

New Brunswick Energy and Utilities Board

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

Delta Hotel, Saint John, N.B., on December 3rd 2007.

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Distribution and Customer Service Corporation (DISCO) for
approval of changes in its Charges, Rates and Tolls (Includes
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Delta Hotel, Saint John, N.B., on December 3rd 2007.

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

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

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

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

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

MR. MORRISON: Good morning, Mr. Chairman, Members of the
Board, Terry Morrison and Ed Keyes for the Applicant. And
with me today at counsel table is Lori Clark, Michael
Gorman and Darren Murphy.

CHAIRMAN: Thank you, Mr. Morrison. CME?

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

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reappearing.

CHAIRMAN: Thank you. Conservation Council of New Brunswick.

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

CHAIRMAN: Thank you, Mr. Kidd. Enbridge Gas New Brunswick? No one here? Irving Oil Limited? No one for Irving Oil. JD Irving Pulp & Paper Group?

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

CHAIRMAN: Thank you, Mr. Wolfe. N.B. Forest Products Association? Dr. Sollows? Not here. Utilities Municipal?

MR. ZED: Good morning, Mr. Chair, Members of the Board. Peter Zed and I am joined by Dana Young and Marta Kelly.

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

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

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

MR. THERIAULT: Good morning, Mr. Chair, Daniel Theriault. And I am joined by Robert O'Rourke and Jayme O'Donnell.

CHAIRMAN: Thank you. N.B. Energy & Utilities Board?

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

CHAIRMAN: Thank you, Ms. Desmond. Mr. Morrison, are there

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any preliminary matters from the Applicant this morning?

MR. MORRISON: Just one, Mr. Chairman. On Friday Mr. Barnett asked us to file the technical report with respect to the Belledune boiler and we do have that available.

CHAIRMAN: Thank you. We will give that an exhibit number.

Exhibit A-42 was the last Applicant's exhibit so we will give this Exhibit number A-43.

Any other preliminary matters?

MR. MORRISON: No, Mr. Chairman. I am prepared to call the witness panel.

CHAIRMAN: Okay. Just prior to having the witness panel sworn, I did want to bring up the issue of Mr. Lawson's motion, which last Monday we agreed, I guess, to defer. I do notice in the schedule for this week it appears that at least for the time being, if all goes according to schedule, that Thursday actually may be a free day and possible Wednesday afternoon may also be free. Mr. Lawson, perhaps you could address that issue as to the timing of the hearing of your motion.

MR. LAWSON: Certainly, Mr. Chairman. I contemplated the possibility of even dealing with it early this week and was prepared. But I didn't ask anybody about the timing on it. Dr. Sollows had indicated he wanted to be in attendance so -- I see he is not here so I am prepared to

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deal with it on Wednesday or Thursday, if need be. Although I wouldn't want to see everybody come back just for that one purpose.

CHAIRMAN: Well I'm sure that view is shared by many. So I think what we will do is we will hear it at the conclusion of the second panel that we hear this week if everybody would be put on notice to be ready to deal with that motion at that time.

Mr. Morrison, if you want to bring your panel forward? Sorry, any other parties have any preliminary matters? Okay, Mr. Morrison.

MR. MORRISON: Thank you, Mr. Chairman. At this time I would like to call Sharon MacFarlane, Angela Leaman and the much anticipated Neil Larlee to the stand.

CHAIRMAN: I will ask Board counsel to come forward and swear the panel.

SHARON MACFARLANE, ANGELA LEAMAN, NEIL LARLEE, sworn:

CHAIRMAN: And for the record, it is noted that the panel has been duly sworn.

DIRECT EXAMINATION BY MR. MORRISON:

Q.1 - Good morning, panel. I am not going to ask Ms. MacFarlane for her name and position because I think we have been through that a couple of times. But I will go to Ms. Leaman. Ms. Leaman, could you

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2 state your name and position for the record please?

3 MS. LEAMAN: My name is Angela Leaman and I am the Finance
4 Director of DISCO.

5 Q.2 - And Mr. Larlee, could you state your name and position
6 for the record?

7 MR. LARLEE: I am Neil Larlee and I am the Manager of load
8 forecast and regulatory studies.

9 Q.3 - And Ms. MacFarlane, were aspects of the prefiled
10 evidence filed in this proceeding, were they prepared by
11 you or under your supervision?

12 MS. MACFARLANE: Yes, they were.

13 Q.4 - And similarly the same question to you, Ms. Leaman.

14 MS. LEAMAN: Yes, they were.

15 Q.5 - And the same question to you, Mr. Larlee.

16 MR. LARLEE: Yes, they were.

17 Q.6 - Are there any corrections, additions to the evidence?

18 MS. LEAMAN: I do have one correction that I would like
19 noted. It is with respect to exhibit a-2, which is the
20 evidence filed on April 19th, section 3.

21 Q.7 - So that is exhibit A-2, section 3.

22 MS. LEAMAN: And it is page 18. And it is line 15. It
23 reads "As a result of the depreciation study". The
24 depreciation study is the incorrect study. It should have
25 read "As a result of the KPMG corporate services cost

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2 allocation study".

3 Q.8 - Okay. Thank you, Ms. Leaman. Mr. Chairman, I have no

4 direct examination for this panel so the panel is

5 available for cross examination.

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

7 MR. LAWSON: To expedite matters, I don't have any either.

8 Thank you.

9 CHAIRMAN: Mr. Kidd?

10 CROSS EXAMINATION BY MR. KIDD:

11 Q.9 - Good morning, Mr. Chair, members of the Board and

12 members of the panel. While I get myself organized, I am

13 going to be referring to exhibit A-2, exhibit A-4 and

14 exhibit A-6(1). So I am wondering if we might want to get

15 those out at this time.

16 Exhibit A-2 I am going to be referring to section 9,

17 revenue. And in exhibit A-4, I am going to be referring

18 to appendix F, which is the load forecast update.

19 MR. ZED: I am sorry, what was the reference in A-4?

20 MR. KIDD: It was appendix F, load forecast update.

21 MR. ZED: Thank you.

22 Q.10 - Ready?

23 CHAIRMAN: Any time you are ready.

24 Q.11 - Thank you. I believe the first question is for Mr.

25 Larlee. On page 3, under section 9 of exhibit A-2, it

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2 says under "residential" -- I am looking at line 11, that
3 there will be an overall increase of 309 gigawatt hours
4 from last year to this year forecasted?

5 MR. LARLEE: Yes, that is correct.

6 Q.12 - I am wondering when I look then at the very first page
7 of the load forecast, which is appendix F in A-4, so in
8 there though, from between 2007 and 2008, it says there is
9 going to be 5,152 gigawatt hours consumed by residential.
10 And then 2008/2009, it is forecast 5,196 gigawatt hours.
11 Correct?

12 MR. LARLEE: Yes, that's correct.

13 Q.13 - When I look at those numbers, I see an increase in only
14 44 gigawatt hours. And in fact when I go between
15 2008/2009 and 2009 to 2110, I only see an increase of 45
16 gigawatt hours used by the -- or forecasted to be used by
17 the residential sector.

18 So my question is I'm not sure why there is a 309 gigawatt
19 hour -- such an increase forecast to this year versus
20 future years?

21 MR. LARLEE: Well if we go back to page 3, section 9.

22 Q.14 - Mmmm.

23 MR. LARLEE: You can see on line 12 is that 194, so well
24 over half of that year over year variance is explained
25 just by weather alone. So for no other reason than

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returning to normal weather, we see that year over year change
of almost 200 gigawatt hours.

Q.15 - So that would still -- that would leave about 110
gigawatt hours?

MR. LARLEE: Yes, that's correct.

Q.16 - Okay. Where would the other -- well we'll just say
other 50 or 60 be coming from, do you know?

MR. LARLEE: Well I think we have tried to explain it in the
following two lines. If we were seeing continued growth
in the number of customers, and which is being partially
offset by other factors.

But really the growth we are seeing in residential is
actually somewhat counterintuitive because we know that
the population of the province is quite stable and is
forecast to be stable for quite some time. But history,
recent history is showing us that the number of customers
is increasing in the order of about 3,000 per year.

So we are seeing new households being formed even though
the population is quite stable. And this is a direct
result of the size of households dropping. So instead of
having 2 1/2 people per household, we are having somewhat
less and that is forecast to continue.

Q.17 - But is there anything different in lines 13 and 14 for
this year? So number increase continued growth in number

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2 of customers and partly offset by the increased penetration of
3 natural gas and the impact of price elasticity. Is there
4 any difference between those factors this year and next
5 year and the year after that that would account for this
6 difference of say 60 gigawatt hours?

7 MR. LARLEE: Well what you are seeing in the forecast when
8 you look at the appendix, appendix F, when you are looking
9 at the year over year numbers there, you are looking at
10 normalized numbers. So they are all numbers based on the
11 same normalized data.

12 In addition, in those numbers we are seeing the effects of
13 natural gas and energy efficiency in each and every one of
14 those years. When you are looking at the numbers on table
15 9(B), the 06/07 numbers are year to date actuals plus the
16 remainder of the forecast when those numbers are put
17 together.

18 So the year to date actuals may or may not have those same
19 factors built in as the forecast.

20 We may -- we are not seeing the natural gas penetration
21 that we had built into the forecast in the past. So the
22 natural gas penetration does seem to be coming online more
23 slowly, although we are anticipating there will be some
24 catch-up going forward because Enbridge Gas is becoming
25 more aggressive in the residential market.

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Or at least seems to be based on their advertising campaigns.

Q.18 - Thank you. Two follow-up questions. First of all, what do you mean by normalized?

MR. LARLEE: Well first off we are using 30 year average weather so that's -- that's a key component. So all of the data that goes into building a forecast, whether it be for the next year or for the next 10 years is all adjusted to bring it to the normalized weather.

Q.19 - And my second question then is how does one weather result in more gigawatt hours being used by the residential sector?

MR. LARLEE: Well the warmer weather refers to the 06/07 year so 06/07 was warmer than normal so we will go to forecasting for a normal year this year so there will be a step increase to get us to that normal year.

Q.20 - I understand. Thank you.

Still looking at appendix F, the load forecast, I would like you to turn 2 pages please, which at the bottom is labelled page 1 of 3. And towards the bottom or almost at the bottom there is a bullet described Price Elasticity for Residential Sector.

Could you explain what you mean or what is meant by the term price elasticity here?

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MR. LARLEE: Well if there are any economists in the room,
we are specifically talking about own price elasticity.

So what it is it's the change in consumption that happens
whenever the price for that commodity changes. So we are
talking specifically electricity.

So whenever the price of electricity changes does the
historical data indicate that there will be a change in
consumption. And what we have found by looking at the
historical data is yes, indeed there is a change, and it
comes in at about minus 2 percent.

All the literature I have read and any time we have had
any consultants who have looked at -- who have looked at
this information, they have all said that that number is
middle of the road for anything they have seen. So we are
quite confident that that is a realistic long-term own
price elasticity.

Q.21 - Why is residential power consumption subject to price
elasticity?

MR. LARLEE: Well again, this is a long-term number. So
what you would anticipate is as the price goes up people
will make decisions that would result in them lowering
their consumption. So as the price goes up they may
decide to purchase that wood fired heater or they may
decide that it's now worthwhile to put in a heat pump or

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in fact hook onto the natural gas system.

So again, I want to stress that I'm talking about a long-term number here, the reaction that people -- that customers have, I'm sure they have, I know I have it, is that when the price goes up first thing I do is turn down my thermostat. But that's a short-term reaction and doesn't normally last any length of time.

Q.22 - Okay. If -- on this page assumes that consumer price index is going to be 2.5 percent, and then just above that you discuss a rate increase assumption of six percent, so does that mean then that the real price increase is 3.5 percent?

MR. LARLEE: Yes, that's correct.

Q.23 - And if we turn back to the first page, it states that the load forecast for the residential sector for 2008 -- or 2007/2008 -- is forecasted to be 5,152 gigawatt hours.

And then on page -- now we go back to page 1 of 3 there -- it is forecasted that the price elasticity will lower the forecast energy by 81 gigawatt hours.

So my question is does the 5,152 represent the final amount of forecasted energy consumption or does the 81 gigawatt hours still need to be deducted from that?

MR. LARLEE: No. The 5,152 is the final number. So it includes in it all of the -- all of the numbers that you

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2 would see on this page, page 1 of 3.

3 Q.24 - So subject to check then, without this price elasticity
4 the forecasted residential electricity usage would have
5 been 5,233 gigawatt hours?

6 MR. LARLEE: Yes. It would have been 81 gigawatt hours. I
7 mean, that's how we determine this number. What we would
8 do is re-run the model with no -- with essentially a zero
9 real price increase and see what happens.

10 Q.25 - Okay. Not that anything really turns on this point,
11 and also my math was never really that good, but when I
12 look at 81 gigawatt hours into 5,233 gigawatt hours, I
13 come out to a 1.55 percent decrease in forecasted gigawatt
14 hours versus if I use the real price of 3.5 percent, I
15 come out with a reduction of .735 percent, or only 41
16 gigawatt hours.

17 So I'm just wondering where -- it just seems a larger
18 number versus what would be predicted by the price
19 elasticity here.

20 MR. LARLEE: Well I guess as I indicated, the way we do it
21 is we put the price change in the model with the effects
22 we are looking at and then it flows through the model. So
23 without actually sort of bringing the model up in front of
24 me I can't sort of give you a breakdown.

25 But there are factors such as losses. We do have --

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2 we have put a factor in there as well to account for an

3 efficiency adjustment. So there is other factors that go

4 into it.

5 Q.26 - Is there any benefit to DISCO by its price electricity

6 people using less energy, this price signal I guess is the

7 way to describe it?

8 MR. LARLEE: Well when we are putting together the forecast

9 we are trying to represent as best we can what we think

10 the requirements are going to be in the future. So

11 whether it's a benefit or not at this phase of our

12 planning process it doesn't really come into play. We are

13 just trying to get the most accurate number as possible.

14 Q.27 - Thank you. Earlier you talked about some of the things

15 that residential customers will do to lower their

16 electricity consumption when electricity prices increase.

17 And you suggested that people will turn down their

18 thermostat for a short term. By that -- I would describe

19 that as a behavioral change. By behavioral I mean, you

20 know, they are going to take some actions that are easy to

21 do versus having to make some capital or structural

22 changes which you suggested would be putting in a heat

23 pump or something like that.

24 Are there other changes, what I would describe as

25 behavioral changes, that people could make, lower their

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2 thermostats, other things?

3 MR. LARLEE: I'm sure there are. I guess I'm not a
4 behaviouralist, so I wouldn't want to go too far down that
5 road. But yes, just from my own experience I'm sure there
6 are.

7 Q.28 - And what did you mean by they would only turn it down
8 for the short-term or that these changes -- these
9 behavioral changes would only be in the short-term?

10 MR. LARLEE: Well I think it's relatively well understood
11 that there can be essentially a knee-jerk reaction, and
12 then people get used to their power bills again and return
13 to their sort of normal status quo behaviour.

14 Q.29 - Do you know if all your residential customers lower
15 their electricity usage when prices increase, or does this
16 forecasted 81 gigawatt hour decrease -- the result of
17 efforts of certain groups of residential customers, and in
18 particular I'm looking at those who use electric heat to
19 heat their homes?

20 MR. LARLEE: The nature of the price elasticity analysis is
21 that the more -- the more information you can have and the
22 more aggregated it is, the better. The reason why I say
23 this is because we have tried to do price elasticity
24 analysis on our industrial -- large industrial customers,
25 and it has failed miserably because there really aren't

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enough customers to get a sense of what is going on.

So that being said, this analysis that produced the .2 --
the minus .2 percent -- was done on the entire class.

There was no segregation between electric heat, non-
electric heat or between energy blocks or anything like
that. It's done on the whole class, which is probably why
we have got such a reasonably typical result.

Q.30 - Do you know when this price elasticity ends? I mean
everybody has basic electricity needs. You know, how far
can residential customers go?

MR. LARLEE: Well I guess it has to do more with the statics
than anything. In order for this number to be valid the
future should be within the boundaries of the historical
data. So if we get outside what we have historically seen
for price increases, then I would start to lose confidence
in this elasticity number. So I guess beyond that I can't
really say what the boundaries are.

One of the reasons why we think we are still within the
boundaries of course is because of the implementation of
HST and the HSG charge on electricity. Other than that
history there isn't a whole lot of large rate increases,
unless you go way back into the '70s.

Q.31 - Sorry. So the HST, you are using that as a surrogate
basically for this?

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MR. LARLEE: No, it's not a surrogate. It's built into the data. So that sort of sets the upper boundary that we have seen in the past.

Q.32 - So I would like to turn to -- look at exhibit A-6(1) which is the September 14th rate design revised, and at appendix 4, please.

MR. LARLEE: Just so you are aware, I am coming back to deal with rate design matters in a week's time.

Q.33 - Yes.

MR. LARLEE: Very good.

CHAIRMAN: And what was the reference in A-6(1)?

MR. KIDD: It was appendix 4, Mr. Chair.

CHAIRMAN: Thank you.

Q.34 - I'm just looking at the very first graph, Residential Bill Impacts, and I'm just using it as an example here, but a percentage of the residential customers will see their bills increase by about 10 percent, not a large percentage of the customers but a certain percentage. So are you saying that price elasticity will cause these people to lower their electricity use by about two percent? That's what the model is saying.

MR. LARLEE: If you -- I'm just trying to do my math in my head.

Q.35 - Actually you know what, I didn't include the CPI, so it

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2 would be less than that.

3 MR. LARLEE: That's right. Yes, it would be less than that.

4 Q.36 - 1.8 or something.

5 MR. LARLEE: But it would be .2 percent of ten percent. So
6 it's a relatively small number, right.

7 Q.37 - Do you know what percentage of a rate increase would be
8 necessary to have customers invest in home retrofits or
9 fuel switching?

