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New Brunswick Board of Commissioners of Public Utilities

Hearing April 11th, 2000

IN THE MATTER OF AN APPLICATION BY ENBRIDGE GAS NEW BRUNSWICK INC. DATED DECEMBER 31, 1999, FOR APPROVAL OF ITS RATES AND TARIFFS.

Henneberry Reporting Service

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IN THE MATTER OF AN APPLICATION BY ENBRIDGE GAS NEW BRUNSWICK INC. DATED DECEMBER 31, 1999, FOR APPROVAL OF ITS RATES AND TARIFFS.

Chairman: David C. Nicholson, Q.C.

Commissioner: Monika Zauhar

Commissioner: Robert Richardson

Commissioner: R. J. Lutes

Commissioner: Leonard Larocque

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CHAIRMAN: Good morning, ladies and gentlemen. Having listened to the weather forecast, I think tomorrow morning a start at 9:30 at the Board's premises would be more in order.

Any preliminary matters? If not, Board counsel.

CROSS-EXAMINATION BY MR. O'CONNELL:

MR. O'CONNELL: Thank you, Mr. Chairman. Good morning, gentlemen. For those of you who don't know me, my name is Bill O'Connell and I am Board counsel. I really have no particular preference as to who answers any particular question, I will leave that to you.

Allow me to say that, just as Mr. Stewart said to you yesterday, I am not an accountant, I am not an engineer, I am just a lawyer. So bear with me if I don't understand the concepts and if I need some help.

And I may as well start with the last document we looked at yesterday and that is this glossy chart. Can you tell me who prepared that, please?

MR. LUISON: We prepared that at the same time that we were preparing the proposal.

Q.384 - Okay. Which was when?

MR. LUISON: Last year.

Q.385 - Okay. Excuse the yellow stickies, that is where I put my questions. Can you tell me, please, if you look across the horizontal access on this thing where it says years, it doesn't tell you what year is when. And can you tell me, for example, if you go to the extreme left hand edge what year should be there?

MR. LUISON: Extreme left hand it would be zero and it would go out to in this case 40 years.

Q.386 - Okay. Zero year -- can we do it in calendar years? I understand those better. Zero year is what?

MR. LUISON: We are starting to collect revenues in 2001 per the proposal.

Q.387 - So I will mark on this thing, I am going to put 2001. Okay. So what I can take from that is that Enbridge Gas New Brunswick is collecting zero revenues in the year 2000?

MR. LUISON: That's the basis on which the proposal was prepared and all the financials were prepared. But I think we have said since then that we would expect to add some customers by the end of this calendar year, that's our current expectation.

Q.388 - So Enbridge Gas New Brunswick plans to collect revenue in the year 2000?

A. Yes.

Q.389 - How much?

MR. MAROIS: It will be minimal because -- but we don't have a monthly revenue forecast, but it's -- realistically the first customers will be probably connected by maybe November. So at most it will be two months.

But when we talk about 2001 we talk about fiscal 2001. So fiscal 2001, based on what we have proposed to the Board, would start in October 2000 and end in September 2001.

So there is some overlap with calendar 2000 but it's only a few months, and like I said, realistically the customers will be added at the end of the year.

Q.390 - Mr. Marois, something you -- you -- and I mean Enbridge Gas New Brunswick -- did not prepare a month by month revenue forecast, is that what you just said?

MR. MAROIS: That's correct.

Q.391 - So Enbridge Gas New Brunswick does not have a forecast for how much revenue will come into the corporation, later the partnership, in November 2000?

MR. MAROIS: Not at this time. Because the budgets we are working on, as we indicated clearly, are the budgets that form part of our proposal. As we will be moving on we will be definitely generating more detailed forecasts, but at this time we do not have that level of detail. Similar assumptions were made in the modelling in order to be able to calculate things like, for example, cash flow, interest, et cetera. But those assumptions were made using annual forecasts.

I gave the example yesterday, for example, of the deferral and for modelling purposes we assumed that the deferral was gradually generated over the year. So we made a simplifying assumption that if you take half of it -- so those types of assumptions were made to break down your annual forecast into a monthly forecast.

Q.392 - Okay. I am confused already. Yesterday during Mr. Stewart's questioning of the panel there was considerable discussion of forecasts, and I am going to go to our favourite schedule 7 this morning some time as well. And I was under the impression that some of those documents, including schedule 7, were prepared based on revenue forecasts. But that's not the case?

MR. MAROIS: No. Yes, revenue forecasts but not monthly.

Q.393 - Quarterly?

MR. MAROIS: Annually.

Q.394 - Annually. So that the sum total of the forecasting that anybody has done with respect to the operations of Enbridge Gas New Brunswick in terms of revenue forecasting is annual revenue forecasting?

MR. MAROIS: Yes.

Q.395 - And those annual revenue forecasts contemplate Enbridge Gas New Brunswick starting to receive revenue when?

MR. MAROIS: Starting late in 2000.

Q.396 - After October 1st?

MR. MAROIS: Yes.

Q.397 - So do you forecast Enbridge Gas New Brunswick receiving revenues in October, November and December 2000?

MR. MAROIS: Not October.

Q.398 - But November, December?

MR. MAROIS: Well for example, if customers start consuming in November, they would be billing in December and money would be coming in in January 2001. But consumption may well start in November for some customers.

Q.399 - Okay. So to go back to the horizontal access here, it covers from 2001 and what you mean I think I now understand as being October 1st 2000?

MR. MAROIS: Yes. It's fiscal 2001.

Q.400 - Okay.

MR. MAROIS: That starts in October.

Q.401 - I just want to get a handle on and understand -- one of the other things I have been confused about as I prepared for this morning is, you know, references to year 1, year 2, year 3, 2000, 2001, 2002, and what physical time frame they actually cover.

But let's focus on this chart for a while. The horizontal access covers from October 1st 2000. And if I go to the extreme right hand side, that would be 40 years later, correct?

MR. MAROIS: Yes.

Q.402 - Okay. The vertical access in terms of revenue, what range does that cover? You see, I don't mean to be difficult here but you trot this thing out and until we manage to pin down some of the numbers on it it really doesn't mean a great -- or not to me anyway -- it doesn't mean a great deal.

MR. MAROIS: Well it wasn't -- yes, we could have put the numbers, but it was meant to be illustrative, that was the main purpose of this document. It was not meant to replace the detailed exhibits, but the detailed exhibits -- you referred as well to schedule A -- exhibit A, schedule 7.

Q.403 - Yes.

MR. MAROIS: If you take the revenues that are on there those are the revenues that you will find in terms of cost of service, so it's -- the numbers are in our exhibits but if you wish we can transpose them on the graph. But like I said, the purpose of the graph was to be illustrative, but that can be done, if you wish.

Q.404 - Yes, please. I would like to know -- and maybe the answer is pretty simple -- at the bottom of that vertical access the number is zero, and it goes from there. But I am trying to get a handle on the range you are talking about here.

MR. MAROIS: If you want -- like I said, the purpose of the exhibit was not for that, but if you want to have it more detailed we will provide it. There is no problem.

Q.405 - Okay. Will you tell me, please, what the number -- what the number range is on the vertical access. Now, please?

MR. MAROIS: Now.

Q.406 - Now.

MR. MAROIS: You want me to read you all the numbers for the 20 years, or give you some reference points?

Q.407 - No. All I want you to do is to tell me what numbers I should put on the vertical access of this --

MR. MAROIS: Okay. Well it's --

Q.408 - -- at the bottom and at the top?

MR. MAROIS: Okay. What I will show you -- if you go to exhibit A, schedule 7, all the numbers are on that schedule up to year 20. So if you look at the bottom three lines -- look at the bottom three lines. The first line you have cost of service based revenues, so that equals the green line, cost of service.

Q.409 - Okay. So if I go to the -- where the green line comes close to the vertical access, that's approximately 10 million in revenues?

MR. MAROIS: Yes. Bear in mind that this table that was prepared, this graph was prepared for illustrative purposes, is not necessarily to scale, okay, but it's illustrative.

Q.410 - Just understand, part of my job here is to take exhibits like this and make sure that the Board understands them.

MR. MAROIS: I don't have any problems. You seem to have the problem.

Q.411 - Okay. But -- and I guess all I can do is try to understand it myself.

MR. MAROIS: That's what I am trying to do.

Q.412 - Okay.

MR. MAROIS: I am just giving you some cautions that this graphic is not to scale, that is the only thing I am saying.

Q.413 - See, I don't know if that was said yesterday when the graph --

MR. MAROIS: We should have said that this graphic is for illustrative purposes --

Q.414 - Okay.

MR. MAROIS: -- and the numbers -- if you look at the first year, 2001, the green line would be exactly what you said, it's --

Q.415 - 10 million.

MR. MAROIS: -- 10 million 471.

Q.416 - Okay.

MR. MAROIS: And the market based revenue would be the 5 million 753.6.

Q.417 - And where would that fit on the vertical access?

MR. MAROIS: At the bottom --

Q.418 - The red one.

MR. MAROIS: -- the red solid line.

Q.419 - 5.7 million. Okay. Thank you.

MR. MAROIS: And again, we could do this for every line. But if we go, for example, to page 4 of the same exhibit, and that would be -- column 20 would be the 20th year, the cost of service base revenues, which is the green line, would be 68 million 732.4.

Q.420 - Okay. So where the solid green line is at the extreme right --

MR. MAROIS: Not really, because the extreme right --

Q.421 - -- no. Half way down.

MR. MAROIS: Half way down, you are right, you are correct.

Q.422 - 68 million.

MR. MAROIS: Yes, 732.4.

Q.423 - Okay.

MR. MAROIS: And the deferral mechanism revenues, which would be at the solid red line, would be 69 million 205.

Q.424 - And that's about where it is half way across the horizontal access?

MR. MAROIS: Yes, exactly, 20 years. And the market base revenue which is the dotted red line --

Q.425 - Yes.

MR. MAROIS: -- based on our schedules here would be 90 million 957. So that gives you a feeling for --

Q.426 - That's great. I understand that much better. Thank you very much.

MR. MAROIS: You are welcome.

Q.427 - Now can you explain to me, and this is probably not a particularly bright question, what the significance is of when the solid red line crosses the solid green line?

MR. LUISON: The solid green line by definition is the cost of service of the utility. And the solid red line is the revenue that would be collected from customers offering the particular discounts that we have enunciated that we would want to go into the market with.

So when the lines cross, it means that the revenue we collect from customers offering those respective discounts equals the cost of service of the utility.

Q.428 - And that is the point in time when the utility starts to reduce the amounts in the deferral accounts, is that correct?

MR. LUISON: That's right. That's when it can start to erode away the accumulated deferrals.

MR. MAROIS: Right after that.

Q.429 - Yes. And that is when? It looks to me like -- and I am guessing here -- 2005, 2007, 2008, something like that?

MR. MAROIS: A, schedule 7, on page 2 --

Q.430 - I am there.

MR. MAROIS: Okay -- column 6, that is 2006. Based on our forecast that is when we would have the cross-over and start recovering one part of the deferral, the deferral balance.

Q.431 - Okay. Gentlemen, I want to ask you some questions about Enbridge Gas New Brunswick. Can you tell me when the company was incorporated?

MR. PLECKAITIS: Can we defer this question to our counsel who may be more familiar with that date?

MR. MACDOUGALL: We will have to give an undertaking on the exact date, Mr. Chair.

MR. LUISON: I don't know the exact date but I am fairly certain it was in August.

Q.432 - August of 1999?

MR. LUISON: Yes.

Q.433 - Are you in a position to tell me about the corporate structure, who is the president, who are the officers, who are the shareholders?

MR. PLECKAITIS: Yes, I am.

Q.434 - And I promise not to call you Mr. Arunus.

MR. PLECKAITIS: That's okay.

Q.435 - Can you outline the corporate structure for me, please, Mr. Pleckaitis?

MR. PLECKAITIS: It may best be described by a drawing that we had prepared in the event that this question came up, so if I could ask that we bring that forward?

Q.436 - Sure.

MR. PLECKAITIS: Do we have copies of the corporate structure?

Q.437 - That's great. That would be most helpful.

MR. MACDOUGALL: Mr. Chair, if we could have that maybe marked as an exhibit? I think it would be our exhibit A-13.

Q.438 - Mr. Pleckaitis, perhaps you could take us through A-13?

MR. PLECKAITIS: Beginning at the top of the page you can see the ultimate parent, Enbridge Inc., owns 100 percent -- or has 100 percent ownership in a holding company called Enbridge Consumers Energy Inc. Enbridge Consumers Energy Inc., you can see to the right of that, is a 100 percent owner of Enbridge -- or the Consumers Gas Company currently known as Enbridge Consumers Gas, which is the operating utility in Ontario. And to the left is a 100 percent owner in Enbridge Gas New Brunswick Inc., which is the general partner operating Enbridge Gas New Brunswick within the Province of New Brunswick.

You can see the ownership structure of Enbridge Gas New Brunswick Limited partnership as being controlled one percent by the general partner, Enbridge Gas New Brunswick, 62 percent owned by the holding company, Enbridge Consumers Energy Inc., and 37 percent by private investors in New Brunswick.

And then the dashed line to the left, coming up from Enbridge Gas New Brunswick Limited partnership up to Enbridge Inc. is intended to represent a services agreement between Enbridge Inc. and Enbridge Gas New Brunswick Limited partnership for services.

Q.439 - So as of today, Enbridge Gas New Brunswick Inc., the applicant here, is 100 percent owned by Enbridge Consumers Energy Inc., an Ontario -- or a federal corporation?

MR. PLECKAITIS: That's correct.

Q.440 - Now as I understood -- as I remember your evidence from yesterday, the -- at some point in time after this hearing there will be a limited partnership established where Enbridge Gas New Brunswick Inc. will be the general partner and New Brunswick investors will be the limited partner?

MR. PLECKAITIS: That's correct.

Q.441 - And that hasn't been done yet?

MR. PLECKAITIS: No. There has been a memorandum of offering made to the existing partners who are party to the joint venture agreement that bid on the general distribution franchise in the province.

Q.442 - I am sorry. What was that document, an offer of some sort?

MR. PLECKAITIS: Memorandum of offering, or offering memorandum. That offering memorandum has been issued to the existing partners in the joint venture. It has also been issued to other parties within New Brunswick that have expressed interest on being investors in Enbridge Gas New Brunswick should partnership units become available.

Q.443 - Will you file a copy of that memorandum of offering with the Board?

MR. PLECKAITIS: The one concern I have on that document is that it is a confidential corporate document. I would request some advice from counsel here in terms of the sensitive nature of that document.

I would have no problem personally in filing it directly with the Board, but I do have some sensitivities in terms of making it a public document and a public record.

Q.444 - Okay. Tell you what. You get your advice from counsel and we will wait and get your response.

MR. PLECKAITIS: Okay.

Q.445 - I mean now. If you want to consult with you lawyer, that is okay, we will wait.

MR. PLECKAITIS: Okay.

MR. MACDOUGALL: Mr. Chair, I think the issue is that we do have a concern about the confidential nature of the document. If it does get filed in this proceeding it will become a public document. I don't know if the Board has any jurisdiction to have it filed with the Board for the use of the Board only and for it not to become part of the public record. I will make those comments but if I could confer with my clients just for a moment on that -- just on that issue.

MR. PLECKAITIS: Mr. O'Connell, we will make the -- we have agreed to make the document public or at least put it on the record.

Q.446 - Thank you very much. Now there should --

MR. PLECKAITIS: So do we take an undertaking to file that document?

MR. MACDOUGALL: Yes. It is our intention to file that document.

MR. O'CONNELL: I don't believe we have a copy available.

Q.447 - Now there has been some sort of a joint venture agreement or some sort of agreement between Enbridge Gas New Brunswick and its New Brunswick investors?

MR. LUISON: Yes. There was a joint venture agreement between Enbridge and some New Brunswick investors to put together the proposal to bid for the franchise in the province.

Q.448 - And will you file that document with the Board?

MR. LUISON: Excuse me just a second.

MR. PLECKAITIS: Mr. O'Connell, the joint venture agreement right now is not a public document. We filed that document with the government.

The document, the way I understand it, was returned to ourselves, or at least parts of that document. We would like to undertake to review that document to ensure that there are no confidentiality issues or arrangements that are in place with the investors.

Assuming that if there are no confidentiality obligations, we will release the document. If there are, we will have to consult with the individual investors and get release. But we should be able to give you a response by tomorrow morning in terms of if there are any issues there.

Q.449 - That is great.

MR. PLECKAITIS: So we will undertake to do that.

Q.450 - Thank you very much. Now as of today, has Enbridge Gas New Brunswick Inc. produced any financial statements?

MR. PLECKAITIS: No, we have not.

Q.451 - What are the asset holdings of Enbridge Gas New Brunswick? What assets does it have?

MR. PLECKAITIS: The assets of Enbridge Gas New Brunswick Inc. at this time are basically the startup costs the corporation has incurred as of the date that Enbridge Gas New Brunswick was established.

So startup costs, the nature is not traditional assets in terms of pipe or equipment, et cetera.

Q.452 - And of course you probably would show on your financial statements as an asset this franchise agreement or this franchise?

MR. PLECKAITIS: I don't think that is recognized, in fact, as a tangible asset.

Q.453 - I'm not an accountant. And so I'm --

MR. PLECKAITIS: No. And that's why I'm turning to the accountants and economists.

MR. MAROIS: What is part of the startup cost is the $1.5 million we paid to the government. But there is no value assigned to the franchise itself.

What's going to be part of our assets is the startup cost plus actual physical plant we will be putting in the ground.

Q.454 - Okay. That is why I start out with as of today. So the assets of Enbridge Gas New Brunswick Inc. as of today are certain startup costs?

MR. PLECKAITIS: Yes.

Q.455 - The cost of incorporating the company?

MR. PLECKAITIS: All of the costs generally that have gone into getting us to the point where we are today in setting up the business Enbridge Gas New Brunswick. Yes.

Q.456 - Okay. So as of today, would you agree with me that basically Enbridge Gas New Brunswick is a shell, that there is nothing there except expenses you have incurred?

MR. PLECKAITIS: I don't know if it's the right way to characterize it, as a shell. But certainly the -- in terms of tangible assets --

Q.457 - Yes.

MR. PLECKAITIS: -- which you could put your hands on, the pipe for example in the ground --

Q.458 - Yes.

MR. PLECKAITIS: -- those do not exist today.

Q.459 - Yes.

MR. PLECKAITIS: So they are basically expenses that have been incurred that are on the balance sheet, yes.

MR. MAROIS: However, there is staff. And there is an office. And there are computers. And so it is -- it's not a shell. It's an active company. But we are not in operation yet.

Q.460 - And your office is where?

\ MR. PLECKAITIS: Our head office is in Fredericton.

Q.461 - Okay. And what staff are there?

MR. PLECKAITIS: Approximately 19 people.

MR. MAROIS: Currently, yes.

Q.462 - Okay. Can you give me a breakdown of -- can we start with you five gentlemen? Are you staff or officers or directors of Enbridge Gas New Brunswick?

MR. PLECKAITIS: I'm the President of the company. To my right, Rock Marois is the Manager of Corporate Services with the company.

To the right of him, Allen Maclure is a secondment. No disrespect, Allen. He has been seconded from Enbridge Consumers Gas to assist us with the initial regulatory process.

And to the right of him Andrew Harrington, who is a manager in the business development area of the company.

To my left Lino Luison is an employee of Enbridge Inc. and was involved in the establishment of the joint venture and the initial proposal and ongoing involvement in the establishment of the limited partnership.

Q.463 - So am I correct that over and above you five gentlemen, there are 14 other employees of different types of Enbridge Gas New Brunswick in Fredericton?

MR. PLECKAITIS: Yes. Some of which are secondments, some are full-time employees. The majority of those are full-time employees of Enbridge Gas New Brunswick right now.

Q.464 - Okay. When you say secondment, what --

\ MR. PLECKAITIS: Yes.

Q.465 - -- does that mean?

MR. PLECKAITIS: It means that in the starting up of a corporation, one of the things that we benefit from is being able to draw people, experienced people from elsewhere in the corporation to help them with certain aspects of starting up our company.

These are people that already have existing skills in operating a regulated utility. And I use the example of Allen Maclure, who is very experienced on the regulatory side.

So we basically make a request within our other corporate entity groups for a particular skill set. The individual is identified. We then bring them sometimes on a short-term basis. It may be one month, may be two months.

In the case of Allen it was a six-month assignment. We have asked him to come here. We pay for that as a corporate entity. And the other corporation basically lends that employee to us.

Then the intention is at the end of that term that the employee goes back to their job within the other corporate entity.

Q.466 - Okay.

MR. LUISON: And if I can just add to that, the reason we do that is because there are certain skill sets and activities that have to be performed front end, but may not be required as intensely going forward.

So rather than staffing up on a permanent basis and carrying those costs forward, we just staff up as is required at the front end. And then those individuals can go back to the company that they came from.

And Enbridge Gas New Brunswick is left with an efficient operating company that's required going forward.

Q.467 - And Enbridge Gas New Brunswick has the benefit of being a wholly-owned subsidiary of Enbridge Consumers Energy Inc. with all the expertise and talent that goes with that, which in turn is 100 percent wholly-owned subsidiary of Enbridge Inc. and all of the talent and resources and stuff that goes with that?

MR. LUISON: Right. And presumably that was one of the reasons that I guess we won the bidding process, was because we were able to establish to the government's satisfaction that we did have the know-how and the experience to carry on with this --

Q.468 - Yes.

MR. LUISON: -- sort of a greenfield project.

Q.469 - You convinced the Province of New Brunswick that they weren't dealing with just Enbridge Gas New Brunswick but with the Enbridge group, if I can call it that, with all the resources and talent and expertise that comes from a hundred and steamy-eyed years in this industry, correct?

MR. LUISON: Yes. That's correct.

Q.470 - Of the 19 employees that you mentioned, how many are here as seconded employees of one of the other Enbridge companies?

MR. PLECKAITIS: Approximately of the 19 that I quoted, approximately 12 are full-time employees right now. Some of the secondments may become full-time employees.

In some cases they are trying to decide with their families whether they wish to move or relocate. So some of them are in that transition mode.

Q.471 - So --

MR. PLECKAITIS: Approximately 12 of the 19 are --

Q.472 - Seconded --

MR. PLECKAITIS: -- permanent employees. No. Permanent employees --

Q.473 - Okay.

MR. PLECKAITIS: -- of Enbridge Gas New Brunswick.

Q.474 - Now does that mean they are New Brunswickers that have benefited from Enbridge coming to New Brunswick? Or are they people that have been moved in from other Enbridge operations and have decided to stay?

MR. PLECKAITIS: The majority of those 12 are people from away.

Q.475 - How many?

MR. PLECKAITIS: The majority being 10, 11 --

Q.476 - 10 of 12?

MR. PLECKAITIS: -- of the 12. Yes.

Correction. Approximately half of the employees of the permanent employees are New Brunswick employees. My mistake.

Q.477 - It is allowed. So of 12 -- so anyway, six of those 12 are from away?

MR. PLECKAITIS: That's correct.

Q.478 - Okay. And six of those people are here now on sort of -- for a specified period of time for startup purposes. And they may or may not go back to Ontario?

MR. PLECKAITIS: The majority of the secondments will go back. But some of the secondments may stay on.

Q.479 - Okay. Now when you mentioned Mr. Luison, you said he is an employee I think of Enbridge Inc.?

MR. PLECKAITIS: Yes.

Q.480 - So in his case as well, he is here for a limited period of time. And he will go back?

MR. PLECKAITIS: He was -- he has been brought in to assist us with testimony in this particular rate case. I don't really consider Lino a secondment. Because he's here sort of on an as-required basis.

And also on an ongoing basis his group, which is financial and economic studies within the corporation, provides ongoing support to Enbridge Gas New Brunswick.

Q.481 - Okay. So in preparation for this rate hearing, and if I may, for the construction hearing that will happen in a month or so, basically what you have done is Enbridge employees have been moved to New Brunswick to prepare for and conduct this particular proceeding?

MR. PLECKAITIS: Well, it has been a combined effort of employees from Enbridge Inc., from Enbridge Consumers Gas and also employees that -- and to a limited degree some New Brunswick employees.

But because of their lack of familiarity with the natural gas industry and our proposal, they have not at this point been used extensively.

And then obviously we have used New Brunswick consulting support to a significant degree in terms of legal and technical support, et cetera.

Q.482 - And they are doing a marvellous job for you.

MR. PLECKAITIS: Thank you.

MR. MACDOUGALL: Thank you, Mr. O'Connell.

Q.483 - So I guess to categorize the effort in preparation for this hearing, you say that New Brunswick people have been used to a limited degree.

But I think to be fair about the whole situation, leaving your legal counsel out of this, which I hesitate to do, believe me, Enbridge Inc., Enbridge Consumers Energy have moved the talent from somewhere else into New Brunswick to prepare for and conduct these hearings?

MR. PLECKAITIS: Well, the formal part of the hearing, in terms of the witnesses that you see before you and that will be testifying over the hearing --

Q.484 - Yes.

MR. PLECKAITIS: -- yes, those are people that are experienced in the natural gas industry, have been involved one way or the other in the proposal over the last year or so. So by and far, that is correct.

