New Brunswick Board of Commissioners of Public Utilities

Hearing April 12th, 2000

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

Chairman: David C. Nicholson, Q.C.

Commissioner: Monika Zauhar

Commissioner: Robert Richardson

Commissioner: R. J. Lutes

Commissioner: Leonard Larocque

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

MR. MACDOUGALL: Mr. Chair, I have a few comments about the undertakings from yesterday.

CHAIRMAN: Yes. Go ahead.

MR. MACDOUGALL: I don't know if the Board will actually get an undertaking list by number, so I will just sort of list out the items that we will provide today.

We left with the Board clerk a copy of the offering memorandum that was requested. There should be 15 copies for the Board and a like number at the back of the room.

We have given Mr. O'Connell a copy of the minute book for his review in accordance with your direction.

Yesterday there was a question on the date of

incorporation. The certificate of incorporation of the company is in the minute book, but for the record it is August 30, 1999. And also for the record that company is a Canada Business Corporations Act corporation.

There was I believe a comment yesterday by Mr. Luison about an agreement that would have existed between Enbridge Consumers Energy Inc. and Enbridge Gas New Brunswick Inc. What he was referring to there would have just been a subscription agreement. In fact that share was held notionally and then just transferred to Enbridge Consumers Energy Inc. So the evidence of the transfer of that share to that company is in the minute book. There is no formal agreement.

There was also a reference yesterday I believe by Mr. Luison to an agreement between Enbridge Consumers Energy Inc. and the limited partnership. That agreement is in fact the form of subscription agreement between that company and the limited partnership. A form of that subscription agreement is at the back of the offering memorandum and has been -- which has been distributed to the Board.

With respect to Mr. Pleckaitis' comments on the resolutions or meetings of the company, there were only two substantive resolutions, the one Mr. Pleckaitis spoke to yesterday approving the right for the company to go

ahead with these hearings, the earlier one approving the general franchise agreement.

I think that leaves a couple of documents. One is the joint venture agreement. We have obtained a copy of that, but just recently, and we are just reviewing it with respect to the confidentiality issues vis-a-vis the third parties to that agreement, and we will report to you on that tomorrow. And the draft services agreement, a copy of which we will be obtaining because it is in draft and being drafted by another firm, and we will obtain that and take a look at it and comment on it tomorrow.

And I believe those are the specific new documents that the parties were looking for and we will get back to you with those that we haven't been able to provide today.

CHAIRMAN: Thanks, Mr. MacDougall.

On the back table, or the side table as it were, there is a typed agenda that we mentioned this morning in reference to the new marketers continuation of the hearing and the hearing that we proposed to have on the 8th, 9th and/or 10th. So that is down there for all parties.

Any other preliminary matters? If not, Mr. Stewart, go ahead.

CROSS-EXAMINATION BY MR. STEWART (continued):

Q.79 - Thank you, Mr. Chairman. Ms. Duguay, if we can I think appropriately enough begin where we left off yesterday.

And if I could refer you back to exhibit E, schedule 47, that is Board staff interrogatory number 47, page 2 of 3, in particular your response.

CHAIRMAN: Page 2 of 3?

MR. STEWART: Yes, Mr. Chairman.

CHAIRMAN: Thank you.

Q.80 - And yesterday we were speaking of how we were slicing up that $9.08 per gigajoule pie that we -- in terms of the burner tip price that you were operating under for this SGS rate class. And we talked about one of those slices, the marketers' margin. And I would like to talk about one of the other slices now, and that's the Maritimes and Northeast toll rate.

Now in your information here is a 65 cent toll. And I know there was some discussion about it previously, but my understanding is that that toll -- there has been an application by the pipeline to change that toll rate, is that correct?

MR. HARRINGTON: That's correct.

Q.81 - And the rate sought by the pipeline is 70.43 cents per gigajoule, does that sound correct?

MR. HARRINGTON: Subject to check, but that sounds about right.

Q.82 - Right. And I appreciate that application is ongoing, but that's the new proposed toll at a minimum?

MR. HARRINGTON: That's correct.

Q.83 - All right. And so we properly characterize that number, whether it be 65 cents or the 70 point something cents or something in between -- sorry -- is that application before the National Energy Board? Is that the body that decides those tolls?

MR. HARRINGTON: That's correct.

Q.84 - Okay. So whenever a rate over 65 cents -- or between 65 and the 70.4 that the National Energy Board sets, that's what we call a hundred percent load factor toll, is that correct?

MR. HARRINGTON: That's correct.

Q.85 - All right. So added to that are additional charges or potentially additional -- demand charges, because -- let me back up -- let's describe what a hundred percent load factor is first, or let me make sure I know what a hundred percent load factor is.

As I understand it, a hundred percent load factor is where I buy a certain amount of capacity on the pipeline. And presuming I use that capacity at that rate 365 days a year, I pay 65 or 70.4 cents per gigajoules of gas I move through that capacity, is that correct?

MR. HARRINGTON: That's correct.

Q.86 - All right. But to the extent I have fluctuations in my gas demands, then there may be additional charges

incurred?

MR. HARRINGTON: I don't know if I would characterize it quite the way that you have. But the end use customer, if they don't use gas at the hundred percent rate, will not get the benefit of that hundred percent rate.

Q.87 - Right. So for example, if I have a portfolio of residential customers who burn more gas in the winter time than in the summer time, I have to buy sufficient capacity or make some other arrangement, which undoubtedly will cost me money, in order to have room in the pipeline to bring my gas through on those days where I have a lot of gas to move, correct?

MR. HARRINGTON: Could you restate the question, please.

Q.88 - Not on your life.

MR. HARRINGTON: Maybe I will try and ask the question.

Q.89 - Sure.

MR. HARRINGTON: What I think you are asking is that for those customers or those groups of customers who are temperature sensitive, how do you arrange for transportation?

Q.90 - Correct.

MR. HARRINGTON: Is that --

Q.91 - Yes.

MR. HARRINGTON: We think marketers will have a number of different ways that they will try and arrange for that

transportation. One way that marketers will often try to do this is to try and pick some firm service level that they think that they can optimize for the use of their portfolio. And making sure that in those times when they can't make use of the gas, for instance in the summer time with temperature sensitive loads, that they are comfortable with what they will have to sell that firm transportation and commodity for.

And similarly in the winter time where that firm service level doesn't meet the needs of the winter, that they are comfortable with the incremental costs they are going to have to incur to serve that temperature sensitive portion in the winter time.

Q.92 - All right. So if I am a marketer -- and for the moment we are talking about the SGS class and I am a marketer who sells to residential customers. I know that those customers' demands for gas will vary throughout the year. It is going to be more in the winter time than it is in the summer time, they are temperature sensitive customers, I think you described?

MR. HARRINGTON: That's correct.

Q.93 - Right. And so I am going to buy -- somewhere in the middle I am going to buy a certain amount of capacity on the pipeline, which in the summer time when I am not using it I can afford to bury the expense, and in the winter

time when I need more than I have, I can go out and buy it at whatever market rate it is being provided at the time.

MR. HARRINGTON: I think that summarizes the way I have described it.

Q.94 - Right. And my point is simply that in the winter time when I have to go out and buy it, I have to go out and buy it and there are fees associated with that?

MR. HARRINGTON: That's correct.

Q.95 - Right. Now the other slice of the pie. The number that you have used is $2.06 a gigajoule?

MR. HARRINGTON: That's correct.

Q.96 - Okay. And I just went and looked in the gas -- by the way, where does Maritime and Northeast Pipeline end? Is it Dracut?

MR. HARRINGTON: Dracut.

Q.97 - Right. And the mid point price today is about $3.43 US a gigajoule?

MR. HARRINGTON: I am not sure what today's price is.

Q.98 - Does that sound reasonable?

MR. HARRINGTON: It sounds like it's in the ballpark.

Q.99 - Right. $5 Canadian roughly?

MR. HARRINGTON: Correct.

Q.100 - All right. So you wouldn't take issue with that price?

MR. HARRINGTON: I would say that would be a likely price

today.

Q.101 - Right. And despite today's weather here in Saint John or New Brunswick, we are past the peak gas purchasing or gas price season as it were, is that correct?

MR. HARRINGTON: We are getting out of that season.

Q.102 - Right. So the prices in January, February could have been significantly higher than the $5 Canadian per gigajoule?

MR. HARRINGTON: On the spot market that would be likely.

Q.103 - Right. And I appreciate I am only talking about the spot market for the moment. But in January, February the spot market for gas could be $20 a gigajoule Canadian on the right day?

MR. HARRINGTON: For one day on the spot market that number sounds a bit high, but it is not unlikely.

Q.104 - All right.

MR. MACLURE: I think the important thing to realize here, Mr. Stewart, is that that is the one day price for a one day supply.

Q.105 - All right. And you are suggesting that -- and the reason you make that point, as I understand it, would be that's if you just went out and had to spot buy gas as opposed to entering into some sort of long term contract with the producer where I guess instead of just buying for one day a limited volume, you agree to buy significant

volumes for a significant period. Is that correct?

MR. MACLURE: That's correct. I mean there are various ways that a marketer would have of arranging their gas supply. What you have alluded to in that question would be the kind of price, if it were in fact that high, that a marketer for the incremental portion of their portfolio that they needed over and above any other kind of long-term contractual arrangements they had to contract for on a daily basis, they would have to pay maybe that price, if they had it.

So it's a -- you are correct, there are different ways of contracting with producers. There may be another way in which a marketer would go out and buy a supply that is indexed to a certain -- to a certain indices and have the financial means of managing the volatility and pricing over a course of a year.

Q.106 - Right. And just as we described with the transportation capacity, in essence the approach is, I know I am going to need on my low day not so much gas if I have a temperature sensitive load, and some days I am going to need a great deal of gas and I make firm arrangements for somewhere in between, knowing that I can absorb the cost when I don't need the gas. And if for some reason I -- this whole idea of peaking, I will have to go out on the market and buy gas to cover, or make

other contractual arrangement to cover my requirements for extra gas.

MR. MACLURE: You will make -- the marketer will need to make contractual arrangements to meet their requirements. And one of the sources of supply is -- would be to have arrangements with firm service industrial and institutional customers in New Brunswick who have the ability to burn alternate fuels and divert their normal firm supplies into a more temperature sensitive market. And for that they would want to be paid at what would be probably close to current market prices or they would enter into some kind of a prior contractual arrangement with a marketer.

Q.107 - Right. And if the current market price is $5 a GJ, then that is maybe what I am paying for.

MR. MACLURE: Well it may be, and it could be based on a whole lot of contractual issues that an individual marketer has pre-arranged those supplies with that interruptible customer. They may have made a contractual arrangement to have a fixed component and an absolute right to take 20 days of that supply with some fixed component and a variable component on top of it. So it would be a freely negotiated contractual arrangement between a gas marketer and some other party.

Q.108 - Has the Dracut price for gas ever dipped below $2.06

Canadian a GJ?

MR. MACLURE: I don't know.

Q.109 - Has it ever dipped below $3 a GJ?

MR. MACLURE: Well if I didn't know if it has dipped below 2.06 I don't know if it's dipped below $3.

Q.110 - Would it surprise you if I said it hadn't?

MR. HARRINGTON: No, it wouldn't surprise me. And just to be clear, that number, the $2.06 that is shown there, as it was presented in the proposal -- and I might just turn people to the proper exhibit, if you give me a second.

Exhibit D, volume 2, 4.5.1.2, which is at page 4.142. If we look at table 4.3.6, which is on the page following that, which is 4.1.43, we see that that 2.06, just to bring everybody in, is indexed from Natural Gas at Henry Hubb which was forecast for the year 2001 to be at $2.04. And this could lead us into a path of discussing how delivered gas costs were derived.

However, what I think I would like to say is that this was a forecast for the year 2001 that was made some 18 months ago. And we do fully intend to update all of these figures to represent exactly where these figures actually sit prior to going into operation.

Q.111 - When would you intend to update the Board on --

MR. HARRINGTON: Well I think as we have discussed yesterday, as well as -- I think it was mostly

yesterday -- that we are looking for a one time adjustment based on competitive energy prices as well as an adjustment to the upstream costs.

And in this update we will be looking at all of the relevant parameters, including the Maritimes and Northeast Toll which hopefully we will know at that point in time. We intend on continuing to review the indexes and make sure that gas commodity costs are as accurate as possible prior to going into operation, looking forward for the fiscal year.

As well with regard to those pieces that have been quantified as ABM margin, I think we will continue to discuss with the marketing community to make sure that we understand as much as possible what they need in order to make this business attractive for them.

So we anticipate updating all of these figures prior to that.

Q.112 - All right. You stated earlier, or maybe it was Mr. Maclure, but somebody stated earlier that you would expect, and quite frankly I think it has been talked about at some considerable length at the marketers hearing, that marketers would be -- or there may be a myriad of techniques employed. But generally it would be Enbridge's expectation that marketers would go out and buy a certain volume of gas which it then in turn tries to sell to its

various customers.

MR. MACLURE: That's correct.

Q.113 - Right. And so it's not a situation where if I am a marketer -- I just want to make sure this point is clear -- it is not a situation where I am a marketer where -- particularly in the very initial stages when we are first starting up -- that I add a customer and go buy some more gas, I add another customer and go buy some more gas. Because as you pointed out, the spot daily price on gas is high, is that correct?

MR. MACLURE: Yes.

Q.114 - Right. And so marketers entering this New Brunswick market are in essence going to have to commit to buy gas and then try to sell it to the market?

MR. MACLURE: Well they can -- they may not need to commit to buy gas specifically from a producer at the early stages. There may be other options as the market develops for them to get gas.

There will be gas that is moving into the States. They may have opportunities to buy from marketers that have -- other marketers that have supplies. So as the market evolves and develops in the early years, there may be marketers that are selling into the small general service type market who have an opportunity to buy gas from other marketers who are supplying -- may have a

larger customer or a group of larger customers that they can manage the supply a little bit better when you add on a very small residential load into a very large industrial load.

Q.115 - But we have no system now, and the reality is that marketers are going to have to go buy gas at some level, depending on how they think they can penetrate the market, and then try to penetrate the market having committed to buy that gas in advance?

MR. MACLURE: Yes, they are going to have to find a source of supply.

Q.116 - Right. And so while you are adjusting, if you feel it is necessary, your target distribution rates, the marketers will have likely committed to buy their gas at a fixed rate or at least a rate that tracks one of the indexes?

MR. MACLURE: I suggest they are going to have to get out and get a supply. Marketers are out already talking to some customers and having preliminary discussions with customers. So I am assuming that in those discussions they have a belief that they will be able to supply customers.

Q.117 - Mr. Maclure, or maybe Mr. Harrington, whichever you feel is appropriate, but Mr. Harrington, you have been talking about coming back in the fall and, you know,

because of your review of these commodity prices, whenever -- perhaps adjusting -- this one time adjustment to your target rate.

As I look at your -- the revised figures you gave us yesterday, for example in the SGS class, your target distribution rate of $5 per 30 cents a gigajoule is by far and away the single largest portion of the burner tip market price of 9.08 that we are all shooting for. Is that correct?

MR. HARRINGTON: According to these figures, that's correct.

Q.118 - Right. And you understand that marketers may very well be applying for their marketers' certificates and, as Mr. Maclure said, getting out there, talking to customers, trying to market natural gas between now and October. Is that correct?

MR. HARRINGTON: That's correct.

Q.119 - But Enbridge Gas New Brunswick's submission to this Board is that between now and October, your $5.30 per gigajoule rate could change potentially significantly?

MR. HARRINGTON: Potentially with the same end in mind. That is to try and maintain those spreads between competitive fuel price, as we have described.

Q.120 - Are you committing that your target distribution rate will not be higher in October than it is -- what you are seeking here now?

MR. HARRINGTON: No. Indeed if competitive fuel prices go up or are forecasted to be higher through fiscal 2001, I think it's appropriate that where possible that number try to be maximized.

Q.121 - But if I am a marketer trying to market natural gas between now and October, you will agree with me that I will have to tell customers that the distribution rate will be $5.30 per gigajoule, however that translates into meters cubed, or it may be higher or it may be lower, depending on the submission that Enbridge makes in October?

MR. HARRINGTON: That's correct. I want to qualify that though by saying we intend on keeping the communication lines open with all of the potential participants in the downstream market, working with them, making sure that we understand what their needs are and that there is some concurrence on where they see energy pricing going as well.

Q.122 - Right. And you will agree with me that since marketers are likely going to have to go out, if they haven't already, and sign up gas supply and pipeline transportation, that knowing what the distribution rates are going to be is an important consideration for them?

MR. HARRINGTON: Yes.

Q.123 - Thank you. Now my understanding is that this -- and

when I tried to understand it a couple of weeks ago I used in my own head this analogy of a pie where we slice out the various elements -- is that this is the rate methodology -- or rate making methodology that you are asking the Board to adopt for the entirety of the development period. Is that correct?

MR. HARRINGTON: Yes, that's correct.

Q.124 - All right. And at this time, when you make your submission to the Board to annually set your target distribution rate, it is not your intention to file those materials or serve those materials on the marketers?

MR. MACLURE: No. I mean, marketers will ultimately know what the distribution rates are. They will become a public document.

Q.125 - I suspect they will. I'm like Mr. O'Connell, turning pages is a good sign.

One other point, if I could just refer you please to -- oh, goodness, what is it -- your actual rate classifications, schedule 1 to exhibit B. Sorry, page 1 of 17. Exhibit B, schedule 1.

CHAIRMAN: What page?

MR. STEWART: Page 1 of 17. Schedule 1 of exhibit B.

Q.126 - Ms. Duguay, as I think you explained to me yesterday, you are making up your $5.30 per gigajoule on the basis of a flat monthly charge and then a volumetric charge?

MS. DUGUAY: That's right.

