

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good  
3 morning. Before we get started, good morning, Mr.  
4 Kennedy. Are there any preliminary matters.

5 MR. KENNEDY: Good morning, Chair. Not that I'm aware  
6 of. There are some exhibits that counsel for Labrador City  
7 passed out this morning. I understand that he intends to  
8 tender those through his witness, Mr. Drazen, so we will  
9 label them at that time when they get put in. I think they're  
10 before you there now, just so that you're aware how we're  
11 going to handle that.

12 MR. NOSEWORTHY, CHAIRMAN: Thank you.

13 MR. KENNEDY: But other than that, I think that's it for this  
14 morning.

15 MR. NOSEWORTHY, CHAIRMAN: No disrespect, but the  
16 Christmas tree looked better, Mr. O'Rielly. *(laughter)*

17 MS. GREENE, Q.C.: We'll have to get him to demonstrate  
18 he actually starts with no decorations on the tree ...

19 MR. NOSEWORTHY, CHAIRMAN: I see. *(laughter)* Oh,  
20 yeah, look at that.

21 MR. BROWNE, Q.C.: I should perhaps tell the Board my  
22 partner, Mr. Fitzgerald, is not here because they're in  
23 hospital having a baby today, he and his wife. It's their  
24 first child and they're running into some complications so  
25 they decided to make the move today, so she's having a  
26 Section done as we speak.

27 MR. NOSEWORTHY, CHAIRMAN: Section, yeah. Well,  
28 very good. I guess congratulations are a little bit premature  
29 but hopefully ...

30 MR. BROWNE, Q.C.: I'll keep you informed.

31 MR. NOSEWORTHY, CHAIRMAN: ... hopefully you'll  
32 give us a running ... yeah, yeah, exactly. That's with  
33 presents and all, I see, on the tree. *(laughter)*

34 MR. O'RIELLY: *(inaudible)*

35 MR. NOSEWORTHY, CHAIRMAN: Can I bring you home  
36 with me? *(laughter)*

37 MR. O'RIELLY: No.

38 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.  
39 No other matters, Mr. Kennedy?

40 MR. KENNEDY: No, Chair.

41 MR. NOSEWORTHY, CHAIRMAN: Thank you. Good  
42 morning, Mr. Hearn. How are you?

43 MR. HEARN, Q.C.: Good morning.

44 MR. NOSEWORTHY, CHAIRMAN: Welcome back, good  
45 to see you again.

46 MR. HEARN, Q.C.: Thank you, Mr. Chair.

47 MR. NOSEWORTHY, CHAIRMAN: Are you in a position  
48 to present your witness, please?

49 MR. HEARN, Q.C.: We certainly are. I have Bob Drazen.  
50 If Mr. Drazen could be affirmed, please.

51 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.  
52 Drazen.

53 MR. DRAZEN: Good morning.

54 MR. NOSEWORTHY, CHAIRMAN: Welcome, sir.

55 MR. DRAZEN: Thank you.

56 MR. NOSEWORTHY, CHAIRMAN: I wonder could you  
57 take the Bible in your right hand, please?

58 MR. DRAZEN: Could I be affirmed?

59 MR. NOSEWORTHY, CHAIRMAN: Oh, be affirmed? Yes,  
60 sir, you may indeed. Do you solemnly affirm that the  
61 evidence to be given by you shall be the truth, the whole  
62 truth and nothing but the truth?

63 MR. DRAZEN: I do.

64 MR. NOSEWORTHY, CHAIRMAN: Thank you, sir, very  
65 much. You may begin, Mr. Hearn, when you're ready,  
66 please.

67 MR. HEARN, Q.C.: Thank you, Mr. Chairman. Mr. Drazen,  
68 first I echo the comments of the Chairman. Welcome to St.  
69 John's and to Newfoundland.

70 MR. DRAZEN: Thank you.

71 MR. HEARN, Q.C.: First of all do you adopt your evidence  
72 previously filed in this proceeding?

73 MR. DRAZEN: I do.

74 MR. HEARN, Q.C.: Are there any additions, alterations or  
75 amendments that you care to make in relation to that  
76 evidence as a result of subsequent filings?

