**Public Utilities Board**
**Interrogatory No. 1**

**Interrogatory**

Reference: EGNB has provided two tables in its evidence that include numerous forecasts.

Question: Please provide projected financial statements and all relevant information including calculations, to show how the forecasts were determined.

**Response**

In response to this interrogatory, EGNB has filed schedules illustrating three forecasts. EGNB makes reference to the attached schedules extensively in the responses to all parties' interrogatories. These are summarized as follows:

1. Schedule 1 illustrates the "Forced Forecast", as summarized in the table provided in evidence at A10, where the Deferral Account is recovered by 2020. Cross-Over is forced to occur in 2015 with an annual recovery of $20.7 million. This forecast illustrates a scenario that would intentionally frustrate the rates approach underpinning EGNB's business model as it would require the collection of cost-of service based rates which would be higher than market-based rates. EGNB considers this forecast to actually be a projection as this scenario is neither likely nor feasible.

2. Schedule 2 outlines a forecast in which the Deferral Account is recovered on a straight-line basis over 40 years. Cross-Over occurs in 2013 with an annual recovery of $3.0 million. This scenario presents EGNB's preferred approach for recovery of the Deferral Account for the following reasons:

    i. The approach is consistent with viewing the Deferral Account as an asset similar to plant.
    ii. The approach ensures that customers, both present and future participate in the recovery of investments made early on by EGNB that will provide benefit to customers for a long period of time.
    iii. The approach results in the lowest requirement for annual recovery of the Deferral Account of the two alternatives presented for consideration by the Board. This supports EGNB's overarching objective of growth as it will allow, by presenting the lowest and most stable rates for customers post Cross-Over.

3. Schedule 3 outlines a forecast where the Deferral Account is recovered by 2040. Cross-Over occurs in 2015 with an annual recovery of $4.8 million. This scenario presents EGNB's alternate approach (to the scenario illustrated in Schedule 2) to

Deferral Account recovery. This approach, while acceptable to EGNB, is not preferred as:

i. The approach is not consistent with viewing the Deferral Account as an asset, specifying a recovery period that has no specific basis.
ii. The approach constrains the recovery period arbitrarily and does not ensure (to the extent that the approach illustrated in Schedule 2) that future customers will participate in the recovery of investments made to their benefit.
iii. The approach will result in higher annual recovery amounts post Cross-Over. This means higher rates to customers.

To understand the key financial parameters surrounding Deferral Account recovery under these various scenarios, it is helpful to refer to line 4, page 1. Once Cross-Over is achieved (2015 in Schedules 1 and 3 and 2013 in Schedule 2), EGNB must charge additional revenue from customers to recover the Deferral Account via annual amortization amounts. The annual recovery varies amongst the scenarios with the recovery period of the Deferral Account. However, since annual throughput on the system is the same across scenarios, the unit cost charged to customers to achieve the various amortization schedules varies significantly.

To illustrate this, contrast the amount at Line 4, Schedule 1 with that at Line 4, Schedule 2. Under the first scenario, EGNB would have to recover $20.7 million annually to fully amortize the Deferral Account by the end of the initial franchise period; EGNB would have to collect this annually from customers. This compares with $3.05 million annually, where EGNB treats the Deferral Account as an asset, recovering it on a straight-line basis as illustrated in Schedule 2. Recovering the Deferral Account under this approach as compared to by the end of the initial franchise period represents an 85% reduction in charges to customers.

Once again, Schedule 2 illustrates EGNB's preferred approach, allowing EGNB to recover the Deferral Account on a straight-line basis over 40 years. This approach provides the lowest cost-based rates for customers as the annual recovery is lower and poses the least risk to EGNB.

**Public Utilities Board**
**Interrogatory No. 2**

## Interrogatory

Reference: To date, EGNB has not achieved its forecast targets for customer additions and revenue.

Questions: (a) In detail, provide yearly figures with explanations that support customer additions by class and area.

(b) Please provide the proposed changes with explanations to distribution rates that support the revenue forecast

(c ) Please provide details on Enbridge's proposed capital additions through to 2010.

