

THE ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, R.S.O. 1990, Chapter 0.13;

AND IN THE MATTER of an Application by The Consumers' Gas Company Ltd. for Orders approving rates to be charged for the sale, distribution, trans- mission and storage of gas.

Hearing held at 2300 Yonge Street, 25th Floor, Hearing Room No. 1, Toronto, Ontario on Thursday, August 20th, 1992 commencing at 9:00 a.m.

VOLUME 4

BEFORE :

C.A. WOLF Jr. THE PRESIDING MEMBER

J.C. ALLAN MEMBER

C.L. COTTLE MEMBER

APPEARANCES

KEN ROSENBERG)
JENNIFER LEA)
PETER Y. ATKINSON)
ROBERT HOWE)
PETER C.P. THOMPSON, Q.C.

BOARD STAFF

THE CONSUMERS' GAS
COMPANY LTD.
THE INDUSTRIAL GAS
USERS ASSOCIATION
(IGUA)
NORTH CANADIAN
MARKETING INC.;
NORTHRIDGE PETROLEUM

PETER BUDD

DOUGLAS McLEAN)
BRIAN BULLEN)
MICHAEL PETERSON
JOHN ALATI

MARKETING INC.;
DIRECT ENERGY MARKETING
LIMITED (the Marketers)
WESTERN GAS MARKETING

MUNIGAS CORPORATION
A.E. SHARP;
THE ONTARIO HOSPITAL
ASSOCIATION (OHA);
TORONTO DISTRICT
HEATING CORPORATION
(TDHC)

PAUL MULDOON
MICHAEL JANIGAN)
HELEN STERLING)

POLLUTION PROBE
CONSUMERS FIGHTBACK
ASSOCIATION (CFBA);
ONTARIO COALITION
AGAINST POVERTY (OCAP)

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APPEARANCES

11

12

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UNIVERSITIES
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APPLICANT

TIBOR HAYNAL

TRANSCANADA PIPELINES
LIMITED

PAUL TOLTON
MARY HENDERSON
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CENTRA GAS ONTARIO INC.
UNION GAS LIMITED
OTTAWA-CARLETON GAS
PURCHASE CONSORTIUM
GREAT WEST ENERGY
LIMITED

GUY PRATTE

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21

---Upon commencing at 9:00 a.m.

Was page 431 22

THE PRESIDING MEMBER: Please be seated. Good morning.

23

Mr. Thompson, I hope you enjoyed reading yesterday's transcript.

24

MR. THOMPSON: Yes, I did, Mr. Wolf. After twenty years before this Board, a first clear-cut winner and I'm not here to hear it. (Laughter)

25

MS. ALLAN: Is that the explanation? (Laughter)

26

MR. THOMPSON: Touche.

27

THE PRESIDING MEMBER: Before we get started, some matters of housekeeping and scheduling.

28

We are prepared, if the parties so wish and the schedule indicates it to be advisable, to sit full days next week on both Tuesday and Wednesday. And it would appear that we are far enough behind that that looms as a distinct possibility.

29

Also, the Board will be in a position to render a decision on 473-A tomorrow, immediately after the conclusion of the proceedings on 479.

30

Mr. Rosenberg, are there any preliminary matters before we start?

31

MR. ROSENBERG: Yes, there are a few filing matters, and then I believe Mr. Howe is get going to speak to the evidence for next week.

32

Two matters to file. L13.1 will be the prefiled material of A.E. Sharp, and I believe that's been distributed to the Panel. So that's L13.1, for A.E. Sharp.

Was page 432 33

And then L14.1 will be the written direct evidence of Robert Gordon Kirby, filed on behalf of ECNG Inc., and it actually appears on the letterhead of Fraser and Beatty, which is the law firm for that intervenor. That will be L14.1.

34

As I said, Mr. Chairman, I believe Mr. Howe has had some conversations with Mr. Budd regarding Tuesday's schedule.

35

---EXHIBIT NO. L13.1 Prefiled Evidence of Robert Wilson and Jason Pitts. 36

---EXHIBIT NO. L14.1 Prefiled Evidence of Robert Gordon Kirby, ECNG Inc. 37

THE PRESIDING MEMBER: Mr. Howe? 38

MR. HOWE: Thank you, Mr. Chairman. 39

Mr. Budd has expressed his preference that his witnesses attend and give evidence on the week of September 2nd to 4th. Mr. Alati hasn't got back to us yet. But I think in light of Mr. Budd's preferences, and also I think the recognized preference of all parties to move the direct purchase issues, what we would suggest, Mr. Chairman, is moving the direct purchase issues which had been scheduled for tomorrow, August the 21st, to the week of September the 2nd to the 4th and including them as a gas supply matter. And then we could have the witnesses for the various intervenors come and give evidence during that week as well. 40

THE PRESIDING MEMBER: It would help us, Mr. Howe, in terms of getting a mindset surrounding those issues. ^{Was page 433} 41

So I presume then that all of the remaining panels would then move up to fill the void that was created by shuffling that panel to the final week. 42

MR. HOWE: That's right, sir. 43

I might say that right now we have spoken to Dr. Sherwin and Ms. McShane and they are scheduled for the 31st and September the 1st, and it is our intent to keep them on those dates. They have other commitments outside the province. So we would prefer to fix those dates as the cost of equity dates, and Dr. de Bever will presumably give evidence during that period of time as well. 44

THE PRESIDING MEMBER: Mr. Rosenberg, does that create any problems for Dr. de Bever? 45

MR. ROSENBERG: Our arrangement with our witnesses to date is that Dr. de Bever would testify on the 31st and Mr. Winter on the 1st, and I believe Mr. Winter has a problem on the 2nd. 46

MR. HOWE: That would work out well. ^{Was page 434} 47

THE PRESIDING MEMBER: Don't say that too loudly, Mr. Howe. Murphy still does rule the roost here. 48

Anything further in the way of preliminary matters, Mr. Howe? 49

MR. ATKINSON: Mr. Chairman, there is just a couple of filings that have been distributed. The answer to Undertaking J2.3; additional written direct evidence of Messrs. Gruenbauer and Hamilton, Exhibit H1, tab 2A, and an interruptible market survey, Exhibit H2, tab 1. 50

That's all that I have. 51

THE PRESIDING MEMBER: Thank you, Mr. Atkinson. 52

Any other preliminary matters? 53

MR. THOMPSON: Mr. Chairman, perhaps I could just speak to one item on the schedule. It was on the schedule for today, the volumes. 54

This item is on the agenda because IGUA was not prepared to accept the company's large volume forecast for the test year during the course of the ADR process. 55

There were, what we felt, some conflicting versions of the economy and the impact of that on large volume between what was filed in this case and what the company had filed in the NEB, but we were the only one that was not prepared to accept the company's estimates. Was page 435 56

IGUA members met yesterday, as is their standard practice, to review all aspects of the company's case, and my instructions are to withdraw our challenge to the volume forecast and we are now prepared to accept the '93 forecast. I believe that should have the effect of making that now an agreed item and taking it off the agenda. 57

THE PRESIDING MEMBER: Thank you for that, Mr. Thompson. It does not, however, I assume, mean that IGUA may not have some concerns when the filing is made as to the company's anticipation of the movements between customer classes to recover the reservation charge. 58

MR. THOMPSON: That's correct. It's just their total throughput forecast. 59

THE PRESIDING MEMBER: Thank you for that, Mr. Thompson. That means we may not have to sit one afternoon. 60

---Off the record discussion. Was page 436 61

THE PRESIDING MEMBER: I take it then, Mr. Thompson, that what in essence is being done is the ADR is being modified to include agreement on the question of the company's volume forecasts. Is that about where it is? 62

MR. THOMPSON: Yes, that would be my understanding of the effect of our withdrawal of challenging this issue. 63

THE PRESIDING MEMBER: Do any parties present feel that it would be inappropriate to deem the ADR document as submitted as being amended to include agreement on the question of the company's volume forecasts? 64

MR. ATKINSON: I think that's the way it should be done, sir. 65

The evidence itself has already been attested to earlier this week, so that the evidentiary foundation is there and it would just be a matter of adding an appropriate statement in the ADR agreement to incorporate this item, and if the Board sees fit to accept that, then that would be the end of that issue. 66

THE PRESIDING MEMBER: Do any parties present object to amending the ADR with a statement to the effect that all parties at the ADR process agreed with the company's filings with regard to volume forecasts? 67

MR. ROSENBERG: Mr. Chairman, if I could speak to that issue briefly? Was page 437 68

THE PRESIDING MEMBER: Please. 69

MR. ROSENBERG: The problem we have is that all the parties to the ADR are not now aware of the change, and before we put something on the record, I agree with Mr. Atkinson that as the end result, that's what we would like to do. But to be fair to the intervenors who are not here, who were part of the process, I wouldn't want to create a fact that they then have to dispute. I think it requires a recanvass of the parties. 70

THE PRESIDING MEMBER: Can we make it then contingent upon the parties not represented here today agreeing to such a modification and ask that Board staff do a polling of those missing parties and report back on the record? 71

MR. ROSENBERG: I take it, Mr. Chairman, that in the interim we will assume that Consumers will not be calling its panel because we have a tentative agreement among people who are here, and until advised otherwise, we will assume the panel won't be called and a party who wants them called will have to come forward and say what their position is. 72

Is that helpful? Was page 438 73

THE PRESIDING MEMBER: I would rather have it a little cleaner than that, Mr. Rosenberg. 74

Is there a problem with Board staff polling those parties not represented here today that were part of the ADR process and confirming that they do indeed agree to that modification? 75

MR. ROSENBERG: What we will do is we will wait until tomorrow until the transcript is out and then we will phone them and advise them they should read the transcript and see what has been said by Mr. Thompson and that we are assuming the volume issue will not require a witness panel, and see what their response is.

76

MR. THOMPSON: Mr. Chairman, I am prepared to undertake to see if the others want to resurrect the issue and report back to the Board.

77

THE PRESIDING MEMBER: Very generous of you, Mr. Thompson.

78

We will accept the amendment as stated for the ADR pending a report back that there is concurrence among those parties who are not represented today who were part of the ADR process.

79

Are there any other matters to be attended to before we start in again?

80

There being no response, Mr. Rosenberg, I think you were in full flight when we stopped yesterday afternoon.

Was page 439

81

MR. ROSENBERG: Yes, we were going north and south.

82

THE PRESIDING MEMBER: Please proceed.

83

GEORGE PERRY STOVER,

84

ANN WILSON; Resumed.

85

CROSS-EXAMINATION BY MR. ROSENBERG (Cont'd):

86

Q. Mr. Stover, if I can just turn your attention to the last two pages of the transcript at 429 and 430.

87

You will see at line 8, just before we broke I had asked you what evidence you were relying upon to establish that the actual numbers are in fact going north when it appeared to Board staff that the actual numbers were going south and you gave an explanation.

88

89

Do you recall that question and answer sequence?

90

MR. STOVER: A. Yes, I do.

91

Q. What I would like to do, Mr. Stover, is to find out from you which of the -- what evidence you were relying upon as conclusive evidence that in fact the budgeted number -- excuse me, the actual numbers for the 1992 year do not, in fact, reflect the actual trends in the marketplace?

92

You gave a series of points, but I am interested in the conclusive point. Can you help me with that?

Was page 440 93

A. Yes. As we mentioned yesterday, the budget of 1,200 conversions was reduced to 800 conversions in our filing for this year.

94

The reason for the reduced number of conversions focused on two factors. First, the recession. Companies and governments who are testing natural gas vehicles are satisfied with the performance, but because of internal budget constraints are not replacing fleet vehicles this year or are delaying replacing. They have told us that they intend to continue on with the program once they get the budget restraints removed and the recession turns around and the economy gets better. That's factor No. 1.

95

The second factor that is diminishing the need over a period of time was the gasoline price wars. When gasoline was reduced in the Greater Toronto area, as an example, from approximately 56 cents a litre to 46 cents a litre, the interest with commercial customers was not as keen as previously.

96

So for those two reasons we realize that we wouldn't meet those targets.

Was page 441 97

As we moved into the plan 2 area, we are now looking from 1994 which is more than a year from now, and beyond, and we are taking into consideration some very positive facts about NGV and we are trying to incorporate these facts into a continued plan and not to let the program dry up, but to continue it going.

98

These positive facts, the success of the home compressor, the VRA, which is proving to be extremely successful. It is an Ontario product made in Rexdale. It is getting world-wide attention. They have changed their models and are now looking at an updated model that is being sold world wide and we are seeing more jobs in Rexdale because of it.

99

We are also looking at the success of the transit programs in the City of Toronto. The 25 transit buses have now completed their pilot tests. As of this month they have had a total of a million miles and that's a significant test, a million miles. The results of those buses have exceeded our expectation as to performance and to cost which are very positive, which will lead to more use of gas in the future.

100

We also see the activities of the automakers, Ford, General Motors, and Chrysler. All have natural gas products that are available now, either on a test basis or on a commercial basis, depending on where you live. Unfortunately, they are not available in Ontario because of some problems with the cylinders and approval of the cylinders, but that will be straightened out.

101

So all these positives are coming forward. We see the market growing and that we had hoped was reflected in the plan No. 2.

103

Q. I would like to go back to your answers with respect to plan 1. As I understand it, you have identified two conclusive or highly-compelling reasons that will drive demand during the plan 1 period; is that correct? There are two reasons?

104

A. Yes.

105

Q. And the first is the pent-up demand caused by the recession?

106

A. Yes.

107

Q. And the second is the price of gasoline?

108

A. That's correct.

109

Q. Just first dealing with the pent-up demand, you have talked in general terms, Mr. Stover, about pent-up demand over taking the missed budget period. Do you have any numbers that you can provide us with for the type of demand you expect during this test year and then in the '94 test year?

A. The numbers that we have filed are forecast for this test year.

111

Q. So you are relying on the filed numbers?

112

A. That's correct.

113

Q. With respect to gasoline prices, have you any numbers that you can help us with with respect to what you feel are considered to be sustainable price absent a price war?

114

A. Our estimate is between 56 and 58 cents a litre. That's our estimate.

115

The difficulty, of course, is the marketplace and the competition that occurs from time to time with price wars, but on a stability basis we are looking at between 56 and 58 cents.

116

Q. In terms of the sensitivity to your projected breakeven point, do you require a 56 to 58 cent per litre price for gasoline in order to achieve your breakeven point in plan 1?

117
A. The answer to that is yes, but what we require, so I can make this clear, is approximately a 40 per cent differential between gasoline prices and natural gas price. That appears to be the level, economic level, that attracts commercial fleets to try natural gas.

118
Q. And what is your experience with respect to that differential over the last two years of plan 1? ^{Was page 444}

119
A. We have noticed when the differential was greater there was more interest in conversion and more conversions sold.

120
When the differential has been reduced, and again during the gasoline price wars, the interest and conversions dropped off and the sales dropped off during that time period.

121
Q. In the last two years of plan 1, what has been the actual experience with respect to the differential? More often than not has it been at or above the differential or below the differential?

122
A. Our experience has been on average about 40 per cent. In plan 2 --

123
Q. There is the average number and then of course there is the distribution of the average.

124
In terms of, say, on a monthly basis, more months are you at the average or above the average, or are you below the average?

125
A. Again, that varies. That varies.

126
Q. Can you help us with the range. What is the lowest it is has been and the highest it has been? ^{Was page 445}

127
A. The lowest about 46 cents, 45, 46 cents a litre and the highest was -- in the last two years would be at the height of the Gulf crisis and it was about 60 cents at that time.