77 MR. DRAZEN: The changes in the distribution of the  
78 increase on the rates that were filed by Newfoundland and  
79 Labrador Hydro would flow through to my evidence too.  
80 The table is on pages seven and eight and I can either go  
81 through them or provide them at the earliest opportunity in  
82 written form.

83 MR. HEARN, Q.C.: Thank you. Mr. Osmond in his  
84 evidence referred to Wabush cost analysis as being income  
85 statements. Have you had opportunity to review Mr.  
86 Osmond's evidence in that regard?

87 MR. DRAZEN: Yes, the evidence and the cross-  
88 examination.

1 MR. HEARN, Q.C.: Would you be able to comment on  
2 what would be in an income statement that, or what would  
3 be in a cost analysis for regulatory purposes that would be  
4 missing from an income statement as has been calculated  
5 for Wabush?

6 MR. DRAZEN: As I understand it, the surplus calculated  
7 for Wabush amounted to the revenues minus expenses for  
8 power purchases, depreciation, interest, the debt guarantee  
9 and net operating expenses, which leaves a surplus that  
10 would cover any return on equity and any other costs that  
11 might be attributed to the service, so the surplus is what, I  
12 guess, in a for profit organization, we call profit, but for  
13 regulatory purposes usually it's the return that's available  
14 to cover the other financial costs.

15 MR. HEARN, Q.C.: From the information that has been  
16 provided in this proceeding, have you been able to do a  
17 cost analysis for Labrador City?

18 MR. DRAZEN: I did. I prepared that and that's, I believe  
19 it was circulated earlier.

20 MR. HEARN, Q.C.: Perhaps at this stage then, Mr.  
21 Chairman, we'd ask that Schedules 1 and 2 be formally  
22 entered, copies have been provided to all counsel and  
23 there've been copies for the Board.

24 MR. KENNEDY: We should label these MD-1 for Schedule  
25 1 and MD-2 for Schedule 2.

26 **EXHIBITS MD-1 AND MD-2 ENTERED**

27 MR. NOSEWORTHY, CHAIRMAN: Thank you.

28 MR. HEARN, Q.C.: I might say for the record, Mr.  
29 Chairman, that MD-1 had previously been circulated in the  
30 last day or so to all counsel but the wonders of electronics,  
31 Schedule 2 was inadvertently omitted. Won't you care, Mr.  
32 Drazen, to take us through the cost analysis for Labrador  
33 City as you've calculated, **Schedule 1, MD-1?**

34 MR. DRAZEN: Yes. This starts with the costs and  
35 revenues for Wabush and develops a parallel column for  
36 Labrador City. Going down the numbers in column three,  
37 the energy sales for Lab City in the year 2000 were  
38 calculated by taking the 2002 revenues minus growth of  
39 about two percent. I didn't include any revenues for pole  
40 attachments or building rental income because I hadn't any  
41 data for Lab City on that corresponding to that for  
42 Wabush, and as for the expenses, I took the ratio of, I took  
43 the Wabush numbers and multiplied by what appeared to  
44 be the best ratio for Lab City based on various factors, for  
45 example, the cost of power purchases were based on the  
46 relative amount of kilowatt hour sales between the two  
47 cities. The cost of depreciation was based on the ratio of  
48 distribution plant, the gross amounts. On line seven the  
49 MI-8, the interest on the debt guarantee were based on the

50 amount of distribution plant with depreciation and finally  
51 the net operating expenses were based on the combined  
52 sales customer and plant ratio, which was, and all those  
53 ratios were developed on Schedule 2. The basis for this is  
54 that the operating expenses are largely the same. They're  
55 provided out of the same office. Obviously there are  
56 expenses particular to each system based on the plant in  
57 that system, but some of the expenses were considered to  
58 be proportional to the sales and some proportional to the  
59 plant. What that shows in total is that whereas Wabush  
60 has a surplus on the basis calculated by Hydro of \$312,000,  
61 the surplus, corresponding surplus for Lab City is about  
62 \$500,000, so the extent of other costs that might be  
63 attributable to either one, I think this shows that Lab City  
64 still provides a surplus given the current rates.

