studies that they have that we have either participated in or have direct output from.

CHAIRMAN: It would be very difficult to order the production of documents which we now understand that perhaps don't even exist.

But perhaps this is a matter that might be best canvassed in week three when Mr. Larlee is a witness. Perhaps in the meantime you might check with Energy Efficiency to see whether or not documents are available that might assist you in your cross examination at that time.

MR. KIDD: Thank you, Mr. Chair.

Q.85 - So you have a requirement or your mission is to provide the least cost -- power at the cheapest rate possible, with safety and reliability built in.

These programs take a couple of years to put in place or a year to put in place. Efficiency New Brunswick is a new organization. You haven't done anything from 2000 to 2005 regarding these matters.

So this rate application -- how can you say then today that, you know, you are delivering the power, you know, power at the cheapest rates, without considering these matters in the past, today? I'm not talking about the future. I'm talking about today.

MS. MACFARLANE: I would like to just clarify one item. Mr. Kennedy said that we had done no demand side management activities. And as I explained, the utility term demand side management as we are using, it is related to avoiding future building of generation or purchasing capacity. That is what NB Power has not done between 2000 and 2005, because there was no need for capacity until well out into the future.

Mr. Hay explained yesterday that from an energy efficiency point of view, we have had in place energy advisers that are aimed largely at assisting residential customers in managing their own consumption, and that they continue to be in place today. And they work in support of the Energy Efficiency Agency as well.

Q.86 - In exhibit A-2, which is Section 9, Revenue -- and we are talking load forecast here, so Appendix F to that. DISCO believes that there is a -- so exhibit A-2.

MS. MACFARLANE: Clarify the section please.

Q.87 - Section A -- or Section 9, Revenue. And then it refers to Appendix F, Volume 3.

MS. MACFARLANE: That would be the load forecast. And if I may, we do have a panel specifically dealing with the revenue requirement and the load forecast.

And Mr. Larlee, who prepares the load forecast, is on that panel.

Q.88 - I appreciate that. But again we are not talking revenue requirement. Well -- but when you purchase power you have to purchase power to meet your load.

And we discussed earlier or agreed earlier that one way to reduce that revenue requirement is to have a lower load, correct?

MS. MACFARLANE: That is correct.

Q.89 - Okay. So the questions today are not directed towards revenue requirement. They are directed towards purchased power or power purchases, purchased fuel costs.

So looking at this, and on page 1 of that -- actually there is two page 1s. I was looking at the second page 1. It says page 1 of 3. So that is three pages into it.

And the title on the top is "2006 Load Forecast Key Assumptions."

CHAIRMAN: Before you proceed any further, the panel is having some difficulty here finding out just precisely where you are in the evidence. You started with exhibit

A-2.

MR. KIDD: Yes.

CHAIRMAN: And then you went to section 9?

MR. KIDD: Right. And then in that section refers to Appendix F which is the load forecast. And Appendix F is found in the Volume 3.

CHAIRMAN: So Appendix F follows section 9 as one of the attachments?

MR. KIDD: It is in Volume 3 of -- sorry.

MR. MORRISON: Mr. Chairman, I believe the reference is to exhibit A-4, not exhibit A-2.

CHAIRMAN: Okay. I just found it. There is exhibit A-4, Appendix F. Okay.

And is there a particular spot on Appendix F that you are referencing?

MR. KIDD: Down near the bottom, it is called "Price elasticity for the residential sector." And it is on page 1 of 3 which is as I said the third page into it.

Q.90 - In there you -- or DISCO cites a .2 percent decrease in demand for every 1 percent increase in price, correct?

MR. KENNEDY: Yes. That is correct.

Q.91 - And do you have evidence to support this?

MR. MORRISON: Mr. Chairman, I'm trying to let the questions go as much as possible so that we don't have people bounce from panel to panel. But this is clearly a load forecast question. I know Mr. Larlee is quite capable of answering all those questions.

How this works is the load forecast is the basis of course. And then you deal with supply afterwards. I'm sure Mr. Kennedy can deal with all kinds of supply questions.

But the load forecast and the methodology used is clearly outside of his area of expertise. And it is clearly in Mr. Larlee's area of expertise. I know that he can answer these questions.

CHAIRMAN: Are you prepared to defer your question until such time as Mr. Larlee is put forward? I know that you have indicated that you are asking these questions from a purchase power perspective. So I'm not sure if that sort of satisfies you. But would you be prepared to save these questions for Mr. Larlee?

One of the difficulties, Mr. Morrison, when you have a variety of panels, as you know, is that the last thing in the world you want to do as an intervenor is ask a question and say well, you should have asked that to an earlier panel. That is the difficulty.

MR. MORRISON: And I'm very conscious of that, Mr. Chairman. And that is why I have been reluctant to object. And I'm not really objecting.

I'm simply stating that if there is detailed questions on how price elasticity is calculated, I don't think Mr. Kennedy or this panel is going to be able to answer that question. But I'm quite confident that Mr. Larlee can. And the last thing I want to do is to say to someone, you should have asked the panel before. And we obviously don't want to get into a situation where we are recalling panels.

So I'm trying to be as generous as possible in granting latitude. But I think in this particular case the expertise does lie with Mr. Larlee.

MR. KIDD: Mr. Chair, given what Mr. Morrison said, and this understanding that, you know, we are not going to get bounced back and say, you should have asked so-and-so before, I'm prepared to leave a series of questions for Mr. Larlee down the line, with that understanding though.

CHAIRMAN: Okay. And I would just caution all of the intervenors however, if you are not sure whether or not it should be the current panel or a future panel, I would err on the side of caution and ask the panel.

And if it is clarified that there in fact will be a better witness on a particular topic coming forward in the future, I think that there is less chance that somebody will be asking to recall a panel.

MR. MORRISON: And also perhaps from a practical point of view, Mr. Chairman, a particular panel may be able to answer a question at a very general level that could be clarified or given more detail by a subsequent panel.

CHAIRMAN: Thank you, Mr. Morrison.

CROSS EXAMINATION BY MR. COON:

Q.92 - Good morning. I just want to clarify a couple of things to finalize that line of questioning.
Mr. Kennedy, has DISCO done any studies to look at the cost of DSM programs that would reduce your electric heat load in comparison to the kinds of savings that would buy you in reduced fuel purchase?

MR. KENNEDY: I'm not aware of any. But you may -- that is another question you may want to defer to the panel that was referred to with Mr. Larlee.

Q.93 - Has DISCO issued a request for proposals for DSM measures that would help reduce their revenue requirement result from fuel purchases?

MR. KENNEDY: No. DISCO has not issued RFPs for DSM.

Q.94 - So have you looked -- what approaches have you taken or analyses have you done to provide you with information on how you might best reduce your fuel purchases to reduce the revenue requirements associated with that?

MR. KENNEDY: Again it is basically we have not gone with an RFP. And we basically have the resources available to us to serve a load. If there is any natural occurring energy efficiency, and once we can identify, as the Energy Efficiency Corporation gets their feet under them, we can have some information with respect what the impact of their programs will have on our load forecasts and therefore would result in a lower forecast of load requirements and therefore would go off to offset our revenue requirements and the use of generation from our fleet of units.

Q.95 - Isn't it the case, Mr. Kennedy, that by reducing your fuel purchases, you would reduce pressure on power rates?

MR. KENNEDY: There would be a point that you would get to where the issues would result in utilization of assets could have to be looked at. But I don't think we are at that late stage yet.

Q.96 - So have you done any studies to look at where that would happen?

MR. KENNEDY: No.

Q.97 - Okay. Thank you. I'm going to start another line. And these questions are for I guess Mr. Good. And it has to do with other costs that would be associated with GENCO I guess that would pass through.

Mr. Good, are you familiar with the regulatory framework for reducing greenhouse gas emissions the Federal Government is soon going to gazette likely in its test year?

MR. GOOD: Yes. At a broad level.

Q.98 - What steps are being taken this year to ensure that those regulations on greenhouse gas emissions from your plants will have a minimal effect on power rates?

MR. GOOD: We are actually just monitoring the situation and participating with different industry groups. Because until we know what the exact legislation is going to say, we can't react to it.

Q.99 - Is it correct to say that as per the GENCO PPAs, changes to environmental costs are not borne by GENCO but are passed through to DISCO?

MR. GOOD: If there are any capital upgrades required to the stations then DISCO is required to bear those costs. If the costs are more of an OM&A or purchasing environmental credits, if those are the type of costs that are incurred, then GENCO and DISCO would share those on a prorata basis depending on the volume of energy generated for export sales versus the volume of energy generated for in-province use.

Q.100 - Thank you. Have there been any in-house estimates made based on your current knowledge of the nature of the regulations that would affect GENCO's plants as to the cost of complying with those regulations?

MR. GOOD: If we were to use the $15 a ton that is widely discussed, it could be in the order of $25,000,000 a year total cost.

Q.101 - Okay. And that $25,000,000 a year then would be passed through to DISCO, is that correct?

MR. GOOD: The share that would be related to supplying in-province load, correct.

Q.102 - Thank you. Do the nonutility generator contracts have escalating CO2 charges built into them?

MR. GOOD: I don't think I can talk about the details of nonutility generator contracts.

Q.103 - At a high level are there environmental fees or environmental costs as a category built into those contracts?

MR. GOOD: I'm not aware of the details at that level. So I can't answer that.

Q.104 - Thank you. Would it be the case -- I'm not sure who to ask this question to, DISCO or GENCO. But would it be the case that DSM measures, say efforts to reduce the electric heating load on your system would help reduce greenhouse gas emissions?

MR. KENNEDY: Yes. And as part of a -- that is a situation where we would be looking at from a point of view of where these emissions, how would we mitigate the effect of the large emitter emissions.

This is a case where we would start to in our planning look at the areas around for that -- to meet those requirements, you know, DSM, demand side management or reduction from electric heat would obviously reduce our requirement for fossil fuel generation.

And that would be part of an overall climate change strategy that would be implemented so that the -- to minimize the impact on the ratepayers, whatever the best option is with respect to either paying or purchasing CO2 credits or -- that would be the time that we definitely would look at it.

And actually some of those analyses and reviews is occurring based on -- but as Mr. Good said, it is difficult to see where this is all going to land. But there has been a lot of analyses and keeping abreast of the situation with respect to what is going on and with respect to the Federal Government on climate change.

Q.105 - Has DISCO done any preliminary studies to look at the cost per ton of carbon that would occur through various DSM measures you might contemplate?

MR. KENNEDY: Not specifically. But again that would be one of the options that would be factored into the study once we know where we are going.

We would put in the effect of DSM as an option. We would also factor it in versus any other alternative to come up with the least cost option for our ratepayers.

Q.106 - So DSM remains a tool in the tool kit for management at DISCO, is that true?

MR. KENNEDY: Yes. It is in the kit. And when it is required or an integrated resource plan, it is very much part of it.

Q.107 - But it is not a tool that you would ever use to help reduce demand in a way that would affect your revenue requirements from fuel purchases?

MR. KENNEDY: Again from a revenue requirement from fuel purchases, if there is efforts that are occurring as a result of the Energy Efficiency Corporation, a reduction of our overall requirement for megawatt-hours in a year, then it would be reflected in our load forecast, once that information is available and we have a better understanding of it.

Q.108 - Would reductions in exports contribute to complying with these regulations to reducing greenhouse gas emissions?

MR. KENNEDY: With respect to the future, looking into the future, one of the criteria would be, of the export sales, would be to tag any costs of CO_2 emission to it, to see if it would again dispatch into that particular market and create a benefit or an export benefit.

But one of the factors that would be factored into it would be costs of mitigating and meeting its commitment with respect to emissions.