Q.127 - But marketers -- since marketers are limited actually to selling the commodity, at least in this piece of the pie, marketers earn income when they sell gas and not when they don't sell gas, correct?

MS. DUGUAY: I would agree with that.

Q.128 - Right. So marketers will have -- if they have a temperature-sensitive load, will have a revenue stream that is seasonal, correct?

MS. DUGUAY: Same as the utility, yes.

Q.129 - Well -- but you will still get your $8 a month in the summertime, won't you?

MS. DUGUAY: True. But the -- if you look at the split between the recovery of the revenues between the fixed and variable component, the preponderant component is the variable component.

Q.130 - Right. But you will still have your $8 per residential customer cash flow during the summer?

MS. DUGUAY: True.

MR. THOMPSON: Mr. Stewart, if I could add, the fact that -- you comment that the market would be having a seasonal revenue may not be the case. In those situations -- certainly in the residential market, we know that nobody gets too rich on the margins from commodity.

I have been in Enbridge Services myself, which is an

energy services company. Typically what will happen is that the commodity itself, particularly in the residential market, becomes a loss leader frankly.

And the idea is that the commodities are what you write the market on. When you get to the market you have other services that you can offer the residential customers.

It is very unusual, I would think, in this market for a marketer to sell only commodity to the residential customer. The marketer will have made some arrangement. Some marketers will have a whole bundle opportunity to do that. Other marketers are going to make agreements with service providers.

The fact is that customers will be looking for a whole bundled opportunity. And that includes the fact that they have to have installation of a piece of equipment that actually uses the gas that has been sold. So it is not strictly true that marketers will only have a seasonal revenue.

Q.131 - All right. Ms. Duguay, can I refer you back to -- it is part of schedule 3 of interrogatory -- or schedule 3 to exhibit A. It is this interrogatory number 47. It is the breakdown of the marketers' margin.

MS. DUGUAY: That is the same exhibit we were looking at earlier?

Q.132 - Yes. Right. And I don't think we got to this point yesterday. But you will agree with me that in your other two categories of commercial and industrial, outside of load balancing charges you are allowing the marketers 5 cents a gigajoule for commercial and 1 cent a gigajoule for industrial, is that correct?

MR. HARRINGTON: I think we might have gotten a bit confused on what exhibit you just pointed us to.

Q.133 - Well, Ms. Duguay, do you have it there?

MS. DUGUAY: Exhibit E, schedule 47, page 2. Is that where you are at?

Q.134 - No, no, no, no, no. Exhibit A, schedule 3. It is the breakdown of the ABM margin chart we were looking at yesterday. Do you have that, Ms. Duguay?

MS. DUGUAY: Yes, I do. But I'm not responsible for preparing the projection as with regards to upstream costs.

Q.135 - Okay. But then whoever is the appropriate person can tell me what is written on the page.

MR. HARRINGTON: That's correct.

Q.136 - It is 5 cents a gigajoule for commercial customers and 1 cent a gigajoule for industrial customers?

MR. HARRINGTON: That's correct.

Q.137 - All right. Now which amongst you is responsible for preparing the charges for your ABC service? Is that you,

Ms. Duguay?

MS. DUGUAY: For what? I'm sorry.

Q.138 - The rates for your ABC service that you are proposing to the Board?

MR. MACLURE: I am.

Q.139 - Mr. Maclure. I still don't quite know -- let's back up a little bit. ABC service, agency billing collection, that's what it stands for?

MR. MACLURE: Yes.

Q.140 - And in essence this is a charge, or service I guess, that you may be offering to marketers, is that correct?

MR. MACLURE: We will be offering --

Q.141 - Will be offering to marketers.

MR. MACLURE: -- to marketers.

Q.142 - All right. And that is we will do your billing and collections for you for a flat rate per bill?

MR. MACLURE: Yes.

\Q.143 - All right. But this service that Enbridge Gas New Brunswick, whether it is a partnership or whether it is a corporation, will actually be outsourced to some other company?

MR. MACLURE: Yes.

Q.144 - All right.

MR. MACLURE: Some other company that has the facility to do it already.

Q.145 - Right. Now that is Enbridge Commercial Services?

MR. MACLURE: Yes.

Q.146 - All right. And is there an agreement between Enbridge Commercial Services and Enbridge Gas New Brunswick to provide those services to New Brunswick marketers, this ABC service?

MR. MACLURE: There has not been a formal agreement. There has been discussion. We have had discussions with them.

Q.147 - Right. So you are not finalizing the agreement with your affiliate until you get the price that you can charge your customers approved?

MR. MACLURE: I wouldn't have characterized it that way. I would simply say that we have had discussions around the pricing. And we haven't concluded any arrangement with the affiliate.

Q.148 - Well, all right. I will ask the question a different way. Are you in fact seeking to have your ABC billing rates approved in this hearing?

MR. MACLURE: Yes, we are.

Q.149 - And have you entered into a contract yet, a firm contract for how much Enbridge Commercial Services is going to charge Enbridge Gas New Brunswick for the provision of that service?

MR. MACLURE: No. Although as I said in response to interrogatory number 13, Board staff interrogatory number

13, that our discussions have been that we will be charged what Enbridge Commercial Services charges Enbridge Consumers Gas.

And that is the basis of the charges from Enbridge Commercial Services that we have been discussing with them.

Q.150 - But Enbridge Commercial Services hasn't yet committed to that. They haven't signed any deal with you?

MR. MACLURE: They haven't formally committed to it in terms of a formal contract.

Q.151 - In any event, whatever company or affiliate of Enbridge Gas New Brunswick that you enter into an arrangement to provide this agency billing and collection service, will it ever be an entity that is marketing gas in New Brunswick?

MR. MACLURE: Could you ask that again? I'm a little bit unclear what the question was.

Q.152 - Well, I think you have described to us, and I think it is in your evidence, that the proposal is that Enbridge Commercial Services will perform this outsourcing billing collection function for Enbridge Gas New Brunswick Inc.?

MR. MACLURE: Yes.

Q.153 - And you have also told us that they have given you some prices, but you haven't signed a deal yet with that company, is that correct?

MR. MACLURE: Correct.

Q.154 - All right. Now in the marketers hearing we had a whole lot of discussion about a marketing -- a commodity marketing affiliate that Enbridge Gas New Brunswick may or may not have. Remember there was a discussion about whether it could use the logo and all that stuff?

MR. MACLURE: Yes.

Q.155 - Right. So there is the possibility that Enbridge Gas New Brunswick could have an affiliate selling the commodity, a gas marketing affiliate in the province of New Brunswick?

MR. MACLURE: I guess that's still -- there still is a possibility of that.

Q.156 - Right.

MR. MACLURE: Yes.

Q.157 - And I appreciate you haven't -- I think you have said several times you haven't made up your mind whether you are going to do that or not?

MR. MACLURE: Well, it's not up to us. It's up to other parties.

Q.158 - Well, all right. But all I'm really trying to understand is, because you haven't actually committed with anyone to do this service for you, is whether or not your marketing affiliate would ever be in a position to be the entity that is doing the ABC service?

MR. MACLURE: The marketing affiliate?

Q.159 - Yes.

MR. MACLURE: No.

Q.160 - Thank you. Now can I refer you to Board staff interrogatory number 14, which is I think probably where you had your hand. That is exhibit E, schedule 14.

MR. MACLURE: Yes. I have that.

Q.161 - Actually I'm sorry. I meant -- we will get to 14 in a minute. But I want to refer you to Board staff interrogatory number 13, exhibit E, schedule 13.

MR. MACLURE: Yes. I have that.

Q.162 - Do you have that?

MR. MACLURE: Yes.

Q.163 - Okay. Now in here you have said how much Enbridge Commercial Services -- which I take it is some sort of computer bill-generating affiliate that Enbridge Consumers Gas has in Ontario?

MR. MACLURE: Yes. It's an affiliate of Enbridge.

Q.164 - It is a what? I'm sorry.

MR. MACLURE: It's an affiliate.

Q.165 - All right.

MR. MACLURE: Affiliated company.

Q.166 - Right. And this 85 cents per residential customer bill, $1.63 for general service customer bill and $4.06 for CGS and larger customers, those are the rates that

Enbridge Commercial Services charges Enbridge Consumer Gas?

MR. MACLURE: Yes.

Q.167 - That is what you have told us here. Are those rates regulated by the Ontario Energy Board?

MR. MACLURE: No, they are not.

Q.168 - My understanding then is that the difference between the 85 cent for example per bill for residential customer that Enbridge Commercial Services is going to charge Enbridge Gas New Brunswick Inc., and the $1.05 that Enbridge Gas New Brunswick Inc. is going to charge the marketers is some amount to offset your bad debt cost?

MR. MACLURE: Yes.

Q.169 - All right. When you do your ABC billing, both your charge and the marketers' charge will appear on the bill, is that correct?

MR. MACLURE: Yes.

Q.170 - And when you sign up customers you are going to require security deposits of some kind?

MR. MACLURE: We may. It's -- it depends on the customer.

Q.171 - Okay. For residential customers you will?

MR. MACLURE: It depends on the customers.

Q.172 - It depends on the customer. Okay. But you won't require a security deposit I guess for those people you are confident will actually pay the bill?

MR. MACLURE: Not a question of -- I think of confidence. We will look at -- typically we will look at customers' different levels of credit history before you make the decision as to whether you require a security deposit.

Q.173 - Well, right on. You will do a credit check or something. But the whole point of that is if you think there -- if you have any concerns they are not going to pay the bill, you are going to require a security deposit. I mean that is the point of requiring security deposits, isn't it?

MR. MACLURE: Yes.

Q.174 - All right. So will that security deposit be available to -- on your ABC charge, to help offset the marketers' portion of your bill? Because it's going to be one bill, right?

MR. MACLURE: Yes.

Q.175 - Right. So Enbridge has a security deposit from the customer. And if that customer doesn't pay the bill, how is that security deposit going to be applied?

MR. MACLURE: That will be -- the security deposit would be applied to the total bill. The marketer would be paid, because the guarantee under the ABC service is the marketer is paid. So we are taking the responsibility of managing the collection part of the total bill.

Q.176 - Right.

MR. MACLURE: And how we manage that is through a combination of looking at our bad debt exposure for customers that have security deposits, customers that don't have security deposits.

And it's an overall management of the whole credit and collection aspect of the billing process.

Q.177 - And you are going to charge a premium to every marketer of 20 cents per bill for that bad debt issue, that is the --

MR. MACLURE: It's a guarantee. The marketer will get paid. So if the marketers -- if the marketer has sold 100 units of gas to a customer in a particular month, we will remit to the marketer 100 units times their price that the marketer has asked us to charge that customer.

The marketer will be paid. If we do not collect that money from the customer, we are not going to go back after the marketer to get it.

What it is is that for every bill that the marketer has sent out, we have collected a small portion for to recognize ongoing the forecast of bad debt.

Outside of those parameters we are at risk for the variances between our forecasted bad debt exposure and our actual bad debt exposure.

Q.178 - These prices that you have here, the 85 cents, the $1.63 and the $4.06, they have not been examined by the

Ontario Energy Board as being representative as a fair market value price for those services?

MR. MACLURE: Well, I think there are a couple of implications there, is that one --

Q.179 - Well, no. There is not really an implication. There is just a question.

MR. MACLURE: Well, there is a --

Q.180 - Have they or have they not?

MR. MACLURE: Fair market value, there are in Ontario today probably 3' to 400,000 customers that are being billed under an ABC service through various marketers.

I would suggest that if marketers did not feel that those were represented a fair value for the service that they are getting, they would not be taking the service.

Now in terms of the Board vetting the price, the Ontario Energy Board made a decision that the ABC service, when it was developed by the utility, which it was at one time, had to be developed on a fully-allocated basis rather than a marginal costed basis. So it was a fully-allocated cost which drove out a number of these costs.

So to say -- the Board does not specifically approve the price. But it does approve what it did approve in terms of what the portion of the utility costs were, that overall had to be allocated to the program.

Q.181 - So the answer is no?

MR. MACLURE: The answer is that they do not specifically approve the price. The answer to the second part of your question, was it a fair market price, I think the market has spoken.

Q.182 - And --

MR. MACLURE: It's an optional service. Customers and marketers are not obligated to take the service.

Q.183 - Is it your intention that if you want to change the price for this service that you will use your approach as you have with other matters and file materials with the Board, and -- I will ask the open-ended question. How are you going to seek changes on this price if you want to --

MR. MACLURE: Well, we said --

Q.184 - -- for this service, price for this service if you want to?

MR. MACLURE: We said in response to interrogatory number 14 that to the extent that we did feel that we needed to change the price for the service, that we felt that we would have to advise the Board.

And we made the assumption that in terms of addressing an issue like this, the Board could do it through an expedited paper kind of hearing process, that it could indicate -- the information could go out to interested parties. We didn't feel that it necessarily had to be a full formal hearing, that you can get written comments.

And it could be that kind of process.

I think that the -- the assumption, I think, that seems to have been made in a lot of these different issues is that Enbridge is operating in isolation on an ongoing basis. We recognize that we have a partnership with gas marketers, customers and the distributor. These three have to work together to make this market work.

And to the extent that there are impediments to making the market work, we have asked for some flexibility in terms of getting rid of those impediments. But we will have to work with marketers to achieve those goals. And the goals of both of us are to attach customers.

Q.185 - Is it your intention to apply to have this service charge changed in October as well?

MR. MACLURE: Not at this point in time, no. It isn't our expectation that it would need to be changed.

Q.186 - And will you give marketers prior notice if you seek to have this price changed by the Board?

MR. MACLURE: We very well could. The point is I guess in terms of a notice we could be required to provide a notice to the marketers. Like any service, we are providing the service to marketers.

It would be reasonable to expect that we would tell marketers that we are not in a position to be able to offer the service at that particular price anymore.

Q.187 - Okay. Well, let's not -- strictly speaking, I don't think that is what I asked.

MR. MACLURE: Well --

Q.188 - I said if you were -- let's assume you made the decision, we are not making enough dough, we aren't covering our costs or our bad debt analysis is incorrect. And instead of charging $1.05 a bill, I want to charge you $1.25 a bill, marketers.

You have indicated that you are going to ask the Board to approve your price change?

MR. MACLURE: Yes.

Q.189 - And you indicated in your interrogatory response that there will be some sort of "expedited paper process."

And what I want to know is that when you embark on that expedited paper process, will you give advance notice of that application to the Board or some sort of notice of that application to the Board to the people who are actually paying those charges, the marketers?

MR. MACLURE: Sure. I think probably I could say that we will. Now one other point that I think that I would like to make, and with respect to that issue, is I would expect, as I said the other day, that in this partnership of working together, that to the extent that the marketers find that the combination of the type of fees that we are charging under the ABC service and the type of costs that

the marketer is incurring to make commodity supplies available to customers, is causing them not to be able to attach customers on a timely basis. I think very early on we are going to notice that.

I said yesterday that I would expect that if we don't see attachment levels that we expect to see, we are going to be going back to the marketplace and asking what's happening? Why -- what are the issues that you are having with not being able to attach the market, and try to redress those issues.

So to that extent we believe that we will have an ongoing and continuing dialogue with marketers to address the issues of market attachment, of which probably the ABC service is one of these issues.

So I would say we will be advising them that we need to increase the rate.

Q.190 - All right. Let me take you at your word then. And say I'm the marketer. And I come to you. And I say well, Enbridge, you know, I'm losing $5.60 a year per each of my residential customers, because you are charging me 12 bucks and 60 cents a year to do these bills.

And you say okay. Well, if that is interfering with your ability to attach, we will make it cheaper for you.

Which are you going to do? Are you going to lower the billing rate or are you going to lower your target

distribution rate and put that in your deferral account? Which of those approaches will you adopt first?

MR. MACLURE: We will be lowering our distribution rate. Because the other portion is a cost to the company. They are all costs to the company. So that overall costs are all costs that we are incurring to provide the service.

But I think you raised -- you raised a very good point. To the extent that you have a -- to the point that the company has a published tariff, for example for the SGS class again, the marketer has a commodity cost that is added to that tariff. That is the price that would be included in the bill to the customer.

If the marketer -- as we discussed yesterday we had a 7 cent margin that we were talking about. If the marketer tripled their 7 cent margin to 21 cents, what would end up happening is that the differential at the burner tip to the customer might drop from 30 percent to 22 percent or 25 percent, some number. It would drop.

We would expect that the response in the marketplace to that kind of a reaction would cause customers to not connect to the same extent that we needed them to connect to.

And we would then drop our distribution margin or our distribution rate to encourage the attachment. So it's all part though of the overall package combined to attach

customers.

Q.191 - Mr. Maclure, you will agree with me that at least under current rates, any amounts in your deferral account eventually to be recovered by Enbridge in its -- on the long term, after the development period, will bear a carrying cost of 10.38 percent?

MR. MACLURE: No. They will bear a carrying cost of whatever the weighted cost of capital is.

Q.192 - I'm sorry. I qualified my question by saying -- assuming today's rates --

MR. MACLURE: Assuming that those interest rates stayed as forecast.

Q.193 - And if rates go up, that amount will go up. If rates go down, that amount will go down?

MR. MACLURE: That amount will go down. The weighted average will change.

Q.194 - All right. Now at the marketers hearing there was a code of conduct approved by the Board. And included in it was a representation that -- at least for low-volume customers, that you wouldn't have contracts longer than -- I forget actually what the number is, three or five years?

MR. MACLURE: I think it was five.

Q.195 - Five years, right, five years. And so Enbridge envisions then that, as I suspect do marketers -- that is why it was in the code -- that when marketers sign up

customers they will enter into agreements of a certain term, one year, two years, three years, five years?

MR. MACLURE: Yes.

Q.196 - That would the typical way you would expect the market to proceed?