Because you brought in the area of the construction hearing -- I think I heard you ask in your statement --

Q.485 - Yes.

MR. PLECKAITIS: -- the construction part of the hearing you will see significantly more content, local content in terms of --

Q.486 - Okay.

MR. PLECKAITIS: -- the environmental assessments, the engineering work, the public relations work in terms of community --

Q.487 - Okay.

MR. PLECKAITIS: -- communications, et cetera.

Q.488 - As we go through this rate hearing there will be three panels involving something -- and I didn't count -- it must be something like eight to 10 witnesses.

Every one of those witnesses is somebody from outside the province of New Brunswick that has been moved here or has come here just for the purposes of testifying in this proceeding?

MR. MAROIS: Well, what I would like to maybe qualify is -- like I have moved my family here. And it's not just to testify in this proceeding.

I consider myself a manager of the company. And I'm here to stay. So this is one of my functions. So just maybe to clarify your statement.

Q.489 - Okay.

MR. MAROIS: But yes, a few months ago I was a resident of Quebec. But now I'm a resident of New Brunswick.

Q.490 - Okay. And we appreciate that. We are happy to have you here.

MR. MAROIS: Thank you.

Q.491 - If you can go back to A-13, this corporate diagram, there is reference to a thing called a services agreement linking Enbridge Inc. and the limited partnership?

MR. PLECKAITIS: Yes.

Q.492 - Will you file a copy of that services agreement with the Board?

MR. PLECKAITIS: Mr. O'Connell, we will file the document. I just want to qualify that it is a draft document. It has not been finalized between the two entities, Enbridge Inc. and Enbridge Gas New Brunswick.

Q.493 - Okay. As between Enbridge Gas New Brunswick and Enbridge Consumers Energy Inc., its wholly-owned parent or the parent, I guess -- my terminology is loose -- what agreements are in place?

MR. LUISON: Just a moment.

MR. PLECKAITIS: We will have to take an undertaking on that. We are not sure exactly what the relationship is in terms of formal agreement between the two entities.

Q.494 - If you were going to go and find out that piece of information for me, how would you go about doing it?

MR. PLECKAITIS: I would turn to the corporate office in Calgary probably, where a lot of these documents reside and a lot of legal process takes place and inquire with them.

Q.495 - So you don't -- copies of these documents, whatever they may be, are not maintained in New Brunswick?

MR. PLECKAITIS: Not at the current time. They may be sometime in the future.

Q.496 - Mr. Pleckaitis, are you able to help me at all -- oh, I'm sorry, I'm interrupting.

MR. PLECKAITIS: That's okay.

Q.497 - Are you able to help me at all in terms of what types of documents those might be? Like is there an agreement?

MR. PLECKAITIS: I'm not sure of exactly what corporate structure agreements might exist between those two entities. Like I'm not, unfortunately, a lawyer in these issues. It's not an issue that I have followed.

Q.498 - Okay.

MR. PLECKAITIS: And --

Q.499 - But as President of Enbridge Gas New Brunswick Inc., you would have signed those?

MR. PLECKAITIS: Well, those documents may have been signed prior to my participation in the company. I joined the company as of October 1 of 1998 -- 1999. So it could be that the documents were signed prior to me.

Q.500 - Have you as President of Enbridge Gas New Brunswick signed any agreements on behalf of that corporation with Enbridge Consumers Energy Inc. since October the 1st 1999?

MR. PLECKAITIS: I have signed contractual agreements with companies, service provider companies. In terms of agreements, incorporation type agreements, not that I'm aware.

Q.501 - You would agree with me that it seems to me likely or probably that there is somewhere an agreement that codifies the arrangement between Enbridge Gas New Brunswick and Enbridge Consumers Energy Inc.?

MR. LUISON: What there will be in place are the documents that incorporated Enbridge Gas New Brunswick Inc. And they would specify the ownership structure.

So the incorporating documents would show that Enbridge Consumers Energy Inc. is the parent. That is the only agreement that I'm aware of that would exist between the two entities.

Q.502 - Well, how about we try it this way. In the absence of an agreement which would tell us how the relationship between Enbridge Gas New Brunswick Inc. and Enbridge Consumers Energy Inc. works, you know, who pays for what, to whom, on what basis, what is the consideration, who is in charge of who, you know, what decisions you can make in Fredericton and what decisions you have to defer to Calgary, that kind of stuff, how would you describe the relationship with answering those type of questions between the two companies?

MR. PLECKAITIS: I don't think that you will see a document that will be described, will describe the types of things that you are talking about. As the President of Enbridge

Gas New Brunswick, I report to a Board of Directors.

The Board of Directors is composed right now of three parties, Bud Bird, who is a representative of the local investor group, Rudy Riedl, who is an officer of Enbridge Inc. and Richard Bird who, is also an officer of Enbridge Inc.

But the types of things that you talk about are generally -- that I'm aware of, are not covered by any type of incorporation document that exists.

Q.503 - Okay. Let's try it this way. Can you tell me what type of decisions can you make in Fredericton, New Brunswick and what type of decisions do you have to refer to somebody in Calgary?

MR. PLECKAITIS: Well, I refer to the Board as opposed to Calgary, but --

Q.504 - Okay. By the way, those two guys, Riedl and Bird, where are they located? Are they in Calgary?

MR. PLECKAITIS: Mr. Riedl is located in Toronto. Mr. Richard Bird is located in Calgary.

Q.505 - Okay.

MR. PLECKAITIS: And the third party, Bud Bird, is located in Fredericton. Generally the day-to-day operation and direction of the company come within my area of responsibility.

As per normal governance procedures in any corporation, a plan is provided to the Board of Directors for ratification. The plan then is generally the responsibility of senior management and the officers of the corporation to follow through.

Any deviations to that plan, significant deviations, it's a requirement that you would go back to the Board or members of that Board to seek support that the deviation should proceed or you should modify a direction because of circumstances.

But on an ongoing basis, the general direction of the corporation within New Brunswick is my responsibility.

Q.506 - So what you are saying is you provide periodically a plan to the Board of Directors, and assuming the plan is approved you have the authority to do the day-to-day decision-making that takes that plan forward?

MR. PLECKAITIS: Generally speaking, yes.

Q.507 - Will you provide a copy of that plan to the Board?

MR. PLECKAITIS: Well, the plan is really the document that you see in front of you. The plan that exists is first of all the proposal to the Province.

And a material portion of what is in our evidence is in fact reflective of what is in that proposal that went to the Province. There is really no revised plan that exists defining any different direction for the corporation.

There are obviously lots of working papers and ongoing documents in the development of the corporation that exist but the fundamental of the plan that the Board has supported and endorsed is the proposal that was filed with the government.

Q.508 - Is there any portion of the plan that you presented to that three-man Board that was not either in the proposal to government or the evidence before this Board?

MR. PLECKAITIS: No.

Q.509 - So everything that is in the plan is in one of those two places?

MR. PLECKAITIS: Everything that is -- everything that was -- what the Board has approved is the Board has approved the evidence that we have submitted to the Public Utilities Board in this hearing.

That evidence, as I explained to members of the Board, is in fact almost identical to what was filed with the government in our application when were seeking the general distribution franchise.

Q.510 - Just so I understand -- and please try to focus on my question. And my question is, is there anything in that plan that you submitted to that three-man Board of Directors that is not in the proposal to government or the evidence before this Board?

MR. PLECKAITIS: No, there is not.

Q.511 - Okay.

MR. PLECKAITIS: And just if I can clarify --

Q.512 - Sure.

MR. PLECKAITIS: -- Mr. O'Connell, and I'm recollecting back on what the process was, there was a Board resolution that was basically passed by the Board, that basically supported management going forward with evidence in this rate application.

And I'm recalling the resolution which basically said to the Board, management intends to file evidence in this rate case, this rate proceeding, seeking rate approval from the regulator. The material portion of that evidence is what was filed with the government in its proposal to seek the general distribution franchise for the province.

And I'm adding those qualifications because the Board did not actually receive a plan as part of -- to endorse and sign off. They received basically, if you want to call it, a representation of management that that's what management intended to do. And the Board signed off on that.

Q.513 - Now this Board was put in place, I gather, sometime in the fall of 1999?

MR. LUISON: It would have been put in place when the Enbridge Gas New Brunswick Inc. was incorporated in August.

Q.514 - Okay. How often has it met since then?

MR. PLECKAITIS: I have to check. As far as I am aware, as a formal meeting of the Board, the only time that they have met is signing the Board resolution of approving the regulatory strategy or plan that would be submitted to the Public Utilities Board.

I am not aware that any other formal meeting of the Board to this point in time has actually taken place, but that is subject to check. We will get back to you if the information is incorrect.

Q.515 - Thank you. Now there would be minutes of this meeting or meetings, correct?

MR. PLECKAITIS: Well I indicated to you, the only meeting that I am aware of is a resolution, so there would be a written resolution that would be signed by the Board, yes.

Q.516 - And meetings -- minutes of meetings, do you have any of those?

MR. PLECKAITIS: Well as I indicated, the only time I am aware that the Board has in fact met is through the form of one resolution, and that was a written resolution that was circulated to the Board. I don't believe that they actually physically got together to have a formal Board meeting.

Q.517 - Will you go and check? Obviously what I am looking for is for you to provide to the Board a copy of any minutes of Board meetings and any resolutions that were passed by the Board of Enbridge Gas New Brunswick?

MR. MACDOUGALL: Mr. Chair, if I could --

MR. PLECKAITIS: Well first of all, we will check. Secondly in terms of the confidential nature of the Board and minutes and resolutions, I am not sure if that is something that is normally put on the public record, but maybe my counsel can guide me on this one?

MR. MACDOUGALL: Yes, I can, Mr. Chair. We certainly feel that that would be an awkward request. A Board meeting or shareholder information is not on the public record in New Brunswick in general circumstances. I don't believe it will add to this proceeding for us.

Mr. Pleckaitis has stated his position with the company and obviously companies in New Brunswick are managed by a Board of Directors, that is the state of the law in the Province. Whether or not Board resolutions are necessary for this proceeding to go forward and for the record to be complete, I think that that would be highly suspect, and I don't necessarily think it is appropriate to file Board minutes of confidential internal meetings.

MR. O'CONNELL: Well, Mr. Chairman, you know I was interested to hear my learned friend use the word "suspect", because that is what I am.

It seems to me entirely appropriate that there should be complete disclosure of all the operations of this regulated utility. And to me, to the extent that they balk at filing resolutions or minutes of meetings with the Board makes it all the more desirable that the Board get hold of these documents and so can have a complete picture of what this utility is doing or what it intends to do.

MR. PLECKAITIS: Mr. O'Connell, is there a particular piece of information you are looking for? I am wondering if we can try to help you in that regard. Is there something that specifically concerns you about the way we are operating our business?

MR. O'CONNELL: Look, I guess the best -- and I will express a personal opinion here. But I have a number of questions that will get put to this panel during the course of the morning that will make it clear that there are a number of pieces of information that in my view are either vague or that I don't understand.

And I am trying to get as complete a handle as possible on what Enbridge Gas New Brunswick Inc. is doing and what they propose to do. And I have had some difficulty understanding your evidence and I was trying to -- like I have spent -- I don't know what time it is, but I have spent the time this morning trying to get some background to establish how Enbridge Gas New Brunswick operates by starting out with, you know, the senior leadership, if I can put it that way. And I will work through different documents, and I have got more questions about shareholders' meetings and minutes of shareholders' meetings, and service provider contracts, all sorts of stuff that finds its basis in going to the incorporating and the initiating documents and the decision making process.

And part of understanding your decision making process, in my view, is getting a handle on, you know, board meetings and board decisions and shareholders' meetings and the minutes of those meetings and the resolutions of those meetings and that type of information.

MR. PLECKAITIS: And I understand what you are trying to do and I will endeavour to the best I can to answer the questions you have, either directly or through undertakings, if I can obtain that. I would just ask you to also appreciate that boards, to be effective, tend to want to have things done in an open forum incamera sessions. And it makes it difficult for a board to operate effectively if the minutes of meetings and details of their discussions are continually subject to review of regulatory tribunals which then make those -- that information public.

I don't think that is unique to our corporation, I think that is something that exists in just about every other corporation.

So I would ask that you also try to understand that perspective. I think there is an equal issue there.

MR. MACDOUGALL: Mr. Chair, if I could follow-up on what Mr. Pleckaitis has said. I mean, that is our concern here, because Mr. O'Connell has now once again raised that, you know, he has an issue in seeing all of these documents.

Is this a concern that the Board would have to see on an ongoing basis all of the internal records of Enbridge Gas New Brunswick Inc.?

We are here to set the rates for the upcoming rate period. I think the evidence that we want on the record is the evidence of what is necessary in order to determine whether Enbridge Gas New Brunswick's rates are just and reasonable, and whether the proposal they are putting forward for a regulatory frame work is appropriate in the circumstances.

To go into internal Board documents, documents -- shareholder records talking about ownership that are not generally part of a public process, be it in a regulated industry or otherwise, I just do not see how that is going to help the Board in determining whether these rates are just and reasonable.

And I believe it is going much farther into the business affairs of the company than is required for this Board to make the determinations that are in front of it and on an ongoing basis. Mr. O'Connell's comments seem to make it look like this Board should on an ongoing basis be looking at all the minutia that goes on in this entity, and we are looking for somewhat of light handed regulation as well. And I believe Mr. Pleckaitis' comments are very clear.

Board records often may have to do with the termination of employees, they may have to do with confidential information in a company. There is a host of issues which do not become part of a public record unless they are extremely germane to the proceeding, if they become part of a public record at all.

And I believe this panel will do its utmost to answer all of the questions to fill in the technical information required. On some of the questions to date on agreements and otherwise, I think the fact is many of these do not exist. And we will undertake to see if there is something just in case one of these gentlemen has missed it, but --

CHAIRMAN: The Board will reserve decision on that motion. Have you got a few more questions that can take us to break time, Mr. O'Connell?

MR. O'CONNELL: Yes, I do.

Q.518 - If we could refer back to A-13, that corporate diagram again, and there is a direct connection between Enbridge Consumers Energy Inc. and Enbridge Gas New Brunswick, the limited partnership?

MR. LUISON: Yes.

Q.519 - Are there any agreements or draft agreements prepared or in place that would codify the arrangement between those two entities?

MR. LUISON: As part of putting the limited partnership in place, there are agreements that have been drafted that need to be executed that will essentially convert Enbridge Gas New Brunswick Inc.'s participation in the joint venture into a participation in the limited partnership. Those documents haven't been executed yet.

Q.520 - I am sorry. Those were draft documents between what parties? I was writing and missed what you said.

MR. LUISON: Well Enbridge -- when the limited partnership is fully effected, Enbridge Consumers Energy Inc. will be a -- will hold 62 percent -- well it is currently envisioned that it will be 62 percent of Enbridge Gas New Brunswick Limited partnership and hence the agreements that put that ownership structure in place will be executed when the limited partnership closes.

Q.521 - They are available in draft now?

MR. LUISON: Yes, they are available in draft.

Q.522 - Will you file those with the Board?

MR. LUISON: We can file those with the Board.

Q.523 - When will you be in a position to do that? Today?

MR. LUISON: Before the end of the hearing certainly.

Q.524 - Just so you understand, at some point in time this Board will be tasked with regulating the industry of which this agreement forms an integral part. I will suggest to you that it would be wise to file that agreement with the Board before it makes any decision on a rate hearing so it can have a complete picture of the environment in which it plays a part.

MR. PLECKAITIS: Mr. O'Connell, we will do our best to have that document here tomorrow. But I think that your question and some of your other questions I think illustrates again the situation that we are facing as a start-up organization.

The fact is those agreements that we are agreeing to share with you, even though they are issued as confidential documents of the partnerships, are still a document that -- it's an ongoing process. Those documents were just issued to the existing investors and prospective investors last week.

The intention is that the closing of those documents, that whole arrangement, will not be until the end of June of this year. So the reality that we face as a corporation is we are a business under development, so some of these things, even though it would be nice from our perspective and for everybody to have all of these things completed and in front of the Board, the reality of it is that they won't be. Because the nature of our business is we are starting up and we are developing these things as we go.

Q.525 - Well --

MR. PLECKAITIS: But as I said at the beginning, we will endeavour to have that document in front of the Board tomorrow.

MR. MACDOUGALL: In draft form.

MR. O'CONNELL: Yes, I understand it is a draft document.

MR. LUISON: And if I can just further add to those comments, we are pleased to provide those documents and they will simply show the ownership arrangements between the various parties.

There is nothing in those agreements, as the Board will see, that impinge in any way, shape or form on the cost of the Enbridge Gas New Brunswick operation or the way that the actual utility is operating. So there is nothing in there that impinges on the costs and the rates that the Board will be adjudicating upon --

Q.526 - Okay.

MR. LUISON: -- with the exception of a shared services agreement.

Q.527 - I will write that down, I will have to come back to that. Shared services agreement. Now what is that?

MR. LUISON: That is just the agreement that is on this chart on A-13 that is between Enbridge Inc. and --

Q.528 - Okay.

MR. LUISON: -- the limited partnership.

Q.529 - Did I -- I have lost track -- did I ask you to provide a copy of that?

MR. PLECKAITIS: Yes, you have.

Q.530 - All right. Cross that one off. Now Enbridge Consumers Energy is today the parent of the New Brunswick company. Do you know how Enbridge Consumers Energy shows its ownership of Enbridge Gas New Brunswick Inc. on its financial statements? Is there a value to be attached to that ownership?

MR. PLECKAITIS: I do not believe that there is a value associated with that, no. There would be a liability in terms of assets shown similar to what we described earlier in terms of the development costs.

MR. LUISON: The short answer is that all of the various interests of Enbridge Inc. would be consolidated into the financial statements of Enbridge Inc. and you would not see any specific detail related to any of the subsidiaries in the consolidated statements.

Q.531 - You can tell I am not an accountant. I don't understand what you just said. But does the ownership of Enbridge Gas New Brunswick Inc. turn up in the financial statements of the parent? Like is there a liability entry or an asset entry? Is there an entry under any other name -- or not any other name but, you know, lumped into a category, I guess is the way to put it?

MR. LUISON: There wouldn't be a specific entry related to -- there would be entries that are consolidated into the Enbridge Inc. statements that relate to the interest that the parent has in this entity.

Q.532 - Okay. So is somewhere under any title or category or however you want to describe it, the ownership of Enbridge Gas New Brunswick Inc. or the shares of Enbridge Gas New Brunswick Inc. shown as an asset?

MR. LUISON: The value of its ownership would show up on the assets of Enbridge Inc.

Q.533 - Okay. Have funds flowed from Enbridge Consumers Energy Inc. to Enbridge Gas New Brunswick Inc.?

MR. LUISON: The short answer is yes. The -- since the franchise was awarded, the funding of the operations of Enbridge Gas New Brunswick Inc. -- some of those funds -- those funds have flowed from Enbridge Consumers Energy Inc.

And when the limited partnership I guess closes and Enbridge Gas New Brunswick Inc. is operating on a going forward basis as a limited partnership, all of those transactions will probably be accounted for and reflected in the operations of the limited partnership.

Q.534 - Yes. So am I correct that basically what has been happening since the New Brunswick company was incorporated last August is it is getting funded by Enbridge Consumers Energy Inc.?

MR. LUISON: Yes.

Q.535 - And so when you come here to participate in the regulatory process, do you continue to be paid by somebody other than Enbridge Gas New Brunswick Inc.?

MR. LUISON: I am paid by Enbridge Inc.

Q.536 - Okay. As a matter of fact, that applies for the whole panel, correct? None of you are getting paid by Enbridge Gas New Brunswick?

MR. PLECKAITIS: No, that is not correct. I am being paid by Enbridge Gas New Brunswick. Mr. Marois is being paid that way. Mr. Harrington is being paid that way and Mr. Maclure is being billed.

MR. MAROIS: He is being paid by Enbridge Consumers Gas.

Q.537 - Okay. But those funds that pay you gentlemen find their point of origin, if I can use that term, with one of the parent companies because Enbridge Gas New Brunswick has no money?

MR. PLECKAITIS: That's correct.

(Short recess)

CHAIRMAN: During the break the panel considered Mr. O'Connell's request in reference to corporate minutes. To either counsel or the panel, where is Enbridge Gas New Brunswick Inc.'s corporate minute book?

MR. MACDOUGALL: I would have to wait for my colleague, Mr. Hoyt, to come back to let you know if that is in our Fredericton office. I am sorry, he is out of the room at the moment, Mr. Chair.

CHAIRMAN: Yes. Because frankly, the Board's approach to it is the Board has a right to have access to the records of the regulated utility. And in this case, we think that the appropriate thing to do would be that the utility make the corporate minute book available for Mr. O'Connell to review. And then if after that review there is something that he wishes to have put before the Board in the public hearing, that he indicate what it is in the public forum. And the company can either agree to it or argue why that should not be brought forth.

And in that regard, in my experience there have been occasions when a certified copy of a Board resolution certified by the corporate secretary would be the thing that would be filed, but not the book itself.

MR. MACDOUGALL: So would you want available the minute book or what constitutes the minute book for Mr. O'Connell for his review on a confidential basis?

CHAIRMAN: As a result of that review, if there is something there that he believes we should see in the public forum, then he can make argument concerning that at that time.

MR. MACDOUGALL: I would like to follow up on one aspect though. A lot of the requests being put forward today by Mr. O'Connell are in our view somewhat in the nature of information requests which maybe could have been made at the time of the IR process, but are being done sort of during cross-examination.

It may be more useful if Mr. O'Connell wanted to put in writing to us a letter of all those documents which he thinks may be useful. And then we could respond, either providing all of those documents or providing a reason why we don't think it is appropriate or necessary at that time, rather than to try and cross-examine the panel on documents that in most cases aren't in the record because Mr. O'Connell is asking for them to be put into the record.

I am wondering if that process may be more useful, as we see these requests more in the nature of asking for information which had it been available might have been of more value to the Board at this cross-examination. I just raise that for discussion and I will ask Mr. Hoyt about the minute book.

CHAIRMAN: Mr. O'Connell.

MR. O'CONNELL: Well, Mr. Chairman, I was not involved in the interrogatory process. And, you know, even if I was, I guess my work on this particular project has, you know, caused me to focus on some documents that I didn't see that I thought would be of assistance to the Board. And it just happens that they are getting raised now in terms of my cross-examination.

And I will readily admit that I guess I am a document based cross-examiner. And what occurs to me as I work my way through this cross-examination is different documents that might be in existence and for whatever reason -- and allow me to say that it is very kind of my learned friend to say we should have asked for these earlier. But let me put the shoe on the other foot and suggest to you that perhaps this applicant, if it had been a little more forthcoming with these documents themselves, wouldn't be faced with all these requests for documentation now.

It should be no surprise to anybody on that panel that I am going to spend a considerable portion of my time looking for documents. I mean, later on this morning I will be asking about policies and guidelines and what about this document and what did you prepare for that, what forecast did you do and what examinations did you do, what research did you do and what investigations did you do, and where are the reports that all this work did and generated. And it should be no surprise to anybody that I am going to be asking that type of question.

CHAIRMAN: Just following up on what Mr. MacDougall has stated, is it possible for Board staff to give a list of documents that you, Mr. O'Connell have, when reviewing this matter, looked at and say, there probably should be this document, that document or the other one? Are you able to do that?

MR. O'CONNELL: It would take a little bit of time because my thoughts on documents are sort of scattered throughout my cross-examination. I would suggest that my colleague is keeping a list as I ask for documentation and perhaps -- certainly at the break at lunch time we can arrange to get a list of what I have asked for typed and present it to everybody involved. But in terms of going through and picking those out, that would take some time.

MR. MACDOUGALL: I guess, Mr. Chair, my position is that would be much more useful to us than to ask the panel, does this document exist or does it not exist, and use up a lot of the panel's time.

I think we were forthcoming with all the documents that we felt were necessary to adjudicate on whether the rates of Enbridge Gas New Brunswick are just and reasonable and the rate methodology is appropriate. That has been put forward.

If there are other documents the parties want I think it would be much more useful to put a request to us, be it in the nature of a late IR or if Mr. O'Connell wants to try and get it in as part of his cross-examination, it would be much more useful for us to have a full and complete list.

The panel members in some instances have to refer to other parties to ensure that there are no documents in certain circumstances because they don't want to make statements that there are just no documents without confirming. So if we have a list, we can review it and we can try and fill in all of that information. Because if the questions is just whether it exists or not, it's much better done in that manner, we believe, than through cross-examination.

CHAIRMAN: Mr. O'Connell, you go ahead with your cross and at lunch time see if you can put together any further list of documentation that you believe should be in existence, or might be in existence.

MR. MACDOUGALL: Mr. Chair, can I have a minute with Mr. Hoyt and then I will talk to you about the minute book.

Mr. Chair, there is a copy of the Enbridge Gas New Brunswick minute book in Fredericton. Mr. Hoyt is not sure that all of the documents are in that. As you know, documents, resolutions, go back and forth. He would have to check with more likely corporate counsel for Enbridge in Toronto as well to ensure that it is a complete minute book, that there isn't a resolution somewhere that hasn't been filed in there.