10 MR. LARLEE: We haven't done any work, or at least I haven't
11 been part of any work on what rate impacts would require a
12 customer to do home retrofitting, but we have in the past
13 done some analysis on fuel switching. Basically what we
14 have done is we have looked at the all-in costs, and when
15 I say all-in costs I mean including capital costs, of
16 electricity versus other forms of heating.

17 So oil fired units, gas fired, central heating, wood fired
18 central heating and so on and so forth. So we have done
19 that sort of work. When we did that work, it's a few
20 years ago now, it showed quite clearly why builders and
21 new home owners tend to instal baseboard. And it's
22 because over the life of a house or over the 15 year span
23 of their mortgage, there is considerable savings to them,
24 even when you consider the capital -- the energy costs.

25 Q.38 - Turning back to exhibit A-4, I'm just turning the page

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there on load forecast to page 2 of 3. And I'm just not sure from that -- talking about natural gas and decreasing amount of energy required -- electricity usage. Is that - what sector is that? Is that residential sector or general service sector that these changes are mostly occurring in? I guess the penetration of natural gas, is it mostly in -- I'm just wondering what sector that is occurring in?

MR. LARLEE: We have adjustments in the forecast for both the general service and the residential sector.

Q.39 - Okay. And you may have said this earlier, but what is prompting these customers to go to natural gas?

MR. LARLEE: Well first off, the gas has to be available. It has to be available at the curb. So in our forecast we have basically taken the residential and general service population -- the customer population -- and pared it down to get -- so that we can figure out the number of customers at the curb. And then within the forecast what we have done is adjusted our penetration rate accordingly so that it reflects what new customers are likely to decide. Then we also have estimates in the forecasts for conversions, customers who will convert. And those estimates were originally built on our knowledge of

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customers who had in the '80s converted away from oil to electricity. The reason why we focused on those customers was because those customers would have central heating systems. Or a portion should still have central heating systems in their homes, which would make conversion much less expensive than other customers. So that combined with the fact that on an energy basis natural gas is cheaper, we built in these adjustments, and you can see the energy impacts of those adjustments in this document.

Q.40 - I think you just said at least a couple of years ago though that for residential users -- residential customers -- that baseboard heating was the most economical over the lifetime. So I'm not sure how natural gas is cheaper at this time? I'm not sure how you are coming to that conclusion?

MR. LARLEE: Well on an energy basis natural gas is cheaper. So if you are just comparing energy costs, let's call them the variable costs of owning the system, there is no question that natural gas is the cheaper form of energy for the consumer. When you look at the -- when you combine into that the capital costs -- so now if you put your -- when you put your mind into the mind of a builder or of a new homeowner

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2 who is building a new home, they are going to want to know how
3 much it's going to cost them to put in that heating
4 system.

5 Q.41 - Today you mean?

6 MR. LARLEE: Today, right.

7 Q.42 - Yes.

8 MR. LARLEE: So you really have to get into the larger homes
9 before you get pay backs that a customer is likely to
10 accept as a reasonable pay back.

11 Q.43 - I would just like to go down that page, page 2 of 3, a
12 little bit more, to the bullet Conservation and Energy
13 Efficiency. And at the bottom it suggests that total
14 conservation and energy efficiency impacts in the forecast
15 are 40 gigawatt hours for the 2007/2008 year.

16 Is that combining all the sectors, like residential,
17 general service, industrial, or -- I'm not sure what
18 sectors are included in that 40 gigawatt hours?

19 MR. LARLEE: General service and residential.

20 Q.44 - Do you know what percentage of that would be
21 residential?

22 MR. LARLEE: No, right offhand I don't. I was just reading
23 here to see if I could figure it out, but --

24 Q.45 - That's fair enough. Thank you. I also note at the
25 very first sub bullet there is that this doesn't take into

1
2 account DSM initiatives from Efficiency New Brunswick.

3 So in other words then, this 40 gigawatt hour reduction is
4 all the result of DISCO's DSM and Energy Efficiency
5 programs?

6 MR. LARLEE: Sorry. Could you just repeat your question?

7 Q.46 - The top sub bullet there it says that incremental DSM
8 initiatives resulting from Efficiency New Brunswick will
9 not -- are not included and can only be evaluated when its
10 programs and target reductions are published.

11 So if Efficiency New Brunswick's programs aren't being
12 included is this 40 gigawatt hours then the result --
13 strictly the result of DISCO's DSM and Energy Efficiency
14 programs?

15 MR. LARLEE: No. What we have in the forecast is what we
16 often refer to as naturally occurring energy efficiency.
17 So these are actions that we are basically forecasting
18 customers are going to take without any incentive or any
19 outside help.

20 Basically they are going to insulate their basements.

21 General service customers are going to improve something
22 in their building, change out their lighting, simply

23 because it's economic for them to do so. So there is no
24 programs attached to any of these -- these savings. It's

25 really conservation and energy efficiency that is sort of

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running as a result of the current economics for those customers.

Now at the time of developing this forecast, which, you know, spans back over a year ago now, the summer of 2006 we put this forecast together, we did have conversations with Energy -- Efficiency New Brunswick rather -- and they basically were still getting their feet under them and they didn't have any numbers to share with us.

We were -- I was concerned at the time that some of the naturally occurring efficiency we had in the forecast was quite aggressive and if Efficiency New Brunswick wouldn't have been in existence I would have throttled them back. But because Efficiency New Brunswick was there I left them the way they were.

And you can appreciate that we are now doing our planning for next year and they do appear to be in line. And they will be increasing as Efficiency New Brunswick does introduce more program, but they do certainly appear to be in line for this period and the next period.

MR. KIDD: Could I just have one minute, Mr. Chair?

CHAIRMAN: Certainly.

Q.47 - Thank you. Mr. Larlee, the way I -- and again as I said math is not my strong suit, but when I -- if I turn

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2 back to page 1 of the load forecast, I see a total energy
3 requirement of 15,652 gigawatt hours, correct, for
4 2007/2008 forecast?

5 A. Yes.

6 Q.48 - When I divide 40 into that, or whatever, I come out
7 with basically that the 40 gigawatt hours is reducing
8 total -- is reducing the energy consumption, or predicted
9 energy consumption, by .25 percent, or basically a quarter
10 of a percent. Subject to check, would you agree with me?

11 MR. LARLEE: Yes.

12 Q.49 - Do you have any idea how that compares to the rest of
13 the industry in their DSM programs?

14 MR. LARLEE: No, I don't. But again this reduction is not
15 the result of any programs, DSM or otherwise.

16 Q.50 - Do you know what the industry -- have any idea what the
17 industry average might be for their DSM programs?

18 MR. LARLEE: Not right offhand, no.

19 Q.51 - Could I ask you to turn to Conservation Council -- or
20 CCNB number 2, please, which is the Summit Blue consulting
21 report. This was filed or agreed to last Monday, I
22 believe.

23 CHAIRMAN: Which exhibit number was that, Mr. Kidd? Was it
24 1 or 2?

25 MR. KIDD: Number 2.

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CHAIRMAN: Thank you.

MR. KIDD: May I proceed?

CHAIRMAN: Any time you are ready.

Q.52 - Thank you. Sorry to put everybody to this effort for just a couple of questions, but I guess if you just look at page 1 at the very top it explains what the purpose -- or what prompted this study, and essentially it says Nova Scotia Power Incorporated hired Summit Blue Consulting to conduct some -- looking at NSPI's conservation and energy efficiency plan, and NSPI did this in response to an order from the Nova Scotia Utility review board. That's where it's coming from.

I'm looking at page -- I'm turning to page 42 and going back to my question which was did you know what the percentage of DSM programs might be, and will just restrict that to the residential sector, and I would ask for your thoughts. If you look at the very first paragraph about half way through the first paragraph, it talks about a wide range of residential energy savings achieved from .1 percent to 1.3 percent of residential sales.

Does that seem -- from your knowledge of the industry does that seem reasonable? Sorry. Did I say page 41? I meant page 42. My apologies.

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MR. LARLEE: I guess the only way I can relate to it is that usually what utilities do is they will set a target and -- of decrease they can achieve, and that sounds like -- would sound like reasonable targets.

Q.53 - Does sound like reasonable targets, that's what you said?

MR. LARLEE: Yes.

Q.54 - Thank you. And just to clarify then, DISCO's energy efficiency programs and DSM programs are achieving zero -- correct, percent reduction?

MR. LARLEE: Well we don't have any active programs. Like I said what you see in a forecast is what is just naturally occurring. In other words, it's not in the history because customers haven't done it yet, but we know that there is motivation -- economic motivation for customers to do certain things. So we include adjustments going forward for those type of activities.

Q.55 - Thank you. Turning back to exhibit A-4, the load forecast for that schedule F -- or appendix F. You talk about -- you talk about -- you mentioned this before -- a decrease in household sizes, that's at the very top, and the number of residential customers, and then under conservation and efficiency you discuss impacts of say thermal shell improvements to residential homes and stuff

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like that.

And so we have these -- well on their face at least apparent improvements in energy efficiency, and I'm just wondering how -- or if you can describe for me why then on -- and I'm looking now at exhibit A-2, in section 9(A) there is a line there that says, "increases in the residential forecasts are driven by the addition of new customers and increasing annual household usage".

So that's -- sorry, Mr. Chair. I'm looking -- that reference comes -- or that quote comes from exhibit A, and I'm looking under -- it would be attachment A to section 9, and I'm looking at lines 21 and 22 on page 1.

CHAIRMAN: Thank you.

MR. LARLEE: Sorry. Can you give me the page number again, please?

Q.56 - I'm looking at exhibit A-2, which is the April 19th evidence, and I'm looking at attachment A to section 9, and I'm looking at page 1 of that. And so as I said, towards the end of that on lines 21 and 22 -- on the end of line 22 it discussed that residential forecasts are being driven by, among other things, increasing annual household usage.

Do you still agree with that?

MR. LARLEE: Yes, I agree with that.

2 Q.57 - Thank you.

3 MR. LARLEE: But that is before -- that is before
4 adjustments. First let me take you back as to why we
5 would see that. Basically what we are seeing and what
6 other utilities are seeing is that the residential base
7 load is increasing.

8 So if you -- when I say base load, I mean the load that
9 you would have year round. So even though we are
10 installing more efficient refrigerators and more efficient
11 dryers, that is being outstripped to a certain degree by
12 new appliances being added.

13 And all you have to do is look under your computer and see
14 everything that is plugged in, or go into your
15 entertainment room and see everything that is plugged in,
16 look at all of those little black boxes that are hanging
17 off your outlets, and you can understand why that there is
18 an increase in sort of that base load.

19 Then once we see that, or we see that in the forecast,
20 then that's adjusted back somewhat by the efficiency
21 adjustments that we have put into it. So in this
22 particular paragraph we are talking about sort of the
23 step-wise process of how the forecast is built up and then
24 adjustments are put in after the fact.

25 Q.58 - And from your earlier answers then, I can assume that

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2 DISCO isn't doing anything to offset this increase in annual
3 household usage, or to try and temper this increase in
4 annual household usage?

5 MR. LARLEE: Well I think we -- I wouldn't say we are not
6 doing anything. First off, any information we share with
7 out customers we always -- we try to express to them what
8 consumes energy and impress on them the importance of
9 looking at the Energuide stickers that are on appliances
10 and how savings can result if they, you know, purchase
11 energy star appliances.
12 Second, we came to the realization several years ago that
13 over the long term reducing our customers' dependence on
14 electric heat would be a good thing. And that spurred our
15 original application in 2005 before the precursor of this
16 Board, which proposed a flattening of the residential
17 rate, the most significant flattening that we had ever
18 proposed. So all in an effort to gradually move customers
19 away from electric heat.

20 Q.59 - Thank you. One last question under this conservation
21 energy efficiency board. Why do you refer to Efficiency
22 New Brunswick program as incremental DSM initiatives?
23 What makes them DSM initiatives?

24 MR. LARLEE: So you are back to appendix F?

25 Q.60 - Yes. I'm sorry. I guess what I'm --

2 MR. LARLEE: This is where I say that it was a poor choice
3 of language. Really it should be incremental energy
4 efficiency initiatives. Unfortunately within the utility
5 we blur the lines a little bit, because DSM -- if you can
6 implement a DSM program, and you may or may not have
7 energy efficiency initiatives within that program, because
8 they may or may not pass the screening process. But you
9 also have other programs that really aren't energy
10 efficiency, they may be strictly demand control, water
11 heater control or something like that.

12 So for us DSM is both -- I believe it's my understanding
13 of the Energy Efficiency New Brunswick's mandate that
14 their mandate is strictly conservation. So DSM still
15 resides with DISCO and will continue to reside with DISCO.

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17 So really I can't call this a typographical error because
18 I know I reviewed this several times, but it really should
19 say not DSM but Energy Efficiency.

20 Q.61 - Thank you. And that is in keeping with what Ms.

21 MacFarlane said last week. I just wanted to clarify that.

22 Thank you. Looking now again at exhibit A-2 and staying
23 with section 9(a). And so on page 2 of 9(a). And I'm
24 looking down at lines 24 and 25.

25 And actually just line 24, "Electric space and water

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2 heating normally account for about 65 percent of the average
3 household energy use."

4 MR. LARLEE: Okay. I'm lost. Sorry. Are you on
5 attachment A to section 9?

6 Q.62 - Yes, I am.

7 MR. LARLEE: And on page --

8 Q.63 - 2.

9 MR. LARLEE: On page 2? Okay.

10 Q.64 - And then I'm down at lines 24 and 25.

11 MR. LARLEE: Okay. I'm there.

12 Q.65 - Thank you. DISCO owns most of the hot water tanks in
13 the province that are in residences, homes?

14 MR. LARLEE: I'm just trying to think of the percentage.

15 I think we own about 80 percent. You have to remember our
16 service territory doesn't extend to the entire province,
17 so --

18 Q.66 - But 80 percent of the market? About 80 percent of the
19 market?

20 MR. LARLEE: Yes. That is correct.

21 Q.67 - Thank you. And you just I believe said that water
22 heater control, that New Brunswick -- or DISCO could
23 introduce a DSM program, because that is a demand issue,
24 and implement water heater controls to lower that usage?

25 MR. LARLEE: Well, one of the reasons why that could be a

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2 possible program is just for that very fact, that we own so
3 many of the water heaters in the province. So that would
4 likely make it easier to implement.

5 Of course before we would implement any type of program
6 like that, it would have to go through the DSM screening
7 process.

8 Q.68 - Have you screened that particular aspect -- water
9 heaters?

10 MR. LARLEE: I believe it has been screened in the past.
11 But we haven't done it recently.

12 Q.69 - So DISCO isn't doing anything right now to decrease the
13 energy consumption of hot water tanks it rents out?

14 MR. LARLEE: No, I wouldn't say that. We have among the
15 highest standards for hot water tanks in the country.
16 They well exceed the CSA standards for energy efficiency.
17 The tanks are built to our specification. We don't buy
18 an off-the-shelf tank.

19 Q.70 - All right. But you are not doing anything -- I will
20 rephrase it then. You are not doing anything to improve
21 upon that at this point?

22 You don't have a program to improve upon these already
23 high standards?

24 MR. LARLEE: Well, I mean, we have staff that looks after
25 this program. And I'm sure that part of their mandate is

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to continually improve the program.

So no, I couldn't agree with that. I don't know of any specific undertakings right now that are going on, if that's what you are asking.

Q.71 - Thank you. One last question. So at the end of the day, is it fair to say that DISCO is relying on rate increases to lower demand from residential customers and in particular those reliant on electric space heating?

MR. LARLEE: I think having the rate proposal that we have before the Board is the key component to that. Once the price signal better reflects the cost, then that certainly doesn't stop us from looking at other measures. But when the economics aren't right, it is difficult to put any program in place.

So when we looked at this several years ago we basically kept coming back to the fact that well, the prices don't work. There is no -- there was no reason for the customer to do anything with the prices that we had at the time, and really continue to have.

I mean, other than being somewhat higher, we still have a considerable declining block. So I think we came to the conclusion that that really was the first step down the road. It wouldn't be the only step, by any means.

MR. KIDD: Thank you, panel. Thank you Mr. Chair, Board.

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CHAIRMAN: Thank you, Mr. Kidd. We will give you a moment there to remove your materials.

I believe Mr. Wolfe, you would be next.

MR. WOLFE: Mr. Chairman, I have no questions.

CHAIRMAN: Mr. Zed, do you have any questions? The Board will just take a moment here to put some of these exhibits back on the carts.

MR. ZED: Actually maybe you could just keep them out. I need -- I am going to make reference to exhibit A-2 and exhibit A-20 if that helps.

CHAIRMAN: A-2 and A-20?

MR. ZED: Yes.

CHAIRMAN: Thank you.

CROSS EXAMINATION BY MR. ZED:

Q.72 - Looking at section 9 of A-2 which I think we were just looking at a moment ago. And in A-20, looking at DISCO UM IR-14 at page 1.

CHAIRMAN: Perhaps out of A-20 could you repeat that, Mr. Zed?

MR. ZED: Yes. DISCO IR-14 -- DISCO, Utilities Municipal IR-14, page 1.

CHAIRMAN: I think everybody is there.

Q.73 - Okay. And if you would turn please at section 9 in A-2 to page 3. And I would ask the panel to look at page 3,

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table 9(b) and in particular the column, fourth column over
beside "Wholesale".

And it indicates a percentage change of 7.1 percent. And
that is a table showing the total forecasted sales volume
by customer class for 2007/8 and the forecast change. And
it is noted there as 7.1.

Now if we go to the IR that I referred the panel to, we
asked for some clarification on that 7.1 percent and
appear to have received an answer that the percentage
change is actually 4.1 percent.

So my question for the panel is simply if they could
reconcile the 7.1 in the forecast with the 4.1 in the
answer to the IR?