MR. MACLURE: Yes.

Q.197 - All right. Let's assume then that a marketer signs up a customer -- a residential customer under this SGS class, a typical homeowner. And the marketer signs them up for three years at a certain rate. And I'm a marketer who is using your ABC billing service.

MR. MACLURE: Yes.

Q.198 - Okay. What you tell me he guarantees that I will be paid?

MR. MACLURE: Yes.

Q.199 - All right. What happens if -- or let me rephrase the question. If the customer stops paying at the end of the first year, will you guarantee that I will be paid what the customer uses for the rest of the second year?

MR. MACLURE: No. The customer won't be supplied anymore.

Q.200 - Right.

MR. MACLURE: So we are not -- we are not securing your contractual arrangements with your marketer --

Q.201 - Right.

MR. MACLURE: -- or with your producing marketer.

Q.202 - Are you securing any amounts between when the customer stops paying and when their service is eventually discontinued under this service?

MR. MACLURE: Yes. To the extent that is what we are -- that is what we are securing. So to the extent that a supply continues to be supplied for that -- on behalf of that customer, and that customer at that stage I guess hasn't been disconnected, you will continue to supply.

That's the security. Now because we are managing the process, that is the -- that is the process that we are managing and when disconnection procedures come into play.

Q.203 - So the 20 cents a bill, is that only guaranteeing me that I will be paid for that amount on that bill?

MR. MACLURE: Yes. I think -- it could be a couple of months, but what I am trying to get at is that we are not guaranteeing that if have got a three or a five year contract that you keep supplying for five years at an average cost let's say of a hundred dollars a month, and we will continue to pay you the hundred dollars a month with no ability to collect from the customers for the next two years, if it was at the end of the first year of a three year term. That is not the intent of the bad debt risk. It's our own management of the bad debt risk.

Q.204 - But it's not going to be a hundred dollars a month, is it --

MR. MACLURE: Depends on --

Q.205 - -- the commodity charge?

MR. MACLURE: It depends.

Q.206 - I mean you are saying -- you are saying $2.06 a GJ for a residential customer.

MR. MACLURE: It's your bill. It's what you are charging. So it's going to be the $2.06, the transportation on Maritimes and Northeast, the load balancing charges. It's what you are asking us to bill on your behalf.

Q.207 - $4 a GJ for a hundred GJ's a year is $40.

MR. MACLURE: 400.

Q.208 - 400. I told you I am not an accountant.

MR. MACLURE: 400. And for a different sized customer it could be 800. So depending on how big the customer is. It is a variable component charge.

Q.209 - Right. Okay.

MR. MACLURE: In the winter time, as you pointed out, that's most when volume is delivered, so --

Q.210 - And it could be a lot or it could be zero?

MR. MACLURE: But when the people don't pay is typically when the bills are large, so --

Q.211 - Am I still going to pay my 1.05 a bill during the summer if my customer doesn't consume any gas?

MR. MACLURE: Yes.

MR. HARRINGTON: We would hope you encourage base load.

Q.212 - When is a marketer going to get their money from Enbridge?

MR. MACLURE: Currently it is the -- I think around the 22nd of the following month. So that volumes delivered in -- for example in January --

Q.213 - Take me through an example. January -- I am a residential customer and I burn gas from January 1 to January 30.

MR. MACLURE: Yes. No, you deliver gas. It's paid on deliveries. So that what we do is the volume delivered in the month of January that has been recorded as being nominated and delivered into the system by the end of the month is recorded and payment is made, that volume times your unit rate that you have quoted to us for those -- for that volume is paid the 22nd of the following month.

Q.214 - All right. So the customer -- the gas I sold to my customer during the month of January --

MR. MACLURE: No. The gas you delivered to your customer. We may not even bill the customer. The customer who has taken -- because we use a cycle billing kind of system, customers that you are delivering to in January, some of them may not be billed until towards the end of February.

Q.215 - Right. So gas that I have bought and given to my customers under your service may not be billed until February and I may not be paid until the 22nd of the

following month.

MR. MACLURE: I said that the volume that you delivered in January for those customers, that we are going to bill in February, we are paying you on the 22nd of February. So we may in fact be paying you before we have actually billed the customer.

Q.216 - And you will forgive me, Mr. Maclure, I am a lawyer, it's an occupational hazard, but you said "may". Will you or won't you?

MR. MACLURE: Well I am saying because it is cycle billing. So that if you have -- cycle billing means that you have 20 different billing cycles over the course of a month, you typically do not bill all of your customers at the end of the month, particularly when they are residential customers. So you do your billing all over the full month, and we call that cycle billing.

So you may bill, for example, we will call it cycle 1, it is the first billing cycle of the month, assume that it gets billed on the 5th of the month for consumption recorded for the previous 30 days.

So on the 5th of the month you send out a bill for consumption -- 5th of January send out a bill for consumption from December 5th to January 5th. Your next cycle is the next day, so you send out a bill on January 6th for a block of customers and that volume is for

consumption from December 6th to January 6th. So it is always moved up.

Now on the delivery side -- sorry, let me take you one step further -- toward the end of the month, now you get at the end in cycle 20, it is billed on the last day of the month, so it is January 30th, and it takes care of consumption from December 30th to January 30th.

So now you have got all this volume that is sort of at different stages during the month. But during the month of January you have been delivering each day in January to serve your customers. That volume that you have delivered into the system is being recorded as being a delivery. So the end of the month of January you are delivering volume that is being consumed by those customers. But a customer in cycle 20 is not going to actually be billed for the volume you have delivered for it in January until February -- the end of February. So by the 22nd we are actually paying you on deliveries of deliveries that we haven't billed yet. Does that make sense?

Q.217 - A little. So the 20 cents then really doesn't relate to a charge on an actual bill at all?

MR. MACLURE: The 20 cents is an overall cost that is an average cost of bad debt for residential customers that looks at -- because we are going to be going out and collecting. We paid you. We are going to be going out

and trying to collect that money that we paid you from customers.

And we are guaranteeing that you are going to be paid and to the extent that we don't we recognize inherently that there will be some customers who will not pay. And we have -- the estimate of those costs amount to about 20 -- amount to currently 20 cents a bill, or 20 cents per customer on average.

Q.218 - When you -- when a marketer uses your ABC service the -- there aren't two bills generated, there is only one, is that correct?

MR. MACLURE: That's correct.

Q.219 - So in essence I am paying -- again to use a residential bill as an example -- I am paying 1.05 to have my charge added onto your bill --

MR. MACLURE: Yes.

Q.220 - -- which you were going to send anyway?

MR. MACLURE: Yes.

Q.221 - And if my charge doesn't get paid, since there is only one statement or one bill, your charge wouldn't have gotten paid?

MR. MACLURE: That's correct.

Q.222 - So when you say you pursue the customer for the bad debt, you are never going to have a circumstance where you wouldn't have been pursuing them anyway?

MR. MACLURE: No, we would have been pursuing, you are right, because of our bad debt. However, maybe what may have not been completely clear is that within -- and Ms. Duguay may help me because she does the allocations in Ontario -- the bad debt that we are talking about in the ABC charge is not the total bad debt associated with residential customers. The total bad debt is a larger amount than that per customer and in fact is split between the distribution component and the commodity component.

So there is -- so what we have tried to do is recognize that -- there is another purpose for doing that as well, is that we are trying to recognize there are two components to bad debt risk. One is clearly within the utility cost, the other is with respect to the marketing of the commodity.

And the reason that we do it in that fashion, that if you as a marketer chose not to use the ABC service, your customers and you and specifically your customers should not be paying bad debt associated with anybody else's commodity. So you split it out and you say, you can avoid -- and if you don't want to pay -- if you want to go with your own collection, you are not going to pay the bad debt and you can go and figure out and do your own bad debt calculations and factor that into your own costs. But we will continue to have the collection risk on our own bill

and it's split between those two components. So you are only being allocated or charged a bad debt component associated with the commodity portion.

Q.223 - If you are ABC billing for say a large industrial customer of a marketer --

MR. MACLURE: Yes.

Q.224 - -- and the customer pays half the bill, who gets paid first, you or the marketer?

MR. MACLURE: Well as I said, the -- in terms of the cycle we go and you deliver on behalf of customers.

Q.225 - No, but -- sorry -- how is that accounted for? Is it accounted for Enbridge's account or is it split between the two?

MR. MACLURE: It's to our -- it's to your account first.

Q.226 - Okay. Based on the -- sort of the ruling of the Board this morning, there is a whole bunch of questions I am not going to ask you and I only say that just because I want you to like me when you answer the few questions I have left, and it turns on the issue of supplier of last resort.

MR. MACLURE: Yes.

Q.227 - And is Ms. Duguay going to speak to this or is Mr. Maclure going to speak to this?

MR. MACLURE: I don't think it matters. I think --

MS. DUGUAY: Depends on your question.

Q.228 - Depends on the question.

MR. MACLURE: We will tag-team.

Q.229 - Good answer. Okay. First off, I want to understand as a practical matter when it is that Enbridge Gas foresees that it will actually be supplying supplier of last resort gas?

MR. MACLURE: I think basically we have said that we see that as a failure of a marketer to supply. So it's an absolute failure of a marketer. It doesn't mean the failure of a marketer to nominate.

Q.230 - Okay. So your view of the scope of Enbridge's responsibility under this provision is that you will only supply in the circumstance where there is a total failure of the marketer, in other words, the marketer goes out of business?

MR. MACLURE: Yes

Q.231 - And you will not supply gas under this category in the circumstance where, for example, a marketer doesn't have enough gas to go to all its customers because I only bought so much gas and it's really cold today and I am short.

MR. MACLURE: Yes. Well in the circumstance where a marketer is short on a day, the nature of a gas distribution and transmission system is the customer is not short. Gas flows where there is demand.

What will happen in that circumstance is that there will be an overrun on Maritimes and Northeast Pipeline. So that even though the marketer may nominate -- let's use as an example that the marketer nominates a hundred units and says, we are going to deliver to Enbridge New Brunswick a hundred units of gas, and their block of customers uses 120 units, so they are short 20 units. That 20 units is still delivered to the customers. The customer still burn those 20 units, but what has happened is the pipeline has been drafted and supplied more and there will be overrun potentially penalties that that marketer owes the pipeline.

So where we see supplier of last resort as kicking in is if that market has -- that marketer has sustained basically a financial failure and is going out of the business, does he need to arrange an alternate supply. They say, I am not going to supply these customers any more, and you have to have an alternate supply put into place to serve those customers to try and mitigate any kind of pipeline problems. Because of course at that stage, if the supplier has gone out of business, any contractual obligations that they have are probably moot in terms of the pipeline trying to get overrun penalties from that.

So there has to be a point in time at which somebody

steps in and the supply of last resort, as we have interpreted it, will be the role of the utility to step in for a short period of time until the customer is able to arrange and talk to another marketer to get their supply reinstituted. That's our view of supplier of last resort.

Q.232 - Mr. Maclure, you just reminded me of something. If I am a marketer and I manage to get myself out of whack with these nominations on your system or on the pipeline because it is a greenfield market and I am trying to figure out what I am doing, there are in those agreements penalties, isn't that correct?

MR. MACLURE: Yes.

Q.233 - And a marketer faces the potential to incur those penalties?

MR. MACLURE: Yes.

Q.234 - But there is no penalty category here on your -- on your breakdown of your burner tip press. So that's another thing -- another expense that's not accounted for there.

MR. MACLURE: No, it's an expense that's not accounted for, but one would certainly expect that the marketer is going to manage and is going to arrange their supplies without factoring into the fact that they expect to incur penalties.

I would assume that if they anticipate incurring

penalties they would in fact factor that into their overall costs, but we don't usually forecast penalties.

Q.235 - Right. But you would agree with me that, just like Enbridge Gas New Brunswick, it might take a while for the marketers to operate within the parameters of a well established marketer?

MR. MACLURE: Yes.

Q.236 - Yes. All right. What if in the circumstance where I am a marketer of natural gas, I have got a supply of so much gas. And I go into Enbridge Gas New Brunswick one day and I say, ladies and gentlemen, I have got this much gas, it's now December 30th, my customers are going to need more gas than I have the ability to pay for. I don't have any financial ability to get any more money to pay them any more. You can have what I have got but I don't have any more. Is the difference going to be made up by Enbridge Gas New Brunswick under the supplier of last resort?

MR. MACLURE: I think in the situation like that it may very well need to be. I think that what we have in the -- in the legislation is probably to some extent the flexibility to interpret the supplier of last resort clause, to step in in those circumstances and to assist. So I believe that that is -- it is an opportunity to continue to try to make the market work. But I would certainly hope that

that's not the kind of operation that would be going on an ongoing basis.

Q.237 - What about the circumstance where, say I'm a residential customer and I had a one year contract with, you know, ABC Marketing. And at the expiration of my contract ABC Marketing says, well, thanks very much, but I'm -- I don't want you as a customer any more. You didn't pay your bills on time. Or I'm getting out of the New Brunswick market. Or I'm just winding up my resources. And you then have a customer who no longer has a marketer.

MR. MACLURE: Mmmm.

Q.238 - Will you supply gas to that customer on that basis under supply of last resort?

MR. MACLURE: I think that falls within that particular definition that that customer if their marketer has failed to supply them. The marketer has indicated a lack of interest in supplying them. I think we would have to.

But I would hope that the codes that we -- that we worked on in the marketers hearing we attempted to make sure that the customer was advised of a marketer's desire not to continue service to that customer well in advance, just to allow them sufficient time to find a new marketer.

I would prefer in that case that we would also be advised. And we would try to facilitate and help the

customer to know what other marketers are out there, so that they would select a new marketer for their service.

Q.239 - You will agree with me in your Ontario experience, Mr. Maclure, that there are all kinds of customers who just say, well, I don't know. I don't want to deal with those people. Just Enbridge give me gas.

MR. MACLURE: Yes. Certainly there are.

Q.240 - Yes.

MR. MACLURE: But I think the difficulty that you have is, of course bringing in the Ontario experience, is you started with customers that had had a supply from a utility for -- since natural gas was -- well some of them. Well some places are probably still going back 150 years. However -- so those customers have a history of having been supplied by the utility. So when they say I don't want to deal with it, they are making a choice of staying with something that is familiar. That would be akin here to saying well I don't want to switch from electricity to natural gas because I don't know what it's like. It's not the same as saying I don't want to choose who is going to supply my gas.

Q.241 - Now as I understand your proposal, is that the costs you want this Board -- or the fees or the charges you want this Board to approve when you do supply gas to customers under one of the three scenarios we just described, is

that you want to take a 10 percent mark-up?

MS. DUGUAY: It's not a 10 percent mark-up. The 10 percent over the full value or the full replacement value of the cost would be to absorb either incremental costs or an apportionment of the embedded cost that the utility would incur to provide that service.

Q.242 - Okay.

MS. DUGUAY: So that is the administration and overhead costs associating with billing, associating with making -- having the contracts in place such that the utility can make arrangement to have that gas available to those customers that no longer have a marketer and to monitor the distribution system. So the 10 percent was set judgmentally to recover these costs. But to say that those -- this is a profit component, it's not. And to the extent that the company would bill for its last resort supply service, the 10 percent would go or would act as an offset in the deferral accounts.

Q.243 - Can I refer you to page 11 of 12, exhibit B. That's your evidence, Ms. Duguay.

MS. DUGUAY: I have got that.

Q.244 - The third line from the bottom. The company is proposing to charge a 110 percent of the full replacement costs of the gas delivered at the city gate.

MS. DUGUAY: Correct.

Q.245 - Okay. So it's 110 percent of what exactly?

MS. DUGUAY: It would be a 110 percent of the commodity, the fuel and the transportation. And I think I have defined that at Board staff -- that would be exhibit E, schedule 52, where it says that the full replacement costs of the gas would include the cost of the commodity, fuel and transportation.

MR. MACLURE: The idea would be, Mr. Stewart, let's say that on a day that we have to invoke a supply of last resort, we go to the market. We say we need gas in New Brunswick. Price is $5 a GJ for full replacement cost delivered at a gate station in New Brunswick. Then we would figure that the supplier of last resort charge that would go to the customer would be $5.50.

MS. DUGUAY: So the 10 percent is to capture additional costs that would be incurred to provide that service over and above the commodity, the transportation and the fuel at the delivery point.

Q.246 - Right. So to use what we were talking about earlier, you are going to go out on the spot market and buy gas?

MS. DUGUAY: Potentially, potentially not. The custom --

Q.247 - Well, okay, what is it you are going to do?

MR. MACLURE: Our current proposal is that we would buy gas at the time as we said in -- and I can't remember which interrogatory it is. But what we had said is that at this

point in time we don't really expect to have to invoke the supplier of last resort very frequently, if at all.

Our concern would be to the extent that we prearrange a supplier of last resort charge or prearrange a supply, that under normal circumstances that would come with it some kind of a fixed component or a fixed cost that whoever is going to be supplying it would want to compensated for standing ready at whenever to supply the charge.

At this stage, we don't see that there would necessarily be a need to have and to pay that kind of a fixed component. However, I think we also said that we are continuing to evaluate and talking to producers about supplier of last resort and other parties.

But right now our evidence is that we thought that we would probably be able to get gas on the spot market as it's delivered through New Brunswick in order to supply that supply. Especially in the early years where there is -- there is not a great deal of demand going through. We may have to address it differently in the future.

Q.248 - So you may be getting 110 percent of $5 a gigajoule if it was today?

MR. MACLURE: Yes.

Q.249 - Or you might be getting 10 percent of $20 a gigajoule if it was two months ago?

MR. MACLURE: Yes, if that were the spot price on that day. And, again, it would end up being what kind of arrangements we had to make. For example, if you know that it's going to be an extended period of time, that it's definitely a supplier failure, the supply of last resort would be you would have to get gas right away today. That -- that's an immediate need.