So we will undertake to provide that minute book as soon as possible. But we probably won't be able to get it to you today or I am not even sure if we can tomorrow. We will try our very best to get the minute book as we have it down here, but we will also be undertaking to make sure that, you know, if the minute book is lacking a resolution or two because the executed version is elsewhere, we will undertake to get them so that the minute book will be complete. But that may not occur until tomorrow.

CHAIRMAN: All right. Appreciate that. Fredericton is the head office of Gas New Brunswick and there should be lodged the documentation with the copies elsewhere, I would think.

MR. MACDOUGALL: That's correct, Mr Chair, but if you have ever dealt with minute books for companies, they are fluid at times, to say the best. Documents get sent around and have to be sent back to the lawyers who always ask for them and they don't necessarily always get them back immediately. But I am sure we will get any documents that aren't in the minute book put in the minute book and that will --

CHAIRMAN: Okay. Go ahead, Mr. O'Connell.

MR. O'CONNELL: Thank you, Mr. Chairman. And look, just in the spirit of full disclosure and openness, just so my learned friends understand, to my way of thinking there are two significant events in the life of Enbridge Gas New Brunswick Inc. that I am particularly interested in.

One of course, is the resolution or the documentation surrounding the payment of the franchise fee. And of course, the other one is minutes or resolutions or whatever surrounding the decision to convert Enbridge Gas New Brunswick Inc. into the limited partnership.

Those are both things that in my view should be documented in the minute book. Those were the things I was looking for.

Q.538 - Now, gentlemen, the franchise fee that Enbridge Gas New Brunswick paid to the Province of New Brunswick, where did that money come from?

MR. LUISON: The monies came from Enbridge Inc.

Q.539 - And is that done by way of a debt? Does Enbridge Gas New Brunswick now owe that money to Enbridge Inc.?

MR. LUISON: Yes.

Q.540 - I want to ask you some questions that are really timing questions. I'm sorry, am I interrupting?

MR. LUISON: Sorry.

Q.541 - You gave me time to think and I thought of another question. What are the repayment terms and conditions under and by virtue of which Enbridge Gas New Brunswick is going to pay that money back to Enbridge Inc.?

MR. MAROIS: Currently it takes the form more of a cash advance. Because we -- like we have a bank account, our own bank account, but it's overdrawn.

So we -- Enbridge Inc. is advancing the money. So as we -- as we get set up then, the proper long-term debt will be issued. But right now it's really in the form of an overdraft.

Q.542 - Okay. And what rate of interest is Enbridge Gas New Brunswick paying to Enbridge Inc.?

MR. MAROIS: I can't -- I will have to undertake that.

Q.543 - You don't know?

MR. MAROIS: I don't know.

Q.544 - None of you know?

MR. MAROIS: On the short-term debt, no.

Q.545 - No?

MR. LUISON: No, I don't.

Q.546 - Okay. Let me ask you this. Is the payment of either principal and interest or just interest on that -- I think it is $1.5 million, is that an expense of Enbridge Gas New Brunswick Inc.?

MR. MAROIS: Well, as we indicated earlier, the franchise fee is part of the startup costs which ends up being capitalized and added to the opening balance of our rate base for our fiscal 2001.

Q.547 - Okay. And will that debt also be repaid by the limited partnership once it is established?

MR. MAROIS: Yes. Because at the end of the day, I think the way to look at it is -- right now we are in a transition mode.

But once we are up and running, what will end up on our balance sheet is long-term debt which will represent 50 percent of our equity -- of our capital structure and the other 50 --

Q.548 - Yes.

MR. MAROIS: But right now in transition it's being financed through long and short-term debt.

Q.549 - Okay. I'm trying to get a simple question out. And maybe I'm not doing a particularly good job. Is that 1.5 million going to be paid back by the limited partnership to Enbridge Inc. over time?

MR. LUISON: Let me try to be helpful here. From the time we decided to pursue the franchise to the present day, there have been costs incurred to develop the proposal to start up the operations of the utility and to set the operations in motion.

And those costs have been funded to date by a combination of contributions made by the investors when the joint venture was established and by Enbridge Inc. or some subsidiary of Enbridge Inc. It could have been Enbridge Consumers Energy Inc. or whatever.

But ultimately through Enbridge the remainder was funded. And all of those amounts are being accumulated and for purposes of establishing the utility, all of those amounts will be capitalized and established and put in rate base. Then they will be financed per our proposal which says 50 percent equity and 50 percent debt.

So the equity portion will come from each of the limited partners. And the debt will be raised or arranged for by Enbridge Inc. And the utility will pay the cost of that debt to finance all of the costs that have been incurred to date and going forward.

Q.550 - So in and amongst the other things for which the limited partnership has to repay Enbridge Inc. will be that franchise fee?

MR. LUISON: I'm just -- I keep getting stuck on your question the way it's phrased, the limited partnership.

Q.551 - It is my fault. I'm probably not using the right terminology.

MR. LUISON: The utility will have to fund through debt and equity and recover through rates all of the costs that have been incurred to date. And the utility is really the only thing, the only asset that resides in the limited partnership.

The limited partnership was established to -- as the financing arrangement, if you will, for the operations of the utility going forward.

Q.552 - Okay. Let me try it this way. Enbridge Inc. or Enbridge Consumers Energy Inc. has financed to a certain extent the operation of Enbridge Gas New Brunswick Inc. up to now?

MR. LUISON: Yes.

Q.553 - Funds have flowed from those two companies to the New Brunswick gas company?

MR. LUISON: Yes.

Q.554 - Do they get them back?

MR. LUISON: It is a liability of the utility to pay those funds back.

Q.555 - Okay. Good. Fine.

MR. LUISON: The utility does not have a source or revenue in and of itself. So it has to get the funds from somewhere. And Enbridge is advancing those funds.

Q.556 - As a matter of fact you could -- what has happened is that Enbridge Inc. and Enbridge Consumers Energy Inc. have made investments in Enbridge Gas New Brunswick Inc. both in terms of people and money?

MR. LUISON: Yes.

Q.557 - There is a 1 percent management fee that gets paid to the general partner?

MR. LUISON: Yes.

Q.558 - Is the franchise fee part of that? I mean, is the expense of the franchise fee part of what goes in to calculate total expenses?

MR. LUISON: Yes.

Q.559 - Okay. Now during the break I was looking at A-13. And it shows linked to the limited partnership private investors in New Brunswick.

But then I looked at what we are dealing with today, which is Enbridge Gas New Brunswick Inc. And there is no linkage to that corporate entity of any private investor.

Is that an oversight?

MR. LUISON: No. It's not an oversight. My understanding of the issue -- and legal counsel I guess could comment if my interpretation is correct. But my understanding was that under the Gas Distribution Act the franchise had to be awarded to a corporation.

So a corporation was established to formally grant the franchise to this entity. Up until that point in time the funding of course had come from a combination of Enbridge and the investors. And it has always been envisioned that the investors from New Brunswick would continue to participate in this venture.

But an entity had to be created for legal purposes to formally grant the franchise to someone. And in all of that documentation it was explicitly documented that the intent was always to have that entity which was 100 percent owned by Enbridge, essentially hold it in trust on behalf of the investors and on behalf of Enbridge's interests and have that converted when the final corporate structure was ultimately put in place.

Q.560 - So as of today, the private investors own nothing in the corporate applicant Enbridge Gas New Brunswick Inc.?

MR. LUISON: No. The private investors have first and foremost a 30 percent interest in the initial $2 million that were expended.

And those are all convertible directly into an interest in the limited partnership going forward. Or they can -- they will have the option to liquidate that participation if they will.

But they have -- they have committed, you know, roughly $700,000 to this point in time that have funded the operations of the utility to date.

Q.561 - As of today do the New Brunswick private investors own any interest in Enbridge Gas New Brunswick Inc.?

MR. LUISON: No.

Q.562 - And in turn --

MR. LUISON: That's not to say that they haven't got a monetary stake in the expenditures to date. Because they have.

Q.563 - But what you are saying is that at some point in time in the future, when the limited partnership is established, they will own an interest, 37 percent according to this in the limited partnership?

MR. LUISON: The formalities haven't yet -- we are in a stage now where we are roughly half-pregnant, if there is such a thing, where their interest hasn't been converted to this new legal entity.

Q.564 - Okay. I was under the impression -- and look, I probably got it from the press. But I was under the impression that the New Brunswick investor had some sort of an ownership interest today?

MR. LUISON: They do have an ownership interest in the rights to the franchise. They were part of the group that sought the franchise. And the mechanics to me of putting that in place and executing the franchise agreement are irrelevant.

They have fundamentally spent $700,000 of their money to have an interest in the franchise going forward. And they will choose either to have that interest carry forward or not.

Q.565 - Okay.

MR. LUISON: But they certainly have an interest.

Q.566 - Now this franchise agreement, I think it was signed on August 31st, something like that?

MR. LUISON: Yes.

Q.567 - Can you describe to me, and any one of you, what Enbridge Gas New Brunswick has done since then to move the process, including the process that brings us here today along?

MR. PLECKAITIS: One of the significant initial efforts is to assemble the management team for Enbridge Gas New Brunswick to build the people resources.

And we discussed that earlier when I mentioned that we had approximately 19 people in the operation. So that has been one of the initiatives that we have been pursuing.

Another initiative has been the significant amount of effort that has gone into preparing for these regulatory proceedings as well as the previous regulatory proceeding or the marketers code of conduct proceeding, as well as the next proceeding which is the construction hearing.

And a significant amount of information and preparation work goes into that. Including in that is, aside from the preparation of rates, is the entire selection of routes for the pipeline.

So there has been extensive consultation with stakeholders that Enbridge has directly managed, and obviously the environmental assessments and engineering assessments on the identification of the routes.

In addition to that, there has been ongoing discussions at various levels of stakeholders including government, private interests, such as the Marico one which was touched on yesterday, ongoing issues that management has been dealing with.

The focus of our efforts since the August one has been to assemble a management team to begin the detailed planning that's required for the preparation of a regulatory process document so we can get regulatory approval so we can begin construction on July -- early July of this year.

Q.568 - Is there a reason that the finalizing of the establishment of the limited partnership is taking place after this hearing as opposed to before this hearing?

MR. LUISON: No. We started on this process the day we were awarded the franchise. And it has taken this long to put it in place.

Q.569 - Don't you think, from the Board's perspective, that they would be better served if they could have an applicant here that was the applicant that was going to run the utility in future years?

MR. LUISON: I think you do have the applicant here that is running the utility. The management team that is going to run the utility is here testifying and presenting the evidence.

Q.570 - Okay.

MR. LUISON: The limited partnership arrangement, I mean, this issue keeps coming back. It has really nothing to do with the utility. The utility will continue on running as it should.

And the limited partnership is nothing but a financing vehicle to raise the funds that the utility requires to go forward, no more, no less. It doesn't impinge in any way, shape or form on the operations of the utility.

Q.571 - Okay. Look, just a couple more questions about this deficiency deferral graph. I was looking at it during the break.

And as I understand that document, what Enbridge is proposing is to pay back the amounts in the deferral accounts over 40 years?

MR. LUISON: Correct.

MR. MAROIS: To recover.

Q.572 - Sorry. Look, recover. I will do better. I will do better. Now as I understand it, Enbridge has a franchise for 20 years, correct?

MR. MAROIS: Correct.

Q.573 - What happens if it is not renewed at year 20?

MR. MAROIS: Well, our position is that it represents an asset like all the other assets we have. And that would be transferred to the other successful franchisee.

Because what is being deferred is really initial investments we need to make to get it up and running but that we can't recover in our rates.

So those assets have a value. They are really just added to the other assets for running the business.

Q.574 - How do you arrive at the number of 40 years for recovery?

MR. LUISON: When we were preparing the proposal, we recognized a number of things. And first and foremost we recognize that the expenditures that are being made to set up the operations of the utility are expenditures on assets that have a long life.

They will serve the utility for its entire life. So they are startup costs. And they are plant in the ground. And those assets are depreciated typically over a long period of time. And --

Q.575 - Typically over 40 years?

MR. MAROIS: Well, often in accounting terms when we talk about the life of an asset, 40 years is often used.

Q.576 - Sorry. I interrupted you.

MR. MAROIS: That's all right.

MR. LUISON: So there are assets that are being -- there are monies being expended to put in place, assets that will be for the use of customers for a long period of time.

And since those assets are being depreciated over a long period of time, it was our view that, to the extent that those expenses are deferred, they too should be collected over a long period of time. And conceptually that was the only consistent approach.

On a practical side there is the issue that those costs will ultimately be recovered by all of the customers, as we believe they should.

And for any one -- it has the added advantage that for any one customer, of course the impact is less, because you are recovering these costs from, you know, 70,000 customers 20 years from now as opposed to a much smaller number of customers in the earlier part of the franchise period, if you took a different treatment.

From the customers' perspective generally, they should be indifferent whether it's long or short-term. Because paying more money -- paying less money today is the same as paying more money tomorrow. When you take into account the time value of money, of course, they should be indifferent.

So the issue that was raised yesterday with respect to the mortgage I think is -- it was an example that was brought out that really doesn't have particular value once you take into account the time value of money. So that's why we did the 40-year approach.

Q.577 - The pipe or tubes or whatever, however you choose to describe it, that Enbridge puts in the ground, does that have in the normal course a 40-year life span? I guess to me, you know, if you are going to say that --

MR. LUISON: Different classes of assets have different depreciating lives. But pipe in the ground I think is at least 40 years in terms of its period for depreciation.

Q.578 - So --

MR. LUISON: But I mean, there are standards of accounts that specify what the depreciation rates should be. And I think those are available.

Q.579 - Okay. But your evidence would be that the pipe and the tubing that Enbridge is putting in the ground, that forms part of its distribution system, has a practical life span of 40 years?

MR. LUISON: Yes.

Q.580 - Okay. I just didn't know. When I looked at this during the break, one of the things that stuck out to me is the fact that you can -- you know, you stretch out the recovery of the money in the deferral accounts over that long period of time. And then I look at your revenue dotted line as it goes plunging through, by my estimate, something like $90 million.

And was any consideration given to recovering the monies from the deferral accounts more quickly than 40 years?

MR. LUISON: Certainly we thought of -- when we put the proposal together we considered a number of options. But ultimately we always tried to land on whatever it would take to attach customers.

This -- the success of this opportunity relies on us adding customers as quickly as possible. Certainly that was an objective of the Province, to add customers as quickly as possible.

So one of the things we did not want to do is have to take a deferral amount, recover it quickly, have an impact on rates that -- during a period of time when we are still adding customers at a significant rate, and cause an undue rate shock, if you will, for our customers.

And our view was the longer we had the recovery in place the less the rate shock would be and the more -- and the more that would facilitate ultimately customer attachment. Because the rates would be lower at the end of the day. And that's where we always tried, to add customers sooner.

Q.581 - The development period, has it started yet?

MR. LUISON: Yes. We are currently incurring expenditures. And we are not collecting those revenues yet. So by definition yes.

Q.582 - Yesterday one of you, and I forget which one, was answering questions with respect to the conclusion, the end of the development period, and said something like -- and I -- there is a whole slew of criteria to determine when the development period ends.

I would like to know what that slew of criterion are?

MR. LUISON: While Mr. Marois is looking up some evidence, I can refer back to the proposal, since we prepared it. In the proposal we mentioned certain things like volumes, like customer attachment, like rate of return, like being able to be on full recovery of cost of service. And those are some of the criteria that we would take into account.

Q.583 - Hang on. You are talking faster than I can write. Volumes, customer attachments, full cost recovery?

MR. LUISON: Volumes, full cost recovery.

Q.584 - Anything else?

MR. LUISON: I'm sure there probably are. But those are -- those would be the main ones.

Q.585 - I want them all?

MR. PLECKAITIS: Mr. Marois is assembling the references in our evidence.

Q.586 - Thanks very much.

MR. MAROIS: I have no pretention that -- you want them all. I have no pretention that what I'm going to talk about is exhaustive. But I think it gives a flavor that what we are looking at is really the utility as a whole.

Q.587 - Okay. Well, just before you go any farther down that road. You use it is an indicator, it is a flavor. And just so you understand right from the start, I want to be more specific than that, you know.

You have said in your evidence several times that you estimate it will be eight years when the development period ends, it could be 10, could be 12. I'm going to be asking you how you arrived at that eight-year estimate. And I want specifics.

MR. MAROIS: You will have to forgive me. But I always like to refer back to the evidence as much as --

Q.588 - Sure.

MR. MAROIS: -- we can, so -- the first document I would like to reference you, it's under exhibit A, tab 3. And it's the last document of that section.

It's clarification question 112 from the government that was asked to us during the request for proposal process.

Q.589 - Got it.

MR. MAROIS: And I guess it's a long question. But if you look at the last part of the question, it is what evidence would GNB provide to the PUB in support of its request to terminate the development period?

So -- and if you look at -- well, maybe I should read the entire response. GNB would consider a combination of factors before concluding that it was appropriate to recommending the development period.

As suggested in the question, these factors would indeed include the number of customers captured, gas through-put and financial returns.

As mentioned in its proposal, GNB would not advocate an ending of the development period unless it was confident that it could operate the utility within the traditional operating parameters of a well-established utility.

Before it could reach such a conclusion, GNB would need to confident that it could consistently hope to achieve its desired return on equity while continuing to meet its obligation under the franchise agreement without resorting to its proposed cost deferral mechanism.

To support the PUB in its consideration of whether or not to terminate the development period, GNB would expect to file evidence regarding historical and forecast customer capture, through-put and financial statements summarizing capital and O & M expenditures, revenues, any accumulated or expected deficiencies in financial returns.

And maybe I could just refer you to another excerpt of our evidence which builds on this. Because in this response we do talk about the traditional operating parameters of a well-established utility. And the

Province asked us questions on this.

So I can refer you to a response to a question from the Province. It's exhibit F. It's the very first one. It's schedule 1. And it's subquestion (e) on page 2.

And the question was specifically what does EGNB consider to be the traditional operating parameters of a well-established utility?

I will let everybody get the document out.

CHAIRMAN: That is exhibit F?

MR. MAROIS: Page 2.

CHAIRMAN: Page 2 of 2?

MR. MAROIS: Exactly. Item (e). And I will cite -- I will quote. The traditional operating parameters of a well-established utility includes its ability to consistently have an opportunity to earn a fair return.

In order to do so, it must be able to forecast with a reasonable degree of accuracy. This in turn depends on the knowledge and stability of the marketplace and of its own operation. This includes the presence of experienced third parties such as marketers, installers, contractors, et cetera.

It also means that the utility has obtained a sufficient number of customers and through-put to offset the startup costs and the costs, depreciation and return related to the front-loaded investments required to provide the long-term distribution services under the franchise agreement.

These are some of the operating parameters of a well-established utility that are not present in a greenfield operation such as EGNB.

So yesterday when I was referencing to a slew of items, I meant that. Because I guess the way I see it is numerous elements that form part of our cost of service of our forecasting process, we will need to get a better handle on before we are able to determine if the development period is over.

Q.590 - Okay. Would you agree with me that the decision-maker as to when the development period is over is the Board?

MR. MAROIS: Definitely.

Q.591 - Okay. So the Board needs to be provided with the data to enable it to make that determination?

MR. MAROIS: Exactly.

Q.592 - Now what data did Enbridge Gas New Brunswick use when it reached the estimate of year 8, end of development period?

MR. LUISON: First and foremost we never landed on a precise year. We envisioned that it would take approximately eight years.

And per the proposal that we had put together we considered, as I stated earlier, the customer attachment profile, the rate of return that we were earning, the volumes that were flowing and the sustainability of all of those things, and approximated that that would fall roughly to year 8. It could be shorter. It could be longer. We will know when we get there.

If you want, I could elaborate on why it's hard to land on a precise number. And part of that relates to the sustainability. It could be in any one year you look like you are right on target. You are collecting your cost of service.

But that might be attributable, for example, to the fact that it was a very cold winter. And hence in your assessment of the results, you know, you might come to the conclusion that it's not sustainable.

So you would want to believe that the performance of the company is sustainable and hence -- and on the right track.

So only at that point I think would you be comfortable in saying the development period is no longer in existence.

Q.593 - I guess what I'm trying to do is to get something more precise in terms of when the development period ends in your minds, so that the Board can have something five years, seven years, eight years, 10 years down the road to look at, so they can say well, this is what the best evidence was as to when the development period ends. Otherwise they are left in the position like trying to hold onto a handful of water, because it's such a nebulous concept.

For example, how many customer attachments -- and this can be arranged, rather than a hard number -- how many customer attachments are necessary in your view or any of your views for the development period to end?

MR. LUISON: You can't -- we would have liked nothing better than to have landed on a more precise number or a more precise approach. But that is an impossibility.

You could be attaching the number of customers exactly as you have planned. But energy prices in the market may be such that you are not earning your rate of return, for example.

So clearly under those circumstances the development period aren't over. And that's why we have listed a whole host of criteria that we would consider at the time to satisfy ourselves that we are operating on a sustainable basis at the levels that we would expect to perform at.

And as I said, we would like nothing better to be more precise. But that's not available today.

Q.594 - What is the incentive to Enbridge Gas New Brunswick to have the development period end?

Is there any reason that Enbridge Gas New Brunswick would want the development period to end?

MR. LUISON: Oh, absolutely. When the development period ends, it tells us that many of the risks associated with a startup venture have dissipated.

We are now in -- we would then be in an operating mode that is more like a mature utility which, you know, we would all be more comfortable with.

So you know, nobody wants to see the development period extended any longer than it has to be. And nobody wants to see the deferral account balances accumulate any higher than they have to be.

Those are necessary things that have to be put in place and have to be satisfied in order to get this thing off the ground starting from scratch. But you know, the sooner they are done with, the better everybody will be.

Q.595 - What about the idea of Enbridge Gas working with Board staff to develop some set of criteria that would give some certainty to the determination of when the development period ends? Is that a reasonable suggestion?

MR. LUISON: I think we have already pointed out that the Board ultimately will decide when the development period is over. We have put in place and put in front of the Board the criteria that we think are relevant for coming to that assessment. We are both starting from scratch with respect to this franchise so, you know, we are clearly open to working with the Board to develop those criteria to the Board's satisfaction so that it can make that decision with whatever information it feels is necessary. So we will, you know, clearly want to work with the Board to come to an agreement on those issues.

Q.596 - One of the criterion that I thought you might mention, but unless I missed it I don't believe you did, and that's your construction. Can construction and extensions of your distribution system continue after the development period ends?

MR. LUISON: Construction of the distribution system will continue for the life of the distribution system. The customer adds slow down over time but it never stops.

Q.597 - I guess, specifically I was thinking of the potential for laterals into northeastern and northwestern New Brunswick. And whether or not if they go ahead and when the go ahead, if building those -- and I have seen reference to them being done in year three, or year five, or year seven or something, if they would extend in the mind of Enbridge the development period?

MR. LUISON: I'm not -- I'm not sure I understand your question. Enbridge Gas New Brunswick Inc. is not putting in place those laterals to the northeast or the northwest.

When they are in place we will be attaching the communities that we committed to.

Q.598 - Yes.

MR. LUISON: And in order to reach the customer attachment profile that the Board has in front of it, those laterals would have to be in place. It could be that they don't go forward though.

Q.599 - Exactly.

A. In which case we don't add those communities. In which case we are on a different profile with respect to customer attachments and scale of the entire project going forward.

Q.600 - Now yesterday there was discussion of target rates and rate riders and questions about the public process, what involved or the lack of a public process when these rate riders reduced rates below the target rate. And my recollection is we didn't talk yesterday about the public process surrounding establishing of target rates.

Can you describe the process that Enbridge Gas contemplates would be involved in the annual establishing of target rates?

MR. PLECKAITIS: The basic process that we have agreed we are proposing to go forward with is the company would submit to the Public Utilities Board in advance of each fiscal year, its proposed rate for that fiscal year.

And it is my understanding that the Public Utilities Board may then determine based on the evidence and the information that we put forward to it, as to what type, how it wishes to deal with that particular matter.

My hope and my objective would be to minimize the need for public hearings every time there is a target rate set. But I could envision situations -- so my expectation is going forward that an annual public review process, whether oral or documented one, would not be required.

There may be circumstances, however, which are difficult to predict. A sudden rise in energy prices, for example, that causes a significant upward adjustment, as one example, where the Public Utilities Board may decide that more public input in a formal way is required.

But, again, as I said yesterday, it is very much our objective to minimize the amount of time that we spend in the regulatory arena. We obviously understand that one of the things that the Public Utilities Board has a duty to do is to ensure that customers are protected. And obviously being sensitive to that, any decisions we make with respect to setting target rates will very much be focused on what will the customer reaction, both existing customers and new customers, be to any rate adjustment.

MR. MACLURE: Mr. O'Connell, maybe one other point in terms of the setting of target rates that may be important to understand and help in understanding the issue.

If one were to look at it and say towards the end of our current fiscal year, we have a certain target rate and we have a rate rider that's applied to that target rate. The extent to which those two components together reflect current market conditions at the end of our fiscal year, it would make sense that the target rate going forward into the next fiscal year would simply be the sum of those two components. Because what we are asking for is the approval of a market based rate during the development period.

So we are not bringing it back to a cost of service, a new level of costing each year as we go forward during the development period, we are continuing to ask for a market based rate design.

