

New Brunswick Board of Commissioners of Public Utilities

2005 - 2006 ANNUAL REPORT

The New Brunswick Board of Commissioners of Public Utilities is comprised of the following members as of March 31, 2006:

Chairman

David C. Nicholson

Vice-Chairman

David S. Nelson

Commissioners

James E. Bateman

Randy Bell

Jacques A. Dumont

Diana Ferguson Sonier

Patricia Leblanc-Bird

Kenneth F. Sollows

Brian H. Tingley

Message from the Chairman David S. Nelson

I am pleased to submit the 2005-2006 Annual Report to the Standing Committee on Crown Corporations on behalf of the New Brunswick Board of Commissioners of Public Utilities.

The Board has had a busy year, dealing with both new Legislation and the first full rate hearing under the new electricity market. This hearing was additionally significant because it was the first rate application by NB Power or it's companies in more than a decade. The hearing attracted a significant amount of participation and public attention. At the close of this fiscal period, the Board had only just completed the hearing – the longest in decades – and was beginning the deliberation process.

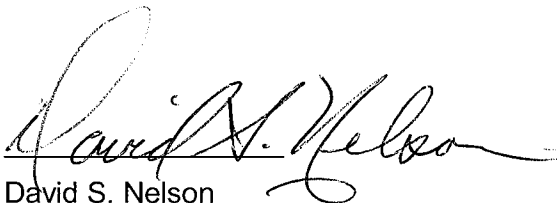
The Natural Gas industry occupied a significant amount of the Board's attention. The Board's responsibility in this area is pursuant to the Gas Distribution Act, 1999, Chapter G-2.11. This authority encompasses evaluating the rates charged by the General

Franchise Holder as well as expansion plans for natural gas service in the province. This second responsibility is done in conjunction with the Board's expanded role in overseeing the construction and safety of pipelines in the province. The pipeline safety mandate of the Board was expanded significantly under the Pipeline Act, 2005 Chapter P-8.5.

The Board is required to regulate the operation of public motorbuses in the province in an effort to balance the public's need for safe reliable intercity transport with the Franchise Holder's right to a fair and equitable return on investment. This challenge is handed to the Board under the Motor Carrier Act Chapter M-16, R.S.N.B and the Motor Vehicle Transport Act, R.S.C, 1987. The Board also has the authority to hear appeals of the decision by the Registrar of Motor Vehicles regarding Motor Vehicle Dealers Licences.

The Board's operations are financed by funds from the industries it regulates. These industries are assessed proportionately according to the anticipated activity in that sector. In the case of hearings, the direct costs are borne by the applicant in the matter. The exception to this procedure is the public motorbus industry. The Board's responsibilities are carried out with a budget from the Provincial Department of Transportation.

Additionally, it is worth noting that the Board has been in a state of transition in the months since the close of the reporting period and the publishing of this annual report. The Legislature passed the Energy and Utilities Board Act and the Board's long-standing chairman, David C. Nicholson retired. The Board appreciates, Mr. Nicholson's tireless commitment to public service and the regulation of utilities in this province.



David S. Nelson

Electricity

New Brunswick Power Distribution and Customer Service Corporation (Disco) applied to the Board on March 21, 2005 for increases in its rates and for the introduction of a fuel surcharge to be effective April 1, 2005. The Board issued a decision on May 30, 2005 stating that because it did not have the authority to issue interim decisions it could not approve Disco's request for a fuel surcharge to be effective April 1, 2005. The company filed a revised application in June of 2005. There were 58 days of public hearing associated with the examination of this application. The hearing concluded on March 22, 2006. The Board's decision was not issued by the close of this reporting period.

The New Brunswick System Operator (NBSO) applied on January 18, 2005 for changes to the Open Access Transmission Tariff (OATT). The primary purpose was to align the OATT with the market rules that had been established by the government. A public hearing was held in late March, 2005 and the Board issued its decision on April 26, 2005. All of the requested changes were approved except for the proposals on limiting the self-supply of ancillary services, the use of the Final Hourly Marginal Charge, the standards of conduct and the automatic rate escalation.

