New Brunswick Board of Commissioners of Public Utilities

Hearing

In the Matter of an application by Enbridge Gas New Brunswick for approval of proposed changes to rates for its Small General Service, General Service and Contract Service, Contract General Large General Service LFO, Off Peak Service, Contract Large Volume Off Peak Service and Natural Gas Vehicle Fueling

Delta Hotel, Saint John, N.B.
March 17th 2005, 10:00 a.m.

CHAIRMAN: David C. Nicholson, Q.C.

COMMISSIONERS: Jacques A. Dumont
Diana Ferguson-Sonier
H. Brian Tingley

BOARD COUNSEL: Ellen Desmond

BOARD STAFF: Doug Goss
James Lawton

BOARD SECRETARY: Lorraine Légère

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CHAIRMAN: Good morning, ladies and gentlemen. Just the normal housekeeping announcements. Remember you have to speak into the mike in order for the shorthand reporter to record what you have said. And you should push your button down to get the rid light. Could I have appearances please?

MR. HOYT: Len Hoyt and David MacDougall for McInnes Cooper appearing on behalf of Enbridge Gas New Brunswick.

CHAIRMAN: Thank you, Mr. Hoyt. City of Saint John?

MR. EDWARDS: William Edwards and Samir Yammine on behalf of The City of Saint John.

\ CHAIRMAN: Thank you. Competitive Energy Services?

MR. SORENSON: John Sorenson.

CHAIRMAN: And Flakeboard?

MR. LAWSON: Gary Lawson with Barry Gallant. And not to be misinterpreted, I'm sitting on the applicant side but not supporting them.

CHAIRMAN: I knew it would get interesting. Thank you, Mr. Lawson. Informal intervenors, just so the panel will recognize that they are in the room, the sometime partially retired former employee of the Department of Energy is here, Mr. Knight, in the back of the room.

How about Fredericton Residential Properties Association? Anybody here from them? No. Lighthouse Self Storage? And Maritime Natural Gas Pipeline Contractors Association? I saw Mr. Ross.

MR. ROSS: David Ross.

CHAIRMAN: Thank you, Mr. Ross. And the New Brunswick Natural Gas Association? Okay. Are there any preliminary matters?

MR. HOYT: Just one thing I would mention, Mr. Chairman. When the panel takes the stand they will speak to the amended evidence that was filed on December 9th.

But just for anyone who for some reason doesn't have it, there are copies including black line versions at the back of the room. We have also put copies of the opening statements of Enbridge at the back of the room as well.

CHAIRMAN: Okay. Thank you, Mr. Hoyt. It would be your intention then at that time that each witness would address the amendments that have been made and confirm that it is their testimony?

MR. HOYT: Yes.

CHAIRMAN: Good. Thanks.

MR. HOYT: And just one other point, just before we get going. I'm just wondering about the informal portion of the hearing and how the Board intends to proceed with that?

CHAIRMAN: What portion is that?

MR. HOYT: When the informal intervenors, if they so choose to speak, are given some time to do so.

CHAIRMAN: Oh, all right. With the informal intervenors are there any who wish to address the Board, the panel? Pipeline Contractors, okay.

I suggest right after the break at lunch that we provide some time for Mr. Ross and any other informal intervenor who wishes to address the Board to do so. That is being the eternal optimist that we could get out of here by 5:00 o'clock, you see.

Any other preliminary matters? Then Mr. Hoyt, go ahead.

MR. HOYT: I would like to ask Andrew Harrington, Mark Butler and Shelley Black to take the stand and be sworn.

(Andrew Harrington, Mark Butler and Shelley Black sworn)

BY MR. HOYT:

Q.1 - So before the panel actually gets started with their opening statement and adopt the evidence, I would just ask them to introduce themselves to the Board and briefly describe their gas experience?

MR. HARRINGTON: My name is Andrew Harrington. I'm the General Manager of Enbridge Gas New Brunswick. I'm a Professional Engineer. I have a Master's of Business Administration.

I have spent almost 17 years in the natural gas distribution business and almost seven years completely devoted to New Brunswick natural gas distribution.

Between '98 and 2000 I was part of the team that developed the business plan that ultimately became Enbridge Gas New Brunswick. And since forming the business in 2000 I have been involved at a senior level within that organization.

MR. BUTLER: Yes. My name is Mark Butler. I'm Manager of Business Development. I have been in the gas distribution business for the past 32 years. And early on in my career, in fact when I first started with Enbridge, or what was known at the time as Consumers Gas, I was a Gas Technician.

And part of my duties was to inspect the installation of gas equipment, and in the case of conversion burners to do the setup on the burners. I then moved into the sales department and as a Technical Sales Consultant. And this was during the period of the off oil program that the Federal Government had.

We at that time were installing tens of thousands of conversion burners in our customers' homes and businesses. And my job at that time was to do pre-inspection of the equipment prior to conversion.

After I moved out of sales into marketing I managed the company's rental conversion burner program and water heater and boiler program. We rented those plants as to commercial and industrial and residential customers.

Also during that period, which was in the '80's, is when there were a lot of developments in the gas industry with research into new gas technologies. And during that period I was involved with the field testing and commercialization of both high efficiency residential appliances and commercial industrial appliance.

And in 1994 I came back into marketing when the Ontario Energy Board ordered the utilities in Ontario to develop a DSM or a Demand Side Management energy efficiency plan. And I was brought in to develop the energy efficiency programs and deliver those to our customers in Ontario.

MS. BLACK: My name is Shelley Black. I'm the Manager of Regulatory Affairs & Upstream for Enbridge Gas New Brunswick. I'm a Certified General Accountant and hold a Bachelor of Business Administration.

And as my duties as Manager of Regulatory Affairs I'm directly responsible for the application and preparation of this evidence related to this proceeding.

Q.2 - Thank you. I would now ask Mr. Harrington to confirm that the evidence dated November 22nd 2004 as amended December 9th 2004 was prepared by you or under your direction and control and is accurate to the best of your knowledge?

MR. HARRINGTON: It is.

Q.3 - And do you adopt this evidence as the testimony of EGNB in this proceeding?

MR. HARRINGTON: I do.

Q.4 - Could you please proceed to deliver your opening statements to the Board?

CHAIRMAN: Just before he does that, that has been premarked by the Board. The application and supporting evidence dated November 22, 2004 as amended by an amendment dated December 9th. And that was given the exhibit number of A-1.

Madam Secretary, have we prepared for the parties anything as to the premarking?

MRS. LEGERE: Yes.

CHAIRMAN: They all have that, do they? Thank you.

Go ahead, Mr. Hoyt.

Q.5 - Just as well, Mr. Harrington, do you adopt the IR responses that were provided by EGNB as well?

MR. HARRINGTON: I do.

Q.6 - Please proceed with your opening statement?

MR. HARRINGTON: Mr. Chairman, Commissioners, Happy St. Patricks Day.

On November 22nd, 2004, Enbridge Gas New Brunswick filed evidence in support of an application to change the rates it charges for various services. Our evidence was amended on December 9th, 2004, and I want to bring one further amendment to your attention at this time. As pointed out in our response to Board's interrogatory number 2, the crude oil costs at A-11 of our evidence, which is now A-1, should have been U.S. 48.33 rather than U.S. 48.87 per barrel. This typographical error does not impact any of EGNB's calculations.

In this application Enbridge Gas New Brunswick used the Board approved methodology. Intervenors have challenged certain aspects of our filing and have put forward contrary positions. Summarising the evidence and bringing some level of focus is therefore, we believe, very important.

To begin, the increases requested are exactly aligned with the methodology previously approved by the Board. They are what the market based model requires at this time. Although larger than what would normally be expected in a cost of service based model, they are fully appropriate for a market based model.

Further, the proposed increases are only on the regulated distribution charges. When added to the commodity and considered as an increase to the overall delivered cost of natural gas for a customer, these changes represent on average 8 percent and as low as 1 percent in the case of the CLGS-LFO class. As the Board is aware, our market based methodology ultimately compares burner tip prices of competing fuels.

In this application, Enbridge Gas New Brunswick has utilized the Board approved methodology and only updated two numbers: the forward wholesale price of oil and the forward retail price of natural gas, using Enbridge Utility Gas.

Since the time of the last approved rate increase to the time of filing and through to present, the forward wholesale price of oil for the rates period has increased, and while the price of gas has increased, it has not increased by the same amount. It is undeniable that these changes have taken place. No intervenor is contesting this. Further, if EGNB were to file its rates today for the same rates period the rates would be more than $1.15 per Gigajoule higher as compared to those filed as evidence in this case. And you can see that in Attachment 1. Despite this, Enbridge Gas New Brunswick is not proposing to seek approval for higher rates than those applied for.

What is the purpose of market based rates? As stated in our evidence, and in our evidence in previous applications, including those which established the business model upon which Enbridge Gas New Brunswick provides service, market based rates are intended to strike a balance between providing sufficient economic incentive to prospective customers to convert to natural gas and recovering as much of EGNB's costs as possible during the Development Period. None of the intervenors appear interested in striking this balance.

EGNB understands that in many ways the market based methodology is challenging. Contemplation must be given to wholesale energy prices, retail prices, contemplating these on a forward basis, significant variations of consumption profiles amongst customers in the same rate class, multiple energy types, multiple equipment types with various efficiencies, the other tangible and intangible benefits of switching energy sources.

In many ways, judging just and reasonable rates for Enbridge Gas New Brunswick is more challenging than for a Cost of Service based utility where costs go in and rates come out and the primary discussion is on the inclusion and treatment of various costs. The assessment of whether the rates in this case as applied for are just and reasonable can only be done by considering whether the balance between economic incentive and cost recovery has been struck. To tip the balance too heavily in favour of one objective or the other will result in unfairness to both customers and the utility over time and ultimately in a failure of the business model.

As would be expected, the intervenors are focused on the fact that their costs are proposed to go up. Many intervenors have attempted to broaden the perceived view of their evidence by taking this narrow focus and indicating that they are concerned that with these rate increases, acceptance and growth of natural gas distribution service may be curtailed. If anyone believes that Enbridge Gas New Brunswick does not share this concern they are wrong.

Enbridge Gas New Brunswick would not make this application to increase its rates if it believed it would affect its ability to grow. To provide more certainty on this, in 2005 Enbridge Gas New Brunswick will recover less than one/third of its cost of service through rates, including the amounts applied for in this rate increase. EGNB must grow to remain viable. It is impossible in anyone's wildest speculation to believe that Enbridge Gas New Brunswick would be able to remain viable if it attempted to recover its cost from its current customer base.

EGNB submits that no party to this proceeding lends as much consideration to the issue of growth and the potential impact of a rate adjustment on such growth as Enbridge Gas New Brunswick. EGNB will not remain viable if it does not grow. Of equal importance, EGNB will not remain viable if it does not pursue rate adjustments consistent with its market based business model.

EGNB's evidence indicates that EGNB is confident that it will meet its growth targets with the proposed adjustment and to this end provides the experience of 2004, the first year EGNB requested and received an increase to its market based rates since the initial setting of target based rates. With this rates increase, EGNB had its best year of growth since commencing operations, achieving year over year growth of 350 percent.

Enbridge Gas New Brunswick submits that balancing economic incentive opposite cost recover is the proper test for determining whether rates are just and reasonable in its market based approach.

When it is all boiled down and issues like efficiencies and retail oil prices are dealt with, EGNB's evidence provides guidance as to whether the proper balance has been struck. Further, EGNB's evidence challenges the Board to consider the implications of rates that do not meet this test: A market situation will be created that EGNB will not be in a position to correct until 2006. An increase to deferred costs will be created that will be with us until at least 2040. Due to carrying cost and return effects, the increase in deferred costs will be amplified for collection in future years. To illustrate this, if the rates increase were denied, all other things being equal, the three-million that would not be collected from customers in the next 12 months will evolve to 5.6 million to be collected from customers when EGNB switches to cost of service based rates. An intergenerational impact will be created as customers today will not pay their fair share of these costs and will in fact be passing an unfair portion of these costs on to future customers of the distribution system. Prospective and current investors in the natural gas distribution system will reassess the risk associated with the business model and will do so negatively. EGNB will have to manage with less. This will affect management's discretion on capital related to system expansion resulting in less access to prospective customers and less access to all benefits of natural gas.

However, now imagine, despite Enbridge Gas New Brunswick's evidence to the contrary, if rates are set too high, due to incorrect assumptions on equipment efficiencies or retail oil prices or if the forward wholesale markets do not evolve as predicted and this affects growth. Understanding the impacts of this is similarly important: Customers may experience a period of diminished savings. Customers with the capability to d so may switch to alternate fuels during this period. As EGNB has well developed management systems which feature frequent, regular and ongoing measurement of growth, EGNB will notice whether growth has been affected.

If growth is affected by rates, EGNB will initiate an application for a rate-rider. This may take four weeks to effect.

Four weeks versus at lest 2040. EGNB's evidence is clear. The risk to not approving these rate adjustments is much more significant than approving them.

As I mentioned previously, the approved methodology indicates that based on today's energy markets, rates could be more than $1.15 per gigajoule higher. Further, as illustrated in EGNB's response to Board Interrogatory number 8, the absolute savings to customers may be higher than necessary for conversion. While EGNB has previously sought and received approval to reduce the relative targeted savings for the SGS rate class and is doing the same for the LFO rate class in this application, it is clear that the absolute savings delivered under our approved methodology have increased for all classes of customers since 2000.

Dealing with the more specific, arithmetic methodology used, as indicated previously, this is the identical methodology used in the past to approve market based rates with only the key economic inputs: forward wholesale oil price and forward retail natural gas price, being updated.

Retail oil prices and equipment efficiencies have been challenged by intervenors. I would like to quickly summarize EGNB's evidence on these points.

Dealing with retail oil prices, simply, EGNB projects forward retail oil prices by starting with a forward looking 12 month strip averaged over 21 days. It then translates these forward prices into retail prices by using a market spread based on the historical relationship between retail oil prices for typical customers in a given rate class and wholesale price of oil. This empirical methodology has proven sufficiently accurate over time and continues to do so.

For instance, as evidenced at EGNB's response to Board Interrogatory number 7, EGNB was predicting a residential oil price of 49 cents per litre in the 2004 rates application for the period April 2004 through March 2005. During the period April 2004 through January 2005, residential oil prices have actually averaged more than 60 cents per litre, an increase to forecast of more than 21 percent. Despite this, intervenors appear to suggest that the retail oil prices relied on within EGNB's evidence are overstated.

EGNB believes that this assertion is incorrect for two reasons: Intervenors compare EGNB's forward looking oil prices with historic prices - this is not helpful at all and is misleading as it is an apples to oranges comparison. The point of market based rates is to stay current with the market. Intervenors who have access to buying oil at wholesale prices suggest that this level of pricing is more appropriate. EGNB argues that these prices are not at all typical.

Staying with this point to ensure that EGNB's position in this regard is well understood. EGNB, when developing market based rates must do so on a class-wide basis. This ensures that typical customers access the target level of savings. EGNB cannot and should not tailor distribution rates to deliver a targeted level of savings to each and every end-use customer within a rate class -- end-users are displacing a variety of energy types, sometimes three energy types at a single site, with a myriad of equipment solutions with an array of purchasing power. To suggest that a shortfall in targeted savings for a small customer group at the extreme limit of purchasing power is a market based rates methodology problem is a non-starter. For greater clarity here, just because the City of Saint John is able to purchase retail oil for a site that consumes gas at the SGS level for less than 50 cents per litre, when typical SGS customers are paying 69 cents per litre or more is not an argument for lowering distribution rates.

EGNB's evidence is clear. Leveraging purchasing power for energy provision is more properly addressed in the commodity offering in the competitive market place. If rates were based on the purchasing power of these customers with access to the least expensive commodity alternative, all other customers would be seeing savings far in excess of what would be required to convert, and with rates substantially below what they should be contributing to EGNB's cost. This would be fundamentally unfair to EGNB and future customers, who would be asked to bear a portion of this shortfall.

Turning now to equipment efficiencies. In deriving target rates EGNB's market based rates methodology relies on key underpinning assumptions regarding equipment efficiency, both for oil equipment being replaced and the gas equipment being installed. The inclusion of these elements in the derivation of market based rates is critical. I will now turn this over to Mark Butler to deal with this specifically.

MR. BUTLER: Thank you. There are two main arguments relating to energy efficiencies in this proceeding. First, the City of Saint John submits that the difference in energy efficiencies between different energy sources should not be considered when comparing the cost savings of switching to natural gas, and CES argues that the efficiency gains in our evidence are overstated.

First start with City of Saint John. The City of Saint John believes that the cost savings from switching to gas should only be based on the cost difference between natural gas and the current fuel on a dollar per gigajoule basis, and we should disregard the energy savings presented in our response to CES Interrogatory number 13.