## Response

(a)

| **Customers Additions** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|
| SGS | 1,153 | 1,277 | 2,183 | 1,873 | 2,027 | 2,826 | 2,840 |
| GS | 156 | 187 | 343 | 300 | 193 | 74 | 84 |
| CGS | 80 | 78 | 18 | 9 | 4 | 5 | 5 |
| CLGS-LFO | 5 | 2 | 3 | 2 | - | - | 1 |
| CLGS-HFO | 4 | - | 2 | - | - | - | - |
| Total | 1,398 | 1,544 | 2,549 | 2,184 | 2,224 | 2,905 | 2,930 |

A long-term forecast of customer additions is not available by area.

To maximize the early capture of long-term revenues and minimize the additions to the Deferral Account, EGNB is focused on the commercial and industrial segments as well as new construction markets (both residential and commercial).

As the commercial and industrial markets become saturated, EGNB's focus will shift to the residential retrofit market. EGNB is forecasting that growth in the residential market will increase as market trends create greater demand for natural gas.

(b) EGNB's rate making methodology underpinning the forecasts is consistent with that used in the determination of the currently approved rates. Briefly, distribution rates are derived based upon wholesale oil and gas prices. Forecast changes to distribution rates are driven by the forecast spread between oil and gas forecast prices.

| **Distribution Rates** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|---|
| SGS | $ 4.11 | $ 5.40 | $ 6.22 | $ 5.80 | $ 6.54 | $ 7.07 | $ 7.11 | $ 7.34 |
| GS | 1.91 | 2.38 | 4.29 | 3.51 | 4.09 | 5.08 | 5.07 | 5.26 |
| CGS | 1.91 | 2.16 | 4.10 | 3.51 | 4.67 | 5.08 | 5.07 | 5.26 |
| CLGS-LFO | 1.36 | 1.36 | 1.17 | 1.22 | 1.68 | 1.99 | 1.97 | 2.10 |
| CLGS-HFO | 0.38 | 0.38 | 0.66 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 |

(c) Capital Additions Schedule to 2010 (thousands of dollars)

| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|
| Distribution mains | 19,011 | 18,059 | 30,178 | 16,489 | 15,995 | 10,195 | 12,153 |
| Street services | 2,786 | 2,188 | 2,483 | 2,485 | 2,398 | 2,861 | 2,977 |
| Meters and regulators | 3,429 | 490 | 526 | 493 | 414 | 417 | 444 |
| Total | 25,226 | 20,736 | 33,187 | 19,468 | 18,807 | 13,473 | 15,574 |

**Public Utilities Board**
**Interrogatory No. 3**

### Interrogatory

Reference: Enbridge states in A10 that it originally forecasted a peak deferral amount to be $13 million. Its new forecast now estimates the peak Deferral Account to reach $124 million in 2015.

Question: Please compare the assumptions used in both forecasts. Identify where the original assumptions were inaccurate and indicate what occurred causing the significant growth in the Deferral Account to date. Then please review the assumptions for the current projections and indicate why the company feels the current projections will be more accurate.

### Response

EGNB stated in A10 that the Deferral Account balance is anticipated to be $124 million in 2015. The peak Deferral Account balance is forecast to be $132.9 million in 2011. Please refer to page 2 of Schedules 1 and page 3 of Schedules 2 and 3 entitled "Statement of Rate Base" as filed in response to Board Interrogatory No. 1 for an annual projection of the Deferral Account (Row 13).

In referring to the Deferral Account it must be clearly understood that managing the size of the Deferral Account is primarily achieved through meeting revenue targets. While cost control is important, nothing affects the growth of the Deferral Account as much as revenue growth or lack thereof.

EGNB based its forecast of $13 million on information developed prior to the rates application in 2000. This forecast included the following assumptions:

- Natural gas prices would average US$2.40/mmbtu for the period of 2001 to 2005.
- Natural gas would retain its competitive position opposite electricity.
- Gas production from Sable Offshore Energy Inc. (SOEI) and others would be available as forecast. Specifically, the view was one of confidence around increasing supply.
- The commitment, as outlined in the Joint Public Review Panel, regarding the availability of natural gas for local distribution in New Brunswick would be honoured.
- Infrastructure (marketers, contractors, installers, etc) would develop quickly, establishing leadership positions in the market attracting potential customers and allowing customers to easily convert to natural gas.
- Management could rely on Enbridge's successful business model. EGNB assumed this experience would allow it to address whatever issues may have evolved.

- The Provincial government would respond quickly to recognized problems in the legislative framework to allow EGNB to develop the market.