128
Q. I am more interested in the differential. You say you need a 40 per cent differential?

129
A. The differential during the Gulf crisis was more than 50 per cent and the differential during the price wars was around 15 to 20 per cent, again, depending on where you are.

130
Something else that we have to consider is gasoline prices in Toronto are not necessarily the same as gasoline prices in Niagara or the gasoline prices in Ottawa.

131
For example, in Niagara we have noticed a decline in the conversions in Niagara because of cross-border shopping and cheaper gasoline prices in the U.S. It is easy for potential customers there to get a savings just by crossing the border.

Q. If I could summarize your evidence, the major driver affecting the demand for NGV is the differential between the price of gasoline and that of natural gas? 132

A. The economic driver, yes. Was page 446 133

Q. And the differential that you seek in order to meet your budgetary targets is a 40 per cent differential? 134

A. That's correct. 135

Q. I would like to move to plan 2 and, once again, turn your attention to Exhibit C1, Tab 7, page 15. Do you have that in front of you? 136

A. Yes, I do. 137

Q. There is a chart on that page that we discussed yesterday comparing plan 1 and plan 2? 138

A. Yes. 139

Q. I'd like to look at fuelling stations, number of public stations for a moment. 140

In plan 2 you expect to build 10 stations; correct? 141

A. That's correct. 142

Q. Just so I understand the relevance of plan 2 in this fiscal year, that is the test year, I take it from the prefiled evidence there are no capital expenditures planned under plan 2 for this test year? 143

A. The plan 2 stations, and subject to check, I believe there are two stations in the '93 capital budget that would pay for the preliminary work for plan 2 stations starting in '94. Again, because of time lags and getting stations and so on, there would be a small amount of money in the '93 budget that would affect the construction of new stations in '94, which, of course, is the plan 2. 144

Q. Can you confirm that for me? I would be interested in the exact amount of expenditures required under plan 2 in this test year. And if we can get an undertaking number for that? Was page 447 145

THE HEARINGS CLERK: J4.1. 146

MR. ROSENBERG: Q. And if you could also advise us where that would be identified in the evidence as part of J4.1. 147

MR. STOVER: A. Yes.

148

---UNDERTAKING NO. J4.1 Consumers Gas undertakes to determine the exact amount of expenditures required under plan 2 in this test year.

149

MR. ROSENBERG: Q. Now dealing with the 10 stations, you are planning to build ten stations under plan 2 while, at the same time, managing 30 or monitoring 30 stations under plan 1; correct?

150

A. That's correct.

151

Q. And is it appropriate to use the word "monitor" because in fact somebody else will be managing these stations?

152

A. The retail management is done by the oil company. The maintenance of those stations is done by Consumers Gas and were paid for that by the oil companies.

Was page 448 153

Q. What I would like to know is how in fact you will be monitoring the two plans as they exist at the same time. You'll have stations operating under plan 1 and stations operating under plan 2. How will you, for example, deal with the costs associated with plan 1 stations versus plan 2 stations?

154

A. The data that we collect and keep is site specific. We can identify the stations in plan 1 by address and we can identify the new stations as they are built in plan 2 by address. So we can keep track of the two stations on a site-specific basis, or the two plans, I'm sorry, on a site-specific basis.

155

Q. So you will be tracking cost and volumes on a site-specific basis?

156

A. That's correct.

157

Q. What about generic items, like advertising and promotion. How will you allocate costs in plan 1 versus plan 2 when, in fact, it affects your entire universe of NGV stations?

158

A. The bulk of promotional dollars will be steered towards the newer stations to build load at the newer stations and to attract the customers to use the station. There is a certain amount of maintenance dollars, maintenance in the meaning of some generic advertising, you are correct, for the existing stations. And we have worked out, in our plan, a percentage of the difference between the two plans. As plan 1 matures and phases out, the percentage of our marketing cost would be reduced proportionately and as plan 2 continues on, the cost would be increasing to look after the marketing around those stations.

159

Q. I would like to look at the effect that plan 2 will have on plan 1. Going to the chart on page 15, you have a line entitled "Break-even Year". Plan 1 was originally to break even in the year 1995; is that correct, Ms. Wilson?

Was page 449 160

MS. WILSON: A. That's correct. 161

Q. Can you help me with the definition "break even", what does that mean? What's going to happen in 1995? 162

A. In 1995 the stations under plan 1 will earn above the allowed 11.58 per cent return on rate base. 163

Q. And plan 2 you estimate the break-even year will be 1998; correct? 164

A. That's correct. Was page 450 165

Q. But if you combine plans 1 and 2 together, you will not break even under plan 1 until 1996; correct? 166

A. Yes, the combined break-even point is moved to just one year forward from what it would have been under plan 1 alone. 167

Q. So the effect of plan 2 layered on plan 1 is to delay the break-even year by one year? 168

A. That's correct. 169

Q. Now, Mr. Stover, what I would like to understand is, in terms of a risk analysis, isn't it more certain that you will break even in 1995 under plan 1 than would be the case of spending more money delaying the break-even point until 1996 by layering plan 2 on plan 1? 170

A. If we continue with plan 1 in the program as it stands, that is correct, we will break even by 1995. 171

Q. And you are adding an element of risk to the equation by spending more money and thereby delaying the break-even point to 1996? 172

A. We feel the risk is no greater than the risk we have now. 173

Q. I would like to understand that a little better. Based on your evidence today, you feel plan 1 is going along as planned, if not exceeding plan; correct? 174

A. Yes, directionally we are very pleased with plan 1. Was page 451 175

Q. And that is in spite of the fact that the actual numbers are not meeting the budgeted numbers; correct? 176

A. For this year, that's correct. 177

Q. And what you hope to do is to spend even more money and break even in 1996 under plan 2? 178

A. That's correct, and at the same time, expand the availability of natural gas to more customers in the province. 179

Q. What will be the effect be on the ratepayers of Consumers Gas by spending more money? My interest is how much is plan 2 going to cost so that we understand what risk is associated to the rate base by approving plan 2. 180

MS. WILSON: A. If I could help with that. 181

We are talking about the additional risk associated with plan 2. It's true that by adding plan 2, the break-even point moves out one year. But the effect of doing that is to take advantage some economies of scale and some resources that are already existing within the company to add 10 more stations. 182

The overall impact of that is to, I guess there's an overall 11-year net present value of plan 2 alone. And over that 11 years, there will actually be a reduction of about \$6-million to ratepayers as a result of plan 2. ^{Was page 452} 183

Q. If you could turn to C2, tab 5, page 66. That's C2, tab 5, page 66 of 77? 184

A. Yes, I have that. 185

Q. This is in fact, a breakdown of the financial impacts of plan 2; is that correct, Ms. Wilson? 186

A. That's right. 187

Q. And looking at this as a rate base item, I take it that if I look at line 1 I get the total rate base addition on a yearly basis; correct? It's cumulative? 188

A. That's right, it is the cumulative amount of rate base. 189

Q. And in column 5, on line 1, it says 1998 the cumulative rate base will be \$6,085,000? 190

A. That's right. 191

Q. And in 1994 it's \$503,000; is that correct. 192

A. That's correct.

Q. But there is no addition for the current test year, correct, that is 1993?

A. That's right.

Q. And maybe, Mr. Stover, in your answer to the interrogatory, J4.1, you can compare your answer to this particular chart so that we understand where the capital budget item in fact appears in the evidence.

Is that an acceptable addition to J4.1?

MR. STOVER: A. Yes, it is.

Q. So that I understand the magnitude of this 6.835 million, Ms. Wilson, it's approximately a doubling of the rate base inclusion of plan No. 1; is that correct?

I am comparing that to a chart that we referred to earlier, if you can find it. It's C3, tab 5, schedule 1.

MS. WILSON: A. Yes, the rate base in the test year 1993, which includes only plan 1 stations is \$7.8-million, and by 1998 we are saying that the additional rate base due to plan 2 is \$6.1-million.

Q. And so I understand how Consumers plans to manage plan 1 and plan 2, you are dealing with them as completely separate items; is that correct? You are going to manage the financial performance of plan 1 separately from the financial performance of plan 2?

MR. STOVER: A. That's correct.

Q. Mr. Stover, you seem rather optimistic about the success of plan 1 and maybe you can provide me with some evidence that supports that.

You have given me some statistical evidence, now I would be interested in the subjective evidence that you have on this point.

Your prefiled material discusses support from various parts of the industry including the oil companies, the automakers and so on. Could you summarize that briefly so we understand the kind of support that you are getting from the business community with respect to plan 1?

A. I will start with, and I will try to be brief, because there is so much happening in this area of alternative fuels and specifically natural gas vehicles.

The automakers, North American automakers have committed fairly large resources to developing natural gas vehicles, much of this work has happened during the past 18 months or less. I can use as an example Ford Motor, who are so excited with the results that they get with their natural gas vehicles, that they have discontinued, or for the time being anyway, their methanol program and have reallocated their engineering staff to Detroit to work on natural gas vehicles.

208

The dollars are significant dollars that they are investing, as well as their skills.

Was page 455 209

As of yesterday, Consumers Gas received one of the Ford Crown Victoria designed and built natural gas cars as did the Ontario Government, they also have, or will have once we get it from the dealership, a car totally dedicated to natural gas.

210

General Motors in Oshawa, very active in this whole area of natural gas vehicles.

211

The American General Motors, in co-operation with Gas Research Institute, have directed close to \$40-million worth of research to General Motors in Canada, and much of this, of course, is due to the work that we all have been doing in this area of natural gas vehicles and the location of these plants in Ontario.

212

In Chrysler's situation in Windsor, Chrysler is building a Dodge van. This Dodge van has been tested in California. The tail pipe emission results are incredibly clean. It's so good it's close to a zero emission vehicle. It's an area that at one time was thought reserved only for electric vehicles, but it appears as if the natural gas vehicles will be in that area.

213

These results are published and are being circulated to authorities in our country.

Was page 456 214

Although the Ford results are not published yet, we know from discussions with Ford that the results of their Crown Victoria and their pick-up and van trucks are very similar, these are extremely clean vehicles. So that is a tremendous commitment on behalf of the OEMs.

215

The oil companies are still looking at investing more monies in NGV in Ontario.

216

We have met on a few occasions with Shell, with PetroCan, with Sunoco. They are very close to the market, closer now than ever before in looking at market opportunities. Of interest from the United States is AMOCO and the United States is investing in --

217

Q. Could I just stop you there, because in order to understand your evidence, are you saying they are closer to the market in terms of building refuelling stations using their own capital?

218

A. They are closer to the market in understanding the potential that's there. There is some interest now in using their own capital.

219

Was page 457 220

Q. I am sorry.

221

A. Okay.

222

I was mentioning AMOCO in the U.S. which is of interest to Canadians, because they are starting to invest in developing natural gas refuelling as part of their network of gasoline stations.

223

AMOCO of course is a big holder of natural gas reserves and this is a great marketing opportunity for them to sell in the United States.

224

The other industries like Ontario Bus Industries in Mississauga are extremely active in the development of buses. The Orion model bus is the one that is being used in Mississauga, Toronto, and Hamilton. Currently they are developing a hybrid bus which uses a small natural gas engine, powering a generator which again will be an ultra-clean vehicle when it's completed.

225

So there is research activities. As I say, there are so many things happening and I hope that gives you a snapshot of some of the industries and some of the things happening.

226

Q. That's very helpful.

227

So I take it that your evidence is that even without plan No. 2, the plan No. 1 will break even in 1995 because of the increased activity in the market?

Was page 458 228

A. That's correct.

229

MR. ROSENBERG: Thank you, Mr. Stover, those are all our questions.

230

THE PRESIDING MEMBER: Thank you, Mr. Rosenberg.

231

Mr. Thompson, are you going to try again?

232

MR. THOMPSON: No questions. Thank you. (Laughter)

233

THE PRESIDING MEMBER: Mr. Janigan?

234

MR. JANIGAN: No questions, Mr. Chairman.

235

THE PRESIDING MEMBER: Mr. Muldoon?

MR. MULDOON: Yes, we just have a few questions.

236

237

CROSS-EXAMINATION BY MR. MULDOON:

238

Q. Mr. Stover, do natural gas vehicles emit methane?

239

MR. STOVER: Yes, they do.

240

Q. Is it your understanding that methane is a greenhouse gas?

241

A. Yes, it is.

242

Q. Could you turn to Pollution Probe's Interrogatory No. 30, please.

243

A. Yes, I have it.

Was page 459 244

Q. Thank you. This interrogatory asks you to estimate the net change in air pollutant emissions as a result of the conversion of vehicles to natural gas. In the interrogatory it gives some examples of the type of air pollutants, we asked for these kind of estimates.

245

In particular it asked for the net change in methane emissions, and in looking through the response, we notice in methane emissions -- no data for methane emissions were given.

246

Do you have any explanation why you didn't estimate methane emissions?

247

A. The information in the answer given to your Interrogatory No. 30 is published information from various testing authorities, and this information is as how they have presented their information, as well as it's information that's consistent with the rules and regulations of measuring tail pipe emissions.

248

Q. Do you have any information about the net change in methane emissions as a result of conversion of vehicles to natural gas?

249

A. The information that's in this Interrogatory 30 addresses that in the different chemicals that are shown.

250

And as an example, total hydrocarbon includes methane, and you will notice that some of the measurements they have separated out into non-methane hydrocarbons.

Was page 460 251

252
The reason the non-methane hydrocarbon standard is being accepted by the EPA in the United States, and will eventually get into our country, is because of the differences of methane in its reaction on the ozone level. In the ozone aspect, methane is considered to be inert as compared to the greenhouse, which it is a greenhouse gas.

253
So if you look at the difference, if the total hydrocarbon includes the methane, and if you subtract the non-methane hydrocarbon, that's the difference.

254
If you look at the gasoline standard that's shown in the answer, the gasoline standard, total hydrocarbons, is almost all methane from gasoline.

255
Q. So if I was to use the total hydrocarbon number and subtract a non-methane hydrocarbon, I would have my response?

256
A. That's correct.

257
Q. That is fine. Thank you, Mr. Stover, that's very helpful.

258
Could you now turn to Pollution Probe's Interrogatory No. 31.

Was page 461

259
A. Yes, I have it.

260
Q. Now, this interrogatory response provides an analysis of the cost-effectiveness of your NGV program according to three types of tests: the Participant Test, the Ratepayer Impact Test, and the Total Resource Cost Test.

261
Now, I am just trying to get a handle on these tests and I am wondering if you could help me and just provide a very brief description of those tests and what the results were -- a brief description is satisfactory for my purposes.

262
MS. WILSON: A. I can help out with that.

263
The Participant Test looks at the participants within the program, the NGV program, and looks at their benefits and costs, and the result was a positive net present value of \$5.5-million and a benefit/cost ratio of 1.4, which indicates that the benefits are greater than the costs.

264
The RIM Test is the rate impact test, takes the perspective of the utility and the impact of the program on the ratepayer of the utility. So it takes the benefits and the costs of the program from the ratepayer point of view. And again it is a positive net present value, in this case of \$1.3-million and a benefit/cost ratio of greater than one, which means that the benefits are greater than the costs, the result is a 1.24 benefit-to-cost ratio.

Was page 462 265

The Total Resource Cost Test looks at, I guess, the the broadest perspective of these three tests.

266

It looks at the impacts to society. In this case, we haven't included all of the environmental externalities in our Societal Test, so the benefits really include the opportunity cost of the alternate fuel, which is gasoline.

267

The result of this test is a positive net present value of \$4.16-million and, again, a benefit/cost ratio greater than 1.0, which indicates that the benefits are greater than the costs.