Here is a simple example of why this is incorrect. Let's look at a typical example of a homeowner with a 65 percent efficient oil furnace who wants to reduce his heating costs. Let's assume that this house requires 65 gigajoules of heat energy to heat the home during the heating season. This means that this homeowner must purchase 100 gigajoules of oil per year to get the 100 gigajoules required to heat the house, because the other

35 gigajoules of heat are lost up the chimney due to inefficiencies.

The three options this customer would have are to buy a new top of the line oil furnace with an efficiency of 85 percent, buy a new top of the line gas furnace with an efficiency of 95 percent, or buy an electric furnace with an efficiency of 100 percent. When the homeowner does the math he discovers that he will need to buy about 76 gigajoules of oil, 68 gigajoules of natural gas or 65 gigajoules of electricity in order to get the 65 gigajoules he needs to heat the house.

The City of Saint John is in effect arguing that the homeowner in this example should ignore the efficiency differences and should base his decision on the difference between the cost of 100 gigajoules of oil, 100 gigajoules of natural gas and 100 gigajoules of electricity. This makes no sense.

Obviously no one would buy a new higher efficiency oil furnace if they thought it was going to use the same amount of energy as their old one. Consumers expect to benefit from efficiency gains when upgrading equipment.

When you exclude energy efficiency differences between appliances and fuels you are only looking at half of the equation, and are in effect comparing apples to oranges.

Keeping in mind that the core concept of the market based rates methodology is the struggle to strike a balance between economic incentive and cost recovery, negating the effect of efficiency gains would result in an understating of the economic incentive to prospective clients and less cost recovery.

In other words, it would tip the balance away from cost recovery with no justification. The fact is that typical customers receive efficiency gains from conversion from oil to gas and these must receive consideration in setting market based rates.

I will turn to Competitive Energy Services. CES provides quite a volume of information on energy efficiencies, most of which contradicts the evidence that Enbridge Gas New Brunswick has presented or it's irrelevant to this case.

CES asked us in their Interrogatory number 13 to support the efficiencies for oil and gas used in our evidence. We have shown in this interrogatory that close to 100 percent of the furnaces and boilers being installed in New Brunswick are high efficiency condensing models with annual fuel utilization efficiencies of over 90 percent. And there are no conversion burners used in the residential market. In fact, of the 250 residential and small commercial furnaces that were installed in 2004, 249 were EnergyStar rated and only was not.

Meanwhile, CES has filed evidence from the 1988 edition of ASHRAE's Handbook, HVAC Systems and Equipment, which they say states, "ASHRAE states that most end users in New Brunswick are using atmospheric with intermittent ignition gas burners with either a power venter, improved heat transfer to direct vent units. The efficiency range of these units gets as high as 78 percent."

ASHRAE has never said that most end-users in New Brunswick are using these furnaces because some of these have been prohibited to sell in Canada since 1995. Furnaces with annual fuel utilization efficiencies below 78 percent do not meet the Federal Energy Efficiency Act or the province's Energy Efficiency Regulation. Federal law in the United States requires all gas furnaces produced after January 1992 to also have a minimum annual fuel utilization efficiency of 78 percent.

Just let me remind you that there was no natural gas used in New Brunswick in 1988.

Enbridge Gas New Brunswick has also provided statistics from Natural Resource Canada's EnerGuide for Houses program that demonstrates that there are old inefficient oil furnaces in the 65 percent annual fuel utilization efficiency range in New Brunswick.

In the commercial market, our response to CES Interrogatory number 13 explains why it is prudent to assume an energy efficiency gain of 15 percent. One example given is the replacement of inefficient oil boilers with radiant tube heaters. Research done by the Gas Research Institute in Chicago found that unit heaters used twice as much energy as radiant tube heaters.

The City of Saint John in their evidence shows an example of where they replaced two boilers with radiant tube heaters and reduced consumption by 32 percent.

Enbridge Gas New Brunswick's evidence also explains why energy efficiency gains are realized when old oil boilers are replaced with new natural gas boilers.

CES dismisses the relevance of this by taking the position that most of the heating customers in general service and CGS rate classes have converted their existing oil-fired boilers to natural gas. The fact of the matter is that over 95 percent of these customers are using something other than a conversion burner. Conversion burners only comprise four percent of all the heating appliances installed in these rate classes, and you can see that on the Attachment 2. Out of the 2,900 heating appliances used by our customers in these two rate classes, there are only 108 conversion burners versus 278 new boilers, 795 radiant tube heaters, 777 rooftop furnaces and 645 unit heaters, 145 furnaces and another 148 other heating appliances. And there is another 1,660 appliances that use gas all year round, making conversion burners just two percent of the total appliances installed.

There is one statement in CES's evidence on efficiencies that we agree with. Mr. Sorenson states that he has found efficiency improvements of 5 to 6 percent when converting appliances from light oil to natural gas. In CES Interrogatory number 13 we state that efficiency improvements of up to 10 percent are possible with conversion burners. We think averages of 5 to 6 percent can be expected.

However, we need to consider the remaining 98 percent of the appliances our customers are installing and the fuel they are switching from when setting market based rates.

Including an efficiency improvement of 15 percent over oil in the establishment of a market based rate for these two rate classes is very conservative when you consider the weighting of oil versus propane, the number of new appliances that have not been switched from another fuel, so these are appliances from new construction, and the average efficiency gains that oil customers receive when they replace inefficient oil-fired appliances with high efficiency natural gas appliances.

Thank you.

MR. HARRINGTON: Turning now to other assertions of intervenors on EGNB's rate methodology, CES has indicated through its evidence that it believes EGNB's methodology is overly simplistic, does not contemplate a customers' full life cycle costs and uses instantaneous fuel cost comparisons.

Dealing jointly with the assertion that EGNB's methodology is overly simplified and does not contemplate life cycle costs, EGNB's methodology is not used for developing sales collateral for customers. Its purpose is to derive market-based rates which strike the balance between cost recovery and economic incentive for customers across an entire rate class. EGNB would agree that this methodology is overly simplified for dealing with a specific customer and their decision on whether to convert or not. EGNB and many of the participants in the industry have developed complex models for analyzing an end user's savings which are used in customer specific sales and marketing efforts. The rates themselves are just one element.

Dealing with CES's assertion that the model uses instantaneous fuel cost comparisons, this is simply not the case. For the purposes of clarity and viable comparison, EGNB uses a consistent basis for both oil and natural gas. We use a forward-looking price -- we use forward-looking prices for both in developing rates. In the case of oil we use retail price developed from a forward-looking 12-month strip averaged over 21 days to remove any temporary market anomalies. For gas we use the 12-month forecast for EUG. The use of a consistent basis is important.

EGNB believes that the previously approved rates methodology works. In our evidence we have indicated that has produced conservative and accurate views of forward looking retail oil prices. We acknowledge in our evidence that payback is an important consideration to most clients.

There have been many hypothetical models presented in the evidence of Intervenors. Unfortunately these are generally not helpful. For example only, to present a $10,000 conversion cost for a residential customer is not helpful.

A typical residential customer can have a 92 percent efficient furnace and a 50-gallon domestic water heater installed after-tax for $2,550. EGNB's evidence indicates that this customer could have a payback within five years. This is a threshold acceptable to most residential customers, especially those with an aged oil furnace that is in need of replacement.

In summary EGNB's evidence is clear. The applied for rates are the result of the update of two market-based factors in the previously approved methodology. Current forward looking price indicates that the applied for rates are, if anything, too low to the tune of $1.15 per GJ.

Determining whether the applied for rates are just and reasonable is a test of whether the appropriate balance has been struck between providing sufficient economic incentive to prospective customers and cost recovery so as not to unduly burden the utility and future customers.

The risks of approving rates that are too low are of a far more serious and long-lived nature to current and future customers as well as all other industry stakeholders than from approving rates that are too high.

Rates must be applicable across the many combinations and permutations of prospective end users within a given rate class and not skewed by any small sample of a given rate class who has a certain equipment application or access to extreme buying power for oil.

And finally the rates applied for will allow EGNB to grow while striking the balance. EGNB requests that the rates be approved as filed effective April 1st 2005.

This concludes the opening statement.

MR. HOYT: Mr. Chairman, if I could just make one correction. If you look at the opening statement of Mark Butler. And this is just to correct the record. Because there was -- he mentioned a number that actually is not consistent with what the statement says. And there might be confusion on the example that he provided of Saint John.

If you look at the first page of it under The City of Saint John in the second bullet, the fourth lines says "This means that this homeowner must purchase 100 GJ's of oil per year to get the 65 GJ's of heat required to heat the house."

Rather than say 65 he said 100. And it may just make the record confusing on that point. So just the parties are clear.

CHAIRMAN: Good. Thank you, Mr. Hoyt.

MR. HOYT: So do you want to mark the opening statements as exhibits? And I would note that at the back of each opening statement there is an attachment that you may want to mark separately as an exhibit. I know we intend to use at least one or possibly both of them in our cross.

CHAIRMAN: Well, I will just -- before I get into that, first of all I owe Board staff an apology. I forgot to get their appearances on the record.

So Ms. Desmond, could you put the appearances in who is accompanying you today on behalf of Board staff on the record.

MS. DESMOND: Yes. Thank you, Mr. Chairman. Ellen Desmond as Board counsel. And with me is Energy Consultant John Butler, Senior Advisor Doug Goss and Advisor John Lawton.

CHAIRMAN: Thank you. Mr. Hoyt, the opening statements came in. The Board received them yesterday the 16th. And frankly, when I skimmed through it I looked at it and said I will allow matters to go ahead as presented. But this certainly has not been the normal opening statement. And for future reference normally it is a concise short overview of the applicant's case.

Then we get into the situation of being able to -- having read the intervenor's prefiled evidence and knowing certain things that have to be answered. And that normally is done by examination in chief of the witnesses referring to the various documents, which from my own personal perspective, and I haven't talked to my fellow

Commissioners about it, but it makes it more relevant to the materials that we have read coming in. And I believe it to be the appropriate way to proceed.

I don't like to be overly legalistic, but -- and then there is a good deal of what are in these opening statements that really is for you in argument, it is my perception anyhow.

So bearing that in mind, if there are opening statements that are going to be made by any of the other parties, if they are represented by lawyers, then I would expect that they would be briefed on that. And if they have any difficulty with what I'm talking about, they could perhaps speak to Ms. Desmond during the break as to what I have just said. And she can give you some guidance.

However I don't want to at this late time disserve anybody who has a prepared statement that they want to make. But I guess argument is normally saved for the end. And it does not form part of the opening statement, other than the argument that is made in the evidence that has actually been filed. Having said all of that --

MR. HOYT: Mr. Chairman, if I could --

CHAIRMAN: Yes.

MR. HOYT: -- I just want to point out that the opening statement was delivered pursuant to rule -- or Section 33 of the procedure regulation which does contemplate an opening statement to avoid taking any of the other participants by surprise and directs that it be filed at least a day in advance of the hearing.

In terms of preparing the opening statement, our feelings were that they were almost entirely based on the evidence, both a combination of the evidence and EGNB's responses to interrogatories.

And just because of the nature of the proceeding, where we went first anticipating our written proceeding and so on, and numerous issues were raised for the first time during the intervenors, this was really the only opportunity that Enbridge has had to date to speak to those.

And we thought that it would be helpful to the Board to try to put some of those issues in context from the outset of the hearing.

CHAIRMAN: I appreciate that, Mr. Hoyt. And there is nothing wrong with filing an opening statement, don't get me wrong there, or making one. I was simply from my experience trying to say the way in which it had been done before this tribunal before.

And you are absolutely right. You have to meet what you are aware of the intervenors saying. And this is your opportunity, when your panel is on, to do so.

I'm just simply suggesting that through your questioning of the witnesses after they made that opening statement, that they can bring forth the arguments and deal with the prefiled evidence of the intervenor rather than putting it all in an opening statement.

It is just simply -- from my own personal perspective it is easier for us to follow and look at the arguments that have been made by the intervenors and then see what the response of EGNB is. Simple as that.

MR. HOYT: Thank you, Mr. Chairman.

CHAIRMAN: Okay. Now where were we? You wanted me to mark the statements. Any intervenors have any objection to introducing -- not so much the statements because it seems to have tracked exactly what was provided to all the parties. But the one thing is the attachments to it.

MR. EDWARDS: Mr. Chairman, I don't necessarily object to marking them. But I would like to point out that The City of Saint John did not receive these opening statements till this morning.

MR. HOYT: The only comment I can make is that they were sent out by e-mail to the distribution list that we have used throughout the proceeding. And I apologize if that in fact was the case.

CHAIRMAN: Okay. All right. So sometimes that happens I guess, which is unfortunate, but there you have it.

Okay. Well, we will -- according to my records, Madam Secretary, the opening statement of Enbridge Gas New Brunswick, Andrew Harrington, with the attachment 1 attached to it and the opening statement of Mr. Mark Butler and the attachment to that would be exhibit A-5.

Mr. Hoyt, do you have any further questions of the panel?

MR. HOYT: No, Mr. Chairman. The panel is ready for cross examination.

CHAIRMAN: Okay. I'm going to take a 10 minute recess right now so that we will then be able to go through the cross of all the parties. And it gives them a moment to reflect. Okay.

(Recess - 10:50 a.m. - 11:00 a.m.)

CHAIRMAN: The tradition is that we go according to alphabetical order on cross-examination. I'm sure that the City of Saint John will register as the Municipality of the City of Saint John the next time.

However, Mr. Edwards, do you want to come forward to the table there.

MR. EDWARDS: Thank you, Mr. Chairman. We are not particulary familiar with these sort of proceedings, so we will do our best. And you are right, we will register as the Municipality as opposed to the City next time and hopefully someone else will get the nod besides myself to come and represent the City. However, having said that we will do our best.

CHAIRMAN: With frankness, if the intervenors want to among themselves agree as to order of cross, why that's fine with the Board.

MR. EDWARDS: We are fine.

CHAIRMAN: Okay.

CROSS EXAMINATION BY MR. EDWARDS:

Q.7 - What I would like to do is ask just a couple of general questions and then I would like to turn it over to Mr. Yammine to ask some more specific questions, if that's all right.

In the opening statement Mr. Harrington made, he talked about the typical customer. Would you explain, please, what you consider to be a typical customer and perhaps why you think the City of Saint John either is or is not a typical customer?

MR. HARRINGTON: If I could ask you, please, to turn to page 4 of exhibit A-1. I think I will address the first part of your question which is define the typical customer and then I may ask you to repeat your second part of the question.

Dealing with the first question, defining a typical customer. I think if we review our exhibit A-1, page 4, the table that is provided there, you will see the quantitative illustration both from a typical oil perspective and from a typical natural gas perspective as to how we define that customer. So for instance there are consumption levels both with oil and natural gas. The pricing levels that would be typical in those classes for those consumers. And that information is illustrated there.

From a qualitative standpoint it's very tempting to use the word average. However, average, especially those of us who have a quantitative background, may be over-simplifying.

But what we have to understand is that in any given rate class there are many, many combinations and permutations of different customers who use energy for different reasons and who use different types of equipment, either for process if they are a restaurant, or for heating, different heating equipment if they are a residential customer or if they are a commercial customer.

Enbridge Gas New Brunswick has to look at the class as a whole and consider the various quantitative and qualitative aspects of the customers in that class and reduce them for the purposes of rates making to some quantitative numbers on a page, and those are illustrated on this table.

Does that satisfy your first question?

Q.8 - Not entirely. There are -- as you say, there are various reasons that individuals, corporations, industries use or consume natural gas for a variety of reasons, and you try to boil it all down. Would you not agree that those same groupings of companies, people, individuals also purchase oil prices for different prices? Some have advantages over others?

MR. HARRINGTON: Sorry. Was there a further question in that?

Q.9 - I'm trying to get to -- if I can make myself clear. I'm trying to get to why Enbridge perhaps does not consider the City of Saint John to be a typical customer.

MR. HARRINGTON: And certainly that I believe was the second part of your question which I hadn't gone to, so -- there is only one aspect regarding the City of Saint John which makes them atypical, and that is the apparent extreme purchasing power that they have for the provision of their retail oil.

And, you know, if I now could ask you to look at Enbridge Gas New Brunswick's response to the PUB's Interrogatory number 6. Are we all there? And I would like to refer to the last paragraph of that response, and I will read it in.

It must always be kept in mind that the market spreads estimated by EGNB and the resulting retail oil prices are meant to represent a typical customer in each of the various rate classes. These market spreads and the resultant retail prices cannot and will not be typical of the pricing obtained by every customer. Some customers will obtain fuel at more or less favourable prices than the typical customer for numerous reasons, such as those with strategic or group purchasing plans which increase the purchasing power of that customer.