All of the above assumptions have proven inaccurate since 2000. The primary driver of the Deferral Account growth has been lower than anticipated revenue from EGNB's distribution operations. It is essential to understand that the lack of early distribution revenues, subsequent to EGNB undertaking major expenditures, is the primary driver of the growth to EGNB's Deferral Account.

This lower revenue is directly attributable to these defective assumptions. The following points illustrate how these assumptions have contributed to EGNB's contracted revenue-generating capacity:

- Higher natural gas prices limited revenue contribution from rates and rendered gas with less than optimal spreads between delivered prices for natural gas and electricity (which is not priced based on a cost recovery basis).
- Likely driven by price volatility and shrinking price advantage against electricity, potential downstream players (marketers and contractors) did not take an active role in the development of the natural gas industry.
- The negative press coverage associated with SOEI production concerns has eroded the general public's confidence that natural gas will be available in New Brunswick in the long-term.
- Natural gas supply was not made available to all marketers under terms that allowed them to develop natural gas products attractive to various customers.
- When faced with a downstream market that was not necessarily supportive, EGNB was unable to exert sufficient control in the market place. In order to do so, legislative changes were required to allow EGNB to provide downstream services including the sale of gas. Effecting the necessary changes took a significant period of time, during which EGNB was unable to achieve sufficient amounts of early distribution revenue.
- When faced with the failure of the unbundled market, EGNB was unable to fully utilize the experience of Enbridge to exert any control over its revenue distribution growth until the legislative framework was amended.

EGNB has based its current forecast of $124 million on the information available at present. This information includes the following assumptions and facts regarding the New Brunswick marketplace:

- Gas is expected to average US$5/mmbtu over the next 5 years, 2005 to 2010. There is no expectation in the market that prices will decline to 2000 levels given the increased demand for natural gas in North America.
- EGNB has withdrawn sales effort opposite electricity in the short-term. However, EGNB does assume that electricity rates will increase during the next five years and that EGNB will be positioned to displace electricity during this period.
- Gas supply prices in New Brunswick will continue to be comparable to the U.S. northeast markets, either from SOEI, other off and onshore developments or future liquefied natural gas facilities.

- EGNB's current business model has been modified to take full advantage of the legislative environment. The ability to offer a gas commodity as well as other downstream services allows EGNB to maintain its growth objectives.

To provide a more specific illustration of the current forecasting capability of EGNB, in 2004 EGNB expects to complete the year within +/- 10% of its growth targets. The same methodology used in setting its growth targets for 2004 was applied to its long-range plans.

Given the familiarity with the New Brunswick market place that EGNB has gained over the last four years and the resulting changes to its strategy in response to this experience, EGNB is confident its updated forecast is reflective of the current natural gas market.

It is important to point out that there are factors beyond EGNB's control that can affect the forecast, both positively and negatively. For instance, NB Power not adjusting rates to recognize its costs may put growth targets at risk. Alternatively, initiatives by the Provincial or Federal governments to meet Kyoto accords could provide significant upside to EGNB's growth forecast.

**Public Utilities Board**
**Interrogatory No. 4**

**Interrogatory**

Reference: In A 13, Enbridge refers to modeling various revenue and cost scenarios for recovery of the Deferral Account within the original franchise period.

Question: Please provide copies of the modeling scenarios.

**Response**

Please refer to EGNB's response to Board Interrogatory No. 16.

**Public Utilities Board**
**Interrogatory No. 5**

**Interrogatory**

Reference: Enbridge states in its evidence that it does not expect to reach "Cross-Over' within the initial franchise period. Enbridge has historically been unable to meet its forecasts.

Question: Considering Enbridge's actual forecast for "Cross-Over" as stated in its evidence is not expected to occur until after 2019, please explain what reasoning the Board could consider to establish a defined recovery period to begin some time after a possible an extension of the franchise in 2019 for a period of time extending beyond 2039.

**Response**

EGNB is unsure how the statement "Enbridge has historically been unable to meet its forecasts" relates to this question.

EGNB believes that the question arises out of the statement: "EGNB does not currently anticipate that it will reach Cross-Over within the initial franchise period" found within EGNB's evidence at A10. It is important to understand that this statement is made in the context of the requirement, as set-out in the original decision of the Board, to recover deferred amounts within the initial franchise period. If the current application is approved by the Board EGNB expects to reach Cross-Over in 2013.

