New Brunswick Board of Commissioners of Public Utilities

In the Matter of an application by the New Brunswick System Operator for changes to the Open Access Transmission Tariff (OATT) as approved by the Board for the New Brunswick Power Corporation

Delta Hotel, Saint John, N.B.
March 23rd 2005 10:00 a.m.

CHAIRMAN: David C. Nicholson, Q.C.

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.... CHAIRMAN: Mr. Whelly, any preliminary matters?

MR. WHELLY: Yes, I do, Mr. Chair. And I will start with the one that is probably not the most fun, corrections to interrogatories, answers.

So I have a few typos and things I would like to draw to everyone's attention. This is in exhibit A-3.

CHAIRMAN: Thank you.

MR. WHELLY: The first item relates to the PUB interrogatory 4. This is the most complicated of the three. I assure you it gets better after this one. And that appears on page 4 of the answers that were provided to the initial PUB interrogatories. And it deals with the second last paragraph.

And that is the paragraph immediately under the two items that are listed. See the sentence that begins "The amount of reduction in the self-supply." Well, there is really a formatting issue here.

There should be no colon after the word "criteria". You should insert the word "number" in front of 1. Believe me, this will make sense at the end.

CHAIRMAN: I hope so.

MR. WHELLY: And you should insert the word "number" in front of 2 and then add a comma after the 2. And then it reads all as one sentence, that the amount of the reduction in the self-supply cap for Disco for each service is proposed to be equal to the amount of capacity by which criteria number 1 is in excess of criteria number 2, converted as a percentage of the Disco ancillary service obligation.

Then I can move on to the second one. The second one deals with the PUB additional interrogatory IR-6. And that appears on page 19 I believe. No. It appears on page 22 of the responses.

The last line in the first paragraph under A you will see there is reference to MAC, the Market Advisory Committee. It should have been in reference to MDC, the market design committee.

MR. MACNUTT: Could you just give us that again?

MR. WHELLY: Page 22, IR-6, additional interrogatories from PUB. The last line in the first paragraph in A should be -- MAC should be a reference to MDC instead of MAC.

MR. SOLLOWS: Could you read the sentence?

MR. WHELLY: Sure. "NBSO would procure those services on a competitive basis, thereby developing a competitive market for such services as recommended by the market design committee and as directed by the Board."

MR. SOLLOWS: Thank you.

MR. WHELLY: Right. We have that one. We will move forward to -- the third one has to do with PUB additional interrogatory request IR-11. And that appears on page 28.

And this -- we are dealing with the second paragraph in that response. That is the paragraph that starts in the original OATT evidence.

In the second line there is the number 13. It says "The 13 megawatts of noncoincident load." That number should be 133.

MR. MACNUTT: Could you just give us that again? Because the thing was broken up a little.

MR. WHELLY: Page 28, IR-11, additional interrogatories. In the second paragraph -- I realize there are some problems in page numbering.

MR. MACNUTT: That is what I'm stuck on.

MR. WHELLY: The second line in the second paragraph, the number 13 should be 133. So the sentence would read "The 133 megawatts of noncoincident load of these customers was included in the 2,571 megawatts of projected network service load."

They are all the corrections I have, Mr. Chair. But I do have a couple of other matters.

CHAIRMAN: Yes. Go ahead, Mr. Whelly.

MR. WHELLY: Yesterday I gave an undertaking to file an unredacted copy of the supply contract between Transco and Holdco on a confidential basis.

And last night I was able to provide a copy to staff before they left, so they would have it for preparation for today's hearing. But we haven't filed it formally here. And I thought we should do that now.

CHAIRMAN: And they haven't shown it to me, so --

MR. WHELLY: So I would like to file, on a confidential basis, the unredacted copy. And as a heads-up we are also filing the redacted copy immediately afterwards.

CHAIRMAN: Okay. Maybe we better go with the unredacted right now.

MR. WHELLY: And this contract is not being distributed to the other participants.

CHAIRMAN: Okay. Hang on, Lorraine. Wait. I don't -- I think that what we will do with that is, will you, Madam Secretary, simply put that in a confidential file, then as a result of the redacted version having been reviewed by the parties, then that may have to be marked as an exhibit. Otherwise it will not --

MR. WHELLY: We can take that as it goes.

MR. MACNUTT: So it is simply going to be identified as a document on file?

CHAIRMAN: I'm sorry, Mr. MacNutt?

MR. MACNUTT: The unredacted version will simply be noted as being on file with the Board on a confidential basis and not given an exhibit number?

CHAIRMAN: That is correct, at this point in time.

MR. MACNUTT: Correct.

CHAIRMAN: I mean, it may well be that when the parties and Board staff have already had the opportunity to look at the unredacted version and see the nature of the things or information that has been removed, they may say well, it is really of no interest at all, and therefore it need not form part of the public record. And the Board would keep a copy of it in a confidential file with the Board for future reference or whatever.

Okay. So you now have the redacted version?

MR. WHELLY: I now have the redacted version that I would like to file and request that it be marked as an exhibit. Copies have been distributed to the parties here.

There are actually three documents in the package which I will -- I will describe them quickly. There is an agreement for the provision and purchase of shared services that covers a number of services. And for those services there is a description in the agreement as to how the prices for those services are calculated.

There is a second agreement that is called a memorandum of understanding regarding corporate services that covers a number of other services that are shared among various NB Power companies. And those fees are allocated. And the basis of allocation is a percentage of the total cost.

And then finally, to try to put these into some perspective, we have prepared a spreadsheet that shows the amount that has been budgeted for each of these costs under both agreements for the years 2004, 2005. So that is the 2005 year all the way through to 2008.

CHAIRMAN: Mr. Whelly, you are familiar with these. Is it better that we mark them as one exhibit? Or it is three separately?

MR. WHELLY: If witnesses or people doing examination are referring to them then probably we should have separate numbers.

CHAIRMAN: Well, the first, which is an Agreement for the Provision and Purchase of Shared Services will be exhibit A-11.

CHAIRMAN: And the Memorandum of Understanding Regarding Corporate Services will be A-12. And exhibit A-13 will be the spreadsheet and on the top left hand corner of that document it says Allocations from Holdco Budget 2004/05 to 2007/08. All right. Anything else, Mr. Whelly?

MR. WHELLY: Not for me, Mr. Chair. Thank you.

CHAIRMAN: Any other parties, any preliminary matters? If not, go ahead, Mr. MacNutt.

Q.240 - Thank you, Mr. Chairman. I would ask everybody to turn up the responses to PUB IR-15 and exhibit A-3 at page 23, where the SO provided a table entitled New Brunswick System Operator Variance Analysis. That's exhibit A-3, IR-15, at page 23.

Please note that I will be reading -- we are going to go through each of those line items item by item and I will read the line number and what is under that and the amount, and then the question will be posed in respect of that line item.

CHAIRMAN: And I will add to that, Mr. MacNutt, that in order to make it flow perhaps a little bit easier overall, if any Commissioner has a particular question that -- in reference to any of the items that Mr. MacNutt refers to, why we may jump right in then rather than trying to wait until after. This is your time, Mr. Lavigne.

MR. MARSHALL: He has been waiting all night, Mr. Chairman.

CHAIRMAN: Go ahead, Mr. MacNutt.

Q.241 - Thank you. On line 2 it is stated, non-profit costs (Market Advisory Committee) $12,000. Why is this item called non-profit costs?

MR. LAVIGNE: There are two participants on the Market Advisory Committee who are with non-profit organizations, and we are deferring the costs of these two individuals.

CHAIRMAN: I am going to interrupt right there, Mr. MacNutt. Since you started with 2 I will go back to 1. And I don't -- how are your Board of Directors remunerated? Do they have an annual salary with a per diem each day they sit on the Board, or how is it?

MR. LAVIGNE: That's correct.

CHAIRMAN: Okay. Would you mind telling me what the annual salary is and the per diem?

MR. LAVIGNE: For the Chairman it's 15,000 and for each of the Board members it's 6,000, and the per diem is 500 per meeting.

CHAIRMAN: I'm doing that for the sake of my Commissioners, you see. Have another arrow in their quiver.

MR. MARSHALL: Are we negotiating again, Mr. Chairman?

CHAIRMAN: I don't think you are the right party. Okay.

MR. MARSHALL: But we will try.

CHAIRMAN: Go ahead, Mr. MacNutt.

Q.242 - Thank you, Mr. Chairman. Now turn to line 3, marketing operating costs, SO salaries and benefits of $500,000. What portion of this item is market operating costs?

MR. LAVIGNE: The SO salary and benefits actually relate to lines below, so it would be lines 4 through 10. The market opening costs aren't really related to the SO salaries and benefits. That is just a title for the lines that are coming after it, the SO salaries and benefits.

Q.243 - So I really should then drop down to line 4 to start the first item under that heading.

CHAIRMAN: Just before you -- I'm dragging you back, Mr. MacNutt, if I might. How about the half-a-million dollars? Just explain that -- how -- the way you have it up, it's the OATT revenue requirement and this was incurred when?

MR. LAVIGNE: The 500,000 was included as part of the original tariff submission for I guess unknown costs at the time. We put in basically a bucket of money to cover future costs related to the market opening.

CHAIRMAN: And have they been -- I'm just trying to understand here. They are part of this current year's budget for the -- well I don't know -- for SO and/or -- for the SO, is that it?

MR. LAVIGNE: Yes. Really what we are doing is that money was in Transco originally and we are now through this exercise transferring it over to the System Operator and it will be used to cover some of the items which were deemed new costs in IR-14.

CHAIRMAN: You know, the market has been open for six months, so these are to cover costs that have been incurred to date?

MR. LAVIGNE: Yes. To date we have actually been using this to pay for the systems that have been put in place to operate the market.

CHAIRMAN: All right. Thank you.

MR. MARSHALL: Mr. Chairman, the detail behind that and that 500,000, how much of it is new costs and where it came from, is all in response to IR-14.

CHAIRMAN: Okay. Thank you. Go ahead, Mr. MacNutt.

Q.244 - I think I am now going to line 4, Executive (2) $245,000. Who are they?

MR. LAVIGNE: This would be the President of the NBSO along with the secretary/legal counsel.

Q.245 - And why is $125,127 of that sum shown under other?

MR. LAVIGNE: In the original tariff submission, the individual I mentioned, the secretary/legal counsel, was an employee of Transco and has subsequently been transferred to the NBSO. As well the president was part of the NB Power group at the time of the original tariff submission. We were allocated a portion of that individual's salary and benefits within the original submission. So we again are transferring those dollars to the NBSO.

Q.246 - Thank you.

MR. SOLLOWS: If I may, can I get some brief explanation as to why the NBSO with I think relatively small operations requires a full-time secretary/legal counsel?

MR. MARSHALL: He is the secretary to the Board of Directors, he is the manager of HR services, he is the manager of administration, he does all of the legal work with all of the contracts and he is very gainfully employed about 60 hours a week.

MR. DUMONT: What do you do?

MR. SOLLOWS: I guess that wasn't quite my point, but I understood -- and maybe I'm confused, but I understood HR services were something that was handled by the Holdco. So again I'm just trying to get clarification here, not trying to --

MR. MARSHALL: We get the routine regular services of payroll and support. The interaction with Transco in terms of dealing with people or dealing with issues and dealing with the Board of Directors and their payments and all the others, that interaction is handled by the secretary, along with all of the legal issues and interventions, involvement in tariff hearings that we are involved in in the State of Maine as an intervenor, preparation of this application with this Board and a number of other functions. As an independent entity we require legal expertise and he fills that role as well as secretary of the Board.

CHAIRMAN: I just want to assure everyone that our inquiries are not based on idle curiosity. We are simply attempting to establish the base from which we will measure things in the future, and so we need to get an understanding of what is included in each of these accounts. Thank you. Go ahead, Mr. MacNutt.

Q.247 - I now turn to line 5, non-union (3) $266,900. Who are they and what do they do?

MR. MARSHALL: That would be the Controller, Mr. Porter, Director of Market Development, and Scott Brown, Assistant Planning Engineer.

Q.248 - And why is $27,856 of that number shown under Other?

MR. MARSHALL: I will let Mr. --

MR. LAVIGNE: Again it's a similar scenario as number 4. Two of the individuals that Mr. Marshall mentioned were in NB Power corporate planning at the time and we had an allocation for those two individuals in the original tariff submission. So once again we are transferring those dollars to the NBSO.

Q.249 - Thank you. Line 7. Just for clarification, you say, Mr. Lavigne, you are the Controller for Transco, is that correct?

MR. LAVIGNE: Yes, that is correct.

Q.250 - And who is the Controller for the SO?

MR. LAVIGNE: Lynn West.

MR. MARSHALL: Just a little background on that. When we started in October we did not have a controller and we were getting most of our accounting controlling services through Transco. In -- effective in January Lynn West was transferred to the System Operator and is gearing up and taking on the responsibilities as the controller for the System Operator. She came from the generation business unit, had been the controller of the Coleson Cove project up until that point in time and through. So she was transferred over at that point.

But the preparation of all of this evidence and the preparation of all of the materials that are here essentially was done by Mr. Lavigne and myself in terms of preparation for this hearing.

Q.251 - So the Board of Directors of the SO has approved the response to IR-15 -- of IR-15 -- which is the table we are considering here today?

MR. MARSHALL: No. The Board of Directors of the SO didn't approve this table per se. The Board of Directors approved this budget at $7,039,000 with all of the line items in it.

Q.252 - But you have as the CEO of the SO approved this particular table?

MR. MARSHALL: Yes.

Q.253 - Line 7, Incentive Program, $27,000. Please describe this particular incentive program?

MR. MARSHALL: The NB Power group of companies have an incentive program that has been going on for the last few years. It enables individuals that are non-union, management parties to get an incentive payment at the end of the year based on performance, based on company performance, departmental performance and individual performance, and there are different amounts for that.

When the System Operator was set up, the employees were to be treated in the same manner, so that type of program carried over to the System Operator. This is simply a budgeted item to account for that type of incentive payment that may occur for the president, the secretary, the controller and the director of market development as SO employees as an incentive payment.

MR. NELSON: Excuse me. You named off four and you had five people on there.

MR. MARSHALL: The fifth individual is an engineer. He transferred out of NB Power to the System Operator and the arrangement is as he is an engineer, he is not a union employee at this point in time but he is treated as if he was and he is paid according to the negotiated union scale for that job as if he was the same in NB Power. So he is treated in the same manner as he was prior to October 1st.

MR. NELSON: And who --

MR. MARSHALL: And he is not eligible -- being in that situation, he is not eligible for an incentive adjustment.

MR. NELSON: And who would be the -- would you yourself be the person that would define who gets an incentive at the end of the year, or who would do that? The Board?

MR. MARSHALL: I would do that. And I would discuss it with the Board but under the responsibilities it would be my recommendation to the Board and I expect it would get Board approval.

MR. NELSON: So this program has been in for a number of years?

MR. MARSHALL: This program -- well this program with the System Operator, we haven't got to a point where we have exercised this yet. So how it's going to actually work we don't know. This program has been operating with NB Power for a number of years. This is the carry-over so that the employees being transferred to the System Operator are treated in the same fashion.

MR. NELSON: But this would be a discretional -- discretionary -- your discretion whether this is paid out or not?

MR. MARSHALL: It's not quite a discretionary thing. There is a very clear set of objectives that are written down for each party relative to their job functions, relative to the corporate functions, and there is a measurement against that whether these criteria are achieved or not achieved and percentages related to them, and it's all worked out on a spreadsheet. There are maybe a few items there that may have some discretion related to the president in them. Most of them are measurable criteria in terms of performance.

MR. NELSON: Thank you.

MR. SOLLOWS: If I may, has that spreadsheet and all those criteria -- have they been filed as a part of the package?

MR. MARSHALL: No.

MR. SOLLOWS: Can they be?

MR. MARSHALL: Subject to check with my legal advisor whether that's confidential information or not or how that's handled.

MR. SOLLOWS: Well even if it's confidential we can file it and then deal with it through that process.

MR. MARSHALL: We could do that, yes.

CHAIRMAN: I thought you would be calling on him as the HR person in this regard.

MR. MARSHALL: This does carry over into that HR responsibility.

CHAIRMAN: Just a follow-up then and we will wait for Mr. Roherty for a break or whatever and find out about that, but is there any move afoot with the SO to establish -- for instance, I noted in your response to the last question that there were some occasions that the president of the NB Power group of companies may have an input into the bonuses and whatnot. Did I mishear your answer? I'm just looking for --

MR. MARSHALL: He has some input into the bonuses related to NB Power employees, not the NBSO employees.

CHAIRMAN: All right. That's what I wanted to be assured of. I think the Board certainly is looking at the legislation and your independence, and that's one of our concerns. So that's why I asked that question. Okay.

MR. MARSHALL: Just one other clarification on that information. That spreadsheet exists for the current year, 2004, 2005, and exists for the employees of the System Operator and the management employees at the control center. If we go down -- further down -- there is a number for incentive payment, line 32 that's in the budget that relates to the three management employees at the control centre that are Transco employees. That exists for these people for this current year. That spreadsheet in terms of the targets and the work plan and what they have to do in their obligations for this budget year does not yet exist.

MR. SOLLOWS: But it would carry over.

MR. MARSHALL: Well it would be similar. We lay out new plans and where we are going. But that hasn't been written down yet. Usually it's done in the spring, in the first three months of the year, it's done and laid out here in April, May and here is what your target is. And then you are evaluated at the end of the fiscal year the following year in April or May in terms of what you did. That's the history of what has gone on in the past.

MR. NELSON: In -- Mr. Marshall, in each of the individual contracts that say you have, your employees have and the SO, is it this incentive plan written into the contracts?

MR. MARSHALL: No, we do not have individual contracts. There are letters of appointment and the terms and conditions of the appointment in terms of salary and benefits under the same policy are essentially transferred to that letter. But other than that there is no specific items in the contract.

The spreadsheets are existing, the parties -- the spreadsheets are developed by the individuals and their managers and myself and on behalf of the management at the control center people sort of jointly with Mr. Snowdon in terms of where it was a transition issue moving forward, on a go forward basis, it would be done by myself and those managers. Those spreadsheets exist. So essentially they lay down the requirement, those parties sign off on them. So essentially that constitutes the contract that the parties agree, this is how you are going to be measured. But there is no formal written contract -- or employment contract per se. It's a policy procedure.

CHAIRMAN: Since we have totally interrupted you now, Mr MacNutt, I'm going to carry on with a generalized overview. Can you just give us from a high level why it is the SO has decided to have a contract that Transco provides all of those services, and I'm looking particularly from lines 29 -- well 36, rather than the System Operator having its own employees, et cetera, to do that job?