So you may end up having to pay $20 or whatever that spot price that day is. And I wouldn't -- I won't argue around the $20's. It's just an example. But you may have to pay that today.

But then within the course of the day the utility will be reexamining what it is that has happened in the marketplace. And if it's -- if it's a marketer failure and you say, well, we may end up as a supply of last resort having to arrange a supply for this block of customers for let's say two months. Because we recognize now that it may take those customers two months to arrange a supply, to get a new marketer. To give them some time to call around and get a new price.

At that stage it would be my expectation that we will go to the market and we will say, what is a price for two months supply of gas. And the two months supply is not going to be $20. That's the day price. The month price might be -- maybe it's back down to $6 or maybe it's back

down to $5 as a two month commitment to take gas for that particular market segment.

Q.250 - Mr. Maclure, and I'm going to add a heaven forbid to the beginning of this sentence, but you are asking the Board to approve your rates for this circumstance. And I agree in the public interest it is something probably we should deal with and I am sure the legislation dealt with it on that basis. That heaven forbid a marketer should fail, it's unlikely that the marketer is going to fail in July, and more likely that they are going to fail in January or February.

MR. MACLURE: Mmmm. Right.

Q.251 - And so this 10 percent that you propose to add to the city gate price of gasoline?

MR. MACLURE: Gasoline?

Q.252 - Natural gas, excuse me. Natural gas will be potentially the highest spot market price for gas?

MR. MACLURE: No. Not at all. It will -- the marketer will fail when the marketer fails. Now it might be in the winter. But to suggest it market the spot price for natural gas all winter long is $20 is not a fair assumption. That's not the spot price. That's not a 20 or a two month price for the whole winter period.

Q.253 - That's not what I meant to suggest, Mr. Maclure. And I apologize if I did. My point is simply that it's more

likely as a general proposition that if you are going out to buy this gas because a marketer has failed, it will be during a time period when gas prices are high.

MR. MACLURE: Gas prices may be high. They may not. It depends a lot on the market at the time. We have experiences in Ontario where the prices in the summer have been higher than winter prices. So there are -- the natural gas price can be -- tend to be very volatile.

So I think -- and I'm -- well, I guess maybe there is one other point that should be brought in and Ms. Duguay raised it. Is that the costs are to offset additional costs that we have incurred. So to the extent that they are incurred, those costs would go into the deferral account. And we would have variances that would end up happening and these would go into the deferral account. So it's not as if the company is extracting that particular premium for itself.

The second point, I think it's important to keep in mind is that we also don't want to have a price that continues to encourage the customer to stay on the supply of last resort.

The customer -- the intention of the supply of last resort is an emergency backup supply which also should end up being a cost that encourages customers to move back and find their alternative. Two months down the road from

actually incurring that, we don't want to be in a position of having to force customers and say, look, you have got to get back to find a supply or we are going to shut you off.

So we want to get marketers proper pricing signals to go back and find an alternate supplier for a longer term supply.

Q.254 - You will agree with me, Mr. Maclure, that it will cost Enbridge the same amount, or require the same amount of corporate time and effort to arrange for alternate gas in July as it will February?

MR. MACLURE: Probably, yes.

Q.255 - Right. But you intend to base the charge for doing that based on the cost of gas you purchase at the time?

MR. MACLURE: Yes. I don't think we ever suggested that the charge was a cost based recovery. It is a -- it is a premium to reflect an additional administrative cost that's associated with getting that supply. And hopefully a 10 percent premium over those sorts of prices will encourage customers to find an alternate supply. But, no, we never suggested that it was a cost based price.

Q.256 - Did you consider using a flat rate fee?

MR. MACLURE: No, we didn't.

MR. STEWART: Mr. Chairman, those are my questions for this panel. Thank you.

CHAIRMAN: Thank you, Mr. Stewart. The Board will take a 15 minute recess.

(Recess)

CHAIRMAN: That bell was a gift from the now defunct Ontario Highway Transport Board. It has great sentimental value to this Board but little other.

Ms. Abouchar? She is not here. I guess she doesn't want to cross this panel.

So Mr. Blue?

MR. BLUE: Yes, Mr. Chairman.

CROSS-EXAMINATION BY MR. BLUE:

MR. BLUE: Mr. Chairman, the next time I have to do this substantively, would it be within the Board's practice to allow me to stand? I will sit for this time, but most of the time I can't contain myself sitting down.

CHAIRMAN: There are some things that you have to adapt to before this -- you can stand but you will have to hold your mike.

Q.257 - Mr. Harrington, you had a discussion I think on this panel and other panels about the distribution target prices. Do you recall that discussion?

MR. HARRINGTON: Yes, I do.

Q.258 - Now as I understand it the target price say for residential is going to be 30 percent less than -- I'm sorry, the target price is going to be 30 percent less

than the price for competing fuel oil. Have I got that correct?

MR. HARRINGTON: That's the idea.

Q.259 - And if Enbridge, in terms of its request for rate approval in this case has a symbol and a signature, it is that the price is going to be set relative to the price of competing fuels. Have I got that correct?

MS. DUGUAY: That's correct.

Q.260 - Okay. So while the numbers forming the components of the rates are important and will ultimately be used to determine what is in the deferral account, the fact remains that the price that Enbridge is going to offer is going to be 30 percent less than the price of competing fuels. Is that fair?

MS. DUGUAY: Net of upstream costs, yes. That's correct.

Q.261 - Okay. Now the point was made by you that you are going to come in here and seek a one-time rate adjustment prior to going into business, is that correct?

MR. HARRINGTON: That's correct.

Q.262 - Okay. And the point was made that these numbers are going to change. And marketers won't know what the numbers on exhibit E, schedule 47 are going to be until they see that proposal. Do you recall that?

MR. HARRINGTON: I recall that discussion, yes.

Q.263 - But am I correct that what marketers are going to know

is that the price of gas is going to be 30 percent less than the price of competing fuel oil or the competing fuel?

MR. HARRINGTON: That is the objective that we are going to try to achieve with our distribution rate, correct.

Q.264 - And in terms of marketing of gas, do customers in your experience want to know anything more than how the price of gas relates to the price of competing fuels?

MR. THOMPSON: No, they don't.

Q.265 - Okay.

MR. THOMPSON: They only care about what they pay.

Q.266 - And that isn't just here in New Brunswick, is it, sir? It is everywhere, that absolute prices don't really mean a heck of a lot to customers. What is important is the relative prices of competing fuels?

MR. THOMPSON: That's very true.

Q.267 - And that is how you intend to -- that is the rule you are going to keep in mind in marketing gas?

MR. THOMPSON: That's correct.

Q.268 - Ms. Duguay, I would like you to get out exhibit E, schedule 48, page 2 of 10 and exhibit E, schedule 48, page 2 of 10 revised. And tell me when you have that, please?

MS. DUGUAY: I do have that.

Q.269 - Is this your schedule, Ms. Duguay?

MS. DUGUAY: Yes, it is.

Q.270 - Okay. Now in the original schedule you showed revenue to cost ratios on line 6, is that correct?

MS. DUGUAY: Correct.

Q.271 - And what it showed was that the small general service customer had a revenue to cost ratio of 1.471. And the contract general service customer had a revenue to cost ratio of 0.992?

MS. DUGUAY: That's right.

Q.272 - And if one read that schedule and one was concerned about customer classes and equity among customer classes, one would interpret from that that maybe the residential class, being the small general service customers, were paying more than their share?

MS. DUGUAY: That's right.

Q.273 - Okay. Now in the revised schedule 48, page 2 of 10, I notice that you have redone your calculations, and that in fact the small general service ratio is 5.34?

MS. DUGUAY: That's right.

Q.274 - And one would interpret from that that small general service customers, residential customers would be paying roughly half of what the cost is to serve them. Is that fair?

MS. DUGUAY: That's fair.

Q.275 - And now could you explain what the adjustment was that led to that change? And I want to be clear about it.

MS. DUGUAY: Yes. I think I touched upon that, Mr. Blue, when I gave a summary.

Q.276 - You did. But I was trying to take notes.

MS. DUGUAY: Yes. Well, I will go through that again, no problem. What happened is that in the original schedule 48, page 2, in terms of the allocation of the deficiency deferral in both rate base and the cost of service, it was incorrectly pointing to the allocation factor being the number of customers, whereas the intent was that that account, given that it stems from deferring startup cost or long-term investment, that the allocation would follow rate base rather than the customer account number.

So whenever I was referring back to the model I noticed that there was a programming error in the cost of service study. So therefore I corrected that mistake and issued an addendum of the cost of service study.

And this explains the difference in both the over/under contributions seen on line 3 of schedule 48, page 2, and by association the revenue to cost ratio seen on page 6. So that was a correction.

Q.277 - Okay. Just so that I'm clear then, the use of number of customers as an allocation factor underlying the numbers in schedule 48, page 2 original --

MS. DUGUAY: Yes.

Q.278 - -- was a programming error?

MS. DUGUAY: Yes. It was a programming error.

Q.279 - And you are telling the Board, and you are telling me, that this wasn't a decision of management. There wasn't a decision of management to change the allocation factor as a result of reaction to this table?

MS. DUGUAY: That's correct. And if you look -- just to substantiate that, if you look in the original schedule 48, if I can ask you to turn to --

Q.280 - The original 48?

MS. DUGUAY: Yes. And it's the same in the corrected schedule 48. I would like you to turn to page 8 of 10.

Q.281 - Thank you.

MS. DUGUAY: So I'm at the last column of page 8 where it is --

Q.282 - "Allocation factor"?

MS. DUGUAY: Correct. And you see that there are some numbers in that column referring to the allocation factor sheet. If I can ask you to turn to page 10 of schedule 48?

Q.283 - Yes.

MS. DUGUAY: You see that this is a sheet depicting the allocation factors in relative terms, therefore the allocation percentages. And if I may direct you to the first column which is the item number.

Q.284 - "Factor total"?

MS. DUGUAY: Yes. And you see number 4, the last line on that exhibit --

Q.285 - "Rate base 1,000"?

MS. DUGUAY: -- it says rate base. So going back --

Q.286 - And you said that was the correct allocation?

MS. DUGUAY: That was the intent. But as a matter of fact the program didn't do that. But the intent was that those deficiency deferral accounts would be allocated pro rata to the allocated rate base.

MR. BLUE: Thank you very much, Ms. Duguay. Thank you very much, Mr. Chairman. Those are my questions.

CHAIRMAN: Mr. Holbrook?

CROSS-EXAMINATION BY MR. HOLBROOK:

MR. HOLBROOK: Dennis Holbrook representing Marico. Good afternoon, Mr. Chairman, members of the Board. Good afternoon, panel of witnesses. There is definitely an advantage following Mr. Stewart. A lot of questions you won't get asked. But I will try and be brief and to the point.

Sort of as an initial observation, I know it is often stated that the process of legislation is somewhat like sausage-making, that the end product seems to work but you wouldn't want to necessarily see how it was put together.

I don't know whether there are any analogies here to the rate-making process. But for a few more moments at

least I would like to maybe go through the process of seeing how some of this was put together.

The panel is welcome to make any initial observations as to whether that analogy is at all appropriate here.

Q.287 - I assume that what the panel would suggest is that the rate-making process has some logical thought process that involves estimate of cost allocated per customer class, an assumption related to the number of units that that customer class is ultimately going to utilize, and then assign the recovery of the necessary revenues based upon those assumptions.

Is that a fair general review of the rate-making process? Again anyone on the panel is free to comment.

MR. MACLURE: I think that's the view of the traditional rate-making process. In this particular instance, our rate-making process has been designed around setting rates that are market-based rates and therefore are, I guess one might say, disconnected from the cost of service.

Q.288 - All right. Fair enough. The statement, as I understand it, is that while traditional rate-making would involve just what I briefly characterized, the distinction here is that you are attempting to target market conditions in a greenfield situation. Is that your statement?

MS. DUGUAY: Yes. I believe that that is correct. However,

just to touch on your previous question, I would like to say that the framework for the rate-making process in the case of Enbridge Gas New Brunswick was predicated upon using a market-based revenue at the outset, to finally come up with an appropriate or a reasonable rate design at the rate class level.

And that rate design is pinned to certain assumptions that are set forth in the budget in terms for example of the customer addition or the number of customers that the company will attach in the test year, the volumes projected to be consumed by those customers and so on.

So it's kind of a combination of a traditional rate-making process combined with the utilization of market-based revenues rather than typically-caused base rates.

Q.289 - Am I correct in assuming that what you are asking of this Board though is to approve your actual projection of costs and to be allowed the recovery of those costs whether it takes the form of the target rates or whether they are deferred to a later period?

MR. MACLURE: That isn't what we are requesting at this point in time. What we are requesting of the Board is to approve the concept of the target rates as being a market-based rate.

We are requesting the Board, as Mr. Marois pointed out yesterday or the day before, that we are requesting

flexibility in terms of being able to adjust those prices as market conditions change within the next -- within our fiscal year, before we come back and reset target rates.

And that we will report back to the Board on an annual basis with respect to our actual cost of service and our actual revenues in a going-forward basis. But we are not asking the Board at this stage to approve our cost of service.

Q.290 - All right. Help me then. You are going to report back to the Board. But you are going to -- your projection of costs and the means by which you are projecting to recover them have a shortfall?

MR. MACLURE: Yes.

Q.291 - And that is your deferral accounts?

MR. MACLURE: Yes.

Q.292 - So in essence what you are asking the Board, as I understand it, is to approve the costs that you project to accept the methodology that you are proposing which is to use a targeting mechanism right now to go out and secure a market.

But as a practical matter the Board is approving both the target rate as well as the projected cost because -- as I understand it, correct me if I'm wrong, you are asking them to accept your deferral methodology at the same time?

MR. MACLURE: Well, I guess what that suggests -- well, let me answer. The quick answer is I don't really believe that's what we are requesting.

That implies a connection, to my way of thinking, between the costs and the rates. And there is no connection between the cost and the rates.

If our costs were -- if we updated our costs today to a different level, we would not be asking for any different rate.

So what would end up happening is at the end of the year we would have an expected difference in the deferral account that we would believe that we would have to justify at the end of the year. But we wouldn't be asking for any different rate.

So irrespective of what our costs of doing business over the next year are, we will in fact not be asking for a different rate subject to the one caveat that we were looking at before the start of our fiscal year, this one-time adjustment to reflect actual market conditions.

Q.293 - Maybe it would be easier if we just went to A-12, if you have it handy?

MR. MACLURE: 12?

Q.294 - A-12, which was the graph that you provided the other day through another panel. Just to sort of keep the process simple since there are no numbers on this chart in

terms of either revenue dollars or in terms of number of years, I know you the other day made some general observations about the graph and perhaps it would be helpful just to summarize.

As I understand right now, the projected deficiency period is eight years, developmental period is the term I believe you are using.

MR. MACLURE: Generally it is our expectation it would last approximately eight years.

Q.295 - Right. And that is subject to adjustment up or down, depending on actual experience.

MR. MACLURE: It's subject to what happens in the market place, yes.

Q.296 - Okay. And I think I asked the question the other day and I didn't quite get an answer, maybe there isn't an answer you can provide right now. But if you didn't have the ability to do the deferral account you would have to come in with some projection of cost today for a period of time in terms of anticipated cost, the anticipated throughput and therefore the unit charge that you would have to recover based upon that projected throughput to arrive at your cost recovery.

MR. MACLURE: If we were -- if we were imposed a traditional rate making approach we would, for example, for the overall cost of service, be trying to set rates that would

recover 10.4 or -- roughly $10.5 million.

Q.297 - Okay. Now in my simple way of viewing this, and I am not an accountant, so again I may be missing something in where these are being placed. But my assumption is that all that is going on here with the deferral methodology is you are taking a pool of dollars that you would otherwise have to be attempting to be recovering right now, and putting that pool of dollars off to a later period when you are in a better position to recover it, is that --

MR. MACLURE: That's a simplistic way of looking at it. I think the other thing that it recognizes is that even with the 10.4 -- the 10.5 million dollar cost of service in a greenfield environment the ability to accurately predict what the cost of service for the first year of this particular greenfield situation is, is very, very difficult to do. And I would not put a great deal of accuracy in terms of that particular -- that particular figure. Simply because it's very difficult to predict what that cost of service is going to be. There are so many variables.

Q.298 - I am sorry?

MR. MACLURE: There are so many variables that go into it that are -- that to some extent are unknowns at this point in time.

Q.299 - Okay. And the factors that would improve that

predictability over time would be your actual experience I assume in both putting pipe in the ground, operating and getting a better assessment over time of what your market is going to be?

MR. MACLURE: Yes. Over time one would expect that that predictability improves. And which is what the definition as Mr. Marois pointed out was how you move forward towards a mature -- what you would consider to be a mature distribution utility is some level of predictability as you move forward into the future, which is after the development period.

Q.300 - Now I believe it was Mr. Marois that made the observation the other day -- I believe you were on the same panel -- to a question that was posed to about certain cost projections, somewhat along the lines of what I am doing now.

And the answer given as I heard it, and I am paraphrasing, was to the effect that the immediate cost projections aren't all that significant because we have target rates and target rates are designed to reflect market competition. Do you recall that discourse?

MR. MACLURE: Yes. I don't specifically recall it. I think though that -- I mean in reality, I think I have had other discussions with Mr. Marois that have suggested that yes, to the extent that we are asking for market based rates,

the cost of service and what the actual costs are have limited input as I said. Limited input into the actual market base rates that we are asking for, which is what I said earlier, if the cost of service doesn't -- isn't going to change the rates that we ask for.

Q.301 - The only significance, correct me if I am wrong, would be that you are collecting deferral dollars for a later recovery period. So it isn't as if the dollars aren't being incurred and identified and collected over time, it's simply that you are saying that the customer today does not see that deferral because it's basically being postponed for a future period?