So from the public input point of view it's not entirely different than our request to change rates going into the next fiscal period. Simply we are going to be looking at the energy prices at that point in time. Looking at the Maritimes and Northeast tolls at that time and making an adjustment to the rates on an ongoing forward looking basis.

Q.601 - Now you are going to be doing this, this setting a target rate, I gather, somewhere around your fiscal year end, correct?

MR. MACLURE: Yes.

Q.602 - What financial information, current financial information would you be providing to the Board to assist it in determining what a fair rate is?

MR. MACLURE: Well, I guess it goes back that the financial information, as Mr. Marois talked about yesterday, is year end and the ongoing review of our financial information as an annual review at the end of our fiscal year for the Board to review what is happening with the deferral account and information like that.

In terms of the financial information from the company's perspective with respect to the target rates, it doesn't affect the target rates. Because the target rates are strictly driven by market conditions of alternate energy forms.

So our own financial affairs, if you will, are not really driving the rate that we think is needed in the marketplace within the development period to attach customers. We are asking strictly for a market based rate that will allow us to attach customers.

Q.603 - So are you saying that what Enbridge contemplates is not giving the Board current financial information with respect to the Enbridge operation?

MR. MACLURE: No, I didn't say that. I said that that is part of the reporting process that Mr. Marois talked about yesterday in annual reporting on a moving forward basis. But that information is not information that typically gets moved into the rate design and the actual rate structures.

MR. MAROIS: But if I can add to that. I hope we were clear but, for example, on exhibit 8, page 18, when I talked about the information we would be providing at the beginning of the year.

Q.604 - I'm sorry. Could you say that again, please?

MR. MAROIS: That's all right. I said yesterday when I elaborated on what we meant by light handed regulation and the ongoing information we would be providing to the Board. I referred, for example, on exhibit 8, page 18. That prior to the fiscal period we would be providing, amongst other things, the projected revenue requirement cost of service in aggregate. So what that means at the end of the day is our budget.

So we would be providing information on customer additions, volumetric forecasts, costs of service, rate base. So it's that underpins the cost of service.

But we would also be providing information that supports the setting of the target rates which are not based on cost during the development period because they are market based. But that's information we will be providing to the Board on an ongoing basis.

So the information on the cost of service, on the market base rates. And by definition the difference which will be the deferrals.

Q.605 - Can the target rate be higher than the adjusted rate that was being charged to customers the previous year after riders?

MR. MAROIS: Yes.

MR. MACLURE: But what would drive that would be a change in -- a change in energy cost that you are looking at right at that point in time.

Q.606 - So I take it that if the Board approved a higher target rate, then all of the customers that were impacted by that higher rate, automatically their rate for the service would go up?

MR. MAROIS: Yes, because it's postage stamp rates.

Q.607 - Yes.

MR. MAROIS: But I think yesterday what we mentioned is depending on how the market evolves, there is a possibility for target rates to be adjusted on a quarterly basis. So if there is such an adjustment at year end, the market -- how can I say? We can anticipate that the market will not evolve that much over a quarter before the new target rates are set.

Q.608 - In preparing for this hearing, did Enbridge Gas New Brunswick prepare a cost of service study?

MR. MACLURE: Yes. And we filed a cost of service study at, I believe, it was Board staff interrogatory number 48.

Q.609 - Can you tell me what the -- yes, you are right. Can you tell me what the underlying or underpinning assumptions were that you used in the preparation of that study?

MR. MACLURE: I think that probably -- I hope that that would be better left to the panel tomorrow. It was prepared by Ms. Duguay.

Q.610 - Do you know if that study, after it was prepared, was updated to reflect changes in the assumptions?

MR. MACLURE: Updated to reflect changes in the assumptions between the proposal and what we filed?

Q.611 - That's better asked to the later panel?

MR. MACLURE: Yes. Yes, I think so. Because I'm not sure what your question --

Q.612 - Okay. Just so you understand, it's difficult to fully understand the cost of service study unless you have a handle on the assumptions upon which it is based. And I couldn't find -- and maybe they are there and it's just me. But I couldn't find them expressed anywhere in your evidence.

MR. MAROIS: The only thing I would like to reiterate, the reason why we did not file a cost of service study at the onset is because we feel that such a study has very limited value in a greenfield operation. So if we were to feel that it has value, we would file the appropriate information to support it.

Q.613 - But you would agree with me that if you change the assumptions upon which the cost of service study is based, you can significantly change the results?

MR. MACLURE: Yes, that is correct. If you change the assumptions upon how different costs are allocated, different classes of customers, that does affect the results.

Q.614 - Now what you are saying is that in a greenfield situation, the value of the cost of service study is limited?

MR. MACLURE: Yes.

Q.615 - Can you explain why?

MR. MACLURE: I really think that probably Ms. Duguay is our manager of cost and rate analysis and she would be in a better position to respond to that.

Q.616 - Okay.

CHAIRMAN: A five minute break here.

(Recess)

Q.617 - Supplier of last resort, and you made a -- the interrogatory that dealt with that was Board staff interrogatory number 52. My understanding of the charge under the supplier of last resort situation is that it's a percentage rather than a flat fee?

MR. MACLURE: That's correct.

Q.618 - And so that are the costs involved related to volumes?

MR. MACLURE: By costs I assume that you mean the administrative costs?

Q.619 - Yes.

MR. MACLURE: Possibly not. I am trying to think of what they would -- typically they would be involved in the arrangements for arranging the supply -- I am not certain at this state whether there might be some kind of a transaction fee depending on the manner in which you actually acquired the supply, so some might be, some might not be.

Q.620 - Don't you feel it would be fairer to the customer to charge a flat rate rather than a percentage?

MR. MACLURE: That would be another way of doing it except we don't really have what the flat rate is and what -- the supply of last resort service is a service that we also want to make sure that we encourage customers as quickly as possible to get out and find an alternate supply. So we do not want to have a supply in place that necessarily becomes in some way a default supply and discourages customers from going out and finding and an alternate marketer.

Q.621 - Thank you. Now would you please refer to Board interrogatory number 8, and particularly paragraph B of the Enbridge response. Now that talks about -- well I will read it -- the general partner will be paid a management fee equal to one percent of total expenses. What is included is total expenses? General partner, this obviously contemplates something that is done after the limited partnership is in place?

MR. LUISON: That's correct.

Q.622 - So starting with the day the limited partnership was established it will start earning this one percent management fee?

MR. LUISON: Effectively the general partner has been in operation, so it is already attracting the one percent fee.

Q.623 - So that has started already?

MR. LUISON: Yes. The general partner is in place, the operations of the utility have begun.

Q.624 - Okay. Total expenses, what does it include?

MR. LUISON: It includes all expenditures, both expenses, and on capital with the exception with the repayment of debt. So for example, if debt came due of a certain amount in a particular year and we were repaying that debt, there would be no fee on that, but all other expenditures would be included.

Q.625 - Okay. Does that include capital expenditures?

MR. LUISON: Yes.

Q.626 - Can you direct me -- and maybe -- can you direct me to somewhere in your evidence that gives us an indication as to what this one percent management fee means in any given year in dollars and cents.

MR. MAROIS: Excuse me. We don't have an exhibit that shows the actual calculation but I could make a sample calculation with the caveat that there are some of the details we don't know yet in terms of -- there might be some components I am going to be quoting that might be excluded. So in other words, it would be like the worse case scenario.

So like Mr. Luison mentioned, it's one percent of total expenditures. So if we were to take the year 2001 as a reference point, the first amount we need to take into consideration is the total cost of service on exhibit A, schedule 7, column 1, line 9, which is 3 million 770.

Q.627 - I am sorry. Which line was that?

MR. MAROIS: 9.

Q.628 - 9?

MR. MAROIS: Yes.

Q.629 - Okay. And the number was 3 million --

A. 770, with the caveat that there might be some amounts in there that are not to be included. And then you have to add to that the capital expenditures, which I believe the best place to find them is in exhibit E, schedule 21, page 2, column 2, line 8. I will repeat. Exhibit E, schedule 21, page 2 of 5, column 2, line 8.

CHAIRMAN: Schedule 21 --

MR. MAROIS: Yes.

CHAIRMAN: Page 2?

MR. MAROIS: Yes.

CHAIRMAN: The line?

MR. MAROIS: Line 8.

CHAIRMAN: Total plant additions.

MR. MAROIS: Exactly. Column 2 is for year 2001. So that's really -- that exhibit is the detail of our rate base. So for 2001 the total plant additions are forecast to be 16,529,761. So if you take the 16 million 529.8 plus 3 million 770.3 for the cost of service, that equals to 20 million 300, times one percent, equals 200,000 -- 203,000. So that would be a sample calculation with the caveats I have made.

Q.630 - And what is the plan in terms of how frequently this will be paid? Is it a management fee that is paid monthly or bi-monthly or annually?

MR. LUISON: It hasn't been determined yet.

Q.631 - Now Enbridge Gas New Brunswick, as you have said, has already started earning that management fee to the extent that the expenditures have been incurred?

MR. LUISON: The liability for Enbridge Gas New Brunswick Inc. to pay that fee has already started.

Q.632 - Has any -- well the way you put that confused me. It is my understanding looking at this --

MR. LUISON: Sorry. I just think you had the question backwards. This is an expense that the utility will pay to Enbridge for services provided.

Q.633 - The utility pays to Enbridge. Because when I read the answer to the undertaking -- obviously I am in error here -- your answer said the general partner will be paid. And I thought, I am obviously wrong, that the general partner was Enbridge Gas New Brunswick.

The bottom line -- I think we are saying the same thing in a different way. The bottom line is that there is no -- very little difference between Enbridge Gas New Brunswick Inc. and its parent. And the funds are really going to the parent, and you are calling the parent the general partner here.

MR. LUISON: Enbridge Gas New Brunswick Inc., the best way to put it, has two roles. One is it has the role of the general partner in terms of managing this corporate structure. And one is it is where the operations of the utility reside. So the general partner has responsibilities related to it over and above the operations of strictly the utility and what is intended is that the utility would pay to the general partner to execute its responsibilities of governance and management oversight a one percent fee.

Q.634 - The bottom line is that Enbridge Gas New Brunswick Inc. writes a cheque to Enbridge Inc.?

MR. LUISON: The utility writes a cheque to Enbridge Inc., yes. Enbridge Inc. is being compensated for expenses that it is incurring.

Q.635 - And you gentlemen knew that when you described the general partner will be paid a management fee, because in your perspective on the whole thing, you view Enbridge Inc. as being the general partner, correct?

MR. LUISON: Enbridge Inc. is the general partner.

Q.636 - Thank you.

MR. LUISON: Enbridge Gas New Brunswick, I am sorry, is the general partner.

Q.637 - Gentlemen, you can't have it both ways.

MR. LUISON: I mean this isn't a -- clearly it is not a straightforward issue and we are not having the most success in clarifying it.

But the general partner, in its capacity as the general partner, to the limited partnership is responsible for overseeing the activities of the utility and putting certain arrangements in place.

So for example, when the services agreement is put in place it is the general partner that is doing that work, that is where the management or the people reside and the expenses are incurred. And those are typical governance type activities that are being undertaken.

Now the utility is the entity that will pay those expenses and those are moneys that will flow to the Enbridge organization, if you will.

I don't know if that helps clarify it or not, but it is -- I mean the intent here is that the utility is paying for services provided by the Enbridge organization and it is including those costs, which are calculated as one percent of total expenses, in its cost of service.

Q.638 - Let's try it this way. Catalogue for me the services that Enbridge Inc. is supplying to Enbridge Gas New Brunswick Inc. in return for this one percent management fee?

MR. LUISON: Some of them are alluded to in part A of the response, for example, and they are listed here as treasury and banking and financing and cash --

CHAIRMAN: Pardon me. Response, which response?

MR. LUISON: This would be --

MR. O'CONNELL: Board staff interrogatory number 8, Mr. Chair.

MR. LUISON: Interrogatory number 8.

CHAIRMAN: I am sorry. The two of you answered. One, please.

MR. O'CONNELL: Board staff interrogatory number 8 and the response to that.

CHAIRMAN: Thank you.

MR. O'CONNELL: Sorry if I interrupted you.

MR. LUISON: So in part A of that response it mentions some of the activities, some of the services that we anticipate will be provided such as treasury, banking, financing, cash management, insurance and physical risk management, legal services, use and support of information technology, call centre, et cetera, et cetera, and many of those activities have already begun.

Banking arrangements have been put in place for the use of Enbridge Gas New Brunswick Inc. Insurance arrangements have been put in place. Legal services of course have been ongoing since day one. Information technology systems have been put in place, the staff here do have access to the computer systems that were put in place by Consumers Gas, et cetera, et cetera.

So these are the kind of service arrangements specifically that are already being executed.

Now over and above that, there is the general management and governance and oversight activities that Enbridge is having to execute. When we put in place the bid, certainly it was the intent of the Province to seek first and foremost parental guarantees with respect to the financing side of the business.

It was also presumably the intent of the Province to award us this franchise partly because we had established our credibility and ability to execute what we said we were going to do. And Enbridge did of course give those undertakings and did give those guarantees, if you will. And now that those guarantees are in place, Enbridge is only being prudent and is having its -- and is exercising its management oversight and its governance responsibilities, and for those costs that it is incurring it is being -- it is expected to be compensated for.

Q.639 - Okay. That's very nice. Let's look at answer -- paragraph B to that interrogatory. And maybe I misread or misinterpreted what you said. But you go on to say, fees for specific services such as those identified above have not yet been negotiated but they will be provided at fair market value as if sourced from any arms length third party provider. And when I read that what I thought that meant was all these functions that are described in paragraph A of your response are to be charged to Enbridge Gas New Brunswick over and above the management fee?

MR. LUISON: Yes. I was trying to clarify some of these things in my earlier answer. There will be specific arrangements put in place for the provision of the -- some specific services that are listed here. And those will be charged at market and those have not yet been negotiated and the amounts have not been agreed upon.

Over and above that thee will be a management fee that is this one percent issue that we have been talking about that is over and above those other specific contracts that are put in place.

Q.640 - So just so I understand, over and above the $200,000 -- and by the way, Mr. Marois, I do recognize that you chose the year when the management fee will be its very least, and as you move -- for example, I -- it just took me a second to look at schedule 7 to exhibit A and noticed that the 3 million that you used for the year 2001 becomes 6.4 million the next year and 9.7 million the year after that and 12.1 million the year after that and 14.2 million the year after that. And so obviously the management fee might be $200,000 in that year.

MR. MAROIS: The reason I chose 2001 is that's the test year we are presenting right now.

Q.641 - Yes. But I just want to make it clear that that is significantly lower in terms of dollars and cents than this management will be as it matures.

MR. PLECKAITIS: Would you like us to do a calculation for year 10?

Q.642 - How about I will pick a year? Yes, year 10 is good.

MR. PLECKAITIS: In year 10, referencing the same exhibits that Mr. Marois referenced earlier, the same lines, the cost of service, subject to the same qualifications that Mr. Marois gave, is 19. -- roughly $19.1 million.

The capital additions in that same year referencing the other exhibit that Mr. Marois referred to earlier, is approximately $17.1 million. Adding those two together and taking one percent, it is approximately a $360,000 management fee.

Q.643 - Okay. Thanks very much.

MR. LUISON: In the dollars of the day.

Q.644 - Yes. Yes. If you are going to start talking present value you are going to get way out of my league.

Let's go back to page 1 of the answer to interrogatory number 8 where you say that -- and it lists what the general partner or its affiliates would likely do, but not necessarily be limited to, all treasury, banking, financing, cash management and related services. Now all those functions will be carried out, I gather, either in the Province of Ontario or the Province of Alberta?

MR. LUISON: Certainly some of the banking arrangements are here in place. Some of the accounting related to these items takes place in Toronto, the treasury function proper is in Calgary and is executed out of Calgary.

Q.645 - All right. And those are functions for which Enbridge Gas New Brunswick, the general partner, will pay Enbridge?

MR. LUISON: Those are monies that will flow to Enbridge from the utility. Again, I think we just confuse the issue by bringing the corporate structure into the discussion. The issue at hand I think is what the utility is paying for and recognizing that the monies are going to Enbridge through one mechanism or another. So I don't think it adds anything to talk about the corporate structure, the financing arrangements that are in place. The monies are flowing from the utility.

Q.646 - What exactly is taking place that justifies the funds flowing from Enbridge Gas New Brunswick to Enbridge?

A. The activities that are taking place are related to the general management, oversight and governance of the operations of the utility.

Q.647 - All right.

MR. LUISON: So there is senior management time and corporate time generally devoted to overseeing the operations of Enbridge Gas New Brunswick Inc. Enbridge Gas New Brunswick Inc. is availing itself of advice from Calgary and from Toronto for things -- you know, just to use examples, relating to human resource issues to investor relations to any number of things.

And presumably, you know, the fact that we had those services in house was one of the reasons Enbridge Gas New Brunswick Inc. won the bidding contest. That we could deliver on those things from day one without reinventing the wheel. So they are good things.

Q.648 - I don't disagree with you, and I would readily agree that the Province of New Brunswick looked at Enbridge as a whole, and the different affiliates and what they could and could not provide, the experience they could provide, the expertise they could provide, when it settled on the Enbridge group of companies as its partner in this endeavour.

Now insurance and fiscal risk management services, those are functions that will take place in Toronto or Calgary or somewhere outside the province?

MR. LUISON: In terms of -- yes, in terms of putting in place the insurance arrangements which in fact have already been done.

Q.649 - Okay. And I will leave legal services out of this little --

MR. LUISON: Just to clarify though with respect to the insurance issues, the participation of the company was done out of Toronto and Calgary, but dealing with parties here in the province.

Q.650 - Internal audit services, those would be provided -- I mean somebody may come to New Brunswick to perform the function, but they will be provided by Enbridge staff out of Toronto or Calgary?

MR. LUISON: Out of Toronto.

Q.651 - Okay. Access to use and support of information technology, that is IT, that exists in Toronto or Calgary?

MR. LUISON: Yes.

Q.652 - Provision of a call centre and customer information system, that is like a 1-800 affair?

MR. LUISON: Right. And we can go through this whole list, but some of these things are real and in place today, some of them are still under consideration and those arrangements haven't been put in place.

Q.653 - I understand. Call centre, Does Enbridge presently have a call centre operating somewhere outside the Province of New Brunswick?

MR. PLECKAITIS: Yes, it does.

Q.654 - And those functions again will be paid for over and above the one percent management fee?

MR. PLECKAITIS: That's correct.

Q.655 - And there is -- what Enbridge is saying to the Board today is there is no intention to look at tendering for those type of functions or doing anything with those type of functions except having them done by an Enbridge affiliate from outside the province?

MR. PLECKAITIS: If I can add to this question, because obviously there are some issues here that I am party to that Lino is not party to directly.

The actual arrangement of what services we will first of all acquire from Enbridge, whether it's Enbridge Inc. or one of the other affiliates, still hasn't been finalized. It will be an ongoing development issue.

The intention of that list that -- as response A was to identify the types of specific services that we were looking at basically acquiring from Enbridge companies.

As Lino indicated, the advantage that we see in buying -- acquiring these types of services are, A, those services are already in place within other organizations of Enbridge, they are designed for utility type applications, so therefore they can be set up very quickly and cost effectively relative to what might be available from other service providers.

My intention is to ensure that those costs, or those services, if we decide to go in the direction of utilizing them. And I think in many of the lists there it seems at this time to be a good idea to try to utilize those, is that those are provided to Enbridge Gas New Brunswick at a fair market value. And, you know, how we will determine that will really depend on the service that we were looking at specifically, the significance of the cost, the availability of other service providers that might be accessible, et cetera.

Q.656 - Okay. Can one of you gentlemen possibly tell me where the one percent came from, how -- why -- is there any magic in the one percent number?

MR. PLECKAITIS: Well the only -- we had some discussion -- I had some discussion along with some other members, New Brunswick members, it was approximately two or three weeks ago when we were talking about the management fee and the fairness of the management fee and whether it was an appropriate level to be charged.

Mr. Bird was -- this is Mr. Richard Bird who was a member of the senior management group of Enbridge Inc. and on the Board of Directors of Enbridge Gas New Brunswick, expressed the view that it was a fee that was a modest fee compared to his experience on what other similar type arrangements are charged by the parent or by the general partner to manage the business relationship.

That is all of the information that I have. It seems from my perspective as being a reasonable number given the number of senior management that are involved in the day-to-day or the guidance and the governance of the business, and the other partners -- New Brunswick partners that were party to that discussion seem to be satisfied based on their experience that the fee was a reasonable fee as well.

Q.657 - You have looked at other parent subsidiary relationships similar to the one that exists between Enbridge and Enbridge Gas New Brunswick to determine what was a reasonable fee?

MR. PLECKAITIS: With respect to the general management fee? No, I did not.

Q.658 - Okay. Do you have forecasts or have you forecasted what in terms of funds will be flowing -- and I mean not just the management fee but all these other things that are going to be done in Toronto and Calgary -- what they are going to cost Enbridge Gas New Brunswick in any given year?

MR. PLECKAITIS: No. And subject to correction with my other panel members, as I indicated to you we have not yet determined where some of these services will be provided for.

We are having discussions for example with Enbridge Commercial Services which is an affiliate to talk about the computer facilities that they might provide to us. But no final determination on many of these services has yet been made.

So we would not have a breakdown on what fees will be specifically charged to -- or charged by other affiliates to Enbridge Gas New Brunswick until those determinations are made.

If I can add, certainly when -- as those details are finalized we would be -- they will obviously be in the public record to the point that we would provide that information to the Public Utilities Board.

It's something that happens in other jurisdictions where we operate -- where management fees and shared services fees are things of interest to the regulator. And as those arrangements are made we would be willing to provide those to the Board.

Q.659 - Okay. Just so I understand, what exactly is it that you are proposing? What type of documentation are you proposing to supply to the Board?

MR. PLECKAITIS: Well, first of all there would be the -- earlier you asked me for a copy of the services agreement which is the overarching agreement. And I committed to providing you with a draft of that agreement.

So obviously that agreement as well as any subsequent revisions to that would be shared with the Board. There would be addendums to that agreement, the way I envision it, that would then specify specific services.

So look at the services agreement as sort of the general overarching framework agreement, and then underneath that addendums that would talk about specific services that an affiliate would provide Enbridge Gas New Brunswick. And we would be equally willing to share those agreements with the Board.

They would within them specify the types of service, specific type of service to be provided, for example call centre services or IT services, and then provide a method for calculating the cost of those services, and the service levels that Enbridge Gas New Brunswick could expect and the term of that basic agreement.

Q.660 - I guess one of the things that I'm wondering about as I sit here is does Enbridge expect or want the Board to make its decision with respect to rates before all of this information is filed with the Board?

MR. PLECKAITIS: Yes, it does.

Q.661 - But as I understand it, part of what the Board has to determine is that the expenses of Enbridge are fair and reasonable or just and reasonable. I forget what the wording is.

And how can they possibly do that if they don't have all the information before them?

MR. PLECKAITIS: Well, I guess first of all this is an ongoing process. One of the things I think that everyone needs to understand is that if we were to sit and wait for all of the detail, all the details to be finalized, for example exactly where we will get our call centre services and where we will get things like our computer systems prior to submitting an application to the Board, we would not be doing any work this year. I can assure you of that.

So then the question becomes well, how can the Board fulfil its responsibilities and mandate to ensure that the costs that you eventually intend to recover from customers are fair and just?

And I think Mr. Marois has indicated that we intend to file, first of all, all of our actual expenditures for a year, going in retrospect, to the Board, as well as subsequent filings of forecasts of future years.

So at anytime -- and the level of detail that we provide to the Board and the way those accounts are broken down and information obviously is the type of thing that we intend to work with the Board and its Board staff to provide whatever information the Board feels is necessary to satisfy their interest that the costs that we are attempting to recover from customers are fair and reasonable.

So I do not see this hearing, and the fact that we have certain information missing in terms of our final cost in place, as a reason that the Board should not proceed.

I think that this is an ongoing process. As the utility develops it will continue to share this information with the Board.

And the Board will have every right within its jurisdiction to satisfy itself that what we are doing is appropriate.

MR. MAROIS: If we could just add to that, what we are seeking approval for here are just and reasonable rates. And these rates are market-based. And they are not recovering the cost of service.

So no matter what -- we could refine the cost of service to the nth degree. It would not change our proposed rates as we speak today.

Q.662 - ABC Services -- as I understand the concept here, what Enbridge is proposing is that billing and collection functions will be performed by affiliates, correct?

MR. MACLURE: Yes.

Q.663 - Okay. And that there will be a charge by the affiliate to Enbridge Gas New Brunswick for the provision of those services?

MR. MACLURE: That is correct.

Q.664 - And then in turn Enbridge Gas New Brunswick will charge marketers for the provision of those same functions?

MR. MACLURE: That's correct.

Q.665 - What are the rates?

MR. MACLURE: The rates were quoted in our evidence at --

Q.666 - I think what you are looking for -- exhibit A, page 16 to 28?

MR. MACLURE: Thank you. Exhibit A, page 16. Clearly we have helped the paper industry in New Brunswick.

Q.667 - And if you are looking for the Board staff interrogatory and the response, that is number 13.