MR. MARSHALL: That's a very good question, Mr. Chairman. The current direction and policy direction of the government in implementing -- in proclaiming the Electricity Act and in implementing the System Operator and the whole restructuring has been one of controlled -- deliberate and controlled approach to implementation of the market. Inherent in that Electricity Act there is provision that Transco would become a completely independent corporation from NB Power one year after proclamation of the Act. That section of the Act has not been proclaimed.

So until the policy direction of the government, whether Transco is going to be independent, whether the System Operator as a separate corporation and Transco are going to merge back together again or not, the action taken here has been to provide the market -- implement the market and provide the services at minimum cost to customers.

So in that sense we have a contract with Transco for all of the staff at the energy control center. They are directionally under our operation. They are all NBSO functioning parties. They are employees of Transco but under a secondment contract are all NBSO workers to carry on NBSO work. And that's essentially done to minimize the overall cost and implementation of the market until such time as the government makes a policy decision where this is going to go in the future.

CHAIRMAN: Thank you. Go ahead, Mr. MacNutt.

Q.254 - Just one final question with respect to line 7, Incentives. If the incentive -- the whole of the incentive amount for a given year is not awarded, does the amount that was not awarded fall to retained earnings?

MR. MARSHALL: If it didn't get eaten up in some other part of the budget that was over the budgeted cost it would contribute to retained Earnings. It could contribute to retained earnings.

Q.255 - Line --

MR. MARSHALL: Just I want to say, the budgeted number is not the total amount of the incentive. The incentive program is geared that the vice president levels at NB Power are entitled to -- or potentially eligible up to a 20 percent adjustment. The managerial director levels are eligible for up to a 15 percent adjustment. If you look at the total salary numbers here and you applied 20 and 15 percent, you would get a whole lot more than the $27,000. The 27,000 is an indication of what realistically may be because nobody is perfect and no operations are absolutely perfect. So it's rare you would get the total payout. So it's sort of adjusted for a reasonable amount that may occur.

However, there still could be some variance on that based on actual performance after the fact. So it could contribute to retained earnings, or it could contribute to a loss, depending upon what the quantity was.

Q.256 - Thank you. Now going to line 8, Benefits $99,803. What are the benefits referred to on that line?

MR. LAVIGNE: These are the benefits related to the five NBSO employees and include your typical benefits, dental, health, also the EI, CPP. Those type of items are included in that.

Q.257 - Thank you.

MR. NELSON: Is there any other benefits besides those?

MR. LAVIGNE: It would also include the Public Service Superannuation, the pension plan.

MR. NELSON: Okay. But there is no other besides the regular, normal --

MR. LAVIGNE: It would be your typical benefits, yes.

MR. NELSON: Like no other memberships bought for contracts or anything like this?

MR. LAVIGNE: No.

MR. MARSHALL: Memberships in professional associations are a separate line item further down on line 16. My dues in the Professional Engineering Association, for instance, is paid for. It's in line 16. Mr. Roherty's dues with the bar -- the provincial -- the New Brunswick Bar -- would be on line 16. So they are not -- they aren't termed as benefits. Okay. The benefits here are health insurance, life insurance, pension benefits, all that sort of thing.

MR. SOLLOWS: If I may, jumping ahead, it says "Employer portion of benefits." Can you clarify what that means? The 99,000 isn't the employer portion of benefits?

MR. LAVIGNE: No. The employer portion is what the employer would remit for EI, CPP.

MR. SOLLOWS: Okay. I see. I got you. So when I add those two together I get roughly 27 percent of your executive and non-union budget as an overburden. Is that a fair characterization?

MR. LAVIGNE: Yes, sounds fair. I know the benefits itself is about 19 -- a little over 19 percent. So based on the extra 39,000, 27 percent seems --

MR. SOLLOWS: Thank you.

Q.258 - So based on the question and answer just given, we now pass to line 10, "Unfunded pension $21,000." Please explain this item.

MR. LAVIGNE: NB Power currently has an underfunding in its pension plan. An analysis was done back for October 1st to do an allocation to each of the NB Power operating companies as well as the System Operator in terms of their portion of that underfunding. That is what that represents.

Q.259 - Now you say an allocation was done. By whom?

MR. LAVIGNE: This was done by Morneau Sobeco.

MR. MARSHALL: You will see on line 22 the actual hired services cost there for Morneau Pension Analysis as a $2,000 cost.

You would have to look at this year over year. And considering the bill that we just got from them, that is not enough.

Q.260 - Well, we will perhaps develop that when we get to it a little more. Let's pass to line 12, "NPCC $270,000." What is NPCC?

MR. MARSHALL: That is the Northeast Power Coordinating Council.

Q.261 - Is this an annual recurring fee? And perhaps as a part of the answer you could also explain how the $270,000 is arrived at?

MR. MARSHALL: Yes. It is an annual recurring fee. For Board members who may not be familiar with it, Northeast Power Coordinating Council is the Regional Reliability Council for the Maritimes, New England, Quebec, Ontario and New York.

Their offices are in New York City. They have had staff and they run a number of task groups and working groups. And have to pay funding of travel for various work that is done and consultants. They in turn have to pay money to support NERC, the North American Electric Reliability Council.

So they are one regional member of NERC. The funding of NPCC and the funding of NERC is done essentially on a load for energy share of the budget across the region.

So the assessment here is for the energy ratio of New Brunswick, Northern Maine and P.E.I. relative to the energy of the whole NPCC service territory against the budget requirements of NPCC. And it is an annual assessment.

Q.262 - So it is subject to vary from year to year but not perhaps by very much?

MR. MARSHALL: It has gone up in the last year. But that is the range. I mean, it is subject to some variation year to year.

Essentially the costs are all people-related costs and travel-related costs to support NPCC. So it is an inflationary cost that adjusts year to year.

Q.263 - Thank you.

MR. DUMONT: Excuse me. Why is that cost -- why does NBSO have to pay the whole amount? Why doesn't Transco or other parts of NB Power have to?

MR. MARSHALL: Actually it is being billed back to the load areas. In the past it has been included. And you can see here it is being billed back to Transco, and a portion of it for this budget year intended to be billed to Maritime Electric for their portion, their load energy portion and to Northern Maine for their portion.

Because NPCC provides reliability services for the whole region. They have load customers. And they receive the benefits of the reliable operation of the system.

They should pay their share.

So that is our intent in terms of billing that back. So Transco essentially gets the vast majority of that $270,000. It gets billed back to Transco.

MR. DUMONT: So you are telling me that some of that 270,000, some of that you recover back?

MR. MARSHALL: Yes.

MR. DUMONT: Okay. Thank you.

MR. MARSHALL: And just to explain, just so that there may be some thought that we may be collecting money, billing it back and then getting it back through schedule 1, that $270,000 is not in the schedule 1 in the tariff.

Our current budget is $7,039,000. We subtract from that 7,039,000 the 270'. And we subtract some other services. And we get down to 6.3 million. And the tariff is calculated on the 6.3 million.

MR. DUMONT: Thank you.

Q.264 - I will now proceed to line 13 entitled "PUB $127,500". Would you please explain this item?

MR. LAVIGNE: This line represents the assessment for PUB costs. So what we have done is taken the total allocation for the electricity sector.

And the NBSO picks up 16 percent of that. So this number represents that 16 percent of the assessment.

Q.265 - So this is the annual assessment of the overhead cost of the PUB as opposed to the individual cost for hearings that may occur, is that correct?

MR. LAVIGNE: Yes, that is correct.

Q.266 - Line 14, "CEA $10,000". What is the CEA?

MR. MARSHALL: The CEA is the Canadian Electrical Association. It is an industry body of members, essentially all the utilities, generating companies, transmission companies, electric companies across the country.

Q.267 - And how is the sum of $10,000 arrived at?

MR. MARSHALL: The membership fees are -- you can become just a basic member of NPCC -- or of CEA, which is what that is. Then there are additional fees depending on whether you participate in specific councils associated with the CEA. That is just the basic membership fee to be party to their business.

Q.268 - And it is pretty consistent from year to year?

MR. MARSHALL: Yes.

Q.269 - Line 15?

MR. SOLLOWS: If I may --

MR. MACNUTT: Oh, sorry. By all means.

MR. SOLLOWS: -- just one question regarding CEA membership. That is something that one might characterize as sort of an industry or a trade association.

And I guess the question is, as a regulator is it appropriate that you be a member of it? Are the other ISO's members of that association?

MR. MARSHALL: The IMO in Ontario is a member, yes.

MR. SOLLOWS: Yes. Okay. And how long have they been a member?

MR. MARSHALL: I don't know.

MR. SOLLOWS: How long have they been in existence? Do we know that?

MR. MARSHALL: About four years.

MR. SOLLOWS: Do you file or participate in any subcommittees or any such thing that the CEA does? Does the SO?

MR. MARSHALL: Not at this time, no.

MR. SOLLOWS: Okay. I guess the question is what benefit do you get from being a member of the CEA?

MR. MARSHALL: Industry contacts, being well aware they do -- right now there is -- one of the activities that is going on is the whole question of reliability, coordination and mandatory reliability requirements.

There is a Federal/Provincial group with government involved. And the CEA have been very actively involved in that process and working jointly between Canada and the

United States.

So it represents that type of development. And we as the reliability provider in New Brunswick clearly have a connection interest in that.

MR. SOLLOWS: Thank you.

Q.270 - We now pass to line 15 entitled "Conferences/Workshops $8,000."

Does this represent the cost to the SO for convening such conferences and workshops or to attend same?

MR. MARSHALL: That is for attending workshops, training sessions or others for some of the NBSO staff, but also in addition for the NBSO Board of Directors.

Q.271 - But that is all attendance. This is not -- these are not programs convened by the SO for the benefit of people that wish to educate on matters?

MR. MARSHALL: No. When we do training workshops and set up workshops, and we do that from time to time, we attempt to do that on a cost recovery basis.

And we organize the workshop, charge a fee, which basically just recovers our cost of putting them on. So that it is not shown as a line item.

Q.272 - So it is in the budget as an $8,000 item that will recur from year to year at roughly the same level?

MR. MARSHALL: Yes, subject to conference fee escalation.

Q.273 - We have already addressed line 16. So I will pass to line 18, "PUB Administrative Hearing $50,000."

What do you -- what is meant by "Administrative Hearing"?

MR. MARSHALL: That would be a proceeding such as this. Now we all know that $50,000 won't cover the costs of a full hearing. It is put in as a line item in the budget. We don't assume we are going to have a hearing every year.

And we discussed this yesterday. We hope that we don't have to have a hearing for quite some time. But if we don't put anything in the budget, then when it comes time for a hearing, we don't have any money to pay for it.

And the only way we get our money is through schedule 1 in the tariff. So we have to put in an allocation that can apply year over year. And we collect up some money to be able to pay for that hearing when the time comes. So we have put in $50,000 a year.

Q.274 - Now this is shown under the heading at line 17 which is -- well, I should say "Hired Services External."

So what service is being provided in this line item?

MR. MARSHALL: We have to hire a lawyer, all right, to provide us the services that we need to attend a hearing. We may have to hire consultants.

And we would also have to pay direct billing costs from the Board in terms of running and paying for the hearing.

Q.275 - So none of the $50,000 represents SO's staff time. It is all externally hired assistance for the purposes of a particular hearing?

MR. MARSHALL: That is correct.

Q.276 - Line 19, "Insurance $108,000." What does the insurance cover? In other words, what risk is being insured?

MR. LAVIGNE: This includes two components. Firstly there is liability insurance in the amount of $80,000 as well as directors' and officers' insurance in the amount of $28,000.

Q.277 - And line 20, "Consulting $100,000." What services are covered by this item?

MR. MARSHALL: That would be hiring consultants related to detailed studies referring to potential changes in the market rules.

Right now we are currently involved in work with the Board of Directors in developing the whole governance manual and governance process, so advice back to the Board in terms of developing that.

Q.278 - Once this transition situation has become settled, would not that number tend to reduce going forward?

MR. MARSHALL: No, I don't think so. There are other studies to be done next year related to the SCADA systems. We have to look at replacing all of the SCADA. So there is a need to engage them, some expertise related to that.

In a complex business such as this, with the numbers of systems and various things, there is always a need and the requirement to hire some external expertise for advice on various issues.

MR. SOLLOWS: If I may, how or what steps do you take when you hire the external expertise to ensure your -- do you request for proposals and take lowest bids? Or how is this money dispensed?

MR. MARSHALL: That would depend on the nature of what is required. I mean, when we were in the process of appointing auditors to determine the auditors, we actually went out and invited proposals and bids and then evaluated those in terms of making that type of an appointment.

If it was a specific issue related to the market rules and we want to do something, we likely would just go hire Rob Carey, because he actually wrote the rules, and bring him in to do the work.

So depending upon what it is, it may involve an RFP process of some kind. Or it may just be go and hire an individual that you know can do the work.

Q.279 - Line 21, "Annual Report $25,000". Why could not this be done in-house and explain what it is -- will be expended for in any event?

MR. LAVIGNE: This represents the year-end report, basically the year-end financial report. We used NB Power I guess history in terms of what they would pay for an annual report as kind of the benchmark for this 25,000.

MR. MARSHALL: That includes -- that's just the external cost of a media party and the printing costs and for a glossy external financial annual report. It does not include labour costs internally, all right, that go into preparation of that report or of writing it.

Q.280 - And that $25,000 represents payment made by SO in respect solely of the SO's annual report, or expected cost?

MR. MARSHALL: That's correct.

MR. SOLLOWS: If I may. Is it a requirement of your corporation that you produce a nice glossy report or -- I mean as a non-profit the ones that I have been involved in tend not to sort of adopt that corporate model where we are trying to sell ourselves. So we have tried to keep those expenses fairly low. Is it an absolute requirement that you have to hire a PR firm to get a really pretty annual report, or you just put -- to get the audit report up on your website?

MR. MARSHALL: We have to report annually to the Crown Corporations Committee. We are an agency, an independent agency with the Board of Directors and government. We look at the nature of the reports out of the ISO in Alberta and the IMO in Ontario and we don't plan to even go to the level they are at, we plan to do it in a more reasonable manner. But we still have the obligation to produce an annual report and make it available to all parties in the market and to the government and report back to the Crown Corporation Committee.

MR. SOLLOWS: As we report to the Crown Corporation Committee. That's one of the things that sort of jumps out at me here. Just having gone through the preparation in-house to prepare that report, I -- I could stand to be corrected, but I don't think that we would even come close to spending that much money in external services to prepare a report to Crown Corporations. So just a comment I guess.

MR. NELSON: What would be included in the annual report besides the financial information?

MR. MARSHALL: I think the annual report would include the operating activities that have gone in the previous year, directions as to where the market could be moving for development into the future. I mean, annual reports of corporations that you see have a lot of information in them about the businesses that they do, where they are going, their plans, their development, in addition to just the financial statements.

MR. NELSON: So you feel you can't do it in-house then?

MR. MARSHALL: We will do a lot of the work in-house but in order to get it to the level of a report that is required we think we need additional assistance to do it. As I said yesterday, we are a pretty lean operation. We do not have expertise in our operation in every area. So there are times we are going to need to go hire expertise related to specific issues. This is one.

CHAIRMAN: Okay. I think I will call for a ten minute recess.

(Recess)

CHAIRMAN: Go ahead, Mr. MacNutt.

Q.281 - Just one last question with respect to the annual report. How many copies of it do you propose to print?

MR. MARSHALL: I don't know at this time.

Q.282 - Thank you. Line 22, the Morneau Pension Analysis $2000. Would you explain what that is and follow-up with your comment when you mentioned it earlier that it might be higher this year.

MR. LAVIGNE: Yes. As mentioned earlier we had asked Morneau to do an analysis of the assets and liabilities related to the pension and, yes, the costs this year were a little higher because they had to do the break-out of the employees. But we expect that 2000 per year is a reasonable amount.

Q.283 - So this would be an annual recurring fee?

MR. LAVIGNE: Yes. Generally we request this on an annual basis.

MR. MARSHALL: Line 24, "External Audit $30,000". Would you explain that, please?

MR. LAVIGNE: This amount is budgeted to cover off the year-end financial audit of the New Brunswick System Operator's financial statements.

Q.284 - Is there any thought of having the Auditor General perform that audit?

MR. MARSHALL: No.

Q.285 - Is that a record for brevity?

MR. DUMONT: Excuse me, Mr. MacNutt. We went from 22 to 24. Could you ask about 23, please.

MR. MACNUTT: Oh, I thought we had covered it when we were dealing with line 7. But okay. Line 23, "Internal Audit $40,000". Would you explain that, please?

MR. LAVIGNE: This line item covers off audits of financial controls. The NBSO Board of Directors had requested that an internal audit function be provided.

Q.286 - So this is SO employee costs?

MR. MARSHALL: No. This is the cost of an independent auditing firm to come in and look at the detailed internal processes of the NBSO operation, and it looks at internal control of money, of data, of measurements. In addition to that we have a requirement under the Market Rules this year to have all of our systems audited, so that it has to be -- from time to time there have to be systems audits because of the actual settlement systems. It's the audit of the internal processes so that they produce good data. And then there is an interaction between the internal auditor and the external auditor because the external auditor wants to be assured that the data that goes through the financial statements through these processes is accurate and correct.

So there are two separate auditors. They are both external parties that are hired to provide different types of services related to auditing.

Q.287 - And is it expected that the annual recurring amount will be in the order of $40,000 a year?

MR. MARSHALL: Yes.

Q.288 - Thank you.

CHAIRMAN: Sorry, Mr. MacNutt. Have you put out your audit services in a call for proposal?

MR. MARSHALL: We have -- we went through an RFP process. We invited a number of parties in and got bids in terms of their wages. Basically you get hourly rates in terms of what they will do, and then depending upon the amount of work, how much you do related to internal services and looking at services, then you pay based on that basis. So we have done that for internal and external auditors, and it went to our Board at a meeting last week and they basically approved the two parties to do that audit.

MR. SOLLOWS: And if I may, just to make sure the transcript is clear because I thought I heard you say that a part of this $40,000 internal audit was driven by a systems audit that was ordered by your Board of Directors. That sounded to me like it was a one shot deal. Again can you confirm how that $40,000 will be recurring?

MR. MARSHALL: The -- there is a need to do continuing audits of the internal systems as they are developed, as the market evolves.

Just to give you a bit of background. Last year under the auspices of Transco there was an internal audit done related to the metering system and the metering data base and what has to be done with all of that to get it up to scratch. Well that essentially was handed over and inherited by the System Operator on October 1st.

So there is a need to look at the metering systems. There is a need to look at the actual market optimizing system that does the dispatch and that does the settlement for the variances, and then the measurement of the variances and what are the actual prices in the market on the hour in terms of settling it. All of these things are computer based systems that require an audit. Under the Market Rules it's required that they be audited and that the audit then be made public to participants in the market.