Recalling the first paragraph at A9 in EGNB's evidence:

*"Before answering the question, it is important to point out that in order to begin recovering deferred amounts, EGNB must be able to move from its current market-based rates to rates that allow EGNB to recover its cost of service. This cost of service (or revenue requirement) would include amounts related to amortization of, and a return on capital for, the Deferral Account on a sustainable* basis *(that is without further contributions to the Deferral Account). EGNB refers to this point in its operating forecast as "Cross-Over"."*

It is the significant amounts of amortization that would be required to recover deferred amounts that prevent the attainment of the "sustainable basis" alluded to above that prevent Cross-Over from being achieved. If the Board approves the current request, the amounts being recovered are modest in comparison, allowing EGNB to move to cost of service based rates post Cross-Over that are *lower* than under a market-based rates scheme.

Addressing the question of how could the Board consider establishing a defined recovery period that would extend beyond 2039. Referring to the fifth paragraph of A11 in EGNB's evidence:

> " *EGNB views the Deferral Account as a long-lived asset similar to plant, the average life of which for accounting purposes is in excess of 40 years.*"

EGNB maintains that an appropriate recovery period for the Deferral Account should be established based on the expected life of the asset, similar to any other asset, regardless of the franchise period.

**Public Utilities Board**
**Interrogatory No. 6**

**Interrogatory**

Reference: Table on Exhibit A page 3

Question: Please provide comparative details of the components of the “Revenue requirement” supporting the calculation of the “Unit cost ($GJ)” disclosed in row (c) as $2.78, $6.76 and $5.41 respectively.

**Response**

**Unit Cost Comparative Analysis**
(Millions of dollars)

| **Revenue requirement** | **Results at 12/31/05 as Forecast in 2000** | **Results at 12/31/05 as Currently Forecast** | **Results at 12/31/10 as Currently Forecast** |
|---|---|---|---|
| Total expenses | $17.9 | $12.4 | $10.0 |
| Cost of capital: | | | |
| Regulated cost of debt | 4.2 | 8.1 | 11.4 |
| Authorized return on equity | 7.1 | 7.9 | 20.3 |
| Total cost of capital | $11.3 | $16.0 | $31.7 |
| Total revenue requirement | $ 29.2 | $ 28.4 | $ 41.8 |
| Throughput (GJs) | 10,500,000 | 4,200,000 | 7,700,000 |
| Unit Cost ($/GJ) | $2.78 | $6.76 | $5.42 |

Details of Total expenses as Currently Forecast can be found on page 1 of Schedule 1, Rows 2 through 8.

**Public Utilities Board**
**Interrogatory No. 7**

**Interrogatory**

Reference: Table on Exhibit A page 3

Question: Please provide comparative details of the components of "Annual deferred loss ($)" disclosed in row (d) as $2.8 million, $17.6 million and $6.3 million respectively, using the presentation format of the annual regulatory reporting "Schedule A, page 1 of 14".

**Response**

Please refer to line 15 on page 1 of Schedule 1 to EGNB's response to Board Interrogatory No. 1 for details of the annual deferred losses of $17.6 million and $6.3 million. The annual deferred loss is the sum of Total Expenses on line 9 and cost of capital on lines 13 and 14, less the annual revenues on line 1. The $2.8 million annual deferred loss forecast in 2000 is from the original forecast filed by EGNB as part of its rate application in 2000.

**Public Utilities Board**
**Interrogatory No. 8**

**Interrogatory**

Reference: Table on Exhibit A page 3

Question: Please provide details of the continuity of the Deferral Account, on an annual basis, from the December 31, 2003 figure of $40,721,000 (reported on Schedule A, page 3 of 14 submitted to the Board of Commissioners on July 14, 2004) and the figure of $130.7 million included in the column 12/31/10 of row (e)

Please use the following format to report the components of the projected Deferral Account. To assist EGNB, the figures for 2003 are shown for illustrative purposes:

| | | |
|---|---|---|
| Opening balance | $ | 24,456,000 |
| Net loss for the year | | 5,906,000 |
| Regulated cost of debt | | 3,990,000 |
| Equity return on rate base | | 6,369,000 |
| Closing balance | $ | 40,721,000 |