MR. LARLEE: Well, in the IR what we are essentially saying
is that if we take weather out of the equation, we remove
the weather from the year to date figures being compared
to, then the change is 4.1 percent.

So all we are trying to do is just show what the variance
is without the effects of weather.

Q.74 - Thank you. Now if we go back to the table, I guess my
question to you -- and let me set this up a little bit.
If you look at the residential change at 6.4 percent,
general service is a negative 3.9 percent. And those two
components are a very large part of the wholesale rate

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class.

My question is how did we go from a 6.4 and a minus 3.9 percent to arrive at 7.1 percent? What is unusual in the mix for the Utilities Municipal that would allow you to forecast or cause you to forecast that number?

MR. LARLEE: Well, first let me explain a little bit about how we do the wholesale forecast. Because our date for economic growth and other factors tend to be provincial in scope, we do a provincial forecast.

So we forecast the entire province, without Perth-Andover, but otherwise it is the entire province. And we do that for each of the classes. So we would do residential, general service and industrial. There is small industrial customers in the municipal areas.

And then based on history, what the history tells us, we divide up that forecast between ourselves and the wholesale group of customers. So it is in line with the forecast for the province essentially. So if that is the case then why are we seeing the increased growth in wholesale and not in residential?

Well, the reason why we are seeing it is because in the year to date figures that we have for 06/07. That's why we are seeing it.

Something unusual is happening in 06/07 that's pulling

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wholesale down below what our previous forecast or what the history is telling us, so that we are seeing this slightly larger increase in wholesale in the test year, in 07/08. I don't think that that's hard necessarily to believe given some of the economic activity that's happening particularly in Saint John and how it has ramped up over the last little while.

Another factor could be is that the weather in Saint John was milder than the remainder of the province in 06/07.

So there is obviously reasons for it. And it lies within the year to date data for 06/07, not in the forecast.

Q.75 - Your conjecture, other than the weather-related, your first comment I think, Mr. Larlee, was there is something in the load profile, is that -- or there is some factor other than weather.

Can you speculate? Or do you know what that is?

MR. LARLEE: At this point I don't. And certainly when we put this evidence together we didn't. Because we weren't within the -- we hadn't even completed the 06/07 year.

Q.76 - If your forecast of 7.1 percent is in fact high, turns out to be high, what effect does that have on your projected numbers in terms of revenue requirement?

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MR. LARLEE: Well, it would be similar to -- if any of the numbers are high or off forecast -- but if we are looking particularly in the upwards direction, it would increase our cost.

It would increase our cost because we have to buy more energy. And that would be offset by increases in revenue, so that the forecast would be higher and the actual revenue received from the class would be higher.

So the actual rate increase impact would likely be in the opposite direction. So that that class would be contributing less than we forecast to our fixed costs.

And we actually have to have a higher rate increase.

MR. ZED: Thank you. I have no further questions.

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

CROSS EXAMINATION BY MR. PEACOCK:

MR. PEACOCK: Thank you, Mr. Chair.

Before I begin, perhaps I may offer an introductory question to the Applicant's panel -- or the Applicant's legal counsel in the sense that the bulk of my questioning will be related to a few specific expenditures, specifically the question of DISCO's energy advisers, the pricing of the debt portfolio management fee and the general expenditures related to the work of the Environmental Committee.

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2 I'm just -- before I get into the nitty-gritty I wanted to
3 see if all of those would in fact be relevant to this
4 panel or if some should be say for another panel.

5 MR. MORRISON: No. I believe those are all relevant to this
6 panel.

7 MR. PEACOCK: Thank you. When you are not a lawyer this
8 sort of guidance is very helpful.

9 Q.77 - Okay. Well, I guess what I will start with is the role
10 of the energy advisers. Now I apologize for not actually
11 bringing my own binders. But I believe that the
12 questioning I have is mostly linked to in fact DISCO's
13 responses to my IRs on this question.

14 Before the filing of this year I had assumed that the
15 expenditure related to energy advisers was in fact
16 classified under say broad environmental expenditures.

17 I think I'm probably mistaken though in the sense that the
18 expenditures related to energy advisers are generally
19 classified as DISCO's customer service operations.

20 Would that be correct?

21 MS. LEAMAN: Yes. That is correct.

22 Q.78 - Okay. Thank you.

23 In a previous filing -- and actually it was in last year's
24 rate case, I believe that DISCO produced specific evidence
25 suggesting that I think there were maybe seven or

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eight energy advisers serving the ratepayers of DISCO.

Is that number essentially the same for this test year?

MS. LEAMAN: DISCO currently has six energy advisers and a supervisor.

Q.79 - Okay. Six energy advisers and a supervisor? Okay.

MS. LEAMAN: That is correct.

Q.80 - Thank you. Is there specific line item costs attached to this service?

You know, in ball park terms would it be roughly a half million dollars of DISCO's overall customer service operations that could in fact be attached to the energy advisers program?

And if it is approximate I would certainly accept that.

MS. LEAMAN: I'm not sure of the exact dollar figure. But an approximation could be 600,000.

Q.81 - Okay. Thank you.

And these energy advisers, they serve approximately 300,000 residential customers, is that correct?

MS. LEAMAN: That is correct.

Q.82 - And do they also serve the general service class?

MR. LARLEE: Not normally. The energy advisers focus on the residential class. And the general service and small

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industrial class, there is a set of account managers that deal directly with that class.

Q.83 - Okay. So it would in fact then principally be the residential class that is served.

These energy advisers don't promote in-house efficiency programs in the sense that DISCO at this time doesn't have any of their own in-house programs.

But from what I understood in the earlier written responses was that they generally do promote the work of external agencies such as Efficiency New Brunswick.

Would that in fact be seen as the principal role of energy advisers?

MR. LARLEE: No. I wouldn't characterize it as the principal role. It is certainly one of their roles, now that New Brunswick does have an efficiency agency, that they make our customers aware of any programs and certainly direct them to the agency when it is appropriate to do so.

But their role is really to assist customers upon request in all areas related to their electric service. And that certainly includes helping them conserve and advising them of activities they can take in their homes to reduce their electricity bills.

Q.84 - The utility has talked for some time about its balanced

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scorecard approach as part of its efforts to improve performance.

One of the things I'm curious about is how that sort of need to improve utility performance is applied specifically to the energy advisers program, in part because part of the work of the energy advisers is in fact to promote non-DISCO operations, in the sense of say steering a customer to a specific Efficiency NB program. So I guess what I'm curious about is how is the performance of energy advisers fairly assessed by the utility?

MS. LEAMAN: Within DISCO we do have the balance scorecard methodology. And the Customer Interaction Centre, which is where the energy advisers reside, does have the scorecard at that level as well.

And in terms of some of the things that they do measure with respect to energy advisers is the number of seeded calls that we actually receive.

And approximately I believe in 2006 we had about 6,000 seeded calls that the energy advisers would have received and provided guidance to customers related to their electricity consumption.

Q.85 - Okay. So out of roughly 300,000 residential customers there were 6,000 seeded calls.

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2 And I believe there is also part of the work of the energy
3 advisers programs is in fact on-site visits, is that
4 correct, to help specific residential consumers?

5 MS. LEAMAN: That is correct.

6 Q.86 - And would you have a number in terms of the actual on-
7 site visits?

8 MS. LEAMAN: I don't have that number with me, no.

9 Q.87 - Okay. Would you be able to provide a recent history of
10 that number in terms of say the last three or four years?

11 MR. MORRISON: We will see what data is available,
12 Mr. Chairman. If it is readily available we will provide it.

13 MR. PEACOCK: Okay. Thank you.

14 CHAIRMAN: Thank you, Mr. Morrison.

15 MR. PEACOCK: Thank you very much.

16 Q.88 - In the policy panel -- and I hate to paraphrase, but it
17 is something I do, because I generally don't keep the
18 greatest of notes.

19 But Mr. Hay I believe had suggested that within New
20 Brunswick and certainly within the current policy
21 framework set by the Provincial Government, efficient
22 programs are ultimately being driven by Efficiency NB with
23 the utility playing a secondary role.

24 Would that be a fair assessment?

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MR. LARLEE: Yes. I think that would be a fair assessment.

I mean, I mentioned earlier that the mandate of the efficiency agency is quite clear in that they are responsible for I guess what appears to me all aspects of efficiency and promoting efficiency in New Brunswick.

Q.89 - Okay. And do the six energy advisers that are ultimately receiving phone calls from residential consumers having trouble essentially, you know, in terms of energy matters, do they meet regularly with their counterparts at Efficiency NB?

MR. LARLEE: There has been meetings. There has been meetings with Efficiency New Brunswick at several levels.

I can't say with certainty that all of the energy advisers have met all of the people who work at Efficiency New Brunswick.

But there certainly has been workshops and presentations of the groups, combined groups. So there have been ongoing meetings with us and them.

Q.90 - But I guess it would be fair to say though that the six energy advisers would be fairly well-versed as to the latest programs being offered by Efficiency NB that they could then extend to the ratepayer?

MR. LARLEE: That is correct.

Q.91 - Okay. And the information about these efficiency

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programs that your energy advisers promote, they would also be readily available to anyone who calls Efficiency NB directly, is that correct?

MR. LARLEE: Yes.

Q.92 - Okay. Well, I guess this brings us to the crux of the matter, at least from our perspective.

Vibrant Communities is of the opinion that with the continued expansion of Efficiency NB's advertising, their programs, their number of employees, the role of DISCO's efficiency advisers may in fact be duplicated by those who staff Efficiency NB's 1-800 call centre or -- in other words, we are concerned that the low income consumers in fact paying twice through their rates and their taxes for essentially the same service, that is essentially the promotion of efficiency programs by either the taxpayer-supported Efficiency NB or the ratepayer-supported NB Power.

As a final thought on this subject, can the panel explain why the energy advisers program should remain a part of this year's revenue requirement, now that Efficiency NB is principally responsible for promoting residential efficiency?

MR. LARLEE: A couple of points I would like to make. First off is the efficiency agency is an energy efficiency

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2 agency. So they are looking at all forms of energy, not just
3 electricity. So they are looking at oil, gas and so
4 forth.

5 Our energy advisers focus on electricity. Because that is
6 what DISCO -- that is a commodity DISCO distributes.

7 As well the energy advisers have other responsibilities.

8 When there is a question about the proper rate
9 application, they are the individual that goes to the site
10 to ensure that the rates are properly applied.

11 When a customer has a question around our policy related
12 to metering, it is an energy adviser that guides them
13 through the process. And I could go on. And they have
14 other responsibilities as well.

15 So there is overlap. There is a risk of duplication. And
16 there is no question about that. And certainly that is
17 one of the reasons why we are actively meeting with the
18 agency on an ongoing basis.

19 Q.93 - Thank you. I guess I will move on now to the question
20 of the debt portfolio management fee. In its evidence --
21 and I may be ball parking it. But I believe in the
22 evidence it is fair to -- would it be fair to suggest that
23 when you add the debt portfolio management fee for Genco,
24 Nuclearco and DISCO, would it appear that the ratepayer is

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2 paying the Province of New Brunswick or the Provincial

3 Government roughly 70,000,000 to carry the debt for what

4 is essentially a provincially-owned utility?

5 MR. MORRISON: Does the intervenor have a specific reference

6 which may assist us here?

7 CHAIRMAN: Mr. Peacock, are you able to make any specific

8 reference?

9 MR. PEACOCK: I apologize for not having my own IR responses

10 in front of me. But I believe -- I know I had questioned

11 the debt portfolio management fee in my IRs. And I

12 believe the panel may have in fact been able to assist us

13 all.

14 MR. MORRISON: I'm taking a guess here that it may be A-2.

15 CHAIRMAN: Perhaps this might be a good time to take a

16 morning break. And you could determine during that break

17 maybe where that is in your IRs --

18 MR. PEACOCK: Thank you.

19 CHAIRMAN: -- if possible.

20 So we will take a 20-minute break. So we will back at

21 11:15.

22 MR. PEACOCK: Thank you.

23 (Recess - 11:00 a.m. - 11:15 a.m.)

24 CHAIRMAN: Mr. Peacock, are you ready?

25 Q.94 - Yes. Thank you, Mr. Chair. And I would like to thank

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Board counsel for allowing me to utilize some of the Board's binders.

In retrospect I realize the value of bringing the evidence to the hearing, because I vastly overstated the numbers attached to the debt portfolio management fee in my original question, and I'm sure I may have given some members of the applicant's team an elevated heart rate at least momentarily. So for that I apologize.

But in regards to the debt portfolio management fee, looking at the evidence -- the DISCO evidence from A-2 as well as the evidence concerning Genco and Nuclearco from section A-16, I believe there is a specific tab attached concerning interest expenses.

I will just throw the numbers that I am particularly interested in and perhaps I can get confirmation that I'm reading the tabs correctly. According to the Applicant's evidence DISCO pays a 3.2 million dollar debt portfolio management fee, if I read that correctly. The Genco pays 11.8 million and Nuclearco 4.4 million. I hope I'm still not confused.

MS. LEAMAN: I just have a correction to the DISCO debt portfolio management fee. According to our records, it's \$3.6 million dollar.

Q.95 - 3.6 as opposed to 3.2. Okay. The other two numbers

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though, Genco and Nuclearco, 11.4 -- 11.8 and 4.4 --

MS. LEAMAN: Are correct.

Q.96 - Okay. Hooray. I have made progress.

CHAIRMAN: Excuse me. Are you changing numbers that are in your evidence? Is that a correction that you are making or a correction to what Mr. Peacock's question implied?

MR. MORRISON: It's not a correction to the evidence, Mr. Chairman.

CHAIRMAN: Thank you.

Q.97 - Okay. I guess where we are concerned is that these numbers add up to slightly less than \$20,000,000 of the current years revenue requirement. From our rather I guess man on the street perspective, we see this \$20,000,000 being charged by the Province to essentially what is a utility that is owned by the province. So in other words, we see this debt portfolio management fee as a form of a tax in some ways. And so I guess perhaps to begin this line of questioning, if the panel could explain in a way that someone like myself could fully understand the inherent value of this debt portfolio management fee as it applies to not just DISCO but Genco and Nuclearco.

MS. MACFARLANE: Yes. The debt portfolio management fee has a long history and prior to restructuring there was a

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similar charge in place to the integrated utility referred to as the guarantee fee that was calculated on the same formula. It is basically .06489 percent of the outstanding debt guaranteed by the Province.

It, as I understand it, was originally created to represent a proxy to what the utility would pay were it to be borrowing without a Provincial guarantee. Now it is not possible given the balance sheets of the individual companies for them to borrow without a provincial guarantee, but were that the case there would be a spread between Provincial rates and corporate rates, and the original intent of the guarantee fee was to be some proxy for that amount.

I believe in the transmission hearing -- the transmission tariff hearing that we participated in in the early 2000s -- we actually put evidence on the record about what credit spreads would be for the transmission company as an example, and it was a reasonable proxy. But regardless of whether it is a reasonable proxy or not it is something that is collected under the legislation.

The Electricity Act, section 37.4, is the section of the Act that the province charges -- or pardon me -- Electric Finance charges us under, and they do that by Order-in-Council.

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2 It's in the answer to in fact one of your IRs, VCSJ IR-1
3 September 18th, that that is not uncommon for utilities in
4 Canada that have Provincial guarantees. In fact Hydro
5 Quebec pays .50 percent as a guarantee fee. Manitoba
6 Hydro pays .95 percent as a guarantee fee. And
7 Newfoundland Hydro pays a full one percent as a guarantee
8 fee. So it is not an unusual practice for a Provincially
9 owned utility.

10 It is certainly the case that the debt of the utility can
11 have an impact on the credit rating of the Province of New
12 Brunswick and it is not unreasonable that there be some
13 charge for using the Province's guarantee in the capital
14 markets.

15 Q.98 - Thank you. That provides a fair bit more clarity. And
16 I actually thank you for the IR that you referred to in
17 the sense that I found that a very compelling response. I
18 guess the one item I had thought about when I initially
19 saw that response was that the debt portfolio guarantee
20 fee isn't in fact present in every Provincially supported
21 utility across the country. You did mention a few of the
22 major ones, but I found it interesting that it wasn't
23 present across the country.

24 The actual number -- I believe the percentage is .6 --
25 number, number, number -

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2 MS. MACFARLANE: It's .06 --

3 Q.99 - 06.

4 MS. MACFARLANE: -- 489.

5 Q.100 - That has not changed in percentage terms over the last
6 five or ten years, it is a constant percentage?

7 MS. MACFARLANE: It's not -- certainly not changed in the
8 ten years that I have been there, and I don't think it has
9 changed since it was first incorporated into the cost of
10 the utility.

11 Q.101 - Okay. Thank you. Obviously you had mentioned that
12 the fee essentially comes from an Order-in-Council in the
13 sense that there is a certain order from on high. Our
14 organization has seen the potentially negative effects of
15 certain Orders-in-Council. I will leave it at that.
16 But one of the things that I was curious about is in --
17 obviously I'm sure your utility doesn't enjoy having to
18 come to the regulator and put the pressures of higher
19 expenditures onto your ratepayers.

20 And in advance of this rate case had you entered into any
21 sort of discussions with Electric Finance, essentially the
22 provincial holding company, to perhaps change this
23 percentage downward if that would in fact provide a
24 benefit to NB Power's ratepayers?

25 MS. MACFARLANE: No, we had not. At the time of

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2 restructuring there was discussion about whether or not the
3 debt portfolio management fee or the guarantee fee would
4 continue in its same form, or whether in fact the Province
5 would simply re-coupon the debt that they borrow in the
6 capital markets at the Provincial rate, to a corporate
7 rate when they loan it from EFC to NB Power to reflect the
8 corporate rate. And they decided at the end of the day
9 that they would continue with the current structure and
10 that if and when the utility ever does move to capital
11 markets in its own right, borrowing in capital markets in
12 its own right, the debt portfolio management fee would no
13 longer apply.