MR. SOLLOWS: And they are not dominantly financial audits?

MR. MARSHALL: No.

MR. SOLLOWS: They are largely process and --

MR. MARSHALL: These are process, exactly.

MR. SOLLOWS: Yes. Understood.

MR. MARSHALL: The internal audit is a process related audit to controls of information. The external audit is a financial audit of the accounts.

MR. DUMONT: Could you say those internal audits are like quality control audits?

MR. LAVIGNE: No. They are more of an operational type audit, looking at processes and ensuring you have adequate control over data and the financial aspect of things.

MR. DUMONT: Thank you.

CHAIRMAN: Just a general question, and, Mr. Marshall, I'm aware of your answer about the fact that the SO and Transco remain separate entities until government makes its policy decision, but are you aware, or you, Mr. Lavigne, if there is a standard system of accounts available for transmission companies now and/or SO's? They are a rather unique beast, I know, in that they vary from jurisdiction to jurisdiction. A lot of common functions but a lot of different responsibilities. But certainly for Transco.

MR. LAVIGNE: You are referring to a standard system for financial accounting?

CHAIRMAN: Yes, that's correct.

MR. LAVIGNE: Yes.

CHAIRMAN: For instance -- and I will just interrupt for a second -- under our Gas Distribution Act we have a standard system of accounts that's promulgated for the use of Enbridge Gas New Brunswick for the purposes of regulatory accounting. And the line of questioning that has just gone one brings me to that.

I mean I look at a financial statement that says external audit and internal audit and I immediately think of an accounting function, whereas the explanation has turned out that they are both audits, but one deals with financial information and the other with systems or whatever it may be. And to me that raises the question that perhaps some or all of the internal audit should be classified differently. That's where this question comes from.

MR. LAVIGNE: Just to respond to the first question and then maybe I will talk a little bit more about the difference between internal and external audit. But with respect to the system of accounts, in Canada I'm not aware of any standard system of accounts. I know in the U.S. they have the uniform system of accounts.

CHAIRMAN: And let me ask you, has not the OAB promulgated a standardized system of accounts for their various regulated utilities in that jurisdiction?

MR. LAVIGNE: I'm not aware of it, but --

CHAIRMAN: Okay. I think that's worth looking into because -- and of course this Board among other Boards across the country are now quite interested in benchmarking, and you can achieve that probably only if you do have a standardized system. But again it's of interest to the regulator because then you know that what is in account A or B or C is the same year over year. And you know that if there is a variance it's because of the functions that are captured in that account have had far less debited to them in this particular year or not, and then that acts as a red flag and it means that we don't have to go through a line by line every time you come before us once every six years.

MR. LAVIGNE: It is something we had investigated in the past and I guess at the time I guess we didn't see the need to move to that uniform system of accounts, but we would certainly be willing to work with -- you know -- with Board staff to investigate it further.

If I could just make one final comment on external versus internal. One of the things with internal audit is it is really a function of management. It is management trying to ensure that the controls -- and it is a financial aspect as well as the system aspect of things. So external auditors tend to rely on the internal auditors as part of their function. So I just wanted --

CHAIRMAN: And the Board appreciates that. I am just talking about classification and accounts for ease of reading and that sort of thing. Go ahead, Mr. MacNutt.

Q.289 - Come to line 26, "Interest $13,542". That is interest on what at what rate?

MR. LAVIGNE: This is really working capital. So it is short-term borrowings to cover off the ups and downs in cash flow.

MR. SOLLOWS: So I guess my question would be does it have to be there if we let you accumulate retained earnings?

MR. MARSHALL: If we could accumulate up to 300,000 -- well, first of all we would have to be efficient enough and work through till we actually have some earnings to retain up to 300,000. Because we don't start at that point. We start at zero.

So we have got to work our way up there. And if we have retained earnings then we would actually save on some interest costs because we wouldn't need to borrow that amount of money.

Currently we have a line of credit with Electricity Finance Corporation for a million dollars. So we borrow in $100,000 chunks. And then will up and then pay it off each month. So it is going up and down depending upon the actual cash flow through the market.

MR. SOLLOWS: With the incentive program you are going to be very efficient though?

MR. MARSHALL: We certainly intend to be.

Q.290 - Line 27, "Material and Travel $20,000." First of all, what is travel? And then immediately followed by what is in material?

MR. MARSHALL: Materials is about $20,000 in that and the travel is about 50', is basically how that is broken out.

That relates to travel, well, first of all travel from Fredericton to Saint John and hotel costs for this hearing and such is that sort of thing, travel to meetings, travel to New York, NPCC meetings, travel of the Board or parties to a conference or a workshop.

So it is travel expenses for air travel, car mileage, meals, hotel costs.

Q.291 - But it really shouldn't include any aspect of dealing with a specific hearing before the Board because it is separately budgeted for, is it not?

MR. MARSHALL: Not the travel cost associated. The $50,000 was simply the external services you have to hire. All of the staff that would have to participate in a hearing or any type of meeting, the travel costs associated with that would have to come out of the travel budget.

Q.292 - Okay. And what is represented -- what is material as used in that line item?

MR. MARSHALL: The material is letterhead, stationery, paper, photocopy paper, whatever, pens, pencils.

Q.293 - Thank you. Line 29, "Transaction and Scheduling Department $1,213,106."

How many people in this department? And what is the breakdown between wages and salaries and other costs in this line item?

MR. MARSHALL: The names of the people are actually in one of the exhibits that went in yesterday. And the secondment agreement lists all of the employees at the Control Center.

They would constitute those three departments. For lines 29, 30 and 31, the people in those departments are listed in the appendix to the secondment agreement.

Currently we are in the process of reorganizing the control center. So currently there are certain parties in one department. But as of April 1st there were going to be some adjustments between departments in terms of utilizing staff in a more efficient manner.

Q.294 - Could you just for the benefit of the Board today give us an estimate of roughly how many people in each of your transactions, in scheduling your SCADA which is at line 30 and your Power System Operations which is in line 31? How many people are in each of those categories?

MR. LAVIGNE: With respect to the first one, it is about a dozen people. And the labour component of that budget represents about 96 percent of the budget.

Q.295 - Thank you. Now if you would do the same thing for line 30, the SCADA department, even though we will come to it again later, just so we have all the people.

The SCADA department, how many people are in the department? And what percentage of that department --

MR. MARSHALL: It is about the same, 10 or 12 people.

Q.296 - And about 90 percent --

MR. LAVIGNE: The labour component in that department is about -- I would say about 65 percent.

Q.297 - Okay. And then if we --

MR. MARSHALL: That department has some IT costs and other things, systems-related type costs.

Q.298 - Yes. I will come back and go through those in detail.

MR. MARSHALL: The last department, Power System Operations, that has probably about 15 people in it. Because it currently includes the administration staff at the Control Center.

It includes all the Power System Operators. And it includes the external Senior Operators and other support group.

Q.299 - And of its total budget item, what percentage would be wages?

MR. LAVIGNE: You are looking at about 75 percent. That includes overtime and benefits.

Q.300 - Thank you. Now line 30, "SCADA Department $1,367,616." What is SCADA?

MR. MARSHALL: That is an acronym for Supervisory Control and Data Access.

Q.301 - Is this system owned by the SO? Or is it rented? Or is it a service provided by an external service provider?

MR. MARSHALL: The physical assets that collect the SCADA information, the computers that are out in the transmission system and the computers that are in the Control Center are owned by Transco, okay. And we basically pay rent for the building.

Those systems, the cost of those systems out in the transmission system, are in Transco's budget in terms of asset cost.

We simply pay for the people that service those systems and that service the operational systems inside the Control Center in terms of operating the market and operating the system. The physical assets are Transco assets.

Q.302 - Now you mentioned that you were doing some revamping in this area. What portion of this cost will be absorbed by the SO on the revamping?

MR. MARSHALL: There will be no change. These are the costs that are budgeted for those three cost centres. All we were going to be doing is we will be moving a few people from one center to another and relabeling the names of the departments to more line up with what we are doing.

These names essentially are names of departments that have been there for years and years that relate to -- essentially the operation of the Control Center is part of an integrated utility operation.

So we are doing a reorganization of those people. It is not going to change the cost any. It just changes the nature of who they report to.

MR. SOLLOWS: If I may, I'm looking at the line item 30, your SCADA department. And it notes that this -- of the three it has the biggest variance from the OATT revenue requirement.

And I will jump to the note I think on the next page tells me "Unionization of IT staff, new service agreement with BIS, services provided to Disco completed."

Can you elaborate on what that note means?

MR. LAVIGNE: The IT staff within that department were recently unionized. So there is an increase as a result of that. We also have what we call a service level agreement with Information Systems for an individual, which is an increase beyond what we had originally had in the tariff submission.

And finally we -- the SCADA department was charging out for services to the distribution company back at the time of the hearing. And that has subsequently been completed, the work that they were doing on behalf of the distribution system operations function.

MR. SOLLOWS: So they no longer have cash flow. You have got to pick up whatever --

MR. LAVIGNE: That is right.

MR. SOLLOWS: I think I understand it now.

MR. LAVIGNE: Yes.

MR. SOLLOWS: BIS then is your Business Information Systems?

MR. LAVIGNE: Yes. I apologize for the acronym. It is Business Information Systems.

MR. SOLLOWS: And do we have -- we are looking at 300,000 out of 900'. That is about a 30 percent increase. Do we -- can you break down which or how that 30 percent increase splits between those three causes roughly?

MR. LAVIGNE: Yes. The overtime is approximately 30,000. These are approximations.

MR. SOLLOWS: Yes.

MR. LAVIGNE: The service level agreement is a little over 100,000. And then the final one would be the makeup. So the difference.

MR. SOLLOWS: Okay. Thank you.

Q.303 - When we were discussing line 20, consulting fees in the amount of $100,000, there was some mention made that next year there would be a SCADA replacement. I didn't quite catch the full phrase.

Would you explain that statement in relation to what we have just -- the departments we are discussing now?

MR. MARSHALL: The current SCADA systems and computers at the Control Center are about 15 years old. The systems are upgraded from time to time. But the actual software system and the operating SCADA system is about 15 years old.

The computers are VAX machines. And they -- beginning next year they will no longer be able to be maintained under maintenance contracts from the supplier. So there is a need to replace that system. And that would be a capital investment of Transco.

But the study to get it done and everything would be done with the Control Center people in order to do it. So we have to pay the consulting costs and to get into the details of how we would do it. The actual capital investment would be a Transco investment.

MR. SOLLOWS: If I may, you mentioned a particular computer supplier. I'm just -- it flashed me back to again another nonprofit thing that I was involved in with the university, where we had a similar VAX-based service.

And when we found we replaced it, we replaced it for about the cost of the annual maintenance contract. We found real cost savings that arose from replacing that kind of hardware and upgrading it to more modern equipment.

Do you anticipate that kind of savings in this case?

MR. MARSHALL: I hope so. But right now I can't say. We don't know. We are also talking about -- the hardware costs, we are going to save on the hardware costs. Because we know that we are -- we don't have to replace the VAX with VAX machines. We are going to replace them with more modern, newer machines. So the hardware costs will be the same. The issue is the software costs. Because SCADA is a very complex technical systems. And so there are only certain vendors that are out there in society. So it is a matter of how do you deal with the different vendors to get the best arrangement for that system? That is the kind of study that has to be done.

MR. SOLLOWS: And that will be subject to an RFP or some sort of a contract?

MR. MARSHALL: It will be subject to some sort of contract for sure.

MR. SOLLOWS: But a public call, a tendering process? It wouldn't be just directly awarded to a preferred vendor?

MR. MARSHALL: We may be able to do that. There are ways to do the study. It is possible to engage a group that look at our operation, our requirements and look at other system requirements and then do a joint RFP in order to get systems done. There is also the possibility the current supplier could actually do and do a financing arrangement over time.

So there is different ways it could be looked at. The decision hasn't been taken yet. That is why the analysis has to be done.

MR. SOLLOWS: Thank you.

Q.304 - With respect to line 31, "Power System Operations Department Including EEC Administration $1,942,624". How many people in the EEC administration and is there any overlap with Power Systems operation?

MR. MARSHALL: There are two administration staff today in that department.

Q.305 - Would you elaborate?

MR. MARSHALL: Well they provide the secretarial services, they do the security arrangements for anybody coming in and out of the building --

Q.306 - Excuse me. There are two people.

MR. MARSHALL: Two people, yes.

Q.307 - Okay. Sorry. Let's go to line 33, "Office Space Rental Full Cost $322,107". What space is being rented, where is it located?

MR. LAVIGNE: This is the Energy Control Centre located in Marysville, Fredericton.

Q.308 - And to whom is the rent paid? In other words, who are you leasing the premises from?

MR. LAVIGNE: The building is currently owned by Transco. So the NBSO is paying this charge to Transco.

Q.309 - Line 34, I will spell it. It's "I-n-t-R-o-e-t-a-x-e-s Less Credits $462,918". Would you explain that?

MR. LAVIGNE: This was an allocation which took place during the last tariff submission for interest retain on earnings and payment in lieu of taxes.

Q.310 - So that phrase I spelled was simply a shorthand version of interest --

MR. LAVIGNE: Yes, you are correct.

Q.311 - Okay. Thank you. And what does this $462,918 represent?

MR. LAVIGNE: It would be the sum of those three items.

Q.312 - Why is it shown under other on this table on page 23?

MR. LAVIGNE: It's under schedule 1. These items were in the schedule 1 charge.

Q.313 - I'm sorry. You are correct. Yes. Why is it shown under schedule 1?

MR. LAVIGNE: These numbers were included in the cost of service for schedule 1 during the last tariff hearing.

Q.314 - Now it is stated, less credits. What is the total before the credits and how does the SO earn credits?

MR. MARSHALL: First of all, the SO doesn't earn any credits. That item has nothing to do with the SO. That item was a cost item in the previous tariff hearing that was in the schedule 1 calculations. The intent of this whole table is to try to show that in the SO budget there has been a transfer of $2 million from the approved revenue requirement of Transco in other budgets in addition to the approved revenue requirement of schedule 1 which is 4.3 million. So it's that -- those costs were basically in the overall control centre costs in schedule 1 in the current tariff. We are trying to demonstrate where the $2 million shifting occurs to move to the new proposal.

Q.315 - Line 35, "Allocation of Shared Services EEC $420,212". What are these services and with whom are they shared:

MR. LAVIGNE: These are services provided to the individuals we mentioned in lines 29 through 31. They represent costs or charges for information systems, hired services and telecommunications related to these staff people. It's coming from Transco.

Q.316 - And so that's a wage figure, the $420,212?

MR. LAVIGNE: No. These are costs related to providing support for PC's, services provided by our HR department for these individuals, and also to cover off telecommunications. So they are not related to salary.

Q.317 - And who made the allocation or how was the allocation arrived at?

MR. LAVIGNE: The allocation is based on the costing or pricing methodology put forth in the exhibit A-11.

Q.318 - Thank you. Now line 37 --

MR. SOLLOWS: Before you go on there, if I could just clarify -- well actually -- no -- maybe I'm going to preempt you here. I'm looking at line 35, 420,000 for 45 or 50 people. Presumably some of those are sharing some of the things. But for 53,000 on line 37 for five employees. The rough math tells me that you are budgeting something like $10,000 per person year for IT, Telecom, HR services, is that roughly right?

MR. LAVIGNE: Five into 53 is -- yes.

MR. SOLLOWS: Have you -- do you have -- I guess is the breakdown of that in the report that you filed, the breakdown of how much is IT, how much is Telecom, how much is HR services?

MR. LAVIGNE: Not for these particular individuals. In exhibit A-13 we have a breakdown of the costs allocated from Holdco to Transco. This is really a subset of that.

MR. SOLLOWS: Okay. All right. Thank you.

MR. DUMONT: Excuse me, Mr. MacNutt. I'm going back here just a little bit because I didn't have a chance to ask a question on this. The cost of renting the Marysville center, it's 322,000. Could you explain to me Transco owns the building and you pay office space to them. And if you go up to the right, 224,000 are recovered under schedule 1, is that correct?

MR. LAVIGNE: Yes. Currently in the existing schedule 1 there is an amount for 224,000 and that was really to cover the amortization on the building. This 322,000 is the amortization plus the financing charges that we have to -- Transco has to incur. Those finance charges were previously in line 34. So there is a bit of a mismatch in the report.

MR. DUMONT: Yes, I can see that. But would that expense occur -- that would occur every year because you will be renting those every year.

MR. LAVIGNE: Yes. The NBSO will be incurring that charge on an ongoing basis.

MR. DUMONT: It's just a little bit hard for me to understand if you are in that building and you are running the system and yet why not eventually buy that building or I mean the cost, you know, of $300,000 a year --

MR. MARSHALL: I can address that one. The -- as I answered the Chairman earlier on the question of why we only have five people, why we have a secondment agreement, why we are renting the facilities -- it relates back to the point that the government have yet to make a clear -- the final policy decision in terms of implementation going forward, whether Transco is going to become independent, the System Operator and Transco are going to merge, whether it will go off in that direction.

So until that decision is taken, we are operating in an interim period in this way in terms of the least cost to customers. As the market develops potentially in the future as the market really develops and moves maybe to a Maritime market, there may be a need to create another facility or to take over the facility in some way or to do various things. Those will be negotiated on a go forward basis. But until we get a clear policy direction we are in the renting stage at this point.

MR. DUMONT: So this could change in the future.

MR. MARSHALL: This is subject to change. Everything is subject to change as you go forward. This is how we are budgeted for this coming year and we certainly expect to be operating this year that way. We would expect to be operating this way for the next two years likely. We don't think there will be any major changes for the next two years. But three or four or five years out there could be some changes.

MR. DUMONT: You know, I'm thinking like the guy on the street here would be looking at this and saying, well how come they are paying rent for something we owned before, you know what I mean.

MR. MARSHALL: Because the building costs money. I mean, it does cost Transco money to do the amortization and to do the financing costs for the building. We are using the building. It is a cost associated with operating the system. And so we should put it into schedule 1 in the tariff and then all parties who utilize the transmission system pay for schedule 1 which are its real costs which includes the building. So there should be a cost for the building in schedule 1. This is based on the current depreciation and financing costs for the share of the building that we utilize. So that's what the charge is.

MR. DUMONT: Thank you.

MR. MARSHALL: And we think it's a reasonable number.

MR. NELSON: Mr. Marshall, I'm just going back to line item

32, "Incentive Program $23,000". How many employees in that group are entitled to that?

MR. MARSHALL: Three.

MR. NELSON: Three. Thank you.

MR. SOLLOWS: Again with respect to the office space rental, how many square feet are you renting? And I guess where that's coming from, you have already told us it's reasonable and the way I would judge that is by looking at rents in Marysville for office space and see, you know, whether it fits or not. So if you would just give us the number of square feet it would give us an idea?