268

Q. So from Interrogatory No. 31, the NGV program seems to be a benefit obviously to the participants because it is a positive value, it is a benefit to the ratepayers since it is a positive value, and is a benefit to society because it is a positive value. Is that a good summary of the evidence?

269

A. That's a very good summary.

270

Q. When was this analysis performed? Do you have any dates, Mr. Stover or Ms. Wilson?

Was page 463 271

Is this a recent test or is it five years old? I am just trying to get a sense of when it occurred.

272

MR. STOVER: A. The calculations were as a result of the Interrogatory No. 31 and we used the marketing model as the interrogatory requested.

273

Q. So it is recent?

274

A. It is recent.

275

Q. Is this the first time that Consumers undertook these types of tests for the NGV program, as you recall?

276

A. We have in-house looked at the impact under the IRP work that has been done or is in front of the Board now. Other than that preliminary work, this is the first time, yes.

277

Q. Thank you. Could you please now turn to Exhibit C3, tab 5, schedule 1. So that's Exhibit C3, tab 5, schedule 1.

278

A. Yes, we have that.

279

Q. Now, according to this schedule, the fiscal year 1993 rate of return on capital for the NGV program is .92 per cent; is that correct?

MS. WILSON: A. That's correct.

280

Q. Now, just to follow-up on a question which occurred yesterday, that means, according to Exhibit C3, tab 5, schedule 6, page 1 of 2, which we referred to yesterday, that the impact -- or there would be a greater revenue requirement because of that rate of return is \$1.467-million?

281

A. That's correct.

Was page 464 282

Q. So in effect, the rate of return on investment for the NGV program would push up rates approximately \$1.4 million?

283

A. That's the impact on the test year, yes. However, I guess there are benefits which flow in the longer term than is shown on Exhibit C3, tab 5, schedule 6, but the impact on the particular test year is a revenue shortfall of \$1.-approximately-5-million.

284

Q. Okay. Can I now turn your attention to Exhibit G4, tab 2, schedule 1.

285

MR. STOVER: A. Could you repeat the reference again, please?

286

Q. Sure. It is Exhibit G4, tab 2, schedule 1.

287

MS. WILSON: A. I have that.

288

Q. Now, what I am looking for is the rate of return for Rate No. 9 which is the NGV rate and, as I read it, which is column 5, the return on rate base is minus 19.05 per cent?

289

A. This is a schedule which I believe Mr. Maclure puts together which indicates, yes, that there is a return on rate base of negative 19.25 per cent.

Was page 465 290

Q. Now, I am just wondering if you could help me, Ms. Wilson, do you have any idea how much or what kind of impact that will have on pushing up rates?

291

A. I think Mr. Maclure would be better to answer that question.

292

But if I just might explain that the difference between the rate of return shown on Mr. Maclure's schedule and on my own schedule results from the fact that he is looking at allocated costs to the program, whereas my schedule is looking at marginal costs for the program, and that's where the differential lies.

293

294
He is only looking at the Rate 9, I guess, participants as well, whereas our schedule includes all of the impact of cylinder rentals, the impact of the fuel systems, NGV fuel systems where there is a margin from selling conversion kits to people converting their vehicles.

295
So there is a more encompassing program looked at in my schedules than is shown under the Rate 9 for Mr. Maclure.

296
Was page 466
Q. But the net effect is that there is a number of subsidies within the NGV program and we have noticed part of that in the Exhibit C3, tab 5, schedule 1 and there seems to be a larger one also built into the Exhibit G4, tab 2, schedule 1. Is that a fair comment? You are just trying to outline something.

297
A. I think Mr. Maclure's schedule looks at the subsidies between different rates and our schedule looks at the contribution of the program, the NGV program taken as a whole and all other ratepayers.

298
Q. Okay. Well, let's just stick with that point. Can we then keep in mind the schedule 1 of Exhibit G4 in tab 2 and then refer back to Pollution Probe's Interrogatory No. 31.

299
A. Yes.

300
Q. Now, I guess I am just trying to figure this out. On one hand, if one did look at Interrogatory 31 and look at the Ratepayer Impact Test it was a positive number giving it a very favourable impression, but when I do look at the other schedules, including schedule 1 of Exhibit G4, tab 2, one has a very different impression. In fact, there is a very large discrepancy.

301
Is it fair to say that the NGV program fails the Ratepayer Impact Test for fiscal '93 in light of that?

302
Was page 467
A. The reason that the Rate Impact Test shows a positive net present value on Exhibit I, tab 2, schedule 31 and that my schedule shows I guess a revenue shortfall from the program, is that the Rate Impact Test looks at customers added in the test year 1993 and the capital required to service those customers.

303
I believe there is the capital for three public refuelling stations as well as a number of home compressors, whereas schedule C1 includes all the cumulative capital and the customers from the program since its inception in 1983.

304
So if you look at the customers added in a particular year and their economics over a 15-year period, which is what the RIM Test includes, there is a positive rate impact. There is no subsidy if you look at a 15-year customer life in the RIM Test, whereas there is I guess a cumulative effect when you look at schedule C1 of capital added since 1983, which will serve customers added in the future as well as those customers existing in the test year.

305
So it is because you can isolate customers and costs in the RIM Test there is I guess a better matching of costs and benefits than on schedule C1, which looks at the snapshot impact in a particular year.

Was page 468 306
Q. So that snapshot impact is for test year 1993?

307
A. Yes.

308
Q. So the response you gave in Interrogatory No. 31, that's for fiscal '93?

309
A. Yes, we have just included customers added to the program in 1993 and the capital associated with those customers and looked at the benefits flowing and the costs over a 15-year period.

310
Q. So our interrogatory shows a positive over a 15-year period, but for a one-year period what would it be? Just for physical '93.

311
A. What do you mean for a one-year period?

312
Q. Just fiscal '93. What would be the RIM Test for fiscal '93?

313
A. I don't think it is fair to do a RIM Test for a particular year because all of the capital costs are incurred up-front.

314
You have to pay the costs of the refuelling stations and so on that are put in place in order for the customer to be serviced over a long period of time.

Was page 469 315
Q. Well, if you did do it, would it be a negative number or a positive number?

316
A. I don't think it is fair to do a calculation of a RIM Test for a particular year.

317
Q. Let's pretend it is fair just for a minute, would it be a negative or positive number?

318
A. I believe it would be a negative number because you are taking all of the costs which are up-front and you are not matching them against the benefits for which they are being incurred, which occur over a long, 15-year, at least, period of time.

319
Q. Would you know sort of the magnitude of that negative number or do you have to do some calculations on that?

320
A. I would have to do some calculations.

Q. Would you be willing to do that? Is that a major exercise or is it something that can be done fairly easily? I just need to know the magnitude of that number.

321

THE PRESIDING MEMBER: Mr. Muldoon --

322

MS. WILSON: No, I could do that easily.

323

THE PRESIDING MEMBER: Excuse me. I think the witness has already said it is a rather academic exercise.

324

It is really worth asking these people to go and do some crash work on it?

325

MR. MULDOON: Well, for us it is relevant because we are trying to look at the impacts of those numbers on rates. So, again, we are not asking for a detailed analysis, but just an estimate, in effect, would be very sufficient for us.

Was page 470 326

THE PRESIDING MEMBER: Don't you already have that in the G4 exhibit?

327

MR. MULDOON: I think that the G4, according to my understanding, includes much more than just this. It includes cost allocation and other factors which influence the Rate 9 rate itself. I am trying to isolate this one item.

328

THE PRESIDING MEMBER: Ms. Wilson, how much work would be involved in scoping this?

329

MS. WILSON: I can provide that number.

330

I want to be clear as to what we included in the RIM Test is the capital for, I believe, three stations plus some additional capital for home compressors, which we recover the costs of over the life of the equipment through a rental rate which we charge the customer.

331

In both cases, at the public refuelling station, it is collected through a throughput charge and the home compressors, it is a monthly rate we collect from the customer.

332

So, is it that capital that you are interested in?

Was page 471 333

MR. MULDOON: Yes. That would be fine.

334

MS. WILSON: Okay. I could provide the capital cost included in the RIM Test shown on Exhibit I, tab 2, schedule 31.

335

THE PRESIDING MEMBER: Could I have a number for that?

336

THE HEARINGS CLERK: J1.42.

337

---UNDERTAKING NO. J1.42 Consumers Gas undertakes to provide the capital cost included in the RIM Test shown on Exhibit I, tab 2, schedule 31. MULDOON: Q. Thank you very much, Ms. Wilson. May I now refer you to Exhibit D2, tab 4, page 33? That was D2, tab 4, page 33. A. I'm sorry, what page number? Q. Thirty-three. A. Okay. Q. Table 3 measures the cost effectiveness of Consumers' natural gas promotion programs for residential, apartment, commercial, industrial, and cogeneration markets according to the Participant, the Rate Impact, and Total Reserves Cost Tests; is that correct? A. I'm sorry, could you repeat the question? Q. Simply that chart, what it tells us, is the cost effectiveness for a number of Consumers Gas programs according to the three tests we have talked about earlier: the Participant Test, the RIM Test, and TRC Test. A. Yes, that's true. Q. The benefit/cost ratio for the residential is 4.09 -- oh, I'm sorry, for the Total Resource Cost Test, is 4.09? A. Yes. Q. And for the Commercial Test it's 2.48; for industrial 2.90? A. Yes. Q. Now when we look at one of the exhibits we've already referred to today, which is our Interrogatory No. 31, for the NVG program, the Total Resource Cost Test, demonstrates that the benefit/cost ratio is 1.85. A. Yes. Q. So that benefit/cost ratio under the TRC test, on the NVG program then, is lower than the Industrial Benefit/Cost Test according to this chart; is it not? A. Yes, the benefit/cost ratio is lower, but I think the only important point there is that it's greater than 1.0, which indicates the benefits are greater than the costs and therefore it is beneficial to undertake the program. Q. Just on that point then, the point I'm trying to make: it's lower than the industrial program, the benefit/cost ratio is lower than the industrial program; is it not? A. Yes. Q. And it's lower than the commercial program; is it not? A. Yes, it is. Q. And it is also lower than the residential program? A. Yes, it is. Q. Now, given that above, has Consumers considered reducing its expenditures on the NVG promotion and increasing its expenditures on residential, commercial, and industrial natural gas programs? In light of the fact that it's lower than those three, have you thought of prioritizing, rethinking the cost effectiveness of these programs in light of those numbers? A. I really think that you can't base a decision on that, like that on the benefit/cost ratio, you have to look at the net present value figures as well and really, I guess, that question is better answered by the Marketing and Sales Cost panel, who would look at the promotional dollars associated with all of the programs.

338

MR. STOVER: A. And the answer to that question is no, that there has not been discussions to reduce the expenditures on NGV and divert to residential sector.

Was page 474 339

The other point that I would like to mention was that this test, the externalities do not include the emission benefits. And that's the big gain for NGV and that's not shown. Remembering the interrogatory was to use the same model as the Consumers Gas DSM analysis for the apartment sector and that was the model that was used.

340

So the IRP work that is being done, includes the externalities of the environment which puts a different light on this, again, as it relates to natural gas vehicles.

341

Q. So just to understand your response, Mr. Stover, you are suggesting that if the TRC test was sort of broadened to include the environmental externalities, the benefit/cost ratio would rise and therefore it may take a different type of priority or ranking on this chart? 342

A. That's correct. Was page 475 343

Q. Thank you, that's useful. 344

Is that analysis being submitted to the IRP panel or do you have it readily available now? 345

THE PRESIDING MEMBER: Mr. Muldoon, until we get through, the very dicey issue is just how to value externalities in a proper fashion. I don't know that it is going to be a bunch of help to us in this hearing. 346

MR. MULDOON: I'm just wondering, sir, if it was available, it would be interesting to look at, but I won't pursue that point. 347

THE PRESIDING MEMBER: If it is available, I don't know that it makes any sense until you have gone through that exercise. 348

MR. MULDOON: Thank you. That's fine. Just one more question. 349

To the best of your knowledge, has Consumers Gas ever compared the NGV program's benefit/cost ratios of the total resource cost with benefit/cost ratios of the total resource cost of any potential energy efficiency programs? In other words, in terms of this chart, have you known any analysis that looked at potential energy, the total resource/ cost, benefit/cost ratios of energy efficiency programs? 350

MR. STOVER: A. The answer to that is, I don't know. I have not looked at it. Was page 476 351

Q. Do you know -- Ms. Wilson, have you ever seen or understand if there are any analyses like that? 352

A. I guess my answer is the same as Mr. Stover's. But if I could add, I would think that that is something that might be investigated under the IRP process. 353

Q. To the best of your knowledge, there is no analysis, you are not aware of any analysis at this point? 354

A. No. 355

Q. Thank you very much. 356

MR. MULDOON: Those are my questions, sir.

357

THE PRESIDING MEMBER: Thank you, Mr. Muldoon.

358

The board has some questions.

359

Miss Cottle?

360

Was page 477 361

EXAMINATION BY MS. COTTLE:

362

Q. First of all, I have some confusion in my mind on two items. The first one is the number of public stations. And I think that your evidence was yesterday, that there are 25 completed public stations and two will be operating by October for a total of 27?

363

MR. STOVER: A. I can understand why there was some confusion. Currently there are 24 public stations operating. There are two under construction and two more are planned for construction late in September. So we are looking at a total of 28.

364

Q. And plan 2, I think you've indicated, you have two planned for construction in fiscal '93?

365

A. The plan 2, '93, would be very late in the year of '93. And it probably would still be under construction at the end of the fiscal year and not producing revenue until the 1994.

366

Q. The plan 1 will not have been completed before plan 2 commences?

367

A. Yes, there's an overlap of the two plans for approximately a year.

368

Q. In response to a question put to you yesterday by Mr. Rosenberg, you indicated that plan 2 began in 1994. It actually does begin in 1993 then?

369

A. Yes, as we mentioned this morning, subject to check, there would be some money in capital that's necessary in '93 so we could get plans going and so on for the construction at the end of the '93 year, yes.

370

Q. I'm just looking at your Exhibit C1, tab 7, page 8, and you indicated that the results of the TTC test were quite positive?

Was page 478 371

A. Yes, they are.

372

Q. And then you talk about the Mississauga Transit Commission Test and on page 9 you indicate that they are scheduled to take delivery of its first 10 NGV buses in June of '92. Have they, in fact, taken delivery of these buses?

373

A. Yes, the last bus was delivered in July.

374

Q. And I see that there is very little commitment from GO Transit with respect to NGV buses. Do you have any indication why they are not interested in looking at this type of transportation?

375

A. GO Transit is looking at it. They have two prototype buses on routes north of Toronto, Richmond Hill, Newmarket, and into Toronto. They have a different type of transit service than municipal transit. They are longer-distance vehicles. It may require a different redesign of the bus to look after the long distance bus application. That is being looked at by GO Transit.

376

Q. On page 10 of your exhibit, you discuss the commitment of the OEMs to NGVs and you indicate that there appears to be a problem with respect to the codes that Ontario imposes versus the codes that are applicable in the U.S. And a lot of this activity seems to be American activity as opposed to experience that we can use in Ontario. What is being done to convert these American NGV vehicles to something that's acceptable in Ontario?

Was page 479 377

A. I should explain the problem, first of all.

378

The first problem is a jurisdictional problem between the federal government, and Transport Canada, who have normally regulation over new vehicles; however, they have no legislation on their books regarding natural gas vehicles, but it's pending.

379

Because of the lack of federal legislation, the province of Ontario has chosen, through the Pressure Vessel Safety's Branch, to apply the Ontario rules for converted vehicles to new OEM vehicles. The Ontario regulations are ASME, American Society of Mechanical Engineers, as specifications for pressure vessels. The U.S. is the DoT, or the Department of Transport regulations. The differences, to a layman, are minor, but to specialists in these areas, it is subject to great debates and lengthy reviews and lengthy testing.