And I think that's the point that you are getting at. If you look at Enbridge New Brunswick's rates I think what is evident is that they are market based rates designed for customers who consume certain levels of natural gas. For instance, in the SGS class that class is assigned to consumers who will consume annually between zero and 400 gigajoules. Being market based rates, it presumes that it's an individual site, that is potentially a homeowner, who would have limited purchasing power in the normal scheme of things.

Certainly the opportunity to join purchasing plans, et cetera, does exist in oil, and certainly the regulatory and legislative framework in New Brunswick exists such that customers that wanted to group together in the competitive provision of a commodity natural gas pricing product is possible as well.

As I said in my opening statement, the issue of leveraging purchasing power is more properly addressed in the competitive commodity offering marketplace, and not with distribution service which, for clarity, is a transportation service only.

Q.10 - Just one further question on that and I will leave that point alone. The cost of natural gas that the City purchases, including distribution, who ultimately pays for that?

MR. HARRINGTON: I'm sorry. Could you repeat that?

Q.11 - The cost of the natural gas purchased by the City of Saint John and the cost of the -- including the distribution cost, the delivery, who ultimately pays that cost?

MR. HARRINGTON: Perchance could you rephrase your question because I'm not understanding it.

Q.12 - Sure, I will. And I'm not trying to lead you on. The

City of Saint John incurs a cost for the purchase and delivery of natural gas, and the City of Saint John is funded by the public. So my question was who do you think is really paying the cost. And I'm trying to further the argument that if we are a typical customer we are serving individuals.

MR. HARRINGTON: Certainly. And the answer that you would like me to provide is that the taxpayers are paying the price. But just -- I want to differentiate between price and cost. Customers of Enbridge Gas New Brunswick are not paying the costs of the service. I think you heard in my opening statement that in 2005 less than one/third of the costs that Enbridge Gas New Brunswick will incur in 2005 are being recovered by rates. So I think that's an important concept to understand. We do not recover our costs. We are deferring amounts for collection in future years.

Q.13 - Well further to that, is it not Enbridge Gas that makes the decision on how much infrastructure they are going to put in the ground in 2005, and therefore at what cost?

MR. HARRINGTON: I think it may be helpful for me to explain, if I can, our overall business model. And before I embark on this, this is not something that I prepared to illustrate in a simple or straightforward fashion, because

I take it from your question that you are presuming that the costs that we will incur in 2005 are strictly related to a system expansion that we will undertake in 2005. That's not the case.

Enbridge Gas New Brunswick to date has invested over -- more than $165,000,000 in developing infrastructure in New Brunswick. We have never been in a position -- it's like many other businesses. You make large upfront capital investments, and in our case continuing capital investments, to grow an infrastructure without the possibility of being able to recover your entire costs immediately. If we were to charge our cost of service through rates nobody would convert to natural gas. They would be punishingly high rates.

So as we are investing in our infrastructure, and this is all part of the Board-approved business model, as I like to refer to it, and we recognize that we are unable to recover our costs, we charge rates that are market based and they allow us to grow the distribution system, maximize utilization of the system. This is a long-term initiative. It does not happen overnight.

And so we call the period that we are currently in the development period. And in that period, amongst other things, we charge market based rates. These market based rates are lower than our annual cost of service, our annual cost of carrying the investments as well as the direct expenditures that we have in any given year.

At some point in the future, we predict around 2011, we will be in a position where our rates generated by market based rates will be approximately equal to those that are our costs of service, and we will cross over to cost of service based rates.

These are all very important concepts. And what this helps illustrate is exactly why it's important that we pursue these rates increases. If we do not pursue these rates increases we will be in effect increasing the amounts that we defer for recovery in future periods. If we never pursued market based rates increases when the market opportunity established, we would never reach that cross-over point, and the business would fail.

Enbridge Gas New Brunswick has been presented with a market based opportunity to increase its rates and it is doing exactly what its rates methodology -- its previously approved rates methodology allows.

Q.14 - I understand what you have just explained. I'm not sure you answered the question. You indicated that in 2005 Enbridge would only recover approximately one/third or something less than one/third of its cost, and I guess my question is, do you have -- does Enbridge have some control over its costs for the coming year?

MR. HARRINGTON: Absolutely.

Q.15 - Thank you. On page 6 of your introduction -- opening statement -- there is a statement that says, we acknowledge in our evidence that payback is an important consideration to most clients. Would there be clients where payback is not important?

MR. HARRINGTON: Just bear with us for one second.

CHAIRMAN: While the panel was discussing the answer I just -- I was informed during the break that in addition to Mr. James Knight being here as an informal intervenor for the Department of Energy, Mr. Calvin Duncan is with him as well.

MR. HARRINGTON: As I recall, your specific question was are there some customers for whom payback is not an important consideration or any consideration.

The simplest example of a customer for whom payback is not important is a new construction customer. There is no payback in that example.

Q.16 - Yes.

MR. HARRINGTON: In the example, another -- a further example -- and I would ask to turn to Enbridge Gas New Brunswick's response to Flakeboard Interrogatory number

19.

I apologize. I took everybody to the wrong interrogatory. It is still Flakeboard company. It is Interrogatory number 15.

And if you review that response, we have and continue to attract customers in what is known as our CLGS-HFO, which stands for Heavy Fuel Oil Class, who are converting from heavy fuel oil -- some people call it bunker, some people call it number 6 -- to natural gas. And they are doing this in the face of no savings.

Most hospitals in the areas where we operate, most universities in the areas where we operate, have converted from heavy fuel oil to natural gas. And there are some industrial customers as well who have done that.

Q.17 - Would most of those conversions have been as a result of other regulation, Department of Environment considerations, emissions?

MR. HARRINGTON: No. In fact they have retained their heavy fuel oil burning capability. As far as we are aware, these conversions were done for other reasons, avoiding operating and maintenance expenses, et cetera.

The fact is they have converted. And they have remained natural gas customers in the face of little or no savings, in fact paying a premium.

Q.18 - Would these institutions, companies, Flakeboard, universities, hospitals, are they typical customers?

MR. HARRINGTON: For those classes they are.

MR. EDWARDS: Thank you. I would like to turn the mike over to Mr. Yammine. He has some more specific questions.

MR. YAMMINE: Thank you, Mr. Chairman.

CROSS EXAMINATION BY MR. YAMMINE:

Q.19 - I just noted something here when I'm reviewing the opening statement by Mr. Andrew Harrington here. The attachment number 1, I don't know if I didn't read it before, but I'm looking at the number here. There is a number for retail oil price had changed, changed by percentage here.

And what is the reason for these changes? Are we going to experience another increase in the price distribution here as a result of these changes. Because the number doesn't add up to the one we received for December 9.

MR. HARRINGTON: That was the exact point of that exhibit. What we have done -- and no, we are not seeking to amend our application to seek higher rates. What we have done is we have updated our ratemaking methodology to be as current as possible for purposes of illustrating this.

And let me just -- I think it is important that I roll through this. This is based on wholesale energy prices for oil using the exact same methodology. Is everybody at this exhibit? This is with the attachment to my opening statement.

Using the exact same methodology that we use in preparation of the evidence that was received on December 9th, updating only the now current, as of March 14th forward price of oil. And if anybody saw the news last night, I'm certain the numbers would be increased again, and the price of EUG.

And what this illustrates is that -- and if I can take you to row 14, using the exact same methodology, if EGNB were to file rates today, we would be seeking rates that would be higher than what were applied for by at least $1.15 and as much as $1.24. This is important to recognize. We are not applying for this.

Customers will be receiving significant, what I would consider excess savings because of changes that have taken place in the wholesale price of oil since the time that we filed our application.

I have done a little bit of back of the cigarette pack math. And so that everybody has a clear understanding of this, customers now as compared to when we filed our evidence are going to be seeing -- well, I will roll by it through the rate classes -- an additional --

CHAIRMAN: Mr. Harrington, I'm going to interrupt.

MR. HARRINGTON: Certainly.

CHAIRMAN: My appreciation of Mr. Yammine's question was effectively why have you filed that as an attachments? It is for illustrative purposes. It is not to say you are going to try and change your rates reflecting the increase in prices, that is all.

MR. HARRINGTON: That is correct.

CHAIRMAN: Sorry. I'm giving testimony.

Q.20 - Just that the point here, actually natural gas prices go up. And The City of Saint John had experienced a decrease in their oil prices as of February and January, oil prices, just to note that.

My question again and again and again, we see a lot of numbers thrown at us, 95 percent efficiency, 96 percent efficiency, 98 percent efficiency. I feel like somebody is telling me something here.

I mean, the fact here is we have been for the last two years, public customer has been misled by this number a lot by this efficiency, efficiency, efficiency and efficiency. And basically here we have to clarify this number. And we have to be a not misled customer. And as many customers had changed their natural gas based on the

15, 20 percent increase, which a lot of customers did not receive.

However the numbers -- let's see, for Mr. Butler, what are the conditions -- what are the conditions for a boiler to condense?

When you talk about a highly efficient boiler I believe -- when you talk about high efficiency boiler you are talking about 92 -- you mean that it is a condensing boiler, I believe so. So what are the conditions for this boiler to condense?

MR. LAWSON: Mr. Chairman, if I might, I just --sorry.

CHAIRMAN: I should have recognized that voice.

MR. LAWSON: I'm sorry about that.

CHAIRMAN: Go ahead, Mr. Lawson.

MR. LAWSON: I just wondered the propriety. The question was addressed in this case to one of the witnesses.

And then I just think it appropriate that the witness answer the question rather than there be a discussion between the panel as to what the appropriate answer is, Mr. Chairman.

CHAIRMAN: Well, the Chairman of the Board has also got his two cents worth in, Mr. Lawson.

MR. LAWSON: Yes, indeed.

CHAIRMAN: It is normal that when a panel of witnesses is presented, they can confer before one chooses to answer. Nothing wrong with that.

MR. BUTLER: Can I ask, are you referring to a particular type of boiler? Residential? Commercial?

Q.21 - Commercial. Commercial please.

MR. BUTLER: And please repeat the question again then.

Q.22 - What conditions in order for a condensed boiler to condense, to achieve the 95 percent efficiency stated? In many applications in your response to us you always claim it is 96 percent efficient. What conditions?

MR. BUTLER: I think what you are referring to is under what operating conditions --

Q.23 - Operating conditions, yes.

MR. BUTLER: -- will it condense --

Q.24 - Yes.

MR. BUTLER: -- and won't it condense?

Condensing -- all condensing equipment including boilers require a low flue gas temperature to condense the flue gases to a liquid.

So I think what you are getting at in the case of boilers is that you require low inlet temperatures lower than would be in a noncondensing boiler in order for the flue gas to condense.

So the bottom line is you need flue gas temperatures below about 140 degrees Fahrenheit for condensation to take place.

Does that answer your question?

Q.25 - Partially it is answered. But I just want to correct it here. I have some information from engineering they say it has to be below 122 degrees Fahrenheit.

MR. BUTLER: I would disagree with that. Some condensation will start at about 140 degrees Fahrenheit. And that is why on noncondensing appliances they ensure that the flue gas never gets down to 140 degrees Fahrenheit.

So you won't get full condensing. But you will get condensation starting to come out of a flue gas at that temperature.

Q.26 - If I don't get condensing what will be my efficiency?

A. In a boiler it would -- if there is no condensing at all it would act similar to a mid efficiency appliance. So it would be in around the 86 percent annual fuel utilization efficiency number.

Q.27 - So do you believe -- or if it is not a condensing boiler, do you believe that new oil and natural gas boiler have similar efficiency?

MR. BUTLER: If it is not condensing?

Q.28 - Yes.

MR. BUTLER: It would be close. The natural gas would be slightly greater. A brand-new oil boiler that has just been cleaned and serviced and is operating at its optimum efficiency would be close to a gas boiler.

But over time the heating -- heat transfer services will start to foul with soot. So that the efficiency will fall off until the next time the boiler is cleaned, so -- whereas with gas burns clean. So there is no deterioration of the efficiency over time.

Q.29 - Just to be clear on that, I have some information from Viesmann. And they stated, based on their technical information, that a oil furnace has 88 percent efficiency compared to natural gas with 83 percent efficiency.

CHAIRMAN: Mr. Yammine, I realize you don't have the good fortune of being accompanied by a lawyer.

MR. YAMMINE: No, sir.

CHAIRMAN: But I would suggest to you that if you do have some information that you want this witness to comment on, that you probably should show it to him, give him the opportunity to read it.

MR. BUTLER: I'm not sure what the question was, but anything you want me to comment on --

Q.30 - Basically the way I understand it, the way I get this literature, is most -- that oil furnaces are more efficient than natural gas furnaces. However, there is other --

MR. BUTLER: Okay. Well let me just comment. This is one particular brand of boiler.

Q.31 - That's true.

MR. BUTLER: These are not annual fuel utilization efficiencies which is what I was referring to in my response to CES Interrogatory 13, which is the true efficiency that you need to look at. You have to look at the entire season. These efficiencies are combustion efficiencies. And as I said, the oil combustion efficiency here is shown at 88 percent and that will deteriorate over time. The combustion efficiency for this particular boiler on gas is 85 percent.

However, there are numbers, lots of commercial boilers, that would have annual fuel utilization efficiencies higher than the oil boiler shown here. So I'm not sure what your point is here.

Q.32 - My point is I am going to make the next question. Do you believe that efficiency is not related to what fuel you are burning but how efficient is your equipment or system? Do you believe in this statement?

MR. BUTLER: Again referring -- if we are talking about annual fuel utilization efficiencies we are talking about the entire system. So it's the ability of the appliance to generate the heat efficiently and it's the efficiency of the system to deliver the heat efficiently.

Q.33 - So efficiency -- so as I said, it's not what I am burning or what I am -- it's what type of system you have is related how efficient is your system, how efficient is your equipment. So natural gas and oil should not be a factor to determine efficiency.

MR. BUTLER: I disagree with that, because first of all natural gas equipment is more efficient than oil equipment, because there are commercial boilers available with AFUE's well over 90 percent.

CHAIRMAN: Sorry. What is an AFUE?

MR. BUTLER: Annual fuel --

CHAIRMAN: Enbridge Gas New Brunswick brings a lot of acronyms like that. I don't know that one.

MR. BUTLER: I apologize. Annual fuel utilization efficiency which is the overall seasonal efficiency of the appliance.

So for example, we have a number of customers who heat their domestic hot water and their space heating with condensing boilers, and because they are heating cold water they get -- that boiler will condense and will operate at a higher efficiency than you would see on oil.

Q.34 - It will condense?

MR. BUTLER: It will condense, yes.

Q.35 - Do you think in most commercial applications is it feasible to use condensing boiler?

MR. BUTLER: Every application is different, so you can't make a broad statement that one technology is the best for every application. So it really does vary. The example I just gave where you are also heating domestic hot water is a good use of a condensing boiler for a residential as well, because you are dealing with cold water, cold inlet water which is what is required in order for the boiler to condense. So you will optimize the efficiency that is available -- that the product is available to deliver.

Q.36 - What percentage of condensing boilers in commercial use in the province of New Brunswick? Percentage-wise do you have a --

MR. BUTLER: The only -- I don't have statistics for commercial. I do for residential but -- in the residential market they would be close to 90 percent of the market.

MR. HARRINGTON: I would like to just add something to this and it may be helpful for the Commissioners. Enbridge Gas New Brunswick and the other participants that work in developing the natural gas marketplace, we do not target customers with brand new oil equipment. They are not good prospects. We target customers who are getting ready to replace their equipment. The value proposition that is extended by natural gas is most effective in a situation where somebody is near to having to replace their existing oil fired equipment.

And the broadness of the technology applications is another factor that needs to be considered. I read the intervenors' evidence and, you know, there seems to be this extreme focus on boilers. Mr. Butler has put evidence in by way of exhibit 2, I believe it is, where boilers in the commercial marketplace, including conversion burners, represent less than 14 percent -- represent 14 percent of all the equipment that has been installed.

So I just need to point out that while this discussion is going on about boilers, it's not overly relevant to the entire commercial market segment.

CHAIRMAN: It's ten-to-12, and I appreciate the fact, gentlemen, that you are new at attempting to examine witnesses, et cetera. What I am going to do is offer the services of Board counsel for 15 or 20 minutes after we break and if you want to talk with Ms. Desmond about the points that you want to arrive at and sort of how to get there as speedily as possible, why she will assist you in that regard. Not to say you are not doing a good job but I think we could speed it up a bit if you were to chat with her. That's a terrible thing to thrust upon you, Ms. Desmond, I am going to do that, and we will break and come back at 1:30. Mr Hoyt?

MR. HOYT: Mr. Chairman, could we just ask that the document that Mr. Yammine presented to Mr. Butler be marked as an exhibit and copies be made over the break?

CHAIRMAN: Sure. All right. During the lunch hour break I will mark it as CSJ-4 exhibit, and we will return at 1:30.

(Recess - 12:00 p.m. - 1:30 p.m.)