WPS Energy Services Inc. (WPS) filed a complaint with the Board on August 5, 2005 that dealt with the distribution of energy imbalance funds collected between October 1, 2003 and April 30, 2005. A public hearing was held on September 22, 2005 and the Board issued its decision on November 1, 2005. The Board ruled that the NBSO had distributed funds between October 1, 2004 and April 30, 2005 without any express authority to do so. The Board ordered NBSO to recollect such funds and to file a proposal with the Board as to what should happen with the funds.

NBSO filed its response to the Board's order on December 5, 2005. This response raised further issues and the Board requested comments from interested parties. The exchange of comments resulted in a decision by the Board to hold an informal technical session on May 26, 2006 to discuss the issues.

NBSO filed an application with the Board on October 6, 2005 for approval of a change to the Energy Imbalance pricing provisions of the OATT. The Board reviewed the application by way of a written proceeding. A decision approving the requested change was issued on February 14, 2006.

On March 27, 2006 NBSO filed a proposal with the Board for a mechanism to limit the self-supply of ancillary services. The Board decided to review this proposal by way of a written proceeding, which took place in 2006/2007.

Pipeline Safety Division

The Pipeline Safety Division's mandate is to promote safety and to ensure that companies design, construct, operate and abandon pipelines under the Board's jurisdiction in a manner that provides for the safety of the public and company employees, as well as the protection of property and the environment.

This is accomplished through the Safety Divisions use of inspection, education, compliance audits and damage prevention programs.

This mandate was expanded from previous years with the introduction of the new Pipeline Act, 2005 that was proclaimed on January 27, 2006. The Board's regulating responsibilities were increased to include pipelines transporting oil and minerals as well as fluids from oil or gas wells and water or effluent used in connection with a oil or gas well.

Enbridge Gas New Brunswick, the holder of the general gas distribution franchise, applied for and was issued a pipeline construction permit for Riverview in October of 2005. This enabled Enbridge to expand its distribution network presently in Fredericton, Moncton, Saint John, St. Stephen and Oromocto to include Riverview as well.

Irving Oil limited applied for and was issued a permit to construct a pipeline to transport Ultra Low Sulfur Diesel from it's refinery to the East Saint John loading terminal in August 2005.

The Pipeline Safety Division carried out a general safety compliance audit of Enbridge Gas New Brunswick and Potash Corporation of Saskatchewan in July 2006. Construction, operations and maintenance procedural manuals and records were reviewed and compared against the requirements of the Pipeline Act, 2005 and regulations including the CSA Standard - Z662 Oil and Gas Pipeline Systems.

Natural Gas

The natural gas sector continued in its development period in New Brunswick in 2005-2006. During this period, Enbridge Gas New Brunswick Inc. (Enbridge) was unable to charge rates that would recoup its cost of service. As a result, the company continued to use the Board-approved market-based rate methodology. That methodology has an underlying premise that the total delivered price for natural gas must be less than the equivalent price for fuel oil.

Rate applications were the focus of the Board's hearing process in the sector for the year. Enbridge filed an application in August 2005 for an increase in its rates to become effective on January 1, 2006. The Board approved that application setting new maximum distribution rates in December 2005.

Damage to the North American gas infrastructure caused by Hurricane Katrina resulted in significant price volatility for natural gas, subsequent to Enbridge' filing its rate application and evidence. After receiving approval of its rates for 2006, Enbridge filed a rate rider application to reduce its distribution rates for most customer classes. A rate rider is a mechanism used to reduce the distribution rate for a customer class or classes during a given year. The application was approved in December 2005 to be effective on January 1, 2006.

As the market price of Natural Gas returned to pre-Katrina levels, the Board also approved partial rate reinstatement applications by Enbridge for increases to its distribution rates for February and March of 2006. Those applications increased distribution rates above the levels approved in the rate rider application, but lower than the Board approved maximum distribution rates for 2006.

The Board also continued its monitoring of the natural gas sector throughout the year. Enbridge attached nearly 1,200 customers to the distribution system and natural gas throughput increased as well.

Motor Carrier

This year the Board held three significant hearings related to the Motor Carrier industry in the province. Two of the hearings result from the purchase of SMT Coach Lines LP by Acadien Coach Lines LP. The third was a disciplinary hearing related to a licence to operate a chartered bus service in the province.

In April of 2005, the Board received an application from Acadian Coach Line LP for changes to the company's rates into 52 zones with incremental fares based on the distance travelled. The proposed changes affected routes in Nova Scotia so as a result the Board held a concurrent hearing with the Nova Scotia Utility and Review Board to hear the Application. The hearing was held on June 15, 2005 in Amherst, Nova Scotia. There were no objections and in an oral decision the Board approved the changes as requested.