MR. MACLURE: I was looking for some things. Anyway, go ahead.

Q.668 - You would agree with me that the rate that will be paid to the affiliate by Enbridge Gas New Brunswick for the provision of these services and the rate that Enbridge Gas New Brunswick will charge to the marketers for the service are different?

MR. MACLURE: Yes, I will.

Q.669 - You are charging your marketers more than you are being charged by your affiliate for the provision of ABC Services?

MR. MACLURE: That is correct.

Q.670 - Why the difference?

MR. MACLURE: The difference is the bad debt exposure that the company, that Enbridge Gas New Brunswick will take on with respect to those collections.

So the difference is in terms of the cost to Enbridge Gas New Brunswick is a lower cost because it takes on the bad debt risk of collecting the commodity component of the marketer's bill. It guarantees the remittance of that component to the marketer. So it takes on the collection risk.

Q.671 - So --

MR. MACLURE: What it's doing is it's taking on -- it's charging the marketer for that collection risk in the differential on a forecast basis. And then it takes essentially the risk of a variance between forecast and --

Q.672 - Okay. And this bad debt expense resides with Enbridge Gas New Brunswick?

MR. MACLURE: Yes.

Q.673 - Now is that an expense that you end up also paying as part of the 1 percent management fee that you pay to Enbridge?

MR. MACLURE: I think that it would be. I would have to think through all the details of the calculations to ensure that it was.

But I think it probably would be. Because it would be a forecast of our overall costs.

Q.674 - Now in your view is the differential between what you collect and what you pay sufficient to cover bad debt expense?

MR. MACLURE: Well, this is based on our experience in Ontario. And as a consequence of that, that's the best information that we have at this point in time, and certainly in the future, I think, that we would have to update it relative to the actual experience we would get as we move forward and attach customers and understand what kind of bad debt experience we gained in the New

Brunswick environment.

Q.675 - Okay. So what you are saying is you anticipate that those -- what you collect from marketers and what you pay to Enbridge affiliates need to be flexible numbers that will change as your experience matures?

MR. MACLURE: As our experience matures I would expect that we will be coming back and suggesting to the Board that these numbers may not be appropriate.

And it would be the kind of a situation that would probably last for a period. And then in a subsequent year we will say that these have to be adjusted.

The costs of the program will change over time. The cost of administering the ABC program will change.

Q.676 - I want to talk for a few minutes about commitments. And article 5 of your general franchise agreement deals with the gas distributor's covenants?

MR. MACDOUGALL: Mr. Chair, for reference the general franchise agreement is at schedule A of our application.

Q.677 - Gentlemen, what I'm looking for -- oh, let me know when you are finished reading that. Then I will put my question.

MR. PLECKAITIS: Is it 5.1 specifically, Mr. O'Connell, you are referring to?

Q.678 - No, no. Just let me -- my question is can you provide me with a detailed description of the performance obligations or commitments that Enbridge Gas New Brunswick or its affiliates have made to the Province of New Brunswick?

MR. LUISON: Could you repeat the question please?

Q.679 - What I'm looking for is a list of the performance obligations or commitments that Enbridge Gas New Brunswick or its affiliates have made to the Province of New Brunswick?

MR. MACDOUGALL: Mr. Chair, I believe that might be very close to an IR that was proposed by the Board. I was wondering if Board staff has the IR.

Because I believe that was responded to, that almost identical question, just for reference. I believe Board staff number 2.

Q.680 - Okay. I have Board staff interrogatory number 2 before me as well. And as I'm sure -- the question was basically please provide a detailed description of Enbridge Gas New Brunswick's performance obligations and commitments with specific references to the general franchise agreement.

And your response, gentlemen, "Enbridge Gas New Brunswick's performance obligations and commitments are found in article 5 of the general franchise agreement between the Province of New Brunswick, Enbridge Gas New Brunswick, Enbridge Consumers Energy Inc. and Enbridge

Inc.

"Under section 5.1 Enbridge Gas New Brunswick covenants to develop, design, construct, finance, operate, manage and maintain the gas distribution system in the franchise area in a first class manner."

Now that is illuminating. But what I'm looking for is something a little more specific than that. You have traced the wording of article 5 in your response to that interrogatory.

And my question to you is are you in a position to give me specifics as to performance obligations and commitments given to the Province of New Brunswick other than the general language of that article?

MR. PLECKAITIS: Mr. O'Connell, I think the reason that we responded the way we did was in fact it is a very difficult thing to specifically respond to in a single interrogatory without basically attaching to it directly all of the proposal that we submitted to the government and the subsequent interrogatories, et cetera.

So there is a whole volume or volumes of information that document the company's commitments with respect to what it intends to do going forward to fulfil the obligations and requirements from the government's request for proposal.

Q.681 - So are there any commitments that you can take out of that that we might categorize? Let me try another term, a guarantee of performance, to hire and continuously employ so many New Brunswickers, to invest so much money in infrastructure in the province of New Brunswick?

MR. PLECKAITIS: Yes. And they are contained in the proposal. And in the proposal -- the proposal forms part of the record, I believe, in this hearing.

Q.682 - Okay.

MR. PLECKAITIS: So they are all there.

Q.683 - All right. For example in the proposal it seems to me that you commit to hiring 80 full-time staff in New Brunswick?

MR. PLECKAITIS: I think the number is 90 over the -- eventually when we are at full operation.

Q.684 - And does that continue to be a commitment from Enbridge Gas to the Province of New Brunswick, that they will hire people in that magnitude?

MR. PLECKAITIS: I can assure you that it probably won't be 90. It may be 89 or it will be 91. But the best information I have right now is that that is a reasonable number, yes.

Q.685 - Okay. Have you committed to the Province of New Brunswick in terms of customer attachment schedules?

MR. PLECKAITIS: Yes, we have. We have committed -- and I believe that schedule also forms part of our evidence.

Would you like -- would you like a reference for that --

Q.686 - Yes, please.

MR. PLECKAITIS: -- customer attachment?

Q.687 - Yes, please.

MR. PLECKAITIS: If you refer to exhibit A, schedule 4, Mr. O'Connell, this exhibit basically summarizes the company's projected customer additions over the 20 years of the initial franchise agreement.

And as you can see from the end of year 20 on page 2 of that exhibit, at the bottom, line number 28, we estimate that we will have approximately 71,000 customers being served by natural gas at the end of that period.

Q.688 - Okay. Thank you very much.

MR. O'CONNELL: Mr. Chairman, I don't know what you want to do in terms of lunch. I have got a couple more areas of questioning.

And I want to take a few minutes and go through my notes that I took during Mr. Stewart's examination yesterday. Because it gave rise to some questions in my mind.

I don't know whether this is a good time to break for lunch or not.

CHAIRMAN: It sounds like you are asking to break for lunch, Mr. O'Connell.

MR. O'CONNELL: That is basically it, sir.

CHAIRMAN: I agree with that. Try and come back at 1:30.

(Recess - 12:27 p.m. - 1:30 p.m.)

CHAIRMAN: Any preliminary matters before Mr. O'Connell continues?

Q.689 - Good afternoon, gentleman. I want to try one more thing in the area of commitments that we were talking about before lunch.

And of course I have read in your materials reference to the potential savings that will be offered to your customers as compared to what they pay for electricity or home heating fuel or other sources of energy.

And I'm wondering if Enbridge Gas New Brunswick is prepared to commit to any particular number in terms of maintaining a price lower than the people of New Brunswick would pay for alternate energy sources?

MR. PLECKAITIS: Mr. O'Connell, the company, when it was putting together its proposal, forecast that the energy savings based on its experience and its expectation as to how the market will develop in New Brunswick, would be about $2.2 billion over the 20 years of the franchise agreement.

Of course that takes into account there are working assumptions on the number of customers that we will attach. And it takes into account an assumption of how much each of those customers will use on average in energy, natural gas energy and then finally what their existing energy is and the relative cost differential between natural gas and the competing fuels.

That is about as far as we can go at this stage. It is impossible for us as a corporation to determine with any level of preciseness what those savings will actually be.

I think the commitment from the point of view of the corporation is one that clearly we are incented to ensure that we maximize savings to New Brunswickers.

We have demonstrated the savings that we are proposing here or expecting here are very similar to the savings that we are offering to customers in other areas and jurisdictions that we operate. We believe that those numbers will pan out.

But at the end we don't control all aspects of the market, as we have indicated. We don't control electricity pricing. We don't control oil pricing. And we don't control all elements of the pricing or either elements of the value chain that go into the pricing of our product.

Q.690 - So the short answer is no?

MR. PLECKAITIS: Yes. Yes, the answer is no.

Q.691 - Got you. For the next few minutes I want to ask you some questions about your pro forma financial statements.

And for reference purposes you may recall that Enbridge issued a fax with amended pro formas on April the 4th.

And you may want to get those out. Because those are the specific pro formas I'm going to be referring to for the next few minutes.

MR. BLUE: Mr. Chairman, I wonder if Enbridge could give us a reference so the rest of us can find those statements?

Q.692 - We believe it is Board interrogatory number 78.

MR. MAROIS: Yes. The exhibits have been indexed as exhibit E, schedule 78.

MR. BLUE: Thank you, Mr. Chairman. Thank you, Mr. O'Connell.

Q.693 - Now -- I'm sorry. Have you found them? Are we okay to go ahead?

MR. MAROIS: Yes.

Q.694 - Can you tell me please what documents were used as resource documents in the preparing of these pro forma?

MR. MAROIS: Well, the resource documents are the documents that form part of our proposal.

Q.695 - That is wonderfully helpful. But I'm wondering if you could be a little more specific than that.

CHAIRMAN: Mr. O'Connell, do you want to wait.

MR. O'CONNELL: Yes, sir.

CHAIRMAN: Those were -- it was amended --

MR. MACDOUGALL: It was a letter, Mr. Chair, from Enbridge to Ms. Legere on the 6th. They were all attached to that letter.

I think there is quite a few copies of the letter with them all attached. And there were some put at the back of the room.

There should be five questions that are all there which will now be schedule 78 to 82. And I believe they are all referable to the same item.

CHAIRMAN: Thank you, Mr. O'Connell. We are ready.

MR. MAROIS: Before I start talking about reference documents, maybe what I would like to just mention is we have a financial model that underpins all our numbers. So at the end of the day it's the financial model that generates these statements.

But I think the starting point, if you look at the income statement of -- you have reference to an exhibit E, schedule 78.

The starting point is the document that was -- the financial -- the income statement that's presented on page 4.153 -- 4.153 in the proposal to the government.

So the proposal to the government did include financial statements. And the starting point for that income statement is the one that's in there.

The numbers are slightly different in the one in the proposal than the one that you see here, for the sole reason that -- and that's probably the -- I think that's the only difference we have between our -- the rates application and the proposal -- is in the proposal we had assumed an immediate reaction from the oil suppliers.

Accordingly our target rates were somewhat lower in the proposal than they are in the rates application. Because in the rates application we did not take into account that initial price reaction.

What we have said is we will set the target price based on the forecasts we have today. And once that reaction occurs, we will reduce our rates to the rider A. But the rest of the documents are the same.

Q.696 - I'm not in the business of looking at pro formas every day, so bear with me.

MR. MAROIS: Yes.

Q.697 - But it is my understanding that normally with a pro forma you would get a list of assumptions upon which the pro forma is based.

Do you have those available to you? Can you talk about the assumptions upon which the pro forma are based?

MR. MAROIS: The assumptions are the ones that we supplied in our request of our proposal. And it's included in section 4.5 called detailed financial plan. The major assumptions underpinning our financial information can be found in that section.

Q.698 - Okay.

MR. MAROIS: Another for what I have just mentioned, i.e. the immediate reaction of oil prices, the assumptions still are valid.

Q.699 - So the assumptions briefly are: 1) assumptions as to the rates being charged for competing energy products? I'm looking at 4.5 now.

MR. MAROIS: Yes.

Q.700 - That is one of the assumptions?

MR. MAROIS: Yes, yes.

Q.701 - Now the other thing that I understand periodically comes with -- oh, I'm sorry, did I interrupt you?

MR. MAROIS: No, no, sorry.

Q.702 - That comes with pro forma financial statements is some sort of a business plan?

MR. MAROIS: The six binders that form our proposal is our business plan.

Q.703 - That is your business plan?

MR. MAROIS: And I think it's a lot more voluminous than any business plan you will find in a regular company.

Q.704 - So I tell you what, let's try, looking -- I'm looking at schedule 78, page 2 of 3.

MR. MAROIS: Yes.

Q.705 - I have only one question with respect to the revenue side of the house, if I can put it that way.

MR. MAROIS: Okay.

Q.706 - And that revolves around the item on line 3, AEDC. And can you tell me, let's use column 1, how that number is generated?

MR. MAROIS: Yes. I will answer your question. But I can't find if there is a more specific reference in the document at this time.

But AEDC stands for allocation for equity during construction. And that's discussed in section 4.5.1.4 of our proposal on page 4.145, page 1 -- page 4.145.

And what we mention there is -- we discuss the allocation for funds used during construction and the fact that that's composed of two amounts.

One amount is the equity component. So that's the AEDC allowance for equity during construction. And the other component is AIDC which has allocating for interest during construction.

And the allowance for equity during construction is based -- by definition it's the equity. So it's based on a rate of 13 percent. And I'm not too certain if I can -- if I'm able to reproduce the specific calculation here.

But conceptually what it is is we make an assumption on the duration of the construction. And we apply the 13 percent to the amount that must be financed during construction.

That is added to rate base and is credited to net income. And that's why we see a revenue. But that's a revenue for accounting purposes only. It's eliminated for regulatory purposes.

Because the way we recover that AEDC is through a return on rate base. And then it's recovered through depreciation over time.

So like I said, I don't have the -- I could commit to supply the specific calculation but it's really the return during the construction period.

Q.707 - That's okay. I won't make you go and dig out that specific calculation.

When I look at section 4.5.1.4 it talks about, as you just said, both equity and interest. And what you have done here is the equity portion is here.

MR. MAROIS: Yes.

Q.708 - But I couldn't find the interest portion?

MR. MAROIS: Well, I think it's -- what's mentioned here is you don't find the interest portion on the income statement because it cancels itself.

You have a -- you have the interest expense. But you have the interest revenue that is generated from the allocation from interest during construction. So one cancelled the other.

So that's -- I will just refer you to -- sorry, the last line on page 4.145 it says, no adjustment is made to the income statement to account for AIDC because it is offset by the interest expense.

So you have an interest expense that is generated because during the construction period what you really do is you eliminate that interest expense and capitalize it as part of your asset. So the net impact on your income statement is zero.

Q.709 - Okay. Line 5, page 2 of 3, schedule 78, O & M. 1 million -- in column 1, 1 million 619,280.

MR. MAROIS: Yes.

Q.710 - Can you tell me how that is generated?

MR. MAROIS: Well, the starting point for that is the total O & M forecast for the year, which is on line 22, column 1, which is the 6 million 576,556.

But again if you go back to our assumptions and I refer you to section 4.5.1.3 on page 4.143 of our proposal. That section is entitled, Financial Modeling Assumptions.

Just turn the page. And the title on top of page 4.144 is called, Capitalized Overhead. And we show there a percentage of capitalized overhead for years 1, 5, 10 and 20. And --

Q.711 - I'm sorry to interrupt you. It looks like -- I wonder if we have something different here that I'm referring to?

Do you mind if I --

MR. MAROIS: No, no. Not at all. Not at all.

Q.712 - The one I'm working from shows "revised March '99"?

MR. MACDOUGALL: I believe, Mr. Chair, Mr. Hoyt will bring this out. What may have happened is in the clarification questions to the proposal from the Province, what occurred is there was a lot of clarification pages added. And then pages got replaced.

I believe Mr. Marois might have the replaced pages that he is reading from in his binder. Those would be in everybody's proposals. They may not have been -- the pages may not have been --

MR. MAROIS: They should be --

MR. MACDOUGALL: -- slotted in and replaced.

MR. MAROIS: Yes. They should have been. But it's not impossible that the proposal remained --

MR. MACDOUGALL: As I said, the Province issued clarification questions. Some of them, rather than just clarify, the page was sent and put back.

They should have -- all the replacement pages should be in there, either -- but they might not -- they might be just at the end of the actual clarification questions rather than reslot it in the binders.

Mr. Hoyt will just clarify with Mr. Marois. And we will see if there is any issue.

MR. MAROIS: What we think might have happened is I believe the Board had original copies of the proposal. But my understanding, and I stand to be corrected, is the ones that we refiled have been updated.

So I apologize if -- but I believe that -- I hope that all the ones that were distributed have been updated. That's my understanding.

MR. HOYT: Excuse me, Mr. Chairman. There was a clarification question asked by the Province at the end of the RFP process in which a number of revised pages were submitted by Enbridge Gas New Brunswick to the Province.

They were subsequently, and in the versions that were distributed to the Board as part of this application, incorporated into it.

But at the time that the GFA was originally signed, one version of the franchise agreement was sent to the Board. And I expected that prior to the substitution of those pages.

So that the necessary pages can be found at the end of volume 2 of the clarification questions as between the Province and the proponent.

MR. MAROIS: In the original version.

MR. MACDOUGALL: So the pages would all have been there, Mr. Chair, but just not reslotted into that one version that Mr. O'Connell unfortunately seems to have in front of him.

MR. O'CONNELL: Seems to have. I'm wondering if you could just lend me something so that I can look at it while Mr. Marois takes me through. And I promise to return it.

MR. MAROIS: Do you want me to --

Q.713 - Capitalized Overhead is where you were, I think?

MR. MAROIS: Yes. So we are on page 4.144 of the revised June 1999 version of our proposal to the government. And the table at the top of that page is table 4.38, Capitalized Overhead.

And we show the overhead percentages for year 1, year 5, year 10 and year 20. And I think the first thing we notice is that the capitalized overhead goes down drastically from 75 percent in year 1 to 28 percent in year 5, 27 percent in year 10 and 6 percent in year 20.

And the text underneath that table tries to explain that. And maybe for the record I will read it. It's a short text.

The overhead costs included in the capital include three classifications of overhead. The first relates to unique one-time costs relating to the startup of the business.

So that is why the percentage at the beginning is so high. Because we capitalized the costs that are related to the startup.

The second classification incorporates the additional costs relating to increased activity during the relevant phase.

So even after the initial startup is done there is a lot more activity in terms of construction that would normally be found once we are mature. So that also generates a higher capitalization rate.

Finally the third overhead classification includes all the capitalized overheads relating to adding a customer that one would expect during normal operations of the business, that is after the development phase.

So even after the development phase you still capitalize some overheads because some of your overhead is directly -- or indirectly related to putting pipe in the ground.

This was calculated on a capitalized overhead cost per customer basis and then applied to the customer addition forecast in each year.

As a result of the methodology described above, the actual overhead percent embedded in the capital forecast varies each year.

So that is the context in which the overheads are being partly capitalized.

Q.714 - Line 23 on page 2 of 3 of schedule 78 --

MR. MAROIS: Yes.

Q.715 - -- shows a capitalization rate of 75.69 percent?

MR. MAROIS: The only thing -- I guess the question is why is it different than the 75 percent?

Q.716 - Exactly.

MR. MAROIS: The only thing I can tell you is it is probably rounding in the table on -- because it's very close there the --

Q.717 - Yes. Okay.

MR. MAROIS: -- table is close to 75. I have no other explanation.

Q.718 - I guess can you take me from your O & M cost of 6.576 million to the O & M number on line 5 of 1 million 619,280?

MR. MAROIS: I hope so. So again if you go to column 1, line 22, the forecast O & M costs for year 2001 are 6 million 576,556. So that's -- there is no capitalization in that. That's your normal O & M costs.

Based on our assumptions we capitalize 75.69 percent of that amount. So what is capitalized is 4 million 978,056. So you end up with net O & M expenses of 1 million 598,500.

What's important to note is this was done in 1999 with '99 dollars. So we have to inflate it to 2001 dollars. So we add inflation of 1.3 percent. And so that gives you your real O & M expenses based on 2001 dollars.

Q.719 - Okay. So this calculation is done based on what I guess you would call capitalization rules or capitalization guidelines of Enbridge?

MR. MAROIS: It's based on our experience and on the particular situation we are in, the startup phase.

So what is -- what is being -- the expenses being incurred in 2000 are fully capitalized, 100 percent. And what is being incurred in 2001 is --

Q.720 - 75 point --

MR. MAROIS: -- 75 percent. But again that's based on our experience and our knowledge of the situation we are in.

Q.721 - So is there a policy or a guideline or a document of some type that articulates this policy, this experience?

MR. MAROIS: I don't believe so. I think it's consistent with accounting, general accepted accounting principles, that you capitalize -- it's a question of matching here. Some of the investments we are making up front will be -- will serve the customers in the long run. So it would be unfair to try to recover these costs as short-term expenses.

So I think the guiding principle here is a principle of matching.

Q.722 - Some of the -- a couple of the items in the lines 18 and 19, real property tax and capital tax.

MR. MAROIS: Yes.

Q.723 - And forgive me for trying to talk about accounting principles, because I'm struggling. But real property tax is a deductible expense, correct?

MR. MAROIS: Yes.

Q.724 - As a deductible expense, shouldn't it be shown above line 13, "net income before taxation", rather than below?

Isn't it an expense that should come out in the process of calculating net income before taxation?

MR. MAROIS: Typically it is shown before the net income, you are correct.

Q.725 - So this pro forma is wrong to the extent that the property tax is shown in the wrong place in the -- and it should be taken into account in the calculation of net income before tax?

MR. MAROIS: Yes. But it's shown maybe in -- it could be shown at a different place. But let me bring you to schedule 81 in the same package, in the memo we sent. So exhibit E, schedule 81, page 2.

Q.726 - I'm there.

MR. MAROIS: So the title of that exhibit is called Reconciliation of Income Before Taxation to Taxable Income. So you see clearly on line 20 for example, in calculating taxable income, that we do deduct real property taxes.

So it is -- the tax calculation is correct. It's just that it could have been shown maybe at a different caption in the income statement.

Q.727 - Mr. Marois, I understand what you are saying. But I have got to tell you that it makes it terribly difficult for me to try to understand these statements when things aren't where you would expect them to be.

Like I would normally expect, if you are going to pull out New Brunswick real property tax, you would show it above the figure for net income before tax?

MR. MAROIS: Well, if you want, we can refile it in a different format.

Q.728 - No, no.

MR. MAROIS: Because like I say, it doesn't change.

Q.729 - Don't do that.

MR. MAROIS: It doesn't change. Because these are not financial statements that are prepared in -- in French we say bonne et due forme, in the necessarily proper format. They are filed for information purposes. But like I said, at the end of the day it doesn't change the results.

And we -- I think the other thing is we probably started off on the wrong foot. But in schedule 78 we were trying to provide more detail to a previously answered question which was exhibit E, schedule 28 -- 26, where we were grouping the taxes together. And here we were trying to break them apart.

So we were consistent, I guess. Or we were trying to remain consistent with the previous version.

Q.730 - The same thing applies to capital tax which is line 19?

MR. MAROIS: Yes.

Q.731 - That probably should have been shown above "net income before taxation"?

MR. MAROIS: Yes. I would -- yes.

Q.732 - I would like you to look now to schedule 80, page 3 of 5 -- well, two of 5 and 3 of 5.

MR. MAROIS: Exhibit E, schedule 80, page?

Q.733 - 2 and 3 of 5.

MR. MAROIS: Okay.

Q.734 - Now the first thing that I noticed when I looked at these was the headings. If you look at 2 of 5 and 4 of 5, were different.

2 of 5 says, operating and maintenance O & M by N.B. -- and it looks like "USOA accounts. And 4 of 5 says "operating and maintenance O & M by N.B. US."

And I have no idea what the difference is and what its implications are for these statements?

MR. MACLURE: That's simply in terms of the manner in which the spreadsheet was printed unfortunately, that clearly when it printed out the second -- the next series of years, it truncated the overall heading.

Q.735 - Oh, okay. It is the same thing but --

MR. MACLURE: It's the same thing. It was truncated in the print.

Q.736 - All right.

MR. MACLURE: I apologize. I should have caught that.

Q.737 - One of the things that struck me is in -- just use for example column 1. The total O & M on page 3 of 5 looks on my copy to be something like 6.5 million.

And if you look at lines 61, 62 and 63 which are about 2.5 million in total, they are general expenses 92,000, other O & M -- and that is about 60' or 80,000 and other contingency of in excess of 1 million.

And for all that money we don't have very much detail about what sort of expenditures are being buried in there. And I'm wondering if you can help us with what is there?

MR. MAROIS: Well, first of all I would like to correct your question. Because I think I heard you quote 2.6 million. And I think if you have the 1 million 96' plus the 60,000 and the 92,000 it doesn't give 2.6 million. However, that being said --

Q.738 - You are right. Sorry.

MR. MAROIS: That's all right.

Q.739 - I had an extra zero in there, didn't I?

MR. MAROIS: Well, we clearly state in our proposal that we added a contingency of 20 percent in the early years. And that is -- how could I say -- extremely consistent with everything we have been raising up to now, that it is very, very difficult to forecast in a greenfield operation.