CHAIRMAN: Any preliminary matters. Okay. Go ahead, Mr. Edwards.

MR. EDWARDS: Thank you, Mr. Chairman. We will try to be more direct.

CROSS EXAMINATION BY MR. EDWARDS:

Q.37 - I would like to draw your attention to I guess it's exhibit A-1 which was the application submitted by Enbridge Gas. Page 4 of 13. It's the table with the derivation of target rate -- distribution rates. On line 4 under the category GS, could you explain where the number 1447 -- how you came to that number?

MS. BLACK: Yes. The 1,447 gigajoules represents basically the average consumption of a GS customer on our system.

Q.38 - Thank you. And on line 9 under the same category, GS, the 1175 gigajoule, can you tell me how you got that number?

MS. BLACK: The 1175 would represent the efficiency difference.

Q.39 - Am I correct in assuming that means the efficiency difference that would be gained from switching from an older oil fired appliance to a state of the art natural gas appliance?

MR. BUTLER: It's based on -- yes, the efficiency gains from oil to natural gas, not necessarily state of the art appliance, it's a range of all of the different types of appliances and efficiencies.

Q.40 - Okay. Thank you. Would you anticipate similar efficiency gains if you were to convert from an existing oil fired appliance to a new state of the art oil fired appliance?

MR. BUTLER: Quite possible, yes.

Q.41 - Thank you. That being said where is the advantage -- how does Enbridge see an advantage to a customer switching over from oil to natural gas as opposed to simply upgrading the oil?

MR. BUTLER: Well we are not -- we wouldn't expect a customer that has a new -- relatively new oil boiler or oil furnace to, you know, switch to natural gas strictly for the economic benefits. So the -- most of the customers that are attaching to gas and the ones that we are targeting are ones with old equipment that are in need of, you know, doing a replacement or an upgrade in the near future.

Q.42 - Yes. I understand that. But is there an incentive that the customer would have to go from oil to natural gas as opposed to from oil to new oil appliance?

MR. BUTLER: I guess there are a couple of issues in answering your question there. First of all there are other benefits to using natural gas, so customers -- things such as not having to store oil and maintaining oil storage tanks, and the implications around that, the liabilities, the insurance issues. So those kind of savings aren't factored into our efficiency gain numbers.

There is also quite a difference between gas burning appliances and oil burning appliances. There is different ways of accomplishing the same thing with gas that you can't do with oil. For example -- and it was an example I used in my opening statement and in fact it's an example of where the City of Saint John have increased their energy efficiency -- where they were using an oil boiler to heat water which then gets distributed to unit heaters to heat an area like a warehouse. The more efficient way to do that is with a direct fired what are called radiant tube heaters, and that kind of oil does not lend itself to being applied to an appliance like that. So it's an appliance that is strictly used on either natural gas or propane. And in fact in Attachment 2 of my opening remarks I show there that 27 percent of the heating appliances in the GS rate class, GS and CGS rate class, are radiant tube heaters. So that's 27 percent of the appliances that oil -- there is no equivalent oil product for it. And this particular technology would have efficiencies in the 80 percent range.

Q.43 - Thank you. On that same table under the LFO class, again line 4, is that the same explanation? That's the typical consumption of an LFO customer?

MS. BLACK: Yes, that is the typical consumption of customers in that class participating in the first block.

Q.44 - Okay. And similarly on line 9, that's a typical customer consumption?

MS. BLACK: Yes. And I must point an error I just discovered yesterday when reviewing this table. Line 4 and line 9 should in fact be the same. And if I could refer you to page 11 of the same exhibit, there is a small table there in response to question 14, and under the rate class LFO you can see the natural gas efficiency is 80 percent and the oil efficiency is also 80 percent. There is not meant to be any efficiency in that class.

Q.45 - Why is that?

MS. BLACK: We have assumed that there is no -- I will let Mark answer that.

MR. BUTLER: In the large category we make the assumption that most of the boilers in that rate class would be converted rather than replaced. So they would be converted with a conversion burner. And in applying a gas burner to an oil burner there will be some energy savings, but we haven't included them in there. They are not material.

I should point out that not ever LFO customer in that rate class are using boilers. There is a number of customers that are using other appliances, but that's an assumption that we have made, and it covers off most customers in that rate class.

Q.46 - And a final question with respect to this table. The differences in the -- with the exception of the LFO class, the differences in the consumption of oil and natural gas which is 20 15 and 15 percent. Are they attainable? Are they realistic numbers?

MR. BUTLER: From what respect, please, could you indicate are they attainable?

Q.47 - I guess is it realistic to expect that on average the conversion from oil consumption to natural gas consumption is in the order of 19 percent, all three classes, SGS, GS and CGS?

MR. BUTLER: Yes, absolutely.

Q.48 - Thank you. One final question, and maybe it's a clarification. In your preliminary remarks on page 3, your first bullet, the City of Saint John shows an example of where they replaced two boilers with radiant tube heaters and reduced consumption by 32 percent. Are you aware that that reduction in consumption is not strictly as a result of using natural gas but more as a result of completely changing the way that facility was heated?

MR. BUTLER: I'm only aware of the notes that were included in your -- in the evidence there and it stated that there were some garage doors insulated and an energy efficiency thermostat installed. So those two measures would have a minimal impact compared to the savings you would get from going from a hot water boiler with hot water unit heaters to a radiant tube system. And as I stated in CEC's Interrogatory number 13, the Gas Research Institute in Chicago had done some research into looking at the efficiency of radiant tube heaters and found in fact that when compared against another gas fired unit heater, which would be more efficient than a boiler type unit heater, that radiant tube heaters used half the energy of the gas fired unit heaters.

So I'm not surprised at all at the savings that you report there.

Q.49 - And those savings would also include if it had been propane as opposed to natural gas?

MR. BUTLER: The energy efficiency savings would have been the same as they would be for natural gas.

MR. EDWARDS: Thank you. That's all my questions.

CHAIRMAN: Thank you, Mr. Edwards. Just a question, Mr. Ross, are you planning on sticking to the end of the hearing?

MR. ROSS: We are here at the Board's pleasure.

CHAIRMAN: Oh no. I mean if you are prepared to wait until we have finished with the witnesses that probably would be better, rather than breaking up the cross of this Panel. Is that okay?

MR. ROSS: That's okay.

CHAIRMAN: Great. Thank you. Mr. Sorenson, you can -- if you want to you can move ahead or you can do it from there. You are close enough to the witnesses. You would rather do it from there. Okay. Just wait until Mr. Yammine is able to move back to his place.

CHAIRMAN: Go ahead, Mr. Sorenson.

CROSS EXAMINATION BY MR. SORENSON:

Q.50 - Thank you, Mr. Chairman, distinguished Board Members. I do apologize that we are not represented also by counsel today. So I'm also going to give it my best shot here. I also apologize that my partner could not be here today. He is on vacation in St. Croix, so enjoying the weather I'm sure.

CHAIRMAN: That is not the New Brunswick river, is it?

MR. SORENSON: I don't believe so.

Q.51 - My first question. In your opening statement and also in your Interrogatories number 1 and 2, Enbridge to CES, I think it all comes across that we all agree there is volatility, if you will, in the commodity market. And we have seen tremendous volatility over the past 24 months like never before.

The question here is do you believe that a 21-day average of NYMEX closing prices truly reflects historical and future market conditions?

MS. BLACK: Thank you, Mr. Sorenson. I believe your question was do I believe the 21-day strip is reflective of current and historic oil prices, is that correct?

Q.52 - Almost so. And I will repeat it. I'm sorry. And I apologize.

Do you believe a 21-day average of NYMEX closing prices reflects historical, current and future market conditions?

MS. BLACK: Just for clarity purposes, if you would, I would explain exactly what the 21-day strip is. It is the average of the closing NYMEX prices for the last 21 days of a 12-month period. So it is February -- in this case February '05 to January '06.

So it is an average of 12 months prices. And I'm not certain if it reflects historic prices. But it does reflect the current price which today is over I believe $56?

Q.53 - Yes. It is actually up to 57 unfortunately.

MS. BLACK: And it does match the period that we are looking at which is February '05 to January '06. So it does reflect the period in which we are trying to set rates for.

Q.54 - But then would you agree that if you choose a certain day, a certain day in time, that that certain day in time can be considerably more favorable than not in your application?

MS. BLACK: Well, again a certain day would be -- would really represent a month of closing prices. And, you know, if we look at the period that we chose, which was ending November 4th -- and I believe we have a WTI average of $48.33.

And if we go back and look over the last six -- the average of the last six months, those prices still support the rates that we are asking for in this application.

So it is not a single day. We can look at closing amounts from last September to this day and still support the rates in this application.

Q.55 - Mr. Harrington?

MR. HARRINGTON: I would like if we could to turn to PUB -- our Enbridge Gas New Brunswick's response to PUB Interrogatory number 5.

The first thing I would like to note on this response is its date, which is February 8th 2005. And that is the date that it was filed. As of that date, if Enbridge had have updated its application, we would have been looking at rates that were higher based on the then current economics.

In my opening statement, which Mr. Sorenson referred to, I say since the time of the last approved rate increase till the time of filing and through to present the forward wholesale price of oil for the rates period has increased. And while the price of gas has increased it has not increased by the same amount.

So whether a 21-day period or a 42-day period or a 66-day period, the fact is since the time of filing to now, the forward-looking energy prices support the rates application and indeed indicate that we should be seeking higher rates.

Q.56 - Thank you, Mr. Harrington. Thank you, Ms. Black. But I would like to drill down a little on that. Again in your opening statement then you state that your rates could be higher by $1.15 per gj if the analysis was conducted today, agreed?

MR. HARRINGTON: We didn't do the analysis today. In fact I think they would be higher than that if we did it today.

Q.57 - A couple of days ago. Okay. However would you agree that the price or the timeframe that you actually chose for the rate application and then the price that you -- when you wrote your opening statement -- may not be truly reflective of an annualized price of crude oil per barrel and natural gas?

MR. HARRINGTON: What I will allow is that future energy markets change. They change daily. They go up. They go down. Enbridge Gas New Brunswick is setting rates for a forward period of 12 months starting in February. These rates would be current in today's market.

If something occurs -- were Enbridge Gas New Brunswick to do a change in the wholesale price of oil or the delivered price of natural gas such that we are not able to continue to grow the distribution system as we require, we will introduce and file for a rate rider to reduce rates if we determine that that is in fact the underlying cause of the problem.

Q.58 - Thank you, Mr. Harrington. So again then, just humor me for a moment.

Do you believe that today's commodity price then is abnormally high and may not be reflective of the cost of oil and gas for the entire year for 2005?

MR. HARRINGTON: It may not.

Q.59 - Thank you. In your opening statement you discuss purchasing power, in other words aggregation groups, whatever it may be. People were getting together to buy something in bulk.

I think of the Costcos and large stores, retail stores that you can buy things in bulk and you get purchasing power.

So based on that, would you agree or disagree that a prudent or average consumer and/or business seeks alternatives to reduce their cost through these type of groups?

MR. HARRINGTON: I'm sorry. Could you just restate the question portion of your --

Q.60 - Sure. I'm sorry. All right. Gladly.

Would you agree that a prudent or average consumer and/or business seeks alternatives through groups or, you know, going to a warehouse to reduce their cost?

MR. HARRINGTON: I'm alternating microphones. And I'm not sure which one I'm supposed to be using. To the extent that such alternatives exist -- and just as a point of illustration, the most readily accessible retail conglomeration or amalgamating group in the retail oil market that I think everybody will be alive to in New Brunswick is Co-op. Right now they are offering a 3-cent discount off their posted price for oil, so 64 versus 67 cents.

Q.61 - Are you aware that many apartment complexes and consumer groups, as well as business associations in this market, aggregate to buy products and services, and oil is included in that?

MR. HARRINGTON: We are aware of that.

Q.62 - An example, a real life example, yesterday's price had the Saint John Condominium Association paying 53 cents per litre which obviously is significantly less than your assertions, approximately 24 percent less than your assumptions?

MR. HARRINGTON: Could you please illustrate where you are making those relative comparisons?

Q.63 - Yes. I'm sorry. I apologize. 53 cents versus your submitted price today in your opening statement of 65.5. So then 53 cents per litre against 65.5.

MR. HARRINGTON: Could you define the nature of the individual sites that might make up this group?

Q.64 - Sure. These are apartment complexes that are multi-unit.

MR. HARRINGTON: Thank you. I think Mr. Sorenson understand that we have not filed the rates that were included as exhibit 1 to my opening statement for approval. We have in fact filed rates illustrated at page 4 of exhibit A-1 for approval.

If one would look at that, which is page 4 of 13 at exhibit A-1, and look at the GS column, which is what I believe most of these consumers would fit into, the retail price of oil as illustrated at line 1 under GS is less than the number that Mr. Sorenson is discussing.

MR. SORENSON: Yes. Unfortunately I do not have at that point in time what exactly -- the particular day that you chose and the day that the price of oil was at this particular location.

However, with that said, based on an individualized meter, the likelihood of these particular customers being able to get purchasing power from gas perspective is questionable?

MR. HARRINGTON: But I think, Mr. Sorenson, if you understand that the rates that we apply for allow for consumers who are accessing EUG at a price of 10.15, which I think we all know has declined since then to the tune of 70 cents, would receive relative savings, efficiencies and everything else accepted, of 15 percent as compared to natural gas.

In fact, Mr. Sorenson, the example that you illustrate completely proves our point with regards to market-based rates. The customers that you illustrate will receive the benefits of natural gas at the right balance under market-based rates and allow us to collect distribution revenues to offset our costs as we grow our distribution system.

Q.65 - Thank you, Mr. Harrington. Unfortunately I'm not an attorney. And I won't do a very good job here on the cross rebuttal on that. So I disagree. So we will leave it.

In your interrogatory to us, number 8, page 1 of 2, you state that Enbridge has long experience in other oil --

CHAIRMAN: Excuse me, Mr. Sorenson. What are you referring to now?

MR. SORENSON: Oh, I'm sorry. Interrogatory number 8.

CHAIRMAN: And is that put to you by Enbridge?

MR. SORENSON: Yes, a question to us, yes.

CHAIRMAN: That would be --

MR. SORENSON: Thank you. Enbridge to CES response. We replied to -- this was Enbridge's response.

Q.66 - You state that there is a long experience in other oil to gas conversion markets. What markets are you referring to that you have a long -- Enbridge has a long experience in other oil to gas conversion markets.

MR. BUTLER: Can you just tell me what question you are referring to.

Q.67 - Yes. Let me dig it out. I apologize.

CHAIRMAN: Well I guess we haven't found it, Mr. Sorenson. So give us a guiding hand here. Is it EGNB Interrogatory number 8 of Competitive Energy Services? We will just wait. It's hard being a lawyer. You are doing a wonderful job, Mr. Sorenson. I'm just bringing a little levity in here.

MR. SORENSON: Thank you.

CHAIRMAN: And while you are looking for that, you did say something in your preliminary remarks. I want to assure anybody and everybody that they don't need to be represented by counsel when they appear before this tribunal at all.

Q.68 - Well I apologize. However, with that said there is somewhere in the text, and I will just be generic, Enbridge states that it has long experience in other oil to gas conversion markets. My question is, what markets are you referring to?

MR. BUTLER: We would be referring to Enbridge's experience in Ontario.

Q.69 - Would you agree that Ontario is considered the most mature gas market in North America?

MR. BUTLER: Well it is today but we are referring to conversions from oil and most of those took place back in the 1970s and '80s when the market wasn't as mature as it is today.

Q.70 - As such equipment efficiency factors, all those things we have talked about today which I'm not going to debate, much different -- in completely different scenarios and much different than what we are experiencing today here?

MR. BUTLER: Not really. When we are looking at equipment that we are replacing in the residential and commercial market, some of that equipment is well over 30, 40 years old. So there is not a lot of difference between the old boilers that we see here compared to old boilers that we would have seen 30 years ago. The new equipment is definitely different but there were not a lot of technical advances in equipment until the last 20, 25 years.

Q.71 - Would you agree that the price of natural gas was significantly less than any other fuel?

MR. BUTLER: What period are you referring to now?

Q.72 - Frankly you can go all the way up to 2000.

MR. HARRINGTON: Mr. Sorenson, we did not prepare ourselves on the historical relationship between oil and natural gas to the extent that you might think for this proceeding, but let me -- and I don't have this personal experience. I was -- if I was even talking at the time, I don't know if it was -- however --

CHAIRMAN: Oh, Mr. Harrington.

MR. HARRINGTON: You know, for very long periods of time the Consumers Gas Company, which is the company that Mr. Butler is referring to, was non-competitive with oil for many many years and up and into the '70s, and what he is referring to is the off oil program which took place in the '80s where massive federal subsidies were being levered to get people off of oil. That is the program that I think Mr. Butler had made specific reference to.