14 I did want to come back to your point about other
15 utilities that don't have the -- Provincial utilities that
16 don't have the guarantee fee. Perhaps the largest utility
17 in the country is Ontario Power Generation and Hydro One,
18 the transmission organization owned by the Province of
19 Ontario.

20 Both of those utilities have had a significant equity
21 infusion by the Province at the time of their
22 restructuring. Their balance sheets do allow them to
23 borrow in the debt capital markets without a guarantee and
24 they are paying at corporate rates.

25 Q.102 - Okay. Thank you. All of this reminds me of the fact

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that I should have taken accounting while I was at university.

Well I guess I will conclude really by moving on to the question of environmental services which I believe -- I wish I -- I was frantically trying to find a reference to it in the Applicant's evidence because I know it is there.

I believe it may in fact be under shared or corporate services, but perhaps the panel may themselves be so kind as to help me understand that specific expenditure.

I believe it was in the \$300,000 range. Am I getting warm in terms of the expenditure related to environmental services?

MS. MACFARLANE: Just while Ms. Leaman is finding the reference, I will mention that the bulk of the environmental costs for NB Power are embedded in -- and they are in the tens of millions annually, if not hundreds of millions -- they are embedded in the capital costs of the generation and the nuclear facility in the form of scrubbers, in the form of other environmental equipment, and also in the operating costs and fuel costs of those entities in the sense that any products that are used to -- like limestone to create gypsum is -- resaleable gypsum is in fact an environmental cost.

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So the 300,000 is -- that you are referring to and Ms. Leaman will find the reference -- and the actual cost is simply the cost of the employees in the environmental compliance group, the group that does the reporting for environmental compliance purposes, runs the environmental audit system, et cetera. Ms. Leaman?

MS. LEAMAN: The section of the evidence that refers to environmental costs from shared services is in A-3 appendix C, the FLA agreements --

Q.103 - Okay.

MS. LEAMAN: -- and the costs that are flowing through to DISCO in the 07/08 revenue requirement are \$14,000. That's our share of the environmental costs.

Q.104 - Oh goodness. I worry now that I am quibbling over pennies. I apologize. I had seen I think the \$300,000 figure at some point and I didn't realize that that was in fact divided up. I guess I thought the 300,000 was in fact directed towards DISCO in particular.

Because of this I will just limit myself to a few short questions because I don't want to be seen as in fact quibbling over a relatively small portion of the revenue requirement.

The work of the auditing committee and the environmental work that is done, is that ultimately also

2 the same organization or the same group within the company
3 that produces essentially the NB Power environmental
4 report that was recently published on the website?

5 MS. LEAMAN: Yes, it would be.

6 Q.105 - And it would also be the same committee I guess that
7 would -- I should preface my next line of questioning by
8 remarking in our own evidence we made reference to the
9 Provincial Government's climate change action plan from
10 2007 to 2012. And one of the key components of that
11 action plan is essentially that they would limit
12 greenhouse gas emissions to 1990 levels by 2012.
13 Of course electricity generation is I think something more
14 than 40 percent of the province -- is responsible for
15 something more than 40 percent of the province's total
16 greenhouse gas emissions. All this to say that if the
17 province is to achieve its 2012 goal, that your
18 environmental committee will probably have a heck of a lot
19 of work to do in the years ahead.

20 Would that be a fair assessment?

21 MS. MACFARLANE: That's a fair assessment. That group works
22 very closely obviously with the conventional generation
23 operating company, because the greenhouse gases are coming
24 from the thermal generation. You would have seen in the
25 evidence of the PPA Panel that as -- although NB Power has

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been monitoring both the development of the federal standards and the provincial standards very closely it is unclear what the outcome of either a set of regulations will be. And we don't anticipate seeing any monetary penalty for greenhouse gases in our revenue requirement before 2012. You would have noticed in the PPA evidence that there was initially a charge and it was subsequently removed as we came to better understand the pace with which the federal and provincial governments are moving with the regulation.

But you are quite right, it will be a significant amount of work understanding and working towards achieving those goals.

Q.106 - Given that this entire rate case is essentially based on this test year, there are really no significant environmental costs attached to this particular proposal?

MS. MACFARLANE: There are very significant environmental costs in the proposal in the sense that meeting today's regulations for sulphur emissions, nitric oxide emissions, for any emissions, NB Power has made considerable capital investments in the generating companies which are reflected in the capacity payment through amortization and finance charges. And as I say, there is also OM&A costs

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2 in the generating companies that flow through the capacity
3 payment. But there are no costs in this years revenue
4 requirement specific to management of greenhouse gasses.

5 MR. PEACOCK: Okay. I guess because I haven't brought my
6 binders I will leave it at that. And I thank the panel
7 for their patience and I thank the Board as well. Thank
8 you.

9 CHAIRMAN: Thank you, Mr. Peacock.

10 MR. MORRISON: Mr. Chairman, there was one -- perhaps before
11 Mr. Peacock leaves his place, he asked for some historical
12 data on visits by Energy Advisors. There is a response to
13 an undertaking that was brought to my attention by Mr.
14 Wolfe actually at the break. And Ms. Leaman has it there,
15 and I'm wondering if that might suffice for Mr. Peacock's
16 purposes?

17 MS. LEAMAN: It's with reference to IR-1 from Vibrant
18 Communities, and we responded to a question regarding the
19 number of telephone contacts and onsite visits for the
20 last five years, and we provided information relative to
21 having approximately 13,000 onsite visits over the last
22 five years.

23 So will that suffice or do you need additional
24 information?

25 MR. PEACOCK: I thank you for bringing that forward. I

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2 guess where I -- the entire reason why I asked for the

3 undertaking is -- was whether or not the Applicant can

4 offer some sort of trend line in the sense is that number

5 fairly -- fairly average throughout the five years or if

6 in fact there have been an inclining trend?

7 I don't actually need probably specific numbers in any

8 sort of undertaking but I'm sure that the Board and other

9 intervenors would be interested to see whether or not more

10 and more ratepayers are in fact taking advantage of the

11 service of the energy advisors over the last five years.

12 MR. MORRISON: And that's fair enough, Mr. Chairman, and we

13 will go and see what we have available and provide

14 whatever we have.

15 CHAIRMAN: Thank you.

16 MR. PEACOCK: Thank you.

17 CHAIRMAN: Mr. Theriault?

18 CROSS EXAMINATION BY MR. THERIAULT:

19 Q.107 - Good morning, Mr. Chairman, Board members. As we get

20 into the questioning I will be referring to two exhibits,

21 that's A-2 and A-20.

22 CHAIRMAN: Perhaps just give us a moment to get those

23 exhibits. Does the Panel have both of those exhibits? It

24 appears that we are ready to proceed then.

25 Q.108 - Thank you, Mr. Chair. Before I get into the

2 discussion of the exhibits, panel, I would like to discuss the
3 balanced scorecard that Mr. Hay discussed during the
4 policy panel here earlier and I guess from the response to
5 Mr. Peacock's question that this is the proper panel to
6 discuss that with. So I'm assuming it is. Okay.

7 Do you agree that the balanced scorecard is a performance
8 measurement framework with similar principles as
9 management by objectives?

10 MS. MACFARLANE: Yes.

11 Q.109 - And do you agree that the balanced scorecard attempts
12 to measure whether the activities of the company are
13 meeting its objectives in terms of vision and strategy?

14 MS. MACFARLANE: Yes.

15 Q.110 - Would you agree that implementing the scorecard
16 typically involves six process or steps, one, translating
17 the division into operational goals, two, communicating
18 the vision, three, linking the vision to individual
19 performance, four, business planning, five, feedback and
20 learning, and six, adjusting the strategy accordingly?

21 MS. MACFARLANE: There are a number of steps. That's a
22 reasonable categorization of them. One of the perhaps
23 important steps for an organization like NB Power would be
24 assessing the risk of achieving its objectives and
25 designing initiatives around that. But in your list that

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2 could be categorized as part of the business planning.

3 Q.111 - Okay. Thank you. Now I would like to find out a bit
4 about the specifics of how you implemented the balanced
5 scorecard approach. First of all, has this been
6 implemented across all companies in the NB Power group of
7 companies?

8 MS. MACFARLANE: Yes, it has.

9 Q.112 - Is there any difference in the vision that DISCO uses
10 versus that of the other companies in the group?

11 MS. MACFARLANE: No. All of the companies share the group
12 of companies' vision and mission.

13 Q.113 - Now I want to talk to you a bit about the details of
14 the balanced scorecard insofar as DISCO is concerned. And
15 I would like to break this into two parts. First of all,
16 DISCO'S vision and how this vision is converted into
17 operational goals and, secondly, how DISCO measures its
18 performance in terms of meeting these goals.

19 So I would like to start first of all with the vision.
20 What is DISCO's vision?

21 MS. LEAMAN: DISCO's vision is to achieve a level of
22 business excellence that will rank the NB Power group
23 among the best run utilities, and that will contribute to
24 a more vibrant New Brunswick.

25 Q.114 - And is this vision consistent with DISCO's role as a

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2 standard service provider in the province?

3 MS. LEAMAN: Yes, it is.

4 Q.115 - And how do you know?

5 MS. LEAMAN: Everything that we are doing relative to our
6 strategy and our vision contributes to assisting customers
7 and making rates that are reasonable.

8 Q.116 - Has this vision been compared with any other electric
9 distribution utilities?

10 MS. LEAMAN: Not to my knowledge.

11 Q.117 - Why not?

12 MS. LEAMAN: I'm afraid I don't know the answer to that
13 question.

14 MS. MACFARLANE: The vision of DISCO, as I said earlier, is
15 the vision for the group of companies. And I think you
16 will find across organizations that the vision is,
17 generally speaking, specific to the organization's
18 purpose, specific to its culture, specific to its region,
19 etcetera.

20 And we wanted in forming this particular vision, which was
21 done about three years ago, to recognize business
22 excellence which is a concept that was crystallized with
23 Mr. Hay joining the company, and bringing that stronger
24 business sense. I believe he spoke about that on Monday.
25 And we also wanted to recognize the critical role that

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2 NB Power plays in the lives of New Brunswickers and in the
3 economy of New Brunswick. And the vision really
4 encapsulizes that.

5 What might be more comparable to other utilities is the
6 perhaps -- is the mission statement which is much more
7 specific to a utility. And if you would like the mission
8 statement we can provide that.

9 Q.118 - Now, but the mission statement isn't the vision.

10 MS. MACFARLANE: I find those terms mission and vision are
11 often used interchangeably. It depends on the textbook
12 that you use. In our system vision is very much where the
13 corporation wants to go and what it wants to be in terms
14 of how it operates in the very long term. The mission
15 statement in our nomenclature is why the organization
16 exists.

17 Q.119 - Could you restate the vision for me, the vision?

18 MS. LEAMAN: The vision is to achieve a level of business
19 excellence that will rank the NB Power group among the
20 best run utilities, and that will contribute to a more
21 vibrant New Brunswick.

22 Q.120 - I guess my question would be if you are looking to
23 rank the utility amongst other utilities but if you don't
24 compare them with other utilities, how do you -- how can
25 you determine if you have achieved your vision?

2 MS. MACFARLANE: Well we do, but your question to me was
3 have we compared our vision statement to other
4 distribution utilities. And to that answer we said that a
5 vision is typically very unique to the culture and views
6 of the individual organization.

7 That mission statement, if you took the word utility out,
8 could equally apply to Nike, it could equally apply to a
9 hospital organization. It is just that. It is a vision
10 about business excellence and about being part of a
11 vibrant New Brunswick. The mission statement Ms. Leaman
12 will read into the record.

13 MS. LEAMAN: Our mission is to provide New Brunswickers with
14 electricity at the lowest possible cost consistent with
15 safety, reliability and the environment.

16 Q.121 - Thank you. What are DISCO's operational goals?

17 MS. LEAMAN: In terms of the balanced scorecard and the
18 strategy map, DISCO has a number of perspectives that we
19 have specific measures identified for, and we quantify
20 them in terms of financial perspective, customer
21 perspective, internal and learning and growth.
22 And within each of those perspectives like I had mentioned
23 there were specific objectives that we are measuring on a
24 monthly basis. But in terms of the overall strategy, we
25 are aiming to balance reliability versus

2 costs, balance customer service versus costs and to improve
3 our productivity.

4 Q.122 - I guess what I'm wondering is under the categories
5 that you mentioned, the specific operational goals that
6 DISCO would have?

7 MS. LEAMAN: That information was provided as part of a
8 response to an IR. And it is PI IR-33 October 9th. And
9 it is in exhibit A-27. And that represents what we are
10 currently measuring for 07/08.

11 Q.123 - And what does that say?

12 MS. LEAMAN: It is page 9 of that response.

13 CHAIRMAN: Perhaps I will get you to repeat the IR number
14 please?

15 MS. LEAMAN: It is PI IR-33. And October 9th was the date.
16 And it is exhibit A-27.

17 CHAIRMAN: Okay.

18 MS. LEAMAN: And I'm specifically referring to page 9 of
19 that response.

20 Q.124 - Okay. And could you for the record tell us what those
21 goals are?

22 MR. MORRISON: Just to be clear, I know there seems to be --
23 I don't know if everyone has found it -- it is Appendix 4
24 to that response, which is a fairly long document.

25 CHAIRMAN: Just give us a moment please. And it was page 9

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2 of that appendix?

3 MR. MORRISON: Page 9, yes.

4 CHAIRMAN: Thank you.

5 MS. LEAMAN: Page 9 of that appendix is actually referring
6 to all of the specific key performance indicators, I guess
7 is another word for it, that we were looking at measuring
8 throughout the year.

9 But my colleague reminded me that you asked for objectives
10 which would be information that would be included on our
11 scorecard, the strategy map itself.

12 So with respect to the different perspectives that I
13 mentioned earlier, the financial perspective, we have two
14 objectives that we are trying to operate within. And the
15 first one is controlling, operating and capital spending.

16 And the other one is to maintain positive net earnings.

17 So those are the two objectives related to the financial
18 perspective.

19 Q.125 - Could you repeat those please?

20 MS. LEAMAN: The first objective under the financial
21 perspective is control, operating and capital spending.

22 And the second objective is to maintain positive net
23 earnings.

24 Q.126 - Okay. And with respect to the other goals?

25 MS. LEAMAN: Under the customer perspective we have three

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objectives. The first one is to optimize the supply and distribution of safe and reliable electricity.

The second one is to provide service to establish standards. And the third one is to keep rates as low as possible.

Q.127 - Okay. Continue on.

MS. LEAMAN: The internal perspective we have six objectives. The first one is to optimize processes in the use of our assets. The second is to complete work on time and on budget. The third one is to focus on energy efficiency and reduce environmental impact.

The next one is to strengthen stakeholder relationships. Adopt a user pay approach is another one. And the final one is to improve and simplify the end to end customer experience.

CHAIRMAN: Excuse me. We appear to be looking at the wrong page or the wrong exhibit.

MR. MORRISON: I apologize. I think they moved back from the original to some other place. And I don't know. Perhaps Ms. Leaman can identify where it is.

MS. LEAMAN: The actual strategy map was not filed as part of any information that we filed with the EUB or any of the IR's that we responded to.

The other document that I made reference to is

2 actually the measures that we are tracking in support of our
3 strategy map.

4 CHAIRMAN: So those measures that you have just been
5 testifying to, they are not part of this exhibit. They
6 are something that is not part of the evidence?

7 MS. LEAMAN: Right.

8 CHAIRMAN: That is why we can't find them.

9 MS. LEAMAN: Right.

10 Q.128 - Would you agree or undertake to file a copy of the
11 strategy map with the Board?

12 MS. LEAMAN: Yes.

13 MR. THERIAULT: And perhaps what I will do is I will move on
14 to another line of questioning. And then after lunch I
15 will come back to this.

16 MR. MORRISON: Yes. We can do that.

17 MR. THERIAULT: Thank you.

18 Q.129 - Now I would like to take a look at your OM&A costs
19 which are found -- yes, take a look at your direct OM&A
20 costs which are given at Table 3(B), page 2 of section 3
21 in exhibit 2.

22 CHAIRMAN: Okay.

23 Q.130 - Okay. Now panel, I intend to go through most of the
24 major cost categories in this table. But before I do, how
25 does DISCO satisfy this Board that both the level of

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direct OM&A as well as the rate of change are prudent expenditures?

MS. LEAMAN: DISCO undertakes on an annual basis, as part of our annual planning process, to develop our budgets for each fiscal year.

And relative to 07/08 we would have undertaken a very rigorous budgeting process whereby at each cost centre level and director level costs are pulled together for the budget year and are reviewed at that level prior to coming to the DISCO senior management team for approval.

But each director level has to demonstrate and justify those costs to their vice president prior to it going any further in terms of the executive or the board.

Q.131 - Now what performance measures would you use to justify these OM&A charges?

MS. LEAMAN: With respect to our budget we traditionally look at prior years' costs to ensure that we are in line with prior years' spending.

But as well there are other types of initiatives that we undertake throughout the year or prior years that lend itself to trying to cut our costs in a variety of ways.

Q.132 - Such as?

MS. LEAMAN: We currently have, for example, under way two projects, customer service delivery project and the work

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force management project, that were approved for spending.

And with the implementation of those two projects we will be seeing savings beyond 08/09 in the tune of approximately \$3.5 million in terms of productivity type improvements and efficiency type improvements.

Q.133 - And that is you say 08/09?

MS. LEAMAN: That is correct.

Q.134 - Are there any other measures particular to this test year?

MS. LEAMAN: Well, with respect to this test year we would have undertaken initiatives. I guess if you look back to 04/05 we would have had the staff adjustment program, where 150 people left the organization.

And as well in 06/07 we had other business excellence type savings that we have achieved that are sustained within our 07/08 budget.