And that is one of the reasons why we feel we need a deferral account. So it's impossible, and it was impossible for us to derive a budget that's as detailed and as elaborate as a mature utility.

What we will be doing on an annual basis is preparing new and updated budgets which will -- how could I say -- we will be able to add a lot more detail as we go. Because we will know a lot more about our business, about the industry.

So that's I guess as detailed as we could have made it when this budget was prepared.

Q.740 - Okay. Listen, while you are mentioning financial statements, is it the intention of Enbridge Gas New Brunswick to make all of its financial statements and records available to the Board?

MR. MAROIS: Yes, it is.

Q.741 - Something else that interested me -- wait till I take my notes and turn them into a question. Schedule 81 of exhibit E, page 2 of 3.

Now just so I am clear on this, because what came through to me through the fax I can't see a portion of it, but column 1 is meant to cover fiscal year 2001.

MR. MAROIS: Exactly.

Q.742 - So it is a reporting period that starts October 1st, 2000?

MR. MAROIS: Yes.

Q.743 - Okay. Line 27, opening retained earnings, it shows a deficit on October 1st 2000, of $2,516,502. And of course my question is, how was that calculated?

MR. MAROIS: Can I undertake to get back to you after the break? I just need to revisit the numbers.

Q.744 - All right. And I guess when I looked at that and I saw that there was -- or I felt that there was a calculation of a deficit, and I hope I am using the right term -- of a deficit in the retained earnings column or line, what it said to me is there must be some sort of a statement for the fiscal period that ends September 30th 2000, that gives you the opportunity to arrive at that figure?

MR. MAROIS: Yes. Like at the end of September of this year it's going to be the end of our first fiscal period, so we will have a statement. But it's going to be I guess an awkward statement because we will not have been in operation. And conceptually what that 2 million 516 negative represents in terms of opening balance to the retained earnings is the start-up costs. Like at the end of the day we generated costs without generating any revenues, so we start up in a negative balance.

Q.745 - Okay.

MR. MAROIS: So you are satisfied --

Q.746 - One of the things I have been thinking about while I have been looking at this, what happens if Enbridge does considerably better in terms of revenues than you forecasted? Where will that additional money go?

MR. MAROIS: Well I guess there is various possible answers But if you look at our proposal, the ultimate scenario would be that we don't need to use the deferral accounts. That I think would be. And if we generate even more than that, implicitly by our proposal we are capped at 13 percent, so it would mean even lower rates to the customers.

Q.747 - Okay. I may have asked -- well let me put it this way. It is my understanding that Enbridge has filed an Ontario form of contract with the New Brunswick Board.

MR. MACLURE: I think you are referring to an Ontario form of contract as between the distributor and marketers, a marketers' contract.

Q.748 - I thought it was with customers.

MR. MACLURE: Well customers, marketers, it --

Q.749 - Same thing to you?

MR. MACLURE: Yes.

Q.750 - Okay. Have you prepared a New Brunswick form of contract even in draft?

MR. MACLURE: No. We are working on a New Brunswick form of contract and the reason we filed the Ontario form is that it will be based -- use that as the base for the development of the New Brunswick form.

Q.751 - Do you have any of your New Brunswick contracts in a form now such that they can be filed with the Board?

MR. MACLURE: No.

Q.752 - Do you expect the Board to make its decision on this rate application before it sees those contracts?

MR. MACLURE: Yes.

Q.753 - But you will eventually provide copies of all of your contract documents in terms of contract with marketers or customers, whatever you wish to call them, with the Board?

MR. MACLURE: Well under normal circumstances our experience in the past has been that the form of contract as between the distributor and the end use customer is not necessarily a form of contract that the Board need to be a party to. It is a form of contract between two parties. So in this case it would be provided for informational purposes, not for Board approval.

Q.754 - Okay. Would you agree with me that the form of the contracts that you intend to use in the Province of New Brunswick need to be approved by the Board prior to use?

MR. MACLURE: No.

MR. MACDOUGALL: That is probably a legal question, and the answer would again probably be no. I don't think the position is that all contracts have to be filed with the Board or approved by the Board.

Q.755 - Will Enbridge Gas New Brunswick or one of its parents be generating policies and guidelines and rules and procedures for conducting your business in New Brunswick? And of course the next question is, will you file those with the Board?

MR. PLECKAITIS: If I understand your question, Mr. O'Connell, you asked will -- and you listed a series of parties, and you -- Enbridge Inc., other affiliates or Enbridge Gas New Brunswick be preparing policies for how our company will operate in New Brunswick?

Q.756 - That's correct.

MR. PLECKAITIS: I think the answer is possibly all three, Enbridge Inc., other affiliates and Enbridge Gas New Brunswick could be involved in developing policies that would have application in New Brunswick. Because in some cases we might use a policy that exists corporately, apply it in New Brunswick if we think it is appropriate.

Do we intend to file all of those policies with the Board, I think that was the second part of your question?

Q.757 - That's correct.

MR. PLECKAITIS: I haven't contemplated whether we would need to do that or not. I guess it would depend on the circumstances and the relevance to the regulatory proceeding. There may be situations where we may file them with the Board and there may be others where we do not believe it is material.

Q.758 - Okay. Let me give you a specific example. I read some materials with respect to deposits and connecting with customers. And of course it gives you rise to think about policies dealing with disconnecting. Or maybe to turn it the other way around, policies dealing with situations when you won't disconnect.

For example, I would think it would be of interest to the regulator as to whether or not a customer would be disconnected in January of any given year if he falls in arrears on his payment.

MR. PLECKAITIS: Yes.

Q.759 - And what I am interested in is if Enbridge has or, based on your knowledge of the business, will have some sort of a disconnect/non-disconnect policy, and would they file that with the Board?

MR. PLECKAITIS: First of all, I think that is a good example of a policy. That first of all we would look to an affiliate, Enbridge Consumers Gas and Gazifere and other utilities that we operate, because those policies tend to over time develop because of customer issues or operational issues, so usually they take years of refinement before you -- you never get them maybe exactly right but you get them as good as you can at the time. So we would certainly look to Enbridge's past experience as a starting point.

Secondly, the issue with how -- connecting customers and disconnecting customers, I know at least the customer disconnection policy I believe is one of the matters that is being discussed with the Working Group. It would seem to me that it would be very appropriate that we would try to work out those issues with other industry participants that would take into account customer issues and customer needs obviously. So I believe our objective would be to try to get industry consensus on then that policy.

And then I guess the third part of the question is, would we intend to file that with the Board given that it is a customer sensitive issue. And I believe that that is one of the ones that the Board has asked us to provide direction to the Board in a meeting tomorrow morning in terms of which issues do we intend to deal with, how do we -- how will we recommend that they be dealt with by the Board, in what forum, et cetera.

So I don't know if there is an answer that we have committed or we believe it is necessary that we get prior Board approval, and maybe I will turn the rest of the answer over to Mr. Maclure.

MR. MACLURE: Well I think that my recollection of coming out of the marketers' hearing, the decision that was rendered in January was a recommendation by the Board that Enbridge Gas New Brunswick together with Board staff were to look at a disconnection policy. And certainly our starting point would be the Enbridge Consumers Gas disconnection policy and how it relates to the New Brunswick circumstance.

There is though a gas marketer involvement in this overall policy simply because we do not control and our disconnection policy -- there is another party involved that in certain circumstances in other jurisdictions is not involved. So that is one of the reasons why it was in front of the Working Group.

But all that said, that certainly, as Mr. Pleckaitis indicated, would be one that we would believe that the Board would be very interested in seeing what the final form of that policy is, and whether it conforms I guess to some extent the social policy of New Brunswick because that is really a social issue.

Q.760 - Look, I just have -- so the answer is a definite maybe?

MR. MACLURE: No. I guess that that one would be a yes.

Q.761 - Okay. There are a couple of questions that I have arising out of Mr. Stewart's questions from yesterday and then I am finished.

I may have taken these phrases that one of the group of you said down out of context, but I do want to ask you some questions based on some of the things you said yesterday.

For example, one of you said something like, any change to one component of our proposal will impact on the other components. And I would like you to comment on that or enlarge on it, because when I heard that, to me it sounded like you are saying, this is an all or nothing proposition. And I wanted to give you the opportunity discuss that.

MR. MAROIS: I am the one that said that. What I meant by that was -- or my intention was to raise the red flag, that be fully aware that if you change one it will have an impact on the other. And the example I used is for example, yes, we have a deferral account, or we are asking for a deferral account, and yes, we recognize it has an impact on our rates, but yes it has been reflected in our rate of return of 13 percent.

So if something was to happen to that request it would automatically have an impact on the cost of equity. So that is the example I have used. In a sense there is an interrelationship and I just want to make certain that people realize that and if somebody was tempted to play with one component to recognize that ultimately it would have an impact on another component. So that was the intent.

Q.762 - Okay. One of the things that was said sort of in passing yesterday was talking about expenses being prudently incurred.

MR. MAROIS: Yes.

Q.763 - How do you propose that the Board would determine -- go about determining when expenses are prudently incurred and when they are not?

MR. MAROIS: Well I think when -- again, it's part of the regulatory oversight of the Board. The Board has I believe numerous powers, but we have committed to provide the Board with information it needs to exercise that power.

So in particular, we have mentioned that we are going to be filing actual results, so the actual expense will be there. And the Board will be able to ask any questions it may have on those expenses to determine their reasonableness.

Q.764 - Yes. I think what you said actually a little while ago is that you are prepared to open up the books --

MR. MAROIS: Yes.

Q.765 - -- of Enbridge Gas New Brunswick to the representatives of the Board for their inspection.

MR. MAROIS: Exactly, yes.

Q.766 - Yesterday somebody talked about the utility at some point in time in the future operating within the parameters of an established utility. And I didn't understand what that meant, what parameters you were talking about, when you would anticipate that taking place.

MR. MAROIS: That's probably me and I can answer the when. It's when -- it's after the development period --

Q.767 - Okay.

MR. MAROIS: -- but I did talk to that this morning but I will just get my reference out. I refer you to exhibit F, schedule 1, page 2 of 2.

Mr. Blue asked me -- the Province asked me the same question. And I have tried to define in item E what we meant by traditional operating parameters of a well-established utility. So maybe for the record I should just quote it.

The traditional operating parameters of a well established utility include its ability to consistently have an opportunity to earn a fair return. In order to do so, it must be able to forecast with a reasonable degree of accuracy. This in turn depends on the knowledge and stability of the marketplace and of its own operation.

This includes the presence of experienced third parties such as marketers, installers, contractors, et cetera. It also means that the utility has obtained a sufficient number of customers to offset the start-up costs and the costs of depreciation and return related to the front loaded investments required to provide the long-term distribution services under the franchise agreement.

These are some of the operating parameters of a well established utility that are not present in a greenfield operation such as New Brunswick or EGNB. Sorry.

Q.768 - Yesterday afternoon -- at least I think it was yesterday afternoon, one of you raised the issue of this one time either increase or decrease in rate to take place some time between now and October 1st 2000.

MR. MAROIS: That was me again.

Q.769 - That was you again. When did the concept of this one time increase or decrease arise?

MR. MAROIS: I think that question was raised when we were preparing our evidence for this application. And I refer you to exhibit A, page 21 of 28, just before question 7. The last sentence reads: Given the uncertain and evolving dynamics in the market these initial annual target rates may require adjustment prior to the commencement of fiscal 2000 -- or of the 2001 fiscal year.

So when we were preparing this evidence we realized that we were still several months away from the beginning or the implementation of these rates and that this situation may occur depending on the evolution of the energy market.

Q.770 - When you talk about the evolving dynamics of the energy market, are you referring to the price of fuel?

MR. MAROIS: And natural gas. Because as you may recall when we -- when I tried to explain how the target rates were set, the way we set our target rates is really a residual.

So we start off by comparing ourselves to the ultimate fuel, then we have to take into account the various components that represent the burner tip price of natural gas. So we have to look at the commodity, the capacity, you have to look at the marketers' margin.

So all these items, i.e., competitive fuel, capacity, marketers margin and commodity, may evolve from now to the end of the year. By pure fluke they might all -- maybe it's going to net out, but we don't know at this time.

Q.771 - And I take it what you are asking the Board to condone is Enbridge Gas New Brunswick making that increase or decrease on its own without further permission from the Board or approval from the Board?

MR. MAROIS: I believe we said yesterday we would require an order for this change in target rates, and really the only

-- the only items I would change compared to what we have today are those market elements.

So we would provide these market elements to the Board to be able to assess that effectively circumstances have changed and warrant a change in target rates. But we would be requesting a new order.

Q.772 - Okay. So you will be seeking the approval of the Board for that --

MR. MAROIS: Yes.

Q.773 - -- increase or decrease?

MR. O'CONNELL: Mr. Chairman, Commissioners, those are all the questions that I have for this panel. Gentlemen, thank you very much.

CHAIRMAN: I thought that Mr. Marois was going to look at something over the break. That has all been looked after?

MR. MAROIS: I believe so.

CHAIRMAN: It has. Okay. We will take a ten minute recess now and the Board will come back with any questions it might have and then re-direct.

(Short recess)

BY THE BOARD:

CHAIRMAN: Do you gentlemen have any questions?

MR. RICHARDSON: Mr. Chairman, my question to the panel is which company will actually operate the utility? Is it the partnership?

MR. PLECKAITIS: It is Enbridge Gas New Brunswick, the general partner.

MR. RICHARDSON: The general partner?

MR. PLECKAITIS: Yes.

MR. RICHARDSON: That's the balance sheet that will contain the assets and liabilities of the utility?

MR. PLECKAITIS: That's correct.

MR. RICHARDSON: We are asked by Enbridge to -- the Board is, to deal with light handed regulation. And as I understand it in sitting the last couple of days and looking at the evidence, part of that light handed regulation is that you will be free to do certain things within certain parameters without having to come back and go through a public hearing process. Which as I understand it then, means that the balance sheet of the utility never gets to the public floor, as there is no basically hearing if light handed regulation is approved. Would that be correct?

And I guess my next -- my question to you is, will the balance sheet itself be made public to the people of the province?

MR. PLECKAITIS: With respect to your first question, I think you are correct in your characterization of what we would seek in terms of light handed regulation.

Our expectation, sir, is that if your plans go as --

generally as we foresee them in our evidence, that the Board will agree with us that there is not a need to further involve the public because the circumstances and the way in which we are operating in the eyes of the customer are consistent with what we should be doing as a regulated utility, we are fulfilling our commitments in a responsible way and that generally the customers of New Brunswick are being well served.

So that is sort of a general response to your first question.

With respect to will the financial statements be available to the public then if we don't have a regular -- or a hearing? The answer I think is also correct that they would not.

But I would probably pose the question that if the Board is comfortable that we are operating within the parameters that we have committed to and if in fact we are fulfilling our commitments and adding customers the way we had committed to and that natural gas rates are competitive, then I would ask to what purpose does it serve to have a public review of those financial statements?

Albeit at the end of the day I would believe that it would be within the Board's jurisdiction that if it determined that there was value, that they would somehow direct that those statements be made public.

MR. RICHARDSON: Thank you very much. My concern is of course in any public forum, transparency is quite important, particularly in the year 2000 as you read continually. And that's the reason that I was curious as to what your intention -- it's not a question of the public reviewing the statements but whether they have access to them, and maybe nobody would be interested anyway. But I was curious on the -- your policy, your corporate policy.

MR. PLECKAITIS: Sir, in terms of -- my presumption would be, and subject to maybe counsel telling me that I am incorrect, that if we were to file information with the Board, for example financial statements, et cetera, that that information would generally be available to the public to review. Am I --

MR. MACDOUGALL: That would be correct to some extent. There may be some exceptions on confidential information if they were requested, but Mr. Marois earlier said they would be filed, and those would generally be available to the public.

MR. RICHARDSON: I guess I question whether the general public in general out there would be aware that the information is at the Board.

MR. MAROIS: Typically what we have done in other jurisdictions is clearly indicated on the bill -- like in Quebec, for example, we have a message on the bill that we were regulated by -- in the case of Quebec, the régie. And that if the customers had any questions or concerns that they could directly contact -- we even had a 1-800 number for the Board.

So it's one way to remind the customers that if there are any concerns, that the Board is always there as an independent body.

MR. RICHARDSON: Thank you.

MR. PLECKAITIS: If I could just add to that. And the experience in Ontario is a little bit different. And by saying that I am not in any way saying that it's the right way of doing it, I am just simply saying that the experience in Ontario is that the regulator was reluctant to openly advertise a 1-800 number because of the potential for a lot of information requests that the Board is not capable of addressing.

The general understanding that we have had with the regulator in Ontario is that the regulator would like us to manage and deal with customer issues and resolve issues. And -- but the Board is always there to -- in the event that those issues are not resolved to the satisfaction of the customer, the customer always has the ability to go to the Board for attempted resolution of their concerns.

MR. RICHARDSON: Thank you, Mr. Chairman.

MR. LUTES: Mr. Chairman, I have only one question -- or one area of question, and that has to do with the deferral accounts.

I now understand what those three deferral accounts are and how you propose accounting for them. But with the steady and forever change that we face in this world, the stronger the balance sheet of the gas utility, the more able you are going to be to respond to changes, technology and otherwise.

And my interest as a Commissioner is to see a strong healthy well operated utility. And it concerns me that you defer these accounts for 40 years.

I can understand certainly start-up costs being something that shouldn't be expensed in the early years. But as soon as you are able to pay dividends, my inclination would be to write this off as quickly as you can, so that your balance sheet is stronger and again so you are ready to respond to the change that we all face every day.

Can you tell me again why you think it's appropriate to defer these soft costs for 40 years? I know that that's a generally accepted accounting principle for goodwill and this may be common in the utility industry, but can't you see writing them off more quickly? Mr. Marois?

MR. LUISON: I think we share your desire to see the utility on a strong financial footing as quickly as possible. And certainly one of the ways to ensure that that happens is that we attract as many customers as quickly as possible. And again this goes to one of the fundamental reasons we -- one of the fundamental advantages we saw to writing off the deferred expenses for a long period of time. And that is that it would allow rates in the earlier periods to be lower than otherwise and help attract customers more quickly than otherwise.

That at the end of the day having customers attached is what we feel will lead to the strongest financial standing for the utility.

The generic principle, if you will, for us amortizing those expenses over a 40 year period is, as I mentioned this morning, really the principle of matching. And since those costs related to long lived assets that would be in place for the benefit of all customers for a long period of time, we felt that the only consistent approach would be to write those off over a long period of time, so that in fact customers in later periods are appropriately bearing some of the burden of those costs.

MR. LUTES: I guess we have all seen the difficulties that have been attributed to say Ontario Hydro with the debt that it has accumulated over time and it and/or the Province is stuck with that debt.

Had they recovered greater rates in the earlier years and paid that off, they wouldn't be faced with the stagnant debt or whatever they call it. It just -- sorry, I don't mean to be speaking to this so much as really trying to fully understand your rationale in deferring -- proposing to defer this for a full 40 years.

MR. MAROIS: Maybe one way to address your concern is, as you are aware in our proposal, we are not seeking trying to recover the deferrals before the sixth year approximately.

MR. LUTES: Yes.

MR. MAROIS: Maybe what we should do is when we get closer to the period when we start recovering them, we could revisit the depreciation or amortization period in light of the circumstances that are then prevalent.

MR. LUTES: Thank you. Is that a firm undertaking?

MR. MAROIS: Yes.

MR. PLECKAITIS: Could I just add one other thing, because I think your point is well taken. And one of the things that we as a management group within New Brunswick are striving to do, and I can tell you definitively, sir, that we have discussed this issue amongst our senior management team, it is our objective in terms of business objectives to try to, number one, reduce that deferral account to the lowest amount possible. I don't see it as a target to shoot for, I see it as a target to undershoot for.

And, number two, in terms of hitting that cross over point, I see again our objective as a management team to advance that as quickly as possible. That is what we will be striving for.

I think we have indicated earlier that it minimizes the risk for the very reasons as you have said, to the investor, and allows us to get on a proper economic footing to run forward.

CHAIRMAN: I just have one question. And that during your testimony, I forget who said it, it's probably Mr. Marois. But in the service agreement between Enbridge Inc. and the utility, you have indicated to us that those will be market based rates on those services.

How will you convince this Board or what proof will you be filing with us to show that they in fact are market based rates?

MR. PLECKAITIS: We will provide, Mr. Chairman, as much information to the Board supporting the shared services agreements that we have with the affiliated companies, recognizing that that's a concern that the Board here would have. It's a concern that Boards have in other jurisdictions as well as to how do they ensure that there is not cross subsidization going on.

I won't -- I won't minimize sometimes the difficulty that companies get into in trying to establish market based rates for internally provided services. It is not an easy task to do.

But it certainly would -- in my view, it is our responsibility to provide the Board with sufficient information that the Board feels comfortable. And if at any point in time the Board was concerned that insufficient information was provided, I would expect that we would be brought to bear to explain how this is in the best interests of the rate payers of New Brunswick.

CHAIRMAN: Any contemplation in putting out some of these services to tender in this province?

MR. PLECKAITIS: In some cases it may be fairly easy to do and in other cases it may be more difficult to do. One of the reasons being particularly if the companies that you are going out to tender know that you have provided the service internally to various companies, companies sometimes get suspect as to whether in fact you are just fishing for information or whether you are really serious in going out to tender.

The other complication happens is that unfortunately the nature of utilities is that they are fairly peculiar animals in terms of how various services get intertwined.

So for example, customer service, one could easily say, well it should be fairly easy to get a quote on a call centre and how much it would cost to have a call centre providing service, say per call or per call minute. The problem is that call centres get tied in with information technology because calls -- customers that call expect you to have information on their accounts and customer service histories, et cetera. So you have to tie a call centre now with your information technology.

And so there is an intermingling of a series of issues. Maybe I am telling you a lot more than you really asked for, other than it is a challenge, it isn't always easy to get a simple tender and wherever we can obtain a tender price we will endeavour to do so.

CHAIRMAN: Call centres are big in New Brunswick, by the way. Might I suggest that you put Mr. Maclure to work. And when you do file those, that you check in other Canadian jurisdictions in particular and see if there are any precedents there where some of your -- not your family of companies, but let's say Union or other companies have had that kind of service to sub approved and the rates that might be there.

MR. PLECKAITIS: Yes.

CHAIRMAN: Good. Thank you, John. Mr. MacDougall?

REDIRECT EXAMINATION BY MR. MACDOUGALL:

Q.774 - Thank you very much, Mr. Chair. Mr. Marois, if you could please go to -- you won't be surprised, schedule 7 of the exhibit A.

MR. MAROIS: My paper is tearing up on that sheet.

Q.775 - If you could go to column 2, item 25, a figure there 62.1 thousand that Mr. Stewart referred to you yesterday?

MR. MAROIS: Column 2?

Q.776 - Line 25, net annual sufficiency deficiency?

MR. MAROIS: Yes.

Q.777 - That figure and the other figures in that column, are those annual amounts, i.e. for the single year 2002?

MR. MAROIS: Yes.

Q.778 - So is it correct to say that on a cumulative basis there is still a deficiency for Enbridge Gas New Brunswick at the year 2002?

MR. MAROIS: Yes, you are correct.

Q.779 - And could you tell us why that deficiency would be there and maybe break it down in the numbers by comparing line 25 at column 2 and at column 1?

MR. MAROIS: Yes. Effectively line 25, column 1 indicates the net deficiency for year 2001 of 2,422,000. Everything else being equal, I guess what that says is we will be recovering in 2002, 62,100. So the net balance is roughly 203 million 50.

Q.780 - And then to go to column 3, the same analysis would be appropriate?

MR. MAROIS: The same analysis.

Q.781 - So if we continue through those two items on a cumulative basis do not show a deficiency, they show a cumulative deficiency for Enbridge Gas New Brunswick?

MR. MAROIS: Exactly.

Q.782 - Thank you very much. Could you now go -- and we can pick any year, to line 2, required rate of return on rate base?

MR. MAROIS: Yes.

Q.783 - And just for clarification, yesterday Mr. Stewart raised a figure of 10.38. And I think you just said you would agree that the figure he used was the figure, and that was the number 10.38. I would just like to break that down. Because although there is a figure in there now, your proposal, is it not, that the required rate of return on rate base would be 13 percent on equity, plus a debt component of long-term Canada plus 2.5 percent. Is that correct?

MR. MAROIS: Exactly.

Q.784 - So that number will not be exactly 10.38. That's based on a specific long-term Canada rate you just used for the purposes of the proposal. Is that correct?

MR. MAROIS: You are correct. The 10.38 percent is the weighted average cost of capital. The 13 percent would remain the same for the entire development period. But the cost of debt will be the cost of debt when we issue the debt.

Q.785 - And that will create a difference in the weighted average rate of return on rate base because the debt component will change?

MR. MAROIS: Exactly.

Q.786 - Thank you very much. Staying with you, Mr. Marois. Then could you tell us your title? It's in your c.v. But could you give us your title once more with EGNB?

MR. MAROIS: I'm manager of corporate services.

Q.787 - Are there other managers with Enbridge Gas New Brunswick Inc.?

MR. MAROIS: Yes. The senior management team is comprised of myself, of John Thompson, marketer -- manager marketing. Neil Hearte, manager operations, Andy Harrington, manager of business -- and Marion Salmon, manager of human resources.