MR. MARSHALL: I don't know the number of square feet off the top. The point is that --

MR. SOLLOWS: Would you provide it is all?

MR. MARSHALL: We could give an estimate of that.

MR. SOLLOWS: Yes.

MR. MARSHALL: The point here is that we are a -- this is a regulated service. This is the real cost of that building. And so if we went out and got an indication of what office rent is on a per square foot basis, then that may increase or decrease the cost, then that is going to essentially end up as a payment back to Transco is going to be either a profit or a loss that Transco is going to reflect in -- we are both regulated companies. The rates should be based on the real cost, not on a market value.

CHAIRMAN: I would be correct in saying that the actual value of the building is established by the vesting contracts which came into effect I presume on the 1st of October of 2004.

MR. MARSHALL: There is no vesting contracts associated with the building. The building is a Transco asset. It's not a vested asset of Generation in any way.

CHAIRMAN: Sorry, I thought that NB Power Corporation Limited had divested with Transco because it was one of NB Power Corporation's previous assets.

MR. MARSHALL: In the transfer orders the assets, the physical assets of Transco, were transferred from Holdco, from NB Power Corporation, to NB Power Transmission Corporation. That included all of the transmission towers, the lines, terminal stations and the energy control centre as a Transco -- as an asset transferred to Transco. It was transferred based on the book value on the books at that value. It wasn't transferred at a replacement market value, it was transferred at the book value on the books. This cost -- this rent is calculated based on that value.

MR. SOLLOWS: And so was that book value -- was that reduced for any contributions from government? I know going back through the annual reports we see a lot of contributions to construction from presumably government for R&D and otherwise just a straight contribution to construction. Were those contributions allocated to individual construction projects and were any of those in the accounting for NB Power and were any of those allocated to the services that you are buying from Transco?

MR. MARSHALL: I'm not aware of any but I really don't know the answer to that question.

MR. LAVIGNE: There are no contributions for this particular facility budgeted.

CHAIRMAN: Yes. I -- just to conclude -- in other words, Mr. Marshall, in any of those transfers that were made that I referred to, it was done at a book value?

MR. MARSHALL: That's my understanding.

CHAIRMAN: Yes. Thank you.

Q.319 - We go to line 38, "Translation $20,000". What is being translated?

MR. MARSHALL: We have a requirement for ongoing translation costs. We manage a website that has information available in both French and English. Being a government corporation we are subject to the Official Languages Act. Every document we produce publicly available has to be done in both French and English. We have -- the Market

Rules have been translated are there. We have market procedures currently being translated. We have regular reports that are to be published and put on the website. They have to be translated. So there are ongoing translations costs.

Q.320 - Line 39, "Documentation Support $10,000". What is covered under this item?

MR. MARSHALL: This is some assistance through Transco for some documentation control from Docs.source. It's really a Holdco services group out of NB Power. The issue is we can buy some of the services from them or we could go outside to hire some parties to do that. But we do have some need to maintain and control a document system at the Control Center for all of our operations.

Q.321 - Line 40, "Regulatory Services $36,000". What portion of this payment represents administrative support in contrast to provision of content?

MR. MARSHALL: It's 100 percent administrative support. Although Ms. Tracy would probably take issue with that. They certainly provide some editing services as well.

Q.322 - Will Transco or Holdco provide any input on the content of regulatory findings? Or will the SO be solely responsible for content?

MR. MARSHALL: SO solely responsible.

MR. SOLLOWS: May I just ask one question again for clarification. And I understand -- maybe this is just an opportunity for you to make it clear for maybe the tenth time.

Is it common for a so-called System Operator or an independent System Operator to have such contractual relationships for provision of services and labour and such with a single transmission company? I'm thinking of New England.

MR. MARSHALL: Actually it was the practice for years, the NEPOOL operation was done, and it was done by essentially contract arrangements with Northeast Utilities. All the employees and the staff and the people and services were provided by Northeast Utilities.

But they were accounted for through separate contracts and then charged out across NEPOOL in terms of usage. So that has existed in the past in terms of how they operated there.

Again I come back to this is an interim arrangement. We are in a transition process in terms of getting up and moving forward. And again it is in the interests of minimizing costs of service to customers.

MR. SOLLOWS: So when they made the transition from NEPOOL to ISO New England, that is when it became a separate entity?

MR. MARSHALL: ISO New England became a separate entity. And I can't say exactly when. But post 1996, sometime in the last 10 years that they became separate employees and removed from Northeast Utilities.

MR. SOLLOWS: Thank you.

Q.323 - We are off the line item review. And I would like you to turn up exhibit -- in exhibit A-3, PUB IR-17.

CHAIRMAN: Mr. MacNutt, if you are through the line analysis maybe this is a good time to break for lunch.

MR. MACNUTT: Oh, fine, yes.

CHAIRMAN: Okay. Come back at 1:30.

(Recess - 12:05 p.m. - 1:30 p.m.)

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

MR. WHELLY: Nothing, Mr. Chair.

CHAIRMAN: The Board has a budget of $3.2 million a year. We report to the Crown Corporations Committee. I asked my staff to dig out the costs for our annual report which contains no glossies or anything else.

But the total printing cost for 70 copies is 457.91 a year. Add to that our cost of translation, because we don't have it in house, is $608 for a total bill of 1,656.

So I suggest that the SO look into that. It is the government print shop in the Centennial Building that does it for us. And you may well be able to avail yourself of that.

MR. MARSHALL: We will take it under advisement, Mr. Chairman.

CHAIRMAN: Okay. Thank you, Mr. Marshall. Go ahead.

Q.324 - Exhibit A-3, PUB IR-17, page 30, there is a table at that page.

Now if I understand correctly, the responsibility for certain costs are being shifted from Transco to the SO in about the sum of about $2 million, is that correct?

MR. MARSHALL: Yes.

Q.325 - Now the revenue forecasts for Transco is shown in the table at $2 million lower after the rate adjustment, is that not correct?

MR. MARSHALL: Yes.

Q.326 - Now is this reflect the shifting of the revenue to the SO to allow it to recover the additional cost that it will be responsible for?

MR. LAVIGNE: Yes, that is correct.

Q.327 - Why is there no corresponding reduction in the cost forecast for the Transco after the rate adjustment?

That is, total expenses are shown at 65.6 million before and after the rate adjustment.

MR. LAVIGNE: The adjustments noted are against the original revenue requirement submitted in the hearing, the original tariff hearing and our adjustments against that, that particular budget.

Obviously there are other changes that have occurred since that time which would mitigate some of those decreases in cost.

Q.328 - Could you describe those for me please?

MR. LAVIGNE: One would have to look and do a comparison against the original revenue requirement in order to do that. There would be quite a number of items I would expect.

Q.329 - Yes. So you are saying the OM&A is a full 2 million? Yes. The OM&A I guess is an increase of 2 million?

MR. LAVIGNE: In many of the cases we are still incurring those costs. If you look at the Energy Control Center and the allocations, along with that we are still incurring those costs and are billing those out to the NBSO.

So in that case we are not saving the full -- I guess when you look at it there is a revenue to offset those costs.

Q.330 - Yes. If the total -- if you are shifting revenue from one company to the other, isn't there -- shouldn't there appear on here someplace a shift in the cost? In other words, shouldn't they cross?

MR. LAVIGNE: No. We are still incurring the costs. So that doesn't go away for Transco.

Q.331 - I'm sorry?

MR. LAVIGNE: I said we are still incurring the costs. So that doesn't go away for Transco.

Q.332 - If you are still incurring it why is the SO still getting the revenue from it?

MR. LAVIGNE: If you look at the ECC costs, those costs still reside in Transco's OM&A budget. We then bill those costs to the NBSO. So they end up incurring it on their income statement as an expense. In Transco we come out net because we have a revenue to offset the expense. Then they recoup their costs through the schedule 1.

Q.333 - What are the additional costs being shifted to the SO?

MR. LAVIGNE: Those are all itemized in IR-15. We just walked through them. The 2,040,604.

Q.334 - Could you point me specifically to where you got that figure?

MR. LAVIGNE: That's in the table in IR-15 which we reviewed this morning.

MR. MARSHALL: Page 23.

Q.335 - Would you repeat that specific reference, please?

MR. MARSHALL: It's line 43 on -- first of all it's exhibit

A-3. It's an NBSO PUB IR-15 Interrogatory, and in the table the absolute last line at the bottom of the table, page 23, line 43, total OM&A -- you can come over under the column Other, all the way down -- the bottom line number is $2,040,604. That is the amount of money that's currently in the revenue requirement of Transco that was approved by this Board two years ago that's being shifted to the System Operator.

Q.336 - So you were required $2 million, rounded, more revenue. So you will be getting a -- as a result of that are you going to pay Transco that amount more per year?

MR. MARSHALL: No, we are not paying them that amount of money.

MR. LAVIGNE: The amount that the NBSO will be paying to Transco is 5.4 million which covers basically lines 29 through line 41. So that is what Transco will reflect as basically miscellaneous revenue for those services provided.

Q.337 - If you are not paying Transco the approximately $2 million more money, then why is Transco showing it as an expense?

MR. MARSHALL: I think we can -- if we look back and forth between pages 29 and 30 we might be able to understand a little bit what is going on.

Q.338 - Would you do that?

MR. MARSHALL: The expenses of Transco don't change. The expenses of the System Operator don't change. It's not that there is a shifting of money that's going to occur, it already has occurred. It's in the budgets. What changes is where the revenues come from. So on page 30 if the rates are not changed, Transco will have $79 million and a 10.3 percent rate of return. But if the rates are not changed, if you look on page 29, the System Operator will lose $2 million. When you add the two of them together there is a net zero change.

If the Board approves the rate change you look at column 2 on page 30, Transco's rate of return goes down to 9.2 percent because it gets $2 million less revenue, but the System Operator on page 29 gets $2 million more revenue and breaks even. That's what goes on.

Q.339 - Part of the confusion rising out of my opening questions on this line is there is the shift of cost from Transco to the SO and you said there was going to be about $2 million, and you said yes. Can you reconcile that with what you just said?

MR. MARSHALL: Well I thought I did. The -- back in what we went through this morning, on page 23 IR-15, inherent in that chart the New Brunswick System Operator budget that we went through line by line this morning totalled $7,039,000. That's what it is. There is no additional shifting is going to go on. That's what it is today.

What has happened is that on October 1st, people that had worked for NB Power, myself and George that worked at NB Power Corporate, part of our costs were approved by this Board in the revenue requirement of Transco during the Transco hearing.

We were transferred to the System Operator. The System Operator now has all of our costs incurred in the $7 million. The issue is how do we get a rate to recover those costs.

Well part of our costs are in the revenue requirement of Transco along with the other items listed under the other column all the way down, $2 million were approved already by this Board in Transco's revenue requirements. They have been shifted over to the System Operator as new costs. We are simply trying to do a realignment of those rates.

So we are asking -- schedule 1 goes up by $2 million to recover the money that's needed for the System Operator. Schedule 7, 8 and attachment H go down by $2 million. It's a zero sum gain. Nobody's costs change. The costs changed on October 1st. They are not going to change next year. They already changed. We are just trying to change revenues to line them up.

MR. SOLLOWS: If I may, again so that I am clear here. Looking at IR-17, page 30, I see in your budget column line item 4, OM&A 38 million before and after. And you are telling me that the costs that are being reallocated from -- the things that are being transferred from Transmission to SO, like salaries of people and such, were not in the OM&A expenses?

MR. LAVIGNE: They are in the OM&A -- they are and were in the OM&A expenses.

MR. SOLLOWS: Okay. So how can they appear in these OM&A expenses and also in the System Operator OM&A expenses?

MR. LAVIGNE: But what is transpiring is for the costs of the Energy Control Centre still reside in Transco. There are Transco employees seconded to the SO. So we still incur those costs within Transco. We then bill those costs out to the NBSO.

So there is an amount of 5.4 million contained within line 2, the miscellaneous revenue. When we bill those out to the NBSO that then becomes a cost to the NBSO.

MR. SOLLOWS: But that hasn't changed. You have still got 22.2 million and 22.2 million before and after?

MR. LAVIGNE: That is right. We still incur the same cost.

MR. SOLLOWS: At miscellaneous revenue?

MR. LAVIGNE: Yes. That is right. We still incur the 5.4 million irregardless of the rate change. But it is where the costs are covered. They are no longer covered through Transco.

MR. SOLLOWS: But if you just said you were billing it out to the System Operator, wouldn't that lead to an increase in the miscellaneous revenue line item?

MR. LAVIGNE: Yes.

MR. SOLLOWS: But it is not shown?

MR. LAVIGNE: We had billed those out before the cost reduction -- or the rate reduction.

MR. MARSHALL: Let me try to explain it again. The shifting of costs isn't in these budgets. The shifting of costs already occurred on October the 1st.

All we are trying to do is shift the revenues to line them up with what the costs are. So in this income statement for Transco for this future year, Transco's costs aren't going to change, whether you -- if this Board does not approve this rate application, Transco's costs aren't going to change. Their costs are what they are.

We are here to change rates which affects Transco's revenues and affects the System Operator's revenues. Our costs are not going to change. They have already changed.

CHAIRMAN: Mr. Marshall, that is the second clear time you have explained that. And I'm not being facetious. I think what this whole line of questioning and the results indicates is that the accounting presentation that was received to try and explain that is in itself lacking in clarity.

And I think that is something that the next time we do something like this we have to ensure that it is clear.

Anyway, Mr. MacNutt, are you through on those questions?

MR. MACNUTT: No. One last question that may clarify it, Mr. Chairman.

Q.340 - If the budget for the SO and Transco approved at the original OATT hearing had been on the basis of what we know now, are you saying that the budget for the SO would be $2 million higher and the budget for Transco would be $2 million lower?

MR. MARSHALL: Yes.

Q.341 - Thank you very much.

MR. SOLLOWS: May I ask a question on the same sheet? I'm going down one item to -- from 4 to 5. Amortization is listed $19 1/2 million.

And I would like you to put that in the context of the information given in the annual report which lists for note 7 to your financial statements Property, Plant and

Equipment, Transmission System, accumulated amortization went from 126 million to 132 million for the Transmission System between 2003, 2004 which is about $6 million of amortization. And I'm wondering where the other --

MR. MARSHALL: Excuse me. Mr. Chairman, is there an exhibit here that we could look at relative to what the discussion is?

MR. SOLLOWS: You are welcome to it.

CHAIRMAN: No. But --

MR. SOLLOWS: It is your financial statement.

CHAIRMAN: No. But we can certainly have some copies made of this which as I understand it comes from your annual report. That is probably an appropriate way to proceed, so that you can have a look at it.

So Mr. Sollows, if you want to wait until the next break, we will make some copies of that. And then you can ask your questions. Yes, Mr. --

MR. LAVIGNE: I can make one comment. That line item in the annual report isn't the total picture of Transco.

MR. SOLLOWS: It is not the whole transmission system?

MR. LAVIGNE: That is right. And there are other pieces within some of those other components, i.e. Telecom, General Properties. So that particular item isn't, you know, all-encompassing of what Transmission is. There is pieces in the other areas.

MR. SOLLOWS: And we can get a breakdown at some point in the future without any problem?

MR. LAVIGNE: That is definitely achievable, yes.

MR. SOLLOWS: That is all. Thank you.

CHAIRMAN: Mr. MacNutt?

Q.342 - I want you to look at PUB IR-17, exhibit A-3, page 30, table entitled NB Power Transmission, Budget Regulated Statement of Income and Retained Earnings, Year Ending March 31, 2006. Are we there? Page 30.

MR. LAVIGNE: Yes.

Q.343 - Okay. Line 4, OM&A for 2005, 2006 is shown as $38 million, is that not correct?

MR. LAVIGNE: Yes, that is correct.

Q.344 - And exhibit A-8 filed yesterday, OM&A for 2005, 2006 is shown as $46.1 million. Please explain why there is a difference?

MR. LAVIGNE: Yes. This would be a classification issue. On the financial statements we break out a component of OM&A. That would be in line 6, the taxes, special payments other than income taxes.

That includes utility tax, property tax and large corporate tax. If you add line 4 and line 6 you will come out to 46.1.

Q.345 - Now again with exhibit -- still with A-3 and PUB IR-17, but I want you to back up two pages to page 28 which is the OM&A for 2004, 2005. Are we there?

MR. LAVIGNE: Yes.

Q.346 - On line 7 the OM&A is shown as $46.4 million, is that not correct?

MR. LAVIGNE: Yes, for the forecast column.

Q.347 - Yes. Now in exhibit A-10 filed yesterday --

MR. LAVIGNE: Yes.

Q.348 - -- OM&A for 2004, 2005 is shown as 51.9 million. Please explain why there is a difference?

MR. LAVIGNE: These are two different forecasts. The forecast provided in IR-7 is the Q3 forecast which was the last official forecast we did in Transco. And it reflects eight months of actuals and four months of budget.

I believe the request yesterday was to provide the most recent set of actuals plus the remainder of the year. So we are now at 11 months of actuals and one month of forecast in exhibit A-10.

Q.349 - What would explain the differences in the numbers? Is it simply taxes? Or are there other elements that should have been taken into account?

MR. LAVIGNE: If we were looking at the same forecast, again it is line 7 plus line 9 would give you the bottom line of the column in A-10. But again these are two different forecasts we are looking at here.

CHAIRMAN: Excuse me, Mr. MacNutt. I have been left out in the cold here. Exhibit A-10, let's not even look at the 11 months of that actual.

But I'm looking at the budget, 2004, 2005 budget. And I'm looking at the budget in the response to IR-17. And the OM&A in the budget that you have in IR-17 shows 40.6.

Now what is the difference between the 45 that you show on there? Sorry. In other words between IR-17, which I'm looking at the line 7, which says 40.6 million, and you go back to A-10 and it is 45.

MR. LAVIGNE: Actually I believe A-10, the bottom line is 48.2. And if you add -- in IR-17, line 7 and line 9, you will get 48.2.

MR. SOLLOWS: Page 28.

MR. LAVIGNE: Sorry. Page 28.

CHAIRMAN: Well, all right. Why, if it is OM&A on line 7, is there a separate item and not dealt the same way on A-10?

MR. LAVIGNE: For financial reporting purposes we break out the taxes. So you see two separate lines which really are both components of OM&A. But for financial reporting purposes, corporately we break out those taxes.

CHAIRMAN: Okay. And what is A-10? What establishes the nature of that reporting, if it is not financial?

MR. LAVIGNE: This is just looking at the OM&A as a whole. When I say financial reporting it is more from the financial statement presentation purposes.