Q.109 - Isn't the case that -- well, it is the case -- DISCO receives an export benefit to the PPAs, is that correct?

MR. KENNEDY: Yes. That is correct.

Q.110 - So any change -- any decline in export revenues would diminish that export benefit and have an impact on your revenue requirements?

MR. KENNEDY: Yes. The actual -- the first five years of the PPA of course there is prescribed export benefits that are built in. But every five years those export benefits are reviewed and new ones are established.

But if our export benefits fall below then yes, those would not be available to keep rates down within respect of those customers that are in the province of New Brunswick.

Q.111 - So if export reduction were used as a measure to comply with these regulations then that could have an upward pressure on rates?

MR. KENNEDY: That is correct. Yes.

Q.112 - Just to confirm, you said that to date and this year you have been monitoring the situation but haven't undertaken any analyses or studies to determine what would be the best measures to take to comply with these regulations in a way to minimize impact on rates?

MR. KENNEDY: No studies have, you know, been finalized. But there is -- we always keep on the record with respect to an integrated resource plan.

And again there has been a lot of models run with respect in conjunction with GENCO and with our fleet and the effect that any government policy would have on New Brunswick generation that exists here.

So to that extent we are all -- we have a group that is formed. And there is -- basically GENCO's VP takes the initiative of establishing the climate change file. And there are representatives from distribution on that particular -- that form part of the team that looks at issues surrounding climate change.

Q.113 - In this year, the international power line will come into use, is that correct?

MR. KENNEDY: That is correct. At the end of the year it is forecast to come in, at the end of this year, this fiscal year 2007.

Q.114 - And is it true to say that that largely will be utilized by Hydro Quebec?

MR. KENNEDY: There was an open season with respect to the second tie. And I think it is public knowledge that Hydro Quebec was the successful bidder at the open season with respect to the 300 megawatts of capacity from north to south.

Q.115 - So Mr. Good, have you done any analysis to see whether or not the sale of Hydro Quebec Power through that new line into Maine will have any impact on sales from Coleson Cove or Belledune?

MR. GOOD: We haven't done any specific analysis on that. But right now Coleson Cove is of course, as you know, not that economic. So there is not that many sales being made off of the unit into New England at the moment.

Q.116 - But certainly isn't it the case that Hydro Quebec now is a competitor in that market since that transmission line ends at basically at the same spot that the existing inter tie does, the original inter tie?

MR. GOOD: That is correct. The other thing that I should have said is of course we don't know exactly what Hydro Quebec intends to do with it, how much energy they will actually be exporting.

MR. KENNEDY: I would just like to add to that that the north-south capacity remains at a thousand megawatts from north to south. And the reservation that GENCO has with respect to exports are still in place.

There is a significant amount of capacity that is available for exports to the United States, even on top of this other 300 megawatts.

So the opportunity that was there yesterday is still there today with respect to exporting to the United States of the surplus energy and capacity, the assets that exist in the province.

And again that path also provides some opportunity in bringing energy in from south to north. But an additional 300 megawatts can come in now for a total of 400 megawatts from south to north.

But again we do not have -- or GENCO does not have firm reservations on it. But you can purchase space on those lines depending on the owner who has the reservation. But we still are not in -- we still have the same capability to export into the New England market that we had six months ago.

Q.117 - But would you not agree that it is more of a competitive situation now in Maine with Hydro Quebec utilizing the new international power line?

MR. KENNEDY: There is still basically room for New Brunswick Power to go into that market as well as Hydro Quebec or anyone else.

Q.118 - But would you agree that it is now a more competitive market than it was before the line was built?

MR. KENNEDY: That is yet to be seen with respect to the market in Maine with respect to the congestion that still exists there. And pricing is somewhat restrained due to congestion.

So once some of those things are alleviated maybe it will change. But the market conditions are such that the prices, what they will be, will be interesting once we get into the future.

MR. COON: Thank you on that. I have just a few more questions. And these relate to revenue requirements that might be associated with the Lepreau refurbishment in this year.

Q.119 - I guess this question would be for Ms. MacFarlane. As I understand it --

CHAIRMAN: Mr. Coon, perhaps this would be a good time for a break. We are going to recess here for about 20 minutes. So we will be back at 20 after 11:00.

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

CHAIRMAN: Ready to proceed, Mr. Coon?

MR. COON: Thank you, Mr. Chair. I have a couple of pages from an exhibit A-1 from the hearings of January -- sorry -- the evidence of January 2002 in connection with the proposal to refurbish the Point Lepreau generating facility that I want to refer to. So we are going to distribute those. They are from the project execution plan with respect to the refurbishment of Point Lepreau. There is just two pages. There is a summary schedule and a table or graph showing the cumulative project spending. I just may want to refer to it in these questions.

CHAIRMAN: Have they been distributed to the intervenors as well and given to all parties?

MR. COON: We are distributing them at this moment as we speak.

Q.120 - These questions are for Ms. MacFarlane, and I am primarily going to refer to page 19 and figure 5.1. In the original -- this is the original project execution plan that was entered into evidence by NB Power in February 2002. Figure 5.1 illustrates three phases of project spending, phase 1, phase 2 and phase 3. Phase 3 represents when the outage begins, so that's next year. My first question is how much money has been spent on the refurbishment project prior to this current year?

MR. MORRISON: I'm going to object to that question, Mr. Chairman.

The costs of -- whatever is happening with refurbishment of Point Lepreau has no impact on the revenue requirement for '07/'08 in DISCO's application.

I know that there was an IR that asked for similar information and we refused to answer it and the Board upheld us in that regard.

If Mr. Coon has questions that relate to any costs getting ready for the refurbishment which may be in DISCO's revenue requirement, then I think that is appropriate.

But any costs dealing with the refurbishment itself, which of course is a NUCLEARCO cost, are not appropriate for this hearing.

CHAIRMAN: Mr. Coon, do your questions relate to the revenue requirements of -- for the test year, DISCO's revenue requirements?

MR. COON: Yes, Mr. Chair. I'm just trying to get at whether or not the costs associated with Lepreau refurbishment to date and up to the end of this test year have any impact on revenue requirements in this case.

CHAIRMAN: Perhaps if you phrased your question in that fashion I would certainly permit it.

MR. COON: I knew I should have gone to law school. All right. Ms. MacFarlane, so are there any impacts on the revenue requirements this year resulting from the costs of -- the cumulative costs of refurbishing Point Lepreau from phase 1 and phase 2 as described in this document?

MS. MACFARLANE: No, there are not. The costs are being accumulated in NUCLEARCO in work in progress and they will not hit NUCLEARCO's period costs until the plant comes back into service and begins producing energy. And at that time the PPA will kick back in and charges will begin to flow to DISCO.

Q.121 - So no revenue then is being generated through DISCO to cover any of those costs?

MS. MACFARLANE: That's correct.

Q.122 - Thank you. Okay. I just have one final question. And that is -- to finish off where we started I guess. Mr. Kennedy, one final question. If DSM programs that are designed to reduce your electric heating load at DISCO, reduce your fuel purchases and therefore reduce your revenue requirements, reducing pressure on rates, why wouldn't you invest in DSM programs?

MR. KENNEDY: When we use the DSM programs or analysis, we will -- and it shows that it is the least cost option from a point of view of placing that against additional capacity that is required, we will.

Until that time we will continue to support the Energy Efficiency Corporation in its effort to reduce electrical consumption in all forms of energy but particularly their interest to electricity from an energy efficiency point of view and reduce our overall revenue requirements due to reduced megawatt hours to serve the load.

MR. COON: I said that was my final question, so I'm going to stick by that. Thank you, panel, thank you, Mr. Chair.

CHAIRMAN: Thank you, gentlemen.

Mr. Wolfe, do you have any questions?

MR. WOLFE: Mr. Chairman, I will probably be an hour or so. So you may want to pick a spot, if you want to break for lunch.

CHAIRMAN: Or maybe we will just -- if you can get it in within the hour maybe we will go until you finish. We will see.

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

Q.123 - All my questions are going to be around the hedging program. I am going to try to understand it myself, what actually happens in the hedging program, and in particular with natural gas and with the heavy fuel oil. I would like to start with a JDI response and it's in book A-19-1, and it's JDI 1-G.

MS. MACFARLANE: Yes, I have it.

Q.124 - Okay. If I can read this, it says, DISCO and GENCO have hedged 100 percent of the fuel cost for fixed price in-province customers for the test year. Fuel costs are hedged in the currency of the underlying commodity market which is primarily US dollars. DISCO and GENCO managed exposure to the fluctuating US Canadian dollar exchange rate by purchasing forward US dollars based on the forecasted fuel costs, net forecasted US dollar revenue. And it goes on to say that gains or losses on a financial hedging portfolio should not be viewed separate from a floating fuel price exposure that the financial transactions are off-setting. And as market prices move gains and losses on the financial portfolio are offset by opposite moves in the expected cost of floating price fuel.
Is that -- is this DISCO's policy in this respect?
MS. MACFARLANE: Yes, it is.
Q.125 - I am far from understanding what it really says, so hopefully some of my questions will get -- will make me able to understand a little better.
I would like to go to book A-16 and go to appendix 1.
MS. MACFARLANE: Yes, I have it.
Q.126 - And on page 25 of that -- of the PROMOD. On page 25 it says that the hedge lost in US dollars 4.2 million

dollars Canadian. Down at the bottom of page 25.

MS. MACFARLANE: That isn't -- that is true, but again hedge losses need to be combined with the spot prices in the PROMOD run to come back to the fixed commitment in the hedge contract.

That's why we put -- we put hedges in place, Mr. Wolfe, to fix the price, and the documents in the PROMOD take the spot prices and the calculated or forecasted gain or loss, add them together, and that brings us back in all instances at all points in time to the fixed price in the hedge contract.

Q.127 - Okay. So go to page 68 in that same appendix. And this one says the oil -- the loss in the oil hedge is 15.9 million dollars.

MS. MACFARLANE: Again that was an estimate at the point in time.

Q.128 - Yes.

MS. MACFARLANE: Right now as an example, those contracts happen to be in the money, because you see the third column over which says forecast settlement price, that was the forecast we took at October 1st of what we believed the contracts would settle at. Today those contracts would settle at $70.

So -- but it is irrelevant whether at a point in time they are in the money or out of the money. What is relevant is that the gain or loss together with the spot price come back to the fixed price in the hedge contract, and that is what we are trying to achieve, to get certainty in our costs.

Q.129 - You are trying to achieve a fixed price for DISCO?

MS. MACFARLANE: We are trying to achieve a fixed price to go into the vesting price for DISCO, so that we can feel assured that the vesting price that DISCO is going to pay has as much certainty in it as possible, particularly as it goes to price.

That is why we hedge, is to get certainty on price to go into the PROMOD model so that we can assure ourselves that there is -- there are large elements of the vesting price that are known.

Q.130 - Okay. So on page 69, the next page, shows a loss of 28.8 million dollars on natural gas hedge?

MS. MACFARLANE: That's correct. That was a forecast done at the time and related back to the forecasted settlement price. Those two items add to come to the hedged price amount, which is the fixed contract that we put in place.

Q.131 - So who does the PROMOD runs, which company?

MS. MACFARLANE: GENCO does the PROMOD runs. They have the methodology, the technology and the expertise to do that.

They do it under DISCO's supervision.

Q.132 - So let's go to page 79 in that appendix then. It has a cost in there for heavy fuel oil, about half way down the page, for Coleson Cove?

MS. MACFARLANE: Correct.

Q.133 - $165,000,000?

MS. MACFARLANE: That's correct.

Q.134 - Does that mean that someone put their best guess in for what the price of fuel would be for this test year when you do that 165,000,000?