Q.73 - Do you believe -- again focus now moving -- you know -- we have equipment related issues but then now we are over here in the northeast quadrant of North America. Do you believe that Ontario had as high as oil penetration as the northeast quadrant of North America?

MR. BUTLER: Yes. I am guessing here but I know that in Ontario we would have added hundreds of thousands of customers from oil. So oil was the prevalent fuel prior to the 1970s.

Q.74 - Where I am going with this is again the -- again outside of the northeast part of North America the markets are considerably different as well as over the past five years commodity has been extremely volatile and the price of natural gas now competes or is higher than oil depending on the day and the point and the time. Those were non-existent in the past except for very few short periods of time. And as such when one states other markets I don't believe other markets can be brought into this equation.

CHAIRMAN: Mr. Sorenson, was that a question or just a statement? In other words, should the Panel respond to that.

MR. SORENSON: It's up to them if they want to respond to that or not.

MR. BUTLER: I would just like to clarify that reference that was made to our prior experience -- Enbridge's prior experience -- was talking about the efficiency issues. So we are talking about the type of efficiency gains that we have seen through the conversion of oil equipment and through the replacement of old, inefficient oil equipment to gas. So that's what that reference was regarding.

Q.75 - Thank you, Mr. Butler, and thank you, Mr. Harrington, for your feedback. On exhibit A-10 -- give me a minute.

CHAIRMAN: Are you referring to exhibit -- what exhibit are you referring to, I guess? Is it Enbridge's pre-filed evidence and application?

MR. SORENSON: Yes. It's exhibit A, page 7 of 13, A-10, Q-10, A-10. And I found this one, so -- your comments are, you state that your increase in rates in 2003 to 2004 did not hinder connections nor new revenue. Would you agree that many of these new conversions were due to significant incentives provided by the utility that actually decreased the customer's initial capital cost and may not truly reflect market conditions and the standard project return on investments? Now I know that's a loaded question here, so why don't I back it up and break it into three.

Would you agree that many of these new conversions were due to the significant incentives provided by the utility that decreased the customer's initial capital cost?

MR. HARRINGTON: I think I am going to have to ask you to ask that piece of question once, but before that, in referring to A-10 you said that -- actually I don't think you got A-10 right in your reference. I can't remember exactly what you said.

Q.76 - Well you say year-to-date distribution revenue signings are three-and-a-half times the revenues signed in the same period. This represents the highest growth period for Enbridge since commencing operation.

MR. HARRINGTON: That's correct. I think the way that you characterized it initially was incorrect, so I just wanted to get that cleared up.

Q.77 - Thank you.

MR. HARRINGTON: So now could you please re-state that question?

Q.78 - Yes, I will, gladly. Would you agree that many of the -- in order to achieve these results, these new conversions were due to significant incentives provided by the utility that actually decreased the customer's initial capital cost to convert?

MR. HARRINGTON: Except for the adjectives I think -- how did you characterize incentives, please?

Q.79 - You want me to clarify incentives? Sure. That incentives provided the -- incentives provided the utility to decrease the customer's initial capital cost.

MR. HARRINGTON: If I might, I think the question is, did Enbridge Gas New Brunswick offer incentives to consumers to facilitate their decision to convert, is that --

Q.80 - Sure.

MR. HARRINGTON: Yes, we did, and we also worked with the federal government in terms of accessing those incentives and the provincial government, and certainly those incentives work to the consumer's advantage to minimize the up front costs of converting.

Q.81 - As such if someone for example had a $25,000 conversion and you offered that customer $25,000, then their return on investment would be different than if they had to pay for that $25,000, is that true?

MR. HARRINGTON: We are keeping this in the purely theoretical, so yes.

Q.82 - So the question then comes back to again when we are deciding on how to develop rates and how they are all market based, had the consumer not had that incentive to convert, how likely would you have had the same results that you had in 2004, because what you state in your submissions here is that despite an increase in rates from

2003 to 2004 you were able to actually increase your revenues. Actually you don't increase connections if we -- well I will get into that a little further here. But the question then is if you did not offer those customers incentives, would your conversions be even less?

MR. HARRINGTON: I think if nobody was marketing or selling to customers, regardless of whether it was communication efforts to attract customers, providing incentives or other sales-related activity, we would have had fewer consumers convert to natural gas.

Q.83 - So again the answer is that the incentives significantly helped you get customers to convert?

MR. HARRINGTON: I don't think we need the adjectives.

Q.84 - I'm sorry.

MR. HARRINGTON: That's okay. Certainly incentives are one marketing tool to allow customers -- to make the sales proposition to customers, the overall business case for consumers, an easier sell.

Q.85 - Do we know -- again -- and you didn't submit this as evidence, so again it's a question -- do you know what the breakdown of those oil conversions are versus propane, and again based on that, had the incentives been propane oriented or oil oriented or just oil?

MR. HARRINGTON: Could you please perhaps restate the question? I'm not following.

Q.86 - First do we know of those that converted, what the breakdown is of oil versus propane in 2004. That is question 1. Of that do we know who -- what incentives were provided? Were those incentives the same amount of incentives to those burning propane versus oil?

MR. HARRINGTON: Is there a particular reason why you're not focusing on electricity as well in your question or you just want to know about --

MR. SORENSON: Unfortunately we haven't had a significant amount of electric conversions. Believe me, I think that is a huge market that we all should be working on. But no, I don't have the electricity data.

And so I'm not referring to electricity in this, just the fuels. Because again you tie your rates to fuels, not to electricity.

MR. HARRINGTON: Just to be clear -- and I think actually I might take a second.

I will get to Mr. Sorenson's question. But in his question it is clear to me that he believes that we only target fuel or propane. We do extract through-put by displacing electricity markets as well, and indeed in some cases by splicing wood.

And I would like to refer everybody to page 5 of exhibit A-1, just a small portion of our evidence. And this is provided as a partial response to Q5 of the exhibit A-1.

EGNB continues to feel that oil is the most appropriate benchmark against which to set its rates. It is generally the least expensive of the existing energy alternatives, meaning that natural gas will be even more competitive against other alternate energy sources such as propane. Electricity rates in New Brunswick are artificially low and static, making it difficult to provide a consistent economic incentive for consumers to convert to natural gas.

However, we do attract growth from virtually every customer who converts to natural gas, especially in the SGS class, changes out their gas water -- sorry, their electric water heater for a gas water heater. So we do displace market in that regard.

Now getting back to your specific question, do we have a breakdown of the energy that we are displacing as between propane and oil?

And while we do -- I do not have that information here today. And while I believe that we can access some information -- what I think makes this very complicated is that at -- most sites were displacing more than one type of energy. And keeping that level of knowledge alive through databases and otherwise is extremely difficult. So I do not have that specific breakdown here today.

As to incentives, which I think was the next part, do we differentiate as between somebody who is using propane or somebody who is using oil, the answer is no.

Q.87 - Thank you. Let's go to CES Interrogatory number 6, page 1 of 2. This is our Interrogatory number 6 and your response. This gets back to this typical question that was raised by The City of Saint John and Mr. Edwards.

In this particular case you discuss a $40,000 annual -- would save about $40,000 annually. So what I tried to figure out exactly is how typical is this. And let me -- that is my first part of this question. And I will come back to it.

If they are saving 10 percent or 15 percent and their annual expenditures, let's assume 400' to 450,000 -- so they have a fuel budget of about 800,000 litres of fuel. So you calculate this out, which I did last night.

MR. HARRINGTON: Mr. Sorenson, just to --

Q.88 - Yes.

MR. HARRINGTON: -- save you the calculations, because we are saying it is a typical customer --

Q.89 - Yes.

MR. HARRINGTON: -- that is the exact same customer that would be in the far right-hand column of exhibit A-1, page 4 of 13. And you see --

Q.90 - Okay. Hold on.

MR. HARRINGTON: -- the $40,000.

Q.91 - Okay. When I -- so you are assuming that a typical user is a customer that has approximately 1,200 horsepower of boiler operations and that they were burning approximately 865,000 litres of fuel and had 33,284 gj's. In this particular class you would consider that a typical user, Mr. Harrington?

MR. HARRINGTON: Just to save what seems to be maybe some rounding or other issues, I would rather refer to the figures that are in the right-hand side of the table. But orders of magnitude, we are in the same ball park.

Q.92 - Okay. Thank you. How many customers are in this category, Mr. Harrington?

MR. HARRINGTON: Mr. Sorenson, Commissioners, if I could get you to turn to EGNB's response to Flakeboard's Interrogatory to us --

Q.93 - Thank you.

MR. HARRINGTON: -- number 1. I think that is illustrated there by rate class. The number is 17.

Q.94 - Thank you.

MR. DUMONT: What is your reference please?

MR. HARRINGTON: It was EGNB's response to Flakeboard number 1.

Q.95 - And you are assuming in this category that the customer with this type of volume pays 48' -- when you submitted it, is 48.56 cents per litre of number 2 fuel oil, exhibit A, page 4 of 13, is that correct?

MR. HARRINGTON: I will just be a second on this one.

Q.96 - Thank you.

MR. HARRINGTON: If I could ask everybody to please turn to Flakeboard's response to Enbridge Gas New Brunswick Interrogatory number 7. Are we there?

Q.97 - We are there.

MR. HARRINGTON: Before leaving exhibit A-1 -- and if people have opened to that -- it is not important -- just to remember that the price that we provide at line 1 of the table at page 4 of exhibit A-1 is a forward-looking retail price for oil for a typical customer in that class. Keep that in mind. We asked Flakeboard to provide what they believe their forwarded price for oil is.

Before getting into that I want everyone to just look at the top row of the table provided in response to 7-A, page 2 of 2.

Roll your finger to the far right-hand side, top of the column. This specific customer is more than 17 times the size of Enbridge Gas New Brunswick's typical customer. Although I haven't done the averaging across the months, I think Flakeboard's see a price, a forward price for oil very consistent with the number that we have illustrated in -- on page 4 of 13, exhibit A. So do I think this is a typical representative cost for this class of customers? Yes.

Q.98 - Thank you. CES Interrogatory number 11, page 1 of 2. Thank you for providing this customer account detail.

CHAIRMAN: We are not with you yet, Mr. Sorenson.

MR. SORENSON: Okay.

CHAIRMAN: The Board's problem is that we have got -- we have marked as various exhibits. And you are not referring to them. Because I recognize you have got your Interrogatories organized differently.

MR. SORENSON: I do apologize.

CHAIRMAN: Pardon me?

MR. SORENSON: I do apologize.

CHAIRMAN: Don't apologize. It may be better than the way we have done ours. And the Secretary would kill me if I say that out loud.

But seriously is that in what we have in -- is that the evidence of Flakeboard that you are referring to now?

Or is it yours?

MR. SORENSON: No. I apologize. It is Competitive Energy Services Interrogatory number 11.

And the question was: Please provide the amount of new customers and distribution revenue signings for each month.

MR. HOYT: It is in your A-4, Mr. Chairman.

CHAIRMAN: Yes. Thank you.

MR. SORENSON: Thank you, Len (Mr. Hoyt), for clarification.

CHAIRMAN: Yes. It is put to Enbridge Gas New Brunswick. So that is an A exhibit.

MR. SORENSON: Shame on me, Lorraine, for not referring back to it.

CHAIRMAN: And the Interrogatory number again was?

MR. SORENSON: 11, sir.

CHAIRMAN: Thank you.

MR. SORENSON: Thank you, Mr. Chairman.

CHAIRMAN: 11.

Q.99 - Mr. Harrington, are you ready?

MR. HARRINGTON: Not quite.

Q.100 - Okay. Thank you. Are we there?

CHAIRMAN: We are all on the right page now. Thanks.

MR. SORENSON: Thank you.

Q.101 - I have some questions regarding this chart. First just focusing on one segment to keep it easy. 2003 we go from -- in the CLGS-HFO segment, from one customer for the year to zero customers in 2004. And granted these are not cumulative.

And then if you turn the page to 2 of 2, you go from zero revenue in 2003, where you had the customer add to 38,000 in revenue I suspect. Could you explain that?

MR. HARRINGTON: I think the difference is -- if you review page 2 of 2 and the heading for the table --

Q.102 - Yes.

MR. HARRINGTON: -- that is annual distribution revenue signings. The table previous, on page 1 of 1 --

Q.103 - Yes.

MR. HARRINGTON: -- is actual customer additions. A customer, in our definitions, and maybe this is just helpful -- a customer is not added until they are connected to the distribution system and turned on. We sign them in advance of that.

Q.104 - Okay. The follow-up question then. Do you book the revenue for that prospective customer when they sign a distribution agreement versus when they actually flow gas?

MS. BLACK: Yes. There is no revenue recorded until it is actually realized by Enbridge Gas New Brunswick. So in other words when a customer starts flowing gas and is billed then we recognize that revenue.

MR. HARRINGTON: I think, if I might just stay with this --

Q.105 - Sure. Please.

MR. HARRINGTON: -- for a second, EGNB provided a response to Flakeboard Interrogatory number 7 -- 27 that -- just so we don't start flipping again -- that defines distribution revenue signings that I think will help in this discussion. Would that be helpful?

Q.106 - Yes. Shame on me. I probably should have gone to that. Do you mind, Mr. Chairman, if we refer to that?

MR. HARRINGTON: Well, I could just read it out.

Q.107 - Oh, that is fine. Thank you.

MR. HARRINGTON: It is pretty straightforward. The meaning of distribution revenue signings. EGNB's primary source of revenue is derived from distributing natural gas to residential and commercial customers in the province of New Brunswick. Distribution revenue signings is defined as the expected annualized revenue from new customers signed to receive distribution service. This measure discounts the effective timing for either the signing or completion of conversion and estimates the revenue contribution to EGNB from the customer for a full year of operation. It is a sales measurement number.

Q.108 - Thank you for defining.

CHAIRMAN: Mr. Sorenson, is this a good place to take a break?

MR. SORENSON: If you so desire, Mr. Chairman, sure.

CHAIRMAN: I know you want to get to that hockey game tomorrow night. But okay. We will take a 10-minute recess.

MR. SORENSON: Thank you, Mr. Chairman.

(Recess - 2:45 p.m. - 2:55 p.m.)

CHAIRMAN: Go ahead, Mr. Sorenson.

MR. SORENSON: Thank you, Mr. Chairman. Lorraine, hopefully I will do this correctly, make sure I say exactly where we are. Again this is Enbridge's response to our Interrogatory -- Competitive Energy Services' Interrogatory number 11, they are responding to us. And we are now on a chart that they put customer additions by month on page 1 and on page 2 is the revenue.

CHAIRMAN: Well done.

MR. SORENSON: Thank you. I'm glad I didn't have to pay somebody 200 an hour for that. Sorry, gang.

CHAIRMAN: Well if that's all they had to do I agree with you.

Q.109 - Okay. Thank you for the definition and so that we understand what you -- what happened with the HFO segment. Now throughout your testimony specifically in your evidence that was filed as well as your letter, you talk about a number of 350 percent increase 2003 over 2004. And I have to admit I am a tad confused and if I am humour me and help me through the process.

What I see in 2002 is 985 connections, then I see in 2003 1,166 new connections. Now that -- and then in 2004 I see 831 additional connections. So from 2003 to 2004 I see a decrease, decrease in new connections, is that correct?

MR. HARRINGTON: Yes. You see a net decrease comparing 2004 to 2003 in terms of customer additions.

Q.110 - Thank you. As such how do we go from -- with a net decline in customer additions how do we go from this -- where does this 350 percent come from?

MR. HARRINGTON: Mr. Sorenson, if I could maybe just restate your question and if I have got it right you let me know.

You are confused that we show 831 net new customer additions in 2004. In 2003 we show 1,166 net new additions, yet we say that distribution revenue signings are 350 percent year over year, that's correct?

Q.111 - Correct.

MR. HARRINGTON: I think -- just so the Commissioners are alive to this, and I can't lay my hands on it right at the moment, but in one of our questions to Competitive Energy

Services we asked them to confirm that they understood our evidence was that we had achieved 350 percent year over year growth as it relates to revenue signings. And they wrote back that they were puzzled by that. They confirmed that we said it but they were puzzled by it.

So I specifically prepared for this question because I know it's a concept that might be somehow -- somewhat difficult to understand. But it really does come through some of the questions that you asked earlier moving from one page to the next.

Q.112 - Thank you, Mr. Harrington.

MR. HARRINGTON: That's good. I will carry on?

Q.113 - Yes. Thank you.

MR. HARRINGTON: The problem is is that we are looking at apples to oranges here. These are net new customers added onto the system that are turned on on the first page of our response to Competitive Energy Services number 11. The revenue signings that are stated on the second page are customers who may not have turned on yet. That needs to be well understood. We track revenue signings and actual net new turned on revenues and net new customers added to the system, because we are very interested in making sure that we are managing our growth as effectively as possible, so that we can pick up on these.