380

The American market is based on DoT standards and the automakers are building the mass production vehicles for the American market, not the Canadian market, and they are building to DoT standards. The two examples of this day, first the GMC natural gas pick-up truck, which has been available in the U.S. for the past several months for sale, cannot be sold in Ontario. Customers would like to buy it, but it can't be sold here.

Was page 480 381

The second is the Dodge B Van that is made in Windsor, Ontario. They can't drive it across to the U.S., they have to shuttle the vehicle across to the U.S. to then sell it there, which really is a situation that needs address and resolve.

382

Q. And the resolution is through federal regulation as opposed to provincial change?

383

A. Yes.

384

MS. COTTLE: Thank you very much.

385

THE PRESIDING MEMBER: Ms. Allan?

386

387

EXAMINATION BY MS. ALLAN:

388

Q. Mr. Stover, can I ask you to turn up the response to Board Staff Interrogatory 105, page 2 of the that response, part C?

389

MR. STOVER: A. Yes, I have it.

Was page 481 390

Q. I think that this response indicates that the proposal to de-seasonalized Rate 9 was an initiative of the marketing department; is that correct?

391

A. That's correct.

392

Q. And why are you bringing it forward at this time other than the experience? You are well into the NGV program, why is this something that is coming forward at this time?

393

A. The experience we had in Ottawa we feel will be repeated.

394

Interestingly enough, the lower volumes of NGV did not attract the attention of the accountants in the oil companies and they didn't realize that there is a difference in seasonal natural gas rates; they were simply paying their invoices.

395

But as the volumes have increased, as the success of the program has an increased, and we have been increasing our sales 40 to 50 per cent year-over-year the past couple of years, it's becoming a significant monthly payment and they are looking closer at their invoices.

396

The first was to notice this was DomPro in Ottawa that there was a differential between the rates, and of course that affects their margin of profit. So they immediately increased the price at the pump and the reaction was quick with the customers. One of the features of natural gas is the stability of natural gas for vehicles, price stability. Then if there is a swing in the market quickly, that's noticed by people.

Was page 482 397

We had complaints from customers, approximately ten complaints from customers, about the price increase. We also noticed a decrease in natural gas sales at that station as a reaction from the customers, they just didn't buy, but more damaging, we also had one taxi driver who was taking a petition around to get other taxis drivers not to convert to natural gas, and that has hurt us in the Ottawa area for taxi conversions.

398

So there is one example of which we quickly addressed, but even with that one example, it has harmed us in that market.

399

We see the potential of this continuing in other markets, especially this upcoming year. So we would like to avoid it by having a single rate for the season. Again, from a marketing perspective we feel that's necessary with the stability. We also see from the usage that a vehicle uses the same amount of gas in the summer as it does in the winter, so it's a constant load all the time; it's a moving appliance.

400

MS. ALLAN: Thank you. Those are my questions.

Was page 483 401

THE PRESIDING MEMBER: Thank you, Ms. Allan.

402

403

EXAMINATION BY THE PRESIDING MEMBER:

404

Q. If I may -- going back to refer to Pollution Probe's Interrogatory 31 and the three different cost/benefit tests that you used. How did you treat the invested cost in NGV to date? Were they ignored in those analyses?

405

MS. WILSON: A. Yes, I believe that only the incremental capital associated with adding the customer's forecast in the test year was included.

406

Q. Would it be appropriate to view the invested cost to date as being somewhat akin to a developmental cost to bring the program and the market to the point where it is now and therefore a cost which should be reflected in these kinds of analyses?

407

A. I think that's the way we treat it in our other exhibit when we look at overall rate impact.

408

But I guess the way we read this interrogatory, it was to apply the same methodology as was used for the company's other promotional programs, and so to be consistent, that's why we treated it this way.

409

Q. Okay. Mr. Stover, are you aware of any actions by Chrysler that have caused them to either now produce or plan to shortly produce a dedicated propane vehicle?

Was page 484 410

MR. STOVER: A. I am aware through the Propane Association news release, yes, but that's my only knowledge. 411

Q. If that were true, would it give you cause for concern? Would you consider that a significant development in the marketplace? 412

A. It would be a significant development for the propane people. However, in competition against propane, we strongly believe natural gas will win the day. Natural gas is more stable fuel, it's easier to handle, it has some operating characteristics that propane does not have, and we feel in time and in the marketplace that natural gas will win the day. 413

Q. I don't doubt that you passionately believe that natural gas is the best vehicle fuel on earth. I am just wondering, you have painted a very rosy or encouraging picture for us and a litany of market changes in favour of natural gas. I am just wondering if this indicates that competition is by in no means dead and you still don't have the market from here on out? 414

A. No, the competition is still quite strong and propane is a strong competitor. Was page 485 415

The electric vehicle that's been talked about and a lot of research and dollars committed will be a strong competitor in certain situations. 416

Methanol is losing its luster. You see people moving away from methanol research. 417

THE PRESIDING MEMBER: Thank you. Those are all our questions, 418

Mr. Atkinson, anything in the way of redirect? 419

MR. ATKINSON: No, sir. Thank you. 420

MR. ROSENBERG: I was going to say, Mr. Chairman, arising from Board questions, Board staff have just one question. FURTHER CROSS-EXAMINATION BY MR. ROSENBERG: 421

Q. Mr. Stover, you were talking about the number of stations to be built and under plan -- let me break this into a few questions, I think the point will come across. 422

Under plan 1 you intend to build 30 stations; correct? 423

MR. STOVER: A. That's correct. Was page 486 424

Q. By the end of the test year you will have had 28 built? 425

A. That's correct.

426

Q. And during the test year or after the test year you still plan to build two more stations under plan 1?

427

MS. WILSON: A. Maybe I could help.

428

There is 24 completed to date. There are four more to be constructed by the end of September. So it's 28 by the end of fiscal '92.

429

There are two more in plan 1 to be built in fiscal '93. So that takes us up to 30 by the end of the test year. And then there are an additional two that fall under our plan 2 that will be started construction at the end of '93, but to be really commissioned in fiscal '94.

430

MR. ROSENBERG: Thank you.

431

THE PRESIDING MEMBER: That was helpful, Mr. Rosenberg. Thank you.

432

With that then Mr. Atkinson, does it give you any cause for redirect?

433

MR. ATKINSON: No, it does not. Thank you.

434

THE PRESIDING MEMBER: Thank you. With that then. This panel is excused with our thanks.

Was page 487 435

We will rise now for our morning break and resume at ten minutes before the hour.

436

---Panel withdraws.

437

---Recess at 10:30 a.m.

438

---On resuming at 10:50 a.m.

439

THE PRESIDING MEMBER: Please be seated.

440

Before we start, to whom should I be addressing myself, Mr. Howe or Mr. Atkinson right now? This is probably still a question for Mr. Howe.

441

I notice we have filed the direct evidence of Mr. Kirby as L14.1. Has it been anticipated that they would be testifying sometime during the week of September 2nd as well?

442

MR. HOWE: That's right, sir. I haven't had an opportunity of speaking to his counsel yet, but our expectations are that he will be giving evidence during that week. So we will deal with all of the brokers and the gas supply issues in that period of time.

443

THE PRESIDING MEMBER: As I understand it, there is Mr. Kirby and then there are the panels that Mr. Budd and Mr. Alati will be calling and that is the extent of the brokers' evidence that will be brought forward; is that right?

444

MR. HOWE: That's right, sir.

Was page 488 445

I understand as well from my conversation with Mr. Thompson that his partner Mr. Pratte represents a broker and he will be actively involved in gas supply issues, but I don't believe Mr. Pratte has filed any prefiled evidence on behalf of his client.

446

THE PRESIDING MEMBER: Nor has the Ottawa-Carleton Consortium under Mr. Brett.

447

MR. HOWE: That's right, sir.

448

THE PRESIDING MEMBER: So that week seems to be in need of a little bit of stretching as we go along here.

449

Thank you for that.

450

Mr. Thompson, I notice your panel is all in place. Have they all been sworn? (Laughter)

451

I am sorry, Mr. Atkinson.

452

MR. ATKINSON: Go ahead, Peter, it's all yours.

453

MR. THOMPSON: I can't resist. I won't touch it.

454

MR. ATKINSON: Mr. Hills and Mr. Clark need to be sworn, sir.

455

THE PRESIDING MEMBER: Would you they come forward, please.

456

GLEN JAMES HILLS,

Was page 489 457

CHRISTIE STEPHEN CLARK; Sworn.

458

JAMES CHARLES GRANT;

459

ALLEN JAMES MACLURE; Recalled.

460

461

DIRECT EXAMINATION BY MR. ATKINSON:

462

Q. Mr. Hills, if I could start with you. I understand that you are responsible for Exhibit D1, tab 9 and Exhibit D2, tab 1. Are there any amendments or corrections to be made to either of those exhibits?

463

MR. HILLS: A. Yes, there are. To Exhibit D2, tab 1, page 20.

464

Q. That's your productivity update?

465

A. Yes, sir.

466

Q. Page 20?

467

A. Yes.

468

Q. Go ahead, please.

469

A. In the third caption on the page that says, "increase labour costs due to pay equity"--

470

Q. Yes.

471

A. --.4 should be .5, and the total at the bottom of that table where it says 1.8, that should read 1.9.

472

Q. Yes?

473

A. The other correction is on page 63.

474

Q. Yes, sir?

475

A. The very bottom of the page where there is a reference to page 60, that reference should be to page 65. 476

Q. Anything else? Was page 490 477

A. No. 478

Q. Is that evidence true to the best of your knowledge, information and belief? 479

A. Yes, it is. 480

Q. Thank you. 481

Mr. Grant, in addition to the evidence that you have already attested to, I understand you are responsible for Exhibit A, tab 17, schedule 1? 482

MR. GRANT: A. That's correct. 483

Q. And are there any amendments or changes to be made to that evidence? 484

A. No, sir. 485

Can I get that reference again? 486

Q. Exhibit A, tab 17, schedule 1. It is just your CV, as I understand it, which you didn't refer to it on Monday, or so I'm told. 487

Why don't I come back to you when you have looked that up. 488

A. I am sorry, Mr. Atkinson. Yes, that is correct. 489

Q. Thank you. 490

Mr. Clark, your CV is at Exhibit A, tab 19, schedule 2, page 7. 491

MR. CLARK: A. Yes, that's correct. Was page 491 492

Q. I understand you are responsible for a number of exhibits. They are: Exhibit B1, tab 5, 5A; Exhibit B2, tab 1; Exhibit B7, tab 1; Exhibit B7, tab 6; Exhibit G; Exhibit P1, tab 5; Exhibit P3, tab 5? 493

A. That is correct. Except in Exhibit G1, tab 2, you will find the prefiled evidence of Herbert J. Vander Veen. I am not responsible for that. 494

Q. Thank you. Are there any amendments or corrections to be made to the evidence that you are responsible for? 495

A. No, sir. 496

Q. Is it true to the best of your knowledge, information and belief? 497

A. Yes, sir, it is. 498

Q. Mr. Maclure, you have already been sworn and attested to your evidence? 499

MR. MACLURE: A. Yes, that's correct. 500

MR. ATKINSON: Thank you very much. Those are my questions. 501

THE PRESIDING MEMBER: Thank you, Mr. Atkinson. 502

Mr. Rosenberg? 503

MR. ROSENBERG: Thank you. 504

Mr. Chairman and Panel members, this part of the cross-examination is called "cost of service general", and I want to spend sometime, I hope it won't take too long, looking the at some general trends. Was page 492 505

506

CROSS-EXAMINATION BY MR. ROSENBERG: 507

Q. If you could turn to Board staff Interrogatory No. 32. Mr. Maclure, maybe you can help me with this. Did you prepare this response to Interrogatory 32? 508

MR. MACLURE: A. Yes, it was prepared under my direction. 509

Q. And the question was asking Consumers to provide an analysis of rate changes between 1984 through 1992; correct? 510

A. Yes, that is correct. 511

Q. And we asked in the interrogatory to segregate the cost of gas from the total rate for each of the following customer groups: residential, large commercial and large industrial; correct? 512

A. Yes, that is correct. 513

Q. If you can turn to page 2 of 2. Page 2 of 2 is the chart that you in fact prepared? 514

A. Yes, that is correct. 515

Q. And what you did was you looked at the years 1989 through the test year 1993; correct? 516

A. Correct. Was page 493 517

Q. Now, prior to taking the stand with this witness panel, did you in fact discuss with forward staff a Board staff document summarizing Exhibit I, tab 1, schedule 32, page 2 of 2? 518

A. Yes, I did. 519

Q. And do you have that document in front of you? 520

A. Yes. 521

Q. It doesn't have a title so let's call it "Summary of Board Staff Interrogatory 32." I just want to make sure the panel has this document in front of it. It's a one-page document and I'll date it August 20th. 522

Have you had an opportunity to review this document, that is the Summary of Board staff Interrogatory 32? 523

A. Yes, I have had an opportunity to review it, although I haven't had the opportunity to check all the calculations. 524

Q. I understand from Board staff there is one correction that has to be made on it and that's in the first -- it's shown on the first box, for example, the fourth EBRO number, there has been a transcription, instead of being 456, it should be in fact be 465. 525

A. That is correct.

Q. Did you notice any other transcription errors, and if you didn't I would like to mark it as an exhibit.

A. Yes, I did.

THE PRESIDING MEMBER: Can we get the first one again, Mr. Rosenberg?

MR. ROSENBERG: Yes. On the left-hand column, Mr. Chairman, where the EBRO numbers are listed, the fourth list or the fourth line in each of the three boxes says EBRO 456, and that was in fact the transcription. It should be read 465T.

You will see that that same error was repeated in each of the boxes. So in each of the boxes there should be a correction and it should read 465T.

THE PRESIDING MEMBER: Is the same true of the next item below that, 456T?

MR. ROSENBERG: Yes, sir, under the Rate 100 box, and the same is also true under the Rate 110 box.

THE PRESIDING MEMBER: Both 465 become...

MR. ROSENBERG: 465T. There is a 465 and then a 456T.

THE PRESIDING MEMBER: Okay.

MR. ROSENBERG: The 456T should read 465T in each of the three boxes under Rate 1, Rate 100 and Rate 110.

THE PRESIDING MEMBER: Thank you.

Yes, Mr. Maclure?

MR. MACLURE: The other correction that I noticed that should be made is under the date column for each one of the boxes under EBRO 465, the date for that rate change was October 1991 rather than October 1990.

MR. ROSENBERG: Just bear with me, Mr. Chairman.

MR. MACLURE: Excuse me for a second. I think I have misspoken myself. That's correct, it is 1990.

I was getting confused with 464, thinking of that as being our 1990 test year which, of course, would have been October 1989. So it is October 1990. I apologize.

543

MR. ROSENBERG: Thank you, Mr. Maclure. I would like to have this marked as the next exhibit.

544

THE HEARINGS CLERK: K4.

545

THE PRESIDING MEMBER: K4. Thank you.

546

---EXHIBIT NO. K4 Tables containing the change of WACOG and COS rate between Rate 1, Rate 100 and Rate 110.

547

MR. ROSENBERG: Q. Now, Mr. Maclure, I would like to ask some questions about K4 and also have Board staff interrogatory No. 32, page 2 of 2 available in case we have to cross-reference the two exhibits.

Was page 496 548

Starting with the Rate 1 classification, just for the record, Rate 1, Mr. Maclure, deals with residential customers.

549

MR. MACLURE: A. Yes, it is residential customers with central heat.