65 MR. HEARN, Q.C.: Would you care to take us through  
66 **MD-2, Schedule 2**, please?

67 MR. DRAZEN: Okay. Lines one through three show the  
68 development of the sales ratio. I used the year 2000  
69 because that's the basis, the latest information for Wabush.  
70 I included 2002 because the information was available and  
71 the numbers are quite similar, as one would expect. For  
72 customers I only have the 2002 data, so I used that. That's  
73 shown on lines four through six and the information on the  
74 2002 customers and sales is taken from the response to NP-  
75 138. The distribution plant investment is taken from the  
76 response to Lab City-8. I'm not sure ... Lab City has ...  
77 although the sales are about three times as much or three  
78 and a half times as much, the investment in distribution  
79 plant is only 1.768 times as much as for Wabush and in my,  
80 the written part of my evidence, I commented that Lab City,  
81 although it accounts for about 40 percent of the total sales  
82 for the Labrador interconnected system, only accounts for  
83 about 20 percent of the distribution investment which was  
84 a basis for justifying a rate differential. To get the  
85 depreciated distribution plant, lines 10 through 12, I looked  
86 at the fact that the Wabush system was acquired in 1985, at  
87 that time it was acquired for \$1, and since then Hydro has  
88 invested about \$3 million. Now given that it's been 15  
89 years and assuming the same depreciation pattern between  
90 Wabush and Lab City, I calculated that the Wabush  
91 system would on average be depreciated down to about  
92 half of the original cost. The Lab City system, having been  
93 acquired eight years prior, would be depreciated down to  
94 (inaudible). In both cases I used a 30-year depreciation life,  
95 and that was to drive the ratio of the depreciated plant. So  
96 if you can look at lines 9 and 12, the ratio of the depreciated  
97 plant to the undepreciated plant is higher for Lab City in  
98 the depreciated plant. And finally, to get the combined  
99 customer sales and plant ratio, I took the factors developed  
100 above, sales from line three and customers from line six and  
101 plant from line nine, and looked at the relationship between  
102 direct and overhead expenses, the relationship between

1 generation transmission costs as they relate to overheads  
2 and distribution, weighted (phonetic) the numbers and  
3 came up with a combined ratio of 2.958 which was then  
4 applied on MD-1, line nine. So this, what I tried to do is  
5 simply say we have a calculation for Wabush showing  
6 surplus. It shouldn't be hard to come up with a  
7 corresponding calculation for Lab City. I believe Mr.  
8 Osmond said that Hydro had not done that for Lab City so  
9 I provided my best shot at coming up with a parallel  
10 analysis.

11 (9:45 a.m.)

12 MR. HEARN, Q.C.: Is there anything else from these two  
13 schedules that's worthy of emphasis or that should be  
14 brought to the attention of the Board and to the other  
15 parties here?

16 MR. DRAZEN: I think the extent that for other costs that  
17 are not reflected in the Lab, I'm sorry, in the Wabush  
18 analysis that were not reflected in the Lab City analysis,  
19 but what it shows is that there is a fair amount of surplus  
20 available to cover those other costs and, say, unless and  
21 until there's some showing that there's a significant amount  
22 of the other costs. This would suggest that the rates in  
23 Lab City and Wabush are adequate at the current level.

24 MR. HEARN, Q.C.: Mr. Osmond in his testimony has  
25 suggested that all customers in the same class and served  
26 from the same system should pay the same rates. Is this a  
27 fundamental public utility principle or simply a matter of  
28 policy?