Q.788 - And of those other individuals, how many of them are now resident in New Brunswick and have moved here to operate in the province of New Brunswick?

MR. MAROIS: John Thompson and myself are fully established. Neil Hearte has bought a house and he is going to be moving shortly. And Andy Harrington will be moving here once he is married in June.

Q.789 - So would it be fair to say that it's the full intention of Enbridge Gas New Brunswick that the management team operate, live in and operate the business out of the province of New Brunswick?

MR. MAROIS: Exactly.

Q.790 - In your summary yesterday you referred to, or it might have been Mr. Pleckaitis' summary, that over the term of the franchise agreement there would be upwards of 90 people employed by Enbridge Gas New Brunswick?

MR. MAROIS: That's the current expectation, yes.

Q.791 - And is it the expectation that those 90 people would be resident in and working for Enbridge Gas New Brunswick in the province of New Brunswick?

MR. MAROIS: At the end of the day, yes. Some transplants. But maybe if you don't mind me adding when Mr. Pleckaitis was asked the question about how many employees do we have and maybe we appeared to struggle in answering the question. And I was taking notes afterwards that it's amazing how fast our structure evolves. Because we are hiring on an almost daily basis. I have two new hires that started on Monday that I haven't even met yet because I was here.

MR. PLECKAITIS: You have interviewed them.

MR. MAROIS: Yes, I did. I have interviewed them. But just joking aside, I started at 21 and I guess you had 19. But in the immediate future we will probably end up at 29 employees.

And if you take away the secondments, there is going to be 13 residents of New Brunswick, plus out of the 12 others the majority of them are now residents of New Brunswick. So when you look at it at the end of the day, they are residents of New Brunswick. Or the employees of Enbridge Gas New Brunswick are residents of this province.

MR. PLECKAITIS: If I could just provide a clarification, because I consider myself to be a member of the management -- senior management team and Mr. Marois didn't mention me.

MR. MAROIS: Under you.

MR. MACDOUGALL: I was speaking of managers only. So he answered the question as I addressed it. But that's quite clear, Mr. Pleckaitis.

MR. PLECKAITIS: But just so the record is clear. At this particular time I have not relocated to New Brunswick, as much as I personally would love to do so. And I do not have any specific plans at this time to relocate, as much as I would love to do so. So just to clear the record.

Q.792 - That's fine, Mr. Pleckaitis. Mr. Marois, could we now go to the issue of deferral accounts?

MR. MAROIS: Yes.

Q.793 - Yesterday in response to some various questioning you said that conceptually the deferral account could be looked at as a single deferral account. Although it has been broken up administratively for tracking purposes, it is in your mind a single deferral account at the end of year in which actual amounts would be compared to forecasted figures. Is that correct?

MR. MAROIS: Yes. It could be viewed as one account. And what ends up in the balance is the difference between actual revenues and actual costs.

Q.794 - And on the context that it can be viewed as essentially one account, do you feel it's appropriate that that account earn one specific rate of return on a go forward basis?

MR. MAROIS: Yes. Because at the end of the day what is being carried forward are the initial investments made by the company that the company cannot recover in its rates because it is in a start-up period. And that's quite consistent with other precedents, and particularly in Quebec where there is numerous precedents of similar deferrals that -- to which was applied a current cost equal to the weighted average cost of capital.

Q.795 - And that is your proposal. That that entire deferral account earn at a weighted average cost of capital?

MR. MAROIS: Exactly.

MR. MACDOUGALL: Those are my questions for you, Mr. Marois. I have just a couple of more questions, Mr. Chair. The first one for Mr. Harrington.

Q.796 - Mr. Harrington, yesterday Mr. Stewart mentioned that there was a proceeding going on with respect to finalizing the tolls for Maritimes and Northeast Pipeline?

MR. HARRINGTON: That's correct.

Q.797 - I believe you referred to the current toll being now bandied about that Maritimes and Northeast is asking for 74 cents?

MR. HARRINGTON: That's correct.

Q.798 - Are you aware if there are interveners at that proceeding who are disputing that that should necessarily be the appropriate toll?

MR. HARRINGTON: I'm aware that notice for interventions had to be in on Monday of this week. I'm not specifically aware of anybody other than Enbridge Gas New Brunswick who has submitted an intervention for that.

Q.799 - And the purpose of that proceeding will be to determine what that toll will be, whether it be 74 cents or --

MR. HARRINGTON: Or some other figure, correct.

Q.800 - So at this date it would be quite difficult, would it not, for Enbridge Gas New Brunswick to determine what the M & NP toll would be?

MR. HARRINGTON: Very true. There is a number of issues that have to be dealt with at that particular proceeding. Any one of them could change the toll.

Q.801 - And the toll will be what the National Energy Board eventually tells Maritimes and Northeast the toll will be?

MR. HARRINGTON: That's correct.

Q.802 - Thank you very much. Mr. Chair, it's with great hesitancy that I go to A-13, the limited partnership chart, but I think I'm going to ask Mr. Luison one or two questions in that regard.

And these are totally in the nature of clarification, I hope for myself as well as for the Board and other parties.

Mr. Luison, I think at a couple of times there was various questions from Board counsel dealing with Enbridge Gas New Brunswick Inc. and its role in the structure.

What I would like to do is break it down into two time periods, today and when the limited partnership is in place. Because I feel that may be where there was some difficulty.

Is it correct to say that today the utility that holds the franchise is Enbridge Gas New Brunswick Inc.?

MR. LUISON: Yes, it is.

Q.803 - If your proposal to put forward a limited partnership goes ahead and your investors come in on that basis, at that time will the utility be Enbridge Gas New Brunswick Limited Partnership?

MR. LUISON: Yes, it will.

Q.804 - And the general partner of Enbridge Gas New Brunswick Limited Partnership at that time will be Enbridge Gas New Brunswick Inc.?

MR. LUISON: Yes, they will.

Q.805 - So once the utility changes so that the partnership is the utility, Enbridge Gas New Brunswick Inc. is merely the general partner who is carrying on management on behalf of the utility which is the limited partnership. Is that correct?

MR. LUISON: Yes, it is.

Q.806 - And for that management that they are carrying on on behalf of the limited partnership, they are receiving a one percent fee. Is that correct?

MR. LUISON: Yes, that's correct.

MR. MACDOUGALL: Those are all my questions, Mr. Chair.

CHAIRMAN: Well the Board wants to thank you for your testimony, and you are excused.

But before you have your sigh of relief, I understand that there has been some discussion among counsel that we reverse the order of some witnesses, et cetera, here. And that the Union of New Brunswick Indians will go ahead now. Is that correct?

MR. MACDOUGALL: Correct. And that's fine with the applicant.

CHAIRMAN: Okay. And there are no objections from the other objectors? Okay. Well we will take five minutes while people change chairs. Ms. Abouchar?

MS. ABOUCHAR: Thank you, Mr. Chairman. Today we have one witness on behalf of the Union of New Brunswick Indians, Mr. Ross Milne. And he will be addressing rates issues related to the Union of New Brunswick Indians.

I just want to make a note that at the construction hearings there will be witnesses from the Union of New Brunswick Indians to address the socioeconomic impact of the project on them.

We felt it was more appropriate to have the socioeconomic impact issues at the construction hearings than at this hearing. And so that is the foundation of that decision.

So Ross (Mr. Milne)?

<u>MR. MILNE</u>:

MR. MILNE: Thank you, Mr. Chairman, members of the Board and other interested parties.

My name is Ross Milne. And I'm here acting as a consultant to the legal firm of Birchall Northey who is represented by Juli and who in turn is acting for the Union of New Brunswick Indians.

Accordingly I would like to make a brief introductory statement regarding the purpose of our intervention in NBPUB 299 rate hearings.

Construction of the facilities applied for under NBPUB 297 construction application and those being planned for subsequent years will bring significant benefits to many New Brunswick residents.

The construction of these facilities will also cause negative impacts to certain people who will not receive natural gas service or other identifiable benefits.

The Union of New Brunswick Indians are such one group who will have their interest impacted but who will not -- the majority who will not receive natural gas service as evidence by the proposed service area set out on the Enbridge Gas New Brunswick maps filed in support of their construction application.

Enbridge Gas New Brunswick have indicated they wish to enter into some type of an agreement with the UNBI to address these concerns and specific issues.

To date meetings have been held but no agreement has yet been concluded. Therefore no specific details or costs are available. But it is anticipated that the cost of the agreement to Enbridge Gas New Brunswick will be a small percentage of the capital cost of the proposed facilities.

However the agreement will be of significant benefit to the UNBI by increasing the opportunities for First Nations to participate in the natural gas industry and its associated benefits.

The purpose of the UNBI intervention is to argue that the costs of negotiating and carrying out any agreement between the UNBI and Enbridge Gas New Brunswick should be included in the rate base of Enbridge Gas New Brunswick. There are precedents for doing this.

Iroquois Gas Transmission constructed a 370 mile pipeline through New York State and the State of Connecticut to transport Canadian natural gas to eastern markets at a cost of about 575 million. To benefit communities that were impacted but who did not receive natural gas service or other benefits, a fund known as the Land Preservation and Enhancement Program was established to carry out educational, recreational and environmental projects in those municipalities. The ten million dollar cost of this program was allowed in Iroquois Gas Transmission rate base.

A second example is a 344 kilometer pipeline known as the Gasoducto de Occidente project that was constructed in Columbia to provide natural gas service to 47 municipalities and an anchor load being a power plant. The capital cost of this project was 275 million.

Proactive programs costing about $3 million were implemented to better enable local people and businesses to participate int eh construction of the project and to compensate the indigenous community who assert a right in the land involved in the construction of the project.

While no specific or estimated costs are available for any agreement that Enbridge Gas New Brunswick and UNBI might enter into, it is requested that the Board accept the principle of allowing such costs in the rate base granted to Enbridge Gas New Brunswick.

CHAIRMAN: Just before I ask for the applicant and the Intervenors if they have any questions, I have one.

Do you have any precedence of where similar things have been done with other local distribution companies? Those that you mention I believe are transmission facilities.

MR. MILNE: Yes. Certainly Iroquois Gas Transmission was a transmission company. The project in Colombia, the 47 municipalities that received service, some of them formed the utility. And in some cases they were supplied directly by that project.

So I think in the Colombia situation you could argue that it was the distribution arm that was in fact funding that.

CHAIRMAN: Does the applicant have any questions of this witness?

MR. MACDOUGALL: Yes. Just a couple.

<u>CROSS-EXAMINATION BY MR. MACDOUGALL</u>:

Q.1 - Mr. Milne, in your statement you indicated that the construction of the facilities will also cause negative impacts to certain people who will not receive natural gas.

Can you indicate to us, are you aware of any specific negative impacts that have been indicated by the applicant will occur?

MR. MILNE: As Ms. Abouchar said before, that we will be providing witnesses from the New Brunswick Union of Indians at the construction hearings. And they will outline what in their view are the negative impacts.

Q.2 - Okay. And you are aware that the applicant has filed its Environmental Impact Assessments for the construction --

MR. MILNE: Yes. I have had the opportunity to review them to some extent.

Q.3 - So would it be fair to say at this time until others, including the applicant, have had a chance to comment on that, we shouldn't really be saying that there are negative impacts, but that a party may feel there may be negative impacts to be reviewed at the construction --

MR. MILNE: Well, there certainly are perceived negative impacts. I guess the hearing will determine if they are real or not.

Q.4 - So the construction hearing will determine that?

MR. MILNE: That's right.

Q.5 - Okay. The next issue, Mr. Milne, you go on and say -- and I think you might have changed in your verbiage today from your introductory statement.

"The Union of New Brunswick Indians are one such group who will have their interests impacted" -- and I believe you might have said today "but the majority of who will not receive natural gas service."

Whereas in your written statement it was "but who will not receive"? I just wanted to --

MR. MILNE: Yes. I think I inserted the majority. I'm not sure in the change that was made in the preliminary hearing.

I haven't reviewed that environmental assessment to be sure of that. But certainly the majority of their membership will not be receiving natural gas service.

Q.6 - But on the construction application would it be fair to say that the applicant is going to the Fredericton area and the Oromocto area, and it will be in close proximity to both the St. Mary's Band and the Oromocto Band?

MR. MILNE: It will certainly be in close proximity. But if you review carefully the maps that were filed in support of that, which indicate or show the proposed service areas, in the case of the St. Mary's Reserve, it's excluded from the proposed service area. So that was the point of raising the point.

Q.7 - But those maps are not fully exclusive of all of the areas that are going to receive --

MR. MILNE: No.

Q.8 - -- natural gas --

MR. MILNE: I would think it would reasonable to expect that they could be connected and in our view should be connected.

Q.9 - In fairly short order, if the economics justify it?

MR. MILNE: Well, exactly.

Q.10 - Thank you. There is a couple of other questions.

MR. MILNE: Mmmm.

Q.11 - You refer in I think paragraphs, I guess it is 3 and 4 of introductory statement too, "that the costs of the agreement to EGNB will be a small percentage of capital costs of the proposed facilities."

And then you also go on to say "that the costs of negotiating and carrying out any agreement between the UNBI and EGNB should be included in the rate base of EGNB."

Would it be fair to say that the prudently incurred costs of EGNB should be included in its rate base, be it for these negotiations or otherwise?

MR. MILNE: Sorry. Would you repeat that last part?

Q.12 - Would it be fair to say that only the prudently incurred costs of EGNB for these negotiations or otherwise should be included in --

MR. MILNE: I think the term that was used yesterday was the agreed costs.

Q.13 - And would it maybe have been reasonable cost?

MR. MILNE: Reasonable, agreed, prudent costs, yes.

Q.14 - I guess I would have to come back to whether there was a statement that the costs were the agreed costs that would be -- the reasonable and prudent --

MR. MILNE: Yes.

Q.15 - -- costs of EGNB?

MR. MILNE: Well, it would have to be reasonable and prudent, I would think, for the two parties to agree.

Q.16 - And are you aware, Mr. Milne, if any members of the UNBI were involved in the public information programs leading up to the construction application?

MR. MILNE: I have reviewed part of the application. It indicates the meetings that were held and who attended.

Q.17 - And some of the attendees at those meetings were representatives of the Union of New Brunswick Indians?

MR. MILNE: Yes. There was one meeting detailed specifically with them.

MR. MACDOUGALL: That is all my questions, Mr. Chair.

CHAIRMAN: Thank you, Mr. MacDougall. Mr. Zed?

MR. ZED: No questions, Mr. Chairman.

CHAIRMAN: Mr. Stewart?

MR. STEWART: No questions, Mr. Chairman.

CHAIRMAN: Mr. Holbrook?

MR. HOLBROOK: No questions.

CHAIRMAN: Mr. Blue?

MR. BLUE: The Province has no questions, Mr. Chairman.

CHAIRMAN: Board counsel?

MR. O'CONNELL: Have no questions.

CHAIRMAN: Thank you, Mr. MacDougall.

MR. MACDOUGALL: Thank you.

CHAIRMAN: I'm sorry. I didn't find out if any -- no questions from Commissioners? Good. Thank you very much.

MS. DUGUAY, MR. MACLURE, ANDY HARRINGTON, JOHN THOMPSON

DIRECT EXAMINATION BY MR. MACDOUGALL:

Q.1 - Ms. Duguay, if we can start. I think I will try and get this one right today. Exhibit B in your rates application, was that evidence prepared under your direction and control?

MS. DUGUAY: Yes, it was.

Q.2 - And do you adopt that as your evidence today?

MS. DUGUAY: Yes, I do, subject to a typographical error at exhibit B, page 4. That would be the third paragraph.

So I repeat. Exhibit B, page 4. That would be the third paragraph that pertains to the natural gas vehicle fueling rate.

And the last sentence says that service under this rate is limited to applicants using more than 50,000 cubic metre per year. That should read 10,000 instead of 50'.

And that is the only change.

MR. MACDOUGALL: Okay. Mr. Chair, we just have one small other change in one of the interrogatories. And it was prepared by Mr. Thompson. And that would interrogatory, exhibit H, schedule 7, page 2 of 2.

And Mr. Hoyt will give the Board revised versions and we will leave some copies at the back of the room.

And maybe for purposes of completion, it is only one sentence that Mr. Thompson wishes to change. It is the first sentence of item 7 (c) on page 2 of 2.

And what I would like to do is to ask Mr. Thompson, when everybody has a copy of it, just to read in the change of the revised sentence 1. And then you can have those copies. We can have that sentence read into the record.

MR. THOMPSON: The first sentence should now read, Section 51 of the Gas Distribution Act precludes the company from the sale of the natural gas commodity, a role to be taken by marketers certified by the Board.

The rest of the response is as previously written.

MR. MACDOUGALL: Mr. Chair, I would now ask Ms. Duguay if she could summarize her evidence.

MS. DUGUAY: Certainly. Well, the purpose of the prefiled evidence found at exhibit B was to describe the proposed customary classes, provide the rationale and derivation of the proposed rate design structure for these customer rate classes and to determine the unit target rates by component for the proposed customer rate classes for fiscal 2001. The proposed tariffs by rate class are found at exhibit B, schedule 1.

The customer rate classes for which customer addition have been forecast to occur throughout the 20-year horizon of the Enbridge Gas New Brunswick project are as follows.

The small general service of SGS rate class, the general service or GS rate class, contract general service or CGS, contract large general service using light fuel oil and contract large general service, heavy fuel oil.

All services offered pertain to the usage of the company's delivery system to have a supply of natural gas transported to a single terminal location and served through one meter.

The company will also be offering other services for which no customers are forecast to take service under these rate at this stage of the project.

These rate classes include the off-peak service, the contract large volume of peak service, the natural gas vehicle fueling service and the contract power plant service.

These services will also pertain to the usage of Enbridge delivery system to have a supply of natural gas transported to a single terminal location and served through one meter.

The company is requesting approval of these rates even if no customers are forecast to take service pursuant to these rates at this stage, since there is a need in the marketplace to have those rates posted and approved in order to promote these services in the marketplace.

The target distribution revenues for the fiscal 2001 test year are market-based rates and are predicated upon the company's evaluation of the energy market in New Brunswick that form part of the original proposal to the Province.

The starting point of the distribution revenue derivation consisted of determining competitive burner tip prices by rate class that would allow market penetration in the initial year.

This was performed by this counting, the delivered price of the closest alternative fuel for each customer rate classes, thereby creating an incentive for customers to convert to natural gas.

The second step consisted of backing out from the total market-based price, the forecast cost of the commodity, gas supply load balancing, transportation tolls and the gas marketers' profit margin. The distribution target price was then the residual amount of that equation.

For fiscal 2001 the total target distribution revenues are lower than the projected total cost of service, thereby creating a revenue deficiency in the test year.

To illustrate this -- and I think we have seen that today and yesterday certainly -- I would like you to turn to exhibit A, schedule 7, page 1.

So when comparing the revenue requirement -- so you can see the revenue requirement appearing at line 11 of that exhibit. And the revenue requirement amounts to $10.5 million in fiscal 2001. I'm in column 1 here.

In comparison to the revenues under proposed rates, which are the target rates for fiscal 2001, which are at the level of 5.8 million. So when you subtract 5.8 million to the $10.5 million revenue requirement, this generates a gross revenue deficiency of $4.7 million which is seen at line 13.

However, when looking at the cost of service study which was filed at exhibit E, schedule 48, page 2, line 2

-- you may want to turn to that exhibit. So that is exhibit E, schedule 48, page 2, line 2.

So the item labeled as "cost of service" corresponds to the revenue requirement net of the gross revenue deficiency deferral amount of $4.7 million, which in turn matches the total target revenue of $5.8 million.

The gross revenue deficiency deferral amount was allocated to the various customer rate classes pro rata to their allocated rate base.

In determining an appropriate rate design structure for Enbridge Consumers Gas -- or Enbridge Gas New Brunswick, I'm sorry -- the emphasis was placed on the following objectives, that the rates would be competitive, that the rates would be relatively easy to understand, equitable and reflective of the incurrence of costs.

In the case of the small general service, general service, natural gas vehicle and off-peak rate classes, the target revenues would be recovered through a monthly customer charge and a volumetric distribution delivery charge.

In terms of background, the monthly customer charge is a fixed charge which typically recovers customer-related costs such as the investment and the operating and maintenance costs associated with meters, service line, pressure regulators and so on.

In terms of the remaining revenue rate classes which are the contract general service rate class, the contract large general rate class and the contract large volume off-peak rate classes, the target distribution revenue would be recovered through a demand charge and the volumetric distribution delivery charge as well.

In terms of background again, a demand charge is often used to recover capacity-related costs or fixed and common costs such as investment and operating and maintenance costs associated with the transmission facilities, the distribution facilities and fixed costs such as costs associated with gas control station or district station for example.

The apportionment of the target distribution revenues between the monthly customer charge and the volumetric delivery charge was performed by first determining a reasonable amount that would be recovered through the fixed component, that is the monthly customer charge.

This was done in light of the fixed charges paid by residential and small commercial customers for alternative sources of energy and using other utilities as a benchmark to set a reasonable monthly customer charge for the small general service and the general service rate class.

The volumetric distribution delivery charge was derived by dividing the -- by basically taking the total target revenues, backing out the revenues that would be generated through the monthly customer charge and taking that residual amount and dividing that by the forecast volume for each of the customer rate classes.

For the other rate classes for which the proposal is not to recover the fixed cost through a monthly customer charge but rather through a demand charge, a similar process was used to set the demand charges and the resulting volumetric delivery charge for the applicable rate classes.

For the rate classes where no customers were specifically identified to take service in the test year, rates were derived by using the design of other proposed rate classes where rate class information was available.

This was done, as I mentioned previously, in order to have posted rates in the applicable rate schedule and thereby promote market penetration by availing potential customers with specific rate information.

The company is also proposing a contract power plant service rate that would be negotiated and based upon the cost imposed on the company to provide the requested service to the applicant.

In addition Enbridge Gas New Brunswick is also proposing to offer a last resort to supply service rate as required by the Act. This rate would be applicable to any applicant whose delivery of natural gas to the company has been interrupted due to the failure of the applicant's gas marketer to supply gas to them on a timely basis and where no other gas marketer is able or willing to supply the applicant.

The company is proposing to charge 110 percent of the full replacement cost of the gas delivered at City Gate which accounts for the administrative and overhead costs associated with the provision of that service, that is the 10 percent over and above the full replacement cost of the gas.

The company is also requesting a mechanism that would allow the lowering of actual rates below the target rates with limited regulatory oversight. This would be done by using a rate rider, the revenue adjustment rate rider which is referred to as rider A, which would contain a unit rate reduction and an effective date by customer rate class.

EGNB proposes that it would provide the Board with a minimum of two weeks notice of its intent to lower the target rates by submitting to the Board the revised rate rider A.

The company is of the view that discretionary flexibility is necessary during the development period to reset the actual rates in any given year below the target rates should market condition warrant.

While the company believes that the need to make such adjustment to the target rates would only occur sporadically during the test year, it needs to maintain the flexibility to change the rider when required.

As well the company is proposing that the target rates would be reset at the beginning of each fiscal year if required.

I would now like to turn to an update, or a correction I should say, to an exhibit that was originally filed. And that exhibit was corrected by a letter dated April 4th 2000. And the exhibit in question is exhibit E, schedule 48 which I referred to earlier in my summary.

I would like to explain that, as I mentioned right now, that there was a correction to the exhibit. And the correction was necessary, since there was a programming error in the allocation step of the cost of service study.

And as a result of that, the allocated cost of service, which figure is on line 2 of exhibit E, schedule 48, was in error in the original submission of that interrogatory response.

And basically the correction is -- to illustrate the nature of the correction, if you could turn to page 10 of schedule 48 which depicts the allocation percentages by rate class.

So the original cost of service study, the cell was pointing to item 3.2 which is the number of customers, whereas the intent was that the deficiency deferral would be allocated pro rata to the allocated rate base which is item 4.

And when you look at the original exhibit the last column, which is the -- you may want to turn to -- if you stay at the same, exhibit E, schedule 48, either page 6 or page -- well let's say page 8, because the deficiency deferral appears in both rate base and the cost of service. You can see in the last column the allocation factor is number 4 which points to the allocated rate base, and that was clearly the intent in the original submission given that that allocation factor was also number 4. And unfortunately in the study it was -- how can I say -- the program was pointing to the wrong cell.

So that concludes my summary.

MR. MACDOUGALL: Mr. Chair, Ms. Duguay is available for cross-examination.

CHAIRMAN: Mr. Zed?

MR. ZED: No questions.

CHAIRMAN: Mr. Stewart?

MR. STEWART: Thank you, Mr. Chairman.

CROSS-EXAMINATION BY MR. STEWART:

Q.3 - Good afternoon, Ms. Duguay.

MS. DUGUAY: Good afternoon.

Q.4 - I would just like to begin by asking a couple of questions dealing with the general approach of your rate calculation and the theory or the methodology which you have approached here. And I would like to begin by asking some questions about how it works when you don't do it the way you are doing it.