**Response**

Details of Projected Deferral Account
For the Forecast Period
(Millions of dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Opening Balance | $ 24 | $ 41 | $ 60 | $ 78 | $ 93 | $ 106 | $ 116 | $ 124 |
| Net loss for the year | 6 | 6 | 2 | (6) | (12) | (18) | (22) | (25) |
| Regulated cost of debt | 4 | 6 | 8 | 8 | 9 | 10 | 11 | 12 |
| Equity return on rate base | 6 | 7 | 8 | 13 | 16 | 18 | 19 | 20 |
| Closing Balance | $ 41 | $ 60 | $ 78 | $ 93 | $ 106 | $ 116 | $ 124 | $ 131 |

**Public Utilities Board**
**Interrogatory No. 9**

**Interrogatory**

Reference:

Question: Please provide, on an annual basis, details of the projected rate base for the years from 2004 to 2010 inclusive.

**Response**

Please refer to page 2 of Schedule 1 filed as part of EGNB's response to Board Interrogatory No. 1.

**Public Utilities Board**
**Interrogatory No. 10**

**Interrogatory**

Reference:

Question: Please provide, on an annual basis, the projected amount of capitalised operating and maintenance expenses for the years from 2004 to 2010 inclusive.

**Response**

Operating and Maintenance expenses capitalized (thousands of dollars):

| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|
| O&M Capitalized | 14,803 | 15,246 | 11,795 | 12,184 | 11,425 | 7,439 | 7,253 |

**Public Utilities Board**
**Interrogatory No. 11**

**Interrogatory**

Reference: Exhibit A page 4

In A7, discussing the "Deferral Account", EGNB makes the following statement:

"EGNB maintains one Deferral Account in which it records the difference between its actual revenue received and the revenue requirement approved by the Board. EGNB is unable to set its rates to customers on the basis of Cost of Service. Rather they are based on market conditions.

Question: Do you agree that, since EGNB sets its rates based on market conditions, during the development period it has not filed annual revenue requirements with the Board and will not do so until the development period has expired?

If you disagree, please provide reasons.

**Response**

EGNB agrees that we have not filed a statement entitled "Revenue Requirement" but the Board has, in fact, approved EGNB's annual revenue requirement for the years 2000 and 2001. EGNB's annual revenue requirement is equal to its cost of service, including the regulated cost of capital and authorized return on equity. The annual deferral (deficiency) is the shortfall between the revenue requirement and actual revenues collected.

**Public Utilities Board**
**Interrogatory No. 12**

**Interrogatory**

Reference: Exhibit A page 5

In A7, further discussing the "Deferral Account", EGNB makes the following statement:

> "The Deferral Account is an asset to EGNB, earning the approved weighted average cost of capital..."

Question: Do you agree that the approved weighted average cost of capital referred to is composed of the regulated interest on long-term debt, based on the capital invested in rate base, and the allowed return on equity calculated on the same rate base?

If you disagree, please provide reasons.

**Response**

The approved weighted average cost of capital is composed of the regulated cost of capital and the allowed return on equity. The regulated cost of capital is calculated by applying the regulated capital structure (percentage of debt and equity) to the average rate base balance using the approved cost of capital rate. The allowed return on equity is calculated in the same manner, using the regulated capital structure, the average rate base balance and the approved return of 13%.

**Public Utilities Board**
**<u>Interrogatory No. 13</u>**

## Interrogatory

Reference: Exhibit A page 5

In A7, in the final paragraph referring to the "Deferral Account", EGNB makes the following statement:

"As an asset, EGNB views the nature of the Deferral Account as consistent with plant."

Question:

(a) Do you agree that, in fact, there is a fundamental difference between "hard" assets such as plant and equipment and "soft" assets such as the Deferral Account or expenses deferred for future recovery?

If you disagree, please provide reasons.

(b) Given that EGNB has an accounting policy to capitalize the operating and maintenance expenses directly attributable to the acquisition of property, plant and equipment, do you agree that the expenditures included in the Deferral Account are more in the nature of expenses to ensure that "plant gets used" rather than for "installing plant"?

If you disagree, please provide reasons.

## Response

(a) EGNB does not agree that there is <u>any</u> difference between assets included and approved as part of rate base. All assets approved as part of rate base exist at the discretion of the Board. All monies invested in the development of the natural gas industry and approved as an inclusion in rate base are equal. There is no distinction between a dollar invested in pipe versus a dollar invested attaching customers to the pipe. Both investments earn the same return and become part of the same rate base.