29 MR. DRAZEN: I would say a policy issue and my feeling  
30 is that one can make a policy decision that everybody  
31 served from a system should pay the same rate. One of the  
32 things I've observed over time is that there's a fundamental  
33 regulatory principle, at least as applied by utilities, which  
34 says that things are the same unless they're different, and  
35 the corollary is that things are different unless they're the  
36 same and often it's up to the utility to decide whether they  
37 are the same or different, so what happens here is that not  
38 having looked for any difference in cost amongst the  
39 subsystems in the Labrador interconnected system,  
40 naturally Hydro didn't find any difference, but when you  
41 look for the cost differences they're there. Then as a policy  
42 decision the Board has to decide do you equalize the rates  
43 or do you not. My view is that a policy decision like that  
44 should be informed by technical analysis. If the costs are  
45 not much different then the policy decision to equalize the  
46 rates is much easier than if the costs are significantly  
47 different, as I think they are here.

48 MR. HEARN, Q.C.: I would bring to your attention **NLH-**  
49 **90**, and I might just say for the purposes of the  
50 proceedings that this request for information from Hydro  
51 didn't come to my attention until the last day or so and

52 therefore has not been formally answered, but I was going  
53 to ask Mr. Drazen to comment on it and to undertake to file  
54 something supplementary in writing subsequent. This is a  
55 request, Mr. Drazen, that we provide the date, company  
56 and regulatory jurisdictions in Canada in which you have  
57 presented testimony that the interest expense should be  
58 included in the lead lag study and the corresponding  
59 decisions on the issue. I wonder if you could comment on  
60 that request?

61 MR. DRAZEN: Sorry, I didn't hear the last part of that.

62 MR. HEARN, Q.C.: I'm sorry. I wonder if you could  
63 comment on the request for dates, company and regulatory  
64 jurisdictions in Canada in which you presented testimony  
65 in relation to the interest expense and that it should be  
66 included in the lead lag study and any decisions that you're  
67 aware of on that issue.

68 MR. DRAZEN: I've testified, say, several times on that  
69 point in Alberta, and I say in Alberta it's currently standard  
70 practice to include the financial costs in the lead lag study  
71 calculation, so while I can provide several instances, I think  
72 the recent orders don't deal with it because it's accepted. I  
73 recommended that the same procedure in a Gaz Metro case  
74 in Quebec, I think in 1997 or 1998. It was not accepted  
75 there. Also submitted evidence on that point in a NEB case  
76 involving West Coast (phonetic) Energy and I can't  
77 remember what the outcome of that was. That was several  
78 years ago.

79 MR. HEARN, Q.C.: I wonder in conclusion of my  
80 questions could you summarize your recommendation?

81 MR. DRAZEN: There are two topics and two  
82 recommendations. The first concerns the cash working  
83 capital and that's explained in my evidence. The cash  
84 working capital is basically the bridge amounts to cover the  
85 cost of expenses between the time they're incurred by the  
86 utility and the time they're recovered from the customers.  
87 In most cases the expenses are incurred previous to the  
88 customers repaying the utility, so there's a positive cash  
89 working capital requirement. In its own filing Hydro has  
90 recognized that it works the other way around for the HST  
91 that the HST amounts are collected from customers prior to  
92 being remitted to the government and this in turn produces  
93 a negative cash working capital requirement. I've pointed  
94 out that the same applies for interest cost and that for the  
95 same reason the interest cost component of the rates  
96 produce a negative working cash capital, net (phonetic)  
97 negative cash working capital amount of about \$10 million  
98 and this should be deducted from the cash working capital  
99 and therefore the rate base recommended by Hydro.

100 The second point concerns the consolidation of  
101 the rates in the Labrador interconnected system and  
102 although the generation of the transmission costs might be

1 considered common to the entire interconnected system,  
2 the distribution costs are different and it's common to have  
3 different rates because of different distribution costs  
4 among customer classes, in this case because the Lab City  
5 customers or the Lab West customers could be considered  
6 a different class from the Happy Valley-Goose Bay  
7 customers, the difference in distribution costs should be  
8 recognized and, or (inaudible) that in total the Lab West  
9 rates should be left at the current level, although the  
10 equalization between Wabush and Lab City does have  
11 some merit. That's it.

12 MR. HEARN, Q.C.: Does that include ... does that  
13 conclude your direct evidence at this time or is there  
14 anything else that you feel might be of assistance to the  
15 Board or to any of the parties?