MR. MACLURE: Yes, just as those costs that we are incurring in the first year are costs that are going to be incurred to serve customers in later years. We are incurring an awful lot of costs. Like any huge capital project, you are incurring an awful lot of costs in order to be able to serve customers in the future. So they are not costs that are just being incurred to serve this year's customers.

Q.302 - Right. And as I understand the assurances that you are providing in terms of don't worry about that other item there because eventually it will be taken care of by market conditions, is that based upon this graph as I look at it, the green line as I understand is the reference to the projected cost of service over time, the hatched area

in between that and the red is the deferral account, and the red line becomes that -- the combination of the green and that hatched, which is your recovery over time of both your cost of service and the short-fall, the deferred funds during the earlier time period. Is that correct?

MR. MACLURE: That was a long question and --

Q.303 - I am sorry.

MR. MACLURE: -- and I kind of got lost in the middle of it.

Q.304 - If you add the hatched in with the green line, does that basically get you to the red -- solid red line?

MR. MACLURE: Yes. I mean if you are -- that's really you are looking at the cost of service and the solid red line is the -- is the cost of service including the recovery of the deferral.

Q.305 - And this -- thank you -- and this all works to the extent that that dotted red line continues in the direction that it's projected to go. Is that correct?

MR. MACLURE: Yes.

Q.306 - And what makes up -- you may have answered this, I may not have caught it -- but what makes up the dotted red line?

MR. HARRINGTON: That's the line -- that's the line that would represent --

Q.307 - It's a tag team.

MR. HARRINGTON: That's the line that would represent the

rates that Enbridge Gas New Brunswick would be charging based on competitive energy prices. The market based rates.

Q.308 - I know I have looked at this a number of times and I guess I will focus on it again. So the dotted red line is your estimate of revenues that would be associated with both -- both anticipated throughput and the price the market would bear, would allow basically, for you to collect the amounts over and above your cost of service to collect the under recovery during the earlier time periods?

MR. HARRINGTON: Now I am a little confused about your questions.

Q.309 - Okay. Your market based revenue, your projection of revenue, is based upon what you anticipate both in terms of the number of customers and therefore throughput, and the unit price that you will be able to collect from each customer.

MR. HARRINGTON: If we were still charging market based rates at that point in time, that would be correct.

Q.310 - Okay.

MR. HARRINGTON: But we are not. When the line goes into the dashed area we are not charging rates based on competitive energy prices.

Q.311 - That's where the competitive energy prices would be,

based on your projection?

MR. HARRINGTON: That's correct.

Q.312 - Okay. Your ability to recover what the red line -- solid red line indicates is contingent upon the dotted red line being reflected -- a fair reflection of the future. Maybe not exactly the way it lies, but you have to have the ability to have a cost of service that is below market in order to recover your deferral accounts in the future?

MR. HARRINGTON: If you don't mind, I might just try and restate the question.

Q.313 - Go ahead.

MR. HARRINGTON: I think you are saying -- or I think you are asking, is this based on Enbridge Gas New Brunswick's forecast of forward energy pricing, and is that where we think that dashed line would be. And the answer to that question is yes.

Q.314 - Okay. You phrased it much better than I did, but I kind of expected that. I guess the question comes in from the perspective of someone -- and the other panel heard this as well -- who looks at it similar to how you look at it in terms of making a major capital investment. Predictability is a critical factor.

So I guess the question comes in, what can go wrong with these projections? What causes the assumptions that are based -- that are built into this to have to be

readjusted in the future?

I assume that the immediate question would be, what happens to the dotted line if your projections of market are wrong and therefore, there is less room for you to recover? What does that do? Does that cause your service to be out of whack with the market, or do you simply extend out further the deferral period for your recovery?

MR. HARRINGTON: Just one second. So just a -- I think what you are asking is if that dotted line were to drop, is that the --

Q.315 - Yes.

MR. HARRINGTON: -- what would be the reaction of Enbridge Gas New Brunswick or what would be the situation? And I think the answer to that question I think two things would happen.

One, Enbridge Gas New Brunswick would look most likely to extend the deferral -- or sorry -- the development period for some amount of time. But for that situation to arise there would have to be a dramatic long term change to the price relationship between fuel oil and -- or sorry -- oil and natural gas.

So we wouldn't expect that line to drop and stay down. We would expect there may be a year or some period where that would take place, but we wouldn't expect that long term price relationship to change.

Q.316 - Okay. And as I understand it and I think this is helpful, what you are pointing out is it's not only prior to the end of the development period, but even within the development period as you have initially projected it, those ratios -- those relationships could change to the extent that it would push out the developmental period, if I understood your answer.

MR. HARRINGTON: Yes.

Q.317 - Okay. Exhibit B, page 9, there is some discussion over there in reference -- actually it starts on page 8 of exhibit B -- to -- I characterize it as discount rates for off peak service. Just out of curiosity, what's the -- I understand the rationale in general for off peak type of discounts. Does that apply in an instance where presumably you are going to have more capacity initially than the market would bear and therefore, under that scenario is there really any savings to you early on with off peak use of the system?

MS. DUGUAY: Not quite. Basically the off peak rate is set to recognize that customers that would take service -- to these rate classes typically display an inverted low profile, meaning that their peak typically occurs during the summer. And these customers take gas during the shoulder and the summer months rather than if you look at customers that would take service to the small general

service rate class, or the general rate service class, those are typically heat sensitive customers, where their peak would occur during the winter time. So the discount or the proposed -- I assume that when you talk about the discount you are talking about the 25 percent. Is that correct?

Q.318 - Correct.

MS. DUGUAY: Yes. It is there to recognize the fact that those customers, given the applicability criteria of that rate, are not -- they are not supposed to, anyway -- to consume volumes during the winter months.

So therefore one could not, in my view anyway, substantiate the fact that those customers would pay the same rate as a general service customer where the company would have built in in the design of its distribution system the fact that their peak day would be during the winter months.

So therefore, we need on one hand to recognize that those customer rate classes do not contribute to the design of the system on the coincident peak, but on the other hand those customers will use the distribution system at some other point in time, and therefore they should pay to utilize the distribution system. I don't know if I have made myself clear.

Q.319 - No, I understood your point. I will get back to the

question though, is not from a design standpoint how it could be argued to provide a discount, but rather as a practical matter in the situation where in the early years of your facilities I am assuming that you are not going to be concerned about who is on during the winter time because you are probably not going to be at full capacity?

MS. DUGUAY: Correct.

Q.320 - So as a practical matter, while I appreciate what you are saying from a rate design standpoint, the reality is you could have these customers on in the wintertime in the early years and it probably wouldn't matter because you are not going to be fully utilizing your pipe in any event?

MS. DUGUAY: Correct. And I think there was an interrogatory to that effect where basically you are quite right, that those customers could consume gas during the winter months given the lumpiness of the distribution system in Enbridge Gas New Brunswick and typically for any other LDC's.

Q.321 - Okay. And it was discussed earlier too I think further down on page 11, you get into the 110 percent of the replacement costs for supplier of last resort services?

MS. DUGUAY: Yes.

Q.322 - Am I correct in assuming that -- again I think there

was already plenty of discussion along these lines, but what I heard, correct me if I am wrong, was that Enbridge pointed out that there are services that they are providing that they are simply attempting to reflect the appropriate cost, and the supplier of last resort, that is an incremental service, so you have added another 10 percent on top of the commodity cost of whatever it will cost to bring that particular supply to market on a day in which it's needed.

MS. DUGUAY: Yes. Whether those costs would be purely incremental, I wouldn't think so. I think it would be a combination of incremental costs plus an apportionment of fixed costs.

Q.323 - So we have an example on one hand where there is a surcharge of sorts for an additional load on the system, the 10 percent surcharge. In another instance, the one on page 9 that we referred to, you have reflected discounts to reflect perceived advantages that the off peak service would provide to the system. Is that correct?

MR. MACLURE: I have a problem with saying that the discount on the off peak rates is something that is -- that the -- an advantage that the off peak customers bring to the system. I think what we are -- what Ms. Duguay has been trying to reflect is the fact that distribution systems are designed to meet capacity. The capacity is the amount

of gas that you have to supply on any particular day. An off peak customer does not use capacity on peak days.

So what they are really in effect -- so what you could argue that is happening is that customers who use the capacity on the peak day theoretically have paid for it and they have a right to that capacity. Now when you fill in the valid gas at the summer load what you are doing is -- what you are really trying to do is say, well we are going to get some revenue from those customers to help offset those customers who are paying for that capacity on the whole system as a whole. And that's how you are -- and that's what you are really trying to do.

So I am just a little bit uncomfortable characterizing it as a discount that is being provided to those particular customers to benefit the system.

Q.324 - That's fine. I don't think it matters whether we refer to it as a discount or a design -- rate design that accomplishes the same purpose. I mean I am comfortable with really either of those characterizations. What it leads to though is an observation that you do have the ability, do you not, to take into consideration the advantages of different classes of service to customers and unique circumstances that may give rise to justification either for surcharges or for discounting?

MS. DUGUAY: I would agree with that.

Q.325 - Okay. Thank you. That leads me to the question that is near and dear to my heart which is, have you given -- I believe -- I will even help out here -- I believe the question was posed earlier to your President. That from a producer perspective had Enbridge had the opportunity to give thought to an incentive type of rate treatment for indigenous production, and I believe, just to help you out if you didn't catch it -- I believe the answer was to the effect that until recently that request had not been made, so that had not been contemplated at least in this proceeding.

MR. MACLURE: I recollect that.

Q.326 - Okay. My question to this illustrious group of rate exerts is, if you -- could you conceive of the concept of an incentive rate for indigenous gas and are you aware of where those types of opportunities have been utilized in other jurisdictions?

MR. MACLURE: I have difficulty grasping the concept of a rate for indigenous gas simply because the rates that we are designing are rates for delivery of supply to end use customers. And the sources of -- the source of that supply has -- simply has nothing to do with what the rate the customer should ultimately should be paying and what use that customer -- that end use customer makes of the distribution system.

To facilitate access to the distribution system of an indigenous supply and to allow an indigenous supplier to transport gas across our distribution system, or some other kind of arrangement, would be something that I -- as I understand some of the negotiations that are going on between ourselves -- may entail some of those kinds of thought processes.

But to specifically come along and say to an end use customer that because you are getting an indigenous supply you should have an economic advantage on the distribution system of the LDC is to my view not appropriate.

Q.327 - Let me -- let me pose it to you this way. If you have to build incremental facilities to Maritimes Northeast or you have to pay some type of incremental service charge for transportation on Maritimes Northeast to bring non-indigenous gas to the system and indigenous gas avoids that cost incurrence for you to provide your transportation service?

MR. MACLURE: But we are not providing a transportation service, we are providing a distribution service, so we don't have those costs.

Q.328 - All right. Call it a distribution service.

MR. MACLURE: But there won't be costs. The difficulty I have is that in terms of what we are -- in terms of what we are looking at on the distribution system, that we are

building the distribution system to supply gas that is delivered off of Maritimes and Northeast, or potentially delivered from an indigenous supply.

Q.329 - Okay. But I --

MR. MACLURE: Now --

Q.330 - Go ahead, I am sorry. Finish.

MR. MACLURE: I just -- I can't grasp where there would be changes, I mean to the extent where there would be differences.

Q.331 - Well the example I am trying to address with you is if Maritimes Northeast assesses a charge to Enbridge to secure firm transportation, and at least as far as I understood, this was part of the Q&A the other day on the earlier panel, that Enbridge would anticipate proposing to roll that into their rates, then that's a cost that is incurred to bring Sable Island gas to your customers in New Brunswick. It's a cost that you are reflecting in your rates that an indigenous producer would not cause you to incur?

MR. HARRINGTON: If I might, Mr. Holbrook, we have been designing our distribution system with the assumption that Maritimes and Northeast would be the primary source of supply for gas that marketers would bring into our distribution system, coming from Sable and using the transmission system that they have set up.

As you know, we are in ongoing discussions. And could we assess benefits directly related to distribution associated with potential indigenous gas that would end up reducing costs to consumers, I think you know that we would be interested in pursuing those opportunities.

Q.332 - Okay.

MR. HARRINGTON: Unfortunately I think you know to date we haven't been able to do that. So we continue in those negotiations. However, at this point in time, we don't see any way to avoid any potential costs for Maritimes and Northeast in terms of gaining access to their system and no way to gauge at this point in time how we might be able to reduce our commitment to Maritimes and Northeast to ensure that customers will have access to gas in a timely fashion.

Q.333 - And you are correct that we have had discussions. And we hope to continue to have discussions in that regard. Obviously the benefit to the system ultimately would be a factor of what is the system ultimately called upon to provide.

If you are called upon to provide storage or load balancing type services then obviously there are, in our view at least, inherent benefits of having a security of supply close at hand that might be able to provide some of those services.

The other aspect I guess of this too is that if the producer has the ability to, as an alternative, once you do your best job of putting your best foot forward in terms of rates, to propose an alternative, from the producer's perspective they are going to look not only at the target rates, but if they have to make a long-term decision they are going to look at what they anticipate to be your total cost of service over a period of time, so probably both pre and post development period.

I just throw out to you as for your consideration that there is another form of rationale there of a benefit to the system to the extent that you have the opportunity to have some revenue associated with through-put that might otherwise be lost.

MR. MACLURE: I guess that I wasn't sure. Is that a question? Is there --

Q.334 - You were looking -- and that was a prompt. I can put it in the form of a question.

But it was in response to your inquiry as to looking for rationales to consider making rate design initiatives to reflect indigenous gas and how it presents some justification to you in terms of how you evaluate your system.

MR. MACLURE: Well, I think Mr. Harrington frankly already answered that. To the extent that there are ongoing

discussions between ourselves and to the extent that we can identify specific costs that could in some way, shape or form benefit the system, we will continue to have those discussions. That's all really I can say on that point.

Q.335 - Okay. On the supply of last resort, as I understand it, at this point in time it is your position that there is simply not enough through-put anticipated on the system to justify contracting-out with a supplier to be on call.

So you are primarily focusing on the spot market to meet that obligation, is that correct?

MR. MACLURE: That's our current thinking, yes.

Q.336 - But I assume, am I not correct, that you are open to the concept of some type of default pool or some other methodology that might better take advantage of the skill sets that would be out there from the supplier's standpoint since your focus, as I understand it, is primarily to be the distributor?

MR. MACLURE: I think we are willing to entertain those sorts of discussions. I guess at -- as I tried to explain earlier, putting into place some -- putting into place some form of contractual arrangement or contractual commitment that you do not expect to use is -- may in fact not be the best approach to take.

But we are certainly willing to continue to have those

discussions and would ultimately make a business decision as to which is an appropriate way of going.

Our current thinking is that we would be able to buy on the spot market for the limited amount of supply of last resort that we perceive that we need.

Q.337 - Okay. And one last question. Back to my favorite topic. If we were -- if Enbridge were satisfied, for any number of reasons, that there was support, a rational support for an incentive rate, whatever term you want to use it, what would be the practical implications, logistics of how that would ultimately be put into place, from your perspective?

MR. HARRINGTON: I don't think we have the answer to that particular question.

Q.338 - Do you envision it could be done outside of a rate case setting? Would you have that ability within your --

MR. MACLURE: I don't believe so, no.

MR. HARRINGTON: Just if I might follow up a bit there, I think, you know, if there can be a rational cost-based reason for establishing some kind of an incentive rate for locally-produced gas, I think that that rate would definitely require the Public Utilities Board approval.

MR. HOLBROOK: Okay. That is the extent of my questions today. Thank you.

MR. O'CONNELL: Mr. O'Connell? Did I hit Mr. Zed before? I

think I did before the break. Yes, I thought I had.

CROSS-EXAMINATION BY MR. O'CONNELL:

Q.339 - Good afternoon. I would like to take a few minutes and try to take some of your concepts and turn them into hard numbers. I will get my calculator. Oh, a calculator here. We are set.

And to do that, price flexibility -- and although price flexibility is a key part of your application, we haven't talked about it very much.

And am I correct, when I say that price flexibility helps you deal with revenue uncertainties as opposed to expense uncertainties?

MS. DUGUAY: You are alluding to rider A, is that correct, when you talk about the price flexibility?

Q.340 - No. Well, I'm talking about a couple of different things. Price flexibility obviously was discussed in terms of your one-time price adjustment up or down that will take place between now and October. And then you also talked about price flexibility in terms of those riders that can be used to change the target rate.

And I looked at that. And I said to myself that is -- Enbridge Gas New Brunswick probably has an extremely good handle on what it is going to cost you to build your distribution system in the city of Saint John. That probably is a fairly hard number for you people, correct?

MR. HARRINGTON: I would say that we have estimates that we believe in.

Q.341 - Yes.

MR. HARRINGTON: Yes.

Q.342 - Well, yes. You have gone and you have checked. And you know the city of Saint John is built to a large extent on rock and that you have gone along the route as it runs along Chesley Drive or wherever else. And you know what is in the ground there and what you are going to have to go through and how expensive it costs you to put in a yard or a mile or some unit of your facility underground, correct?

MR. HARRINGTON: That's correct.

Q.343 - And you know what it costs to get to the Irving Pulp and Paper Mill and the Reversing Falls and the Saint John Regional Hospital and the University of New Brunswick and all those institutional commercial places you plan to go?

MR. HARRINGTON: That's correct.

Q.344 - Okay. So what you don't know is the revenue that you will get from your distribution -- I mean, you have an estimate. And I recognize that. But what you -- what probably is the softer number for Enbridge is the number for the revenues that you will accrue from the city of Saint John distribution system in fiscal year 2001 and onward?