MS. MACFARLANE: It is not a best guess. The way PROMOD works is that you put in a forecast based on an external source of the spot price. You then take a view of what the settlements of the hedges will be, subtract the two, or add the two in this case, and you can see that the 165,000,000 in the left hand column total 2008 up at the top, and the last line -- I said left column, I meant right hand column -- the last line, 4,200, those two items add together to come up with the contract price that we have in place through the hedge contract.

Q.135 - That's correct. So there is a charge in here for heavy fuel oil Coleson Cove of 165,000,000, and another charge for 15.9 million for the hedge loss?

MS. MACFARLANE: What is in here by combining the two numbers is the fixed contract price we have in place, and again when they are putting those hedged prices in place we do not take a price view. We use a mechanistic approach because we do not know whether the markets will go up or down. What we are looking for is certainty, some level of predictability that allows us in advance to understand what DISCO's fuel prices are going to be and build that into our revenue requirement.

Q.136 - So what would happen to that 165,000,000 if there were no hedges in place?

MS. MACFARLANE: The 165,000,000 if there were no hedges in place, it's merely a forecast, and as the year went on prices could increase or decrease, and the number would be from a spot perspective -- the fuel cost could be higher or lower.

Q.137 - But as I understand it GENCO has -- sorry -- GENCO gives DISCO a fixed price, so if you had no hedges in place then the ups or downs, whatever they are, would be at GENCO's plus or minus?

MS. MACFARLANE: That's right. The risk management program that NB Power has applies to all of our companies. From the GENCO perspective they have a fixed commitment that on October 1st, when the vesting price is set, they give to DISCO. That gives them an exposure. They would immediately have to go out and hedge that exposure and they would then pass that price on to DISCO.

And we could certainly do it that way. The reason we don't do it that way, why DISCO asks GENCO to average into a price, is because there may well be anomalies in the market on the day that the vesting price is fixed. There may be a hurricane in the Gulf, there may be an outbreak of war in the Middle East. There may be something that disrupts the market so that you put all your eggs, all your bets, on a price on one day.

And DISCO is not prepared to take that risk, so it asks GENCO to average into a price which tends to mitigate those market anomalies.

Q.138 - But explain to me then when this was run that price was set 18 months before, how do you know all those things aren't taking place 18 months ago and today it's a bad price?

MS. MACFARLANE: You are taking an average. So on a day in one of the 12 months that are hedged, or one of the -- this is 12 months worth but 18 months in advance -- every month there is a risk that there could be some anomaly in the market. But overall from an averaging perspective you are far less likely to see that anomaly on a monthly basis than you are if you were just to pick one day in the year.

Q.139 - So you say the PROMOD is prepared by GENCO. Is GENCO also responsible for doing the hedging?

MS. MACFARLANE: The hedging program is managed through quite a rigorous governance process. The policy is set by the audit committee. There is a senior governance committee that manages the overall implementation. And then there is an operating committee.

And at both the senior committee and the operating committee there is representation for both GENCO and DISCO and decisions are made by the committee. The execution on foreign exchange issues is managed through my department.

The execution on the fuel price hedges is managed by GENCO. But again the decision to execute is made by the committee.

Q.140 - But because your policy is to always be out 18 months, there is no decision to make, is there?

MS. MACFARLANE: The decision is around the forecasted quantities to hitch. So it requires an analysis of what is happening with the load, what is happening with other opportunities in the market, if there are purchases that are available, outage schedule changes, et cetera.

So there is a rigorous review undertaken of what the exposure is. And then the decision stops. Because our policy says if there is an exposure we hitch. There is no price view taken. If there is an exposure we hitch.

Q.141 - So another thing you say is you had your 100 percent of the in-province use?

MS. MACFARLANE: That is correct. From a practical point of view, our hedging policy as set by the Audit Committee dictates that we must cover exposures between 80 and 100 percent. Through the year because there can be so many changes coming out that far in things like load, in things like outage schedule, et cetera, as we are moving forward through the year we tend to fix our hedges at 80 percent of the forecast. When the vesting price is set though we true that up to 100 percent.

Q.142 - So after the vesting price is set at 100 percent of the in-province needs, what happens if there is a warm winter and you have too much hedged? Who gets that profit, gain or loss?

MS. MACFARLANE: I believe that is -- there is an IR that asks that question. And each month, as we look out over the 18-month period, we look at whether there are forecast changes, whether they are in the near term or in the long term.

And if in the near term, which is what would happen from a winter perspective, if we see in the near term winter that we are overhedged, then we put sell positions on. And the gain or loss rests with GENCO.

If the warmer winter prediction is out into the period beyond the vesting price, what the vesting price covers, or if there is any other sort of load change out there, then that gets built into the next year's vesting price.

Q.143 - But anything that goes to GENCO doesn't flow back to the consumers in DISCO then?

MS. MACFARLANE: That is correct. Gains or losses don't. And I might mention that -- again I mentioned yesterday that the whole design of the PPAs was to emulate, particularly from a customer point of view, practices that were in place on pricing prior to restructuring.

Prior to restructuring, when we set our rates, we did a load forecast that included weather. We used average weather, as you know. We would have predicted our fuel price needs, fuel supply needs. That would have been built into the rates. And if we had a warmer weather, that would have fallen to the DISCO shareholder. It would not have gone to the consumer.

Similarly if we had a particularly cold winter, and as our weather -- as the weather gets colder we are burning off Coleson, we are in fact out of the market and it is much more expensive.

If we have a colder than normal weather, that would have fallen to DISCO's shareholder, not to the customer, because prices are set in advance. So it is no different now. It falls to the shareholder, the gain or the loss.

Q.144 - Okay. Now I would like to go to A-28.

MS. MACFARLANE: And what section within A-28?

Q.145 - Appendix 1.

MS. MACFARLANE: Yes, I have it.

Q.146 - Okay. Up at the top it says "Appendix 1E" on the first page?

MS. MACFARLANE: That is correct.

Q.147 - And go to section 2, down near the bottom of the page --

MS. MACFARLANE: Yes.

Q.148 - -- "Natural Gas Hedging"?

MS. MACFARLANE: Yes.

Q.149 - It says this is the natural gas hedging position as of February the 8th 2006. I believe there is a typo where it says "million btu's". It should be "thousands of million btu's."

Can you confirm that?

MS. MACFARLANE: Subject to check I will agree with you.

Q.150 - Okay. Thank you. So if I understand this right, it says at that point in time the amount hedged for this test year was 1,240,000 million btu's?

MS. MACFARLANE: I'm sorry. Could you repeat the question?

Q.151 - At that time, that point in time, February 8th 2006, for this test year, the amount hedged was 1,240,000 million btu's?

MS. MACFARLANE: Yes.

Q.152 - And when it says $8.70 on two columns over --

MS. MACFARLANE: That is correct.

Q.153 - -- is that what your -- like your expected plan was for that year at that point in time?

MS. MACFARLANE: That is correct.

Q.154 - Okay. And then the next column it was hedged at $9.75 for that volume?

MS. MACFARLANE: That is correct.

Q.155 - And would that have been in U.S. dollars or Canadian dollars?

MS. MACFARLANE: I believe these are in U.S. dollars.

Q.156 - So if I understand this correctly, at that point in time you had expected -- or DISCO or GENCO, whoever it is, expected to lose $1.05. That is the difference in 8.70 and 9.75?

MS. MACFARLANE: Well, if I cold just clarify, the budget/plan 2006 --

Q.157 - Yes.

MS. MACFARLANE: -- would have been for the period '06, '07.

And that would have been prepared -- I'm sorry. Okay. It would have been for the period '06/'07 beginning April 1st 2006. And that plan would have been prepared in the fall of 2005.

So the $8.70 would have been a forward rate that we would have built into our budget for the second year of the plan at that time. Between the time that we developed the plan in the fall of 2005 and we actually were in a position of buying forward hedge contracts, obviously the market had moved.

So that would be suggesting that what was in our long-term plan, that forwards at that point were not reflective of market changes that happened after the fact, and were in fact in place when we put the hedge contract on.

Q.158 - Okay. But at that point in time you had kind of predicted $1.05 loss on 1,240,000 was your expectation going forward?

MS. MACFARLANE: More accurately what we would have predicted was that our cost going forward would be $9.75 not $8.70.

Q.159 - But at some point, as I go further through here, that line becomes the '07 budget, as I work through these pages with you.

So if I multiply that out at the moment, so on

February 8th 2006 you had a $1.3 million loss was your expectation at that time for the year -- for the test year?

MS. MACFARLANE: Again these are forecasts. Because this is in our plan. But I wanted to come back to your point that at some point that becomes our budget. I'm just drawing your attention as an example to page 15.

Because by the time we get to the Board report for page 15 we have moved into a new plan. We have moved from plan '06 which would be for the three years beginning April 1st '06, into plan '07 which would be for the three years beginning April '07.

Q.160 - Yes. Okay.

MS. MACFARLANE: And you see on the '07/'08 line on page 1, our budget rate which would have been a forward at that time was $8.70. By the time we, a year later, update our plan, the number for '07/'08 was up to $10.84.

The forward prices, which is what we build into our plan, and then offset it by our expected settlements to come to the contract price was $10.84 by that time.

Q.161 - Okay. So if you bear with me.

MS. MACFARLANE: Yes.

Q.162 - I'm kind of slow at this. But I have to understand what I'm doing. If at that time you are kind of forecasting a loss, if I go to page 7, now we have moved from February the 8th until April the 13th, 2006.

And now you have hedged a little bit more because it is three months further on. So now you have hedged 1,833,000 million btu's?

MS. MACFARLANE: That is correct.

Q.163 - Again the thousands is missing up above. Now the difference is a little less because you have hedge some more at a lower number?

MS. MACFARLANE: That is correct.

Q.164 - So now the 91 -- the difference between 8.70 and 9.61 is now 91 cents which is still around a million 7'?

MS. MACFARLANE: Okay.

Q.165 - If I go to page 10, now we are up to July the 14th, three months later. Again in section 2. Now the thousand million btu's is in place.

You still have that $8.70 predicted. But now you have gone out and hedged 6.2 million million btu's?

MS. MACFARLANE: Correct.

Q.166 - So you have hedge a lot of your test year natural gas at this point. But now you have gone and hedge at $11.73 for your weighted average hedge rate?

MS. MACFARLANE: Which is where the market would have been at that time. The reason for the increase, Mr. Wolfe, in the two different amounts hedged, which would be our exposure, is that as we move out in time and get into the winter months, we now have exposures on the Bayside contract. Remember that the Grandview contract runs all year long. But the Bayside contract is just for the winter months. So we have now moved into a period for '07/'08 where we are picking up those exposures to the Bayside contract. And 11.53 would have been the forward grade available on the market at that time.

Q.167 - I guess I have to ask the question then is why wouldn't your hedging policy allow you to hedge more earlier on, when you know that it is going to be cheaper, rather than waiting until you get to a point where you are in $12 gas?

MS. MACFARLANE: Well, that is exactly the point, isn't it? We don't know if it is going to be cheaper or more expensive.

I believe that point is made very well in the hedging report that we have from Risk Advisory which reviewed our policy and said that those utilities that do take a price view, it is great when the price view is correct, it is bad when the price view is wrong.

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And you have already pointed out that on our -- on some of our other situations, prices -- the $11.53, it had come from a low of $9. It went up to $11. It has since come back off again. And no one, including the market experts, are able to predict what is going to happen. If they did the market prices would reflect those predictions.

So we do not take a price view because we do not have expertise in that field. And I would contest that even the people setting the prices in the market do not have the certainty that allows them to be right.

Q.168 - The one thing I do know is that natural gas has never hit $12 U.S. for a year.