550

Q. And looking at the various EBRO decisions, starting in 1988, the rate; that is cents per cubic metre for residential customers was 21.39; correct?

551

A. Yes, that would be for a typical residential customer.

552

Q. Moving down to EBRO 473, the rate was 21.25; correct?

553

A. Yes, that is correct.

554

Q. So the change between 1988 and 1991 was very limited; in fact, the rate appears to have decreased by about 1 per cent -- excuse me, half a per cent?

555

A. Yes. The unit, I guess to correct you slightly, the unit revenue has decreased by that much for that type of customer.

556

Q. Now, moving along to the column entitled WACOG, do you see that column in the middle of the Rate 1 chart?

Was page 497 557

A. Yes.

558

Q. And the WACOG in 1988 was 12.49 cents per cubic metre; correct? 559

A. Yes, that's the purchases and receipts WACOG for 1989. 560

Q. And that purchases and receipts WACOG decreased to 10.95 in EBRO 473; correct? 561

A. Yes, that's correct. 562

Q. And based on my calculations that's -- the 1991 figure was approximately 87.67 per cent of the original figure, not 88; correct? so about a 13 per cent reduction? 563

A. I will take that subject to check. I haven't done the calculation. 564

Q. I would like to go to Board staff Interrogatory 32 for a moment and just look at the bottom left-hand line. It says: WACOG purchases and receipts. 565

Can you just tell me what WACOG purchases and receipts includes? 566

A. The purchases and receipts WACOG is essentially the average cost of purchases and receipts as produced by the gas supply witnesses in their evidence. 567

It stopped short of being the WACOG that's charged to operations which includes any inventory adjustments and the inventory going into the next fiscal year. So it is actually just the purchases and receipts forecast for that fiscal period. Was page 498 568

Q. So does that include -- remember here we are -- in a big picture level, this is cost of service general, is the big picture that WACOG includes the cost of gas and the cost of transporting it to, let's say, the Parkway Belt station? 569

A. Yes. The WACOG in this illustration includes the cost of purchasing the gas and purchasing -- purchasing all supplies of gas and the cost of moving those supplies to our market wherever that may be, but excludes the cost of storage or the old gas costs from a prior period. 570

Q. What about the distribution costs? The way I understood the number was as if it took to the city gate and then the cost of service column in this exhibit was from, as it were, Parkway right to my burner tip as a household consumer? 571

A. Yes, that's close. I guess the difficulty that I have with answering directly that it is that is, it depends on where you draw the line between -- the purchases and receipts WACOG is one side of the equation. How we recover that in rates is the other side of the equation and in the case of rate recovery of gas costs there are certain elements of rate base and other associated costs that are 572

recovered in the cost of -- in the gas supply component of the rate rather than in the specific distribution component of the rate.

So to just say that anything above that is the cost of distribution is close to being correct, but may not be entirely accurate. Was page 499 573

Q. Okay. Let's look at the other side of the equation. The total, going back to EBRO 452-2, which is the first line on K4, the rate, cents per metre, was 21.39 and of that the WACOG was 12.49; correct? 574

A. The average cost of purchase and receipts for that year was 12.49, but what the company allocated in terms of gas costs to that class may not have been 12.49 and was not, in fact, 12.49. 575

So we are getting into a mixture of what the costs are and what gets allocated to the class. 576

Q. Okay. I would like to stay at the big picture level and maybe we can just concentrate then on schedule 32, page 2 of 2 and the column No. 1. 577

Let's start off with column No. 1. The Rate 1 total is 21.3852; correct? Was page 500 578

A. That's correct. 579

Q. And the figure of 12.49 that appears on K4 under Rate 1, EBRO 452 WACOG is the 12.4865 at the bottom of the column; correct? 580

A. Yes, that is correct. 581

Q. Now, what I would like to do, and remember in the big picture, Mr. Maclure, is try and relate that 12.49 number to the total of 21.3852 which appears in line 3, column 1 of schedule 32, page 2 of 2. Are you with me? 582

A. Yes. 583

Q. Doesn't, in fact, that 12.4865 represent a proxy for the gas costs for Rate 1 in EBRO 452? 584

A. I guess I am really getting into the same problem, that it is a proxy for the average cost of gas. If you assume that the average cost of gas is equally applicable to all and forgetting about how the gas costs are allocated differently to different classes, yes. But we do allocate different gas costs to different classes. 585

Q. What I would like to do, Mr. Maclure, is try and separate out the WACOG number from the cost of service number and let's just deal with K4 now, once again going back to that first line. 586

If you deduct 12.49 from 21.39 the remainder is 8.90 and what would that 8.90 represent, once again, in the big picture without allocating costs? What would that represent? Was page 501 587

A. That represents the difference between the average revenue for a typical Rate 1 customer and the purchase WACOG forecast for that period. 588

Q. How would the company utilize that 8.90? What service is provided for that expense? 589

A. Well, that would represent part of the overall cost of service which the company would use to pay the O&M expenses that we are forecasting, cover the depreciation expenses of planned return on rate base. 590

In this instance it would also include, I guess, the return on the rate base associated with gas supply. It would include storage costs and it would include the transportation costs, some of the transportation costs associated with moving the storage gas into our franchise area. 591

MS. ALLAN: Excuse me, Mr. Rosenberg. 592

Mr. Maclure, what would happen as a result of the change in the FS WACOG methodology? Was page 502 593

Would the peaking supplies, for example, show up in this differential prior to a certain date and not after? 594

MR. MACLURE: Well, what would happen, Ms. Allan, is that the net effect of the change would tend to be skewed because what we are backing out is an average WACOG from an average revenue and, as I was explaining, that's not the way we allocate costs. 595

So we are not backing out the allocated costs which would represent what the company believes is the true distribution costs associated with each one of those rate classes. 596

So that where we show a -- where we actually show the WACOG, the purchase and receipt WACOG being the same for each class, that would not be the company's position, that actually, in reality, that purchase WACOG is the same for each class because it includes transportation and we say -- and peaking costs and those costs are differentially allocated to different classes. 597

But we don't actually have a precise purchase and receipt WACOG that we then go and say this is what has been allocated to each one of those classes. 598

MS. ALLAN: But the second line in your table, the gas supply line, would come close? Was page 503 599

MR. MACLURE: Yes. The second line in my table, the gas supply line, would be the closest approximated to what we are saying the allocated cost of gas to that class is.

MS. ALLAN: Thank you. Sorry, Mr. Rosenberg.

THE PRESIDING MEMBER: While we are interrupting...

It then appears that on Exhibit K4 the heading Rate 1 WACOG is indeed erroneous. It is a listing of average WACOG rather than Rate 1 and so forth on down; is that right?

MR. MACLURE: Yes, I could agree with that, that really it is purchase WACOG that is applicable to all classes.

MR. ROSENBERG: Mr. Chairman, I understand the confusion. The intention with the Rate 1, then Rate 100, then Rate 110 was the title and not a prefix to the WACOG.

THE PRESIDING MEMBER: Indeed if you take the title as applying to all columns it comes out the same. It is still the Rate 100 WACOG.

MR. ROSENBERG: I am going to be getting into that, but I take your point and if we could just draw a line under Rate 1, Rate 100 and Rate 110 and apologize for the confusion.

Q. Now, what I would like to do, Mr. Maclure, is go the next step and rather than using the words 'big picture' maybe I will preface my comments by devoid of cost allocation what is the WACOG, generally, and then what is the WACOG for Rate 1 customers?

I believe that Board staff interrogatory 32 will help us there.

If you go back to column No. 1, the 12.4865 is the average WACOG for all gas purchases; correct?

MR. MACLURE: A. That is correct.

Q. But, in fact, under Rate 1 the WACOG used for Rate 1 customers is shown on line 2 of column 2; correct, and that's the 13.0189 number?

A. Yes. That is correct. That would be the company's estimate of the gas supply cost for that class.

Q. So, in fact, you are charging Rate 1 customers more than your average cost for gas supply; correct?

A. Yes, because within that you are recovering a return component on the rate base associated with gas and storage and that's differentially allocated to different classes.

615

MR. CLARK: A. Also, there is the working cash requirement for those purchases and receipts and the difference between purchase and receipts WACOG and the WACOG that is designed in our rates is the net storage fluctuation between the beginning and the ending of the year.

Was page 505 616

Q. Messrs. Maclure and Clark, that explanation would generally hold true for differences in all of the rate years, '88 through '91; correct?

617

MR. MACLURE: A. Yes, it would hold true for all of those years with the caveat that beginning in EBRO 465 we developed a revised cost allocation methodology and were able to persuade the Board that the previous methodology we had employed was unfair or was not appropriate and that a more appropriate allocation methodology would recognize the peaking characteristics of our markets and our customer types.

618

So that after 1991 we are dealing with a different costing methodology.

619

Q. Thank you. Now, looking at all of the WACOG numbers under the columns, if I compare the bottom line, that is WACOG purchases and receipts number, to Rate 1 gas supply you would agree with me that directionally that Rate 1 gas supply number is always a little higher than the WACOG number at the bottom of the table, correct?

620

A. Yes, that is correct. And in the case of a declining gas commodity cost I would expect that and also reflecting the fact that in the gas supply charge shown in schedule 32 of Exhibit I, tab 1, we are recovering an additional costs than just the pure gas purchases and receipts.

Was page 506 621

Q. I would like to just then compare the general trend of what's happened over the last few years between the WACOG numbers and under Rate 1, the gas supply numbers and delivery charge numbers.

622

Looking at the WACOG numbers, it is my calculation that if you look at -- let's use page 2 of 2 of the Board staff interrogatory, the WACOG number in 1989 under column 1 is 12.4865; correct?

623

I am looking at the bottom left-hand corner of schedule 32.

624

A. Yes.

625

Q. So that's 12.685 and the WACOG number under column 10, which is the 1992 test year, EBRO 473, the number is 10.95; correct?

626

A. That's correct.

627

Was page 507 628

Q. In fact, it is projected for EBRO 479 under '93 to be 10.8147; correct?

629

A. Yes, that is the number that was projected for the updated material as opposed to reflecting Part B of the agreement.

630

Q. And in fact, this is the number I gave you before, column 10 divided by column 1 WACOG number is about 87.67 per cent; correct?

631

A. I quickly calculated a 12.3 per cent reduction.

632

Q. Now, going to the top of the chart, Gas Supply, we compare the column 1 number of 13.0189, 11.61, we see a similar decrease; correct?

633

A. Yes, there's a similar decrease which I calculate to be about 10.7 per cent.

634

Q. And then when you look at delivery charges, we go from 8.3663 to 9.62; correct?

635

A. Yes, that's correct.

636

Q. I'm just working that out. And that's about a 15 per cent increase; correct?

637

A. Yes, that would appear to be about a 15 per cent increase.

638

Q. Now, in your evidence in 473-A, which was last week, Mr. Maclure, you discussed certain residential rates and in your testimony you said that a Rate 1 customer, using space heating and hot water heating, would see their bill increase from \$798 to \$806 per year, in the test year 479. Do you recall that evidence?

Was page 508 639

A. Yes, I do.

640

Q. And that was inclusive of the gas cost changes in the "P" binder?

641

A. Yes, I'd just like to check on that.

642

Q. Yes, please.

643

A. Yes, that is correct.

644
Q. Now, what I would like to understand is, how much the customers' bills are going to decrease on an annual basis because of the "P" binder. My understanding is that the average customer, that is based on your prefiled material, the average Rate 1 customer takes 3.7 10(3)m(3) gas per year; is that correct?

645
A. Yes, that's approximately correct. A typical customer, I would prefer you said.

646
Q. And the gas, the total gas cost decrease, as a result of the "P" binder, maybe you can help me with that. It is my understanding that if you use approximately, a Rate 1 customer would experience a \$52 decrease in their annual gas cost as a result of the calculations in the "P" binder? To get that number, I have multiplied out the average customer use by the WACOG resulting from EBRO 479.

647
A. Could I have that again? You multiplied the typical use by -- Was page 509

648
Q. Right, by the WACOG resulting from EBRO 479 versus the WACOG in 473.

649
A. And which WACOG in 479?

650
Q. 96.44 10(3)m(3). So Mr. Maclure, if it helps, the average decrease that we see in gas costs is approximately \$13. And we multiply that out by the average usage and you get approximately \$52.

651
Now, directionally, I don't need a precise number, but directionally that seems to be, to Board staff, where gas costs are heading in this test year.

652
A. Yes, directionally I could agree that would be, you know, without knowing the precise numbers, I would think that that is within the order of magnitude what we would be looking at.

653
Q. So what we have is that the average customer in Rate 1 is seeing their gas cost reduced by approximately \$52; correct?

654
A. Subject to check, I'll accept that.

655
Q. But their bill is increasing by \$8; correct?

656
A. Yes, that's correct. Was page 510

657
Q. So that's approximately a \$60 differential; correct?

658
A. Yes.

Q. And what Board staff would like to understand is why that differential exists. What do you attribute it to, Mr. Maclure?

659

A. The differential in terms of the \$60 increase?

660

Q. Yes.

661

A. Well, the rates are designed and the revenues are forecast based on the rate designed to recover the company's revenue requirement to the extent that the revenue requirement will require a rate level and require that level of cost recovery, if you will, from residential customers. That is simply the outcome of the revenue requirement from my perspective. I have given the revenue requirement and I designed rates to recover it.

662

MR. ROSENBERG: Thank you, Mr. Chairman. Those are our questions.

663

THE PRESIDING MEMBER: Thank you, Mr. Rosenberg.

664

Mr. Thompson?

665

MR. THOMPSON: Yes. Thank you. I hope this is the time to ask these questions, but it may not be, Mr. Maclure.

666

Was page 511 667

CROSS-EXAMINATION BY MR. THOMPSON:

668

Q. In the Board staff exhibit -- I'm sorry, the Interrogatory No. 32, Exhibit I, schedule 32, page 2, just looking at Rate 110, for example, trying to get a measure on the increase in the delivery charge that this exhibit appears to be disclosing, from current rates EBRO 473 to the 1993 EBRO 479 rates, and I'm looking at, under 1992, the current rate delivery charge -- oh, sorry, that is delivery revenues, 1.5951.

669

Do you see that?

670

A. Yes, that's correct.

671

Q. You are showing that that's increasing to 1.7472, an increase of .1521, which is something less than 10 per cent.

672

A. Yes, that would appear to be correct.

673

Q. Yet when I look at the elements in the rate exhibit, first of all, is that column, EBRO 479 in Board Interrogatory, 1993, is that Consumers only or is that the combined rates?

674

A. Firstly, I think maybe it would be best if I correct and indicate what that column is.

675

I believe at the time the exhibit and the interrogatory response was written, it was actually prior to the update, and it reflects the H4 rates, which is the combined case, prior to the updated evidence.

676

Q. All right. Well, if we could just then turn to H4, I guess this is updated. Again this is just order of magnitude that I am interested in. H4, tab 4, schedule 1, page 3 of 5. I guess I have got corrected 1992, 728. Is that the latest?

Was page 512 677

A. I hope so. That's the latest one I have.

678

Q. That's what you have. As long as we are working from the same documents.

679

Taking Rate 110, if you look in lines 6.3, 6.4, 6.5, we get the rate change that's proposed in the delivery charge in the winter, and then 6.11, 12, 13, I believe it is, for the summer, and those rate changes appear to be, I think, on average, 20 per cent more or less. Is that what those show?

680

It's the same rate change for each block but the block in each case has a declining starting point.