Revenue signings are our leading indicator. It's an operational metric that we use inside our office so that we can see how much work is coming down the pipe -- sorry, for the use of pipe -- that are coming down the funnel at us for turn on and creating other operational work for us, putting in service lines, installing meters, getting inspections done inside. It's a leading indicator.

So I think a piece of information that is missing is how many customers did we sign in 2003 and 2004? Differences between additions and signings again, but it's the number of net customers signed. That isn't in any of the interrogatories as far as I am aware.

Q.114 - Okay. All right.

MR. HARRINGTON: And again this will leave you puzzled still, but I will get to unpuzzling.

In 2003 we signed 1,011 customers. In 2004 we signed 981 customers. They all take time to turn on and that's why customers can fall in terms of -- they can be signed in 2003 and become actual or added to the system in 2004.

Q.115 - Excuse me, Mr. Harrington --

MR. HARRINGTON: Yes.

Q.116 - -- point of clarification. Is that net? For example you say again you went from 1,166 to 1,011. So is that a net number? Is that where you are going with this?

MR. HARRINGTON: No. I'm providing new information. Those signings numbers don't have any specific relationship to the actual additions that you have been referring to. So I just needed to clarify.

So you should still remain puzzled. Well you still signed more customers in 2003 than you signed in 2004. Why are the revenue additions not illustrative that way? Why did you get 350 percent more revenue signed in 2004 than you did in 2003?

It comes down to the types of customers that were signed. And the statement I'm going to make right now is across all classes of customers. I don't think there is any exception.

If we just signed our typical customers -- how do I express this? If we had have signed just our typical customers we would have had 250 percent growth in terms of year over year revenue growth. We targeted the best revenue contributing customers in 2004. And just by moving from the typicals that are illustrated in our exhibit A to targeting larger consuming customers, residentially, commercially, industrially, that represented 850,000 or almost 100 percent of the difference between signing typical customers and the ones that we actually went and achieved.

We signed customers -- targeted and sold and signed customers that were above average, above typical. Why? Because we want to accelerate the growth of the distribution system. We want to get as much net new revenue onto the distribution system as possible. Does that help clarify?

Q.117 - Yes. I guess we all thank you to Flakeboard over here to our left.

MR. HARRINGTON: Just because that comment was thrown out, I would like to turn to Flakeboard -- Enbridge Gas New Brunswick's response to Flakeboard Interrogatory number 27.

Q.118 - I have it. Thank you. 26.

MR. HARRINGTON: And I would like you to refer to the footnote, the first footnote of that page. Of the 350 percent Flakeboard represented 17 percent. A very significant customer but by no means overwhelming to the overall growth of the distribution system.

Q.119 - Thank you. And again -- so now you have switched again -- and you did a good job of explaining this, I think. But if 350 percent -- if I take $987,000 in 2003 and I plug that into my little 12C over here and then I put in $3,445,000 of 2004 and I do a simple math calculation called percent change, I get 249 percent. So what am I doing wrong? Another way obviously is the 3.44 divided by minus 987 divided by 987. I still get 2.49 which translates to 249 percent. So you are overstating by 100 percent?

MR. HARRINGTON: Mr. Sorenson, I'm not sure I understand at all what you are getting at?

Q.120 - The numbers, they increased 249 percent yet you have used throughout your testimony 350 percent?

MR. HARRINGTON: You are looking at the difference between the two and doing that relatively?

Q.121 - Yes.

MR. HARRINGTON: If you see on A-1 --

Q.122 - Okay. A-1.

MR. HARRINGTON: -- page 7, A-10.

Q.123 - Three-and-a-half times, that is correct, yes. Unfortunately 350 percent has been -- is throughout the document in another response. But three-and-a-half times is fine.

Now let's go back to customers. Again I'm only using the data that you have here and not the numbers that you just provided, so I am focusing on the data. 1,166 and then the 2004, 831. Again in your testimony and your opening statement you state that we had a banner year because of revenue growth. And I think we all would agree it has increased significantly. We did talk earlier about incentives, and again you have less customers connected in 2004 versus 2003. You are offering more incentives to connect those customers. What is the magnitude of the incentive to connect those customers?

MR. HARRINGTON: There is no evidence in this case whatsoever to say that we are offering more incentives than we had in the past.

Q.124 - There has been no evidence submitted, is that your statement, about incentives? Is that a fair comment?

MR. HARRINGTON: That's correct. And, you know, while I wouldn't have the figures in front of me, I do not believe that our overall marketing spend amounts in those regards have changed significantly between 2003 and 2004. It's a matter of directing it more appropriately.

Q.125 - Would you agree that your marketing dollars have been more customer focused towards the capital cost of conversion versus in generality, billboards, television, radio, like the past?

MR. HARRINGTON: Yes, we would agree.

Q.126 - Yes. And I would agree as well, and the point -- so here we go. Let's drill down a little further. Again 1,166. Rate increase, less connections, 831. Now the question I have, is it fair to assume that without those new customer incentives that are focused on capital construction for a facility, you know, a $25,000 cost to convert this particular location over, is it safe to assume that that 831 would not have been hit had you not focused those dollars towards capital cost for the customer's conversion?

MR. HARRINGTON: Mr. Sorenson, could you repeat your question, please?

Q.127 - Gladly. And I apologize if it was too long. You went from 1,166 to 831. So there is a reduction in overall connections from 2003 and 2004. Your marketing dollars you agreed were more focused towards the capital conversion of a customer. For example, it cost me $25,000 to convert my facility. You may give me 10, 15 or $25,000 towards that conversion.

The question is, is it fair to assume that your numbers would have been less than 831 had you not focused those dollars towards the capital cost of conversion?

MR. HARRINGTON: If I could just restate the question as I believe it was. Do -- could we have -- could we have -- would we have had less customer additions if we didn't -- sorry, I am going to have to -- one more time, please?

Q.128 - No, I am sorry, Mr. Harrington, because I am not being clear. Maybe I should have hired an attorney, I don't know.

CHAIRMAN: You are doing just fine, Mr. Sorenson.

MR. SORENSON: All right.

Q.129 - Again, I am going to try to back up and see if I can explain it a little differently. Let's say you have a million dollars in your marketing budget. I am just going to throw an example out there.

MR. HARRINGTON: No. I would actually prefer if you just restated the question now. If we get into a hypothetical, I might lose you again, so --

Q.130 - All right. That's fair. The question was is it fair to assume that if you had not focused your marketing dollars to the capital cost of converting customers that your numbers of 831 new additions would have been less?

MR. HARRINGTON: That's what I thought you asked. No. I think if we had of pursued marketing programs as we had in 2003, for instance, which were large, loud, mass market, we could have achieved significant amounts of customer additions yet again, 1,100, 1,200.

What would we have achieved in terms of customer additions? Smaller residential customers, who were doing partial conversions for water heaters, fireplaces, and who were not contributing the necessary revenue to the distribution system.

I just want to illustrate this. And, you know, I wish I had these figures in front of me. But I think I have a good enough working knowledge. Our cost of customer acquisition, our cost of revenue acquisition in 2004 -- this is not part of the evidence base here, but it was for a fact significantly lower than it was in 2003.

Q.131 - Let me see if I can ask this question again and get the answer that I am looking for. Maybe I can't. I am going to focus on a class CGS. You went from 13 adds -- overall, you went by class, except for CLGS-LFO, you were down. You obviously went up 13 adds to 65 adds in the CGS class. And that -- that supports Mr. Harrington your comments about focusing on revenue generating customers.

So again, if you had not focused your dollars towards the capital cost of converting those customers would you have been able to achieve those goals?

MR. HARRINGTON: Perhaps. No, I think, you know, it's a balancing -- everything is a balancing act. You know, we can choose to spend marketing funds for mass market, media, point of sale, a number of initiatives. We can direct and we must do those sorts of things. Or we can choose to direct marketing into incentive dollars one that makes sense. You know, would we have achieved 65? Perhaps. You know, one thing that isn't, you know, illustrated by these figures or talking about incentives, is that we put a much more focused effort on sales within the commercial markets.

And one thing that's also maybe not crystal clear, is that until late 2003, Enbridge Gas New Brunswick didn't have access to many of -- or didn't -- in a way I have expressed this before -- because we didn't have from my perspective sufficient control over the marketing of distribution service. There were regulatory regulation and legislation barriers that prevented us from exerting the sufficient control that we needed to to make -- ensure that we were growing the business.

So 2004 really was one of the first years that the effects of that came to pass. So was it incentive dollars? Was it the realign sales effort? Was it the change in the legislative and regulation environment that we operate in? I think all of those things contributed to our success in 2004. And one thing that I will say for certain is the rates increase did not affect our success in 2004.

Q.132 - Did you have the same amount of dollars available from a marketing perspective in 2003 and 2004? I will be more specific. If you had $5 million in marketing in 2003 -- marketing incentives, whatever -- did you have 5,000 in

2004? 5 million -- 5 --

MR. HARRINGTON: Mr. Sorenson, I don't recall the specific numbers that we had available in 2003 and 2004. I apologize. It's not something that I prepared for for this case.

Q.133 - My point here is this. Where I disagree with your previous statement, without incentives you had first and foremost by class, except the focused CGS account number as by class, you actually had less additions in 2004 over 2003. That would support the case that with the rate increase that has already been implemented last year that your customer additions have gone down and had you not focused your attention to one class with additional incentives, the revenue as such would not be as reflective as it is, nor would it the numbers in the CGS class be as reflective as they such are. Would you agree with that?

MR. HOYT: Mr. Chair, Mr. Sorenson with respect has been trying for this elusive answer for some time. And I think he is just asking the same question from a number of different vantage points. So I would ask the Board ask -- that it be answered this time and move on?

CHAIRMAN: Well, I would like the panel to answer the last question and then if Mr. Sorenson wants to continue on, we will find out where he is going.

MR. SORENSON: Thank you, Mr. Chairman.

MR. HARRINGTON: And after that, I have to ask for the question.

MR. SORENSON: And I do understand because there was some time. And I -- that particular part of my question I didn't have it written down.

CHAIRMAN: Well, we can ask the shorthand reporter if she would to read back the question then.

MR. SORENSON: Thank you.

(Previous question played back)

MR. HARRINGTON: I am certain a portion of the problem that we are having in terms of getting asked and getting answers to this question is a lack of understanding on the distribution between -- the lack of understanding of the difference, sorry, between distribution revenue signings and actual customer additions.

There were less customers added to the distribution system in 2004 than in 2003, and I have given that with the exception of CGS.

But when we turn the page, Mr. Sorenson, Commissioners, you can see that we signed significantly more revenue in every rate class, not just CGS, so I'm not sure that Mr. Sorenson's point is a real one. Yes, we focused on commercial sales. Yes, we leveraged more sales effort through marketing incentives than broad communications. Yes, the regulatory environment changed.

I'm not sure that -- maybe I'm missing something here but --

Q.134 - Well again your number is 2003 to 2004. If we want to move over to revenue, simply put, it takes customers time to convert. So 2002, 2003 customers are really being realized finally in 2004. So the revenue is truly not reflective of the activity in 2004, it's more reflective of 2002, 2003, 2004. There are locations, a.k.a. Flakeboard, which was signed and took a year plus to get actually converted and up and running because you had to build a pipeline and they had to convert all their equipment.

MR. HARRINGTON: Flakeboard was not signed until May of last year.

Q.135 - Again, as such -- and then they may not have been signed in May of last year, they didn't generate any revenue until, you know, November, December, because you had a pipe. They didn't start burning natural gas until November, December this past year?

MR. HARRINGTON: September.

Q.136 - Thank you. So the point of my question is, focusing on the customer additions is that they have decreased unless you have focused in a certain segment with incentives. So with that I have a follow-up question. Does the need for incentive prove that there is a lack of savings when converting a customer from oil to natural gas, and as such, with a rate increase last year, you have seen a decrease what would you propose is going to happen this year without incentives?

MR. HARRINGTON: Mr. Sorenson, if I could get you, please, to turn to Enbridge Gas New Brunswick's response to PUB number 8?

Q.137 - Thank you, Mr. Harrington. Could you repeat the number again, Mr. Harrington?

MR. HARRINGTON: Enbridge Gas New Brunswick's response to PUB number 8. Are we all there?

Q.138 - Go ahead, Mr. Harrington.

MR. HARRINGTON: In our response to PUB number 8, and I believe it takes place at the second half of the second paragraph. And I will just read a part of this, for greater clarity the typical CLGS-LFO customer outlined on the table provided at A-5 on page 4 of 13 in exhibit A, can anticipate annual target savings of 39,878 at 10 percent savings level. If one asserts the retail oil price anticipated in EGNB's first target rates application for this class of customer and applies a 15 percent savings level, this same customer would expect annual savings of 29,000. Okay. Why did I bring this up, talking about 2000 prices versus 2004 prices, which would be a more helpful comparison here, I acknowledge that?

To illustrate that the relative savings targets that Enbridge Gas New Brunswick uses -- because wholesale oil prices have gone up by more than 50 percent in the last year, the absolute level of savings available to customers has increased as well.

So coming back to Mr. Sorenson's question which I hope everybody understands. And just to have a sense of that, what those numbers might be. Given where wholesale oil markets have gone, looking forward, compared to -- well if we look at -- if we look at A-1, page 4 of 13 under the GS and CGS columns, I just want to illustrate this point one more time. The target annual savings for both of those classes, 2,900, 10,827. Does everybody see that?

If we turn to the exhibit attached to my opening statement, A-4 I believe -- A-5. Just in the change in retail oil prices which have transpired since the time of filing, that 2,900 has increased to 3,000 and that 10,000 has increased to 11.2.

Because Enbridge Gas New Brunswick is asking for a rates increase doesn't mean that levels of savings are going down. In fact the opposite is true. The only reason Enbridge Gas New Brunswick is in a position to seek a rates increase is because the relative savings have increased for consumers and Enbridge Gas New Brunswick can increase its distribution rates to move up to that.

It also means that the absolute level of savings available for consumers has increased.

So if you are trying to make some connection that Enbridge Gas New Brunswick will have to put more incentives out because they are increasing rates, I don't think that that line of questioning has solid ground. I think that answers your question.

Q.139 - The numbers don't support it, Mr. Harrington. You can't tell me that you can go from a high of 1,166 customers to 831, be down by a segment, with an increase in rate price, with volatility in the market, and not have incentives out there, you just can't do it. And I think the Commissioner is asking me to move on, or is about to do that.

CHAIRMAN: Okay. Because that wasn't a question.

Q.140 - I think I have gone enough on this one. Thank you. Let's talk a little bit about infrastructure. You have laid a pipe, an infrastructure throughout the Province of New Brunswick, Saint John, Moncton, Fredericton, et cetera. The 700 customers in the GS and CGS segments have converted in New Brunswick to natural gas. How many potential customers were there?

MR. HARRINGTON: If I could ask the Board to turn to Enbridge's response to Flakeboard Interrogatory number 4.

Q.141 - Thank you.

MR. HARRINGTON: That provides the answers I believe you are looking for.

Q.142 - 24 percent market share. Is that deemed in your opinion, Mr. Harrington, as high, low, reasonable? What is that deemed?

MR. HARRINGTON: I will have to provide the context on which I am providing a response. Given Enbridge Gas New Brunswick's five years of distribution operations, from my own personal perspective it's a disappointing level of customer acquisition. Does that answer your question?

Q.143 - Yes. Disappointing is your answer. And again do you believe that we could have achieved those numbers without incentives, focused strictly on savings?

CHAIRMAN: Seriously, Mr. Sorenson, I think that question has been asked and answered quite a number of times.

MR. SORENSON: I will retract it.

CHAIRMAN: We have got the answer.

Q.144 - Enbridge's response to the CES Interrogatory number 16

-- did I say that right, Lorraine? Enbridge's response to the CES Interrogatory number 16. In this answer you describe the Enbridge financial impact on its revenue which is very focused on through-put and rates. Here is my question. Is it fair to say that due to the fact that Enbridge is not meeting its target customers and correlating through-put that it is asking a smaller customer base to bear the excessive costs of the deferral account?

MR. HARRINGTON: No. Enbridge -- in my opening statement, and I could make specific reference to it, but I think I can speak to it generally. It is very naive to think that Enbridge Gas New Brunswick could be trying to extract more revenue from a smaller customer base at the expense of growth. It's essential that Enbridge Gas New Brunswick grow its distribution system. We cannot in our wildest speculation believe that we will be able to recover our cost of service from the significant amounts already invested by Enbridge Gas New Brunswick from the relatively small customer base that we have today.

Q.145 - Thank you, Mr. Harrington. I have got some general questions now. And this was put to us by one or two of our customers. So bear with me, I took notes over a phone.