MS. MACFARLANE: I heard a former CEO of NB Power, who you would know well, Stewart McPherson eight years ago say that he had never seen heavy fuel oil hit $15 in a year. At the time it had gone from 11 down to 8. And I remember him saying that. And we don't know, do we, what is going to happen in the markets. Which is why hedging policies typically do not take a price view.

Q.169 - I would disagree, that a hedging policy should have some kind of thinking in it to it as to what price you are hedging it at the time?

MS. MACFARLANE: Best practice in the utility industry would suggest that the experts who are able to take a price view are either working in the markets setting those prices or they are very, very rich. Best practice utility hedging programs do not take a price view.

And frankly, in many jurisdictions where management has taken a price view and been wrong, the amount has been disallowed by the regulator. That is why we are very cautious to take a mechanistic approach and to recognize we do not control the commodity markets. And we average prices to try and overcome anomalies that happen from time to time.

Q.170 - So if I can do the same as I was doing on the other pages with the forecast then, now this is forecast at $2.83 discrepancy or loss?

MS. MACFARLANE: That is correct.

Q.171 - And if I multiply that out by the volume, now I'm up to 17.6 million all of a sudden?

MS. MACFARLANE: Subject to check I will take your word for it.

Q.172 - If I can go to page 12 then, now this page on section 2 is as of October 11th 2006. And if I'm correct, the PROMOD run was September 26th 2006, like 10 days before that.

At this point in time you have hedged all of your gas for the test year?

MS. MACFARLANE: That is correct.

Q.173 - You have still kept the $8.70?

MS. MACFARLANE: We did not keep $8.70. That was the amount that was reflected in our budget of the previous year. It would have been reflective of year 2 of the plan and would have been set based on forward sometime in 2005.

Q.174 - So again if I take the difference between 8.70 and 12.25, I'm up to $3.55 now?

MS. MACFARLANE: Well, that is what the math says. But it is not a real number, Mr. Wolfe.

Q.175 - Well --

MS. MACFARLANE: It is only the difference between the forecast built into a long-term plan at a point in time that was based on a forward rate in the market and an actual contract. What counts is what is the actual contract price.

Q.176 - Okay. But if I multiply that out I come out to $39.4 million?

MS. MACFARLANE: Which would be indicative of how the markets have moved between the time that an estimate was taken in 2005 and the contract was actually put in place based on a commodity market that is set by world forces.

Q.177 - And yet in your PROMOD run of just 10 days before this date, it is in there 25.9. So why would this sheet be different than what is in the PROMOD sheet? Obviously you have changed something.

MS. MACFARLANE: In running the PROMOD run for the vesting price, what we do is we take the forward price at the time. That is the way the model works. You take the forward price at the time. And then you estimate what you believe the settlement price is going to be, the difference between that forward price at the time and the contract price for the hedge.

And that represents the 25,000,000. That is a completely different calculation than what you are seeing here, which is the contract price. That would be the same, the average contract price.

But the comparison you are using is to something that was built into a budget in 2005. What is in the PROMOD run is a calculation that brings the forward price at the time the PROMOD run is done up to the contract price. That is all that gain or loss says is just adjust the forward price to what we have in place as a fixed contract price.

Q.178 - Again on this page it shows the average hedge rate for all the hedge -- all the gas, which is 100 percent of your volume for the test year at 12.25?

MS. MACFARLANE: Yes.

Q.179 - And again I say -- I went back and tried to find any year that got even close to that. And I couldn't do it.

MS. MACFARLANE: And against counsel's wishes I'm sure, could I take an undertaking to provide that for you? Because I know the math works.*

Q.180 - That would be fine.

MS. MACFARLANE: I just can't do it here. Thank you.

Q.181 - Can we go to page 15 then?

MS. MACFARLANE: Yes.

Q.182 - Now this page shows the budget rate for '07 for the test year as I understand it, 10.84?

MS. MACFARLANE: That is correct.

Q.183 - Again it is a hedge rate of 12.25. So now if I take that, that difference is $1.41.

Now this is as of January 17th 2007. So it is after the budget is set but before the year starts, correct?

MS. MACFARLANE: That is correct.

Q.184 - If I take that $1.41 and multiply it under volume, now I'm down to $15.7 million.

So if the true budget hedge was 15.7, why is the PROMOD in at 28.8 or --

MS. MACFARLANE: Again we are comparing apples and oranges. I don't have the actual plan '07 here with me. But I believe that what would be on the assumption page for plan '07 would be reflective of --

Q.185 - Be careful of your plan. Because I believe that is something I wasn't supposed to see, the number.

MS. MACFARLANE: That is okay. The $10.84 I believe, and it is subject to check, I believe that that is a number that is predictive. I think it is a number based on forwards. But it is set as we move through the fall. And it is an average as well. And from that perspective it is not I don't believe the same number as was in PROMOD. But again that is subject to check. What is in PROMOD is net effect $12.25 on average.

Q.186 - I understand that. But still this says that the hedge loss is going to be much less than what is in the PROMOD. And if DISCO is going to pay it then obviously if there is that profit, then GENCO gets that back?

MS. MACFARLANE: And I can understand why you would see that. What I can't tell you at this moment is where the $10.84 comes from. As I undertook earlier, I will make sure that I do the reconciliation for you.

But the number that is relevant is the $12.25. Because that $10.84 is simply a forward price. There would be a different forward price on the date that the vesting price is done. This is as of January 17th 2007.

And it is built -- that is the effective forward rate.
The amount in the budget would have been -- the $10.84 would not necessarily be the number that is in PROMOD. And therefore the calculation you are doing would not be the one that is in PROMOD. I will get those numbers for you so that it becomes clear. What you are looking at is a position report to our board.

Q.187 - So there is no chance that anything, after PROMOD sets their changes, anything that comes in after that with respect to future pricing then?

MS. MACFARLANE: The price is set on October 1st.

Q.188 - It doesn't seem quite correct when it says here this is the plan number, 10.84. And yet you are saying that PROMOD runs a different number?

MS. MACFARLANE: And I'm sorry that I can't explain that here. I don't have the plan with me. But it will be very clear when I look in the plan. And we will provide you with that reconciliation. The critical point is that what is built into the vesting price and what is built into rates is the fixed price that we obtain through the forward markets, the $12.25.

Q.189 - And I would like to do the same thing with heavy fuel. But I won't go back -- if I could go to page 13. And that is as of October 11th.

At that time your 2007, 2008 is showing a $8.74 loss between your average rate plan, as you call it, and your hedge rate, the 43.99 to 52.73?

MS. MACFARLANE: That is correct.

Q.190 - So if I multiply that, that is $27.2 million versus the PROMOD run which was again 10 days before this at 14.3, again a big difference?

MS. MACFARLANE: But sir, the average rate plan '06, which is the $43.99 -- remember this is a report to our board to let them know what our positions are. That rate 43.99 was the budget rate for '06/'07 which was set in the fall of 2005.

Q.191 - So what we are missing here is the page that resets the budget rate for '07/'08 then?

If I can go to page 16, now you are showing the budget rate for '07 at 52.76?

MS. MACFARLANE: That is right.

Q.192 - Now all of a sudden now there is a gain over your hedge?

MS. MACFARLANE: We would have -- between those two periods we would have updated and finalized the budget. And the 52.76 would have been a blended rate built into the budget.

When I say blended, I mean it is a combination of the hedge positions and the unhedged positions.

Q.193 - So please help me. This one shows a gain on the hedge, not a loss but a gain. And your PROMOD shows a cost of $14.3 million U.S.

MS. MACFARLANE: Yes. And it is because the rates are set in this report at different dates than what is in PROMOD. And I will provide that information for you. I'm sorry that I can't be more helpful on the stand. I just don't have those budget plans with me or the dates that those descriptors represented.

But what this is indicative of is that those prices move every day. And it doesn't matter what the price is from an estimate point of view. What matters is the contract that we put in place to fix the price. And that is exactly why we fix it, because those markets are still volatile, that you cannot accurately forecast.

So we cannot accurately ensure, without hedging, that DISCO is getting an appropriate price and that in fact what GENCO is actually paying for fuel is the best estimate of what is built into the vesting price for DISCO and its customers.

Q.194 - It just doesn't seem fair to the consumers of DISCO that there is a different number in January than there is back at the time you do your PROMOD, which is more favorable for GENCO, it would appear?

MS. MACFARLANE: Well, the customer gets the price that is in the revenue requirement. And that is based on a contract that is put in place in the market through a mechanistic program 18 months in advance.

And that -- we believe that is the fairest approach for customers. It doesn't have any market view to it. It does take market anomalies out. It provides predictability. And it reduces volatility. That is what is in the PROMOD run and the revenue requirement.

These other numbers, i.e. what is on an indicative page in the budget, I will pull those out and determine what is the basis behind those and provide it to you. Because I can understand why there would be confusion here.

MR. WOLFE: Okay. Thank you. That is all, Mr. Chairman.

CHAIRMAN: Thank you, Mr. Wolfe. Then we will recess for lunch. When we come back, Dr. Sollows, I think you would be up next.

So I have about 20 after 12:00. So we will commence at 20 after 1:00.

(Recess - 12:20 p.m. - 1:20 p.m.)

CHAIRMAN: Dr. Sollows, are you ready to proceed?

DR. SOLLOWS: Yes, I am, Mr. Chairman, but I think Mr.

Morrison has a preliminary matter.

MR. MORRISON: Just a minor thing. Before we broke for lunch Ms. MacFarlane had undertaken to do some calculations for Mr. Wolfe. They are going to take a little bit of time but we should have them ready for Thursday. We would have no problem after Mr. Wolfe has a look at them if he wants to come back to ask some questions on it.

CHAIRMAN: Thank you.

CROSS EXAMINATION BY DR. SOLLOWS:

Q.195 - Thank you, Mr. Chairman. Good afternoon, panel. What I want to do this afternoon is go over some of the provisions of the PPAs, the power purchase agreements, that were discussed and examined in the last hearing, just to sort of summarize things for this panel so that we have a chance to bring everyone up to speed.

And so I am going to take as my reference the Board decision. I'm starting on page 77. Now I didn't make copies of it. I assumed that we could just -- I will sort of paraphrase or quote and I will ask them to explain where they are, if that's okay with you.

I'm not asking you to -- I just really want to know as we go through this what work has been done related to these various issues that arose in that report. Okay.

MS. MACFARLANE: Dr. Sollows, is this the June 19th 2006, decision?

Q.196 - Yes. And I'm starting on page 77 of that decision.

MS. MACFARLANE: Thank you.

Q.197 - And that is the first topic and it will be very brief, I think, is the issue of the non-utility generator contracts. I know we have been around this once or twice before and I just want to clarify a few points.

Certainly the discussion here clearly indicates that there was an anomaly perhaps, or a change of heart between the policy White Paper and the decision in determining who those contracts would be assigned to. The White Paper indicated they should be assigned to DISCO but they ended up being assigned to GENCO. The -- that sort of flows through to all of the issues of confidentiality and the ability to produce that data.

But I'm going to jump ahead to page 79 of the report and I will just read this last two sentences of that section.

DISCO filed confidential evidence indicating that fuel costs would be substantially lower if the natural gas units were dispatched in economic merit order. The net benefit to DISCO in this circumstance would be savings of a substantial sum of money.

Now what I would like you to do, if you don't mind, could you comment on if that circumstance remains so with the current relative prices of natural gas and residual fuel oil, or has it changed?

MR. KENNEDY: With respect to the test year?

Q.198 - Yes. With respect to this test year. This of course dealt with the prior year.

MR. KENNEDY: Indications are that for the test year that on a first look it appears that the natural gas is cheaper, but it would be subject to check.