16 MR. DRAZEN: That's it.

17 MR. HEARN, Q.C.: Thank you. I'm sure my friends have  
18 some other questions.

19 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
20 Hearn. Thank you, Mr. Drazen. We'll move now to cross-  
21 examination. Mr. Young, please, if you'd begin.

22 MR. YOUNG: Thank you, Chair. Good morning, Mr.  
23 Drazen.

24 MR. DRAZEN: Good morning.

25 MR. YOUNG: Mr. Drazen, the first question I have for you  
26 is one that I've spoken before about at this hearing, and it  
27 arises largely from comments I made by way of an  
28 introductory presentation in Wabush some, well, months  
29 ago now, I guess, and at that time the point I raised which  
30 was not correct is that there was no net increase in  
31 revenues from rates to be charged in Labrador City and  
32 Wabush. Mr. Hearn asked a question of our Chief  
33 Financial Officer about that and I interrupted at that point  
34 and indicated that I would point out the error of my ways  
35 through my cross-examination of you, and I wonder if I  
36 could bring you to the page, and my pages aren't  
37 numbered, but it's, I think, the third one from the back or  
38 probably the fourth one from the back. It's the one which  
39 starts Section 3, rate design, and you have a Table 3.1.

40 MR. HEARN, Q.C.: I believe, Mr. Young, there's a number  
41 at the bottom of the page, if that assists.

42 MR. YOUNG: Okay.

43 MR. HEARN, Q.C.: Page seven.

44 MR. YOUNG: Yeah. I've been using a faxed version all the  
45 time and I guess I get truncated from the bottom so I have  
46 numbers on the top which may not match, but Ms. Greene  
47 is helping me out here. It's on page seven of Table 3.1, and  
48 this is just a point of clarification. I wonder, Mr. Drazen, as

49 I indicated to the Board, your evidence is correct on this, if  
50 you, the furthest column from the right, if you could just  
51 indicate what that last column is, the percentage changes.

52 MR. DRAZEN: That's a percentage in ...

53 MR. YOUNG: Yes.

54 MR. DRAZEN: ... revenues? Yes.

55 MR. YOUNG: So the Happy Valley-Goose Bay overall  
56 under the proposal would get a 23.3 percent decrease,  
57 Labrador City and Wabush together would get a 6.4  
58 percent increase, but the total overall will be a decrease of  
59 13.1. Is that correct?

60 MR. DRAZEN: Yes.

61 MR. YOUNG: Okay. So I can make that point clear  
62 because I may have confused some people about that some  
63 months ago and I did undertake to clarify that. Moving on  
64 to the matters which are, I think, perhaps not of that nature.  
65 Mr. Drazen, the central theme to your evidence on rate  
66 design, if I can put that phrase on it, is that if a utility  
67 acquires a distribution system or several systems at  
68 different times, if it acquires them under different  
69 circumstances and at different costs, then I gather what  
70 you're saying is that there is merit in keeping those  
71 separate systems under separate rate structures and  
72 perhaps in perpetuity until, as you say, until you can show  
73 that they're not different, is that correct?

74 MR. DRAZEN: Yes.

75 MR. YOUNG: And I also want to make sure I understand  
76 that you've confirmed or at least acknowledged this  
77 morning that the transmission and generation costs in the  
78 Labrador interconnected system can be treated as common.

79 MR. DRAZEN: They could be (inaudible). There is a  
80 difference between ... you got the turbine and ...

81 MR. YOUNG: Yes.

82 MR. DRAZEN: ... in Goose Bay that doesn't really serve  
83 the Lab West customers.

84 MR. YOUNG: For the purpose of your evidence though  
85 you're not making a point about that, is that my  
86 understanding? You're focusing on the distribution  
87 systems and the differences in costs?

88 MR. DRAZEN: Primarily on the distribution system, that's  
89 correct.

90 MR. YOUNG: And I also note that even though you said  
91 there is an issue here which could be investigated further,  
92 you have accepted Hydro's proposal to treat the customers  
93 in Wabush and Lab City essentially the same and to merge  
94 those rates. You think that's a sensible way to proceed?  
95 That's the way you've treated it in your evidence.