Last year's rate increase depending on the respective class was upwards of 25 percent. This year Enbridge is seeking upwards of 108 percent increase depending on specific customer class. The question is why such a drastic increase in such a short period of time?

MR. HARRINGTON: I think I have to correct your numbers. I'm not going to go back to the 2004 rates application because I don't have that in front of me. However, there is no 108 percent increase being asked for by Enbridge Gas New Brunswick. What there is 108 percent increase to is the delivery component to the CGS rate class, and I think it's important that I explain this.

There are two elements to the distribution charges that Enbridge Gas New Brunswick has. In the CGS class there is a customer demand charge that is charged monthly to the consumer based on their contracted demand with the company. Enbridge Gas New Brunswick is not seeking to increase that in this application. We have put the entire increase into the delivery element, the utilization element, the dollar per gj element if you will.

When you look at both elements of the rates combined the rate increase in that class is 76 percent, and that needs to be clarified, because I do believe that it is misleading to talk about a 108 percent increase. And when we look at it from a burner tip perspective, for that class we are looking at a 12.3 percent rate increase, all other things being considered equal.

So to answer your specific client's question, why such a dramatic increase in one year? And I will give that relative to a cost of service based utility these are dramatic increases. And this is one of the challenges that we have in setting rates.

The answer is very simple. Because the market allows it. These are market based rates.

I would like if everyone could please turn to Enbridge Gas New Brunswick's response to PUB number 1.

Are we all there? If I could -- I want to just deal with a couple of points that are dealt with in this response. If we go to the page 2 of 3 and look at the second paragraph on the page, there is a line that starts "EGNB argues that just and reasonable rates in its current operating context are those that, when considered across all classes, place the delivered price of gas at the absolute margin."

I want to also point out a piece starting at the last paragraph, last full paragraph before the customer, the notice of market-based rates.

"The variability in the market-based rates is communicated to all customers when they first sign up for natural gas and annually thereafter as is evidenced in the following Board-approved notification."

And I think it is helpful to read this into the record. "Notice of market-based rates. Enbridge Gas New Brunswick will operate the pipeline system which will distribute gas to customers' premises. The price that it will charge for the distribution of gas is regulated by the New Brunswick Board of Commissioners of Public Utilities and can only change with the approval of the Board. The price is based on market conditions" -- and this is the part to focus on -- "and may change significantly over time. Once each year Enbridge Gas New Brunswick may apply to the Board to increase the price in response to changes in the marketplace. During a given year Enbridge Gas New Brunswick has the right to apply for changes to the price charged for the distribution of gas but only if such change will reduce the price."

Enbridge Gas New Brunswick is not doing its job if we don't seek rate adjustments consistent with the market-based methodology. If we do not pursue adjustments which minimize the deferral of costs into the future, we will be creating unnecessary contributions to the deferral account that customers in the future will have to bear. If we avoid rate increases and opportunities that are presented such as this to the extreme, the business model will fail.

Q.146 - Excellent point, Mr. Harrington. And I want to hammer down on it. The market allows it, I agree. We can't deny that the market has changed significantly.

However, with that said, let's talk about the Province of New Brunswick supplied services.

CHAIRMAN: Can I -- just before you go on to another subject matter I want to make certain that I understood what the witness was saying.

I'm looking at your response to PUB Interrogatory number 1 that we were just referred to, and exhibit A, page 4 of 13 which is your chart, et cetera on the rates that you are applying for.

And I look under the CGS column. And the delivery charged per GJ in dollars which is shown there in that class is $3.14.27 cents.

And I go over to Interrogatory 1. And I believe I'm reading correctly. In 2004 it was $1.50 cents .91. And eyeballing that, to me, is over 100 percent increase.

MR. HARRINGTON: And you are correct.

CHAIRMAN: Good. That is all I need to know. It is 108.5 actually.

MR. SORENSON: Thank you, Mr. Chairman.

MR. HARRINGTON: But you do understand that there is other elements to the rate?

CHAIRMAN: There is a demand charge. And I understand that full well.

Q.147 - So with a customer in that CGAS class that has, as you just estimated in your evidence, estimates an overall increase of cost of 15 percent, if you are a government, you can't -- Mr. Harrington, can you go out -- if you are a government can you just go out and raise taxes to cover those increase in energy costs?

If you are Flakeboard and they are competing with China, can you go out and all of a sudden increase the price of your board and your particle 15 percent? If you are McDonald's can you go out and all of a sudden charge 15 percent more on your hamburger?

I agree that the energy markets are allowing us to do so. But on the other side, the competitive nature of retail and services is doing the opposite.

MR. HARRINGTON: I understand that customers don't like rate increases. I'm a customer not just of natural gas but of many other products and services. And prices go up. And I don't like it. And customers don't as well.

That is one of the good things about a regulated product and service, is that changes to prices are regulated and receive a full hearing before issues that that can -- before adjustments like that can take place in the market.

But we have to remember that this is a marked-based rates methodology. And the market that we are targeting is retail oil products. And I think I illustrated that, you know, from a burner tip increase standpoint, this in the CGS category is 12.3 percent.

What we need to understand is that since the time that we filed rates in 2004 the price for a CGS customer to purchase gas has increased by more than -- sorry, oil, by more than 46 percent.

We are still delivering the benefit to the end use consumer. And in terms of absolute savings they are further ahead than they were in 2004 if they had not converted to natural gas.

Q.148 - The problem with that model or that statement is the cost of the commodity has increased well over 100 percent over that same timeframe.

And as such, if you combine the increase in the cost of the commodity with your distribution rates, it actually is reflective in possibly less savings. Would you agree?

MR. HARRINGTON: No. Mr. Sorenson, the benchmark for natural gas in this case is EUG. That has increased --

you are correct. It has increased over the last year. It has increased by 22 percent.

Q.149 - You were citing actually 2002 going forward. But that is fine. If EGNB receives this rate increase as proposed, does EGNB plan to submit an application for an increase in rate next year, again based on the same assumptions, that if the market continues to go up and there is an opportunity, you will submit an increase to try to pay down that deferral account?

MR. HARRINGTON: Enbridge Gas New Brunswick, if the market allows, must apply to adjust its rates.

Q.150 - So a customer asks me when does it end, when does it break? How does -- because again a customer can't keep adjusting their output, their energy cost, instead of being 6 percent of their total operating expenses, now it becomes 16 percent and then it becomes 25 percent. How do they become -- how do they survive?

MR. HARRINGTON: The first point, this is a previously approved market-based methodology. When will it end? With certainty you can inform your clients that it will end when Enbridge Gas New Brunswick crosses over from market-based rates to cost of service based rates.

Until that time, Enbridge Gas New Brunswick's approved methodology requires that we seek increases when the market presents an opportunity. If we do not seek those increases we will not cross over to cost of service and you will not have an answer for your customers.

Q.151 - Thank you, Mr. Harrington.

The last set of questions here. You do say in your opening statement -- you articulate the fact that you obviously have a keen interest of not increasing the rates too significantly versus trying to weigh the market.

Would you agree though -- and you are saying that Enbridge is more keen to this than anybody else in the market. Would you agree that the customers also have a keen interest in the success of Enbridge and its pipeline infrastructure?

MR. HARRINGTON: Yes. And I would add to that equation the government, as they are very interested in making sure that there are viable competitive alternatives to the incumbent energy sources that we are trying to displace.

I would add to that our investors. I would add to that other industry participants who generate business through the installation of equipment into end users' homes. I would add to that municipalities who generate income from our municipal operating agreements.

I think there is many people who are interested in making sure that our system grows.

Q.152 - Agreed. So then customers obviously have to weigh their conversion costs. And then they have to, you know, weigh the facts of what they think their costs for natural gas is going to be into the future.

With this continued increase in rates do you believe that natural gas then is becoming a fuel of premium choice versus a fuel of savings?

MR. HARRINGTON: No.

Q.153 - Would you then agree that a lot of customers can't control the volatility of the price of natural gas? Is that -- would you agree with that?

MR. HARRINGTON: If I could ask to turn to exhibit A-1, page 12 of 13. Mr. Sorenson's question was can customers exercise control over the volatility of natural gas?

Was it that, Mr. Sorenson?

Q.154 - Yes, Mr. Harrington.

MR. HARRINGTON: Can customers exercise absolute control over the variability of the price of natural gas? No. Can they do that with oil or gasoline or milk? No.

But what they can do is they can buy products and services which help to control that, if that is a concern of a potential end user. Those products and services are available in New Brunswick. I would like to see more of them.

However, as you can see in the table at A-17, 66 percent of the customer base is using EUG. And while this may be true of the other 34 percent of the market, I can't specifically speak to it. That product has been very instrumental in controlling the volatility of the delivered natural gas price to end use customers.

It may not be the best product from a pricing standpoint. It may not be the most flexible product for a customer who is in production or in industrial applications. However it has delivered stability in the commodity market in New Brunswick.

Q.155 - Your answer actually gets me off my question into another question. It could be argued that the price of the EUG product is actually below market.

And as such, if it is, is that also contributing to the increase in the deferral account?

MR. HARRINGTON: I will answer I think your second question first. Your second question is is it contributing to the deferral account? The answer is no.

You know, I'm not the expert to talk about the details of the regulation and how it is applied to EUG. However I think I have a simple enough working understanding. The EUG must recover its own costs. Is it priced below market therefore? No.

Q.156 - We could argue that one all day. But that is fine.

So again you did state that it is hard with this volatility, that a customer can work with either EUG or work with a firm like ours and do hedging functions and all that fun stuff.

But what is left for the customer? The only thing -- they only cost component they can actually now control or have somewhat say in once a year is through the hearing process and the distribution rates.

Would you agree with that?

MR. HARRINGTON: Absolutely. And as a regulated company, while I won't go as far as saying that I enjoy participating in regulatory proceedings, I do believe --

CHAIRMAN: If you did, Mr. Harrington, you would be the first regulated company.

MR. HARRINGTON: I do believe it is a healthy process, that -- and it is an important opportunity for us to hear from our clients and from other industry stakeholders in a more formal fashion. So I think it is helpful.

And indeed in this particular case where we have not had a full airing of the issues since I was I guess a junior panel member back in 2000, I think it is helpful that some of these matters get discussed in this forum, at this time.

MR. SORENSON: Mr. Chairman, I would like to thank Mr. Harrington, Mr. Butler, Ms. Black and you for the process. I'm complete with my questions.

CHAIRMAN: Thank you, Mr. Sorenson. I wish I could return a favor and get to Boston by the time of the game. But it is slipping away.

Mr. Lawson, how long do you think your cross will take?

MR. LAWSON: I would estimate perhaps 30 to 45 minutes.

CHAIRMAN: The reason I -- with lawyers you double.

MR. LAWSON: I started at 30 and negotiated up to 45.

CHAIRMAN: Anyway, I want to give Mr. Ross an opportunity to have his one-minute presentation to the Board before we break today.

So I'm going to ask if you would switch chairs and come up to the front and start your cross and pick a good spot around 4:30 where we will break and allow Mr. Ross to do it so he won't have to come back tomorrow.

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

MR. LAWSON: Thank you, Mr. Chairman.

Q.157 - Mr. Harrington, would you agree that while you have spoken about sort of the market driven rate setting system that it also must reflect the fact in pricing that you can't scare away the market, because you have defeated the market driven system?

MR. HARRINGTON: I thought about my response so long, I don't know what the question was. Would you please re-ask it?

Q.158 - It was a very simple question, Mr. Harrington.

MR. HARRINGTON: It's getting late.

Q.159 - I would ask you perhaps if you could pay attention, because you seem to ask for repetition. I have a hard time remembering my question. So if you listen --

MR. HARRINGTON: Not to make you feel too guilty, but I am actually hard of hearing.

Q.160 - Okay. It's a very --

MR. HARRINGTON: And so I can miss things.

Q.161 - -- very simple question. And most of my questions I will try to make very simple. I must say your protracted time for answering causes me concern. So it's a very simple question.

Are you -- would you agree -- first of all, this is a market driven system you said, correct?

MR. HARRINGTON: It's market based rates methodology.

Q.162 - Market based rates. Would you agree that if you set the price in the market based methodology for your service that you -- if you scare away the customers, you have defeated what you are trying to do, because you won't have any customers?

MR. HARRINGTON: I am not sure whether your question is asking whether the rates themselves will scare away customers or the application for the rates will scare away customers or maybe both?

Q.163 - Both?

MR. HARRINGTON: Okay. Both. I admit that consumers when -- they take notice when -- and in fact that's the purpose of the process, we do publish notification when we go for a rates increase. And that may intimidate consumers. But remembering the market based rates methodology and the elements that I have explained previously, absolute savings to customers have actually increased. We have a very attractive value proposition for consumers.

I want to add one point here. Since the time -- since the beginning of 2005, we have signed an incremental $500,000 worth of distribution revenue to the system.

Q.164 - Mr. Harrington, if I might stop you. My question was very simple. And we will be here until the end of the day tomorrow and then some, if each time the question is asked you take an opportunity to reiterate something. We have heard all your evidence. I am asking you a simple question.

Are you -- do you fear that the rates that get set through this process could, if the rates are too high, scare away customers?

MR. HARRINGTON: Potentially.

Q.165 - You don't -- you only potentially fear that?

MR. HARRINGTON: I only potentially fear that. We -- we continue to attract customers in full knowledge of this applied for rate increase. If it's applied for, will there be a segment of the market that may be scared away? Potentially.

Q.166 - Okay. You have customers currently signed on. Between 3,000 and 3,500 customers, I believe, at the end of last year. Would you agree that some of those customers have the ability to stop using gas very quickly?

MR. HARRINGTON: Yes.

Q.167 - And would you agree that the remainder of those customers can most likely, fairly readily, convert from gas to another product?

MR. HARRINGTON: Yes.

Q.168 - And would you agree that of the very large number of potential customers you have identified out there that they are going to give some very serious consideration to the uncertainties of their savings in the future when deciding to join -- to convert to gas?

MR. HARRINGTON: I think whenever a consumer is considered changing the primary energy that they are using in their business, they are going to give it serious consideration.

Q.169 - Savings is a big factor in the determination by most of your customers?

MR. HARRINGTON: Yes.

Q.170 - And in that savings for gas, there are two components are there not? The relative pricing of their current fuel and gas, correct? That's one piece?

MR. HARRINGTON: Sorry? There is two components?

Q.171 - There are two components. The relative price of their current fuel and the price of gas, that's where part of their savings will come from? A part of the determination of their savings? When they decide if there is going to be a savings --

MR. HARRINGTON: Savings is the difference between what they would pay for their incumbent fuel versus natural gas in this case.

Q.172 - Right. In the determination of the natural gas component of that formula, there are two components as I understand it. One is transportation costs, correct?

MR. HARRINGTON: I would -- I think what you are trying to define is the distribution service provided by Enbridge Gas New Brunswick?

Q.173 - Yes.

MR. HARRINGTON: Yes.

Q.174 - Okay. Delivery service. And the second is how much savings are they going to achieve as a result of the differential and the price between their current fuel and using gas independent of the transportation or delivery?

MR. HARRINGTON: So the commodity element is that what you are --

Q.175 - Correct.

MR. HARRINGTON: Yes. Okay.

Q.176 - And you would agree that there is probably nobody in this room, maybe not even in this province, who has much control the relative pricing of gas and oil let's say?

MR. HARRINGTON: At the wholesale level, there is only so much you can do to control that pricing.

Q.177 - Unless you happen to be from Saudi Arabia or a few other countries, most of us don't have control?

MR. HARRINGTON: You could put an LNG plant in Saint John.

Q.178 - Even then that doesn't guarantee it I guess. So most consumers that you are dealing with that doesn't make -- they don't have any control over that part of the savings?

MR. HARRINGTON: Correct. That is correct.

Q.179 - The only -- and as a result, you can't give them any guarantee as to what savings they are going to accomplish in that part of their future energy costs obviously?

MR. HARRINGTON: I think I am getting used to your style. So I will just say no.

Q.180 - Thank you. All of my style is just looking for an answer. Very simple. So they can't control that. The one factor that they have some greater certainty about is the delivery cost, is that right, because it's regulated by this Board?

MR. HARRINGTON: That is correct.

Q.181 - And you in fact, as you have referred to earlier in your evidence, give notice to those customers that there could be a significant increase in their cost of the delivery service, correct?

MR. HARRINGTON: I think the language -- while I could search for it -- was significant change, not increased necessarily, because it does cut both ways.

Q.182 - Would you agree that most consumers would anticipate that means most likely increases?

MR. HARRINGTON: Now, I will turn back to it just to make sure that I am recalling it correctly. It is PUB Interrogatory Number 1. EGNB's response to PUB Interrogatory Number 1.

It is actually very -- the language is very unclear as to whether it is increased or decreased. So you will give me that and I will say when most consumers read it they may interpret it that it may -- it would likely be an increase.