Q.199 - Okay. That's fine. These are things -- the point I guess I want made is that these are things that will change from year to year depending on market prices, is that fair?

MR. KENNEDY: Yes.

Q.200 - Thank you.

MS. MACFARLANE: And I just want to clarify for everyone -- and thank you for taking us through this -- that of the two NUGS that use natural gas, as we indicated last year they are both under contract, but only one is physically dispatchable.

Q.201 - Right.

MS. MACFARLANE: The Grandview contract is not dispatchable because it is a must run unit based on their operations, but Bayside, although the contract doesn't stipulate it, physically it is dispatchable.

Q.202 - Thank you. The decision then dealt with the provisions in the PPAs relating to export sales. I'm wondering if you could just outline those provisions for the Board here, how they work relating to export sales. And I'm focusing on the portion of the report that starts on page 79 and ends on page 80, just for their benefit, how the export sales work?

MR. KENNEDY: Yes. In the power purchase agreement there is a prescribed amount identified in the power purchase agreement GENCO PPA that sets the export benefit for the test year '07/'08. And within the year there are adjustments to it if export benefits fall outside of a 20 percent band, plus or minus 20 percent band. And those are referred to in the contract as export benefit adjustments.

Q.203 - If I'm clear on that, if export revenues are more than 20 percent below the value DISCO's share of the, for lack of a better term, profit from the sales is reduced, and if they exceed expectation DISCO receives half of the amount of the amount in excess of 120 percent, is that right?

MR. KENNEDY: That is correct.

Q.204 - Thank you.

MS. MACFARLANE: I might just add, Dr. Sollows, that also happens at the time of setting the budget and the vesting price. As an example you would have seen in the GENCO evidence the six years' exports based on PROMOD's best estimate are 63,000,000. The vesting contract though had the benefit set for a five year period, and this year the benefit in the contract is 69,000,000.

Well the difference -- the fact that GENCO was only going to earn 63 but we will have to pass on to DISCO 69, results because the 63 is within that plus or minus 20 percent band.

Q.205 - Right. Okay. Had it been the other way around, within the 20 percent band, GENCO would have kept it --

MS. MACFARLANE: That's right.

Q.206 - -- and only above above that was --

MS. MACFARLANE: Yes. That happens both at the time of setting the budget and through the year there are adjustments.

Q.207 - Okay. So are these adjustments done on a monthly or a quarterly basis or --

MR. KENNEDY: Monthly.

Q.208 - Monthly. Okay. Thank you.

MR. KENNEDY: With a true up at the year end.

Q.209 - Right. Fair enough. The decision concluded though that since -- that the provisions relating -- or the PPAs relating to the sharing of benefits between DISCO and GENCO seem tilted in the favour of GENCO in the sense that the clear intention of the White Paper was to leave generation risks with generators and a lot of the -- it didn't appear that -- I guess just taking it on its face -- the decision reads that the -- there was seen to be a tilt towards GENCO and away from DISCO in the provisions. Now I guess my question would be to DISCO, what actions were taken in relation to that finding?

MR. KENNEDY: Well the structure of the PPA with respect to the plus and minus 20 percent it's our understanding was in there to provide an incentive to GENCO to do their best with respect to obtaining export sales, and that was the structure that was put in place. To date there has been no change to that.

Q.210 - But these are things that could be changed if you received advice of a regulator that they should be investigated, you would investigate them and see if they could be changed?

MR. KENNEDY: I would assume that it would be brought before the regulator for a complete review before, you know, the changes were made in front of the --

Q.211 - Right. But as a consequence of this review no action was taken?

MR. KENNEDY: Not with respect to the test year '07/'08.

Q.212 - Thank you very much. I would like to jump ahead now to page 81 and it's with respect to the Coleson Cove Corporation tolling agreement. And again the item that was dealt with in the previous decision was with respect to the heat rate adjustment.

Can you explain to the panel what the heat rate adjustment does before we deal with the issues that are raised here?

MR. KENNEDY: In the Coleson Cove tolling agreement there was a clause in there that provided for a heat rate test after the completion of the refurbishment and the conversion to Orimulsion fuel. The contract provided that there would be a heat test run on the units at Coleson Cove.

Q.213 - And in terms of the actual adjustments, it provides for a monthly adjustment based on the heat rate, the target fuel use and the actual use, and the heavy fuel oil cost, is that right?

MR. KENNEDY: Oh yes. I would like to clarify a point here. That heat rate adjustment is -- would really kick into play if there was a third party with respect to ownership of the Coleson Cove station. It's an incentive built in there.

But basically the heat rate is fixed and that unit's capacity and energy is turned over to GENCO in an off take agreement of the vesting contract to dispatch it in accordance with the normal dispatch order that would be in place. So that -- it's rather immaterial because basically we for all intents and purposes just pass those costs on to GENCO.

Q.214 - So you are saying that that this price adjustment mechanism isn't actually used, in fact?

MR. KENNEDY: No. What I was trying to indicate to the Board earlier was that there was an actual heat rate test done on the unit.

Q.215 - Yes.

MR. KENNEDY: I misinterpret --

Q.216 - That's one of the points that was raised here, but I'm sort of -- that's up at line 1 in terms of -- if this is a term or a condition of the PPA that is -- no longer has any force and effect, then that's fine. But one of the issues that was raised was that the price adjustment mechanism doesn't -- didn't appear to reflect DISCO's actual costs for residual fuel oil, and I guess that's where -- if this mechanism isn't used then it's not relevant.

But if this does have force and effect then I want to see where we stand with respect to I guess it's item 1 on page 82.

MR. KENNEDY: With respect to this heat rate adjustment is that with the off take portion of the -- it's in the vesting contract or the GENCO PPA -- all of the GENCO units have a prescribed heat rate that is fixed, and any risks that go with plus or minus off the prescribed heat rate is to GENCO's risk or benefit. So with the off take in a way this negates this adjustment.

Q.217 - So just so that we are absolutely clear then this is a provision of the PPA that does not have any force and effect?

MR. KENNEDY: It would have force and effect if there was another party, since there wasn't an off take arrangement, if the station was sold to a third party or another entity.

Q.218 - And the PPA language supports that selective interpretation that it only has effect in that case?

MR. KENNEDY: Yes.

Q.219 - Okay. Thank you. Now to get to the point that I think you were making earlier on about the actual heat rate tests, the item 5 in this list of concerns that DISCO had the right to require, observe and obtain the results of heat rate tests of the generation units but had not done so since the refurbishment. Now that was based on testimony the better part of two years old now. So has that changed?

MR. KENNEDY: There has been a heat test -- heat rate test done on one of the units and it's identified in the evidence here, and that one unit and all of the common station service and the ancillary service requirements with respect to auxiliary steam, there was a test done and witnessed by DISCO and the information is available, and that is that change -- slight change in the heat rate with respect to the one unit at Coleson Cove that was tested. And basically for the setting of the '07/'08 budget year requirement, the heat rate that is common to one unit has been used for all three units.

Q.220 - Okay. And presumably subsequently there will be heat rate tests done on the other units to determine --

MR. KENNEDY: That is correct.

Q.221 - Thank you. Now the third item that I have highlighted appears on page 83 and it relates to the unit performance provisions and relate to capacity payments where there is an availability impairment. Could you outline the provisions of those -- that clause for the Board?

MR. KENNEDY: Those clauses basically stipulate that the performance in certain months shall be above 95 percent availability, and particularly the winter month period and the summer months when there is the export sales. And that's in the contract.

Q.222 - And the Board in this decision was concerned that the compensation to DISCO for an availability shortfall during the peak winter months was -- it's compensation being just a reduction in the capacity payment -- could be reduced or eliminated by excess capacity being available during non-peak months. Is that still -- is that still the way the provision works or is that wrong?

MR. KENNEDY: If I may, what happens with the out take agreement the Coleson Cove units are dispatched as if they were all of GENCO's fleet, and the dispatch and the costs -- associated costs for them are prescribed in this PROMOD run, and determines the actual total fuel costs which is used in setting the fuel component or vesting energy charge for the year. And once that charge is determined, it is fixed. So the performance of -- the reality of the performance of these units where they are up or down is to the risk of GENCO.

Q.223 - And so there has been no -- there have been no material changes in cash flows between GENCO and DISCO in relation to these unit performance clauses. Okay. That being the case then it's a non-issue at least for this year.

The next item I have relates -- we are into the GENCO vesting agreement, it starts on page 84, and the first issue that was dealt with was the energy entitlement and the excess entitlement provisions.

Again for the Board could you outline the provisions of the PPAs with respect to DISCO's entitlement to energy an power under the PPAs?

MR. KENNEDY: Yes. Basically by calling for a nominated capacity -- with respect to the GENCO heritage assets we pay a nominated capacity payment of 24, 25 megawatts, and the prescribed payment is in the contract. It's a fixed payment.

And basically what that does, that payment entitles us to the 24, 25 base load capacity assets that exist prior to October 1st 2004, whether you call it re-regulation, de-regulation.

And as a result of that payment we also so to speak get thrown in -- it says here 1,250 megawatts of peaking capacity. But in reality we can't claim 200 of that until the units -- two of the units at Millbank become basically available, because they are to be used by Hydro Quebec.

So that payment entitles us to all GENCO's assets, base load as well as hydro assets, to basically serve our loads to meet the in-province load and provide for necessary ancillary services that are required with respect to unit contingency, spinning reserve and all those things that are required.

And so this provides us opportunity. At the same time with this nominating capacity we are entitled to 12.0 terawatt hours of energy from these assets based on the -- that includes enough energy to serve in-province firm load as well as interruptible load. And those -- anything above that would require that GENCO would supply it at market rates or whatever the prevailing rate was.

So that we basically get this sufficient energy capacity to meet all of our in-province load requirements and provide for the necessary ancillary services, because as a standard service supplier we have to go into the market and basically bid our load each day, we serve our load basically in accordance with the market rules.

I guess that's in essence what it is. That capacity basically gives us enough resources to serve the in-province load as a standard service supplier.

Q.224 - Okay. So if I have it right here, the -- DISCO has paid for all of the capacity that GENCO has under the vesting agreement but is only entitled to a portion of the energy that that capacity could produce.

MR. KENNEDY: That's correct. If there is any surplus energy of course it goes to the export market to make a benefit and returned to DISCO, which in turn is passed on to the ratepayers.

Q.225 - But in the normal course of events, wouldn't we expect if I have paid the costs of -- if I am covering all of the capital costs of some plant, shouldn't I get all of the output of the plant?

MR. KENNEDY: To our account we have access to all of the plants. All of the plants we have the full output. Sometimes in the winter time we will need 3,000 megawatts. We have access to that capacity and energy.

Q.226 - But above 12 terawatt hours you have to pay market price -- in essence you have to pay double pay for the capacity you have already paid for, is that not right?

MR. KENNEDY: No, that's not right.

Q.227 - Okay. Explain how it's wrong.

MR. KENNEDY: Okay. Basically the load in-province -- it basically follows the shape of the in-province load and the requirements on a month by month basis to meet the in-province load, and serve firm load as well as serve interruptible load. And any generation excess in those periods of time is used, basically it's stipulated that that energy, if it can find its way into the export market to come back through the export benefits.

Q.228 - Okay. So if DISCO undertook what many distribution utilities will do, load factor improvements, how would an improvement in DISCO's load factor flow through the PPAs? What would be the net impact on DISCO?

MR. KENNEDY: The impact from a better load factor than the --

Q.229 - Yes. Instead of -- I think this is based on 56-and-a-half percent. If say you were to improve your load factor to 65 percent, what position would you be in?