Q.135 - Now with respect to table 3(b), I believe it is, on page 2 of the exhibit A-2, I'm looking at "Labour and Benefits". Could you explain to us what this is?

MS. LEAMAN: Labour and benefits represents the direct and indirect labour expense for all of DISCO. For the budget 07/08 it represents 682 positions that we have budgeted for.

Along with that it includes the employer portion of

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benefits and statutory remittances as well as pension and retirement allowance.

Q.136 - Does that include salaried positions as well as wages?

MS. LEAMAN: It is union and nonunion wages.

Q.137 - You know, what has caused the change between 05/06 and the forecast of 07/08? Have you increased the number of employees, for instance?

MS. LEAMAN: The number of employees has increased from -- well, actually, yes, 05/06 we had approximately 654 employees. And we are forecasting for 07/08 to have 682.

The increase of approximately 20 employees is related to the apprentices, 12 apprentices and eight manpower or co-op students to help in the Customer Interaction Centre.

Q.138 - And is it also due to wage increases?

MS. LEAMAN: That is correct.

Q.139 - Now let's move on to "Hired Services". Could you explain what this is?

And that would be line 2 of table 3(b).

MS. LEAMAN: Hired services are used to augment and support DISCO's work force. We contract out a number of different services. And some are specialized or highly technical. And in some cases it is routine or one-time type services.

Q.140 - Such as?

MS. LEAMAN: A routine service would be something to the

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tune of education management where we would have an ongoing program that would come into play every year.

Such as a nonroutine or a one-time work requirement would be something like a study that we would have to get someone from outside to come in and do.

Q.141 - Would a rate case be nonroutine?

MS. LEAMAN: I guess nonroutine in the sense that it hasn't been a recurring item for DISCO over the last several years.

Q.142 - Now I'm going to ask you to turn to page 3 of -- which is the following page after the table. And I'm going to point you to line 16.

And with respect to the \$3.7 million increase referenced on line 16 on page 3 and attributed to the costs associated with supporting regulatory proceedings, I'm going to ask you to respond to the following questions.

First, what makes up this increase?

MS. LEAMAN: The increase is related to a combination of hired services and direct and common costs associated with the EUB.

Q.143 - And is this an increase over the cost of the 05/06 and 06/07 hearings?

MS. LEAMAN: In 05/06 it cost DISCO \$5.7 million to support

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the regulatory application. 06/07 we only spent \$1.1 million.

Our forecast for 07/08 is 4.8 million.

Q.144 - Now if the regulatory process is shorter this time around, would this estimated increase be overstated?

MS. LEAMAN: If we do wrap up early, it could be. But I believe that there is potential for additional costs.

Yes, we expect to be back prior to the end of the fiscal year.

Q.145 - Now could you reconcile the 3.7 million on page 3 with the 3.1 million on line 4 on page 6?

MS. LEAMAN: As I mentioned earlier, the costs that are incurred as a result of the regulatory proceedings are split between two different cost categories. Hired services is one of them. And the other is other corporate costs.

So the 3.1 noted on line 4 of page 6 is specifically the hired services component of the regulatory proceedings.

Q.146 - So it is a separate monetary figure than the 3.7 million that we are referring to?

MS. LEAMAN: The 3.7 is a combination of both of those items.

Q.147 - Now could you reconcile both the 3.7 million and the 3.1 million with the 2.4 million on line 2 at page 7?

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MS. LEAMAN: The \$2.4 million is a change from 06/07 to 07/08. and that is specifically for the legal, expert and technical cost associated with the proceedings for this year.

As well I would like to refer you to page 12 of that same OM&A category under line 18 and 19 under Other Costs. It also explains that there is an increase year over year related to the EUB direct and common costs.

Q.148 - What was that last reference? I'm sorry.

MS. LEAMAN: It is page 12.

Q.149 - I just want to clarify something, going back to page 7, line 2. So the 2.4 million you say is the change in legal and expert witness costs?

MS. LEAMAN: That is correct.

MR. THERIAULT: Mr. Chairman, I'm going to be getting into another area here. And I'm just wondering if it might be a good time to have our noon hour break?

CHAIRMAN: All right. We will recess now and come back at 1:10.

(Recess - 12:10 p.m. - 1:10 p.m.)

CHAIRMAN: Ready to proceed, Mr Theriault?

MR. THERIAULT: Yes, I am. And I believe my friend has something first.

MR. MORRISON: Mr. Chairman, just I know the Board sent

2 e-mail around about Mr. Lawson's motion. We are still pretty
3 hopeful that Ms. McShane is going to get in this evening.

4 It might be late but -- or if not perhaps tomorrow
5 morning. All indications talking to the Intervenors that
6 we are going to be finished this panel today. Certainly
7 if Ms. McShane was available, we would like to proceed and
8 get that done tomorrow and move right along into Mr.
9 Lawson's motion, so that I think we could finish up the
10 whole thing in a few hours tomorrow, which rather than
11 having people either stay over or go and come back seems
12 to make more sense to me, but I will leave it in your
13 capable hands.

14 CHAIRMAN: Well, Mr. Morrison, I think that's consistent
15 with the notice that went out. It simply says that the
16 cost allocation motion will be heard immediately following
17 the testimony of Ms. McShane. So we anticipate it would
18 occur on Wednesday, but in the event that her evidence is
19 tomorrow and if there is sufficient time after her
20 evidence, certainly we will hear Mr. Lawson's motion at
21 that time. And perhaps at the end of the day if it does
22 appear that's the case, the Board will send out a further
23 e-mail to make sure parties that aren't in attendance
24 today are aware of the timing.

25 MR. THERIAULT: Thank you, Mr. Chairman.

2 Q.150 - I would like to go back to the strategy map that we
3 were discussing earlier this morning, panel.

4 MR. THERIAULT: And Mr. Morrison has provided copies to --
5 for everyone. So I would ask the Board to mark it for
6 identification.

7 CHAIRMAN: We will mark this 6 for identification.

8 Q.151 - Now panel I see here the perspectives that we talked
9 about, the financial, the customer, the internal and the
10 learning and growth and what I am going to ask is for each
11 one. So let's start with financial. How do you measure
12 the performance of the financial perspective?

13 MS. LEAMAN: With respect to financial perspective, as I
14 mentioned earlier, we have two objectives, controlling
15 operating and capital spending, along with maintaining
16 positive net earnings. And associated with those two
17 objectives we do have measures that we look at on a
18 monthly basis.

19 The first one being the OM&A, net of applicable
20 miscellaneous revenue. So we would be looking at on a
21 monthly basis our cost and revenues, as well as, capital
22 spending making sure that we are coming in on time and on
23 budget with our projects. And with respect to maintaining
24 the positive net earnings, we are looking at our earnings
25 before taxes.

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2 Q.152 - Now with respect to the customer perspective, how do
3 you measure the performance of the three items that you
4 have listed in here?

5 MS. LEAMAN: I guess to facilitate maybe people following
6 along that IR that we were looking at earlier before we
7 broke, IR-33, and it was exhibit A-27. I think it was the
8 Appendix --

9 MR. MORRISON: It was Appendix 4, I believe, page 9.

10 MS. LEAMAN: So we if go back to your question regarding the
11 customer perspective --

12 Q.153 - That's correct.

13 MS. LEAMAN: -- we have a number of measures there that we
14 are tracking on a monthly basis, interruptions restored
15 within one hour of expected time of restoration. SAIDI,
16 which represents System Average Interruption Duration
17 Index and SAIFI, which is System Average Interruption
18 Frequency Index, as well as, service requests completed
19 within our service standards and our CSI, which is our
20 Customer Satisfaction Index.

21 Q.154 - And with respect to the internal perspective, again
22 the same question how do you measure performance for each
23 of those items?

24 MS. LEAMAN: Process is documented, milestones on our
25 standards review project, selected key design criteria

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met, capital work completed per design, completion of planned capital works, milestones met on our rate plan for the Point Lepreau refurbishment outage, and milestones met on our rate application regulatory schedule, and finally calls escalated by an agent.

Q.155 - Now with respect to the last one learning and growth, again what is the -- how do you measure your performance?

MS. LEAMAN: Milestones on key based resourcing plan, lost time accidents, milestones related to our workforce management and customer service delivery projects, workforce management phase one project realization benefit, management-for completion to plan, relationship management sessions and our balance scorecard implementation.

Q.156 - Have these performance indicators been set as a system-wide level?

MS. LEAMAN: They are measures that are adopted and reported on by DISCO. Some of them do feed up to the executive level as well.

Q.157 - I would like to go to inter-company services. And for that, Mr. Chairman, we will be going back I believe to exhibit 2. And panel could you explain to us what are inter-company services?

MS. LEAMAN: Inter-company service expenses are related to

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2 services charged by DISCO by other operating companies in the
3 NB Power group.

4 Q.158 - Did you say charged by or charged to DISCO, I am
5 sorry?

6 MS. LEAMAN: Sorry. I should have said charged to.

7 Q.159 - Okay. And with which affiliates?

8 MS. LEAMAN: DISCO currently receives services from
9 Transmission and Generation.

10 Q.160 - And that's all?

11 MS. LEAMAN: That's correct.

12 Q.161 - And are these covered by contracts?

13 MS. LEAMAN: Yes, they are.

14 Q.162 - And perhaps could you tell me have they been filed as
15 part of the IR process or have they been filed with the
16 Board as part of the evidence?

17 MS. LEAMAN: They would have been filed as part of the
18 original evidence. And they are found in Appendix C of
19 the evidence, appendices. And it's volume 2 of 3.

20 Q.163 - Thank you. Now is DISCO required to follow the
21 provisions of any legislation with respect to the
22 tendering for goods and services? And if so, what
23 legislation?

24 MS. LEAMAN: DISCO is bound by the Public Purchasing Act and
25 the Crown Construction Act.

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2 Q.164 - Thanks. And were any of these inter-company services
3 put out for tender?

4 MS. LEAMAN: No, they were not.

5 Q.165 - Why not?

6 MS. LEAMAN: At the time of restructuring there were service
7 level agreements established for inter-company services.
8 And they were for a period or term of three and a half
9 years going through to the end of March 2008.

10 Q.166 - Now how would DISCO be able to prove the prudence of
11 these inter-company services if there were no tenders for
12 these services?

13 MS. LEAMAN: Although DISCO hasn't -- or hasn't tendered for
14 any of these services, we do have information available
15 that would lead us to believe that these costs are
16 reasonable for DISCO.

17 For example, apparatus maintenance, which is one of the
18 services Transmission provides to DISCO, and I think it
19 accounts for approximately 70 percent of our costs from
20 Transco, is a service that's provided by electrical
21 mechanics. And DISCO based on knowledge that we have with
22 respect to one of the contracts that we have with an
23 external vendor, it demonstrates to us that our costs from
24 that vendor are in excess of what the costs would be from
25 Transco.

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For the majority of the services that we are getting from Transmission, we do have confidence that our rates for those services are below what we would get at outside market.

Q.167 - Do you know what the unit rates are for the Transco services?

MS. LEAMAN: Could you repeat the question, please?

Q.168 - Sure. Do you know what the unit rates are for the Transco services?

MS. LEAMAN: The unit rates for the electrical mechanics I believe are I believe \$37 an hour.

Q.169 - Thank you. What are the key cost components in these inter-company services?

MS. LEAMAN: DISCO filed additional evidence with respect to inter-company contractual arrangements. And it was filed as part of the SLA evidence. And it was in exhibit A-16. And in that filing, we broke down the services, components that we were being charged for from Transmission.

Q.170 - I am just curious in the key ones though?

MS. LEAMAN: The key one, as I mentioned, apparatus maintenance, which is \$3 million of the \$4.5 million that we do pay to Transmission. And the other large one would be mobile radio services, which is 600,000.

1 Q.171 - Thank you. And what has DISCO done to establish the

2 - 1547 -

3 prudence of these key cost components?

4 MS. LEAMAN: As I mentioned, the apparatus maintenance we do
5 have information regarding what the outside market
6 charges.

7 With respect to mobile radio, we do have most of those
8 costs are actually related to the infrastructure that we
9 have existing. So there would be some support, I guess,
10 provided from Transmission, but I am not sure to the
11 extent that they would be a service that we could get from
12 outside.

13 Q.172 - Does DISCO receive invoices for these inter-company
14 services?

15 MS. LEAMAN: Yes, we do.

16 Q.173 - And what is the first thing DISCO does when it
17 receives the invoice?

18 MS. LEAMAN: We in DISCO have a manager of inter-company
19 relations and these charges specifically from Transmission
20 are reviewed by that person to make sure that they are in
21 compliance with the negotiated annual budget and in
22 compliance with the actual inter-company service level
23 agreement.

24 So they are reviewed to make sure that we are getting the
25 service that we were negotiated when we created the

1 budget. But as well to make sure that we are happy with

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3 the services that we are receiving and that they are meeting
4 our needs.

5 Q.174 - Is there anything else that DISCO would do to verify
6 the prudence of these invoices?

7 MS. LEAMAN: We do receive backup or -- upon request and
8 they do investigate any questions that we have regarding
9 any of the charges.

10 Q.175 - Now I would like to move over to shared services and
11 corporate services. And what are shared services?

12 MS. LEAMAN: Shared services are provided by the holding
13 company and they are services that are common across the
14 group of companies. So that we are able to -- DISCO as a
15 user of those services is able to maximize economies of
16 scale associated with using those services.

17 But it includes such services as information system cost
18 procurement, materials management, accounts payable, fleet
19 and other services that are included under that umbrella..

20 Q.176 - And that's with all affiliates? I think you said --

21 MS. LEAMAN: The holding company --

22 Q.177 - -- the shared services?

23 MS. LEAMAN: The holding company provides those services to
24 all of the operating companies.

25 Q.178 - And what are corporate services, if there is any

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2 distinction?

3 MS. LEAMAN: There is a -- corporate services are related to
4 costs incurred for compliance and government's activities
5 undertaken on behalf of the NB Power Group.

6 Q.179 - Are these also known as the service level agreements?

7 MS. LEAMAN: I believe there is a memorandum of
8 understanding regarding those services.

9 Q.180 - Now is DISCO required to follow the provisions of any
10 legislation with respect to the tendering of goods for
11 goods and services?

12 MS. LEAMAN: DISCO is required to follow the Public
13 Purchasing Act and the Crown Construction Act.

14 Q.181 - And were any of the services put out for tender?

15 MS. LEAMAN: No, they were not.

16 Q.182 - And why not?

17 MS. LEAMAN: As I mentioned earlier, both corporate services
18 and shares services, as part of restructuring, there was
19 an agreement entered into at that time for a term of three
20 and a half years.

21 Q.183 - So is it the position of DISCO that DISCO signed an
22 agreement so they wouldn't have to tender the services?

23 MS. LEAMAN: No, that is not the case. DISCO sees benefit
24 in having those services provided by holding company to
25 DISCO and it again passes through to a benefit to our

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customers.

Q.184 - But did you not also just say that you are required to follow the two pieces of legislation?

MS. LEAMAN: I did say that. But I also said that we had entered into agreements at the time of restructuring that bound us to three and a half years, which takes us through to March 2008.

Q.185 - How would DISCO be able to prove the prudence of these shared services if there were no tenders for the services?

MS. LEAMAN: Similar to Transmission charges, DISCO does have information regarding the prudence of the shared service costs. And we did undertake in collaboration with shared services an exercise to demonstrate that the costs being passed through to DISCO from shared service are actually prudent. And we were able to do this by drawing on existing contracts that we have with outside vendors. In some cases we do contract out for services, for example, real estate that would take us through for different project support that we would require but we don't have the resources internally to support those efforts. And as well, we were able to draw on requests for proposals and quotes that we would have received over a period of time that would allow us to compare the

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2 different services to what shared services costs were.

3 Q.186 - So what you just spoke of, is any of that in the

4 evidence submitted by DISCO?

5 MS. LEAMAN: No, it is not.

6 Q.187 - What are the key cost components in these shared

7 services?

8 MS. LEAMAN: Could you clarify -- is it shared services or

9 corporate services?

10 Q.188 - Shared services?

11 MS. LEAMAN: Examples of these shared service offerings

12 include information systems and personal computer

13 management, telecommunications, facilities management,

14 record and information management, computer aided drafting

15 and design, environmental services, real estate services

16 and supply chain management.

17 Q.189 - And what has DISCO done to establish the prudence of

18 these key cost components?

19 MS. LEAMAN: As I mentioned earlier, we did do an internal

20 cost comparison with respect to a number of these

21 different services. In all cases it identified that we

22 were getting reasonable costs passed through to DISCO in

23 comparison with outside vendors.

24 Q.190 - Is any of that filed with the Board?

25 MS. LEAMAN: No, it isn't -- has not been.

2 Q.191 - Okay. And does DISCO receive invoices for these
3 shared services?

4 MS. LEAMAN: Yes, it does.

5 Q.192 - And what is the first thing that DISCO does when it
6 receives these invoices?

7 MS. LEAMAN: The first thing we do when we receive those
8 invoices is to check to ensure that the costs that we are
9 being billed are appropriate and accurate. We do have
10 that same manager of intercompany relationship that would
11 review those and make sure that they are in agreement with
12 the service level agreements in terms of the costs and the
13 hourly rates. And we would request backup where we are
14 not clear about a charge or we need additional information
15 for.

16 Q.193 - And how does DISCO verify the prudence of these
17 invoices?

18 MS. LEAMAN: In terms of the prudence of the invoices, first
19 of all they would be compared to our budget in terms of
20 what was established at the -- prior to the year that we
21 are in. And make sure that they are in line with what the
22 expected cost pass through would be. And if they are not,
23 we do require explanations or variances. It could be a
24 timing or it could be something unexpected that was passed
25 through. But we do validate that the charges that we are

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2 receiving are appropriate.