(b) EGNB notes that the referenced phrases are from A7 in EGNB's written direct evidence. Further EGNB notes that these phrases are part of the same thought. This is important as EGNB, at this stage in its evolution, sees ensuring "plant gets used" as equivalent with "installing plant". While the directness of the expenditures may vary, the intention is the same: EGNB has no intention of installing plant without ensuring it will be used.

**Public Utilities Board**
**Interrogatory No. 14**

**Interrogatory**

Reference: Exhibit A page 6

In A9 and A10, EGNB refers to its "current forecasts" and its "forecasting models". These models appear to forecast a result based upon a "forced cross-over" in 2015.

Question:

(a) Were the forecasts prepared by EGNB management or outside consultants?

(b) If prepared by management, were they reviewed by outside consultants, if so please identify the firm and advise if a report was prepared thereon?

(c) If prepared by outside consultants, please identify the firm.

(d) Please provide a copy of the forecasts and any report thereon prepared under either of the circumstances described above.

(e) Were any forecasts prepared using different "cross-over" dates and, if so please advise of the results thereof and provide a copy of the forecasts and any report thereon.

(f) In view of the extensive timeline covered by the "forecasts" would you agree that the figures should be described as "projections" rather than "forecasts"?

If you disagree, please provide reasons.

**Response**

(a) The forecasts were prepared by EGNB management.
(b) The forecasts were not reviewed by outside consultants.
(c) No response required.
(d) No response required.
(e) Yes, EGNB has prepared and submitted, as Schedules 2 and 3 to EGNB's response to Board Interrogatory No. 1, forecasts that do not force Cross-Over. Cross-Over occurs in 2013 in Schedule 2 where the recovery of the Deferral Account take place over a 40-year period. Cross-Over occurs in 2015 in Schedule 3 where the recovery period of the Deferral Account ends in 2040.
(f) EGNB consulted the Canadian Institute of Charted Accountants (CICA) Handbook for definitions of "forecasts" and "projections".

The relevant definitions of both the word “projection” and “forecast” as found in the CICA Handbook, Section 4250 “Future-orientated financial information”:

.04 A forecast is future-orientated financial information prepared using assumptions all of which reflect the entity’s planned courses of action for the period covered given management’s judgement as to the most probable set of economic conditions.

.05 A projection is future-orientated financial information prepared using assumptions that reflect the entity’s planned courses of action for the period covered given management’s judgement as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in management’s judgement.

Based on the CICA Handbook definitions, management believes the “forced Cross-Over scenario” outlined in Schedule 1 would be considered a projection rather than a forecast as it includes an assumption that management does not consider probable. However, based on the above definitions, EGNB would consider the scenarios outlined in Schedules 2 and 3 as forecasts, rather than projections.

The issue of “extensive timeline” referenced in the question would have no bearing on selecting one word or the other.

**Public Utilities Board**
**Interrogatory No. 15**

**Interrogatory**

Reference: Exhibit A page 6

In A11 EGNB states that "Additionally, EGNB maintains that the Deferral Account is an asset and is just as transferable to an incumbent franchisee as any other asset."

Question: (a) Do you agree that the sale of a "soft" asset such as a Deferral Account, is unlikely to be made at book value?

If you disagree, please provide reasons.

(b) Are you aware of any situations where the sale of assets, such as a Deferral Account, has been made and the amount of sales proceeds stated as a percentage of book value?

If so, please provide examples.

**Response**

(a) In order to be responsive EGNB believes it must add clarity to the question. If the question is around assets in a non-regulated company or is around non-regulated assets in a regulated utility, EGNB does agree that it is possible that these assets would not be sold at book value. However, if the question is around an asset held by a regulated entity, which had been approved in rate base EGNB does not agree. The resale of any regulated asset would be at the approved value. To be clear, the regulatory Deferral Account exists only because the Board has approved its existence, the expenditures included within <u>and</u> the future recovery of the account balance. The Deferral Account or any portion of it would only be impacted negatively if the Board disallowed any portion of the Deferral Account or the recovery of the account balance. Otherwise, a dollar in the Deferral Account would be considered equal to a dollar invested in any other asset in the NB distribution system being developed by EGNB.