MR. KENNEDY: It would depend on what the energy was being purchased at, if it does indeed go above the 12 terawatt hours to supply in-province load.

Q.230 - Right. So in the case that you conducted a load factor improvement program, you know, as part of what has been called demand side management, and you -- I mean generally as a distribution utility you would like to do that because it improves the utilization of your distribution assets. Have I got it wrong? It seems to me that you could well be put in the position of having to pay market price for energy from a plant that you have already paid the full capital costs on through the vesting agreement?

MR. KENNEDY: That may well be the case because these vesting contracts were set up to facilitate a market, and as we move forward -- we have basically seen no sign of that, but as we move forward it could be in that situation where we move towards market.

Q.231 - Okay. Thank you. When the previous Board reviewed this, they concluded that under the existing arrangement DISCO was required to sell capacity to GENCO at a price lower than GENCO charges DISCO for the same capacity. And the Board -- it goes on to say the Board would normally expect that such transactions would be effected at the same price. Because they are not, DISCO's customers appear to subsidize GENCO by 6.5 million for the test year.

I guess my question is what actions have been taken as a result of this observation by the previous Board? And in this current test year has that subsidy been eliminated? And if not, what is the magnitude of the subsidy?

MR. KENNEDY: Could you please point me in the location?

Q.232 - We started on page 84. And basically there are four paragraphs that run into page 85. And that last quote is from the last -- two or three sentences of the last paragraph at the top of the page, on page 85, the first paragraph on the top of page 85.

It appears that you had, as Ms. MacFarlane noted, there was scheduled to be 69.4 million third party gross margin credit to DISCO, which was equivalent to 8,377 per megawatt month, dollars per megawatt month. And the vesting agreement indicated that DISCO was paying GENCO 9,166.67 per megawatt month.

And so there seemed to be a discrepancy in the amount of money being transacted between the two companies. When DISCO buys from GENCO, they pay more than when GENCO buys from DISCO.

So I'm wondering what work has been done to eliminate that inconsistency in the PPAs?

MR. KENNEDY: This, on page 84 --

Q.233 - Yes, starting on page 84 through to 85.

MR. KENNEDY: -- it states here the variable cost to GENCO for the extra energy is simply the marginal cost of fuel and maintenance. The fixed cost to GENCO for this energy is the third party gross margin it pays to DISCO.

Basically I think that is kind of a misconception.

Because the 69.4 is based on -- it is a prescribed amount and was set prior to October the 1st 2004. It was an estimate of what energy would be available and what the forward prices would be in the surrounding export markets and net of any transmission charges or any fees to go into the market. So it is basically a cost of fuel or the last generating unit to provide the sale into the export market.

So basically it doesn't have a fixed cost component to it. It is surplus energy that is either -- it is priced at the margin, and based on the fact that, net of any export tariff, it provided -- it is anticipated that it would provide this return of $69.4 million. So that is prescribed in the PPA.

Q.234 - So the 69.4 though being prescribed in the PPA is essentially a fixed payment irrespective of energy?

MR. KENNEDY: It is a payment, yes.

Q.235 - Okay. So in the circumstance that DISCO and GENCO find themselves, where DISCO has through the payments under the vesting agreements for the nominated capacity, is paying all of GENCO's capital costs, and then GENCO is paying back 69.4 million during the test year, really the net effect would seem to be that GENCO is buying back for 69.4 million the right to use that capacity for export purposes, and is in net effect paying a lower price than DISCO paid GENCO for the same capacity?

MR. KENNEDY: I don't look at it that way. Because the capacity thing is a nominated capacity payment. It provides a certain amount of cash to the generating company that is to recover its costs over a period of time.

And so the 24.25 is purely a number that is there to sure -- based on the capacity payment that is prescribed in the PPA, the GENCO PPA provides a revenue stream that provides GENCO's costs of amortization and plant over the time frame.

Q.236 - I guess it does come down to a matter of interpretation though, doesn't it?

MR. KENNEDY: You know, clearly that is our understanding of the intent of this nominated capacity, what it does and how it -- through the payment I believe in the test year is a certain amount, $120,000,000, 500' -- 120,000,000 to 500' per megawatt month -- per year, sorry. And that provides a capacity payment to the generation company.

Q.237 - So based on the interpretation that the previous Board made in this, what would be the impact on -- if they calculated 6.5 million for that test year, with the new prices in the PPA, what would be the impact on this test year if this Board decided that the better interpretation was in fact that they should expect the transactions to be effected at the same price?

What is the amount in this test year's budget that corresponds to the 6.5 million?

MR. KENNEDY: I do not know. I haven't done the calculation that corresponds to the 6.5 million on 85.

Q.238 - Okay. I will ask this question. I may anticipate that Mr. Morrison will object. But would you be able to provide that by way of an undertaking?

MS. MACFARLANE: Could I just perhaps comment again. This goes back to the structure of the PPAs. I had said before that the direction the government wanted to take, and then they provided it to their financial advisers, was to see that the way rates are developed and prices are set post the restructuring was the same as prerestructuring and that customers were not negatively affected.

I can see how you are taking an interpretation that by providing the export benefit through to DISCO, GENCO is in effect buying back the right to use capacity. But that is inconsistent with what went on before restructuring.

Before restructuring, the integrated utility made a decision that it was most economic to provide large generating units in-province and to get the low cost per unit in the high peaking winter months and to sell that access in the summer months, when that peak wasn't there, and take those export profits and contribute them back to the fixed costs of those units.

And in effect, from an accounting perspective, that is called a contribution margin. The profits aren't expected to cover those fixed costs because in-province customers are going to have to pay them regardless in order to get the advantage of those units being available. But it contributes to the fixed costs by providing a profit in summer months when they are otherwise unutilized.

Post restructuring it is the same thing. Generation is not buying the right to export. Generation has the responsibility to export and to provide those benefits back to DISCO and back to the customers.

So I can see where the previous Board or you would draw a conclusion that GENCO is buying a right. But it is not. And as I say, the situation post restructuring was to emulate the situation before restructuring.

GENCO is not buying the right to export. GENCO has a responsibility to export because it has in-province customers paying the entire cost of capacity for its fixed cost units. And it has a responsibility then to make the best use of those units and sell whenever it can into the export market and provide the benefit back to DISCO.

Now as Mr. Kennedy pointed out earlier, it is not a direct pass through of the export benefits. Because there is an incentive built in there. It is a prescribed amount that changes every year. And there is a formula around it.

But conceptually GENCO has the responsibility to in-province customers and to DISCO to export wherever it can. Because DISCO is paying the full capacity payment. And those benefits go back to the in-province customers.

Q.239 - Yes. Thank you. And that I think will be helpful. But I guess where I'm coming from here is it really is a decision for this Board whether that interpretation is correct or whether the interpretation that the previous Board took is correct or whether some other interpretation is correct in respect of the costs that are allocated to the test year.

And if this Board -- if for example the amount, instead of being 6.5 million was 8,000,000 or 10,000,000 and this Board decided that it was not to be allowed in the revenue requirement, they would be perfectly within their rights to eliminate it for the revenue requirement, would they not?

MR. MORRISON: I think I will get onto that, Mr. Chairman. Because then you get into a question of interpretation of the PPAs and the Board's jurisdiction to deal with costs that flow through the PPA's and so on, which I think will be probably a point of some legal argument somewhere along the course of this hearing.

So I don't know if this panel is equipped to answer it or indeed should they answer that question.

CHAIRMAN: Are you suggesting that the answer calls for a legal opinion and that they are not qualified to give it?

MR. MORRISON: That is essentially what I'm saying, Mr. Chairman.

DR. SOLLOWS: And that is fine. But if you go back to the original question I asked, it was simply whatever interpretation the Board might ultimately make, it would be useful for them to know what the amount is in this test year that is equivalent to the 6.5 million cited here on page 85 of the last decision.

Now I was looking for an undertaking for DISCO to provide that.

MR. MORRISON: Well, I will inquire to see how much work is involved in doing the calculation. But I can assure you that in providing the calculation, if we do give the undertaking, I'm sure it will be couched in language that says that we do not agree with the interpretation of the previous Board and Dr. Sollows has put to that clause.

So then it becomes a question of what does the Board do with the information.

CHAIRMAN: Well, you are certainly open to make any argument that you wish at the end of the day. I'm going to put to the panel how much work is involved.

Is that something you could calculate now? Could you give us a guesstimate at this point in time? Do you need a period of time to work it out?

MR. MORRISON: Can we take that under advisement.* I will let you know at the break, because I don't know how sophisticated the calculation is at this point, Mr. Chairman. And Ms. MacFarlane is looking at me as if to say I don't know so -\--

CHAIRMAN: Well, I guess that pre-supposes we are going to have a break.

MR. MORRISON: And I didn't mean to be presumptuous.

CHAIRMAN: All right. Dr. Sollows, how about if we defer that for now and before your cross examination is finished we will have a break and allow them to determine that issue.

DR. SOLLOWS: That's fine. Thank you.

Q.240 - Now as another related issue that appears at the top of page 86, again the previous Board noted that payments by DISCO to Genco were adjusted upwards annually to compensate for general inflation, but there was no such adjustment made to the payments from Genco to DISCO. And the previous Board took the view that such asymmetrical treatment was not appropriate.

Has DISCO taken any action with respect to that commentary?

MS. MACFARLANE: Again that is based on an interpretation that Genco is buying back capacity in order to sell it and that is not what Genco is doing. PROMOD, when the annual load forecast is done, PROMOD calculates what the supply required to -- what the supply costs required to supply that load are. If there is excess generation available, PROMOD determines what the export sales will be based on forward prices in the market and based on the cost of the generating unit. And that becomes what is the budgeted export benefit.

The amount that is passed onto DISCO is the amount in the prescribed PPA compared to that budgeted amount, plus or minus any adjustment that falls outside the 20 percent band. So to suggest that this is actually a price per megawatt hour for capacity is inappropriate. What it is is what opportunities exist in the market for Genco on DISCO's behalf take advantage of those otherwise idle assets in the low load periods and sell into markets, provide a contribution back against -- back to DISCO.

So a price per megawatt hour comparison makes -- does not make sense. And nor does it make sense in respect of how the two of them escalate. One is something -- a fixed cost that does escalate, because there is OM&A in it. The other is something that is based entirely on what are the market prices for energy versus what are the costs of fuel off of those units in the low peak periods -- low demand periods.

Q.241 - And that is interesting. And I think towards the end of your answer was really coming more to the point that I was at here.

The payments from DISCO to Genco are the nominated capacity payments and they have an inflation adjustment formula built into the PPA?

MS. MACFARLANE: Yes.

Q.242 - The payments from Genco to DISCO, could you just state what you said again as to how they come about?

MS. MACFARLANE: The payment from Genco to DISCO is for export benefits.

Q.243 - Right.

MS. MACFARLANE: The export benefits obviously depend upon what are the prices in the market and what are our incremental costs of generation. That's the benefit. That's the export margin credit.

Q.244 - Okay.

MS. MACFARLANE: That's calculated every year based on our forward market prices and our forward fuel prices. PROMOD calculates what that real benefit is. And you see in the Genco information this year, it's $63 million.

Q.245 - Right.

MS. MACFARLANE: That calculation was done at the time the PPAs were set in October 2004. It was done for a five-year period. And it was estimated then that for this year it would be 69 million. So 69 million is the amount by formula that goes through even though the actual export benefit is estimated to be only 63.

Q.246 - Right.

MS. MACFARLANE: Because the contract says it fits inside the band. But that is a number that is completely related to what is going on in the market. It has nothing to do with -- what's going on in the market with respect to export prices and fuel costs. The capacity payment is related to the generator's fixed costs, interest, amortization, OM&A.