3 Q.194 - Now with respect to the key cost components in
4 corporate services, what are the key cost components in
5 corporate services?

6 MS. LEAMAN: Corporate services provide specialized
7 functions to DISCO and include such functions as legal,
8 audit, finance, accounting, research, risk management and
9 treasury, financial planning, corporate planning,
10 corporate communications and human resources.

11 Q.195 - Okay. And what has DISCO done to establish the
12 prudence of these key cost components?

13 MS. LEAMAN: In terms of the prudence of these costs, we do
14 have information related to -- or detailed information
15 related to the cost components included in that -- those
16 costs from shared services.

17 Q.196 - Has that been filed with the Board? Has that been
18 filed with the Board?

19 MS. LEAMAN: No. And as it relates to shared -- or
20 corporate services costs, for example, they do follow the
21 Public Purchasing Act. So any hired services or materials
22 purchases are tendered. And as well with respect to
23 labor, they do benchmark, because they are non-union
24 positions against the 50th percentile of the Atlantic
25 industrial market.

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2 Q.197 - Does DISCO receive invoices for these corporate
3 services?

4 MS. LEAMAN: Yes, we do.

5 Q.198 - And what is the first thing that DISCO does when it
6 receives such an invoice?

7 MS. LEAMAN: We would review the charges, compare it to what
8 the budgeted charges were expected to be, follow up with
9 corporate services regarding any queries we have relative
10 to the charges. And they do provide again variance
11 analysis on an monthly basis explaining if there is any
12 differences and why.

13 Q.199 - Okay. And how does DISCO verify the accuracy of these
14 invoices if it's any different than what you have already
15 said?

16 MS. LEAMAN: In terms of the accuracy it's based on the
17 backup that is provided to us at the time that we receive
18 the invoice.

19 Q.200 - I am going to ask you now to turn to exhibit A-20,
20 specifically PI IR-15. Yes, under tab PI IR-15. Now, Ms.
21 Leaman or panel, I am going to read four statements and I
22 would like to tell me if I am accurately depicting what is
23 said in the IR.

24 First of all, is that DISCO is subject to two pieces of
25 legislation with respect to tendering. Secondly, that

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DISCO -- that you claim that you do not -- that you comply with both these pieces of legislation. Thirdly, you do not have any legal opinions that DISCO is exempt from this legislation when calling for services that DISCO cannot perform internally.

And finally, you entered the service level agreements without tendering or even the consideration of tendering.

Would that be accurate?

MS. MACFARLANE: The specific answers to the questions are accurate. But one of the conditions that the government and its financial advisers put in place with respect to the breaking up of NB Power is that there would be no additional costs to ratepayers as a consequence of the restructuring.

So where one company -- and I think Ms. Leaman referred to this earlier -- where one company had existing equipment, infrastructure skills, et cetera, and that by itself -- that company by itself would not be fully utilizing it, it would not make sense for it to underrecover and for DISCO to go out and buy those services from an outside supplier. Similarly, with corporate services, it was dictated by the minister that Holdco existed to provide economies of scale through shared services and shared corporate

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2 services to the other companies. There was never any intent
3 on restructuring to create redundancies or additional
4 costs as a consequence of the restructuring the
5 corporation.

6 The three year agreement was put in place to allow where
7 it appeared that those costs could be managed more
8 efficiently by any or all of the affiliates for that to
9 happen. But that -- because it is a -- continues to be
10 one group of companies under the legislation and for
11 anything external to the group, there are tenders award --
12 there are tenders followed in the Public Purchasing Act
13 and the Crown Act are followed, it was not an issue.

14 Q.201 - But you would agree that the statements I gave were
15 accurate?

16 MS. MACFARLANE: Yes, I do. But as I say, it has to be done
17 in the context that it was never the intent to create
18 extra costs for ratepayers on restructuring.

19 Q.202 - But given the statements how is this a prudent act?

20 MR. MORRISON: Well I can refer the Public Intervenor to
21 Section 3 of the Electricity Act, if he would like to look
22 at Section 3(2) in particular?

23 Q.203 - So is that the answer, Ms. MacFarlane?

24 MS. MACFARLANE: The section of the act that Mr. Morrison
25 referred to is an example of my statement that the

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Province did not intend to create additional costs. 3(2) is specific to the continuance of NB Power Corporation as NB Power Holdco. And it says the purpose of the corporation shall include in addition to any other purpose the provision of assistance or services to the subsidiaries established under Section 4(1) as may be agreed upon between the corporations.

And that, as I say, was put there specifically to demonstrate that the restructuring was not to lead to duplication.

Q.204 - Now how are the interests of DISCO's ratepayers then protected?

MS. MACFARLANE: The interests of DISCO's ratepayers are protected, which is why the provision was put in the Act, so that there would be no additional costs created or redundancies created on breaking up the organization where there are or where there were existing infrastructures or skill sets in one part of the group of companies, those would continue to be used by other parts of the group of companies at cost so that there would not be inefficiencies or redundancies created, economies of scale would be protected.

Q.205 - But how do we know that? If there has been no tendering, no consideration of tendering, if DISCO has

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agreed to pay almost \$75 million in service contracts over a four year period without any verification that the costs are prudent, how do we know that the ratepayers are being protected?

MS. MACFARLANE: I think Ms. Leaman gave some very good comments in respect of those costs. Those are costs from other companies at cost. There is no markup. They represent existing infrastructure or skills that those companies had in place before restructuring that were provided to DISCO before restructuring.

A lot of the costs, particularly in shared services, are provided to the group of affiliates and they are provided through hired services for which tenders have been called.

And I believe that in the evidence there is a report on the effectiveness of the shared service organization by Coffey & Fitch that has been filed. And as Ms. Leaman said in so many cases where we are providing services through employees, we have very good external references as to what it would cost to have those provided externally.

My own department would be an example. We are paying accountants based on the all industrial rate. And when we have to hire them as auditors we pay several hundred dollars an hour. That would be an example of determining

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that it is more prudent to do these through internal services.
Q.206 - Now, Ms. MacFarlane, has anyone at DISCO ever sat down with the affiliates, whose service level agreements were imposed on it and suggested that perhaps these agreements were posed without tender and question whether they are in the best interest of the ratepayers and perhaps reworking them? Perhaps --

MS. MACFARLANE: Well I can answer one part of the question.

The service level agreements, as I say, emulated and in fact made more accountable the services that were already provided when the corporation was structured as business units. So there was -- and certainly they were continued so as to avoid building up duplicate infrastructure. So from that perspective there has never been any suggestion to DISCO that it not continue under that arrangement, because it was designed to benefit ratepayers.

As it goes to beyond 2008 and what discussions may have happened, Ms. Leaman can certainly speak to that.

Q.207 - But what I am wondering -- what I am wondering is -- I think the question was has anyone at DISCO ever discussed this issue with any of the other affiliates that are providing the services, the possibility of look, you know,

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maybe this might not be the best for the ratepayers. We should consider going for tendering?

MR. LARLEE: Well I can assure you that we are talking -- and let's talk Transco, because it's the one I am most familiar with. I mean it's a large part of the services we are talking about. We are talking with Transco regularly, at least monthly. There is a continuous effort to keep the cost down. There is continuous monitoring of their costs. And we are working together all the time to continue to reduce costs.

And a really good example of that is the workforce management system where we are working with the transmission company and putting that system in as a joint effort so that we can plan and implement our work in a coordinated fashion.

Q.208 - Has there ever been any discussion as to perhaps renegotiating these agreements?

MR. LARLEE: Well my understanding is that the rates that are charged by Transco to us are reset every year to reflect the costs. And as Ms. MacFarlane pointed out, these are all cost based.

Q.209 - What about the other services? I mean, you just referred to Transco, what about the other affiliates?

MR. LARLEE: I believe it's the same. So for the shared

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services, the same would apply.

MS. MACFARLANE: I just want to give another very valid example, because the companies collectively work together to see wherever they can co-operate and get economies of scale. Another example would be fleet management. That is a service that used to be provided frankly by DISCO to the other companies through internal systems and employees.

And collectively a decision was made across the companies that that was a service that given today's technology should be outsourced. And DISCO stopped providing that service to the other companies and transferred the responsibilities to shared services. They issued an RFP.

They awarded a contract to a service that now provides fleet management services in a very sophisticated way to all the companies.

Those types of discussions are engaged in regularly. And the companies work together to achieve savings across the board wherever they can.

MR. LARLEE: I might give another example. There are lots of examples, but we have done the opposite. We have insourced when that proves to be the most economic thing to do. We used to have a third party do all of our computer refreshing. That's basically when your computer gets

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aged, it gets swapped out for a new one.

Some analysis was done by shared services. They said we don't need to go out to tender. We have people in-house that can do this more economically. So we in-source when it is more economic and out-source when it is more economic.

Q.210 - So panel is it true that DISCO's claim that the affiliates providing the services are not making any profit on these services?

MS. LEAMAN: That's correct. Costs are passed through at cost.

Q.211 - And I am going to ask you for the next series of questions perhaps to look at page 4 of the response to IR-15, which is contained in exhibit A-20.

I want to take the first item listed there, computer aided draft and design. Now would you agree that the price or billing rate is \$77 per hour?

MS. LEAMAN: That is correct.

Q.212 - And if we assume the individual worked 2,000 hours a year, this means the individual was paid slightly in excess of \$150,000 per year subject to check?

MS. LEAMAN: The rates, the hourly rates that are reflected in that table are an all in rate so it's not just labor, it would be any cost associated with materials, hired

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services, supplies related to that particular service.

MR. LARLEE: I don't know if you have ever sen a computer aided design workstation, they are quite sophisticated. They usually have multiple screens. The software is very sophisticated and quite expensive. They use specialized pre-programmed tablets. It's not just a normal computer. So as Ms. Leaman pointed out, these are all incharged.

Q.213 - So it includes the labor and amortization?

MS. LEAMAN: It would be labor, hired services, materials, equipment, software, travel. Any cost associated with that particular department.

Q.214 - Then how would you know the other affiliates are being charged the same amount that you are?

MS. LEAMAN: I don't see personally the invoices being charged to the other operating companies, but I am confident that as a shared service provider, that they would be billing all companies fairly as per the terms of the agreements.

Q.215 - Now I just have a series of final questions and Ms. MacFarlane, I don't know if you can answer it. But for some time I believe you have claimed that the PPAs were imposed on NB Power by government?

MS. MACFARLANE: That's correct.

Q.216 - And I would ask for you to take a look at the pages

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2 near the end of DISCO's responses to PI IR-15. I think it's

3 the last two pages in there. It is the closing agenda.

4 And I would like to refer to the first two pages in this

5 group of pages.

6 MS. MACFARLANE: Yes, I have it.

7 Q.217 - Okay. And these pages appear to come from the closing

8 agenda which arises out of the resolutions of the sole

9 director of Holdco, Genco, DISCO, Transco, Nuclearco

10 sometime before October 1st 2004?

11 MS. MACFARLANE: That's correct.

12 Q.218 - Now if we look on the first page, item 306, the

13 Lieutenant-Governor-in-Council transfer order. I assume

14 this was prepared by -- it says Patterson, I assume that

15 would be the law firm that was engaged at the time to do

16 the work?

17 MS. MACFARLANE: That is correct.

18 Q.219 - Okay. And if we look at item 309, the tolling

19 agreement, according to this document, it says that NB

20 Power prepared the tolling agreement?

21 MS. MACFARLANE: NB Power engaged Tory to put -- Tory's,

22 pardon me, to put into the legal agreement the terms that

23 were defined by the financial advisers of the Province and

24 signed off by the ministers responsible for restructuring

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2 Q.220 - But you would agree that this document shows that the
3 responsible party for that line item was NB Power?

4 MS. MACFARLANE: Yes.

5 Q.221 - And according to this document, who prepared the power
6 purchase agreements?

7 MS. MACFARLANE: NB Power had Tory's put the terms dictated
8 to us into an agreement.

9 Q.222 - Again, NB Power would be the responsible party?

10 MS. MACFARLANE: Yes.

11 Q.223 - And again item 311, according to this document, who
12 prepared the vesting agreement?

13 MS. MACFARLANE: Same answer.

14 Q.224 - Okay. Now if we look at the second page of item 313,
15 shared services, again this was -- the responsible party
16 for this is NB Power?

17 MS. MACFARLANE: That's correct.

18 Q.225 - And did NB Power exist on October 1st 2004?

19 MS. MACFARLANE: I'm not sure I understand your question.

20 Q.226 - Well, was it a legal corporation still on October 1st
21 2004?

22 MS. MACFARLANE: If I had to guess, this is a short version
23 where it says NB Power, Patterson -- is short for
24 Patterson Palmer whomever.

25 Q.227 - Okay. So it might be NB Power group of companies?

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MS. MACFARLANE: It could be, yes.

Q.228 - Okay. Did DISCO exist on October 1st 2004?

MS. MACFARLANE: Yes, it did.

Q.229 - So why was DISCO not involved in the preparing of the agreement?

MS. MACFARLANE: As I say, the entire structure here was designed and developed largely by financial advisers from the Province of New Brunswick. And given those terms dictated to us in the case of the PPAs, Tory's put the agreements together and they were subsequently signed off by ministers.

In the case of the internal agreements, like shared services, they were prepared by legal -- internal legal counsel for what had been NB Power and is now NB Power Holding Corporation. And again, were agreed to by the oversight committee of ministers.

Q.230 - So was this agreement not in fact imposed on DISCO?

MS. MACFARLANE: Yes, it was.

Q.231 - And is there any indication that tenders were sought?

MS. MACFARLANE: We discussed that before, tenders were not sought.

Q.232 - Okay. So with respect to line item 314 regarding corporate services, again would you agree that the responsible party here listed is NB Power?

2 MS. MACFARLANE: That's correct.

3 Q.233 - And you would agree that we have already agreed that
4 DISCO did exist on October 1st 2004?

5 MS. MACFARLANE: Yes.

6 Q.234 - So my question is why was DISCO not involved in
7 preparing this memorandum? Would it be the same answer?

8 MS. MACFARLANE: The structure was imposed on NB Power,
9 including DISCO, this one in particular through section
10 3(2) of the Electricity Act. DISCO did not have any
11 choice.

12 Q.235 - So was this memorandum not in fact imposed on DISCO?

13 MS. MACFARLANE: Yes, it was.

14 Q.236 - And is there any indication again that tenders were
15 sought?

16 MS. MACFARLANE: No tenders were sought, no.

17 Q.237 - And with respect to line items 317, 318 and 319, under
18 inter-company services, again would you agree that the
19 responsible party is NB Power?

20 MS. MACFARLANE: The documents, the final documents were
21 prepared for in the closing agenda NB Power, yes.

22 Q.238 - Okay. And why was DISCO not involved in preparing
23 these agreements?

24 MS. MACFARLANE: It is the same answer. As a consequence of
25 restructuring, these agreements were imposed on NB Power

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2 and on DISCO.

3 Q.239 - So they were in fact imposed on DISCO?

4 MS. MACFARLANE: Yes.

5 Q.240 - And is there any indication that tenders were sought?

6 MS. MACFARLANE: No.

7 MR. THERIAULT: Thank you very much. Mr. Chairman, before -

8 - and that concludes my questions with respect to the OM&A

9 but I know that -- notice that we have the long

10 anticipated Mr. Larlee on the stand and I was wondering if

11 I can continue on with respect to the hydro generation

12 that we had talked about or if this is the appropriate

13 time. Or perhaps wait until after Board staff is done.

14 CHAIRMAN: Well it strikes me this might be as good a time

15 as any unless Mr. Morrison has some other suggestion.

16 MR. MORRISON: No, this is as good a time as any as far as

17 I'm concerned, Mr. Chairman.

18 MR. THERIAULT: Thank you. And I don't intend to be very

19 long.

20 Q.241 - Mr. Larlee, I believe -- I don't know if you were

21 present the other day when we -- yes, I think you were

22 present when we had the discussion with the previous panel

23 with respect to hydro generation. And there was a

24 document that was marked for identification which

25 contained a series of terms and concepts.

2 MR. THERIAULT: Mr. Chairman, I am sorry, but I don't have
3 that number in front of me. I believe it might have been
4 5.

5 CHAIRMAN: Yes, it is 5.

6 MR. THERIAULT: Thank you.

7 Q.242 - Now, Mr. Larlee, have you had a chance to look at the
8 document marked for identification number 5?

9 MR. LARLEE: I don't have it with me. Yes, I have had a
10 chance to look at it.

11 Q.243 - Would you like to see a copy or --

12 MR. LARLEE: Yes, if I could.

13 MR. THERIAULT: It I may, Mr. Chairman?

14 CHAIRMAN: Certainly.

15 Q.244 - Would you just please review that and tell me if you
16 fundamentally disagree with any of the concepts that I
17 have set out there?

18 MR. LARLEE: The only thing that I have some difficulty with
19 is in number 4. The title of the paragraph is Rolling Sum
20 of Forecast Errors, and then an equal sign, it says
21 running total of errors. And my understanding of rolling
22 sum is not the same as a running total. But in
23 discussions with you and your adviser, I understand that
24 it is in fact a running total. So in other words, it's
25 just the cumulative errors in the period that we are

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looking at. So I am fine with that.

Q.245 - Thank you. So I am going to ask you to look for the document that was marked for identification 3, which is entitled, "Hydro generation Forecast Errors Tracking Signal"?

MR. LARLEE: I have it.

Q.246 - And first would you agree, subject to check, that this is a graph of monthly tracking signals from the period January 1993 to July 2007?

MR. LARLEE: Yes.

Q.247 - And again would you agree that for the first 102 months or from January 1993 to September 2001, the tracking signal was generally positive indicating a tendency to underforecast?

MR. LARLEE: I guess it's the words, tendency to underforecast. My understanding of the tracking signal is if you are within plus or minus 4 that essentially your forecast is accurate. So I mean all we have to do is go and look around the 103rd month and we are well within the plus 4 -- the plus or minus 4 band.