1 MR. DRAZEN: Yes.

2 MR. YOUNG: I've gleaned that. Okay. We've heard some  
3 testimony from other cost of service witnesses, and this  
4 really arose in relation to different issues because we've  
5 heard testimony about, you know, whether it's 1-CP, 2-CP  
6 or 4-CP for demand allocators, and whether it's NCP or CP  
7 for distribution allocation. It's a fair judgement that goes  
8 on here and you touched upon some of those issues just  
9 a moment ago in your summary. Am I right to assume that  
10 this is an issue, and I'm talking about the issue of  
11 determining whether different distribution systems, there's  
12 some common costs but in fact some differences that you  
13 can look to if you look hard enough for them, whether or  
14 not you use different rates in going forward, that's an issue  
15 of judgement also and it's based upon how close they are  
16 or how different they are. It's not a matter of strict obvious  
17 principle, it's a matter of judgement, is that correct?

18 MR. DRAZEN: The principle is that the rates should reflect  
19 the cost. The judgement comes in ... when you say if the  
20 costs are close, then does it make sense to have a small  
21 differential or should you just merge the two? I mean, in  
22 this case, given the fact that the rates are similar right now,  
23 not the same but similar between Lab City and Wabush and  
24 the geographic proximity and it'd make more sense to  
25 consolidate those two than it does to consolidate those  
26 two and Happy Valley-Goose Bay.

27 MR. YOUNG: Okay. So these are along a continuum and  
28 you're breaking the continuum, I guess, between Labrador  
29 City, Wabush and between Happy Valley-Goose Bay.

30 MR. DRAZEN: Yes.

31 MR. YOUNG: And Hydro's proposal of course is to not  
32 break the continuum, so the judgements have been  
33 exercised differently in that case and ...

34 MR. DRAZEN: Well, there's no continuum right now.  
35 You've got separate rates.

36 MR. YOUNG: Yes.

37 MR. DRAZEN: The question is whether you combine  
38 them.

39 *(10:00 a.m.)*

40 MR. YOUNG: That's right, that's right. Amongst experts  
41 who look at these kinds of issues, I'm going to suggest to  
42 you that there's probably, to use a crass term, there's  
43 lumpers and there's dividers, is that right? There's people  
44 who tend to put them together if they're close enough and  
45 not look too closely at the small effects assuming that over  
46 time things will essentially merge and work out and there's  
47 people who continually divide them up into little pieces,  
48 and just is that a fair analysis?

49 MR. DRAZEN: I never thought about it that way. It's ...

50 MR. YOUNG: Okay, yeah.

51 MR. DRAZEN: I mean, obviously there are people who say  
52 ignore differences and people who say recognize them, but  
53 within each of those groups you'll find ...

54 MR. YOUNG: Two camps perhaps?

55 MR. DRAZEN: Well, as I say, people ... say it's a question  
56 of how big the differences are before you have to recognize  
57 them.

58 MR. YOUNG: I'm just wondering if you're aware of the way  
59 that this Board may have in the past in different  
60 circumstances treated these kinds of issues between  
61 costing and customer groupings within, you know, within  
62 the jurisdiction of Newfoundland and Labrador. I was just  
63 wondering, for example, if you were aware that  
64 Newfoundland Power grew by acquiring distribution  
65 systems and other utilities, distributing utilities, and at one  
66 point, it's a good while ago now, decades ago, it unified the  
67 rates, were you aware of that history here in  
68 Newfoundland?

69 MR. DRAZEN: I'm not.

70 MR. YOUNG: Is that a common kind of a situation you  
71 would have looking at the history of utilities over time that  
72 they tended to often start with several different utilities,  
73 distributing utilities, and merge them as they got, the costs  
74 got closer and as the commonalities grew?