Q.247 - Well within the 20 percent band, it's not related to what's going on in the market at all is it? It's related to what's written in the PPA as the benefit?

MS. MACFARLANE: The 20 percent band was as Mr. Kennedy pointed out. It was defined in there as an incentive for Genco to be aggressive to the extent they could in the export markets and maximize whatever they were able to achieve.

Q.248 - Understood. But I guess where I am getting confused is I certainly understood that the 69 million was fixed as far as DISCO is concerned. It didn't matter what was going on in the market, as long as it stayed within the 20 percent band?

MS. MACFARLANE: That's correct. As long as it stays within the 20 percent band. My only point is that that formulation is a completely different one than the make up of the capacity payment from DISCO to Genco, which is based on an estimate, a long-term estimate of the fixed cost for interest, amortization and OM&A. And the inflation component in it is related to the OM&A. So to suggest that there should be an inflation component on the export benefits, they don't move by inflation. They move by whatever you get in the market.

Q.249 - Fair enough. I understand where you are coming from. You are saying that these were specified out five years in advance. They are more or less fixed. And if there is any general price change that will be updated presumably when they are fixed again?

MS. MACFARLANE: That's correct.

Q.250 - Is that fair enough?

MS. MACFARLANE: Yes.

Q.251 - That's good. Okay. I think I already dealt with that one. Now some of the commentary really related more to policy matters, so I am skipping over, because really it's beyond DISCO, Genco, and beyond even the Policy Panel. And assuming that there will be some changes as we go forward.

But I want to go now to the issue surrounding the Point Lepreau PPA shortfall, the power purchase agreement for Point Lepreau. It has, if I am reading this correctly, it specifies that Point Lepreau will provide 4,240 gigawatt hours per year currently. And if the production falls short of the target, Genco has to pay the difference -- has to make up the difference between the target and the actual production, is that right?

MS. MACFARLANE: That's correct. Could you tell us where in the --

Q.252 - Page 87, I a sorry. And in exchange, DISCO has to pay Genco for the make up energy such that the total price paid for it equals the price that it would have paid to Nuclear if it had met the target.

Now, I think you probably answered these questions in the last hearing, Ms. MacFarlane, I think perhaps. The issue really comes down to -- there seems to be a capacity or seem to be doublebilling DISCO for the capacity in respect -- that is used to make up energy in the event of a Point Lepreau shortfall.

The easiest way of dealing with this in the context of this hearing, is there going to be any shortfall or do you anticipate any shortfall payment in the test year?

MR. KENNEDY: Yes.

Q.253 - That means we don't get the easy way out. Can you give us an idea of how big the shortfall will be?

MR. KENNEDY: Point Lepreau from a forecasting point of view in the 07-08 test year is approximately 62,400 in that neighbourhood gigawatt hours shortfall. That energy will be provided by Genco from their assets. It's an energy situation. It really isn't with respect to capacity. So that shortfall is provided by Genco.

Q.254 - And DISCO pays for that energy at what rate?

MR. KENNEDY: DISCO pays for it on the Tier 1 price of the Point Lepreau PPA.

Q.255 - And what is what is that?

MR. KENNEDY: It's in the evidence basically. It's approximately -- I don't have -- you know -- it's $53, it's a first tier price. If you recall I believe the vesting energy price is $56. So this year DISCO is getting a deal. We are paying approximately $53 for the shortfall.

Q.256 - It may be debatable as to whether this is deal, but certainly if it's $53 that's fine.

MR. KENNEDY: Yes.

Q.257 - Now -- so for every megawatt hour shortfall DISCO paid GENCO $53, and does that include the cost of fuel that GENCO burns to provide it?

MR. KENNEDY: The way it's settled basically is it's the difference between -- actually they will be paying us this year because it would be the difference between the vesting energy price and the Point Lepreau price for that amount of energy. That's the difference.

Q.258 - Can you point me to in the PPAs where that is covered?

MR. KENNEDY: On page 51 of the GENCO or the vesting PPA, section 6 11. It's entitled PPA Shortfall.

Q.259 - Okay. And so we have a payment of a fixed amount for the energy shortfall of $53 per megawatt hour, and it's served out of assets that DISCO has already paid for through the vesting agreement, is that correct?

MR. KENNEDY: Yes. It's served from assets -- GENCO's assets, they have the obligation to serve that shortfall, and it basically -- they serve it and they get paid at the price, the first year price, of the NUCLEARCO PPA.

Q.260 - And that price includes the cost of fuel that is burned to provide that shortfall energy?

MR. KENNEDY: They basically -- the fuel that -- if it doesn't cover their cost, it is intended to cover their cost.

Q.261 - So we are absolutely clear on the record that DISCO doesn't bear costs over and above the $53 per megawatt hour for that energy?

MR. KENNEDY: That is absolutely correct.

DR. SOLLOWS: Perfect. Thank you. Well I'm afraid that that is about all I can do to entertain you, Chairman. If you want at your discretion break and give him a chance to answer the other question.

CHAIRMAN: We will take a break to allow the Applicant to determine whether or not that information might be readily available. Mr. Zed, you would be next. How much time would you anticipate for your questions today?

MR. ZED: The questions shouldn't take very long. I would guess the answers would take about the same length of time, Mr. Chairman. Probably ten or 15 minutes. There are some questions that may be more suitable for Mr. Larlee and if that's the case we will be very brief.

CHAIRMAN: Okay. And I guess following you would be Mr. Peacock. Can you give me an estimate as well?

MR. PEACOCK: Less than ten minutes, Mr. Chair.

CHAIRMAN: Thanks. All right. We will take a 20 minute break then. Be back at 2:35.

(Recess - 2:15 p.m. - 2:35 p.m.)

CHAIRMAN: Mr. Morrison, what can you tell us?

MR. MORRISON: We should have the calculation ready sometime tomorrow and I spoke to Dr. Sollows and we will provide it to him on Thursday morning, so that if he has a follow-up question or two, he can deal it while the panel is still on the stand.

MR. CHAIRMAN: Thank you.

DR. SOLLOWS: Yes, Mr. Chairman. That's fine by me. We can deal with it on Thursday.

Q.262 - There was one question arising though that I would like to put based on one of the answers we received earlier. And that relates to the decision to base the Point Lepreau shortfall payments on Tier 1 as opposed to Tier 2 costs. Can you give us some explanation as the reason why one rather than the other?

MR. KENNEDY: Excuse me. Basically it formulates around the 80 percent capacity factor. It -- for the Tier 1, it covers everything up to 80 percent capacity factor off of Point Lepreau. So the Tier 1 price that is prescribed as such. And anything above that is a Tier 2. And anything above 89 percent is the Tier 3. The Tier 2 being above 80 percent.

Q.263 - Okay. And in fact you are coming in below 80 percent and that's why you are pricing it out at Tier 1. And if it had been done at Tier 2, of course, it would require a revision of the PPAs to do so?

MR. KENNEDY: That's correct.

Q.264 - If it were into Tier 2 price, what would it be a better price -- a higher price or a lower price?

MR. KENNEDY: My recollection is that the Tier 2 price is a lower price than the Tier 1 price.

Q.265 - So basically you have done it at a Tier 1 price, because that's what the PPAs say and there was really no -- it's kind of low down on the list of priorities is to renegotiate if it is to be renegotiated is that fair?

MR. KENNEDY: The intent of the was the fact that Distribution of Customer Service or DISCO would be no better off whether Lepreau was there or not. Basically the would pay the same amount of energy to Genco, as they would have paid to Point Lepreau had they been able to produce it.

u DR. SOLLOWS: Thanks very much. Thank you, Mr. Chairman and Panel.

CHAIRMAN: Thank you, Dr. Sollows. So the Utilities Municipal will be next. Mr. Zed?

CROSS EXAMINATION BY MR. ZED:

Q.266 - Thank you. I wonder if the panel could just reach for A-23. It might be easier if I can just refer you to --

MS. MACFARLANE: I would just like to comment that you seem to have more tabs that I.

MR. ZED: And more questions.

Q.267 - Sorry, the first one would be, if we can turn to the DISCO PI IR-38, page 39, please? A pretty straight forward question, just by way of clarification. In paragraph numbered -- or the item number 6, the second paragraph, you talk about Genco's planned maintenance cost in 2007-08, are higher than previously forecasted due to more current information on maintenance requirements leading up to the Point Lepreau refurbishment outage. The question is post-refurbishment, is it anticipated these costs would go down back to current levels, is that --

MR. GOOD: Following refurbishment the annual spending on maintenance costs will vary from year to year depending on the scope of work that's undertaken. So the actual Point Lepreau refurbishment itself doesn't have any impact on Genco's ongoing maintenance costs.

Q.268 - So the level, the current level forecast for the test year is something that you expect -- when I read the statement it seems to infer that the costs are inflated due to the refurbishment?

MR. GOOD: They are higher this year because some of the work that would have been scheduled to happen over the next two years was actually advanced to get it done before the Lepreau refurbishment happened. Next year and the year following, Genco's spending on maintenance will be reduced because we won't be taking as many planned outages, because Lepreau is not there.

When the plant comes back on line, there will be years where we will be spending less. There will be years where we will be spending more, but it will just be dependent on the work that has to be done in any given year.

Q.269 - Okay. Thank you. Now if you wouldn't mind turning to UM IR-16, please?

MR. KENNEDY: Would you --

Q.270 - It's UM -- sorry, it's DISCO UM IR-16, page 17. So A-23.

MR. KENNEDY: September 18th then is the date is it?

Q.271 - Yes, it is.

MR. KENNEDY: Yes, I have it. It's September 18th is it?

Q.272 - As you will note, the question A, we ask that the utilities DISCO used for comparison and along with the corresponding wholesale prices used for comparison be set out. And the information in the response, there was a qualification at the bottom of the table that said, should be noted that the comparison above is indicative only. The various rates reflect different market designs or have different terms and conditions, such as the inclusion, exclusion of transmission losses, inclusion of the installed capacity charges, et cetera. Do you have the information available to do a true up of that table and provide an actual comparison?

MR. KENNEDY: I don't believe so. It may be rather difficult to do it. There are very -- for example, in Ontario, there is various uplift charges for some generation of that nature, so I am not sure. I would have to -- subject to check.

Q.273 - Well my real question goes to if you are not able to do a true up, then would you concede that this table is not a fair comparison?

In other words if this helps you -- if you have done the best you can and it's not an accurate comparison, I would just like to know the answer?

MR. GOOD: The figures in that table were pulled together from a number of sources, websites, rulings of regulators in other jurisdictions, market reports as Mr. Kennedy suggested in Ontario, things like that. So that is why it is indicative only, because as you are pulling information from different sources like that, it is very difficult to say these all stand on an apples to apples basis. And that's why we are saying they are indicative only. And we don't have the information underlying that that would make them completely comparable.

Q.274 - So in other words, the comparison is not as portrayed here. An accurate -- this is not an accurate comparison?

MR. GOOD: It's indicative only, as we say in the table.

Q.275 - Thank you.

MR. GOOD: And it gives you some order of magnitude in the differences.

Q.276 - Thank you. Could you please turn to DISCO UM IR-21, which is at page 23? And I am most interested in the response where I have underlined in the middle of the paragraph at the bottom of the page the sentence, under certain system conditions, not all the hydro can be fully dispatched to supply DISCO's vesting load. Can you just for my own education explain to me how hydro is dispatched and what the limitations are on its dispatch?