So, you know, when I look at this for the first hundred or so months, it seems like it's a pretty good forecast.

I guess the difficulty I have with this is the period

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2 that you look at -- the best way I find to look at this chart
3 is you are not looking at where the dots are on the graph,
4 but really we want to look at the direction. So although
5 in the first 10 or so months it rises quickly to five,
6 from those first 10 months all the way to the ninetieth or
7 so month, it's essentially flat. In other words, it is
8 bouncing up and down above 5 and below 5.

9 So if we were to choose a window between those two
10 periods, no one could argue that we had any problem. And
11 I had some discussion with Dr. Sustman and he said well
12 that's the crux of the matter. It's the window you choose
13 that's key here.

14 So we have chosen this particular window from January '93
15 to I guess 170-some odd months later and it shows a
16 particular story. But what we are talking about here is
17 hydro generation, which varies greatly, has a huge
18 variance and needs to be looked at over a very long
19 period, which is why our long term average is over a 35 or
20 40 year period so that we can capture all of those
21 variances.

22 Q.248 - Mr. Larlee, if you look at item 85 through to --
23 period 85 through to period 124, would you agree that that
24 is a discrepancy, a trend downwards?

25 MR. LARLEE: Yes, I think what you are seeing there is you

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2 are seeing the hydro generation was falling off. So we had a
3 period of below average hydro month over month. I mean,
4 we are going to have periods of below average hydro and we
5 are going to have periods of above average hydro.

6 Q.249 - And that would mean you are overforecasting?

7 MR. LARLEE: Yes, I guess I hesitate to use the term,
8 forecasting hydro. And I am going -- I don't want to get
9 out of my depth here, because I am just -- I want to talk
10 about this in terms of way of measuring forecasting. But
11 what we used in the budget is the long term average.

12 Q.250 - Now would you agree that from July 2003 to November
13 2005, the tracking signal moved from a strongly negative
14 value to near zero?

15 MR. LARLEE: Is July 2003 somewhere around 125.

16 Q.251 - 124 and 125?

17 MR. LARLEE: 124. Yes, I agree with that.

18 Q.252 - And would you agree it is continuing to move upwards
19 at that point?

20 MR. LARLEE: Yes, again we had a period of -- you know,
21 where we had much higher than -- and the long term average
22 hydro. So you can see that. If you look at the last few
23 months though where the hydro -- the line is quite flat.
24 The last four diamonds I think are relatively flat, which
25 means we have had average hydro in the last few months in

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2 this period and that lines up with my understanding of the
3 hydro flows.

4 Q.253 - So starting in October, November '05 to the end of the
5 period there is a tendency to underforecast?

6 MR. LARLEE: There was higher than average hydro. And I
7 think we have talked at great length about that in the
8 last hearing.

9 MR. THERIAULT: Thank you very much. That's all I have, Mr.
10 Chairman, thank you.

11 CHAIRMAN: Thank you, Mr. Theriault. Ms. Desmond, we will
12 take about a 15-minute break prior to your questions.

13 (Recess - 2:15 p.m. to 2:30 p.m.)

14 Q.254 - So are you ready to proceed, Ms. Desmond?

15 MS. DESMOND: Yes, thank you, Mr. Chair.

16 MR. MORRISON: Mr. Chairman, just perhaps before Ms.
17 Desmond starts, there is one other undertaking from Mr.
18 Peacock, wanted to know what the on-site visits from the
19 Energy Advisers were over the last few years. And I
20 believe Ms. Leaman has the answer to that question.

21 MS. LEAMAN: Starting in the fiscal year 2002-2003, we had
22 2,526 visits. 03/04, 2,620 visits. 05/06, 2,675 visits.
23 05/06, 2,268 visits. 06/07, 2,500 visits.

24 MR. MORRISON: I believe there is -- you made one error
25 there, Ms. Leaman. I believe when you -- you initially

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said 05/06 was 2,675 and I think you were referring to 04/05?

MS. LEAMAN: That's correct. 04/05 should read 2,675 visits.

CHAIRMAN: Thank you.

MS. DESMOND: Thank you, Mr. Chair.

CROSS EXAMINATION BY MS. DESMOND:

Q.255 - Our first question refers to exhibit A-2, section 3 -- section 3, page 2. And at the bottom of page 2, I believe the evidence states that in 2004-2005, DISCO reduced it's workforce by 150 employees, is that correct?

MS. LEAMAN: That's correct.

Q.256 - And since 2004-2005, what was the number of DISCO employees that have been added to DISCO's workplace since that original reduction?

MS. LEAMAN: Since '05-'06, I guess at that time we had 654 employees. And at the time of the filing for 07/08, we have forecasted 682. So that's an increase of 18. And I noted prior to -- to I guess this question I had mentioned that we had 12 apprentice -- powerline apprentices added in 07/08. And we had eight customer interaction Co-op students.

Q.257 - But just to break it down for our knowledge I guess what was the number after that original reduction? So

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2 there were 150 employees taken out of the workplace, how many
3 employees then were left? And was that your 654?

4 MS. LEAMAN: Correct.

5 Q.258 - And then you added since then now you are at 682?

6 MS. LEAMAN: In the forecast.

7 Q.259 - In the forecast. Okay. And what is the net number of
8 transfers built in and out from the time of the reduction
9 to the present?

10 MS. LEAMAN: I don't have that information with me at this

11 -- --

12 Q.260 - Are you able to provide us with that information?

13 MR. MORRISON: I believe we can have that information
14 readily available.

15 CHAIRMAN: Thank you.

16 Q.261 - Could you turn to table 3(b) in that same section,
17 which I believe is on the same page and line 1 for Labour
18 and Benefits shows a projected increase of 2.5 million, a
19 4.9 increase over 2006-2007, is that correct?

20 MS. LEAMAN: That's correct.

21 Q.262 - And with respect to that is it reasonable to assume a
22 3 percent increase in wages and benefits year over year?

23 MS. LEAMAN: The collective agreement with respect to the
24 unionized employees actually reflects a 3 1/2 percent
25 increase. And with respect to non-union increases, I

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believe the cost of living increase would have been 3 percent.

Q.263 - Now you have made reference to apprentices and Co-op students and could you confirm for us the anticipated cost for both the apprentices and the Co-op students?

MS. LEAMAN: The cost of a Co-op students is estimated at \$300,000 with I guess a caveat that there is savings in hired services associated with that increase. We will no longer require Manpower services.

And with respect to the powerline technicians, a labour increase is approximately 200,000.

Q.264 - Is it fair to assume then that the hired services are going to be reduced by the same 300,000?

MS. LEAMAN: Hired services are actually reduced by \$200,000.

Q.265 - How do you explain that differential?

MS. LEAMAN: The difference is related to the fact that the Co-op student will be paid a slightly higher rate than we would have been paying Manpower.

Q.266 - So why the decision then to hire these people if there is going to be an added cost for DISCO?

MS. LEAMAN: The reason for hiring these Co-op students is to maintain stability within the Customer Interaction Centre. Our Manpower agents tend to come and go. They

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don't usually stay with NB Power very long because we do not offer permanent employment. So they are looking for a full-time job with benefits. And Manpower services that is not provided through NB Power. We are just providing a guarantee of approximately 20 hours a week.

Q.267 - Just by way of interest how many of those 150 employees that were taken out of the workplace came from that centre, the Service Centre area?

MS. LEAMAN: I am not quite sure. I don't know the answer to that.

Q.268 - Are you able to advise us of that information?

MR. THERIAULT: Apparently we can. So we will give the undertaking on that.

CHAIRMAN: Thank you.

Q.269 - Our next questions will be with respect to exhibit A-28.

Specifically in NBEUB IR-107. Okay. So with that particular IR and again, some of this you have made reference to it, but we are wondering specifically the positions that are included in this 33 proposed new union employee positions.

MS. LEAMAN: At the time the forecast was prepared, it was estimated that there would be 33 unionized positions added.

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Q.270 - Can you give me some detail as to what those positions were?

MS. LEAMAN: Sorry for taking so long. I just wanted to make sure I had my numbers correct. With respect to the 33 positions, as I mentioned earlier, 12 were associated with power line premises. Eight were related to the co-op students.

And the period that we are looking at is the fiscal year 06/07 actual compared to 07/08. So we did actually have a transfer during that time of finance resources to the holding company.

As well there would have been four employees that were reclassified from a union position to a non-union position.

Q.271 - But if we start with 33. And now you have explained 12 and eight are 20. We are just trying to account for the 13 additional positions that apparently were forecasted to be put into the budget for this year. So where are those 12 positions?

MS. LEAMAN: The nine were the finance positions that were transferred to holding company. And then four positions were reclassified from union to non-union.

Q.272 - It is the wording of the response I think that is causing us some trouble. Because it reads as if nine were

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transferred to Corporate Services. But there was still an anticipated 33 unionized positions.

So to some extent we are trying to reconcile the response in your IR to the evidence you are providing today.

MS. LEAMAN: I would like to refer you back to NBEUB IR-24.

And it is in exhibit A-19. And with respect to table 1 you are seeing 582 to 615 related to union increases, or an increase of 33 positions.

And similarly on line 2 of that table, non-union positions went from 71 to 67. So that is a reduction of four. So the explanation with respect to the 33 is a combination of factors.

As I said, we had in the budget forecasted to have 615 employees. That 615 employees included the finance staff at the time. Since the budget was filed there has been a transfer of nine positions from DISCO to Holdco.

Q.273 - I think there is still some confusion around how you arrived at 33 unionized staff positions. And I appreciate we have accounted for the 20.

Were the nine that were transferred out -- I mean, I'm assuming there are nine new positions?

MS. LEAMAN: No. The nine finance positions were existing positions within DISCO.

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Q.274 - So if we have talked about an increase of 33 positions, how does that nine impact on -- if they are existing positions?

MS. LEAMAN: I think there is --

MR. MORRISON: I guess the revenue requirement might be a little bit short today.

MS. LEAMAN: So the finance positions are unionized positions when they resided in DISCO.

Q.275 - So then we are not talking about 33 new positions then. Because knowing they are transferred out there is not -- those aren't new positions now that are being added back in to the DISCO --

MS. LEAMAN: No.

Q.276 - -- pool of employees?

MS. LEAMAN: In actuality our forecast should be reduced by nine, from 615 down to 606. But the fact is that they were transferred to holding company.

But we will still see a charge coming through the Corporate Services charge to DISCO.

Q.277 - With respect to -- sorry. With respect to the power line technician increase of 12 positions, 12 new apprentices, is there an issue with the age of DISCO's current power lines, that you would be adding 12 new positions at this stage?

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MS. LEAMAN: I just want to throw out some statistics first.

DISCO currently has over 40 power line technicians that are certified that are over the age of 53 years old and that have over 30 years of service. So those employees could potentially leave our organization at any point in time.

So that has indicated to us that we needed to administer this power line apprentice program again, get it up and running so that we could ensure that we had appropriate resources when they did decide to retire.

Q.278 - Is there a reason why sort of their introduction to the DISCO workplace would not have happened sort of gradually or over time as opposed to having it all sort of in one period, one year?

And is there an advantage to doing that? And why wasn't this program introduced a little sooner than sort of at this stage, recognizing that you have a workplace shortage issue potentially?

MR. LARLEE: This is the second year of a four-year program.

So there is a phasing-in approach of it. So you can appreciate that there is a need has been identified to make sure that we had adequate power line technician staff.

And as noted in the response to this IR-107, it is a

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2 four-year process. So we have to be looking ahead. And in
3 addition, once the power line technicians are certified,
4 they basically then can work for anyone.

5 There is no -- we haven't got them captured in any way.

6 There is no way to do that. So -- and they are sought
7 after. So that has led to part of the reason why we have
8 had to hire 12 in this year.

9 Q.279 - Okay. Our next line of questions relate to IR-108.

10 So just on the next page. And I believe in the first
11 response you talk about employees, non-union employees
12 being eligible for two increases in one particular year.
13 And our question is what percentage of nonunion employees
14 are eligible for merit increases and cost of living
15 increases for the 2007/2008 year?

16 MS. LEAMAN: I'm not sure of the exact percentage. But I
17 know that it is a small percentage. Most of the nonunion
18 employees are at the top of their pay band.

19 Q.280 - How is the cost of living increase determined?

20 MS. LEAMAN: Cost of living increase for non-union?

21 Q.281 - Yes, for nonunion?

22 MS. LEAMAN: NB Power benchmarks non-union positions at the
23 58th percentile of the Atlantic industrial market. And
24 annually we participate in a survey, a compensation survey
25 that is administered by Hay Group.

2 And what that provides us with is information relative to
3 similar positions that are associated with Atlantic
4 Industrial organizations.

5 So we extract information from that survey and compare
6 ourselves to similar positions in the Atlantic industrial
7 market. So from that a recommendation is presented to the
8 board of directors. And they would authorize any
9 increase.

10 And as well we would also look at CPI or what is happening
11 around us in terms of other increases offered by other
12 organizations such as the government.

13 Q.282 - If you could just turn to table 1 on page 10 of that
14 same IR. And we just want you to confirm I guess the
15 calculations we have done, in that it shows the average
16 annual wage for non-union employees for 2006/2007.

17 We have calculated that to be \$86,902. Is that correct?

18 And I believe that is what you have shown in your table.

19 But we just want to confirm that that is in fact an
20 accurate --

21 MS. LEAMAN: Yes, it is.

22 Q.283 - So if we calculate a cost of living or merit increase,
23 is it fair to assume that for 2007/2008 the average annual
24 wage for that group of non-union employees will be 90,000?

25 MS. LEAMAN: I guess our calculations come out to be 89,5'.

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Q.284 - That is fine. Thank you.

Can you confirm for us how many employees have left DISCO in the last two years to look for work maybe perhaps with other utilities in Canada?

MS. LEAMAN: I'm not sure of the exact number of employees that would have left. But I do know that there have been instances where we have lost power line technicians to other utilities in New Brunswick -- or in Canada as well as in the United States.

Q.285 - Is DISCO facing an employee retention problem? Or is that sort of an issue or a consideration when you are setting your wages?

MS. LEAMAN: DISCO is not forecasting any issues except for there is one particular classification of employees that we know could leave our organization. And that is the power line technicians.

So that will probably be an issue during our current negotiations which are ongoing right now.

Q.286 - Okay. And part 2 of that IR, DISCO is requested to identify the steps it has taken to address the rising costs associated with providing employee benefits. And I believe the cost is up 5.7 percent for this particular test year.

Can you describe your efforts in detail? And is this

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growth in the cost of providing benefits forecasted to
continue at that rate?

MS. MACFARLANE: I can answer that question. Generally I
think most employers have been struck with very
significant increases in their health benefit programs.
And a number of organizations together with their insurers
are working to control those costs.

In fact I believe NB Power -- I may be going out on a limb
here. But I think we have actually won awards for some of
the programs that we have put in place to control our
costs.

We have a very successful wellness program that has
brought average sick days down substantially. Our
wellness program includes a trained professional who works
with doctors in the community for employees who are
injured or sick to ensure that they are brought back to
work as quickly as possible, reducing our short-term leave
costs and certainly our long-term leave costs.

Health and dental, the corporation about five years ago
moved to what is called a flex benefit program which has
substantially reduced the costs by putting more control in
the employee's hands of the types of benefits they have
and how they manage those.

Where they would, for example, in the past not have

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2 had to participate in prescription-filling costs, they now do,
3 and therefore are encouraged to reduced those costs by
4 shopping around, shall we say, for prescription-filling
5 services.

6 It has been very, very active and very well received, our
7 programs, both by our employees and our board. And as I
8 say, subject to check, I believe we have received awards
9 on the national stage for that.

10 Q.287 - Have your costs been compared to other perhaps large
11 industrial, commercial employers or --

12 MS. MACFARLANE: Yes.

13 Q.288 - -- maybe other utilities?

14 MS. MACFARLANE: Yes. Those are tracked. And the
15 statistics are very positive. In fact one of the
16 statistics would be our Workplace Health and Safety
17 Commission rates, which you can appreciate for an industry
18 that is inherently dangerous, you would expect that our
19 rates would be significant.

20 Our Workers' Compensation rates are as low or lower than a
21 hairdressing facility or an office.

22 MS. DESMOND: If I could just have a moment, Mr. Chair.

23 Q.289 - I just wanted to go back for a minute to IR-107. And
24 I know we have talked about a lot of numbers and the
25 number of employees.

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And again we are still trying to get straight in our mind where these 33 positions are coming from. And I hate to belabor this point. But we are still struggling to have clarity around this issue.

And if you can just walk through or maybe answer these questions in a sequence, I think it will help us to be clear.

But what I understand from your evidence is that in 2006/07 the actual number of employees was 582. And that would include nine who were transferred to Holdco, is that correct?

MS. LEAMAN: I believe it does. I forget the timing exactly of when those employees were transferred.

Q.290 - But that number 582 includes the nine?

MS. LEAMAN: If it would be acceptable kind of like to take an undertaking, just to make that reconciliation simple for you?

Q.291 - That would be fine I guess. But maybe we could just continue with these questions. And if you need to have more time or a break, that is fine.

But look, let's assume for a minute that it includes those nine for the 2006/2007 year, the actual, and your budget for 07/08 is based on 615 employees --

MS. LEAMAN: That is correct.

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Q.292 - -- is that correct, 20 of which are included in that 33?

MR. LARLEE: It would be in the forecast, yes.

Q.293 - And we have talked about the 20, the 12 apprentices and the eight co-op.

So where are the other 13 new employees? Or is this an overestimate for the test year?

MS. LEAMAN: The number for 07/08 forecast was put together several months before we filed. And the 615 actually should be reduced to 606 to reflect the transfer of those employees. It is from finance to the holding company. So the number for 07/08 for union positions is actually overstated. But as I mentioned, those costs will come back through to DISCO through the Corporate Services allocation.