CHAIRMAN: I'm just speaking for myself personally. That is one of the difficulties I have had in going through the accounts that you presented to us this time, is that one time you are looking at apples and apples, and then the next time it is apples and oranges or it is presented in a different format or you have got budget as the first column and to the right it is forecast and then -- you know, I have found it quite confusing going through it in that fashion.

I hope in the future that you will take a hard look at what you have filed and then come up with a consistent policy through. So that when we start getting like A-10 in, it is crafted with the same sort of background in mind as something that we have been looking at.

I forget what prompted Board counsel to ask for the production of A-10. But presumably it came from something which was in the evidence and hopefully, and perhaps it was modeled after that. It just makes it easier for those of us who are trying to follow.

And part of this may be due to the fact that I haven't gone back to look at where A-10 came from, Mr. Lavigne. Anyway, just food for thought in the future.

Q.350 - I'm now going to ask you to turn to exhibit A-2, the prefiled evidence. Appendix A at page 14. Exhibit A-2, Appendix A, page 14. That should bring you to item 06, Settled Variances at Market Prices.

MR. MARSHALL: Yes, we have it.

Q.351 - The proposed revision would settle all energy imbalances by use of the final hourly marginal cost, is that not correct?

MR. PORTER: Yes, that is correct.

Q.352 - This approach is significantly different from the method currently in place pursuant to the OATT, is that not correct?

MR. PORTER: Yes, that is correct.

Q.353 - The current method is at least partly based on the cost of proxy units, is that not correct?

MR. PORTER: No, that is not correct. We are talking about -- you are talking about the settlement of variances or in the tariff refer to them as energy imbalance, and the pricing there was based on the production costs of a combustion turbine on the -- in a case where the participant is basically extracting energy from the system, and $18 if the -- $18 megawatt hour credit to the participant if they are supplying energy onto the system. Those are the punitive pricing band prices we referred to. I'm not sure what you mean by proxy pricing.

Q.354 - Well you just said that the pricing is based on a combustion unit. That would be a nominal or a proxy unit, would it not?

MR. MARSHALL: Except that it's based on a combustion turbine based on what the actual fuel costs are at that point in time the combustion turbine ran. So that price varies from time to time. It's not just a set proxy price.

Q.355 - Is that where you normally in the run of a year usually get your energy from that type of -- that unit?

MR. PORTER: No.

Q.356 - If not it's a proxy unit, is it not?

MR. PORTER: I think I understand what you mean by proxy unit. I can only say what -- it's based on a cost that would be incurred in our system in New Brunswick if the most expensive units were required to produce that energy. That production unit may or may not be used in any particular given hour.

Q.357 - Now this approach was the subject matter of considerable debate during the OATT hearing, was it not?

MR. PORTER: Yes, that is correct.

Q.358 - Why is the SO proposing such a significant change from what was approved in the OATT to what is presented in this application?

MR. PORTER: The change reflects a move towards market based pricing for this service. That's something that was recommended by the market design committee. It's something that is commonly used in other markets, ISO New England, in Ontario, et cetera, as the markets evolve and it becomes feasible to establish a market, a competitive market for balancing energy.

That is typically done because it allows the variances to be settled at market prices and thereby facilitating the entry into the market of both suppliers and loads because they know that settlements for variances will be done based on market value as opposed to punitive pricing. It just makes it easier for players to enter the market.

MR. MARSHALL: And I might also add that the proposal for market prices and developing this market is written in the Market Rules that were issued by the Minister of Energy as the initial direction to go in the market place.

MR. PORTER: As Mr. Marshall said, that's one of the changes that -- you see the asterisk beside that item 6 -- it's one of the changes proposed to the tariff to align the tariff with the deferred Rules in the Market Rules.

MR. SOLLOWS: May I? Can I ask the Board secretary to provide witnesses with the transcripts. Maybe roll the whole cart over here. Because I --

CHAIRMAN: Why don't you just wait until it's time for the Commissioners and let Mr. MacNutt complete his.

MR. SOLLOWS: Well it's on this point is all.

CHAIRMAN: Yes. That's okay.

MR. SOLLOWS: You would rather leave it until later?

CHAIRMAN: Yes.

MR. SOLLOWS: Okay. We will leave it for later.

CHAIRMAN: Go ahead, Mr. MacNutt.

Q.359 - Well as a follow on from our discussion, to be clear the FHMC proposal will remove the 14 megawatt band width for NSPI? I mean, will it remove it, I'm sorry? I will restate the question. Will the FHMC proposal remove the 14 megawatt band width for NSPI?

MR. MARSHALL: No.

Q.360 - Now I have a general question which it's not necessary to look up any documents and they relate to ancillary services arising out of yesterday's questioning in part. For the record would you please describe in general terms what is included in ancillary services and why they are necessary? This is a very fundamental basic question to assist the Board in understanding the discussion of this topic.

MR. MARSHALL: If you want it at the most elemental level, ancillary services, to make an analogy, is essentially the glue that holds the market together. A power system cannot operate reliably unless it has a certain amount of reserve capacity spinning in the system. If it doesn't have generators that are on automatic generation control that will track the load and follow the load to move up and down to keep the load balance with the generation, if you don't have enough reserve spinning, enough reserve available in ten minutes to meet our ten minute obligations to get the New England tie line back on schedule within ten minutes if there is an upset or a change in your system, and enough 30 minute reserve to be able to withstand a contingency and half the next contingency in the system. So they are capacity based services that are required for the reliable operation of the system.

In addition there is a need for all generators in the system to operate under the direction of the System Operator to inject bars into the system, to set their voltage regulators at a predetermined level in order to keep voltages balanced throughout the system.

Those are all ancillary services that are required from generators for the reliable operation of the power system.

Q.361 - Now it's my understanding that customers have the choice to purchase these services from the System Operator at tariff rates or to self-supply them, am I correct?

MR. PORTER: That is correct for the capacity based ancillary services which are the services provided under schedules 3, 5 and 6 of the tariff.

It's not true for schedules 1 and 2, schedule 1 being the services provided by -- directly by the System Operator. The scheduling, system control and dispatch, that's mandatory that those be purchased under the tariff from the System Operator.

And schedule 2 is the reactive supply and voltage control which is the service provided by the generators to maintain system voltages. But because that service is something that really can only be provided locally it needs to be supplied where the need exists on the system. So it's not possible for a supplier -- sorry, a load under the tariff to self-supply that service.

Q.362 - Okay. But staying with the capacity based services which are identified as being in 3, 5 and 6, if a customer self-supplies the ancillary services that it requires how does this actually work?

MR. PORTER: The transmission customer would nominate to us that they would wish to self-supply a particular service and provide the information as to how that would physically be provided. We would evaluate on a technical basis whether or not that was feasible and if so we would accept that nomination. For example of a combustion turbine or a diesel to provide a 30 minute supplemental reserve, if all the technical obligations are met, we would accept that nomination.

The transmission customer would turn those resources over to us and make it available -- turn it over to us with respect to being able to activate that reserve, we would know that that reserve is available on the system, and in the case of a contingency if we needed to activate the reserve we would do so.

So the resources, even though they are deemed to be -- considered to be self-supplied, they are really turned over to System Operations, so we would have them available with the fleet of other resources that are purchased under contract by System Operator.

Q.363 - Does the customer actually enter into a contract directly with the supplier?

MR. PORTER: Yes. In the case of a network services customer part of the network service agreement whereby network services is agreed upon there is a nomination there as to which services that transmission customer would self-supply and which they would buy from the System Operator. So it's down to individual services but also within the service they could chose to self-supply say 75 percent of their obligation and buy the other 25 percent from us.

And to further support the contractual relationship, a contract is required between the System Operator and the actual generator that would be supplying the service. And that's not -- there is not a financial consideration so much there because it is a self-supply arrangement, but we need to have laid out the terms and conditions by which we have access to those resources.

Q.364 - Now does the customer actually pay the supplier directly?

MR. PORTER: That's a matter of the bilateral market, whatever agreement they would come to to allow that transmission customer to nominate that generator as their self-supply. We would have no part in that.

Q.365 - Who decides exactly the type and quantity of ancillary services that a particular customer requires in real time?

MR. PORTER: If you start at the top -- even above that the requirements particularly with respect to the reserves is established according to NERC and NPC's, the Northeast Power Co-ordinating Council and North American Electric Reliability Council, that established what the criteria would be for reserves for the area. So for the Maritimes area based on the size of the contingencies we would calculate what the obligations are for each of the services on the -- for the entire Maritimes area. As the Maritimes area operator it falls onto us to determine how much of that is picked up within the Maritimes or who picks it up within the Maritimes, who covers those obligations. And there is a reserve sharing agreement that exists already with Nova Scotia Power which dictates how much of the obligation is covered by Nova Scotia. So then with what is left over we have to determine how that requirement is shared between P.E.I, New Brunswick and Northern Maine. And to date we have been doing that as we said since this current tariff went into effect until today based on the non-coincident peak demands of the loads in their respective areas.

Q.366 - Is this how it is brought about with respect to each individual customer?

MR. PORTER: Yes. Yes. We have implemented a methodology that we talked about somewhat yesterday whereby at each we call it point of delivery or substation to a load the net non-coincident peak demand for the month is determined, and whatever party is the transmission customer for that particular load or substation, is sent the appropriate bill for ancillary services.

I would just like to elaborate a little bit too about the difference between how we charge under the tariff versus how we set out that obligation. As I said we really have a dual role. One is to be the administrator of the tariff. And I mean, legislation says that we cannot provide ancillary services at any rate other than what has been approved by this Board.

But the secondary role is as the Maritimes area operator is to take that obligation that's established, that requirement for ancillary services and assign or allocate that out to the various parties in the control area. The two to me are related but somewhat distinct.

We have chosen for the sake of consistency to perform that allocation or assignment to PEI, Northern Maine and New Brunswick on the same basis that we bill out or determine obligations under this approved tariff.

Q.367 - Now if a supplier with whom the customer has a contract is unable to deliver all of the necessary ancillary services, who is responsible for obtaining the necessary services?

MR. PORTER: In our role as the -- in ensuring the reliability, we would ensure that there were sufficient ancillary services in place.

Q.368 - We being the SO?

MR. PORTER: The SO, yes.

Q.369 - Thank you.

MR. PORTER: And then separately resolve going back to the party that was in breach of contract to determine what the sanction, if any, would be.

MR. MARSHALL: I would just like to add to that the -- there is a requirement in the Market Rules for all load serving entities to demonstrate and have under contract capacity required on a seasonal basis period by period. So going into the winter period they have to demonstrate that they have all the capacity required to meet their load, plus all of the reserve requirements and ancillary service requirements on a capacity basis going forward into the next winter.

They demonstrate they that capacity available in the market, then we know that there is enough capacity available to operate the system reliably. Now they then choose to self-supply or to contract to buy them from us or whatever from there on.

But there is an assurance that there will be enough capacity in the market. If they do not have enough the market rules that we can go out and buy the capacity wherever it's necessary to be assured there is enough capacity in the market place.

Q.370 - Thank you. Now --

MR. PORTER: I just want to add a little further information on that in terms of the nature of the contract. The Market Rules, it's appendix 5A of the Rules, has the proforma ancillary services contract which lays out the terms and conditions of supply. And that works both in the case where we will be purchasing directly from the supply of ancillary services or the same contract works in the case where the supply is as a result of a nomination of self-supply by a transmission customer.

And within that contract there are sections that address how deficiencies in the supply would be handled and I believe it lays out what the nature of the penalty would be.

Q.371 - Okay. I am going to take you back a little bit where you just explained that, if the supplier with whom a customer has a contract is unable to deliver all of the necessary ancillary services you advised that it would be the System Operator. The question then is who pays -- if it is the System Operator, who pays the party who is supplying the ancillary services?

MR. PORTER: The System Operator.

Q.372 - Now the System Operator must pay the party supplying the ancillary services. Does the System Operator charge the customer the tariff rates for these services?

MR. PORTER: My recollection is that that proforma contract says that we would sanction or charge that party at -- I believe it's at up to twice the cost of combustion turbine capacity. But that's subject to check. So it's not set up as a pass through of what our costs would be to buy that capacity.

And it's really a situation is it going into say the particular period -- say a month -- if that transmission customer has nominated a Generator to supply the service and we could prove that, now the relationship is really between the System Operator and the Generator. If part way through the month that Generator becomes unavailable or unable to supply that service, the breach of contract is with the Generator, the supplier, not so the Transmission customer that was self-supplying. So we would deal with that party being the Generator under the terms and conditions of the ancillary services contract.

Q.373 - So in such circumstance the customer would pay the

Generator directly and the SO would get no payment -- or no payment from the customer?

MR. PORTER: Sorry. Could you repeat the question? I didn't hear it.

Q.374 - In a case you just described the customer would pay the Generator directly pursuant to the contract and the SO would receive no payment from the customer?

MR. PORTER: That's correct. In the case of a self-supply arrangement that is correct.

Q.375 - So you would sanction the generator and receive revenues --

MR. PORTER: Yes, that is correct.

Q.376 - -- in that situation?

MR. PORTER: Yes.

Q.377 - If there was any difference between the actuals and the sanction amounts would that be settled in the residual monthly uplift?

MR. PORTER: Yes, that's correct. The sanction dollars received would be a penalty for a deficiency of performance which is one of the line items in the residual monthly cost. If you look at section 7.8.1 of the Market Rules it's one of those top four or six items.

Q.378 - Now if we could look at the provision of ancillary services by the System Operator. The System Operator has an obligation to provide ancillary services to any customer who requests such services, is that not correct?

MR. PORTER: Yes, that is correct.

Q.379 - Now has the System Operator provided ancillary services to customers to this date as we speak?

MR. PORTER: Yes, we have. In fact in response to one of the Interrogatories I believe it was one of the additional Interrogatories from the PUB who identified the quantities for a particular 12 month period.

Q.380 - How does the provision of such -- how does the provision of such services by the SO work in practice?

MR. PORTER: Going into a month -- and I believe the practice is by five days prior to the month -- let me back up here. It really depends on whether it's a network service customer or a point to point customer. In the case of a network service customer as I noted earlier, when they sign up for the network service, they describe what their level of self-supply would be. Then going into a given month both point to point and network customers would redefine or define in more detail what quantity of each ancillary service they will be self-supplying in that month.

And that would set forth what the -- on a forecast basis what their obligation would be. At the end of the month based on what their actual demands are, their net non-coincident peak demands, we would recalculate what their obligation is and if there is any difference between what they did self-supply versus what their obligation is determined to be based on actual loads, there would be a settlement performed.

Q.381 - How does the System Operator obtain these ancillary services?

MR. PORTER: Currently we have -- System Operator we have a contract with NB Power Generation for the provision of those ancillary services. It's a contract of the form of Appendix 5A of the Market Rules. It has been in place since October 1st 2004. And it covers off both the self-supply obligations of NB Power Distribution and customer services but it also gives us the right to purchase those additional quantities that we require. And on a go forward basis, we expect that at the outcome of a review of our proposal for ancillary services RFP that we would go forward through the spring and summer with an RFP and execute additional contract or contracts of that form for the provision of ancillary services to the System Operator so that we can turn around and sell those -- or to meet our obligations to sell those to -- or supply those to transmission customers.

Q.382 - Thank you. Now how are the prices that the System Operator must pay for such services determined?

MR. PORTER: Those prices -- say in the one existing contract that we have today, the prices in there are the generation capacity prices that were based on proxy generating units that we used to calculate the current Board approved rates for ancillary services.

MR. MARSHALL: Just a clarification here. I don't want to really correct Mr. Porter who says there is one contract. In actual fact, I just want to make it clear on the record, there are three contracts. We have a contract with NB Power Nuclear Corporation, a contract with NB Power Generation Corporation and a contract with the Coleson Cove Corporation.

MR. PORTER: Yes. I would certainly have to agree with that. Sorry for not being more specific.

Q.383 - Now in each case is it the same rate as the tariff rate?

MR. PORTER: No. The Tariff rate is a rate that is -- it is a rate to be charged against load. So it's the rate if someone has chosen to not self-supply but to buy from us under the tariff rates, we apply that rate to their monthly peak demand.

What we would charge under the contract to the generator that is supplying the service is a rate for generation capacity. It is a completely different determinant or buying at a different rate.

Now the two are connected in that one was used -- the generation capacity price was used to calculate the rate would be charged to Transmission customers. But they are charged against different determinants and are different rates.

Q.384 - Now if the cost to the System Operator is different than the revenues received through charging the tariff rates, what happens to the difference?

MR. PORTER: Everything else being held equal, the costs would be the same. What I said was if the rates were different and we used different determinants for calculating, you know, what -- the dollars that we received from the Transmission customers, depending upon their load, and it is based on a particular rate the dollars that we turn around and pay to the suppliers is based on a different rate and a different quantity.

But if everything were as per the tariff design, all those dollars that we received from the Transmission customers would align with the dollars that we would owe the suppliers.

It is only when loads are greater than what was anticipated in the tariff design or less than, or if we had to buy more of the service from the suppliers or buy less from suppliers than what was anticipated in the tariff design, that is when there could be a mismatch.

Q.385 - And what has your experience been to date?

MR. PORTER: I think they are roughly in line. But I don't have the details on that in front of me.

Q.386 - And are you -- in what way are you accounting for this?

MR. PORTER: That is our accounts. We track -- we track ancillary services, expenses and revenues separately and have that in accounts. It's just that I haven't reviewed the details on that.

CHAIRMAN: Perhaps this is a good spot to take a break. And we will do that now for 10 to 15.

MR. MACNUTT: Mr. Chairman, if we could, we could conclude on this particular point.

CHAIRMAN: Well, I want to give them time to look it up,

Mr. MacNutt, which is what they are doing.

MR. MACNUTT: Well, if they want the time.

MR. MARSHALL: I'm just going to say in some of the financial statements that you asked for in responses to some of the Interrogatories, there are line items that show ancillary service revenues and ancillary service costs.

So that is -- now they are aggregated. It includes the energy imbalance in some cases. But they are there shown in the evidence in aggregated quantities for the operation to date.

Q.387 - Now the final question on this is simply if there is a differential does it accumulate? Is it allowed to accumulate over time? Or are they settled out to bring back the even periodically as you go along?

MR. PORTER: For those they accumulate. Yes, they accumulate.

MR. MACNUTT: Thank you, Mr. Chairman, for that.

CHAIRMAN: Okay. Thank you, Mr. MacNutt. We will have a recess.

(Recess - 2:37 p.m. - 2:50 p.m.)

Q.388 - I'm going to refer to the Secondment of Employees Agreement which is exhibit A-6 and relate it to some provisions of the Electricity Act.

And I will just read you the extract from the Electricity Act that we are -- the heading across the top of A-6 is "Agreement for the Secondment of Employees".