MR. HARRINGTON: That's correct.

Q.345 - So what price flexibility is there to deal with is what you can't -- what you may not accurately forecast with respect to revenues?

MR. HARRINGTON: That's correct. It allows us to be competitive --

Q.346 - Yes.

MR. HARRINGTON: -- and attach customers.

Q.347 - Yes. Price flexibility is for Enbridge a function of revenues, not a function of expenses, correct?

MR. HARRINGTON: That's correct.

Q.348 - Okay. Now as I understand it -- and somebody asked this question, probably Mr. Stewart earlier today, talking about one of the prime factors to a New Brunswick person is the actual price and what he saves based on his energy supply today. And some -- one of you four talked about the 30 percent less than home heating fuel price --

MR. HARRINGTON: Correct.

Q.349 - -- correct? What I didn't hear you get asked is how much you plan to undercut or be below the -- and this is a fellow with electro heat in his house -- how much you plan to be below the price of electrical heat or electrical service to a house?

MR. HARRINGTON: Are you asking for that particular --

Q.350 - Number?

MR. HARRINGTON: -- number? One of the reasons that we don't -- that we don't talk about that is because -- or we don't talk about it firmly is because we are not trying to base ourselves off the cost of oil. We are basing ourselves off the cost of petroleum products. So as petroleum products fluctuate we will be sometimes better or sometimes worse than the cost of electricity. But in general would you like me to --

Q.351 - Yes, please.

MR. HARRINGTON: Certainly. Talking about --

Q.352 - I mean, you have got to understand I have got to come here --

MR. HARRINGTON: Oh, no.

Q.353 - -- and ask some questions that involve me personally. The next one I'm going to ask is when you are coming by my street?

MR. HARRINGTON: It's a good story to tell, this one. So I don't mind telling it. It's just that it is variable. And I just wanted to point that out.

Residential customers who are currently using electricity and choose to replace their electric water heater and their electric baseboards with a forced air system will likely be looking at saving somewhere between 40 and 50 percent on an annual basis.

Q.354 - 40 and 50?

MR. HARRINGTON: Between 40 and 50 percent. And sometimes it's --

Q.355 - Marvellous. Now as I understand it, Enbridge is not prepared to commit to those type of numbers. You say you are going to try to achieve them, but it's not a situation where you are prepared to make a commitment to the Board that you will be under home heating fuel and electrical prices to that extent?

MR. HARRINGTON: No. And for two reasons, I think. One is that both natural gas in terms of the upstream costs and oil are particularly volatile products. And for short-term blips we don't except to try and adjust our revenue or our rate as it -- as it is try and match those blips. Really, we think the important indicator is whether customers continue to convert to our system. And we are going to let that guide us as to whether we need to adjust our rates during a given fiscal period

Q.356 - Look -- and that gives rise to something else that has sort of puzzled me. People from Enbridge have said on several occasions that the rates don't respond to short-term blips. And I guess what I need to ask you is to define short-term.

Well, look, let me be fair to you. Let me drop the other shoe before you answer the question. And of course the other shoe is, isn't it true that you -- that Enbridge

asking for a rate increase -- or I'm sorry, a rate increase or a decrease.

MR. HARRINGTON: A decrease.

Q.357 - Okay. Sorry about that. Between now and October to me I said, well, there is a response to a short-term blip. The reason Enbridge is asking for that rate change between now and October, is so it can respond to the volatility of the cost of petroleum products in today marketplace, a.k.a. a short-term blip.

MS. DUGUAY: No, I don't think that's right.

MR. THOMPSON: Sorry about that, Mr. Chairman.

MS. DUGUAY: I think that's the update, that the company is proposing to do in the fall is to reflect the fact that the numbers underpinning the rates application date back to approximately March of 1999. So we would like to get as close as we can to the energy prices in the marketplace such that the target rates will be as reflective as they can be to the condition that will prevail at that time.

Q.358 - So what you are saying is that instead of updating your numbers after March 1999, you filed all your evidence in January or February 2000 without updating the materials so the Board could have up to date numbers before them, and then say, by the way, we want to change these numbers come October. Don't you think the better course of action would have been to come here with updated numbers? I mean

those numbers are 13 months old now.

MR. HARRINGTON: I think the -- I think the answer to your question, if I remember back to it, is, yes, we didn't choose to update the numbers. And if I might explain some of the rationale behind that.

One is that we have been in a very dramatic and volatile period in terms of world and domestic energy pricing. And to try and update -- everybody knows what is happening with crude oil, for instance. And we expect some of that to stabilize shortly. We hope it does.

The second point is that some of the fundamentals, some of the underpinning numbers such as the Maritimes and Northeast tolls have been -- will be determined shortly, we hope, and in time for this update. And so we thought in our judgment that it would be most appropriate to update that at some future point, seeing as it's likely to change dramatically from here as well.

Q.359 - I guess what you are saying still to me reeks of the fact that this one time correction, up or down, between now and October -- in the next 150 odd days, still seems to me like it is a correction based on a short-term blip in prices. And that what you are doing -- I mean, you used the term volatility in the market yourself. Of course the market is volatile. Prices are going up and down like crazy. And what Enbridge wants to do is to

respond to that short-term blip.

Because if it was anything else, if it was a desire to update 13 month old figures -- I mean put yourself in the Board's shoes. They are sitting here being asked to approve a rate methodology that includes some sort of a nebulous adjustment between now and October, when you had the perfect capability of updating your numbers before you filed them. And bringing them here with up to date materials rather than 13 month old materials.

MR. THOMPSON: But they are being asked -- the Board is being asked here to approve the methodology -- the rate methodology. To an earlier question we responded to the fact that we are going to be in the market with the same percentage saving which is the basis of our customer attachment plan. So they are being asked to approve the rate methodology. Those numbers as Mr. Harrington has alluded to, have been in a period where we have had a dramatic swing, particularly in oil prices. And I wouldn't call that a short-term blip. I think that has been happening over the last 18 months. Certainly since late 1998.

And now we seem to see them being stabilized and we can certainly respond to the Board with updated numbers with the same rationale that we had when we started the proposal, the savings and the design of the rate.

Q.360 - Look -- and I just realized I dropped the second shoe and never got back to the first shoe. And, of course, the first shoe is how do you define short-term?

MR. MACLURE: On a going forward basis I think the manner in which we would look and define short-term is you have to remember that the rate flexibility that we are asking for is a downward movement. So what we are really saying is in terms of the analysis of the market, if we think that the reduction in fuel oil prices is going down and will be sustained for the balance of, you know, the next three months, the next -- the rest of the period. The rest of that fiscal year, we will ask -- we will reduce rates using the rate rider and using the flexibility that we are requesting.

Once we do that, we are not asking for the ability to increase rates thereafter. So we are basically locked into that price for the balance of the term. So we want to ensure that what we aren't doing is looking at something that is going to be a two week price blip, and then come back up two weeks later or a month later. We want to believe that what we have got and what we are seeing is a sustained price reaction.

Q.361 - Okay. Short term, a month?

MR. MACLURE: The difficulty I have with admitting to a month, Mr. O'Connell, is that if we think that prices are

coming down for a month, and then will go up the following month, then it doesn't make sense for the company to lower rates that are going to continue for another nine months and stay, you know.

Q.362 - Short-term --

A. So short-term blip, I would say that we are looking probably at almost like a three or four month forecast os sustained prices. And then still have comfort even after that kind of a period that they will be sustained and we are not going to look and say, oh, you know what, we think they are going to double four months from now.

Q.363 - Okay. Short term for the purposes of our discussion, do you feel comfortable with four months or less?

A. I would prefer it if I hadn't used the word short-term and had used the -- used the terminology sustained. That we believe that what we would be looking at and trying to look at is saying if we believe that there is going to be a sustained reduction in competitor pricing that we would have the ability to respond.

And in the event that it is not sustained, then that becomes -- we believe it is going to be and in the event that it turns out that it isn't, that is something that we have to live with.

Q.364 - Look, I was -- and I promise I won't raise short-term or sustained again, so I will move on.

I was quite intrigued by Mr. Stewart's use of the pie. It was an excellent analogy, it was most informative for me.

I would like to go back to exhibit E, schedule 47 which is at Distribution Target Prices, document -- page 2 of 3 that got changed yesterday?

MR. MACLURE: Yes.

Q.365 - And just so you know what I want to try to do here, I want to try to compare the prices, the new prices that you used on that document. And I'm not even sure that we can accomplish this with hard numbers.

But I want to try to compare it to home heating fuel prices and see what we are actually talking about here in terms of a cost saving, okay.

Now let's start with the burner tip market price. Now I know I should know this, but I don't.

CHAIRMAN: Mr. O'Connell, what are you referring to again?

MR. O'CONNELL: It is exhibit E, schedule 47, page 2 of 3. It is a document headed Distribution Target Prices, Mr. Chairman.

CHAIRMAN: E. 40' what?

MR. O'CONNELL: It is a response to a Board interrogatory.

CHAIRMAN: Yes.

MR. O'CONNELL: It is exhibit E, schedule 47.

CHAIRMAN: Page 2 of 3?

MR. O'CONNELL: Page 2 of 3.

CHAIRMAN: Right.

Q.366 - Now that is burner tip market price. Is that the price that is charged by the marketer to the homeowner?

MR. HARRINGTON: That is the price that the homeowner will see, the $9.08.

MR. MACLURE: Mr. Harrington's hesitation is that it's charged in two components. There is a charge from the LDC to the homeowner. And there is a charge from the marketer to the homeowner. So it's comprised of those -- the sum of those two.

Q.367 - Well -- and I guess that price is the total of several things, as I understand it?

MR. HARRINGTON: Yes.

Q.368 - In that $9.08 per GJ there is the commodity price of $2.06?

MR. MACLURE: Yes.

Q.369 - Bear with me here. Stay with me. I will get through this. There is the Maritimes and Northeast transportation rate of 65 cents, am I correct?

MR. HARRINGTON: That's correct.

Q.370 - There is the marketers' margin which, as Mr. Stewart pointed out, is dwindling away in one hell of a hurry, of $1.06?

MR. HARRINGTON: Correct.

Q.371 - Okay. And the delivery market-based rate, that is you?

MR. HARRINGTON: That's us.

Q.372 - That is Enbridge. And those all make up the $9.08?

MR. HARRINGTON: Correct.

Q.373 - Okay. So what changed in all of this of significance was your charge went from -- or the Enbridge charge went from $1.60 per gigajoule to $5.30, correct?

MR. HARRINGTON: That's correct.

Q.374 - Now can you tell me how that change was calculated? What changed?

MR. HARRINGTON: Certainly. In the original proposal that was made to the Province, Enbridge Gas New Brunswick assumed and still expects there to be a competitive response from fuel oil retailers.

That competitive reaction, we concluded, would take place in the SGS classification which is -- just to be clear, we refer to it as the residential rate.

But it also is applicable to small mom and pop type, commercial type operations, corner stores and that sort of -- and the reason that we assume that it took place in that particular category was that in general that particular category is relatively unsophisticated in terms of their energy purchasing, whereas bigger customers know what they should be paying for energy. And they are out

there in the marketplace. And they are finding out the best deals that are there for them.

Smaller customers generally aren't as sophisticated in making those purchases. And there is the opportunity, as we estimated, for that competitive reaction to take place.

What this change really demonstrates is the ability to flex, as we are proposing. And so if the price of oil dropped, as we had assumed it would in our proposal, to something just above $5.37, we would be able to flex our rate down to come in 30 percent below the cost of home heating oil.

And we would only be receiving $1.60 per GJ as opposed to the 5.30 per GJ as we could expect to receive if there was no competitive reaction to the introduction of natural gas.

Q.375 - All right. So what you are -- sorry.

MR. HARRINGTON: I just -- my colleague there pointed out that I might give you a little bit more information to try and bring that message home. And that would be -- and I'm trying to recall numbers off the top of my head.

Q.376 - Well, look, if you need to refer to something, if there is something behind you that will help you, take your time. I'm in no rush.

MR. HARRINGTON: I'm just going to be illustrative. So I just wanted --

Q.377 - Okay.

MR. HARRINGTON: If somebody wants exact numbers I can get them. But this would help, I think.

Q.378 - I prefer exact numbers --

MR. HARRINGTON: Okay.

Q.379 - -- because I have got some more questions on these numbers as well.

MR. HARRINGTON: Certainly.

CHAIRMAN: We are going to take a five-minute break so that the panel can find all of your numbers, Mr. O'Connell.

MR. O'CONNELL: Okay.

(Recess))

CHAIRMAN: The Board is prepared to go to 5:30 tonight, no problem. Now that is not full licence, Mr. O'Connell. There is redirect that has to go in there. Go ahead, Mr. O'Connell.

Q.380 - And you were getting some numbers for me?

MR. HARRINGTON: I have got those numbers now. I just want to conceptually take the Board through it, just in case somebody was missing something.

That $9.08 that is shown in exhibit E, schedule 47 that we have been talking about takes into account the discount from the residential fuel oil. So that is the number after deducting discount from residential fuel oil.

Now to get to some numbers. If we could go to exhibit

D, volume 3.

Q.381 - Go ahead.

MR. HARRINGTON: And if you could go to the first table within -- under the tab schedule 2. It should be entitled Projected New Brunswick End Use Energy Price By Customer Class And Fuel Source.

And I apologize for the extreme small size of the figures there. But if I can refer you first to line 3, column 1, year 1 in this case is fiscal 2001.

That's the end use price of refined oil products and in this case home heating oil that we anticipate before a competitive reaction.

Q.382 - What is that -- is that a price per litre?

MR. HARRINGTON: That's -- it's a price per GJ unfortunately, which is $11.15 per GJ.

Q.383 - Okay.

MR. HARRINGTON: That is the number, just to -- as we go through.

Q.384 - Is it possible to convert that into a price per litre? It is funny. During the break one of the things that somebody, who will remain nameless, said to me is that you are asking the questions wrong, and what you really want to do here is reduce it to something simple, so I can go home and tell my mom and she will understand it.

So can you tell me how many litres of fuel oil in a

gigajoule or --

MR. HARRINGTON: That $11.15 per GJ --

Q.385 - Yes.

MR. HARRINGTON: -- is 43.1 cents per litre. And just -- well, I will take you to the next figure in this line, in this table. And I will take you to line 9 of the same column. And that figure there is $6.60 per GJ. And I will have to do the conversion. That $6.60 is 25.5 cents per litre.

And the delta between those two numbers would be the competitive reaction that we anticipated, the difference between the two. And 17.6 cents per litre is what we estimated the competitive reaction to be.

If you look now at line 11, that's $5.37. And that's what we, after taking into account the discount, would set the price for natural gas -- or what we would estimate the end use cost for natural gas to be for customers in the SGS class.

Q.386 - Okay. I must admit that I had this backwards in terms of the order of the process. And really what happens here, the first number that gets generated -- and I'm now looking at, you know, exhibit E, schedule 47, page 2.

What happens here is the first number that gets generated is that $9.08 per GJ. And then you go down from there taking out the other numbers?

MR. THOMPSON: Oh, the marketers' costs and the toll rates and so forth.

MR. HARRINGTON: Correct.

Q.387 - Yes. To the delivery market-based rate of $5.30?

MR. HARRINGTON: That's correct.

Q.388 - Okay.

MR. HARRINGTON: So we --

Q.389 - I guess I was looking at it the other way, like that the $5.30 was the starting point and you built up?

MR. HARRINGTON: No. We recognize that we are the residual component. We are -- we net back. We take what we think the market will bear. And then we back out those costs that --

Q.390 - Yes.

MR. HARRINGTON: -- marketers will face in the upstream.

Q.391 - Okay. So Enbridge has the flexibility in its calculations to for example give the marketer, potentially Mr. Stewart's client, more of a margin than the very small margin he was complaining about just a few minutes ago?

MR. THOMPSON: Well, the fact that the marketer can take -- the marketer can, you know, charge their customer what they believe the market will bear. But what it will ultimately do is create a pressure on the target rate that we are designing.

For instance we had a discussion with Mr. Stewart this

morning, when we talked about the 3 cents of his marketer's margin going to 21 cents. And what that did was move the discount down from 30 percent to 22 percent.

So the two are very much a function of one another. It's a sort of see-saw if you will. I mean, if one goes up the other is going to go down to respond to it.

MR. MACLURE: I think, Mr. O'Connell, just another way of possibly looking at the same thing is if we take ourselves a little bit out of the hearing room into the future when we have the marketplace actually acting -- and let's assume that we have a new marketer who has never been a party to these proceedings, has no idea that we ever talked about a discount relative to any other competing fuel oil prices.

They know that there is -- what you have got out there is an opportunity to sell natural gas to end use customers. They would come to our rate, if the target rate were approved by the Board, and there has been no competitive reaction.

And they would come along and they would say well, it's going to cost me -- or it's going to cost the end use customer $5.30 for the distribution of gas on the Enbridge Gas New Brunswick distribution system.

Now my costs, which in all of our forecasting have been 4.77 -- that's for marketers, -- that's the sum of

the $2.06, .65 cents and the $1.06 -- it's the marketers' cost. We have no control over those costs.

If the marketer wants to go out and charge $5 instead of 4.77 for the sum of all their costs, we don't control that cost.

What will happen though is that they will go to that customer and they will say, your total cost is going to be $10.30 not $9.08.

So at $10.30 they are getting a different -- the customer will still be seeing possibly a discount relative to their competing -- their current alternate fuel.

But it may not overall be the kind of a discount that we are seeing in the marketplace that would allow us to attach the customers that we want to attach, that we believe that we need to attach to make the distribution system a viable business.

So at that stage we would be looking at the market and be saying the market isn't really functioning very well. And we would end up having to go back and reduce our $5.30 to ensure that there continues to be some market attachment.