681

A. I calculated the one for line 6.3 and that worked out to 21.7 per cent.

682

Perhaps it might help in looking back at the interrogatory No. 32, to have an understanding what that number does represent. That is the average revenue for a typical customer, Rate 110 customer. So it's the average revenue and what the average increase would be, taking into account the demand charge revenue that would be recovered from that customer and the customer charge revenue. And of course in both, in Exhibit H4, tab 4, schedule 1, page 3, for Rate 110 customers, the increase in demand charge is zero. So that's what accounts for the difference between the average revenue increase and the individual component of the rate increase.

683

Q. Okay. I think what you are saying is that a 20 per cent increase in the delivery charge, but a zero increase in the demand charge will produce about a 10 per cent increase in the overall revenue.

Was page 513 684

A. Yes, that's basically what I am saying.

685

Q. Then my next difficulty is when I go to examples of Rate 110 T-service, again it's in this H4 exhibit. I am looking at H4, tab 7, schedule 3, page 5 of 6, and for the 110, page 4 of 6, we see a 110 customer, customer 7, 50 per cent load factor, 3.8 per cent increase, this is delivery charge I gather; customer 8, a 4.6 per cent increase; customer 9, a 5 per cent increase. I just have difficulty reconciling all of this, can you help me?

686

Was page 514 687

A. Yes.

688

Q. Gee, I'm surprised. (Laughter)

689

A. The reconciliations are really covered by the gas supply load balancing charge.

690

To the extent that the distribution revenue is increasing by 10 per cent, the typical customers, typical T-service customers also pay the gas supply load balancing charge which is decreasing. The gas charge load balancing charge is not shown separately in schedule 32, but is actually rolled into the gas supply charge.

691

I always have a problem when I prepare these exhibits of whether to classify the transportation of gas supply load balancing as a gas supply cost or a distribution cost. And you may remember from several hearings ago when the company wanted to roll it in and treat it as a distribution cost and we ended up separating it into the rate. But when we are dealing with comparisons to a WACOG that includes transportation, we have to include the gas supply load balancing charge with gas costs.

692

When I look at T-service customers and their costs from year to year, the gas supply load balancing charges included the distribution.

Was page 515 693

Q. Except if I look at Exhibit H4, tab 4, schedule 1 again, page 3 of 5, the gas supply load balancing charge in column 4 at line 6.6 --

694

MR. CLARK: A. Could you just wait a second, please, we are trying to find it.

695

Q. I am sorry. It's the same page I was referring to earlier. H4, tab 4, schedule 1, page 3 of 5.

696

You are showing an increase in the gas supply load balancing charge for Rate 110, summer and winter.

697

MR. MACLURE: A. Correct. Showing an increase compared to, unfortunately, the EBRO 473 upstream rates. So this is compared to the 473A rates because unfortunately that, when we updated our material, had to be the starting point for the exhibit.

698

If you want to get the true comparison of current rates, you have to look through the original page and you would see that.

699

Q. This increased number for gas supply load balancing from 473A to combined rates really would reflect, I guess, allocation of storage related costs. The gas supply reductions already haven't been allocated in developing the 473A rates. Is that even close to reality?

Was page 516 700

A. Yes. The 473 rates would reallocate the gas supply commodity, which theoretically T-service customers do not bear a tremendous part of, there are some changes in carrying costs that they would, and then they do participate in the reductions associated with unbilled and unaccounted for that flows through the distribution component of the rate.

701

What ends up happening is that some of those components, even though they may be small, the distribution margin in Rate 110 is so small that in percentage terms they can sometimes create large percentage changes.

702

Q. All right. That helps me with that data.

703

Now with respect to the Board staff exhibit, K4, which to me indicates that the proportion of the revenue stream that is going to support the distribution function as opposed to the purchase of gas function is increasing. Is that what exhibit indicates to you?

704

A. Yes, certainly, that would be a fair statement.

705

Q. And that conclusion, that same trend would be displayed whether you used this average WACOG for each class or the allocated WACOG for each class; correct? Sorry, the allocated costs of gas for each class?

Was page 517 706

A. Yes, a similar trend. If you worked it out on the basis of the total average for the system, the same sort of trend would be...

707

Q. And does that trend negate the assertions to some degree that productivity gains are being made?

708

A. I don't think so. I don't think one can equate the productivity gains with specifically an increase in it from year to year.

709

There are increases in the cost of doing business that the company has to recover in rates. Productivity gains are all being factored into those increases, and I certainly would think that if there were not the productivity gains, or some productivity gains being made, then we would have expected to have higher increases than the ones that have been shown.

710

MR. CLARK: A. Mr. Thompson, maybe I can add a little bit to this.

711

What you are seeing in the distribution side of the rate are the costs that I allocate in the cost study, and those costs are the total costs of service, including return on rate base.

712

If all things remained equal, we would still be reinforcing the system, expanding the system, installing new facilities, therefore requiring -- or having a higher rate base requiring a greater return.

Was page 518 713

Certain regulations such as regulations from the federal government with respect to measurement requires us to remove and sample meters, we are constantly replacing meters, ungrading facilities and so on. That gets into rate base and that drives costs to all customers.

714

I don't think you can look at what is shown on these schedules and make a statement about productivity whatsoever.

715

A really good example I think is Mr. Brewer's SIM plan. We are spending a considerable amount of money on SIM and we will see definite benefits out of SIM, but in order to get those benefits we have to spend money, and that will be reflected in the distribution charge.

716

Q. I appreciate that. But surely if it was costing you 50 per cent of your cost, 50 per cent of the revenue stream was needed to, in effect, support distribution activities, that's on a unit volume basis, five years ago, and it was now 80 per cent, somebody would be I think saying, hey, what is going on, wouldn't they?

Was page 519 717

MR. MACLURE: A. I think they would be saying the gas costs have gone down.

718

You are trying to equate our total revenue stream and say that it should have paralleled the reduction in the cost of gas it seems to me. And I don't think you can make that analogy.

719

If one of those costs has dramatically decreased, it doesn't follow that all the other costs of the company should have exhibited corresponding decreases, and that's the only way that you could have kept the gas cost percentage of total revenues equal.

720

Q. So to state that another way, what you would suggest we should look at is the percentage increase in the cost of providing delivery service on a unit basis regardless of gas cost.

721

A. I think what we have to look at, Mr. Thompson, is strictly the company's budget and the company's forecast and the reasonableness of the expenditures that the company is forecasting to make for 1993 fiscal year.

722

To the extent that that budget and those forecasts are reasonable, we have to recover those through rates. And to the extent that we have some costs that are slightly higher than other costs, they have to be recovered through rates.

Was page 520 723

So you have to look at the budget. I don't think you look at what it's doing in the rates to that same extent. I think customers are interested in that, but that's not the measurement. The measurement is the reasonableness of the budget.

724

Q. That's certainly one of the measures. But it seems to me that the Board is interested in some productivity measure related to statistics of this nature. And I thought it was the company that filed

some evidence here that it was relying on to support the conclusion that productivity gains were being made as a result of an analysis of revenues versus volumes in customers. I may be paraphrasing that poorly, but wasn't that the thrust of this productivity evidence?

MR. HILLS: A. That's the essence of my evidence where I go through the various components of the cost of service over the last decade and talk about the productivity initiatives that we have taken or are planning to take and how we intend to measure productivity.

Q. But what I hear Mr. Maclure saying is, really that's of little weight. We should just be looking at the budget.

A. I wouldn't say it gets little weight. It gets a lot of time and attention from Mr. Grant and I, among others, looking at every component of the cost of service.

MR. MACLURE: A. I don't think it's fair to characterize it as being given little weight in budget. But the weight that it is given in the budget is being reflected in the rates that are designed. So that all those productivity initiatives and productivity that we have been able to achieve is being reflected in the distribution rates that we charge.

Q. Okay. I appreciate this is a big picture phase of the process here. I take it that my concerns about the 64 staff adds would be addressed to another panel; am I right?

MR. GRANT: A. There will be subsequent panels where you can address those questions. We can address them now, if you wish. I will be on a few panels coming up.

MR. THOMPSON: I will give you a break today, make your day.

Thank you. Those are my questions at this time.

THE PRESIDING MEMBER: Thank you, Mr. Thompson.

Mr. Muldoon?

MR. MULDOON: We have no questions of this panel.

THE PRESIDING MEMBER: The Board has no questions this panel.

Mr. Thompson, any redirect?

I am sorry. (Laughter) It must have been something in the coffee. (Laughter)

MR. ATKINSON: No questions, thank you.

739

I was looking at Mr. Thompson's hairline to see if there was any resemblance, but unfortunately for me I didn't discern one. (Laughter)

740

MR. THOMSON: I will save some when I go to the barber and bring it to you next week. (Laughter)

741

THE PRESIDING MEMBER: Perhaps I should refer you to as "Peter" and let you fight it out.

742

Mr. Atkinson, do you have any redirect of this panel?

743

MR. ATKINSON: No, sir. Thank you.

744

THE PRESIDING MEMBER: With that then, thank you, gentlemen, you are excused.

745

---Panel withdraws.

746

MR. ROSENBERG: Mr. Chairman, at this point there will be a changing of the guard at the Board staff table. Ms. Lea will be taking over for the rest of the cost of service issues. Originally cost of service general was supposed to finish off a day and that's how I ended up with the topic, but Ms. Lea will be completing that subject. So as soon as she is here here, I will be excusing myself.

747

THE PRESIDING MEMBER: Very well, Mr. Rosenberg.

Was page 523 748

We are now, according to the schedule, beginning Wednesday morning.

749

MR. ATKINSON: Mr. Howe is carrying on on this side of the bench.

750

THE PRESIDING MEMBER: Hopefully I will be able to remember your name, Mr. Howe. (Laughter)

751

THE PRESIDING MEMBER: I believe Mr. Simpson has not been sworn.

752

MR. HOWE: That's right, Mr. Wolf. Perhaps he could approach the bench and be sworn.

753

LOUIS JAMES SIMPSON; Sworn.

754

JAMES CHARLES GRANT; Recalled.

755

MR. ROSENBERG: If I could ask for an indulgence until Ms. Lea arrives. She will be here within a minute, a few minutes, actually. 756

THE PRESIDING MEMBER: Perhaps you could go with Mr. Simpson, adopting his evidence at least, Mr. Howe, while we are waiting. 757

MR. HOWE: Yes. Thank you, Mr. Chairman. 758

Was page 524 759

DIRECT EXAMINATION BY MR. HOWE: 760

Q. Mr. Simpson, you are the Vice-President of Human Resources with the company? 761

MR. SIMPSON: A. That is correct. 762

Q. And your CV can be found at Exhibit A, tab 19, schedule 2, page 42; is that correct? 763

A. Correct. 764

Q. As well you are responsible for the following exhibits: D1, tab 14; D1, tab 8; D1, tab 15; D2, tab 2; D2, tab 9, schedules 1 and 2; is that correct? 765

A. That is correct. 766

Q. And you are also responsible for the interrogatories which bear your name? 767

A. That is correct. 768

Q. Are there any changes to those documents? 769

A. There is not. 770

Q. Do you adopt those documents as your testimony in this case? 771

A. I do. 772

MR. HOWE: Thank you, Mr. Simpson. 773

I have no further questions, Mr. Chairman.

774

THE PRESIDING MEMBER: Thank you, Mr. Howe.

775

Ms. Lea?

Was page 525 776

MS. LEA: Thank you, Mr. Chairman.

777

Good morning, gentlemen. There has been a change of personnel over on this side of the table, but I will try to continue in perhaps the inimitable style of my friend.

778

779

CROSS-EXAMINATION BY MS. LEA:

780

Q. I wonder if I could begin with a question for you, Mr. Grant, reconciling two exhibits which we have had a little difficulty with. I think Mr. Mackie mentioned this to a member of Consumers staff just a few minutes ago.

781

Could we look at D3, tab 1, schedule 1 and D3, tab 3, schedule 2.

782

MR. GRANT: A. I am on page 1 of D3, tab 3, schedule 2. Is that the page?

783

Q. Actually D3, tab 3, schedule 2, page 2 is what I want.

784

A. I have that.

785

Q. All right. If you look at, beginning with D3, tab 1, schedule 1, I believe that 213 -- I am looking at page 5. I should be specific. D3, tab 1, schedule 1, page 5.

786

I see that there is \$213.3-million listed as the operation and maintenance costs under that cost of service listing; is that correct?

787

This is an updated schedule, by the way. I am working from a blue updated schedule. This is where the confusion is arising. It is the contrast between the update and the old one that I want to work on. So I have the updated blue D3, tab 1, schedule 1, page 5.

Was page 526 788

A. Excuse me for a moment. I will have to pull that out.

789

Q. Okay, thanks. Sorry. The date on the update that I have is 1992, July 24th, I believe. It reads 1992/07/24 and it is a blue-coloured piece of paper. 790

A. Yes, I have that now. 791

Q. All right. So what that is is a listing of costs and service, costs and expenses for the 1993 test year updated as to the date at the top of that schedule. 792

If you look in the consolidated costs and expenses column you will see the operation and maintenance costs total is listed as 213.3-million? 793

A. Yes, I see that. 794

Q. Now, we received that update and we are grateful for that, but if you will now compare that figure with Exhibit D3, tab 3, schedule 2, and this is not updated as far as I can tell, it is a white page with no date on it, page 2 of that exhibit. 795

A. Yes, I have that. Was page 527 796

Q. You will see that the total operating and maintenance expense listed at the bottom under the 1993 budget is 211.5-million. 797

Has there been any update of D3, tab 3, schedule 2? Is there something we should do to reconcile those figures? 798

A. No. 799

Q. Or should we just work with them as they exist? 800

A. No, you should be working with them as they exist. Exhibit D3, tab 1, schedule 1, page 5, blue copy, shows under column 3 the regulated cost and expenses for the Ontario utility - and I am now looking at item 1.2 -- of 211.5. That is what we are asking for rate relief on. 801

Q. So my problem then is distinguishing between the consolidated costs and expenses and the regulated costs and expenses? 802

A. Correct. The differences are shown as adjustments in column 2 of Mr. Ladanyi's Exhibit D3, tab 1, schedule 1. 803

Was page 528 804

Q. Am I correct then in assuming that all the Board needs to worry about is the regulated costs and expensed under column 3 in D3, tab 1, schedule 1?

805

A. That's correct.

806

Q. Okay. Thank you, Mr. Grant.

807

Mr. Simpson, I understand that you are forecasting a 3 per cent increase in wages and salaries for 1993 beginning in April for the management supervisory staff; is that correct?

808

MR. SIMPSON: A. That is correct.

809

Q. Okay. What relationship does the Ontario inflation rate have upon this forecast of salary and wage increases for 1993?

810

A. It has a bearing. At the time that we established the 3 per cent for 1993, we looked at what was forecasted to be the CPI in 1993.

811

We also looked at other factors; for example, we looked at what we felt was our competitive position at that time, we looked at second and third year settlements, of agreements that were being settled at that time and we established 3 per cent as being an appropriate number.

812

Q. What I am getting at, Mr. Simpson, is that in Consumers' original filing, the interest -- Ontario inflation rate was forecast to be 3.5 per cent, but as I expect you are aware, in the ADR agreement that was put before the Board, all parties, with one exception, agreed to a forecast of 2.6 per cent for the test year. So this is a reduction of .9 per cent in the Ontario inflation rate.

Was page 529 813

I was wondering whether, since your original projection of 3 per cent was made when the forecast of inflation by your company was 3.5, whether in fact you have adjusted your estimation of wages/salaries increases by the same amount and, if not, why is it different?

814

A. At the time we set the 3 per cent, my recollection is that we were looking at Ontario CPI as 3.3. Now, this may be a fiscal year versus a calendar year difference, but the number that I looked at was 3.3 and we are now looking at CPI Ontario of 2.8.