First of all I'm going to read a provision in the -- from the Electricity Act which is in part 3, section -- paragraph 42(c) where it is stated that the objectives of the SO are (c) to direct the operation and maintain adequacy and reliability of the SO-controlled grids. You are aware of that provision?

MR. MARSHALL: Yes.

Q.389 - Thank you. On page 2 of exhibit A-6, the Secondment of Employees Agreement, in section 2.2 it is stated that NB Power Transmission reserves the right to provide direction to the seconded employees respecting the Transmission assets. Does the SO-controlled grid include the "Transmission assets" referred to in the Secondment Agreement?

MR. MARSHALL: Yes, it does.

Q.390 - For whom do the seconded employees take direction with respect to the Transmission assets?

MR. MARSHALL: They take direction for the operation of the transmission system from the System Operator. That point in the Secondment Agreement is simply there because inside the control room -- we have one control room today.

The Power System Operator who does the physical switching of Transmission assets and is also making decisions and direction as to how the system is to be operated. There is a line drawn that when he actually physically turns a switch he is conducting a transmission function, not a System Operator function.

And so there is a need then that in actually turning that switch he has a duty and a responsibility to the owners of those assets which is NB Power Transmission.

Q.391 - So what would happen if Transco gives a direction which is contrary to a direction given by the SO?

MR. MARSHALL: That asset -- the direction there is to protect the safety of employees, Transmission employees that are working in the system and the safety of danger to equipment.

The direction from the System Operator is related to the reliable operation of the system, what is required to be done to maintain and operate the system reliably. It would take all of those directions from the System Operator.

Q.392 - So you are saying safety of the employees is paramount. And if a System Operator instruction would cause the switch to be thrown that would imperil -- put employees in peril, that the Transco precedence -- the Transco obligation would have precedence in that immediate circumstance?

MR. MARSHALL: That is correct. That is no difference than the situation in Ontario that exists. The issue is that -- or in ISO New England. The System Operator makes decisions and give directions as to what is required for the operation of the system.

The System Operator may give an instruction to close that breaker, open this breaker, from an overall system point of view. The actual activity to open it is done by a transmission employee in another Control Centre.

And if the transmission employee believes that that is going to cause damage to equipment or safety, he has the authority to refuse to do that activity directed from the System Operator. And that information is detailed in the operating agreement between the NBSO and Transmission in terms of the operation of those facilities.

And in this agreement, again it is itemized in here again just to relate that those seconded employees have a duty to protect the physical assets of Transmission and the safety of Transmission employees.

Q.393 - Thank you.

MR. SOLLOWS: If I may, for clarification purposes, assuming that the employee does get contrary instructions, one from the SO and one from Transco, which comes above the other?

It is a judgment in either case as to which direction should be followed? Or does the Transmission company have veto rights over an order of the System Operator?

And assuming that there is some economic or loss associated with this agreement, how would that be settled between the System Operator and the Transmission company?

MR. MARSHALL: The operating agreement lays out the duties of the System Operator related to the Transmission -- to the operation of the Transmission assets.

Inherent in that agreement it is written that Transmission employees have the duty also to protect assets and safety of people. If there is -- that employee believes that it is a safety issue they have -- that is a precedent.

Safety and protection of the assets take precedence. Safety always takes precedence over any other consideration.

MR. SOLLOWS: I think the Workplace Health and Safety Act pretty much covers that by legislation and regulation. But what I'm more getting at here is how are -- how do we resolve a dispute that -- where the action is taken to preserve an asset to countermand an order of the System Operator, and there is an economic consequence to that, how is that resolved? Who pays? And how is it settled?

MR. MARSHALL: The -- there are provisions for a dispute resolution. In this agreement there are provisions for dispute resolution in the operating agreement between Transco and the System Operator. So it is subject to settlement through that dispute process.

Relative to

that, if the decision is taken by a Transmission employee related to safety or damage to equipment, there are no costs associated. There are no damages. That person is held harmless relative to their responsibility. Because they are acting in good faith doing their job in a professional manner.

MR. SOLLOWS: This I think is understood. I'm more interested in the corporate relationship. Presumably doing their job for the Transmission company entails acting in contravention to an order from the System Operator.

The System Operator presumably made that order for a good reason. And the fact that it wasn't carried out would presumably entail some loss.

And so my question is who pays? Obviously not the employee but Transco or System Operator? Or how is this resolved?

MR. MARSHALL: Well, first of all we are into a hypothetical situation that the direction from the System Operator and the activity of the Transco employee are in actual fact counter to each other. And we expect that will be a very rare occasion.

In the instance that there would be costs they would be borne by whatever party. If they are borne by the

System Operator they are borne by the System Operator. If they are costs in Transco they are borne by Transco.

MR. SOLLOWS: So there will be no arrangement or opportunity to have Transco, who countermanded the System Operator's order, there would be no recourse for -- it is basically the cost gets socialized to the system rather than sent back to Transco?

MR. MARSHALL: That is correct.

MR. SOLLOWS: Thank you.

Q.394 - I would like you to turn to exhibit A-3, PUB Additional IR-11 at page 28. And I will repeat, exhibit A-3. PUB Additional IR-11, which is at page 28 of Additional IR's. And the question will relate to the last paragraph on the page, which I will read. But before I do so, just get the sense of what leads up to that last paragraph. Are you ready?

MR. MARSHALL: Yes, we have it.

Q.395 - Thank you. The last sentence -- I guess it's a sentence, and the page reads, "NBSO believes that it is an improvement on the original OATT evidence, because it addresses the costs associated with providing transmission service to self-generators more appropriately."

Does the NBSO believe that the proposed rates for the self-generator subclass will recover the costs imposed by the self-generators?

MR. MARSHALL: Yes, we believe it's a -- those rates are a fair allocation of the costs they impose.

Q.396 - Do you have any studies supporting this, and if so, would you file them with the Board as part of this proceeding?

MR. MARSHALL: The analysis that was done was on the record I believe at the previous hearings that's referenced in the second paragraph. There was information put in by J.D. Irving in the previous hearing about what the network costs would be. Mr. Porter and I put in evidence related to alternative ways of dealing with that load if they used point-to-point service.

We have not done a cost of service study for that particular type of customer. The analysis is based on the -- if they took point-to-point service and did it against the nature of those loads what would it come down to? And then in the document that was done and filed with the Board after our meetings with the self-generators, it looked at costs affecting the six potential self-generators in the province. And that's the only studies that have been done to come up to say is this a reasonable rate for the type of usage that those customers take off the system.

Q.397 - Was there any consideration given to phasing in increases for the self-generators subclass so that over time the revenues from this class would be more in line with the cost caused by this subclass?

MR. MARSHALL: I don't quite understand the question. The phasing in cost increases -- this is actually a cost decrease.

Q.398 - Yes, I understand that. The thing that strikes me though in this circumstance is that you say that the -- you will recover the costs imposed by the self-generators subclass. How do you know that if you don't have a study?

MR. MARSHALL: We -- maybe the words aren't quite explained correctly. What we will recover is we will recover through the rate proposed the revenue, an equivalent amount of revenue to what we would have gotten if those self-generators chose to take network -- or point-to-point service, which they had. The whole point was that there was an alternative for them to go to point-to-point service that we laid down before the Board in the last hearing. And in discussions with those parties, there is an administrative burden in order to do that. We mutually came up with a rate that avoids the administrative burden on the customers and basically allows a rate where they would pay effectively their utilization of the system against the amount that they actually use.

CHAIRMAN: Mr. Marshall, my -- I remember a good deal of conversation concerning the whole question of self-generators in the last hearing. My mind is a tad fuzzy as to exactly what the particulars of that were. There are some new Commissioners on the Board now that were not present then. And I guess my overview of what you are proposing to us now is that there would be no escalation in any rates charged to the self-generators, but rather that you would be socializing any additional costs by your recommended action that might be incurred because they had not been, as I understood it, paying for ancillary services.

So I am probably way off base. You probably should explain to me again what it was that was discussed at the time of the OATT tariff hearing and then where we are today? And I know you are up to it.

MR. MARSHALL: Thank you for your confidence, Mr. Chairman. At the OATT hearing, J.D. Irving put in evidence related to one of their mills and detailed evidence of what their load has been historically that if you took that hourly load, I believe over it was a month or did it once over the year, but they did an analysis of their actual load, if the network service rate, as proposed and as currently in the tariff today, was applied against that load, it would come up and constitute -- it seems to me it was going to constitute what they termed rate shock, because it was -- I can't get the exact number -- it seems to me it was around 400 percent increase above what they compared the cost to as interruptible energy. Because that mill, when they buy energy off the system today, they buy interruptible energy from NB Power Distribution. And they pay an adder on top of the actual cost of the energy. The adder that they pay is $9 a megawatt hour in the on-peak hours and $3 a megawatt hour in the off-peak hours.

Now assuming their load is flat over the whole month, that's $6 a megawatt hour they are paying essentially as an adder. They took the amount of energy historically and said here is how much money we would pay for this energy at $6. And if I recall, it came out to about $240,000 is what they would pay for that $6 adder.

They applied the tariff rates, the network service rate with all the ancillaries attached to it, and it ended up being it would be $640,000 that they were going to pay. And they are saying, this is a significant increase for the transmission component of that large industrial service, that constitutes rate shock.

So that's what the evidence they put in. Mr. Porter and I then put together and said they have an option. They have an alternative. They could choose to take point-to-point service. And because they are interruptible load and they have their own generator, they actually can self-supply some of their ancillaries.

So we put together a proposal to say based on their actual loads, if they took point-to-point service at the different times when they needed it, they would end up coming down and paying in the order of $240,000, which is very similar to what the adder is under the interruptible rates.

Now -- so we said you could make these things equal. The Board in its decision said this is still an issue, because J.D. Irving argued they still need to consider this and we got to do something about it. It still could constitute rate shock. So the Board in its order directed us to meet with the self-generators and to work out a proposal that may be satisfactory to avoid that type of potential rate shock.

We did that during the spring of 2003. And submitted a report back to the Board I believe at the end of June in 2003 laying out the work that we did for -- with a number of meetings with the -- with those parties and laying out a proposed rate structure that effectively got them into the range or the $240,000 roughly based on certain billing determinants.

So it's effectively the same as if they had taken point-to-point service, but without the need to have somebody continually looking and then booking transmission and calling and going through all the administrative hassle associated with that.

So that's where we got to and that's what was reported back to the Board. At this point in time, we have incorporated that proposal into this application, because we said then that the next time we come for a tariff adjustment or hearing, we would include it in the application. And I believe J.D.I. are in support of that application here today in the hearing room. But that's the background in how we got here.

And I might add that that proposal also was discussed by the Market Advisory Committee. It was raised by the JDI representative at the committee. And said well, you are going to go with these other changes, don't forget about the self-generator change. And so that proposal was considered and reviewed by the Market Advisory Committee. And my understanding is there are no issues from any of the parties associated with it.

CHAIRMAN: Well, we were certainly -- as you know from our previous decision, we were concerned about rate shock for any customer. And I am sitting here thinking about customer classification issues now. And I am having difficulty simply because we are now split up into different corporations and that sort of thing.

So the interruptible is a different class of large industrial -- or industrial customer?

MR. MARSHALL: Interruptible energy is a product that NB Power Distribution sell to large industrial customers that have their own generation. It's essentially a replacement energy product against the energy that a customer could generate from its own generation.

CHAIRMAN: Okay. Thank you. Go ahead, Mr. MacNutt.

MR. SOLLOWS: May I?

CHAIRMAN: Yes.

MR. SOLLOWS: Just so that I am again clear on this, the proposal to eliminate rate shock was developed in a way that delivered a lower revenue to Transco based in comparison to the evidence that J.D.I. provided, but gives about the same revenue as would arise to Transco if they had purchased point-to-point service?

MR. MARSHALL: That's correct.

MR. SOLLOWS: Okay.

MR. MARSHALL: As we said here, in the original filing, it was assumed that all of that load would take network service.

MR. SOLLOWS: Right.

MR. MARSHALL: Hindsight is 20/20. And the -- if we were doing that filing again today, we would do the filing the way it is now in front of this Board and reallocate those costs in that manner in order to recover the revenue requirement.

MR. SOLLOWS: And again this -- what you have just said in terms of re-allocation of costs without cost allocation studies that you can file -- I think that's what causing us all some difficulty.

MR. PORTER: It came to my mind with the discussion about cost allocation study that if you talk about the point-to-point, which those customers would have the option to take, our original filing back in 2002 included a cost allocation study --

MR. SOLLOWS: Right.

MR. PORTER: -- for both network and point-to-point service. So even though it's a two step logic --

MR. SOLLOWS: Right.

MR. PORTER: -- there was a cost allocation used to determine the rates for point-to-point service. And then we used the rates for point-to-point service as applied to those self-generator loads to back into a self-generator set of billing determinants for this new self-generator rate.

MR. SOLLOWS: So essentially you are creating a third type of service on the transmission system that there is point-to-point service, there is network service and there is a clearly defined rate class for self-generators that benefits from a different rate, or they pay a different rate, is that how it's structured here?

MR. MARSHALL: Essentially that's correct. That self-generator rate we term as a subclass in the network service. So it's under attachment H in the tariff, which is network service. And as a self-generator class, there is a rate there for it. And then there is standard network service.

So they are both under attachment H in the tariff. But you are correct in saying essentially there are three kinds of service.

MR. SOLLOWS: So why is it -- why don't -- why is it a subclass of network service? Why isn't -- if it's based on its own appropriate cost allocation as derived from the point-to-point, why is it -- why is it a subservice under network? And why does it not stand alone?

MR. MARSHALL: Well I think the terms and conditions of the tariff for how you can take services, if we made it a completely separate type of service, we would have to expand the tariff significantly. The tariff is divided up into part 1 and part 2, dealing with point to point service, network service, all the terms and conditions are related into those two services.

This type of service essentially, in our view, is a type of network service. These customers don't have to book in advance, don't reserve, don't do anything. They get billed at the end of the month based on certain billing determinants and usage. So it is really a type of network service.

The terms and conditions associated with it are those that are similar to network service. So we think we appropriately put it in as a rate within the network service grouping.

MR. SOLLOWS: So this rate -- there are service restrictions on the co-generators or self-generators that in some sense compensates everyone for their reduced rate vis-a-vis normal network service?

As I recall the essential conflict during the OATT hearing, the view was that the proxy pricing of ancillary services created this rate shock that the self-generators perceived as again calculated based on network service.

But your evidence, as I recall, very much made the case that this is the cost of serving these kinds of generators and therefore it must be recovered in the tariff.

The concern I think we are all having is that we seem to have created a rate subclass that's reduced the rates for self-generators but not based on any cost reductions that are actually occurring for you and therefore, the other costs that they are imposing on the system are going to be borne by everyone and not just the self-generators.

MR. MARSHALL: I don't think that is quite correct. It is not associated with the costs imposed on the system. Those parties, in terms of ancillary services, they would be getting use of ancillary services based on their total load.

In terms of getting transmission services, it's the point to point transmission services that they really has an opportunity to do something different with.

For instance, let's take as an example there is an industrial customer has a 30 megawatt load, and they have got 30 megawatt generation of their own and it operates anywhere in the 25 to 30 megawatt range. So normally over the month, they take 4 or 5 megawatts of interruptible energy off the system, they generate 25 or 26 of their own energy, they buy 4 or 5 megawatts worth and their industry works at 30 megawatts.

Then during the month at one point in time their generator trips and goes offline, and so for that one -- few hours, they are taking all 30 megawatts off the system.

MR. SOLLOWS: It is an ancillary service?

MR. MARSHALL: No, but as a transmission service, network service will bill the transmission to them based on the 15 minute demand in the month which is 30 megawatts. So they are going to pay for 30 minutes of transmission service as if they took it all month when they only took it for a few hours.

So this rate effectively lines up that they are buying transmission service against the service they are actually using off the system as they use it.

MR. SOLLOWS: So in your mind then, the notion that we dealt with at the original OATT hearing, as I reviewed the transcript, I got the clear impression that both you and Mr. Porter had made it clear that in your view the tariffs as they would apply -- the tariff as it would apply for ancillary services to self-generators was fair and equitable in representation of the costs. You seem to have changes that now?

MR. MARSHALL: There is no change in ancillary service. They will still be billed for the ancillary services based on that billing. That doesn't change. The change here is not on ancillary services, the change is in transmission service.

MR. PORTER: The discussion with respect to the ancillary services was the fact that those capacity based ancillary services would represent the majority of the cost can be self-supplied and we felt that in many cases, these types of customers had the potential to self-supply at least the non-spinning reserves.

So both in our discussion back in late 2002, 2003 and also in the proposal that we developed in consultation with the self-generators, that was submitted to this Board in June 2003, in both cases we analyzed the situation that those customers would self-supply their ancillary services, that is their non-spinning reserves.

So in the analysis the outcome was that there was no need to change the rates on the ancillary services for those customers. As Mr. Marshall said, it is just a change in how we calculate the charge for the usage.

MR. MARSHALL: And just as an aside to that, in order for them to gain the savings related to the self-supplied ancillary services, that is now an issue for those industrial customers to negotiate with Disco, who is their supplier today through their interruptible contracts and then have that service handed over to us in terms of providing it so we can actually control it if it meets that requirement then they can do that arrangement.

So we -- otherwise if they don't do that, we are going to bill them based on the billing determinants under the tariff.

MR. SOLLOWS: So there is no net revenue loss to Transco out of this new tariff and there is no shifting of costs from self-generators to the other people within network service class that are not self-generators?

MR. MARSHALL: There is no shifting of any ancillary service related costs. There is a shifting of transmission service costs.

MR. SOLLOWS: Okay. So that transmission service cost that is shifted to the non self-generators represents in your mind -- how do we conclude that that is a reasonable reallocation of costs?

MR. PORTER: Remember that if we had not come back here at this point in time, and if the self-generators were to choose to take point to point service, they would have been paying less than what was assumes in the original tariff design, which would mean that when we did come back here with a new rate application, it would be a deficit in revenue and we would have had to apply for an increase on the network service rate. So we would have been at the same place even if we had no special provision for the self-generators in terms of a new subclass. We would be at the same place. We would be receiving less money than what we had anticipated from the self-generators. The revenue requirement of transmission would not have changed so we would have had to increase the rates for the standard -- for the network service class.

MR. SOLLOWS: Again, I'm not sure how you -- if I understand the history here, you presumed that the self-generators would take point to point rates and therefore their costs would not be out of line with what you have already changed it to.

MR. PORTER: We are talking about two different timeframes here. One is at the time that the original tariff rates were designed, we assumed that all inprovince load would take network service.

During the hearing process, when JDI introduced their evidence, we analyzed it. We had not analyzed usage on a customer by customer basis. We had looked at the aggregate. At that time we had good cause to examine individual -- that individual load. And the evidence did show that it would be economically attractive at that type of load, to take point to point service, not network.