Now the one aspect of this that comes also into play is to make it work there have to be sufficient marketers. Because obviously any individual marketer has the ability to extract, if it's only one, the difference between 5.30

and the competitor price.

So what will happen is within the individual market players, marketer A may offer $5 for this service. Marketer B may offer 4.90, different prices. And that will be the competitive reaction in the marketplace that will drive this.

But what starts is our price is there. And then you add -- the marketer has control over all their costs. And then the offer to the customer is the sum of those two prices.

And if we don't see the market opening up and converting as we need to make an economically attractive business, we are going to have to lower our price.

Q.392 - Happy to hear you use significant marketers. So that is what has occurred to me, like who in your view are the potential marketers for natural gas in New Brunswick?

MR. MACLURE: Well we are going through a proceeding right now in terms of the Working Group that has Irving Oil identified as a potential marketer.

Q.393 - Okay.

MR. MACLURE: Energy Source Canada, which is a division of the Sempra organization is a potential marketer. Engage Energy as a potential marketer.

There are a number of other potential marketers that do not actively participate in this market place, but

continue to be represented notionally in the Working Group. That includes Direct Energy, who filed an intervention in this particular proceeding.

Another group called Coast Energy has indicated that they may be participating in certain market sectors.

So there are a number, and because of some of the introductory things -- like I don't know who is going to finally be in the market place, but there certainly are a number of players.

Q.394 - What about Enbridge marketers, are they a potential marketer of natural gas in New Brunswick?

MR. MACLURE: An Enbridge affiliate?

Q.395 - Exactly.

MR. MACLURE: An Enbridge affiliate, I mean, sure could continue to be a potential marketer, although Enbridge Gas New Brunswick has no ability to control that particular part of our organization. They have to make their own business decisions as to their level of participation and they still have not done so.

Q.396 - I mean, feel free to correct me if I am wrong, but it seems to me the logical -- that one of the things that might be acceptable to Enbridge Gas New Brunswick is to deal with the marketer, that is Enbridge marketing from somewhere else that comes in New Brunswick to market the natural gas. It would be a perfect fit, don't you think?

MR. MACLURE: Well when you deal -- when you say in terms of being able to deal, we have to -- if Enbridge Gas -- if an Enbridge marketing affiliate were to come to New Brunswick, we deal with that particular affiliate just as we would with Energy Source Canada or Irving Oil as a gas marketer. We can have no different relationship with them than we can with any other marketer.

So that relationship has to be a complete arm's length relationship. It would be no different from any other marketer being here.

Q.397 - Look, I made a note of the -- deal with them in a -- and somebody has used the term, in an unencumbered fashion.

MR. MACLURE: I would suggest --

Q.398 - And I don't know what that means?

MR. MACLURE: -- that in the unencumbered fashion -- I will put my spin on it and --

Q.399 - Do you mind if I put my spin on it after?

MR. MACLURE: Well, yes. Well if I think about it if we only had one other marketer here you might have to deal with an affiliate in a different fashion than you would if that affiliate is one of five or six. And certainly if it's one of five or six that that would, to my way of thinking, indicate that there is a relatively good level of competition going on.

Recognizing as well that some of the other market participants that could potentially serve customers are some of the smaller -- potentially some of the smaller dealers and installers who would then go out and try and make their own arrangements with other marketers, as opposed to going back and getting their own marketing. So that they sort of form relationships. I mean, that would certainly be our hope that they would form a relationship with another marketer that may not be marketing to -- that may not be interested to marketing to the end use residential customer, but is very prepared to sell their gas on block to somebody else that's doing that business. So there is a variety of different mechanisms for that occurring.

Q.400 - Mr. Maclure, does an Enbridge Gas affiliate market natural gas in any other province in Canada?

MR. MACLURE: Yes.

Q.401 - The province of Ontario?

MR. MACLURE: Yes.

Q.402 - The province of Manitoba?

MR. MACLURE: I am not aware that it does in Manitoba.

Q.403 - The province of Saskatchewan?n?

MR. MACLURE: No, not that I am aware of.

Q.404 - The province of Alberta?

MR. MACLURE: Not that I am aware of.

Q.405 - British Columbia? So just in Ontario?

MR. MACLURE: Just in Ontario.

Q.406 - Okay. And there is -- you would agree with me that there is nothing to prevent that Enbridge affiliate in Ontario in getting into the marketing of natural gas here in New Brunswick?

MR. MACLURE: No, there is nothing to prevent it. They would have to, like any other gas marketer, apply to the Board for a marketer's certificate with all the requirements that are part of that application.

Q.407 - Yes. Appreciate that. Those expenses, Mr. Harrington, that we discussed, do you have forecasts for those similar expenses for say October 1st of this year? I am just thinking in terms of the one time stand alone rate increase or decrease that's going to take place? I wonder --

MR. HARRINGTON: Oh, sorry, I was just getting confused with the word expenses. And I was just -- you are thinking about those upstream --

Q.408 - I am sorry. I used the wrong term. Prices.

MR. HARRINGTON: Mmmm. So, sorry, what was your question again then?

Q.409 - Do you have forecasts for those same prices, you know, the $9.08 per GJ for say October the 1st of this year?

MR. HARRINGTON: I continue to look at the market place and

so I have some internal work that I have done to look at where those numbers may be.

Q.410 - Where do you think that $9.08 will be on October the 1st?

MR. HARRINGTON: Looking at where oil is -- sorry, the price of crude oil, which drives out the ultimate end use, retail prices of oil, we expect that the retail price of oil will be increased relative to our proposal by about 20 percent. And so to make up that difference, we would expect that that $9.08 would increase by about 20 percent.

Q.411 - 20 percent. So it would be about something like $11?

MR. HARRINGTON: Can I do the number? $10.89.

Q.412 - And you thought I couldn't do that. And so what we do -- now that I recognize that that is a starting point and then we start taking those other numbers off to get down to the delivery market-based rate, will those other prices -- I mean change significantly? I recognize that the Maritime Northeast rate may go to, what, 70.4 cents or something like that. What about those other rates will they change significantly in your calculation?

MR. HARRINGTON: I think what we heard through Mr. Stewart's cross examination was that our estimates of what the commodity will be will change.

As well the component with regards to the marketer's margin, we are going to be having discussions with

marketers and trying to understand their expectations and their needs with regard to that particular component. So I would expect that many of these numbers will change. Just to go back to the commodity --

Q.413 - Yes.

MR. HARRINGTON: -- and again, this is just my own --

Q.414 - Sure.

MR. HARRINGTON: -- internal looking forward. About right now the cost of the commodity relative to the proposal for the forward looking year has increased by about 27 percent relative to our proposal.

Q.415 - So the quantity price will go up 27 percent, which is about 50 -- what, 50 cents?

MR. HARRINGTON: Yes, that's about right.

Q.416 - 2.60. Okay. So that will go to something like $2.60. What about the marketer's margin, will that change?

MR. HARRINGTON: Yes. I think based on some of the discussion that we have been having, we want to understand more about what marketers will require. And parts of what makes up the marketer's margin are made up of some of the other elements such as the toll and the cost of commodity. So they will change as well.

MR. THOMPSON: So it's also important to recognize, as I pointed out this morning, that particulary in the residential sector marketers might use a loss leader,

because the margins that lie inside the home are quite -- quite a bit larger than the margins that lie on commodity alone.

So it may be that marketers from a residential perspective only will look at those margins that are available from the sale of equipment. There is a margin on equipment. The installation, there is a labour margin. And the ongoing relationship with the customer over time. They probably would sign a long-term maintenance agreement with them.

And what that does for that particular marketer, as I said, is develop the relationship. The relationship then becomes very important in terms of delivering other services to that customer.

Some of our marketers, of course, will begin with a great number of customers already attached to their own company and therefore will be providing those kind of services already.

Natural gas -- natural gas gives them another service to offer. And it also gives the smaller dealer an opportunity to provide a different kind of service. So it's not entirely sure that in residential alone marketers will seek a large piece of margin for themselves.

Q.417 - Who controls what a marketer gets paid for just the -- not all the other associated services that might do, but

just in terms of provision of natural gas? Is that something that Enbridge controls or the marketer controls?

MR. THOMPSON: What the marketer gets paid?

Q.418 - Yes, this $1.06.

MR. THOMPSON: That's a -- that's the marketer's management of their own particular portfolio, gas supply and transportation and so forth, that's --

Q.419 - What I took from Mr. Stewart's questions to this panel was that that was -- that Enbridge went out and says we will pay you $1.06 per GJ, take it or leave it?

MR. THOMPSON: Okay. No, what that -- the $1.06 per GJ was at the time of the proposal our estimate of what that component might be. As Mr. Harrington just pointed out, those -- those numbers will change. What the marketer -- the marketer's margin is entirely a function of the marketer's management of their own business.

Q.420 - You see I have had the very distinct impression that the marketers margin was a function of what Enbridge was prepared to pay the marketer?

MR. THOMPSON: No, sir.

Q.421 - Do you anticipate that $1.06, Mr. Harrington -- do you have a number for that as of October the 1st?

MR. HARRINGTON: No, that particular component I don't have an update for. And again, you know, we are going to look to learn from those people who are participating in the

business.

Q.422 - It's not likely to go down, is it? Poor Mr. Stewart's client is going to have nothing left. He really is going to turn up in December with no money if you cut anything more out of that?

MR. HARRINGTON: Depending on the unique circumstances of the marketer that number could be higher or it could be lower. And I don't want to get into a complicated discussion. But a big piece of that is what you might have heard referred to as load balancing. And I described a methodology this morning -- or this afternoon about how load balancing was modelled.

However, if a marketer has available to him another source of load balancing such as an interruptible customer whom he could request that that customer stop using natural gas and substitute using fuel oil, for instance, a large institutional customer, that may well be a much cheaper form of load balancing and then therefore the marketer could increase his particular margin.

Q.423 - Mr. Harrington, are you telling this Board that it is likely or possible that what gets paid to a marketer will go below $1.06 per GJ between now and October the 1st?

MR. HARRINGTON: No.

Q.424 - Thank you. So --

MR. MACLURE: I don't think -- I don't think though that we

can tell the Board anything about the marketer's margin. Those costs are totally within the marketer's control. The marketer will charge end use customers what it is that they want to charge end use customers. And they will combine transportation. They will add on the commodity cost that they have to pay. And the cost that they have to load balance.

On top of that the customer will end up having to pay for our distribution charges. All of that will be a burden the customer will have to pay. Now, hopefully, that results in a competitive price. Because if it isn't a competitive price, then we are not going to attach customers. So we are going to have to have the flexibility to adjust our price downwards to ensure that the competitive price is at the burner tip.

Q.425 - One of the reasons that we have gone through this rather laborious exercise of what is going to happen on October the 1st, is to get to the point of your one time, stand alone price adjustment, which everybody from Enbridge has been very careful to say will be either up or down. And I'm here to suggest to you that it ain't going to be down. That with all those prices going up that we have just gone through the price adjustment that will take place between now and the 1st of October, if the Board permits it, will be up.

MR. HARRINGTON: Actually if I -- if I could just say this. I think, referencing the $9.08 that we see there, my estimate is that I think that number will be up.

I think the question though is about whether that $5.30 will be up or down. And I think what we have -- what we have been discussing is that a number of those elements that make up that upstream component that we don't have control over, are going to be increasing to the point where it's likely that our number will be down.

MR. THOMPSON: We are still looking at the relative price of natural gas against the competing, in this case, the home heating oil. So we are still looking at developing a rate that precisely -- or as precisely as we can matches that competitive offering. Because that's what is driving -- that's what is going to drive the market. It's clearly to the marketer's benefit. And it's clearly -- it's clearly to Enbridge Gas New Brunswick's benefit that that comparison for customers remains quite apparent. Marketers have a business to build as we have a business to build. We are going -- we are going to have to do this together. Because one partner here, supplier, the marketer, the distributor, not -- each one of them have a plot part to play. And we are expecting that that part will be played out in the marketplace that sees energy savings for a lot of customers here. And a lot of people

getting involved in building the infrastructure. So we are still talking about the relative price of the fuel against -- that doesn't change. How that gets adjusted is another function altogether.

Q.426 - I guess to me -- the other thing that made me, if I may use the word, suspicious, of this rate adjustment which will be either up or down, is that if it is going to be an adjustment down, why not use the rate rider mechanism that we talked about yesterday?

MR. MACLURE: That would simply be impossible. I mean, there is nothing -- there is nothing magic in resetting the target rate down. And if it was a question of it dropping at that point in time we could in fact use the rate rider to adjust it down.

I thought though that we would use the methodology to reestablish the rate as a -- as a methodology.

Q.427 - Okay. I guess I will just have to accept -- you will have to accept that I'm sceptical.

Ms. Duguay, you were working with the numbers in the cost of service study earlier this afternoon. And I was wondering -- I would be interested in your view whether or not a fully allocated cost of service study is relevant or helpful in the greenfield situation?

MS. DUGUAY: My opinion about the relevancy of a cost of service study in the initial year of a greenfield project

such as the Enbridge Gas New Brunswick project, is that the cost of service study has a very important practical limitation.

And if I can explain why I'm saying that is at the outset what you see when looking at the cost of service, there is a massive injection of capital costs in order to lay out the infrastructure that the company needs to serve customers.

As we mentioned previously, the infrastructure requires that names will be laid in the ground in order to meet the capacity requirements of the customer base on the long-term basis. So therefore what we are seeing at the outset is that the capital costs are important. Whereas the customer base will be added gradually over time.

For example, in year one the average number of customers that Enbridge is forecasting to add represent about 1,850 customers. Whereas in the full 12 year horizon of the project, the company is projecting to connect 70,000 customers. So when looking at the allocation factors that are being used to allocate the cost to the various customary classes, what we are seeing is a significant distortion from the onset of the project towards like a more mature period such as year 2020.

And to illustrate what I'm saying, if you look, for example, at the rate class responsibility for the small

general service rate class in terms of the rate base, the year one, that rate class supports about 30 percent of the total cost.

10 years from then, based on the forecast underpinning this rate application, the responsibility for that same rate class jumps up to 62 percent to finally converge in the later years, which represent approximately 72 percent.

So from year one we start off at 30 percent. And in year 2020 it's about 72 percent which is consistent with a mature market. If I can refer back to the rate class responsibility in Enbridge Consumers Gas in Ontario, in terms of the allocated rate base, it's about 70 percent. And you see that number converging over time.

On looking at another allocation factor, which would be the rate class responsibility for the system coincident peak, in year one the responsibility of the small general service rate class represents about 10 percent.

In year 2020 it jumps to 26 percent. And in year 20' -- I think I said 2020. I misspoke myself. I meant 2010, 26 percent. And in year 2020 it's up to 40 percent.

So you can see that basically the allocation percentages which drive the allocated cost to the various customer rate classes are all over the map in the initial years.

So I would like to add as well that in terms of coming

up with a proposed rate design at the rate class level that recovers the target revenues, I did not personally use the result of the cost study in the initial years. Rather I looked at the results of the cost study basically between year 10 and year -- whenever I could see that the cost seemed to converge to a reasonable number.

And I think that -- one other thing that needs to be taken into consideration is that given the distortion, if one were to mimic the rate design, I think the color' -- color' -- I can't say it -- anyway, I think you know what I mean, is that the rates would be quite unstable from one year to the next.

Finally, I would like to conclude to say that the cost of service study that was filed as part of an interrogatory response is a very high level cost study. For example I had to skip the functionalization step -- there is usually three steps to a cost study, the functionalization, the classification and the allocation step.

But given, for example, when looking at the operating and maintenance expenses, I had basically four broad categories, whereas if I look at the methodology that is currently used for Enbridge Consumers Gas, for Gazifere, the starting point is that the cost would be available at the general ledger level, so there were some high level

assumption within the study per se.

Certainly Enbridge Gas New Brunswick does not currently have the customer information system that would allow the analysts to track the cost on the rate class basis associated with laying services, the pressure regulators, meters and so on and so forth.

So assumptions were made in the process in order to come up with a high level approximation as to what the costs would be to provide service to the various customer rate classes in the franchise area.

Q.428 - Okay. Look, I have got to come back to one issue with respect to the marketers one more time. Suppose a marketer comes to Enbridge with a rate for the provision of its services that is significantly higher than you are anticipating, does Enbridge have the authority, capability, whatever, to tell that marketer, no, that rate is too high and you can only charge $1.06 per GJ, or whatever number?

MR. MACLURE: No.

Q.429 - So the market -- and I say this because I was totally out in left field with respect to this particular issue. The marketer controls his or her own destiny?

MR. MACLURE: Absolutely.

MR. O'CONNELL: Okay. Mr. Chairman, that's all the questions I have for this panel.

BY THE BOARD:

CHAIRMAN: Mr. Lutes.

MR. LUTES: I would just like to thank Mr. Harrington for translating the forecast into cents per litre. Gigajoules is not something that I have grown up with but -- so thank you for that because it brings some common sense to the approach that you are taking.

MR. HARRINGTON: These are the little helpful things in the future for when you are starting to see things with regard to natural gas. And that's -- it's rough, but roughly cents per cubic metre which is what you are going to see from Enbridge Consumers Gas, can be roughly translated into cents per litre, so that should help a little.

MR. LUTES: You mean they roughly equate?

MR. HARRINGTON: Right. Roughly.

MR. LUTES: That's my question, Mr. Chairman.

CHAIRMAN: Well working from the base of Mr. Lutes' question, you had indicated that the underlying cost of I guess fuel oil, Mr. Harrington, when you referred to the 537 et cetera, you went back to a previous exhibit and came up with 43.1 cents per litre, and that would have been in March of last year?

MR. HARRINGTON: Correct.

CHAIRMAN: And you then said that the 25.5 cents per litre was what? In other words, you reduce the 43.1 cents by

the amount of 17.6 and that, as I understood what you had to say, was the competitive fuel reaction to the new energy source on the market?