815

I think the evidence filed by Mr. Luison indicated 2.8 for Ontario. So that the difference by my calculation would be a half a per cent, but I guess I would hasten to say that there isn't a one-to-one relationship between what we planned for wages and salaries and CPI.

816

As I indicated, there are other factors and that while we see a trending down in that CPI, I have not recommended that we change that 3 per cent provision because the amount of downward adjustment is, in my view, not tremendous and there is not a one-to-one relationship.

And, in fact, Mr. Grant and I have talked about this and because of the timing of the 3 per cent provision in 1993, the impact of any downward change, let's say it be a quarter of a per cent or indeed even a half a per cent, the impact on 1993 O&M cost is not significant. And maybe I would ask Mr. Grant to speak to that number.

818

MR. GRANT: A. Yes, I think there is an interrogatory response that was filed that speaks to that issue, of the impact on the labour budget if there is a reduction of 1 per cent and that number is 600,000 at a 1 per cent level. At a half a per cent level it is in the neighbourhood of 300,000.

819

Q. Can I ask you what percentage in wages and salaries for 1993 was found or forecast by the 25 comparative companies that were selected for the consultant study on remuneration?

820

MR. SIMPSON: A. I'm sorry, you were asking what their prediction was for 1993?

821

Q. Yes.

822

A. We did not gather that information. The consultant did not gather that information.

Q. So he didn't give you anything that would give you some idea of what these other 25 companies were forecasting for their increase?

824

A. No, they did not. It was at a point in time that they were asked to supply the data.

825

Q. Have you got any other comparative studies or companies that you can measure this 3 per cent against?

826

A. Not by way of specific study.

827

We look at data that is provided by consulting firms like Hay Management Consultants, Towers-Perrin, Sibson, Mercer, and in talking to their client they gain certain insights into what expectations are and they share those with their clients and we constantly look at that data.

828

It is not precise and it is not scientific; it is directional. And what it is telling us is that for 1993 the 4s and the 4 1/2 per cents that were predicted are now being back down to 3 1/2 and 3 and indeed some lower than that, but there is no specific study that would predict what that number is for 1993.

829

Q. One of the reasons I ask you that question is that in the recent Ontario Hydro hearing that we had here, and I recognize it is a slightly different utility, Ontario Hydro was forecasting an overall increase of wages and salaries plus benefits of 1.3 per cent for 1993 and, in fact, the Society of Ontario Hydro Professional and Administrative Employees accepted a zero inflationary increase for 1993.

I would suggest to you that if you compare your 3 per cent number with utilities such as Hydro and others, you will find that other companies are predicting a lower increase. Was page 532 830

A. I am familiar with the Hydro settlement and I think, as I indicated before, when you plan a salary increase for the test year, you look at things other than CPI. 831

One of those things is where your current wages and salaries compare to other companies and in our case we felt that we were competitive, if anything, maybe on the low side. My suspicion is in the Hydro consideration they would have looked at that and seen themselves to be on the high side, and so, therefore, would take a direction that would be quite different than ours. 832

Q. Yes. Thank you, sir. I remember that evidence in the study. 833

Could I ask you please to turn to Exhibit D3, tab 3, schedule 2, please? 834

MR. GRANT: A. I have that. Was page 533 835

Q. Am I right in assuming that the company's total budget for wages and salaries is included in the O&M budget, or is it built into each component of the budget? 836

For example, if you look at item on page 2 -- no, page 1 of that schedule, page 1 of that schedule under 2.1.1, I see supervision, something listed as supervision, and then under column 1 for the 1993 budget I see 3. Is that a wages and salaries item? 837

A. No, the total wages and salaries budget is spread throughout various items. Each item in the budget that is shown on this page and the next has a labour component to it. 838

Q. If we can just look at Section 2 as an example then, is the labour component included in that listed as supervision or is it included in every single one of the things that follow that word? 839

A. There would be a labour component in the vast majority of those items that are listed there including supervision. 840

Q. Could you now have a look please at Exhibit D3, tab 4, schedule 2. 841

A. Yes, I have that. Was page 534 842

Q. I am still working on it. Just a second. 843

844
Now, the total wages and salaries costs outside of benefits, other than benefits, I understand increases from 110.8-million to 117.1-million in fiscal '93. That would appear to be an increase of about 5.7 per cent. I haven't calculated this, the Board staff has helped me.

845
Can you tell me what proportion of that increase is due to salary adjustment and how much is due to an increase in the number of employees?

846
A. Yes, I can. I deal with this issue in my prefiled at -- this would be at Exhibit D1...

847
Q. Tab 12 maybe?

848
A. Tab 12, yes.

849
Q. Yes, I have that.

850
A. In that evidence I have broken out the salaries and wages increase of 6.3-million under Answer 7 into --

851
Q. Page 2?

852
A. I'm sorry, yes, it is page 2, under Answer 7, where I speak to the breakout of that \$6.3-million into the major drivers.

853
The general wage and salary inflation amount is shown there as \$4.2-million of the 6.3.

854
Q. Still in that exhibit, at page 2, Answer 7, you indicate that the salary adjustment is due on April the 1st for supervisory management staff, I believe; is that correct? Was page 535

855
A. Yes, it is.

856
Q. When you have such an adjustment, do you wait and settle the unionized collective agreements first and then make a similar salary adjustment to the staff, or do you start -- for instance, if you provide the non-unionized staff, the management supervisory staff with a 3 per cent increase, does the union then use that as their bottom line in their negotiations?

857
Which comes first or can you tell me?

858
MR. SIMPSON: A. It is always a difficult issue. As it turns out in 1993 we will have our local 513 union negotiating a new collective agreement for February 1. So it is going to precede the April 1 for supervisors and managers. So that's one issue.

No. 2, we have already pre-set a second year increase for our outside locals, our hourly-rated union people, at 3 per cent for May 1.

859

So as it turns out next year there is one set and one to be negotiated sort of in and around the time we work with the supervisory one.

860

While we can't ignore what we do in each group because we do pay a lot of attention to trying to maintain pay equity, we try to deal with each quite separately, given the factors that drive pay, like: Where do we sit with that family of jobs opposite our competitors and comparitors? What is CPI? What are other settlements in that family of jobs in other companies?

Was page 536 861

So I know that's not a precise answer, but it isn't an easy question to have a precise answer for.

862

THE PRESIDING MEMBER: Ms. Lea, if I may?

863

Mr. Simpson, does the fact that the 3 per cent is now in the public record via these filings really make it academic as to when it actually comes to pass?

864

MR. SIMPSON: We work very hard to say that that's not a given and it is not a baseline, although the fact that it is in the public record I expect that our unions would be aware of that.

865

THE PRESIDING MEMBER: You might hear it at the negotiating table, I suspect?

866

MR. SIMPSON: Pardon me?

867

THE PRESIDING MEMBER: You might hear about it at the negotiating table?

868

MR. SIMPSON: I expect we will.

Was page 537 869

THE PRESIDING MEMBER: Thank you, Ms. Lea.

870

MS. LEA: Q. The reason that I asked that question is probably obvious to you. We are concerned that once the Board approves a certain level, then everybody else then wants a bit more than that. Have you found that to be true in your experience?

871

MR. SIMPSON: A. In my experience there has not been a direct link. I think what we attempt to do is build into our cost of service in the test year what we think to be a reasonable and a prudent planning level. When we actually go to treat wages and salaries, we are aware of that, but it is not the given number.

872

Q. I wonder if we could now turn to Exhibit D2, tab 9, schedule 2, please. 873

It appears that this schedule is divided into government-required benefits and company group benefits and I would presume that you have no control over the cost of the government-required benefits? 874

A. That is correct. 875

Q. If you look at the schedule, though, it appears that the percentage increase in the company benefits is higher than the percentage increase in the government-required benefits over all. 876

It appears to me, anyway, that if we look in column 4 which is the percentages, we see under subtotal for government-required benefits a percentage increase of 9.01; and under subtotal of company group benefits, it is 9.83. Don't you have some kind of control over the cost of the company group benefits? Was page 538 877

A. The extent to which we have control over the company group benefits has to do with the plan design and that would certainly affect the cost, the numbers of employees that we have, that would affect the cost, but beyond that, those rates are driven by the experience; in other words, the extent to which our employees are taking advantage of the plans and the costs are flowing to the insurance companies and back to the company. 878

So that from the controllable point of view, we have not added any new benefits, we have not improved any benefits. There are some staff adds in here, as Mr. Grant has indicated. The other costs then are driven by the extent to which employees are utilizing these plans and the cost of things like drugs and medical charges that come under the major medical plan, which is one of the prime culprits here. 879

Q. When you say that two of the drivers behind this cost is the extent to which employees use the plan and also the number of staff additions, would you say that for this particular percentage increase, that the extent to which the employees use the plan is the greater driver or the staff additions, or can you say? Was page 539 880

A. I can't give you the numbers but, it would be the utilization rate. 881

Q. If I could ask you then, on that topic, if we look at the major medical plan we will see that it has 18.45 per cent increase, I believe, yes. 882

Are the premiums for this plan shared with the employees or is that plan totally funded by the company? 883

A. It is totally funded by the company. 884

885
Q. Are the benefits reimbursed to employees on a shared basis or are they covered a hundred per cent for the services in that plan?

886
A. Under the major medical plans, there is a \$25 per employee deductible, and beyond that it's paid a hundred per cent.

887
Q. Per employee per year, per claim, per --

888
A. Per year.

889
Q. The reason I ask that question is that I would suggest that where plans are set up where employees get 100 per cent of their claims and they don't have a share in the expense, there is really no incentive for them to moderate claims. Have you found that to be true? And if so, have you considered changing the structure of the plan to take that into account?

890
A. In fact, what you say is so, and yes, we have considered that. But when we look at benefits, we tend to look at them in terms of over-all compensation and our sense is that because we feel that we are paying fairly in an over-all total compensation perspective that the way we have got our benefits designed are appropriate.

891
But we continue to look at ways in which we can provide total fair compensation, but at the same time, look at ways that we might minimize our costs here.

892
Q. At present, are you considering reducing the payout from 100 per cent?

893
A. Not at the present time.

894
Q. Can I ask you similar questions then, with respect to the dental plan, which follows immediately underneath that. The percentage rise there is much less.

895
Would most of this increase be due to the increased use and the increase in the expense of dental procedures, or is there a large component of an increase in Ontario Dental Association fees? Can you tell me a little bit about that increase?

896
A. I think all of the elements that you mentioned would be factors. I don't think in the case of the dental plan that utilization increase is as great as in the case of major medical because the plan has been in place for quite some time.

897
Q. Is it still 100 per cent payout on the dental or is it something less?

898
A. On certain portions, on restorative as I recall, it's 80 per cent and on some other elements it's 50 per cent.

899
But I think where the cost increase is coming there, is, as you point out, some more expensive procedures. People, adults going to orthodontic kinds of coverage that we haven't seen in the past, procedures that require different kinds of materials being used by dentists. They certainly are having an impact on the cost.

900
I can point out that we have worked with Confederation Life to try to control those costs, however, and they have, on their staff, a consulting dentist who does a claims review to assure that the kind of work that is being approved is prudent.

901
Q. If we could turn then from that part of the benefits and go up the chart very slightly to Pension Plan and Group Life Insurance. Now, in considering these matters I don't want to get into how a pension is calculated exactly, because I think it might be a little complicated. Was page 542

902
But if we just look under Change and Remarks, the reasons for the change given for the pension plan and the group life insurance appears to be the same. That is, the impact of salary increases plus staff adds, but the percentages are different. One is 5 and one is 6.69. On a very simplistic level, is there some reason for that difference?

903
A. The simple answer is there is no simplistic answer. The pension, I think it would be unwise to link the two, they are quite different. Pension plan costs are driven by a very complex set of calculations made by our actuary, who looks at a number of factors, looks at the funding of the plan, the earnings of the plan, and advises the company the level at which the plan should be funded.

904
So that would more correctly drive the 5 per cent increase. I think it is too simplistic to say it's just salary increases plus staff add. Although we had only two lines to put an answer in and that's the best we can do. (Laughter)

905
Q. All right, I think I understand that. Was page 543

906
Turning for a moment to the Sickness Disability and Rehabilitation Plan. At D1, tab 8, page 3, you explain the rather extraordinary percentage increase here in that it's due to a rebate which was given in 1992 which reduced the base level and that is distorting the percentage; is that correct?

907
A. That is correct.

908
Q. Okay. How much of that rebate that was given in 1992, is attributable to 1992 itself and how much of it is attributable to previous years, can you say?

A. I can't really say. It would be an accumulation of a number of years and I would have no way of knowing how much would be in '92. 909

Q. So it is not possible for you to tell us whether if we prorated it back over the years, during which it was accumulated, what the percentage increase would be? 910

A. I'm not sure that could be done. The reason it's there, I think we are pleased with our ability in the claims control area here, the insurance company had asked us to pay premiums at a certain level that they would expect our claims level to be at. And in fact, what this means, is that over a period of time, whether it has been steady or not steady, we have come below that number. So they have said we do not need the reserve level that we predicted, so we are releasing some of those reserves in this one lump sum. 911

Q. Could I ask you a couple of questions about the Stock Purchase and Savings Plan, please. Is there a limit on the amount of stock that can be acquired by an individual in the company and how is that limit set, is it related to salary? ^{Was page 544} 912

A. I must point out that right now the plan is not a stock-based plan because we have not had common shares to deal with in this plan since the acquisition by British Gas of 100 per cent of the shares. You will be aware that British Gas made 15 per cent of those shares available to the public over this past year. 913

Our plan is to, I believe it's March or April of next year, return the plan to a stock-based plan and the mechanics of it at that time will be that an employee can contribute up to 5 per cent of their pay and the company would match that with, in the case of supervisors and managers, one for two. And in the case of general employees, one for four. 914

The company's contribution being -- will be in the form of stock and the employees contribution then can be directed as they so desire to all stock, all cash, or half cash and stock. ^{Was page 545} 915

Q. And when is that method going to come into effect? 916

A. I believe we have scheduled it for April or May. 917

Q. Of 1993? 918

A. That is correct. 919

Q. So it will be the predominant method then in the 1993 fiscal year? 920

A. It will be a stock-based plan in 1993 from April onwards. 921

Q. What's going to happen up until that point? 922

A. Right now the plan is just a cash based plan. So that if I put in two dollars the company will match that with a dollar. It goes into a cash fund. 923

Q. Which of the benefits that we have been talking about have been negotiated and incorporated into the collective agreements? 924

A. Well, virtually all of these benefits are negotiated in the collective agreements. Certainly the pension plan, group life insurance, major medical, dental, sickness disability, rehabilitation, stock purchase and saving, accumulative sick pay, they are all -- ^{Was page 546} 925

Q. They are all -- 926

A. Yes. They are different in some cases between unionized and non-unionized people. It is the same plan, but maybe a different formula, for example, life insurance. 927

Q. Does the company provide any additional benefits, such as loans or company cars or club memberships to certain employees? 928

A. Yes, yes, we do. And I think when we look at the total compensation study done by Towers, Perrin, Forester & Crosbie, we'll see that they valued some of those items. We refer to them as perquisites and at certain levels there are company cars, and such like, called a perquisite. And they were valued in the study. 929

Q. In the schedules that we have been considering, where do the cost of these benefits, where are they identified? 930

A. I would think they might show up in different phases. I think we may have to answer this one together. I would think that company cars would come under an expense in transportation. 931

MR. GRANT: That's correct. ^{Was page 547} 932

Q. So are they ever identified as a benefit as in B2, tab 9, schedule 2? 933

MR. SIMPSON: A. Yes, they are. When we look at total compensation, as I mentioned before, they are actually valued in there and listed as benefits. 934

Q. Could we look at Exhibit D3, tab 4, schedule 2? Would those benefits be included in No. 8 or would they be included in No. 7 somewhere? 935

A. I'm sorry, what page are you on?

936

Q. Looking at Exhibit D3, tab 4, schedule 2. There's only the one page to it. It's Mr. Grant's Exhibit, I think, so maybe he can help us. I'm just wondering if they are on No. 8 or No. 7?