Q.183 - And it is also fair to say, I assume, that given the I guess, I am not sure if it is actual yet or anticipated $60 million deferral account at the end of 2004 and anticipated $133 million at the end of 2011, I believe it was, that they wouldn't expect likely to see much of a decrease over the next several years in their delivery costs?

MR. HARRINGTON: Back to your control question, I think the answer to that question is found in what the wholesale energy markets do in the intervening timeframe. If wholesale prices of oil come down to the point where Enbridge Gas New Brunswick has to reduce its rates to continue to grow the distribution system, Enbridge Gas New Brunswick's rates will have to be decreased.

Q.184 - Now EGNB suffered significantly in its sign-ons in the first few years of business relative to its forecast, didn't it?

MR. HARRINGTON: Yes.

Q.185 - Did it apply to decrease its rates in any class other than the LFO class tiering?

MR. HARRINGTON: It would be helpful to turn to Enbridge Gas New Brunswick's response to Competitive Energy Service's

Interrogatory number 15.

I just want to read the first sentence of the second paragraph in that response. Enbridge Gas New Brunswick would apply to use a rate-rider under conditions where it was unable to meet its growth requirements and it felt that its distribution rates were contributing to this.

Q.186 - So I am going to ask my question again, if I might.

MR. HARRINGTON: No, I think I am alive to your question. Your question was we didn't decrease rates. We didn't decrease rates in that earlier period.

Q.187 - That's correct.

MR. HARRINGTON: And the answer to why we didn't do that --

Q.188 - No, I didn't ask that. I asked you --

MR. HARRINGTON: I was just trying to be helpful in thinking ahead.

Q.189 - Okay. Did you apply to decrease rates?

MR. HARRINGTON: No.

Q.190 - Did you use the rate-rider system to reduce rates?

MR. HARRINGTON: No.

Q.191 - Would you agree that probably most all of your customers currently are at least as motivated as you are to get more customers for EGNB over which to spread your costs?

MR. HARRINGTON: I would not agree with that. I don't think our customers think about our growth as much as we do. Certainly nobody in New Brunswick is as motivated to grow Enbridge Gas New Brunswick as Enbridge Gas New Brunswick.

Q.192 - Would you agree that your current customers recognize that without more growth on your part that they are either going to be confronted with significantly increasing costs of distribution and therefore gas or have to switch fuels?

MR. HARRINGTON: I apologize. Please ask the question again.

Q.193 - Would you agree that your current customers would in fact -- maybe we should listen to it back just so I get it right this time.

CHAIRMAN: With humor, I said it wasn't that good a question.

Q.194 - Let me give the answer then.

CHAIRMAN: It was very good so would the shorthand reporter replay the tape.

(Tape replayed)

MR. HARRINGTON: You have to explain why you think significantly increasing prices would exist? I don't understand why you use that in your question.

Q.195 - Okay. Would you grant me this, that customers who are looking at a $60 million current deferral account and a $133 million anticipated current deferral account, would expect that there is likely to be an increase in their costs?

MR. HARRINGTON: Under the market based rates methodology?

Q.196 - Yes.

MR. HARRINGTON: I would agree that their thinking -- they are alive to that, yes.

Q.197 - Would you agree that if they are going to continue to be a customer of yours they want you to have a whole bunch more customers because they want to spread that out amongst all their new friends?

MR. HARRINGTON: What is it they want to spread out?

Q.198 - Your deferral account and your current costs?

MR. HARRINGTON: I would like to think that our customers are all motivated in that regard but again I don't know that many of them think about this on a day to day basis.

Q.199 - Now would you grant me that they think about the cost of -- their total cost of gas if they convert?

MR. HARRINGTON: Yes, and they would compare it to their -- the incumbent fuel that they displaced.

Q.200 - And would you agree with me that as part of the consideration of their cost of gas in deciding to convert that they recognize that there is a distribution cost they have to pay and which will probably be going up?

MR. HARRINGTON: Somehow this has changed to probably will be going up. It will probably be going up if the market allows Enbridge Gas New Brunswick to do that. Yes, customers will be thinking about that.

Q.201 - I'm trying to think about what circumstances you anticipate that the market wouldn't allow that, given your accumulated deficit to date and anticipated deficit.

MR. HARRINGTON: I think while we are in the development period it is important to remember that the only elements that are going to determine the price -- the delivered price of natural gas and Enbridge Gas New Brunswick's rates making up a part thereof, is the wholesale price of oil. If the wholesale price of oil allows Enbridge Gas New Brunswick to make market based rate adjustments we will. If it does not we won't.

It is only once we are in a position to recover our annual cost of service that we will be seeking to recover all of the deferred costs. There is a timing issue in your question.

Q.202 - Let me go in a different direction for a moment then. You had mentioned in your evidence previously about incentives that were provided to customers to convert last year I guess, and as I understood it, you were primarily targeting the CGS customer, is that correct?

MR. HARRINGTON: No, I don't think there is anything in our evidence about incentives.

Q.203 - When you were giving evidence to Mr. Sorenson there was reference to incentives. You didn't like the term significant, so you dropped that adjective, but I wrote down that there were incentives given. Am I wrong in that?

MR. HARRINGTON: No. There has been incentives given since the time that we commenced distribution operations.

Q.204 - Right. So what was your answer to the last question, the prior one?

MR. HARRINGTON: I would have to remember the question.

Q.205 - Okay. There were incentives in your evidence, were there not, reference to incentives in your evidence?

MR. HARRINGTON: In my testimony directly with Mr. Sorenson I discussed incentives. As I recall the written record there is no mention of incentives. Now your question also was about being focused on the CGS rate class. We were focused on our commercial classes which includes GS, CGS and the large volume classes of LFO and HFO.

Q.206 - Okay. Perhaps you could share with us what the incentives that you were using over the last -- in 2004 to target these commercial customers? What sort of incentives were you offering to customers?

MR. BUTLER: Perhaps I will answer this question. The incentives are in the commercial market I believe is what you asked?

Q.207 - I don't know what incentives. I understood it was targeted to commercial, but perhaps you can explain.

MR. BUTLER: Well there are incentives in residential as well.

Q.208 - Okay. Well if you could explain what the range of incentives?

MR. BUTLER: Okay. In the SGS or the mass markets the incentives are fairly standard. So each customer gets the same amount of incentive depending on what they switch to, so -- so for example we partnered with Natural Resource Canada last year. They contributed $300 for anybody that installed the EnergyStar furnaces and we matched that contribution. So there was a $600 incentive. There were other incentives for adding -- if they added a water heater.

In the commercial market though the incentives are very custom to address the customer's barrier at that time. So depending on the barrier, if it's a concern about pay back, if they are not going to get their pay back, then perhaps we may provide an incentive in the form of a guaranteed payback. If it's a matter of financing, that they want to finance it but they want a lower rate, we will contribute towards the cost of buying down the financing. Or if it's just they want to reduce their capital cost up front we would provide an incentive to do that.

So they are very customed based on the needs of each individual customer.

Q.209 - What is the average delivery charge for residential customers in the course of a year? Just a rough estimate here? I'm not --

MR. HARRINGTON: Referring to exhibit A-1.

Q.210 - Would it be $621? Am I reading the correct number out of Exhibit A, page 4?

MR. HARRINGTON: That's correct.

Q.211 - This is with the anticipated increase?

MR. HARRINGTON: As applied for, correct.

Q.212 - Okay. How much would it have been roughly the previous -- without the increase? Just looking for a ballpark figure.

MS. BLACK: It's approximately $470.

CHAIRMAN: Sorry, Ms. Black. Would you -- I had difficulty hearing you.

MS. BLACK: Approximately $470.

Q.213 - So there would be an increase with this of approximately $150 or thereabouts. So a new customer who signed on in the CGS class -- SGS class, I'm sorry -- in 2004 would have received -- there was an increase last year too. I'm sorry, I had better go back to that. How much was the increase in April of last year for that average customer roughly?

MR. HARRINGTON: Unfortunately, I specifically don't recall that and I don't think Ms. Black does either.

MS. BLACK: No.

Q.214 - What was the order of magnitude of percentage increase for that class?

MS. BLACK: I don't remember specifically. I do remember it being roughly $100 per year for the typical residential customer.

Q.215 - So the residential customer last year, the rate increase was 100 -- typical about a $100 rate increase. And you signed on a bunch of new ones after the rate increase came in place, correct? That's what you would lead us to believe, that the rate increase didn't affect signing?

MR. HARRINGTON: Correct.

Q.216 - But yet you gave them -- you and the federal government gave the customer six times that increase back in cash incentives, is that right? $600?

MR. HARRINGTON: That is correct.

Q.217 - So they didn't feel the impact of that $100 increase at all.

MR. HARRINGTON: I think if I might remind you, just while we are dealing with the SGS, of the little illustration I gave in my opening statement of $2,550 for a 92 percent efficient forced air furnace and a water heater. That is installed after taxes. The customer still has to make that expenditure to access natural gas. So the $600, yes, that went to offset the -- to get you to the 2,500.

Q.218 - But when you gave them an increase of $100 last year, when there was an increase of $100 last year, you then gave them $600 to motivate them to switch over. So you can't say that the price increase last year had no effect on that class, can you? You can't say that -- you can't draw the conclusion, which I get a sense you want us to from your evidence, that we had a rate increase last year of some significance and yet we still managed to get new customers. The way you managed to get new customers in this case is you gave them $600 when they had a $100 annual increase in their costs.

MR. HARRINGTON: We had the exact same incentives available in 2003 and they didn't get us the same result.

Q.219 - Available to all the same customers?

MR. HARRINGTON: Yes.

Q.220 - And how about the commercial class? What did you have for them for incentives?

MR. BUTLER: Subject to check, I recall that in the GS and CGS class we had a fixed amount of a thousand dollars that we offered, but we have had a number of -- we have tried a number of different types of offers to see what -- you know -- what is working best for us. So I -- as Mr. Harrington said we have offered incentives from day one and they have been in different forms trying to find what is the one that works best, and the ones that we used last year worked the best.

Q.221 - Now I may have misunderstood and I apologize if I did. Did I understand correctly that in 2003 or some time prior to perhaps I think it was 2004 there was a change in how you were approaching the marketing, if you will, that your marketing budget didn't change but instead of spending a bunch of money on advertising for what would attract the little guy that you instead directed some of that money to the bigger guys, is that right?

MR. HARRINGTON: I think we said there were a couple of things that changed. One was the legislative and regulation framework under which we operate and we refocused our marketing effort more directly into sales.

Q.222 - Okay. When you say refocused your marketing effort more into sales, am I correct in saying you spent more money on incentives directly to customers in 2004 than 2003?

MR. HARRINGTON: I would say that's correct.

Q.223 - And would you say significantly more money?

MR. HARRINGTON: NO, I wouldn't say that. Like I have said before, I didn't specifically prepare to discuss our marketing budgets in either 2004 or 2005. I think Mr. Butler explained that we applied tailormade solutions to make the business case for commercial customers work. We didn't do that alone. We did that with other industry partners, including the Feds and other sources. So -- and it varies widely by customer. What I do know is that our average cost of customer acquisition in 2004 was significantly less than it was in 2003. I don't have the specific figures that you are asking questions about though.

Q.224 - But your average customer cost of acquisition or whatever the term was, I assume includes your marketing advertising budget or whatever you call it?

MR. HARRINGTON: Correct.

Q.225 - So I am talking about the money that you give somebody. I will tell you what my conclusion is that it appears though you have converted many more people in

2004. I am not saying there is anything wrong with this, by the way. Converted many more customers in 2004 as a result of giving them more money to motivate them to switch. I'm not saying there is anything wrong with that, but is that not a fair conclusion?

MR. HARRINGTON: As a generality, I would say that is a fair conclusion to make.

Q.226 - And isn't it also fair to say that to make the conclusion that we increase the rates in 2004 and we still had lots of people signing would try to leave the impression that people are immune to rate increases. Would that be fair to say, that that might have been the message trying to be sent in your evidence? There isn't a sensitivity to distribution costs by customers?

MR. HARRINGTON: Oh, no, I don't think that is the message we are trying to send.

Q.227 - Well you would agree the opposite is true, they are very sensitive to it?

MR. HARRINGTON: I acknowledge that no customer likes rate increases.

Q.228 - We are talking about in terms of getting new customers to sign on.

MR. HARRINGTON: Sorry, I had the references different there. Am I concerned that this rate increase is going to affect our ability to grow in 2005? Is that the more particular question?

Q.229 - No.

MR. HARRINGTON: No. What is the more particular question? Ask it again please.

Q.230 - I just wanted to know, it appears to me as though the suggestion is that there is a certain immunity, an insensitivity by the customer in deciding to sign up, that when they are deciding that they are going to sign up to be customers of yours, that your increase last year didn't really have much of an impact because we signed lots more customers. That is the message that you are trying to signal, am I right?

MR. HARRINGTON: First, we didn't sign lots more customers.

Q.231 - Lots more revenue?

MR. HARRINGTON: Correct.

Q.232 - Pardon my language.

MR. HARRINGTON: It's okay. The value proposition to end use consumers delivered strictly through the rates making methodology also improved in 2004 as it did to 2003. Remember when Enbridge Gas New Brunswick is in a position to ask for a rates increase it means that the wholesale price of oil has also gone up. And that means that the absolute amount of savings available to customers has increased. The same is true of this year. So prospective customers looking to switch from oil will look forward to increased absolute savings as compared to what was available in 2004.

Q.233 - In A-1, page 7 of 13, question 10, does EGNB feel that the distribution rate increases effective May 1, 2004 had an impact on customers converting to natural gas during that year, the year? Answer, no, EGNB does not feel that the distribution rate increase had an impact on customer decisions to convert to natural gas during 2004. And then you go on to talk about the multiple of 3.5 times. Now when I read that, my impression was you were suggesting that the customers are not sensitive to rate increases. And so we can sign on people, we do get more customers, we do get 3.5 times more customers in terms of revenue even with a rate increase. Is that the message you are telling?

MR. HARRINGTON: Yes.

Q.234 - So you are saying that?

MR. HARRINGTON: That is our evidence.

Q.235 - Yet you gave them cash to join up which certainly dulls the effect of the increase, correct?

MR. HARRINGTON: I think we have acknowledged in our evidence that payback is important for customers. Payback is achieved through end use savings, through other savings.

Q.236 - Mr. Harrington, does it dull the effect for the customer when you give them a cash incentive --

MR. HARRINGTON: I need to finish my response please.

Q.237 - The question is does it dull -- it is a very simple one.

MR. HARRINGTON: Not every consumer received incentives.

Q.238 - No, I didn't say that.

MR. HARRINGTON: So making a general statement like that --

Q.239 - For customers who received incentives --

MR. HOYT: Mr. Chairman --

Q.240 - -- does it not dull the impact?

MR. HOYT: Mr. Chairman, he can only answer if he is the only one speaking.

CHAIRMAN: Mr. Harrington, you can answer the question in such a short fashion as you are able. If you believe that there is further explanation necessary, then on redirect, Mr. Hoyt can ask you to explain more fully.

And while I have got an interruption here, when you are finished with this line, I think we will give Mr. Ross his opportunity, Mr. Lawson.

MR. LAWSON: Yes.

MR. HARRINGTON: I think to accept the allegation that is being made in the question you have to think that customers are extremely naive. Yes, if there is an incentive on the table it helps the customer to make the decision. Helps the business case to convert to natural gas. If they think the savings are not going to be there, they are not going to convert regardless of how much money is on the table.

MR. LAWSON: Perhaps we should take a break now to have Mr. Ross.

CHAIRMAN: Okay. We will adjourn after this for the evening. It is quarter to 5:00. Mr. Ross, would you care to address the Board from -- do you have a mike there in front of you? Okay well you might as well address the Board from there, sir.

MR. ROSS: Mr. Chairman, Commissioners, ladies and gentleman, the Association's interest in this hearing goes to the big picture and that is what is being probed, I think. To the effect that the proposed rates will have upon the growth of the New Brunswick natural gas market, and ultimately the survival of it and those few players in it, other than the applicant.

The Association respectfully requests the Board in its decision to be mindful of the investments of those who have already made the commitment to engage in the New Brunswick natural gas market. We suggest that further market stifling rate changes should be delayed until after the evaluation of the initial seven year development period. We respectfully request the Board extend the seven year development protection already afforded the applicant in other hearings to these few other stakeholders.

The Association believes the decision in this hearing is pivotal and that the potential harm of the proposed rate changes to initial market development far exceeds the relatively minor gain to the applicant. And we therefore urge the Board to deny the application. Thank you.

CHAIRMAN: Thank you. Mr. Ross. We will reconvene tomorrow morning at 9:30. And I understand that the room is ours and is not going to be swept into St. Paddy's Day celebrations. So I can't vouch for the security of it but I'm sure that not many people would want to steal our binders. See you in the morning.

(Adjourned)

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

Reporter