So the analysis at that time was around the assumption that yes, because it was economically attractive to the individual customer, that type of customer would take point to point service, not network.

But again the original design assumed that they would take network service.

MR. SOLLOWS: And this was done in response to JDI's representations in the last hearing, so therefore, you have not done it for other subgroups of customers that might be under network service?

MR. MARSHALL: That was the only group in the previous hearing that raised any issues relevant to the tariff. And the self-generators, there are six of them in the province, they really are the only subgroup that we see that -- affected by this in terms of their behaviour.

So we see no need for any other special consideration.

MR. SOLLOWS: Thank you.

MR. MACNUTT: No further questions, Mr. Chairman.

CHAIRMAN: Thank you. Mr. Sollows?

BY MR. SOLLOWS:

Q.399 - Thank you, Mr. Chair. I want to go through these items one at a time. The organization of it is handy because it's point by point. And I want to refer you to A-2 of your evidence, item 1, page 1. I understand that you noted in your presentation at the start that there are -- there is no controversy associated with this and I'm not sure -- I certainly don't disagree, but I --

CHAIRMAN: I'm sorry, Professor Sollows. Would you give us the reference again?

Q.400 - I'm sorry. It's A-2 under tab -- appendix A, Revisions -- Proposed Revisions to the OATT terms and conditions, page 1, item 1.

Now from a high level perspective, I look at the system that we are talking about being in New Brunswick being next door to ISO New England, and from what I understand where there is still a proposal that's alive and kicking to build a second line to more closely tie this system to ISO New England.

My concern here is if I read under Reasoning on page -- on that page, line 20, the sentence that starts, although many transmission providers have moved away from this standard to a locational marginal pricing type standard market design model, there are many that have not. And while I accept that as being true, it would seem to me that the one that is particularly relevant to us, being ISO New England, has moved to LMPSND. And the overall concern that this raises for me is that notwithstanding what you said earlier in response to a question, that this will create a seams issue with respect to ISO New England as we move forward as this market develops.

And I would just like you to comment on that and perhaps explain why the fact that many have not is more relevant than the fact that ISO New England has moved to LMP and standard market.

MR. MARSHALL: The LMP pricing and ISO New England alters the price at different nodes throughout ISO New England. And it provides a specific price at what they term the Keswick Node of ISO New England which is in actual fact the border point between New Brunswick and New England on the MEPCO tie. That is essentially the Keswick Node and ISO New England. So it is a price for valuing energy at that particular point in the ISO New England system.

For us to utilize standard market design and go to LMP prices throughout New Brunswick where there is very little congestion and very little difference, the New Brunswick price essentially that we are proposing here is the final hourly marginal clearing price based on the bid prices in the New Brunswick market. We do believe over time -- and that price should be reflective and bidders in the market in pricing their generation likely will be considering and looking at that ISO New England, Keswick Node price. And we see some tracking between those prices.

At this point in time, however, because the second tie is not built, that line to New England allows only 700 megawatts flowing south and maybe 100 megawatts coming north, and that 100 megawatts is dependent on different conditions in ISO New England. We have very little opportunity for large flows.

If and when the second line is built, and we certainly support it -- so when the second line to New England is built, it will increase the capability coming north, we see potential opportunities for these markets to merge and to grow and to go forward.

However, I do not see any seams issue whatsoever in our rules that we have today and having parties in this market being able to transact through our market into ISO New England, and they do their settlements in New England at the Keswick Node price.

Q.401 - Thank you. Just for clarity here, item 1 refers to congestion management treating point to point as network. How exactly does that relate back to the Keswick Node price?

MR. PORTER: Just for clarity on what this point is referring to, it's talking about how you treat congestion under the standard Order 888 type tariff. If you make a long-term firm reservation for 100 megawatts you have the rights to that transmission. If you choose network you may be subject over time with low growth to congestion charges.

Q.402 - Right.

MR. PORTER: That's the distinction. But in terms of Keswick Node price and LMP pricing in New England, as Mr. Marshall had noted, that can be subject to the congestion charges and there is no way to avoid that by taking point to point service. But there is a mechanism within that market to get -- to receive financial hedging against that congestion.

Q.403 - So the net effect of this move would be in terms of congestion management to make the point to point service users subject to uplift charges or congestion management charges? That's what you mean by treating them as network?

MR. PORTER: Yes, that's correct.

Q.404 - Is that consistent with the FERC compliant tariff?

MR. PORTER: No. No, because it would be a -- and to explain it -- it was a deferred Market Rule that contemplated making that change, but it was not a rule that would have changed it fully to an LMP type system that would be the same as the New England approach.

Q.405 - It's just that it seems to me that it puts you somewhat between two worlds. It --

MR. PORTER: Yes. If we had accepted that deferred Market Rule -- and the heading here might be a bit misleading. What we have chosen not to follow is the approach whereby point to point would be treated the same as network. We said, leave it --

Q.406 - Oh, okay.

MR. PORTER: The heading is a bit misleading. What we chose is to reject that approach --

Q.407 - Right.

MR. PORTER: -- stick to the approach whereby point to point service is a firm --

Q.408 - Right.

MR. PORTER: Not subject to --

Q.409 - Not subject -- keeping it in compliance with FERC.

MR. PORTER: Yes.

MR. MARSHALL: FERC Order 888, not FERC SNB.

Q.410 - And not FERC 888A or 888B.

MR. PORTER: No.

MR. MARSHALL: 888A, 888B, 888 compliant.

Q.411 - Okay. The new connections policy, the same sort of concern. Is this new connections policy along the path to eventual integration and greater integration?

CHAIRMAN: Commissioner Sollows, where are you now?

Q.412 - The very next page, page 3, item 2.

CHAIRMAN: Okay.

Q.413 - It's the same concern. Does this take us towards a better integration with the New England system or is this somewhat divergent from that path? I'm just looking for an opinion.

MR. MARSHALL: I don't know that the connections policy has to be identical here or in New England. I don't really see it as a seams issue that causes a problem with market transactions between the markets.

Q.414 - So the connections policy varies from state to state in New England?

MR. MARSHALL: Not in New England. But it varies from market to market and region to region.

Q.415 - Right. Bearing in mind that we are a very small market and New England is substantially larger than we are. It would seem to me that it would be helpful for the development of the market if companies that were trying to participate had similar rules in adjacent jurisdictions. You don't feel that that would be the case in this particular case?

MR. MARSHALL: I agree to eliminate -- if there are different rules operationally day to day in terms of trying to do business from one region to another, those are seams issues you try to eliminate. This is a connection policy of what is the cost of connecting a generator to the system. It's really a one time thing in the long term. It's not a day to day operational issue which causes a blockage to the efficient operation of a market.

Q.416 - And so does it increase the cost or decrease the cost of a new connection?

MR. MARSHALL: It depends on where the connection is. This is -- the connection policy that is in the current tariff is the existing FERC approved connection policy for Order 888 and 888A and B.

Q.417 - Okay. And --

MR. MARSHALL: We are choosing not to change that. Rather than go to -- we are not changing that. We are staying with the standard.

Q.418 - Okay. Again it's the title that's perhaps misleading. Item 3 on page 5, I guess will I -- is the answer the same, that you are not requiring wheeling customers to be market participants?

MR. PORTER: Dr. Sollows, just going back to the first here just to explain where those headings came from. This is a document that we used since last summer. It has evolved obviously.

Q.419 - Right.

MR. PORTER: But as it started out I had gone through Market Rules, identified what the deferred Market Rules were that were contemplating a tariff change, put the heading in, put the descriptions down, through discussions with the Market Advisory Committee it was determined that those should not go ahead. The headings stayed the same. So that's why those first two are a bit misleading.

Q.420 - Okay. So item 1 and item 2 propose no changes to the OATT as approved?

MR. PORTER: Right. And we certainly discussed -- in fact parties had recommended that perhaps those should be struck from the documentation and it maybe would have been clearer, but --

Q.421 - You kept it there for --

MR. PORTER: Personally I wanted it there for continuity --

Q.422 - Sure.

MR. PORTER: -- and to have it on the record that we had discussed those things.

Q.423 - Page 5, item 3 --

MR. PORTER: From there on, 3 on --

Q.424 - All right.

MR. PORTER: -- are the changes that we propose and have included in our application for revisions.

Q.425 - And so again looking at this, this is now a proposal to require that wheeling customers be market participants as opposed to just someone that has a contract and presents energy at one end of the system and takes it out at another.

MR. PORTER: This comes back to what Mr. Marshall had said yesterday about not wanting to have two tiers here or have parties that are transmission customers but some of which -- some which are market participants and some of which are not. We want to merge the two together to say those that sign up to take transmission service are automatically a market participant subject to the Market Rules and try and treat everyone on an equivalent basis.

Q.426 - And is that the way it is in New England?

MR. PORTER: That's a tough question because we have done some research in New England and in other areas, and because of the way things have evolved, it looks as though there are opportunities to sign up to be a transmission customer but from area to area it differs as to what you can do, what rights that gives you.

Q.427 - Again, I'm just trying to keep going in the overall direction of compliance with the system that we are likely to hook to. I guess are wheeling customers required to be market participants in ISO New England?

MR. PORTER: We discussed it with the Market Advisory Committee. Some people who are actively participating in that market believed it to be the case, others didn't. And in all honesty, from the research that I have done I can't distinguish to say for certain one way of the other because there is such a complexity of rules.

But I think the important part is that from the point of view of those that are using our tariff and using the New England tariff, participating in that market, they were quite comfortable in saying, yes, let's treat everybody the same. All transmission users, that want to be transmission customers, should be full blown market participants.

Q.428 - Okay. Thank you.

MR. MARSHALL: And the parties that are actually wheeling customers across their system today have already applied to become market participants. So this is a non issue to them.

Q.429 - Fair enough. Thank you. Page 8, item 4, initiate residual monthly cost recovery. When I look at page 9 there are a whole series of items here that as I reviewed them -- and I think you said yesterday that these should be small items that should net to a fairly small value. When I think of the term residual, I think of it as sort of averaging to zero. Is that giving me the correct impression, that on average these will be positive, negative but in the long run if I look at the average it will be about zero? They will cancel one another out?

MR. PORTER: I don't think I could make that assumption here. I have been asked in the past whether this is going to be positives or negatives and it's very -- I couldn't say.

Q.430 - Okay. So it's something that we could keep an eye on and use an indication of growth in it as perhaps something to change roles or otherwise --

MR. PORTER: Definitely. Actually we are obligated to report monthly, component by component, these items.

Q.431 - The other item -- and I'm looking at page 9 where you give the long list -- when I read them initially I got the impression that -- and say for example, on line 3, item A, capacity obligation deficiencies of load serving market to participants for a given capability period. My first assumption would be that you would bill the market participant for any deficiencies. And so why would that have to be -- go into this residual cost and then be subject to an uplift charge?

MR. PORTER: The way the Market Rules are written as implemented by the Minister last fall, if a load serving market participant is deficient they could be subject to sanction up to a maximum of I think it's twice the cost of combustion turbines. So there is a cap there. It's not without a ceiling.

But the reality is that the cost to the System Operator of having to purchase replacement capacity could be above that.

Q.432 - Have you had any instances where that has been the case?

MR. PORTER: Not to date, no. We have had no cases of deficiencies of load serving market participants.

Q.433 - So there is not a great sense of urgency in this particular item that this would be something that you would need immediately to correct some obvious flaw in the market design.

MR. PORTER: I would very much hope that even on a go forward basis, no, but by creating ten year assessments, 18 month assessments and dealing closely with the market participants, we wouldn't get into the situation where a load serving market participant was deficient. If we identify an assessment that they are deficient, there is a window of opportunity in the Rules to have that party address that. If there is capacity out there that can be purchased, that load serving market participant should be able to purchase it. If it isn't out there then we won't be able to buy it either, but --

Q.434 - Exactly.

MR. PORTER: I would hope that we would never have an item under that --

Q.435 - Right. And I guess that's generally the case here that -- and this is why I'm thinking if it grows to be any significant amount of your budget, there might be some concerns.

MR. PORTER: Sir, if you take A right through to H, because even if we had a case of purchasing or sale of emergency energy, that should be a rare occurrence. And A right through to H would be rare occurrences.

Q.436 - And you are confident that there are procedures in place that to the extent that these costs can be charged directly to the person or the organization causing the costs, that that is done and there are procedures in place to do it and they only end up in this uplift charge or this residual account if they have left the market and gone and you have no recourse against them, is that fair?

MR. PORTER: There is a mishmash there. I guess in the case of penalties, if we charge penalties we -- in some cases we might have no cost. So that's a net gain. So that would be allocated out to all market participants. As I mentioned earlier in the case of capacity deficiency or generator performance deficiency, it would be the net between what we collect from that party as a sanction versus what our costs are to address that.

Q.437 - And procedurally how does this operate so that all of the participants are confident that they are being treated fairly and equitably amongst participants?

MR. PORTER: Are you referring to in terms of the assessment of sanctions or --

Q.438 - Yes. The procedures that would give rise to you sending a bill to someone for a capacity obligation deficiency or one or another of these things?

MR. PORTER: On the sanction side I believe the Market Rule section on sanctions would obligate us to a certain level of reporting, and if the party being sanctioned takes issue obviously they have an alternative to seek resolution process as an option.

Q.439 - Then they appeal. Thank you.

MR. MARSHALL: I might add we actually have meetings that have been deferred. But we have meetings scheduled here next month to actually meet with staff and go through and look at what are the types of information we jointly need to look at to monitor. So that the Board themselves will have access to information relative to the operation and monitoring in the marketplace.

Q.440 - Thank you. Page 11, item 5, we are adding the mechanism to limit the quantities of ancillary self-supply.

I guess if I understand the case so far, the evidence so far, this is somewhat a response to the discussion we had during the OATT hearing where there was some dispute over the pricing of capacity-based ancillary services, is that correct?

MR. PORTER: As Mr. Marshall noted yesterday, it is in the response to the Board order -- Board decision of March 13th 2003. And if we refer back to that decision yesterday and looked at the wording in it.

That directive comes just after the discussion about the price of ancillary services. But it does not explain out exactly what the driver was for requiring that RFP.

Q.441 - Okay. It might be that --

MR. PORTER: So it is a matter of interpretation.

Q.442 - It might be the decision isn't as clear as it could have been in that regard.

MR. PORTER: So from our side it is just a matter of trying to interpret what that decision is.

MR. MARSHALL: It is our understanding I think that from the Board's viewpoint, by going out and testing a market for an RFP, it gives an indication of what is the market value of those types of services rather than just the proxy and costs that we went through.

Q.443 - And certainly from my recollection --

MR. MARSHALL: It relates to those costs, yes.

Q.444 - And certainly from my recollection and my review of the transcripts, that is consistent. So it is a reasonable interpretation.

So now I'm on page 14, item 6, the proposal to settle variances at market prices rather than penalty rates. And I want to refer you to the transcript from OATT hearing. And they are behind you I think in one of those gray things. And they have little posted notes on them with page numbers. So I want you to look at page 743.

Yes, the stack of them. Not as bad as it looks. Somebody else put posted notes on them without page numbers you don't have to worry about.

MR. WHELLY: Could you tell me what date that is?

MR. SOLLOWS: Frankly I can't. But they are all sequentially numbered. Oh, but you need to know for your computer. My guess would be the second day.

MR. WHELLY: Thank you.

Q.445 - Does it have the date on the cover?

MR. MARSHALL: Yes, it does. December 9th.

Q.446 - December 9th. Okay. So on page 743, this was Mr. Morrison cross examining a Mr. Sidebottom, which in my recollection was a witness for --

MR. MORRISON: Emera.

Q.447 - -- Emera? Okay. The evidence we heard at that point was given in the question and answer, the first Q which says -- and this is Mr. Morrison speaking. Now you would agree with me that energy imbalance, there should be a pricing signal, gives a clear incentive for market participants to meet their load schedule?

And Emera said yes, they agree with that. And goes on to agree that there should be a clear disincentive for people to lean on the system or participants to lean on the system.

That was clearly the understanding that we had in our mind in the OATT hearing. And that is -- you would agree with that I assume?

MR. MARSHALL: That has been the standard approach through FERC Order 888 that there were penalty mechanisms through that tariff.

And given -- there should -- the parties -- the intent is in a marketplace you want parties to give you a schedule and you want them to adhere to their schedule. So you would like some means and some rationale for why they should be on the schedule.

Q.448 - Okay. So now I'm going to jump ahead to page 1575. And the reason I'm going here is I think it nicely summarizes the -- how energy imbalance was understood at the OATT hearing. Do you know the date of that one for your counsel?

MR. PORTER: December 17th.

Q.449 - I'm looking at the first full paragraph that starts -- and this is a cross by Mr. MacDougall so that we -- quoting him. "So we understand that there are essentially two deviation bands available for network service with respect to energy imbalance. The first is the plus or minus 1.5 percent with a minimum of 2 megawatts which is the same standard deviation band for point to point service."

And I'm going to depart from the transcript here to insert it is my understanding that it is within that band participants can repay energy in kind. And outside of that band it is done differently --

MR. MARSHALL: That is correct.

Q.450 - -- originally? Okay. And carrying on it says "And then what is called" -- at line 19 of page 91 -- "a second deviation band called the Network Service Band or plus or minus 10 percent."

And then Mr. MacDougall says -- then it goes on to say, outside of these bands it will be subject to certain charges.

Now my recollection is that this second deviation band, plus or minus 10 percent, that was to be priced at market-based rates, is that right?

MR. MARSHALL: Effectively it was priced at a proxy of the market using ISO New England as an indicator, with a plus or a minus on that, depending on whether you are leaning on the system or putting energy into the system.

Q.451 - So in this particular case that proxy price, you were able to rely on ISO New England's Keswick price to price energy within the deviation band?

MR. MARSHALL: Yes. That was one factor, yes.

Q.452 - And on page 1576, I think at the bottom, Mr. Porter, I wonder if you could read what you said at that point?

MR. PORTER: I said, I want to refer you to page 92, that is as described, energy imbalance which is outside of the inner deviation band which is prescribed by FERC. And -- but within the Network Service Band, which is a plus or minus 10 percent, that imbalance will be subject to the charges identified on page 92. And that is -- it is our attempt to establish essentially market-based pricing for those energy imbalances.

Q.453 - Right. And so what we could be dealing with here, when we talk about the final market hourly cost -- is that what FMHC -- yes.

MR. PORTER: Yes. That is correct.

Q.454 - That is essentially a revised estimate for what that market-based energy price should be?

MR. MARSHALL: It is not a revised estimate. It is what that market-based energy will be.

Q.455 - Subject to approval of this Board?

MR. MARSHALL: Well, no. Whether it -- it is subject to approval of the Board, it's whether we use it to settle the imbalances.