(b) Virtually every regulated utility in Canada has had a Deferral Account either ongoing or at one time during its existence. EGNB is not aware of any situations where the sale of a <u>regulated</u> asset, such as a Deferral Account, has been at an amount less than the approved value. Furthermore, EGNB is not aware of any situation where a regulated utility Deferral Account receivable was sold by itself, separately from the rest of utility assets. Notwithstanding, exclusions and/or disallowances, EGNB can think of no reason to sell a Deferral Account at less than book value. There is the possibility that an entity could sell a regulated operation at a value greater or less than the sum of its parts including items in rate base, however value of rate base would remain the same. The investors of the entity would either profit or incur a loss on the difference between the sale price and the approved value of rate base.

**Public Utilities Board**
**Interrogatory No. 16**

**Interrogatory**

Reference: Exhibit A page 10

In A13, EGNB states that it has tested its modeling using various revenue and cost scenarios to determine if it is within the realm of possibilities to recover deferred amounts within the initial franchise period.

Question:
(a) Were these scenarios developed concurrently with the "forecasts" referred to in A9 and A10?

(b) What were the results of the scenarios referred to in A13?

(c) Please provide a copy of these documents.

**Response**

(a) EGNB conducts regular analysis on its forecast financials. In providing A13 EGNB relied primarily on scenarios developed prior to those referred to in A9 and A10. EGNB recognized through part of its regular reviews for reasons outlined in the evidence that recovery of the Deferral Account within the initial franchise period was not possible. And while EGNB is unable to produce the results from these various reviews, at no point did EGNB identify the opportunity to recover the Deferral Account within the initial franchise period.

Additionally, concurrent with the development of the forecasts referred to in A9 and A10 EGNB did develop a forecast of what it considered to be a "best case". This scenario presented what EGNB believed were potentially achievable but very unlikely increases to market-based revenues and on the other hand cost reductions. This case indicates that Cross-Over is not possible within the initial franchise period.

(b) As indicated in (a), EGNB has reviewed several forecast scenarios over time that indicate recovery of the Deferral Account is not possible during the initial franchise period.

Keeping in mind that no factor impacts the Deferral Account to the extent that distribution revenues early in the Development Period do, there are three key elements that impact Deferral Account growth: distribution revenues, operating and maintenance expenses ("O&M") and capital spending. Negative changes to these elements result in increases to contributions to the Deferral Account and push out Cross-Over.

EGNB's distribution revenues are driven by two factors: distribution rates and throughput. Since EGNB's revenue forecasts during the development period are most sensitive to distribution rates EGNB developed this "best case" scenario with increased distribution rates.

EGNB's long-term distribution rate forecast is derived from wholesale energy forecasts of crude oil (West Texas Intermediate) and natural gas (Henry Hub). EGNB has reviewed long-term energy forecasts from several analysts and has determined that the rates as currently forecast are inline with the majority of long-term energy forecasts. There is, however, one long-term forecast indicating an opportunity to increase revenues in the short term, i.e., in 2006 and 2007. EGNB has incorporated this revenue opportunity into its "best case" scenario.

In addition, this scenario includes an assumed 10% reduction in total gross O&M expenditures in the years 2005 to 2008. EGNB believes achieving O&M reductions beyond 2009, from those currently included in the forecast, is not possible. EGNB believes the changes in these key assumptions, while within the realm of possibilities to be extremely aggressive.

The results of this "best case" scenario indicate that EGNB would not be able to recover the Deferral Account and reach Cross-Over within the initial franchise period.

(c) The results of the "best case" scenario are filed as Schedule 4. Referring to Line 4 on page 1 within the Schedule and contrasting that with the same line in Schedule 2 illustrates that EGNB's situation with regard to Deferral Account recovery is not meaningfully different as compared with EGNB's base set of assumptions as illustrated in Schedule 2.

**Public Utilities Board**
**Interrogatory No. 17**

**Interrogatory**

Reference: Exhibit A page 10

In A14, EGNB indicates that it intends on requesting additional capital from existing and prospective partners in 2005.

Question:

(a) Please advise the Board of the form of offering document EGNB contemplates using to solicit additional investment.

(b) Please indicate the amount of capital that EGNB intends to raise.

**Response**

(a) EGNB will likely circulate a Confidential Offering Memorandum to potential investors as was done for the original offering in 2000. However, a new Securities Act came into force in New Brunswick in July 2004. Any offering document will have to comply with that legislation.

(b) The amount of capital that EGNB intends to raise has not been finalized.