MR. HARRINGTON: That's correct.

CHAIRMAN: And you called that what?

MR. HARRINGTON: I called that a delta.

CHAIRMAN: You called it a delta. Well good for you.

MR. HARRINGTON: Yes. The difference.

CHAIRMAN: The difference, the delta. And in the pre-filed evidence, that delta of 17.6 cents was -- it was indicated that it was like 76 percent greater in the New Brunswick marketplace than it would have been in a completely competitive marketplace like Massachusetts, is that correct, or are you the wrong person to ask that question?

MR. HARRINGTON: No, I think I can answer that question. I am not sure whether I recall the precise number but I believe it was in that 67 percent -- and I just want to clarify, that's the margin, not the overall cost of the fuel oil. So what the fuel oil retailer was charging was a premium above a normal competitive margin which was equal to 67 percent of the competitive margin.

CHAIRMAN: All right then. So with the 43.1 what -- I know that that is the cost of fuel oil. So you are saying that in the New Brunswick marketplace there would have been a greater margin above that 43.1 or explain it to me?

Explain to me that whole scenario, because I have been very interested -- in other words, because there is a lack of a competitive fuel oil market place in New Brunswick you are going to get a larger reaction from the competitive fuel oil to the introduction of natural gas than you could expect in a greenfield situation where in fact there was a competitive fuel oil market. Is that correct?

MR. HARRINGTON: Correct.

CHAIRMAN: Okay. Go from there.

MR. HARRINGTON: Certainly. We conducted a -- or we had conducted studies to investigate the competitiveness of natural gas and that started with looking at the alternative energy sources and making sure we understood where they sat and how they were derived.

The work that we had conducted was done by a firm named WEFA which does energy consulting and they are a well recognized firm.

What we found was that retail oil prices, especially in the smaller customer segments, were significantly higher than they were in more established marketplaces such as Massachusetts which is the one that we continually reference.

And the reason for why those margins are higher is not something that we have ever said we -- there is a reason

for. We just said that they were found to be higher and therefore, yes, we expected that there could be a sizeable competitive reaction, especially in the smaller customer segment to the introduction of natural gas.

CHAIRMAN: Okay. Redirect, Mr. MacDougall.

REDIRECT EXAMINATION BY MR. MACDOUGALL:

Q.430 - This is a question either for Mr. Harrington or Mr. Thompson. Each of you gentlemen mentioned at some point today that your experience is that the margin for marketers does not just come from gas sales.

Could you tell me if in your view there is a value to a marketer in having the customer themselves, just is there a value in the customer?

MR. THOMPSON: Very much so, and -- because that was the point I was trying to make in response to Mr. Stewart's questions this morning that seemed to be suggesting that the marketer in his example was making only $7 a year and we were charging him $12 and change for the right to bill.

The fact is, as I said, lost leaders work. They are being used all the time. There was an article I believe in the Globe & Mail I believe today that talked about the success of a company that used lost leaders. I guess the original lost leader was the Trojan Horse which did a great deal for one part, but not the other.

The fact is that customers are looking for a bundled

product. They are looking for someone who can provide them with the commodity, with the installation, with the service and the maintenance.

And when we talk about cost savings it's two things, it's cost and it's trust. Once you have built the trust both about the commodity and the company that is providing it, then what you have is a very powerful combination.

So a marketer who attaches a customer and builds that trust, and also provides a cost effective service, essentially could have a customer there for life. Some customers who are loyal to their current suppliers have been with them from 10 and 20 years.

Customers are a very valuable item and this is one way in this particular market that I think we will find oil retailers, not just the large ones but the small ones too, who will see an opportunity not simply to perhaps reduce their margin, they may see the bigger opportunity in attaching a new customer with natural gas heating, water heating and so forth, and in that moment attaching a brand new customer to a brand new energy and retaining that loyalty through another energy source. I think it is a very important concept.

Q.431 - Could we now talk then a bit about the marketers' margin as it is identified in here. Could one of you gentlemen explain to me what drives the price that the

marketer is going to put forth?

MR. HARRINGTON: The marketer is going to have to endure costs. And those costs are usually to do with -- are to do with the cost of the commodity, the cost of transportation and the cost of managing that particular load.

Those are the -- in terms of giving the customer a delivered product, those are the three elements.

Each one of those elements in the New Brunswick market place, and really in the whole Sable production are really under development. There is no operating market in the Maritimes at this point in time and all of those figures are going to shift over some time until the market gets established.

Indeed most of the industry participants, when it comes to looking at pricing for natural gas in the Maritimes, start by looking at Boston, because that is the established, mature natural gas industry that is currently receiving natural gas and is setting the price.

And so it will take some before there is -- and some people in our industry are saying a made in Canada price for natural gas.

These things are all under development. Potential marketers as well as Enbridge Gas New Brunswick have a lot to learn and we will continue to learn about this as we go

on.

Q.432 - If I can follow up on that though, does the marketer come to you with a price or who do they go to with a price?

MR. HARRINGTON: They go to the customer with the price.

Q.433 - So would it be fair to say that the customer, that would be a large part in driving what the margin -- what the marketer is going to charge?

MR. THOMPSON: Absolutely. But as we were talking earlier the customers know nothing, of course, of load balancing and margins and transportation and so forth. They look at what a marketer provides and part of that -- part of what the marketer provides is the price.

They look at that relative to the fuel they are already using and they make a decision based upon the savings they are going to make. They make the decision based upon the kinds of services that the marketer is willing to provide, as I mentioned earlier. Those could be various.

But the customer is ultimately the arbiter of the decision to convert or not to convert based upon the difference between the current fuel they are using. So it's very much a customer decision, as it should be.

Q.434 - Mr. Harrington, or maybe this would be better for Mr. Maclure, I want to just talk a bit about the regime in New

Brunswick.

Would it be fair to say that the regime in New Brunswick is set up by the Gas Distribution Act and by the Province and as reflected in your proposal is what is termed, unbundled?

MR. MACLURE: Yes.

Q.435 - Can you explain just briefly what unbundled means?

MR. MACLURE: In this concept, the concept of unbundled means that the distributor is disconnected from the supply of the commodity.

In bundled environments, the distributor has the ability and generally has, in all other jurisdictions, other than seemingly the ones that are developing in the Maritimes, has typically supplied the commodity, as well as all the other services that a gas distributor develops.

So that is the concept of the bundled utility. The unbundled ones have stripped away those transportation and the commodity functions from that bundle. They must be provided by somebody else, a gas marketer.

Q.436 - And that someone else would be a --

MR. MACLURE: Gas marketer.

Q.437 - And that's the regime in which Enbridge Gas New Brunswick, Inc. must operate today in New Brunswick, is that correct?

MR. MACLURE: Yes.

Q.438 - So the services you provide in that regime, would it be correct to say, are purely the distribution services to the customer?

MR. MACLURE: That's correct.

Q.439 - You will, however, as you mentioned earlier, work to develop that market with all participants, marketers and customers alike, is that correct?

MR. MACLURE: It's essential that we do.

Q.440 - One of you gentlemen raised today, and it might have been raised as well yesterday, that the fact that you are the residual component. So let's talk about an unbundled market place. We have the M & NP Transport which they are going to charge gas sales, which presumably the seller of the commodity will charge the marketer's margin.

So do you consider you being residual in that in order to meet your target rates, you have to set your component after all those items have been brought into play in order to reach a market price that will allow for customer attachment?

MR. HARRINGTON: That's correct.

Q.441 - So do you find yourself in the position in New Brunswick now to sort of be at the end of the train of costs?

MR. HARRINGTON: That's correct.

Q.442 - And your proposal to the Board is to allow you to have

some flexibility being at the end there to be able to make a price that customers in New Brunswick will find attractive to attach to your system?

MR. HARRINGTON: Yes, that's the way that we see this.

Q.443 - And do you think by using that flexibility that will be of benefit to marketers in the Province of New Brunswick?

MR. THOMPSON: Oh, absolutely. Because by the use of that flexibility, we very much see it being -- the customers being provided with a rate that will cause them to convert.

We can only all benefit from that. The customer, the marketer, the distributor and the general economy as a whole. So absolutely.

Q.444 - Mr. Maclure, you were asked earlier today about discounting your tariffs if the marketers weren't receiving I guess appropriate price signals.

Would you do that, however, if one marketer wasn't receiving those price signals or is it the market as a whole?

MR. MACLURE: It's the market as a whole. We don't have -- we don't see that we would have the ability to discount for individual marketers. Once it's discounted, it goes to the market because that is the concept of the postage stamp rate.

Q.445 - So that would be the marketing community?

MR. MACLURE: Yes.

Q.446 - Ms. Duguay, a couple of questions for you?

MS. DUGUAY: Sure.

Q.447 - If we could go to exhibit E, schedule 40(a). Small general service, let's pick column 2, and with cost of service as well, the figure there is 1.8 -- I am sorry --

MS. DUGUAY: You are on page 2?

Q.448 - Page 2 of 10. Page 2 of 10 on schedule 48. So column 2, line 2 --

MS. DUGUAY: Yes.

Q.449 - -- that shows a cost of service of 1.86 million to the small general service class, is that correct?

MS. DUGUAY: Correct.

Q.450 - And you explained earlier to Mr. Blue that that number being higher than the revenues reflected the fact that that class was not recovering its full cost of service?

MS. DUGUAY: Correct.

Q.451 - However, does that number, 1.85, reflect the full cost of service to that customer?

MS. DUGUAY: No, it doesn't because it takes into consideration an allocation of the deficiency deferral in fiscal 2001. And if you were to look at the full revenue requirement that Enbridge would require in year 1 to provide service to its customers, that is, if I were to

zero out the costs that are being deferred in the subsequent year in order to generate the target revenues, that number would be for the small general service roughly $3.3 million.

Q.452 - Okay. And if you went across all of line 2 and added in the deferral amounts, would any numbers in line 2 be such that the numbers in line 1 would exceed them? i.e., would at any point in any class would any of the revenues exceed their full cost of service with the net deferral back in?

MS. DUGUAY: No.

Q.453 - And that is what Mr. Marois said yesterday, correct?

MS. DUGUAY: Correct.

Q.454 - So in your first year no class will be recovering its full cost of service?

MS. DUGUAY: Correct.

Q.455 - And your ceiling, what is the cap that you have for protection with your target rates?

MS. DUGUAY: I am not sure I understand what you are saying.

Q.456 - I guess your target rates will be capped in aggregate on cost of service, is that correct?

MS. DUGUAY: Correct.

Q.457 - And notwithstanding that they are capped in aggregate and costs of service in the first year even within every class, they will not be recovering their cost of service?

MS. DUGUAY: Correct. Cost of service -- I mean revenue requirement or cost of service exclusive of the deficiency deferral, that is right, or true cost of service based on the forecast that the company has laid out for the test year, yes.

Q.458 - Can I have this question again probably for you, Ms. Duguay, but maybe Mr. Maclure. There were some questions earlier with respect to the supplier of last resort rate. Are the applicability criteria for the supplier of last resort rate consistent with the legislative definition of supplier of last resort in the Gas Distribution Act?

MR. MACLURE: I certainly believe that they are. I think probably we should turn it up again and have a look, but that would be our intention. Certainly we are trying not to do something that would not be in compliance with the GDA.

Q.459 - It's exhibit B, schedule 1, pages 16 and 17.

MR. MACLURE: I think maybe I will take it this way, Mr. MacDougall. My reading of that is that that is the intent of the applicability, without going back to pulling out the Act and comparing it word for word, I am not sure that I can, but that certainly is our interpretation of the applicability of the supplier of last resort.

Q.460 - And let me ask you another question. Have you set that rate on the basis of -- no, not set the rate -- but

you put forward a rate on the basis of the fact that the Gas Distribution Act mandates that you would either be the supplier of last resort or provide for a supplier of last resort?

MR. MACLURE: That is correct.

Q.461 - Mr. Harrington, let me ask you, you were talking a few times I think with Mr. O'Connell about exhibit E, schedule 47 -- you don't have to pull it out, it has got various components in the sample SGS target rate. You made some comments on some of those components changing. I believe yesterday though Mr. Marois indicated that the components may change but that doesn't necessarily mean that the target rates would change, is that correct?

MR. HARRINGTON: That's correct.

Q.462 - And can you explain why that is?

MR. HARRINGTON: The reference point really is the competitive advantage of natural gas over the competitive fuel. And if we are talking here about the SGS class, that's home heating oil. As long as that 30 percent spread is maintained the elements can all change. And as long as it nets out that Enbridge Gas New Brunswick can still charge its $5.30 per gigajoule rate, there doesn't necessarily have to be a change.

Q.463 - And then if you see a competitive reaction after the start of your business, you would utilize the rate rider

to change that target rate, is that correct?

MR. HARRINGTON: That's correct.

Q.464 - Mr. Maclure, Mr. Holbrook raised some questions around the issue of cost of service. I just want to get back to his issues. Could you tell me if the deficiency deferral is based on that, on the cost of service as shown in the allocated cost of service study, or is it based on actual revenues versus actual costs?

MR. MACLURE: The actual deficiency deferral will ultimately be actual revenues and actual costs.

Q.465 - And is it -- from Mr. Marois yesterday it's the intent of Enbridge Gas New Brunswick to provide this Board with those actual figures, is that not correct?

MR. MACLURE: Yes, it is.

Q.466 - Thank you. Mr. Harrington, maybe we could now go to exhibit E, schedule 47.

MR. HARRINGTON: I managed to get there the last time.

Q.467 - Page 2 of 3. We talked quite a bit about some of these components, and particularly Mr. Stewart and Mr. O'Connell spoke about the marketers' margin and maybe that that marketers' margin appeared to them to be low for some reason. Maybe we could go to the number there that is your delivery market base price. With your revision, that is going to be $5.30, is that correct?

MR. HARRINGTON: That's correct.

Q.468 - Notwithstanding that it's $5.30, does it recover your costs to serve the customer?

MR. HARRINGTON: No.

Q.469 - So what is your margin, not taking account of the deferral account, on that $5.30?

MR. HARRINGTON: Could you restate the question?

Q.470 - What is your profit margin on that $5.30, not taking account of the deferral?

MR. HARRINGTON: There is no margin.

Q.471 - And that is one reason why you are asking for a deferral account, is that correct?

MR. HARRINGTON: That's correct.

Q.472 - Quite a few times today people talked about gas supply figures and how they may or may not change. Can you give me your view of where natural gas prices are going?

MR. HARRINGTON: I think as I responded earlier, and this is my view, I did some work -- I continue to do work looking at the upstream costs of energy.

And relative to the proposal which is before you, the cost of gas at Henry Hub is anticipated -- compared to this forecast, to be about 27 percent higher for the fiscal year 2001.

Q.473 - If your -- if fuel oil prices go up, so the top figure here, and your target rates go up, and you said that that didn't have to occur, but if it did and you recovered this

revenue from your target rates, how would affect your deferral account?

MR. HARRINGTON: If we didn't change that?

Q.474 - No. If the target rates did go up and you were able to recover to your target rates because fuel oil went up, how would that affect your deferral account?

MR. HARRINGTON: That would allow us to reduce the deferral account more quickly.

Q.475 - So if fuel oil prices go up and you can raise your target rates, you will at the end of the year have a lesser deferred?

MR. HARRINGTON: Absolutely.

Q.476 - And you would find that beneficial?

MR. HARRINGTON: Yes. It would allow us to drop that ultimate amount which is -- which ultimately will be better for rate payers.

Q.477 - Mr. Maclure, to end the day on you. We talked a bit about this concept of Enbridge doing something with an affiliate in an unencumbered fashion.

I believe though Mr. O'Connell was talking about it in the context maybe of that in the normal course marketplace.

Could you clarify for me if that statement, when you were talking -- in the IR when you were talking about in an unencumbered fashion, was to deal with the marketplace

as it is today or was it to deal with the marketplace if the market didn't develop?

MR. MACLURE: It was -- the statement was to develop -- was made in relation to the marketplace if it did not develop. I mean, we still have a belief that a competitive market will develop. And that's our view.

Q.478 - And yesterday one of the panel members, it may have been yourself, indicated that if that had to occur, you would have to seek a legislative change because you are now a unbundled utility, is that correct?

MR. MACLURE: Yes. The manner in which it would happen, depending on -- would depend on the legislation. We still -- we still could not, as an unbundled gas distribution utility, sell gas to an end use customer under the current legislation.

Q.479 - And if it was to deal even with an affiliate in an unencumbered fashion, would you have to possibly change some of the rules with respect to how the utility is allowed to deal with marketers or affiliated marketers?

MR. MACLURE: I believe we would. Because we have worked quite diligently in the early part of this year on developing codes of conduct as to the relationship between the gas distributor and any kind of affiliate --

Q.480 - So it is fair --

MR. MACLURE: -- gas marketing affiliate.

Q.481 - Is it fair to say that this is a sort of last ditch thing, that this is not something Enbridge Gas New Brunswick wants to occur?

MR. MACLURE: Absolutely. That's absolutely correct. We do not want it to occur.

MR. MACDOUGALL: Thank you. That is all my questions, Mr. Chair.

CHAIRMAN: 8:30 tomorrow morning? Mr. Blue?

MR. BLUE: Sir, I just wondered, before we break, if we just get an idea of what the order of business is for the next couple of days. I'm a little bit confused about who is calling evidence, in what order.

The way I understand it is Ms. McShane, panel 3 of Enbridge. And then I'm not clear. Then I believe it is Irving and then the Board staff witness -- or the Board witness.

CHAIRMAN: It sounds logical to me. Anybody any other comments? 8:30 tomorrow morning. Thank you.

MR. BLUE: Thank you.

(Adjourned)

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

Reporter