MR. KENNEDY: When you have high hydro conditions on the Saint John River and that combined with an operation at Point Lepreau, the combined generational output of that, because basically you want to ensure yourself that you are utilizing all the hydro that you can, the load in the province, the load at that particular time may be such that it is not great enough to -- yes, I am speaking now of the in-province load, the in-province firm load may not be high enough to use -- utilize all of the hydro generation combined with say a Point Lepreau or other generation mix that would be in the base that is non-dispatchable, such as any run of river small NUGS that were being purchased at the time. If the unit is not dispatchable, the condition could exist.

Q.277 - Thank you. Now, I notice if you would turn the page, the answer to C is on the next page. And it talks about if hydro generation being dispatched to supply a portion of DISCO's interruptible load, the cost of that portion supplied by hydro generation is priced at zero dollars. Can you explain how it is priced at zero on -- what's the rationale for that?

MR. KENNEDY: Again, in the dispatch, hydro is priced at zero dollars from a dispatch point of view to be sure that it basically is dispatched and utilized to serve the load. Again it's there first to combine with other generation to serve the in-province load, the in-province firm load at that particular point in time. If it can -- if the load -- the in-province load is such that it cannot, then the next section of the load or block of load that it serves, it is the interruptible load or the interruptible load from the large industrial customers at that time that would be seeing some hydro flow in the block or the mix of the average price for the interruptible or surplus energy that is being sold.

Q.278 - And do you have any idea what percentage of the hydro generation would be used for interruptible load?

MR. KENNEDY: The effect of that was in the year. With respect to this test case, we are basically budgeting and setting our revenue requirements based on average hydro flow of approximately 26 54 in the test case. So whether it's the -- from the point of view of setting the revenue requirement, there is no change. Basically, the customers are seeing the average hydro flow, which they would have seen before.

What occurs here is that within the year, intra-year, there can be some situations that I just described to you where the interruptible customers will see some of their load being served from hydro. The portion of that will vary on -- will change from year to year and depending on the conditions and the load that occurs. So those type of numbers are usually generated from history from a point of view of going back and looking at what has gone on in time.

Q.279 - To the extent that the hydro load -- sorry, the hydro is dispatched to interruptible customers, is it a benefit to the interruptible customers?

MR. KENNEDY: Yes. It's a low cost form of energy. It's a benefit to the interruptible customers.

Q.280 - How is hydro priced for export sales?

MR. KENNEDY: Again hydro would find its way onto the export after -- if it cannot be utilized by the in-province firm customer and the interruptible customer/surplus customer would find itself into the export market a few hours. And again it would be from a pricing point of view. It could be at zero dollars at that time.

Q.281 - So who would you be selling hydro to for zero dollars to be used on the export market? Who would the wholesaler be in that case?

A. It would be based on an export sale that would occur. It would basically form part of the generation cost net of any tariff or marketing costs. And it would be, you know, it would be based on the -- come back as a benefit if it's outside the range to the in-province customer.

So it's basically -- it provides pricing mechanism that sets and allows a sale either to happen from an export point of view. It could be going out to the export market around. It could be going to New England or it could be going to other jurisdictions.

MS. MACFARLANE: I just want to clarify it's not sold at zero. It's sold at the market price.

Q.282 - That was my next question. Because your wording says the cost is priced at -- I assume the cost to the purchaser was something more than zero?

MR. KENNEDY: Definitely. Definitely. It's whatever the market can bear. That's the price that we get -- or Genco gets.

Q.283 - Do you have any NUG contracts for hydro?

MR. KENNEDY: We have a small NUG contract for hydro.

Q.284 - And is power being purchased from then and being repriced at zero to interruptible customers?

MR. KENNEDY: No. Basically it would form part of -- I would like to clarify a certain point is that Genco through its heritage NUGS is purchasing a certain amount of hydro also from run of river hydro. Significantly more than DISCO is from that point of view. We just have a small run of river hydro that is hooked onto the distribution system. But that energy is under -- Genco pays for that energy based on contractual commitments that it has in place. Those NUGS are -- I believe there is two run of river hydro, Musquash, St. George, that's two. And another one is -- I have --

Q.285 - Thank you. If you could just turn back to DISCO UM

IR-5, I believe, page 6? And I just really have a question. And I think the answer is fairly obvious, but I just want to clarify. If you -- Ms. MacFarlane, probably at the -- or Mr. Good, if you look at the table, wage increases, for each year, there are increases shown and then a general wage increase. I assume those increases are cumulative on top of the increases that precede them? For example, the top step, maintenance trades worker would receive 2 percent. And then in addition the general wage increase of 3 percent?

MR. GOOD: That's correct. And those first three items would be limited to a very small number of individuals.

Q.286 - Thank you. These are questions really as a result of a question that Mr. Lawson put to Mr. Kennedy this morning. Now, Mr. Kennedy, I understood you to say that generally there was more expensive generation done in winter than in summer. Is that the statement you made?

MR. KENNEDY: Yes. The cost of generation that DISCO is paying for is higher in the winter. But I must clarify the point that basically we pay a fixed price for over the year, an average price over the year through the vesting energy charge.

Q.287 - No, I understand that. But more expensive -- it cost more to -- it really cost more to -- it really cost more to buy or generate electricity in the winter is that to meet your capacity or your requirements?

MR. KENNEDY: It cost Genco more to generate in the winter months to meet DISCO's requirements.

Q.288 - Now is it fair to say that time of year in the winter you would use your peaking plants more and combustion turbines in emergency purchases? Would that contribute to the increased costs?

MR. KENNEDY: Combustion turbines and emergency purchases, it depends on the -- what the load is and what generation is available and what the hydro conditions are, and again, what the weather conditions are in the wintertime. So in our revenue requirement, it does indicate that we are requesting through our PROMOD run that indicates that there are some minor CT purchases are required to meet certain conditions at certain times of the year. And that has been modelled and reflected in the PROMOD and forms part of our request.

Q.289 - But generally speaking would you not use more of your peaking plants and combustion turbines and emergency purchases in winter than in summer?

MR. KENNEDY: Generally what it is is that Coleson Cove is running on significantly more in the wintertime. And as everyone knows that would be experiencing significantly higher prices from a thermo-generation point of view than say coal or Orimulsion thermo-generation. So the amount of energy that is coming off of those units located at Coleson Cove is significantly more during the wintertime when they are basically required to be in service.

Q.290 - Thank you. Is the use of this extra electricity generated in the winter, is it sort of uniformly proportionate across customer classes? In other words, if you double your use in the winter, does each class use twice as much electricity or do you have some formula or some evidence as to which class might use more than another class?

MR. KENNEDY: I think that may be a question with respect to the rate design. I hate to hand that off, but you know the proportion and the rate, that cost would be, you know, proportioned out in that evidence.

Q.291 - Yes, that's fine. I have two or three questions along the same lines and if you feel they are more appropriate -- more appropriate that we ask Mr. Larlee that's quite fair enough.

I have a question concerning electric heat and peak usage in the winter time and customer classes. Is that something you would rather I defer to Mr. Larlee as well?

MR. KENNEDY: I believe so. I had a brief discussion with

Mr. Zed at the break and I suggested he put the questions to the panel in the event that there was aspects that they may answer, but I believe now that they are more appropriate for the rate design panel with Mr. Larlee.

CHAIRMAN: So long as we don't get the answer along the way that it should have come here. That would be my only concern.

MR. MORRISON: I won't do that, Mr. Chairman.

CHAIRMAN: Thank you.

MR. ZED: In that case then we -- I have two or three other questions but I think as long as Mr. Morrison is going to be accommodating I think we will ask Mr. Larlee these questions.

CHAIRMAN: So that concludes your cross examination?

MR. ZED: Yes, it does, sir.

CHAIRMAN: Than you, Mr Zed. So Vibrant Communities Saint John, Mr. Peacock, would you like to come forward?

CROSS EXAMINATION BY MR. PEACOCK:

Q.292 - Thank you, Mr. Chair. Given the hour and the fact that a number of the PPAs are a bit voodoo-like for me, I imagine I will be quite brief. Perhaps before I do move forward maybe I should get some advice from the Applicant's counsel as to whether or not this panel or perhaps another panel would be best ready to address the question of the debt portfolio management fee. Is that perhaps another panel?

MR. MORRISON: There is another panel which is the OM&A panel, and the debt portfolio management fee would certainly fall within the purview of that panel, and I believe Ms. MacFarlane is on that panel.

Q.293 - Okay. Thank you. Thank you very much. I will be even briefer then.

I guess I will start by asking, I believe in the earlier -- in this morning's discussion in response to questioning from the Conservation Council -- the panel -- and I'm not sure, it may have been Mr. Kennedy, suggested that revenue from electricity exports can potentially reduce the rate pressures on DISCO customers by about 15 to 20 percent. Was I correct in my recollection or was that in fact a number that was stated?

MR. KENNEDY: That's a number that is in my mind from history, historical numbers.

Q.294 - Okay. There is no actual evidence filed in this rate proposal that supports that argument, is there?

MS. MACFARLANE: Mr. Kennedy is correct that that is a historical number. There was a day several years ago -- largely frankly before bilateral contracts disappeared and markets came into play -- when our export margins were as high as $150,000,000 a year, and the 15 percent was simply general ratepayer costs of a billion dollars, and a contribution against those costs from export customers of $150,000,000 it was 15 percent.

This year, as you can see, because of changes in market rules and greater competition in the New England market, and because we are supplying the export markets off of relatively high priced generation, Coleson Cove, and we are not that competitive, the export margins are down to 69,000,000, 63 in fact but DISCO gets 69,000,000. So 70,000,000 divided by the total revenue requirement of 1.2 billion would suggest that today the contribution from export profit is between six and seven percent.

Q.295 - Okay. Thank you. That provides a bit more clarity. Again it still is a little bit confusing for me, but I guess perhaps in terms of the big picture, if the exports go well in advance of say your forecasts under the budget plan, or well in excess of that, which operating arm receives the greatest benefit from that export, GENCO or DISCO?

MR. KENNEDY: Depending. If it goes outside the bands, the band -- the plus 20 percent -- if it's outside of that DISCO shares with GENCO in the excess that is above the 20 percent.

Q.296 - So that is essentially shared 50/50 between the two arms. Okay.

MR. KENNEDY: That's correct.

Q.297 - Mr. Hay just yesterday I believe referred to the struggle of finding a balance between essentially the ratepayers of DISCO and the shareholders of GENCO, and forgive me if I am paraphrasing his comments.
Concerning the forecast revenue from export, is this a situation where the balance was in fact decided that it should be 50/50, that no one group was to win out?

MS. MACFARLANE: My recollection of the explanation given to us of the design of that formula in the PPAs, and again this came from the province's financial advisors, was that a forecast was done, a number was fixed for a five year period. And that went entirely from GENCO to DISCO because that's the way the system used to work.
The forecasted profits off of exports went entirely to customers. So that was the starting point. The band was put around it to incent GENCO, to incent GENCO to not just administratively work in the export markets based on their good faith, but to actually incent them to increase their own bottom line by being more aggressive in the export markets. That was the design of the formula, so that

GENCO would win or lose in that 20 percent band based on how aggressive it was.

Sharing beyond that in fact is of greater benefit to DISCO than what would have happened in the past because in the past whatever happened after rates were set fell to the shareholder. In this case -- well I guess in this case it still falls to the shareholders to split between the two companies.

MR. PEACOCK: Okay. I'm still -- it's still fairly cloudy for me, but I hope that other intervenors will have received some more clarity. Thank you. That is all.

CHAIRMAN: Thank you, Mr. Peacock. Mr. Theriault, the Public Intervenor is up next but given the late hour we only have perhaps another 20 minutes today. Would you prefer to start your cross examination on Thursday morning?

MR. THERIAULT: I would prefer that, Mr. Chairman. Thank you.

CHAIRMAN: All right then. We will adjourn until 9:30 on Thursday morning.

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

Reporter