It is what the market value is going to be based on the redispatched prices given to us. It is the actual market value of energy.

Q.456 - I want to go on to page 1577. And certainly -- again it is you, Mr. Porter, where the paragraph says Certainly -- it starts certainly. You point out that whether or not a customer is a network customer or a point to point customer is largely at the discretion of the customer. And so customers could choose point to point and avoid certain charges or they could take network service and choose to pay more for that type of service.

Is that a fair characterization of what you said?

MR. PORTER: I think the point there was there was an issue of whether or not a different calculation for energy imbalance for point to point versus what was done under network, if that was discriminatory.

And my comment was that it is the customer's discretion to choose one service versus the other.

Q.457 - Right.

MR. PORTER: If we were to make the two services identical there wouldn't be two services. There would be only one service. There were reasons for having separate terms and conditions for one service versus the other.

Q.458 - And the clear sense I know you gave the panel was that from the business perspective you were in a sense trying to create an incentive to take network service within the province, is that --

MR. PORTER: I don't recall. I -- no. I don't think I would have made that statement.

Q.459 - Okay.

MR. PORTER: The determination of the rates for point to point service versus network was based on an industry standard of cost allocation and rate design.

Q.460 - Okay. I may have that wrong. But I can check that.

MR. PORTER: Maybe I'm misunderstanding the question, but --

MR. MARSHALL: Yes. Our position is that the rates that were proposed are reasonable rates for those services. Customers choose what kind of service that they want and how they want to act. We don't have an incentive for them to do one or the other.

MR. PORTER: We may have said that a typical load customer in the province of New Brunswick would be economically better off to choose network rather than point to point.

But as we have just discussed awhile ago, for certain customers, for instance the self-generating customers, the point to point service would be more economical. But it is really up to the customer to choose one versus the other.

Q.461 - But not in the case of self-generators because we created a special rate class for them?

MR. MARSHALL: Not yet. We hope we have a special rate class for them.

MR. SOLLOWS: Pardon me? Oh, another 15 minutes or so.

Q.462 - I think I can cover that one off. At the bottom, Mr. Marshall, of page 1579, you -- if you agreed what you stated there, and carrying on over to the top of 1580?

This is referring to the bandwidth I think relating to network service, is it?

MR. MARSHALL: The question, I think, is up in the middle, is why if network service can be paid at market rates, why couldn't it be returned in kind.

Q.463 - Right.

MR. MARSHALL: It is saying well, if you are returning it in kind, essentially it is worth what it is on the market. I guess that is sort of the intent here.

Q.464 - Could you read your answer starting where it says "Mr. Marshall" at the bottom of the page?

MR. MARSHALL: The wider the bandwidth allows returning energy in kind, it provides an opportunity for gaming of parties using the system and leaning on generators that are not providing AGC and load following. Those generators would automatically change and pick up -- provide the energy required to deliver the imbalance because the time value of that energy as Mr. Porter said, could be different from when it is given back. That is to avoid that type of gaming and exploitation of the party delivering that energy, you need to have a narrow bandwidth on energy imbalance.

Q.465 - Okay. And again my question is just to confirm that nothing we are doing in item 6 would be in conflict with that view, that where we are not changing bandwidths or reducing the incentive for people to stay on schedule?

MR. MARSHALL: What we are doing in item 6 is we are eliminating the bandwidth and we are going to not have people trade energy back and forth at different times. We are going to have them pay for it at the value in that hour. So it is going to be settled every hour at the value.

Q.466 - Rather than at a penalty?

MR. MARSHALL: Rather than at a penalty rate and rather than being traded or leaned on the system at one time and paid at a higher rate or a lower rate, it is going to be settled based on what the actual costs are that hour.

Q.467 - So on this page, it is fair to say that the view you were expressing was that we needed this narrow bandwidth and certainly the narrow bandwidth, you don't talk about the prices here, in order to keep people leaning on the system -- from leaning on the system?

MR. MARSHALL: I think we are -- referring here to AGC, some of the concern here I think go back within -- some of this relates to the -- with AGC in that response relates to the Nova Scotia interfacing whether or not they are actually paying for that at AGC or not.

We agree there needs to be some mechanism or some potential sanction to keep parties in line so that they behave in a reasonable manner and provide balanced schedules.

We believe that the rates that are in the correct tariff are somewhat punitive and now with a market and instead of costs, marginal costs of NB Power Generation providing all of that, now there is a market and they actually can bid in prices, and other players bid in prices, generators will be paid the price that they are willing to sell energy at in order to provide that service, it's a more reasonable price and treatment to the generators.

But we still need to have the ability to sanction parties who do not provide reasonable schedules and go out of line.

Q.468 - Thank you. I now want to refer to page 1704 of the transcript and it may not be marked but I think I probably marked page 1700. And if you could provide the date of that.

MR. MARSHALL: December 18th

Q.469 - Thank you. I'm looking at -- this is the cross by Mr. Nettleton of I think you, Mr. Marshall, and Mr. Porter. He wanted to -- under his second question it says, "Thank you. Let's move on to talk about energy imbalance."

MR. MARSHALL: What page again?

Q.470 - Oh, I'm sorry, page 1704.

MR. MARSHALL: Okay. We have it.

Q.471 - Okay. And now I want to -- what follows is, as I understand it, a discussion of energy imbalance. And when I go to page 1705, what is labelled as the second question that he asks -- and this is again the cross by Mr. Nettleton -- "Then outside that deadband, the customer pays 110 percent of the marginal cost of New Brunswick Power's most expensive energy -- expensive unit, or the cost of emergency energy, whichever is correct?"

And Mr.. Marshall, you responded for point to point service, you referred him to page 54. You are proposing to change this under item 6?

MR. MARSHALL: We are proposing to change it to the final hourly marginal cost.

Q.472 - And could you read then what you said, so the next question is so network service is not obligated to make any payment then. Could you read what your response was there?

MR. MARSHALL: Network service inside the 2 megawatt band or 1 1/2 percent band is returned in kind. There is no payment. Outside that from a bandwidth out to 10 percent, that is plus or minus 10 percent band, the energy imbalance would be settled at a market price. Outside of the plus -- or 10 percent band, network service imbalance is subject to the same charges as point to point.

Q.473 - And so to be clear, what would you have been referring to when you talk about network service imbalance? That is energy imbalance?

MR. MARSHALL: Yes.

Q.474 - And what were those charges, the 110 percent of the marginal cost?

MR. MARSHALL: Outside the plus or minus 10 percent would have been 110 percent of the marginal costs or $18 if it is energy put in.

Q.475 - Right. And so --

MR. MARSHALL: No, excuse me, 110 percent of the most expensive unit on the system. So it is 110 percent of CT costs, which today over the last winter has been roughly $150.

Q.476 - Okay. Mr. Porter, on page 1707, this in response to a question that was put to you, the question being "Don't customers have an equal incentive to have imbalances on peak when the cost to New Brunswick Power Transmission is high as well as having imbalances off peak when the cost to New Brunswick Power Transmission would be lower.

MR. PORTER: Where does that start?

Q.477 - It started at the bottom of page 1706, that was the question, and your answer starts near the top of page 1707. I wonder if you could read that answer.

MR. PORTER: There is equal incentive in both cases and the reason being that we want to discourage energy imbalance at all times and that is for two reasons. There are operational reasons and commercial reasons. And there is no need to differentiate between on and off peak incentives. The intention is to establish pricing to discourage energy imbalance.

Q.478 - And so your clear intention during the OATT hearing was to price things to clearly send a signal to market participants to discourage their energy imbalance, but again it seems to me in this move to new pricing it seems somewhat at odds with that in that you seem to be moving to prices that are perhaps more moderate. You are less concerned about discouraging energy imbalance. Is that an appropriate interpretation? Has your opinion changed and I guess what has caused the change in your opinion?

MR. PORTER: There are a couple of things that have changed. Number one, the big component we have talked about is moving to what is basically a true market value pricing, the FMHC. So that removes much of the economic incentive for many parties. But we still would like to have good information from both generators and loads, so good schedules. And we now as an independent system operator are in a much better position to monitor behaviour of transmission customers and to implement sanctions as required without in advance setting a fixed formula that would be used.

Q.479 - Okay. Again in the hearing on page 1708 you were questioned as to how other Canadian electric utilities manage energy imbalance service. And I'm referring to your answer on page 1708, is what you are proposing consistent with how other Canadian electrical utilities manage the service or price the service. And your answer to that I would like you to read into the record today.

MR. PORTER: The ones that I have reviewed the charges tend to be at more than the cost.

Q.480 - Now has -- that clearly indicates that at the time of the hearing which was two years ago, electrical utilities in Canada tended to have energy imbalance charges that were priced at greater than cost. Do you have any information to cause you to modify that opinion?

MR. PORTER: What I would add to that is that it depends on the state of evolution of the markets. In places where they have gone with the bare bones bilateral market Order 888 type tariff, many of them have -- I believe continue to have the punitive type pricing in place. But if you go to a more evolved competitive market where competitive pricing on the provision of balancing energy exists, such as Alberta and Ontario, the pricing is based on the hourly market price which is parallel to what we are proposing in this application.

Q.481 - And the net effect of this will be the hourly market price will reduce the cost of energy imbalance charges to the various market participants, is it not?

MR. PORTER: Yes, that's correct.

Q.482 - Okay. Again going to page 1709, you were asked -- and this again was cross by Mr. Nettleton -- asked if there was any particular reason why NB Power couldn't charge its energy imbalance on the same basis as SaskPower or Manitoba Hydro, and I would like you to read again your answer and suggest how things have changed that would cause you to change your opinion?

MR. PORTER: We believe that with our cost structure versus those of some of the potential market participants, there would be indeed commercial motivation for these entities to under supply, thereby causing the operational difficulties that I spoke of.

Q.483 - And so what is it in the change in your cost structures that would have eliminated this commercial motivation for potential market participants to under supply?

MR. PORTER: One fundamental shift that -- at that time we were talking about a vertically integrated utility and its cost structure. Now we are talking about New Brunswick System Operator's costs and our cost is based on prices bid in by market participants, so those which we anticipate to reflect market value.

MR. MARSHALL: Just to reiterate and explain on that a little bit. If a coal unit happened to be on the margin and the cost is 25 or $30 a megawatt hour, okay, the real cost of the unit, then using a cost-plus formula means you sell energy at the $30 plus a buck or two. There is an incentive then for somebody to lean on that lower cost energy when it's available. In actual fact if that -- if the party has an opportunity to put a price on that and bid it into the market, they would say in the marketplace it's really worth $60 a megawatt hour, we want to sell it at 60, not at 30. So the prices -- the costs that we get given to us are the prices that generators put on what they think it's worth, and we dispatch it based on those prices.

So we are running a market. We are not running dispatch of actual generator costs. That's the difference between where we were then and where we are now.

Q.484 - Right. So you are doing -- making dispatch decisions based on economic bids from each generator?

MR. MARSHALL: Absolutely. That's correct. Not on their actual costs.

Q.485 - Right. So I think that's clear enough. Now, Mr. Porter, again continuing on -- and this on page 1711, again the cross by Mr. Nettleton. You made reference to the situation in PJM, Pennslyvania, Jersey, Maryland. If my understanding -- at that time were they running a market, as you are running a market? Were they -- was Pennslyvania, Jersey, Maryland, was that market in operation at the time of the OATT hearing?

MR. PORTER: Yes. They would have been running a market that would be very similar to the market that ISO New England runs today.

Q.486 - Okay.

MR. PORTER: In fact the PJM model is basically the model upon which others are billing their advanced markets.

Q.487 - And I wonder if you could read what your comment -- the comment your made or the evidence you gave in that hearing? Or it starts, Mr. Porter, I might add, is where you start it. The question was relating to cost and charges for loads on the system imbalance, is all in the focus on the interrogatory on energy imbalance.

MR. PORTER: I just want to take a minute to look back on the previous discussion.

Q.488 - That's fine. Yes.

CHAIRMAN: Mr. Sollows and I have just had a little -- a huddle up here. And his questioning he now estimates will take us to 5:30. And the Chairman is not prepared to do that, as I have to be before the Crown Corp. tomorrow morning at 9:00.

So we will have to take a date to adjourn over. And I think unless you, Mr. Whelly, have some reason not to have them, we can excuse the panel for now, for today and we will set an adjourned date. Or you can sit right there gentlemen, your choice. April 4?

MR. MACDOUGALL: Mr. Chair, could you just indicate when that is? I don't have a calendar in front of me. Is that a -- what day of the week is that?

MR. MORRISON: It's a Monday.

MR. MACDOUGALL: So it's a week from next Monday? A week from coming Monday?

MR. MORRISON: That's correct.

MR. MACDOUGALL: Thank you.

MR. WHELLY: Mr. Chair, I know my client would be unhappy with me if I didn't push for a hearing as quickly as possible. And I know you have a commitment tomorrow. I don't know what time you will be finishing, whether your commitment is tomorrow morning --

CHAIRMAN: Well, my difficulty, Mr. Whelly, is premises. If all the parties were to agree to just send one representative to our hearing room, then it opens up great avenues. So that means that the head of Human Resources and legal counselling, et cetera, for the SO has got to stay home.

MR. WHELLY: Fortunately, that's all one person. In any event, I didn't know what time you were finishing tomorrow. I think this room is booked tomorrow. And that's why I was, you know, mentioning that possibility.

CHAIRMAN: Oh, I am not going to commit to having to tell the Crown Corporations Committee, sorry, I have got to go back to Saint John for a hearing. I am sorry, I am not about to do that.

MR. WHELLY: I guess --

CHAIRMAN: And yet I want to get this over with too. But -- so it looks like the 4th is the first available date.

MR. WHELLY: See this is where I run into -- quite frankly run into some problems in that I am booked in a discovery that runs three days, 4th, 5th and 6th. The 7th I get on an plane and I am away until --

CHAIRMAN: Don't tell me you are going on vacation?

MR. WHELLY: I am actually taking a long weekend away, yes. So this is -- my April is not very attractive and I know this is a big concern.

MR. DUMONT: It's a concern to your client.

MR. WHELLY: Yes. Does the 4th work for everybody else? I mean, I am prepared to go back to the other lawyers at this discovery and say it's like the Court of Appeal. When the Court of Appeal calls, you don't say no.

CHAIRMAN: No, that's -- if it is the Court of Appeal, absolutely. Does that meet with everybody else?

MR. MACDOUGALL: Yes, Mr. Chair.

CHAIRMAN: The only other thing I can suggest, Madame Secretary, is that we look at Trade and Convention Centre?

MS. LEGERE: Right now?

CHAIRMAN: Yes. Take a run down, please.

MS. LEGERE: Chances of getting anybody now are very slim.

CHAIRMAN: Yes. What about -- let me just ask you this. On the 29th, are the parties available? That is March 29th, next Tuesday?

MR. WHELLY: I am not. I am in Montreal.

CHAIRMAN: Now we know who to blame for this adjournment. How about the 30th?

MR. WHELLY: The 30th, I am fine.

CHAIRMAN: How about everybody else? And the 31st? How about 31st?

MR. WHELLY: 31st works for me as well.

CHAIRMAN: Anybody it doesn't? Mr. Hyslop?

MR. HYSLOP: Mr. Chair, it does work for me. But I was going to note that my colleague, Mr. Zed, had left the room and --

CHAIRMAN: Well, he leaves the room --

MR. HYSLOP: He walked back in. So he can speak for himself.

CHAIRMAN: Yes. We are looking at adjourned dates, Mr. Zed. And it appears with the exception of counsel for the applicant, the 4th of April is okay. And we got the premises. And all I am doing now is checking next week to see if in fact everybody is clear. And I will ask them to hold whatever days we do have next week that are clear and I will ask the Board Secretary to see what she can arrange by way of premises.

Is everybody receiving notification from the Board electronically in this matter? Anybody who wants to be here at the conclusion, who is not being contacted electronically? Because on that basis, why Ms. Legere can go tomorrow and check it out and if there is some place else available, she can just give you a notice of where it is. Okay. So we have the 30th is good for everybody.

MR. ZED: Mr. Chair, I am not available on the 30th. I have meeting which involves several counsel from out of town and in light of the fact that we are coming back for summation, if that is the only date available --

CHAIRMAN: Well, we are going to finish Commissioner Sollows' questions.

MR. ZED: Yes.

CHAIRMAN: And summation. Or redirect?

MR. WHELLY: Redirect would be extremely short. A few questions.

MR. ZED: I would prefer to be here, but I will not hold up the group if that is the only available time.

CHAIRMAN: Okay. So we have got the 30th. And did I finish with the 31st? Have we got that? So we got that. And somebody had a conflict with the 29th. You are going somewhere aren't you, Mr. Whelly?

MR. WHELLY: Yes.

CHAIRMAN: Why don't we just leave it at that. That we will reconvene at the latest in this room on April 4th at 10:00 a.m. Or on the 30th and 31st -- or 31st in another location. And all parties will be informed by the Secretary of the Board. Okay. Thank you very much. And we look forward to seeing you shortly.

MR. WHELLY: Mr. Chair before we adjourn, I wondered --

there were a couple -- there was an outstanding undertaking. I wondered if I should respond to it now, so that it's taken care of?

CHAIRMAN: Probably an appropriate time.

MR. WHELLY: Yes. That had to do with the square footage of the ECC building in Marysville. And I have been advised that the building is approximately 34,000 square feet. Portions of the building are used by Disco. The portion used by the SO amounts to roughly 30,000 square feet.

CHAIRMAN: That's $10 a square foot, isn't it?

MR. SOLLOWS: Roughly.

CHAIRMAN: Roughly. And they are selling 20 bucks a square foot, a naked warehouse, in the Fredericton Industrial Park. You needn't have answered that. Go ahead.

MR. WHELLY: Now that's -- and I think that --

MR. MARSHALL: We knew we had a good deal, Mr. Chair.

MR. WHELLY: -- that provides --

CHAIRMAN: Well, you were -- what is it lean and mean there, Mr. Marshall.

MR. WHELLY: I believe the other undertaking that was given was to file, on a confidential basis, the spreadsheets that set forth the incentive programs that existed for employees. And I have copies of these for the Board for I believe it's eight employees.

CHAIRMAN: All right.l Mr. Whelly, would you again, as you did this morning, would you give those to the secretary and she will put them in a confidential file.

MR. WHELLY: Yes. They have been provided. And there are six employees, sorry.

CHAIRMAN: Thank you, very much. Any other matters?

MR. WHELLY: No, that is all I have.

CHAIRMAN: Good. Thank you all for the last two days and your co-operation. And I am sorry we have to adjourn. But that's the way it is. Thank you.

(Adjourned)

Certified to be a true transcript

of the proceedings of this hearing

as recorded by me, to the best of

my ability.

Reporter