937

MR. GRANT: A. They are neither of those two as they are charged out in the transportation character of expense and that's not included in any of these numbers here.

938

Q. Would it be possible for you to provide us that, by way of undertaking, with a break out of the 1993 fiscal, 1993 perquisites that you have been discussing so that we can see where they are and what they are in one schedule, so we are not hunting around and taking up hearing time?

939

A. Yes, that's not a problem. We can provide that as an undertaking.

Was page 548

940

Q. Thank you very much.

941

THE PRESIDING MEMBER: Mr. Simpson, I'm wondering about the materiality of this, what will this number likely be in its grossed total terms?

942

MR. SIMPSON: I think in the overall scheme of things it would be rather insignificant. I think that it has some value to the Board in the context of the total compensation study where we look at pay in a total sense within Consumers Gas compared to this comparable group looking at pay benefits, and perquisites, which the TPF&C study does. In that sense I think it has value.

943

As a stand-alone cost item, I'm not sure that it is significant in the over-all scheme of things.

944

THE PRESIDING MEMBER: Thank you.

945

Ms. Lea, are you asking for this in a total number or in a break down fashion?

946

MR. LEA: We'd like a break down if it's not going to be an excessive amount of work.

947

THE PRESIDING MEMBER: Can you handle that, Mr. Grant?

948

MR. GRANT: Yes, sir, I think we can.

Was page 549

949

THE HEARINGS CLERK: J4.3.

950

---UNDERTAKING NO. J4.3 Consumers Gas undertakes to provide a break out of the 1993 perquisites.

951

MR. LEA: Q. I would like to stay with that schedule that we just identified, for a moment, which is D3, tab 4, schedule 2. I believe that the total fiscal 1993 budget for employee benefits... 952

Just one moment please. 953

Somewhere in the evidence there appears to be a number of 28,159,961 for employee benefits, but now, looking at the schedule here, I see that it is 22.5-million. Is the 22.5-million number correct? 954

MR. GRANT: A. Both numbers are correct, yes. 955

Q. Both numbers are correct? 956

A. Yes. 957

Q. Where is the first number that I mentioned? I can't put my finger on it. 958

A. I think the first number is back at Exhibit D2, tab 9, schedule 2. 959

Q. Yes. Yes, I have that before me. Thank you. 960

A. The difference between the two 961

962

numbers is due to groupings. Was page 550 963

Q. The grouping? 964

A. The grouping of the dollars. 965

Q. Can you be more specific? 966

A. Exhibit D3, tab 4, schedule 2, speaks to employee benefits, a portion of the employee benefits that are shown as D2, tab 9, schedule 2. 967

Q. Which portion is that? 968

A. These would be all the government-required benefits plus components under the company group benefit section. And sitting here now, I think I would have to do some kind of reconciliation to tell you exactly the difference between those two numbers.

969

Q. Because there is a difference of \$6-million there, would you be able to reconcile those for us?

970

A. Yes, we can.

971

MS. LEA: May have that as a transcript undertaking, please.

972

THE HEARINGS CLERK: J4.4.

973

---UNDERTAKING NO. J4.4 Consumers Gas undertakes to provide a reconciliation between D2, tab 9, schedule 2 and D3, tab 4, schedule 2.

974

MS. LEA: Thank you.

975

Q. Mr. Simpson, I would like now to turn briefly to the consulting report on remuneration. It appears as, I think, D1... Yes, okay. I think it is at D2, tab 2; is that correct? Independent assessment of total compensation levels.

Was page 551 976

MR. SIMPSON: A. That's correct.

977

Q. However, I was wondering why the study was undertaken specifically. If we look at your prefiled evidence at D1, tab 14, in Answer 8, you indicate that you undertook this study in order to discover any weaknesses in Consumers Gas' compensation plan; is that right?

978

A. We undertake a study like this - and I think my evidence shows that we did this back in 1987 - we undertake this kind of study to assure ourselves that the kinds of decisions we make every year around the individual elements of compensation, like pay and like benefits and like perquisites, and we track those each year and try to assure ourselves that we are being competitive, but we do a study like this one every five or six years to assure ourselves that when the three things are put together, they are also competitive and prudent and make sense.

979

For example, you could be tracking pay with one group of comparators each year, benefits with another group of comparators and a different set of studies and feel very comfortable you are making the right decisions year-over-year, but you might be getting off track if you didn't from time to time add them all together and compare them to the marketplace.

980

So that's what we attempted to do with this study. As I mentioned, we did it back in 1987 and I would think that it would be wise to do it again in another five years.

Was page 552 981

982
Q. In your answer to Interrogatory No. 47 from Board staff, you indicated that you did not plan to use the results in setting compensation levels, and yet the study did cost \$196,000-and-change. Why should this expense be recovered in the cost of service if you are not going to actually use it? Was it just undertaken as reassurance to you or ...?

983
A. Well, I think that I would want to make two points here.

984
We began this approach of looking at total compensation, frankly, because of the Board's discomfort with benefit costs and it was really a Board initiative about five or six years ago that led us to get into this business. So I think that would be one point.

985
When I say we don't plan to use this study, what we mean there is we are not looking at it as saying we need to increase benefits or increase wages in any one particular job family; we simply want to assure ourselves that we have been on a prudent course.

986
I guess when you look at the cost of the study, you have to look at that in the framework of the overall costs of salaries and wages and benefits to the corporation and to the customer being in excess of \$100-million, that kind of expense, to make sure that those are prudent expenditures, seems to me to be a reasonable kind of investment every five or six years.

987
Q. I wonder if I could look at page 2 of your prefiled evidence, D1, tab 14, where you summarize, begin to summarize the findings of the study. You indicate that the hourly category was found to be competitive with a variance of less than 1 per cent. These employees in the hourly category, are they largely covered by collective agreements?

988
A. Yes, they are.

989
Q. And would they also be characterized as more mobile than the other three categories in moving between jobs, or is that not the case?

990
A. I don't think that they could be characterized as being any more or any less mobile than others.

991
Q. For the second category, the clerical employees, I believe that the study found that you were a bit below market, maybe about 7 per cent below market. This group of employees, I understand, was awarded a 3 per cent increase on February the 1st. Was that as a result of the results of the study?

992
A. No, that was the results of collective bargaining and an agreement that was reached between the company and the union.

993
Q. The supervisory and management group was found to be slightly below market as well, about 4 per cent below market, and that group received a 3 per cent increase on April 1st 1992. Does that bring them then within 1 per cent of market level?

994
A. I wouldn't characterize it, and I caution the Board in viewing these numbers in precise arithmetic ways. Keep in mind that this is a study that is done in a very sophisticated way using regression analysis and lines of best fit and comparing our wages and salaries to the line of a comparative group of 25.

995
And my own experience would tell me that any comparison between our line and the line of our competitors or comparators that's within plus or minus 5 per cent, is a comfort level that I think that we would accept. And I wouldn't want to see this as a precise thing that would say: we are 5 per cent below therefore a 3 per cent increase would put us 2 per cent off of being correct. I think that would be the wrong way to characterize.

Was page 555 996
I think rather it is directional. We are below, we have taken some steps that would ameliorate that situation and not try to be precise in terms of are we now 2 versus 5 off the mark.

997
Q. Considering the executive category which was found I believe in the study to be considerably below market, does that finding take into account the ability of this group to receive bonuses? For instance, if the members of this group had received the maximum bonuses in 1982 for their previous year's performance, and I think this was explained in Board staff Interrogatory No. 48, would the salaries plus the bonuses have brought this group close to market level for compensation, or were the bonuses taken into account already when it was found that that group was receiving quite a bit below market?

998
A. I think that had there been target or maximum bonuses paid within Consumers Gas, we would have seen that differential narrow. I'm not sure whether it would have been completely closed or not.

Was page 556 999
The data for Consumers Gas obviously did not include bonuses because none were paid.

1000
The difficulty you get in here is when you say: Well, let's now assume that the difference is 24 per cent between the lines, if Consumers had paid a targeted bonus of 25, would you therefore be okay? And that's a dangerous conclusion, too, because you don't know -- you would have to, if you wanted to compare apples to apples, make sure that you put the comparator group at a target level.

1001
So it's not something that one can answer precisely in making assumptions, had we paid bonuses would we be okay.

1002
I think our comfort level is that we are not surprised that there was a difference. We looked at had we had some historic level of bonus paid, what would that difference be? Is that a tolerable difference in terms of our pay design? And we concluded that yes, it is.

1003
Q. Other than for the executive category, are there employee incentives built into your compensation plan?

A. I mentioned I think in response to one of the interrogatories that there are three incentive programs, one incentive program for clerical employees called a Peak Performer Award program, there would be in our central zone about 800 employees who would be eligible for that program. Under that program high performing, that is clerical employees who are now at job rate who are performing at a commendable or distinguished level, can earn 5 or 10 per cent on top of their job rate in a lump sum payment. And while that is a new program in terms of how we pay it, i.e., lump sum, we have had this ability to pay a premium on top of job rate for that group of employees for quite some time.

1004

A second incentive plan is a new plan, somewhat similar to that clerical plan, and it is what we call a Lump Sum Merit plan for our senior level managers. These would be managers in salary grade 17 and above. There would about about 100 eligible managers. And for that group of employees, we have a program, again much the same way, whereby a manager or senior supervisor who is performing at a commendable or a distinguished level, could earn up to 12, up to 20 per cent of their job rate payable in a lump sum way.

Was page 557 1005

And again, I hasten to say that is a new program in terms of how we pay the money, but it's not new money in that we previously had a program whereby those same supervisors could earn say 10 per cent above job rate, up to 20 per cent above job rate for meritorious performance. What we have done is simply make the performance payment a more visible act by paying it in a lump sum rather than on a monthly ongoing merit basis. So that would be plan No. 2.

1006

And the third plan is the senior management group bonus plan which I explain in the interrogatory as well. It would be about 23, 22 or 23 participants in that plan.

Was page 558 1007

Q. How many positions fall into the executive category, would it be the 22 or 23 you just mentioned?

1008

A. That's correct.

1009

Q. I notice also in the study that a Consumers' discount program is mentioned. Is this a discount program to encourage its employee to use natural gas as opposed to other fuels?

1010

A. I think it could be characterized as being a perquisite plus being an encouragement to employees to purchase and use natural gas burning appliances.

1011

Q. What does the plan consist of?

1012

A. Subject to check, and this would be one of the elements that we would endeavour to get a cost on as we tried to answer your interrogatory on perquisites, but my recollection is that it's a 25 per cent discount on gas-burning appliances.

1013

Q. Thank you. Can you tell me, Mr. Simpson, what you have learned from the study that you could not have discovered, that was not apparent from your annual review of salaries and wages paid by other corporations?

Was page 559 1014

1015
A. I think what we learned from the TPF&C total compensation study is that when all elements of the compensation package are put together, it shows that we are paying in a fair and equitable way for each of the job family groups. And I think it shows that the decisions we made in each of the intervening years with respect to pay and benefits and perquisites were appropriate, because after a five-year period when they were all added together, it seemed as though we compared favorably and fairly with this comparator group.

1016
Q. And you would not have been able to acquire that information from your usual studies?

1017
A. No, we wouldn't, because the usual studies would be isolated on just pay or just benefits or just perquisites. You need a study of this nature to put all three elements together.

1018
Q. If we could just have another look, please, at D3, tab 3, schedule 2. This is the last area I want to cover in my cross-examination. Was page 560

1019
Item 5.6 on that schedule is listed as Human Resources and it has a 1993 budget of \$36.8-million.

1020
How many employees does Consumers have in total?

1021
MR. GRANT: A. I believe there is some evidence that shows the total number of positions. I am just trying to find it here.

1022
Q. We may have just missed it. Mr. Thompson suggested D3, tab 4, schedule 1.

1023
A. Yes, I have that. That's correct. That's the total number of positions in the test year.

1024
Q. Okay, thank you. Why is the human resources budget as large as this, and it is a very large item on the sheet compared to others?

1025
Why is it necessary? Perhaps you could explain this by outlining its functions and responsibilities. It appears to me that it is 17.4 per cent of the O&M budget and that's pretty big.

1026
A. Well, if you will recall, in these group of accounts are all of the benefits related to all of the employees in the company, and Mr. Simpson's evidence discussed all of those components.

1027
In addition, in this group of accounts are Mr. Simpson's, what we call, operating accounts which is a slightly different cost centre where all costs of training and his own staff are included. Those are the major components. Was page 561

1028
So it is the benefits for all people in the company that are grouped in this group of accounts plus Mr. Simpson's operating accounts in his area.

1029
Q. I am wondering how many employees there would be in human resources. I see there are a certain number of administrative and general employees listed in the schedule that Mr. Thompson referred us to. Can you give me some idea of how many staff are employed in human resources?

1030
MR. SIMPSON: A. Subject to check it is about 60 per cent.

1031
Q. Are you adding staff in '93, do you know?

1032
A. We have one budgeted staff add.

1033
MS. LEA: One moment, please. If I could have the Panel's indulgence for one moment I will see if I have any questions. Thanks.

1034
---Discussion off the record.

1035
MS. LEA: Q. There is one point of clarification on that last topic.

1036
Mr. Grant, when you were answering the question you indicated that some benefits were included in this 36.8-million and, I'm sorry, I didn't understand what benefits you were referring to? ^{Was page 562}

1037
MR. GRANT: These would be the benefit accounts which Mr. Simpson's evidence speaks to at tab 9 of D2.

1038
Q. Is that the \$28-million benefit

1039
A. That's correct.

1040
MR. SIMPSON: A. Yes, that's right.

1041
Q. Thank you. That helps.

1042
MS. LEA: Thank you. Those are my questions for this panel.

1043
Thank you, Mr. Simpson, Mr. Grant.

1044
THE PRESIDING MEMBER: Thanks you, Ms. Lea.

1045
Mr. Thompson, will you be having more than five minutes' worth of questioning with this panel?

MR. THOMPSON: Yes. I expect to be about an hour, sir. 1046

THE PRESIDING MEMBER: Perhaps we will hold off and begin your cross-examination tomorrow morning because we can't go beyond one o'clock today. 1047

Mr. Peterson, have you been advised of the intention to now deal with the direct purchase and gas cost issues on or about September 2nd through September 4th? ^{Was page 563} 1048

I know you had a concern about the scheduling on those issues. 1049

MR. PETERSON: I did have a concern, Mr. Chairman, and Mr. Howe was kind enough to inform me of the change that had taken place and, as I understand it, it has all been punted over to that week including the whole of the panel that was to testify tomorrow. 1050

THE PRESIDING MEMBER: I hope it doesn't mean you have to bring your family back from their holiday a week earlier. 1051

MR. PETERSON: We will split the questions up, Mr. Chairman. 1052

THE PRESIDING MEMBER: Okay, thank you. 1053

Any other matters before we rise today? 1054

(No response) 1055

With that then we will adjourn until nine a.m. tomorrow morning. Thank you very much. 1056

---Whereupon the hearing was adjourned at 12:55 p.m., to be reconvened on Friday, August 21, 1992 commencing at 9:00 a.m. 1057

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