In your evidence, or certainly in the company's evidence, there is discussion about a traditional rate making approach. And am I correct -- and I am just going to try to summarize it so I make sure that I understand, but normally a distribution company like Enbridge Gas New Brunswick would project or forecast much in the way you have done in your test here in this application, what your cost of service, your through-put and therefore your revenue, and determine -- well actually let me back that up -- you would project your cost of service, add to that your rate of return and come up with a revenue requirement, much in the way you did in the somewhat now infamous schedule 7 that you referred us to?

MS. DUGUAY: Yes.

Q.5 - Perhaps maybe the simplest thing to do is just to look at that schedule. Schedule 7, exhibit A, page 1 of 4, particularly. Are you there?

MS. DUGUAY: Yes.

Q.6 - Okay. So traditional rate making as I understand it would be that you would forecast your cost of service for say in this case fiscal 2001, which apparently you have totalled here at 3.77 million dollars, to use this test year as an example?

MS. DUGUAY: Yes, that's correct.

Q.7 - Okay. And then you add to that your cost of capital which includes your return on rate base, is that correct?

MS. DUGUAY: Correct.

Q.8 - And in essence you add those all up and your income taxes and you come up with a number, a revenue requirement, in this case 10.471 million dollars?

MS. DUGUAY: Yes.

Q.9 - And normally if you were to use your turn of phrase, operating within the parameters of a well established utility, you would then forecast what your volumes or through-put would be to your various rate classes during that year. And you would ask the Board to set rates which would allow you to recover your revenue requirement?

MS. DUGUAY: Correct. Not necessarily on the volumetric basis but yes, the company would request rates that would recover the revenue requirement.

Q.10 - Right. I guess it would be a combination of your through-put and the number of customers that you have?

MS. DUGUAY: Correct. And potentially through demand charges as well.

Q.11 - And demand charges. And charges -- like ABC charges, whatever, or are ABC charges included in this?

MS. DUGUAY: They are not.

Q.12 - They are not. Okay. So what other ways -- or what are the ways that you have to make revenue, so to speak? There is your per customer charge. There is your volumetric rates. There is demand charges, and what else, or is that it?

MS. DUGUAY: Those are typically the type of charges that LDC uses to recover their revenue requirement. So it's a combination of fixed and variable charges.

Q.13 - Sure. And I guess as I think hopefully we all understand now, or at least I understand, the rub we have in this situation is that you don't have any customers, or you won't have many customers or much infrastructure in order to make that 10.471 million dollar requirement you have for the next fiscal year. Is that correct?

MS. DUGUAY: Well I guess that the company could design, or attempt to design rates, that would recover the revenue requirement. But at the end of the day were the company to do that the rates would not be competitive. So the objective of attaching customers in the test year would not be met. So that's the reason where the company is proposing to use target rates which are market based driven in order to meet that objective.

Q.14 - All right. And you are a little bit ahead of me but I think I understand. Your -- the idea being that if you had to charge rates to recover the 10.471 million dollars it would be so expensive that nobody would buy gas?

MS. DUGUAY: Exactly.

Q.15 - Right on. So as I understand your approach, you have thrown out that methodology and looked at it through the other end of the telescope, so to speak?

MS. DUGUAY: Correct, yes.

Q.16 - And you say, all right, well if people can't afford the rates to pay all the bills what can they afford, is that correct?

MS. DUGUAY: That's correct.

Q.17 - All right. So then you say, well what they can afford means that they will also have to -- since nobody in New Brunswick or most people in New Brunswick don't have any natural gas furnaces or natural gas boilers in their factories or whatever it is, they will have to pay to convert, and then have conversion and start-up costs?

MS. DUGUAY: Yes.

Q.18 - So what a customer can afford is something competitive with what they are already using, be it oil or electricity or a variety of whatever else it is that they use for -- they are going to replace with natural gas. And work into that some element of what it will cost to set them up to burn natural gas in the first place. Is that correct?

MS. DUGUAY: Correct. I just would like to -- I am not too comfortable with the rates that a customer can afford but rather rates that are competitive, just for the record.

Q.19 - All right. Well I understand, and that was my language. I didn't mean to imply anything by that, but all right. That are competitive with respect to the other potential --

MS. DUGUAY: Alternatives.

Q.20 - -- energy sources?

MS. DUGUAY: Yes.

Q.21 - Okay. So the idea is -- and that's where you get into you are trying to set the total price of gas lower compared to other energy sources, so it is still attractive for people to go out and buy a new furnace rather than keeping their electric heat, for example?

MS. DUGUAY: That's my understanding, yes.

Q.22 - Right. Okay. So if I can now -- and sorry -- in your evidence I guess then you have established or some way established some sort of nominal threshold of what people are paying for energy sources now. And I think you focused on oil prices in your evidence, but generally there is a threshold and then you seek to set rates which bring the cost of the natural gas -- the so-called burner tip cost, that is the cost to the actual in use customer, a certain percentage below what they would be paying for -- well say home heating fuel, for example?

MS. DUGUAY: Yes. You start off with the closest or alternative fuel by rate class for which there is a specific discount factor that was applied for, which in the case of the small general service was 30 percent, in the general service market was 15 percent, and the contract large general service was five percent, to which you back out the upstream costs which are the costs associated with commodity, upstream transportation, gas supply, low balancing and the marketers' margin, to come up with the target distribution rates by rate class.

Q.23 - Right. So you -- say for example if you are using as your threshold a price or some sort of average price, you think of home heating oil. Then you reduce that price by 30 percent. You back out all the other costs to Mr. and Mrs. Smith home owner. And then whatever is left that becomes the Enbridge distribution rate?

MS. DUGUAY: Correct.

Q.24 - All right. Now can I refer you please to schedule 1 of your testimony, page 1 of 17. That is the small general service.

MS. DUGUAY: Yes, I have got that.

Q.25 - Okay. Now actually I didn't state it entirely correctly or I didn't give the complete picture, because when I talked about what's left, being the amount that is set for Enbridge's rates for Mr. and Mr. Smith, that in turn is actually broken down into two components, isn't it? Because there is a monthly flat rate and then a fluctuating rate based on how much gas you actually use?

MS. DUGUAY: That's right.

Q.26 - And with a combination of those two numbers the idea is to fill as much of that gap as you can. Or at the very least to use -- to come up with a formula which will allow you to fill the gap?

MS. DUGUAY: Yes. In total by using the -- taking the monthly customer charge times the total number of customers in that rate class in the test year, plus the monthly distribution delivery charge times the forecast volume in that rate class should generate the target revenues underpinning the test year.

Q.27 - Okay. And if we look at, for example -- and I just picked the one that is easiest for me to understand because I think it would be the one that I would fall into -- the SGS class, small general service. Now as I understand it, that is in essence the residential home owner?

MS. DUGUAY: Yes.

Q.28 - All right. So if I convert to natural gas at my house and buy a gas furnace and -- I know Saint John Energy is in the back of the room, but send back my electric hot water tank and get a gas one, then this is the rates I would be paying at least for my distribution rates?

MS. DUGUAY: Correct.

Q.29 - All right. And then I would make some arrangement with some marketer, and though I expect I know who that marketer might be, I would then pay for certain marketer charges for that part and I would pay -- you are proposing that I would pay these rates to Enbridge Gas New Brunswick?

MS. DUGUAY: Yes.

Q.30 - All right. And for me I would pay $8 per month no matter how much gas I use --

MS. DUGUAY: Correct.

Q.31 - -- and then 17.59 cents per cubic meter after that?

MS. DUGUAY: Yes.

Q.32 - And so my bill that I would get from Enbridge Gas New Brunswick would be $8 plus some other amount based on whatever volume I would use?

MS. DUGUAY: Yes.

Q.33 - And you would read my meter once a month or once every other month?

MS. DUGUAY: It should be once every other month.

Q.34 - Or at some time anyway, you would read my meter and then just -- all right. So the $8 monthly charge and the 17.59 cents per cubic metre is where you settled for this particular rate class, or when you were doing your whatever it is that you do to get from the burner tip price to what it is that you think is appropriate based on your analysis. And that's where you ended up for this particular rate class?

MS. DUGUAY: Yes, based on the -- how can I say, the methodology that was used to establish the target rates, yes.

Q.35 - That we have just described?

MS. DUGUAY: Yes.

Q.36 - All right. And if you could, I would like to just go through that exercise a little bit more --

MS. DUGUAY: Certainly.

Q.37 - -- and the breakdown. And I'm going to refer you to -- it's actually part of -- I think it forms part of -- just let me find it here. It's schedule 3 of exhibit A. Because I think there is -- it appears somewhere else in one of the interrogatories from the Province. But it's -- excuse me, I have to turn the page. It's interrogatory number 33 to your proposal for the RFP, page 1 of 2.

Now I just want to make one point clear here. These numbers that are expressed here, I notice they are dollars per gigajoule, right?

MS. DUGUAY: Yes.

Q.38 - All right. Now to make sure that I have it in my head and in the Board's head the difference between -- because I have not -- I mean I guess I know how big a cubic metre is. But what that means in natural gas I don't know.

It has been explained to me that in my home as a typical natural gas consumer I might consume somewhere around a hundred gigajoules a year. Is that a fair estimate?

MR. HARRINGTON: That would be a relatively fair estimate.

Q.39 - Yes. Would it be higher or lower?

MR. HARRINGTON: Depends on what your equipment might be. If we get you to convert a whole bunch of stuff, it might be a bit higher.

Q.40 - All right. And that's a fair comment. It could fluctuate, because if I have a furnace and a hot water heater, I guess I will use a certain level. If I have a stove and a clothes dryer and some other things, it might be a little higher.

But just because it makes it easy to work with, a hundred is a fair -- what an average residential customer. I see Mr. Thompson nodding his head.

MR. THOMPSON: It's a fair. It's a fair. I mean obviously it depends very much on your -- the way you use your home and how big it is. I mean there is a number of factors.

But a hundred is good enough for the example I think you are going to go through.

Q.41 - So then if we look at -- down the page we have got year 1 dollars per gigajoule. And you have your established burner tip market price of $5.37.

Now I take it this is the price that you have established that it would then be, to use your term, competitive for me to enter -- for me to convert to natural gas. So you want to arrange your rate so at the end of the day I'm paying $5.37 a gigajoule for my gas, to make it worthwhile to convert. Is that correct?

MR. HARRINGTON: That's correct. I just want to point out that the interrogatory response that you were referring to, as has been pointed out by the other panel, takes into account a competitive reaction which we figured into our proposal. So for that particular rate class that number in our application would actually be higher than that.

MS. DUGUAY: So basically what Mr. Harrington is saying is that when you look at the total delivered price for the small general service rate class in year 1, that would not be comparable to the target rates that I have used to design the rate for the small general rate class in this current rate application.

MR. MACDOUGALL: And, Mr. Chair, for clarification on that, the interrogatories that are added to that schedule are really interrogatories from the Province at the time of the proposal. And so as Mr. Marois said earlier today, the one difference in the company's proposal today from then is that the target rates do not reflect the competitive response. That will done through the rate rider. So the numbers cannot be compared. This isn't a interrogatory of a party today.

It's an interrogatory, but it was issued some year and a half ago or whatever. It was just added as a clarification to the applicant's proposal.

Q.42 - All right. Then, Ms. Duguay, can I refer you to exhibit E, schedule 47. That's Board staff interrogatory to Enbridge, number 47.

MS. DUGUAY: Yes, I have got that.

Q.43 - Okay. And when I look at the SGS class in response to the interrogatory for this proceeding, the numbers look exactly the same as they are here. I just chose one or the other. It doesn't make much difference to me.

MS. DUGUAY: Yes, I can see that.

Q.44 - So are in fact these numbers the ones you used in calculating your rate?

MR. HARRINGTON: No, they are not. I actually wrote that response. And I thought I had put a note saying that these were prepared prior to as part of the proposal and took into account a competitive reaction which we are --

which we are still forecasting, however are not used in this current estimate.

Q.45 - Okay. I'm confused. Do we have anywhere in these materials the numbers you started from -- the level you started from and the numbers you backed out to arrive at the rate that you are -- target rate you are asking the Board to set in exhibit B, schedule 1 of your evidence? Because that's what I thought I was looking at.

Well this note here, your response says the following table represents the method in which these target prices were derived.

MR. MACLURE: Mr. Stewart, I think that what we may have to do is go back and do some verification.

To begin with my sense is the $5.37 a GJ that is shown -- the proposed delivery rate that is shown in schedule 47, page 2 of 3, or in page 1 of 1 is shown at a dollar -- $1.60 a GJ. That would be the equivalent of what the Enbridge Gas New Brunswick rate would be.

Q.46 - It would be -- and out of that you could make that $1.60 a GJ out of $8 a month and 17.60?

MR. MACLURE: No, what we have done is, as Mr. Harrington pointed out, that number included a response of the marketplace to the introduction of natural gas. So in all of the work that we have done up and to that point, it included that response.

Subsequent to, or as a part of this particular filing, we thought that it would be certainly premature to factor into a target rate a response that had not yet occurred yet. So the rates that we proposed in this application took away that competitive response, and they are considerably higher with the expectation that we may have to respond.

Q.47 - So first things first, the response to exhibit E, schedule 47, page 2 of 3, this may be the rate you are going to be asking for in October if there is a competitive response?

MR. MACLURE: Exhibit E?

Q.48 - Well in both places.

MR. MACLURE: No, in exhibit -- the rate that we will be asking for in October is what Ms. Duguay has filed in the rate schedules. Which is the exhibit B, the $8 a month plus 17 cents a cubic metre. That's what we are asking for.

Q.49 - Okay.

A. That's the rate.

Q.50 - And maybe I confused things more with that question. What I want to know is are you today asking for the $8 a month and $17.59 per cubic metre target rate for the small general service class?

MR. MACLURE: Yes, that's what we are asking for today, subject to the caveat that we made earlier today or yesterday, now I'm forgetting, that we would anticipate coming back to the Board prior to the start of our fiscal year for a one time adjustment to reflect the additional market trends and market prices at that time.

Q.51 - Okay. So you may -- you are asking for the rate $8 and 17.59 per cubic meter today. And I understand that you may come back before the first of November and ask for your special one time adjustment. I'm with you there.

MR. MACLURE: Yes.

Q.52 - What I want to know is how did you arrive at the number you are asking for now? You have explained the methodology and I would like you to give me the numbers.

What was the burner tip price per gigajoule? What was the commodity price per gigajoule? What was the rate? I want you to give me those numbers to back you out so you get to this place? Which is what I think you were doing when you responded to the Board interrogatory number 47.

MS. DUGUAY: I think that we should undertake just to check those numbers. As far as the numbers that I have used to design the rates, they were in aggregate. I didn't see the apportionment between the commodity, the tolls and so on and so forth. So I cannot be of any assistance.

However, I think we need to check the numbers that were in interrogatory 33 and exhibit E, schedule 47. And

I would doubt that we will complete this cross-examination today. Maybe get back to you first thing tomorrow.

MR. STEWART: Well my problem, Mr. Chairman, is that a lot of my questions are going to flow out of -- I had it prepared on these numbers and now --

CHAIRMAN: How long do you think it will take you to do that?

MR. MACLURE: It shouldn't take very long, Mr. Chairman.

CHAIRMAN: Good. We will withdraw, and you let us know when you are through.

(Recess)

Q.53 - Mr. Maclure, I see you are poised with microphone in hand.

MR. MACLURE: Yes, I apologize for that.

Q.54 - No problem.

MR. MACLURE: We went back, we had the information here. What would appear to happen is that in interrogatory -- Board Staff interrogatory number 47, we didn't update it with respect to the change that we implemented in this rate application, which was to eliminate the competitive response that we had forecast in our proposal of evaluation.

So that if you turn up exhibit E, schedule 47, I will just lead you through the numbers that should have been there.

The burner tip market price, rather than $5.37 would be $9.08. The commodity stays the same at $2.06. That reflects the fact that we just eliminated the competitive reaction. We didn't change any underlying parameters.

The Maritimes and Northeast rate stays at .65 cents. The marketer's margin is considered, stay 1.06. And therefore, the residual delivery market-based price is $5.30. Now that equates to 20 -- roughly 20.3 cents a cubic meter. So 5.30 a GJ equates to 20.3 cents a cubic meter.

And just for help, if you go back to the rate schedule, exhibit B, schedule 1, page 1 of 17, the one that has the $8 monthly customer charge and the 17.59 cent per cubic meter delivery charge, an $8 customer charge is a $96 a year charge to a residential or small general service customers.

On average that class of customer roughly would use 3,000 cubic meters per year, which would equate to about 3.2 cents when it's averaged over all their volume over the year. So the 3.2 cents, plus the 17.59 gets you back to around a 20 point some odd cents.

Now there is some differences there simply because I am using 3,000 as an average volume for convenience in this particular example. But it's taking you back up to around 20 odd, 21 cents.

Q.55 - What's -- I see you have a calculator over there. Can you convert 3,000 cubic meters to gigajoules for me?

MR. MACLURE: It's about 113.

Q.56 - 113. Okay. All right. And just to make sure that I have this straight then, the $8 a year, $17.59 per cubic meter --

MS. DUGUAY: It's not $8 a year. It's $8 a month.

Q.57 - $8 per month. I am sorry.

MS. DUGUAY: $96 a year.

Q.58 - $8 per month and $17.59 per cubic meter charge or rate for the small general service, that is your target distribution rate to allow you to get to the 30 percent lower than the other competitively price or the other fuels?

MS. DUGUAY: Yes. Less upstream transportation.

Q.59 - Less.

MS DUGUAY: Upstream costs, I mean.

Q.60 - Right.

MR. MACLURE: Mr. Stewart, also at the time that the proposal was put together, so again I think we have to go back and say this was the number that was in our original proposal, $9.08.

In the proposal for economic -- for evaluation and financial evaluation purposes, we expected a reaction which would take the $9.08 down to 5.37. That's what we performed our evaluation on.

If in fact in the market place in New Brunswick today, where we set our target rate using that 9.08 at the starting point and we get the competitive reaction, it would still cause us to want to go back down to the 5.37 using our rate rider mechanism. So that's the difference between these two proposals.

This doesn't necessarily reflect current market prices I think is the other thing I am trying to say.

Q.61 - Ms. Duguay, can I refer you to interrogatory number 32, which forms part of schedule 3 to exhibit A -- I am sorry -- I am sorry, interrogatory number 47, which is part of schedule 3 of exhibit A

MS. DUGUAY: Which schedule is that, I am sorry?

Q.62 - Schedule 3 to exhibit A, there is a collection there of your interrogatory responses when you did your proposal to the Province. You selected a few and submitted them to the Board for this hearing. And number 47, they are not numbered consecutively, but it's two-thirds of the way through there. Do you have that?

MS. DUGUAY: Yes, I do.

Q.63 - Now as I understand the purpose for including this -- well I don't know what the purpose for sure for your application, but this interrogatory and the chart which is attached to it is your breakdown of the $1.06 marketer margin for the various -- well we have been using the SGS rate class, for example.

If I look at -- do you have the chart, the second page of that?

MS. DUGUAY: Yes, I do.

Q.64 - And you have three items, residential, commercial, industrial, and residential you have year one dollars per GJ $1.06, is that correct?

MS. DUGUAY: Correct.

Q.65 - Correct. So this chart shows you how you break down your $1.06 per GJ marketer margin that you backed out in order to arrive at your target distribution rate. Is that correct?

MS. DUGUAY: Yes.

Q.66 - Okay. Now if we look, and again I am referring to this chart entitled "Breakdown of ABM Margin", under year one residential, there are three items which comprise the $1.06. LB commodity, what is that?

MS. DUGUAY: That would be load balancing commodity and load balancing in tolls.

MR. MACLURE: You may recollect that Mr. Harrington yesterday talked about the load balancing component being comprised either on the commodities, some being on the commodities side and some being on the toll side. So that's the breakdown of the split between those two, components of load balancing.

Q.67 - All right. So you have a piece of pie which is $5 -- or you have a pie, I guess I should say that's $5.30 per gigajoule round and you backed out of that $1.06 for the marketer margin, a slice $1.06 big. But that $1.06 slice is made up of .26 cents charges for commodity load balancing and .73 cents tolls load balancing that the marketer is going to have to pay in order to balance their load in commodity? That is your estimate of what a marketer will have to pay in that -- in this circumstance, for residential customers, is that correct?

MR. HARRINGTON: That's correct.

Q.68 - So the 7 cents that left of the $1.06 that's the 7 cents per gigajoule that you allowed for marketers to -- now you have already -- the marketer has already purchased their commodity. You have got that slice backed out here as $2.06. They have already paid the base toll at 100 percent load factor on MN & E at .65 cents. We have got another .99 cents worth of load balancing charges and so the 7 cents that is left over is the marketer's share of your pie, of your $5.30 pie, is that correct?

MR. HARRINGTON: That's correct.

Q.69 - And if we have got a customer who is like me consuming 100 gigajoules a year, that means that a marketer to a residential customer is going to make $7 a year off that customer. That's going to be their gross revenue off that account based on your analysis, is that correct?

MR. HARRINGTON: That's correct.

Q.70 - All right. And your proposed ABC billing charge for marketers is $1.05 per bill, is that correct?

MR. MACLURE: That's correct.

Q.71 - So you are allowing me a gross margin of $7 based on your analysis and you are going to charge me $12.60 to send the bill alone, is that correct?

MR. MACLURE: That's part of it. Of course what is the quid pro quo component of that is that you will be relieved of the bad debt risk that you would have associated with the collection of the commodity.

Q.72 - Right. But I am only grossing 7 bucks a customer. And just to send the bill and deal with my bad debt expenses you are charging me 12.60 and I haven't paid myself. I haven't paid my own overhead. I haven't paid my staff, if I have any. I haven't paid my own advertising or marketing efforts and I am already 5 bucks behind, isn't that correct?

MR. MACLURE: I wouldn't characterize it quite in that fashion. I mean there are -- if you go and you break down, you say what are we trying to do with respect to this exhibit, we are trying to come up with some estimate of how we would back in to a delivery component to get gas delivered in the market place when we have control over only a portion of the overall pricing to the burner tip.

And we have come up with a methodology that we think is appropriate. We are making a very significant investment with limited control over putting gas in the pipe. And the analysis that we have done is an analysis that makes certain basic assumptions with respect to distributors of gas marketer's cost of load balancing and the kind of margins that they would like.

The marketer in terms of the toll and how they manage their own activities may be able to extract margin out of other forms of services that they are offering. They may be able to extract margin out of the other services that they are providing to the customers. They may be able to extract additional margin out of the toll in the load balancing commodity depending on how they make their supply arrangements.

But this is just simply an assumption that comes along to assist us in the development of an overall proposal.

MR. HARRINGTON: And just to round that out a bit more, if I might, particularly with the residential rate class, there is that 30 percent advantage. Not all residential customers are going to be found to need a 30 percent advantage.

The marketers we expect will be able to put together packages that might offer the customer a 10 percent overall price savings, however by giving them financing, equipment options, service packages. Those customers might find that attractive as well.

And yes, there is cost associated with that, but it's usually on providing those types of services in Enbridge's experience that that's where the real margins are for people who are working in the downstream businesses.

Q.73 - Okay. Thank you. But the forecast that you have done, the analysis that you have done upon which you have based your rates for the sale of the commodity of a gas marketer, if all I do is send a bill, has me losing $5.60 per -- on average per residential customer, isn't that correct? That's the result of the analysis?

MR. MACLURE: I wouldn't draw the exact same conclusion. Because what you factored in this you have factored in the ABC service into the equation, which does have value because it relieves a marketer of their bad debt exposure, which is an exposure, it is a real exposure. It also relieves the marketer of sending out the bill the collection expenses and a number of other expenses the marketer would otherwise have. That is what they are buying in that service.

Q.74 - Does Enbridge Gas New Brunswick propose to pay marketers' employees salary under the ABC charge?

MR. MACLURE: The marketers --

Q.75 - Employees' salaries out of the ABC charge?

MR. MACLURE: No.

Q.76 - No. And it doesn't intend to pay marketers' office space, rent or computer leases or advertising expenses under its ABC service?

MR. MACLURE: No.

Q.77 - No.

MR. MACLURE: The marketer wouldn't need though to employ collection staff.

Q.78 - Now let's look at the other pieces of the pie for a moment.

MR. MACLURE: Yes.

CHAIRMAN: It is now ten after 5. Is this an appropriate time to break for the evening?

MR. STEWART: Sure.

CHAIRMAN: Okay. A couple of things. We will have the room back tomorrow afternoon at 1:00 o'clock. It is free I guess by 11:00 but Tel-Av has to set up again. And as I understand it, Madam Secretary, the -- everybody has to remove their things from the room tonight.

MS. LEGERE: No, they can move the tables with their stuff on it.

CHAIRMAN: Your choice. Caveat emptor.

MS. ABOUCHAR: Mr. Chair, I realize that I neglected to ask

Mr. Milne to confirm his written evidence. Is there any way that I could do that in the two minutes before we break?

CHAIRMAN: I think the Board will accept that period.

MS. ABOUCHAR: Are we assuming that Mr. Milne is still sworn in, or does that have to happen again?

CHAIRMAN: No. I am saying that the Board will accept the fact that that is his sworn testimony.

MS. ABOUCHAR: Thank you, Mr. Chair.

CHAIRMAN: And we will see counsel and as few others as possible tomorrow morning at 9:30 at the Board's offices. Right. Thank you.

(Adjourned)

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

Reporter