Subsequently, in September of 2005, Acadian Coachlines applied to the Board for approval to change its schedule. The Board held a concurrent hearing in Sackville, New Brunswick on October 19, 2005. The panel received letters of complaint and a petition from residents in the Edmundston area who were concerned about service between Edmundston and Quebec City. The Board heard testimony from a resident of St. Andrews who objected to a decrease in service between Charlotte County and Saint John. The Board approved the rate changes except those between Edmundston and Quebec City and Between St. Stephen and Saint John.

The Board ordered the company to continue its service between St. Stephen and Saint John as already approved for six months. At the end of the time period, the company is to submit updated ridership statistics for the Board to consider. The Board also decided to hold a joint hearing with the Commission des Transport du Quebec to consider changes to the Edmundston Rivière-du-Loup scheduled service. The company subsequently agreed to maintain the service as already approved.

In January of 2006 the Board received an application from East Link Door-to-Door Shuttle Express Inc to operate a scheduled bus service from Moncton to another jurisdiction. A hearing had not been scheduled by the close of this reporting period.

In October of 2005, following reports from the Department of Transportation about violations of the Motor Carrier Act, the Board issued a notice to DRL Coachlines of Newfoundland to appear before the Board for a Show Cause hearing. The hearing was held on the Board's premises on December 13, 2005 and January 31, 2006. On March 30, 2006 the Board rendered a decision and suspended the company's licence to operate a Charter bus service in the province for six months.

Finally, in March of 2006, the Board received an application from Acadian Coachlines to increase its rates. A hearing was not held by the end of this reporting period.

Charter Applications

Received	5
Opposed	0
Granted (as Advertised)	3
Granted (with Amendments)	0
Abandoned, Withdrawn or Dismissed	2

Scheduled Services Applications

Received	1
Opposed	1
Granted (as Advertised)	0
Granted (with Amendments)	0
Abandoned, withdrawn, or dismissed	1

Licences

Denied	0
Cancelled or Revoked	1
Active at Year End	35
Number of Motor Carrier Plates Issued	198
No. of Temporary Permits Issued to Unlicensed Carriers	0
No. of Temporary Permits Issued to Licensed Carriers	2

Transfer Fees	\$260
Plating	\$7,737
<u>Filing Fees</u>	<u>\$180</u>
Total Revenues	\$8,177

Financial Statements Summary – 2005/2006 Budget vs. Actual

ELECTRICITY SECTOR

	BUDGET	ACTUAL	DIFFERENCE
Salaries & Benefits	639,431	618,273	21,158
Training	62,800	28,423	34,377 <i>Note 1</i>
<u>Office & Administration</u>	<u>175,984</u>	<u>209,571</u>	<u>(33,587)</u> <i>Note 2</i>
Total Common Costs	878,215	856,267	21,948
<u>Direct Expenses</u>	<u>1,650,000</u>	<u>1,022,011</u>	<u>628,000</u> <i>Note 3</i>
Total Expenses	2,528,215	1,878,278	649,937

Notes:

1. Scheduling and staff limitations reduced the training the Board staff took part in.
2. The Board contracted out its I.T. support resulting in higher Office and Administration spending and reduced Salary and Benefits spending.
3. Anticipated applications in the electricity sector were not filed.

Financial Statements Summary – 2005/2006 Budget vs. Actual

Natural Gas Sector

	BUDGET	ACTUAL	DIFFERENCE
Salaries & Benefits	555,768	360,865	194,903 <i>Note 1</i>
Training	39,900	25,454	14,446
<u>Office & Administration</u>	<u>119,994</u>	<u>138,110</u>	<u>(18,116)</u>
Total Common Costs	715,662	524,429	191,233 <i>Note 1</i>
<u>Direct Expenses</u>	<u>73,000</u>	<u>107,362</u>	<u>(34,362)</u> <i>Note 2</i>
Total Expenses	788,662	631,791	156,871

Notes:

1. Board staff time was reallocated to electricity because of the Disco Rate Hearing. Additionally, the number of Board advisors decreased during the year and the vacancy had not been filled by the end of the fiscal period.
2. Consulting costs for regulatory procedures was greater than anticipated.