MS. DESMOND: If I could just have another minute, Mr. Chair.

Q.294 - So I have two additional questions arising out of your response there. And one is -- and probably why we are struggling with this is that we are trying to understand what positions were identified in the budget as necessary new additions.

So essentially what is necessary for the provision of some services and why were they not filled?

2 MS. LEAMAN: Could you please restate your question. I
3 didn't understand.

4 Q.295 - So essentially what positions were identified as
5 necessary for new positions or new additions? And why
6 were those positions not filled?

7 MS. LEAMAN: We identified 20 positions which were the
8 apprentices and the co-op students. And all of those
9 positions have been filled.

10 Q.296 - But four were transferred to non-union. So that is
11 actually -- sorry, the union. So actually that is a
12 reduction?

13 MS. LEAMAN: And that is reflected in table 1 of IR-24. We
14 show a reduction of four non-union positions.

15 Q.297 - And just one more follow-up questions from that. Are
16 you able to confirm that the costs are not again double
17 counted through the SLAs?

18 You have indicated that there is -- there being an added
19 cost now through hired services. But can we be assured
20 they are not also -- is that also a cost through the SLAs?

21 MS. LEAMAN: Well, the actual cost for 07/08 will be lower
22 in DISCO in terms of our labour. And the offset will be
23 flowing through to DISCO from Corporate Services cost. So
24 they will offset.

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Q.298 - Okay. Thank you. Sorry for all of those questions.

One other area we wanted to just speak about is the capital expenditures. And is DISCO undertaking any specific capital expenditures aimed at reducing distribution losses for 07/08 and into future years?

MR. LARLEE: I can't think of a specific job let's say that is for reducing losses. However we do make use of what we call the CYME programs that simulates or models the distribution system. It is somewhat like the transmission company would use for their system, only it is specifically designed for the distribution system. And a key driver for all of our capital work would be looking at how any particular job undertaken affects losses. And that would flow into the cost benefit analysis that goes on for all of the capital jobs. So in other words paralleling a feeder versus stringing it with larger wire or these types of tradeoffs.

Q.299 - We also had a question to follow up on some of the questions Mr. Theriault asked with respect to backing up confirmation of the appropriateness of costs in the corporate and shared services area.

And is there anyone within DISCO that is responsible to identify and track on a daily or weekly basis or monthly basis to make sure that these are responsible

2 costs?

3 So for example are there time sheets or requisitions that
4 sort of reflect the appropriateness of these costs?

5 MS. LEAMAN: Yes, there would be, in terms of for example
6 transmission services cost to DISCO. We are provided with
7 backup that would show the time and the dollar value of
8 different employees that would work on various different
9 categories of work for us. So it is actually breaking it
10 right down to an hourly basis.

11 Q.300 - Is there someone at DISCO though who is familiar with
12 what those unit costs are?

13 MS. LEAMAN: Yes, there would be. And those charges would
14 be reviewed on a monthly basis by our Manager of inter-
15 company relations.

16 MR. LARLEE: And I guess it is important to note that these
17 services that are being performed by Transco are -- they
18 are distribution services. They are working on
19 distribution equipment.

20 So our technical staff are very familiar with what exactly
21 needs to be done. So there is no question that we are
22 just letting someone play with our stuff. I mean, we know
23 exactly what is going on.

24 MS. DESMOND: I'm not suggesting anybody is simply
25 entertaining themselves. But we are more interested in

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terms of time sheets and assuring the appropriateness of the charge for DISCO and that someone is actually sort of auditing, that that is an appropriate charge.

Q.301 - There was also reference earlier to the special payments and the legislative authority under section 37.4.

And I have got a copy of that section.

Perhaps, Ms. MacFarlane, I think you spoke to this issue earlier?

MS. MACFARLANE: Yes

Q.302 - Are you able to read that section into the record?

And I have got a copy here if that is of any help to you.

MS. MACFARLANE: Okay.

Thank you. Reading it into the record, 37.4. "During the period that the corporation or a subsidiary of the corporation incorporated pursuant to subsection 4 (1)" -- and that would be the Genco, Nuclearco, DISCO and Transco are named in 4 (1) -- "is exempt under subsection 10 (1) of the New Brunswick Income Tax Act from the payment of a tax under that Act, the Lieutenant-Governor-in-Council may from time to time order it to pay the finance corporation an amount specified by the Lieutenant-Governor-in-Council."

Q.303 - And if I can refer you to an IR. You don't have to pull it out. Because I'm sure you might just recall this

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answer.

But I believe in one of the responses you stated that the orders are made annually?

MS. MACFARLANE: Yes.

Q.304 - And that the OIC for 2007/08 had not yet been received at the time you filed the evidence?

MS. MACFARLANE: That is correct. It has since been received.

Q.305 - Okay. And could you undertake to provide a copy of that OIC?

MS. MACFARLANE: Yes, we can.

MS. DESMOND: And in terms of how that is calculated, are there key assumptions that flow into how that amount is actually determined?

MS. MACFARLANE: The dollar value of the debt management fee or the percentage?

Q.306 - Both actually.

MS. MACFARLANE: Okay. The percentage as I say has been longstanding. And it has been in place for certainly a decade if not decades, the 0489 percent. There is a stated formula.

And I believe, if you just give me a moment, I can find either in the evidence or an IR where the calculation is displayed.

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I'm sorry I took so long. It is DISCO PR IR-31, October 9th. And October 9th would be exhibit A-27 I believe, A-27.

Q.307 - Could you repeat that reference again?

MS. MACFARLANE: Exhibit A-27, PI IR-31. And it is page 22.

So on Table B at the bottom of page 22 you can see the formula. And it is defined as taking the opening balances of the long-term debt and short-term debt, applying the debt portfolio management fee rate to that.

And then in DISCO in particular there is a credit for what I was told by my predecessor was an opportunity that DISCO might have for amortizing its receivables.

So there is a \$200,000 credit. Actually I believe it is 150'. It is rounded to 200,000 here as a credit against the debt portfolio management fee specifically for DISCO.

Q.308 - Given that there are key assumptions built into this calculation, are you able to provide us with an undertaking to give us copies of the OIC for the past two years?

MS. MACFARLANE: Yes, we are. Ms. Desmond, just to clarify, OIC for 06/07 is actually filed in the evidence. So we will provide you with the reference for that and a copy of the OIC for 07/08.

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2 Q.309 - If I could just bring you now to A-27. And it is PI
3 IR- 31, page 29, Table H.

4 MS. MACFARLANE: Yes. I have it.

5 Q.310 - Can you confirm the figures in Table H are correct
6 including the total?

7 MS. MACFARLANE: I understand that -- well, certainly the
8 total is not right. And I understand that the lines 3 and
9 4, the titles are switched. So line 3 should be the
10 utility tax. And line 4 should be the right-of-way tax.
11 And no, the total is not correct.

12 Q.311 - Could you please provide the Board with the correct
13 figures?

14 MS. MACFARLANE: Yes, we will.

15 Q.312 - My next question is just a general one in that. In
16 looking at the evidence there are a number of taxes paid
17 to government.

18 And those taxes would have been paid both before and after
19 restructuring?

20 MS. MACFARLANE: That is correct.

21 Q.313 - Is it more expensive for DISCO to operate now, keeping
22 in mind the number of taxes that are being paid, than
23 before restructuring?

24 MS. MACFARLANE: On the table that we are looking at on page
25 29 the debt guarantee fee property tax, right-of-way tax

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and utility tax, all of those have been in place for some period of time.

What is different for DISCO is payment in lieu of taxes under section 37 (2) and (3) of the Act.

Q.314 - I did ask a question around the cost for the additional nine positions and to make sure that they weren't double counted.

Is it true that in the evidence in A-2 that that cost is reflected in the labour expense for those nine positions?

MS. LEAMAN: Within the forecast for 07/08 it would be, yes.

Q.315 - And if I can just bring you then to A-2, tab 3, page 18. And there is reference at the bottom of page 18 to a reorganization of finance functions and an increase by 700,000.

Can you confirm that that 700,000 is not a reflection of those nine new positions?

MS. LEAMAN: It is not.

MS. DESMOND: Those are all of my questions. Thank you.

CHAIRMAN: Thank you, Ms. Desmond.

Well, panel, the Board doesn't understand the number of employees at DISCO. So I'm going to take you to IR number 24. And I know we have gone through this quite

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extensively this afternoon. But I'm going to see if we can
get an understanding.

MS. MACFARLANE: Mr. Chairman, if I may, the figures behind
that reconciliation are in our workroom. And we really do
believe that the dollars are correct.

But there is obviously a mixup in the numbers on I-24.
And it would perhaps save time if we took a few moments
and corrected it before we proceed, to not be able to
answer the same questions.

CHAIRMAN: Okay. Let's take a short break.

(Recess - 3:35 p.m. - 3:45 p.m.)

BY THE CHAIRMAN:

Q.316 - All right. Well, through the break we were able to
get some information to help us?

MS. LEAMAN: Yes, we were. And thank you for that time.

I would like to refer you back to EUB IR-24 which was
exhibit A-19. With respect to fiscal year 06/07 actuals,
the union number that is reflected there of 582 does not
include the finance position.

So in order to compare apples and apples, because the nine
positions are in the forecast, the 615 should actually go
to 606.

And just to give a bit of background in terms of the
numbers, the 07/08 forecasts was completed in the October,

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November time frame. So at that time the finance positions were included in the forecast.

But when we put together the actual information for 06/07 it was in the February time frame. And the finance positions had been transferred to holding at that time.

Q.317 - Well, for the revenue requirement for this year though did you work off of the 606 or the 615?

MS. LEAMAN: The 07/08 revenue requirement is based on the 615. But I would just like to reiterate the fact that the finance positions that are now in holding company, that cost will come back through to DISCO. And there will be no impact on the revenue requirement.

Q.318 - Well, again perhaps you can clarify this for me. Would that not be billed back through the service agreements?

MS. LEAMAN: Through the Corporate Services cost allocation it would be, yes. But it isn't in the budget. The actuals will come through. But it is not reflected in the budget.

Q.319 - I guess the concern is does it appear in your budget in the test year twice? Or does it only appear once for these nine positions?

MS. LEAMAN: It is only in there once.

MS. MACFARLANE: The nine position are in the labour line

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2 which is part of direct OM&A for the budget. There is no
3 charge for them in Corporate Services for the budget. But
4 the transfer happened after the budget was prepared.
5 So when -- if you were to see the detail of the actuals
6 year to date for 07/08 there would be an under -- the
7 actuals to budget would be under in labour and it would be
8 over in Corporate Services.

9 Q.320 - And would the amount be equal?

10 MS. MACFARLANE: The amount would be equal, yes.

11 Q.321 - So if I take column 1 on Table 1 the total of 682
12 would now read 673?

13 MS. LEAMAN: That is correct.

14 Q.322 - And is that the correct number? Are there 673
15 employees currently with DISCO?

16 MS. LEAMAN: That is correct.

17 CHAIRMAN: I don't have any further questions on that. But
18 other members of the Board may. Anything?

19 BY MR. BARNETT:

20 Q.323 - Just for further clarification, panel, did I just hear
21 you to understand to say that the labour and benefits may
22 be overstated and the Corporate Service charge may be
23 understated?

24 MS. LEAMAN: For the test year, yes.

25 Q.324 - For the test year? Okay.

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CHAIRMAN: Sorry. Just as a follow-up on that, I'm just wondering what would the amount of that overstatement be which would balance off obviously?

MS. LEAMAN: Approximately 700,000.

CHAIRMAN: I think you had agreed that each position was worth about 89,500. Is that approximately correct?

MS. LEAMAN: The average salary associated with those positions probably would be in the range of 60 to 80, depending on the nature of the position.

CHAIRMAN: And on top of that there would be a cost of benefits and things of that nature?

MS. LEAMAN: That is correct.

CHAIRMAN: Sorry for cutting you off Mr. Barnett.

Q.325 - I just had one small question I guess. Following up on the debt portfolio management fee, Ms. MacFarlane --

MS. MACFARLANE: Yes.

Q.326 - -- and which is your area, you indicated DISCO 3.6 million, Genco 11.8, Nuclear 4.4. You omitted I guess to include the fourth entity. Whether Mr. Morrison shuts me down I'm not sure.

But would Transco have any portion of a debt portfolio management fee to pay in this test year?

MS. MACFARLANE: Yes, it does. And it is in A-27, the table. It is in PI IR-31 of October 9th. If you just

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2 give me a moment I will find it.

3 The amount for Transco is 1.4 million. And that brings
4 the total across all companies to 21.2 million.

5 Q.327 - And that debt portfolio management fee, just pushing
6 it a little bit further, would relate to the amount of
7 debt that Electric Finance is still holding,
8 notwithstanding the fact that they have \$140 million in
9 equity in Transco?

10 MS. MACFARLANE: That is correct. It is the -- it is
11 calculated on the debt that sits on NB Power's balance
12 sheet. And the calculation is in fact in a further part
13 of PI IR-31 in A-27.

14 MR. BARNETT: Thank you. I appreciate that.

15 CHAIRMAN: Anything else from the Board? Mr. McKenzie?
16 Mr. Johnston?

17 BY VICE-CHAIRMAN:

18 Q.328 - Mr. Larlee, I just want to bring you back to the
19 questions you were asked about the hydro generation
20 forecast tracking signal.

21 Do you have that chart handy?

22 MR. LARLEE: No, I don't. I left my binder in the room when
23 we went in for a break.

24 Q.329 - Some of your evidence helped me to understand it I
25 think. And I want to give you an example to see if I

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2 understand this correctly.

3 If you look in or about month 49 we see that the tracking
4 signal hits about 10 above.

5 MR. LARLEE: Yes. I see that.

6 Q.330 - Do you see that?

7 MR. LARLEE: Yes.

8 Q.331 - I want to just give you a hypothetical. If for the
9 next year for example the actuals in the forecast align
10 perfectly by some coincidence, from that point out would
11 this graph show a straight line going forward along the
12 10?

13 MR. LARLEE: Yes, it would.

14 Q.332 - All right. That was my only question. That is what I
15 understood from your evidence. I just wanted to be clear.
16 Thank you.

17 CHAIRMAN: Any redirect?

18 MR. MORRISON: One question, Mr. Chairman.

19 REDIRECT EXAMINATION BY MR. MORRISON:

20 Q.333 - Ms. MacFarlane, earlier today Mr. Theriault directed
21 you to PI IR-15 and directed you to a closing agenda and
22 asked you several questions with respect to that?

23 MS. MACFARLANE: Yes.

24 Q.334 - Have you ever been involved in a legal closing of a
25 complex commercial transaction?

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MS. MACFARLANE: No, I have not.

Q.335 - Do you have any expertise in interpreting either the purpose of or interpretation of a closing agenda?

MS. MACFARLANE: No, I do not.

MR. MORRISON: Those are all my questions, Mr. Chairman.

CHAIRMAN: Thank you, Mr. Morrison.

Before we adjourn for the day I think we should sort out what our schedule is for tomorrow and Wednesday. You had indicated earlier that you believed that Ms. McShane might be available tomorrow.

MR. MORRISON: Akin to tracking Santa Claus. But she is at an airport in Virginia. And we are still hopeful that she is going to arrive this evening.

We will call her again in about another hour or so and see whether she boarded the plane to Toronto. I anticipate that if there is going to be a problem it is going to be between Toronto and Saint John, so --

CHAIRMAN: What time do you expect her to get here?

MR. MORRISON: She is supposed to arrive in Saint John at 1:00 o'clock tomorrow morning, shortly after midnight tonight. If she is delayed it may be mid morning.

I don't know when the next flight is, to be honest. And we won't know probably until later tonight whether she makes that flight.

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CHAIRMAN: It appears that everybody would like to deal with her evidence tomorrow if possible. And I'm wondering if it might not be prudent however to set a starting time a little bit later than normal in order to accommodate her late arrival and potentially very late arrival.

MR. MORRISON: I understand that there is a flight that gets in from Toronto tomorrow morning around 9:00 o'clock. So that would -- if she makes that flight it would put her here 10:00, 10:30-ish.

If you want to suggest 10:30, Mr. Chairman, or 11:00, that is fine with us.

CHAIRMAN: Well, I was I guess even in the event that she were to arrive tonight, I understand there may be a bit of a snowstorm anticipated for tonight as well. So that a late start tomorrow may not be a bad idea in any event. I'm going to suggest that we plan for 10:00 o'clock. And perhaps an e-mail could be sent. Maybe you could ask Ms. McShane if she could e-mail, send an e-mail to the parties so that we would know that she has arrived and that in fact we should all attend here for 10:00 o'clock tomorrow morning.

In the event she has not then I suppose you can communicate with the Board. And we will establish a time later in the day.

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MR. MORRISON: We could probably do that early tomorrow morning. I don't anticipate waiting up for her.

CHAIRMAN: I wasn't asking you to do that. I just really quite frankly don't want to see people show up needlessly, that is all. So if somebody could determine whether or not she has arrived.

And if she gets in tonight then we will start at 10:00 o'clock tomorrow morning. If she doesn't arrive until tomorrow we will still try to deal with her evidence tomorrow if possible. And when her evidence is complete then we will deal with Mr. Lawson's motion.

MR. LAWSON: Mr. Chairman, in that regard perhaps we could slot it for prior to 10:00 or at 10:00 o'clock to start, allowing a little extra time for just in cases, to have our motion heard. It matters not to me.

CHAIRMAN: Well, as long as the parties are on notice that your motion will be heard tomorrow, either -- I guess potentially before her evidence as well. And I'm concerned now obviously about the parties that might be interested in it who are not in attendance today. So the Board will send out a further memo clarifying this issue. All right. Then we will be adjourned till tomorrow morning at 10:00 o'clock.
(Adjourned)

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