75 MR. DRAZEN: (inaudible) familiar with other utilities that  
76 have grown (phonetic) up that way. I think what  
77 distinguishes those cases from this one is that the cost of  
78 distribution is usually small or smaller compared to the cost  
79 of generation and transmission, so, for example, you had  
80 different utilities that, historically separate utilities were  
81 then bought up and combined and the acquiring utility or  
82 the system would integrate the generation and  
83 transmission system for all of them, but generation and  
84 transmission was a much bigger cost. What you have here  
85 in Labrador is the happy fact that you got quarter penny  
86 power, so the distribution system differences, differences  
87 in the distribution costs are a larger factor than they are in  
88 other systems.

89 MR. YOUNG: But the, you know, I think you'd agree with  
90 me that the principle does apply that if you look at the  
91 history of utility's growth generally speaking as they  
92 acquire distribution systems, and I understand your point  
93 about the, as you put it, the quarter penny power. I haven't  
94 heard that phrase coined. It has a certain ring to it.

95 MR. DRAZEN: Thank you.

96 MR. YOUNG: There is nonetheless the fact though that

1 after, if you look at these over a period of time, it becomes  
2 somewhat of an academic exercise, doesn't it, always to  
3 make the distinction as to which distributing area is at  
4 which cost. I mean, for example, just to put this in context,  
5 which might be more useful for others in the room if not for  
6 yourself and I in this purpose, if you were to look at  
7 Newfoundland Power, I mean, they acquired these different  
8 utilities at different times ... and we could, I suppose, as an  
9 exercise look at the distribution costs in Corner Brook or in  
10 a more remote rural area, compare them to a new area of St.  
11 John's or an old area of St. John's and find differences, and  
12 if you look hard enough you might find real differences in  
13 cost. Is that correct? Would you accept that as a possible  
14 pattern?

15 MR. DRAZEN: Yes.

16 MR. YOUNG: But the fact is we've stopped making those  
17 subdivisions some time ago and merged them together.  
18 You probably would acknowledge that. I mean, in  
19 Newfoundland, for example, we pay, on the island of  
20 Newfoundland I'm referring to, we pay the same rates if  
21 you're on the interconnected system, even doesn't matter  
22 if they're served from Newfoundland and Labrador Hydro  
23 or by Newfoundland Power, you may have been aware of  
24 that fact also.

25 MR. DRAZEN: I'm also aware that you have different rates  
26 on the island and in Labrador because the costs are  
27 different.

28 MR. YOUNG: Yes.

29 MR. DRAZEN: So at some point you say the costs are  
30 different and therefore we keep the rates separate though  
31 within, but on the island you say you have one set of rates  
32 for all the interconnected customers.

33 MR. YOUNG: Yeah.

34 MR. DRAZEN: So some, you recognize some difference  
35 and you don't recognize others.

36 MR. YOUNG: That's right. At some point the distinction  
37 is made but there is a judgement call to be made, which is  
38 I think the point I was making first.

39 MR. DRAZEN: Right, and I'm offering my judgement.

40 MR. YOUNG: Yes, exactly. I wonder if we could discuss  
41 for a moment sort of the policy reasons that utility boards  
42 may use, regulators may use when they include areas  
43 together. Hypothetically assume for a moment that we had  
44 a major ice storm in Labrador City/Wabush area and right  
45 now you've indicated that in your view the distributing  
46 costs or the costs relating to the distribution system there,  
47 systems there as they are right now are fairly low, but if  
48 that had to be rebuilt in a major way, sort of all at once, I  
49 mean, suddenly that could change overnight, isn't that

50 correct, and it could be sort of a hard ... if you then decided  
51 to keep them on forever, I mean, the economies of scale  
52 would be such that that would be a very hard hit for a  
53 relatively small number of customers.

54 MR. DRAZEN: That's true, but it's unlikely and if not ... at  
55 least uncommon if non-existent for something like that to  
56 happen. I mean, yeah ...

57 MR. YOUNG: Yeah.

58 MR. DRAZEN: ... you can go through different scenarios  
59 with hypotheticals but, and as the old saying goes, if my  
60 grandmother had wheels, she would have been a streetcar.

61 MR. YOUNG: (inaudible). Just on a point of the size of  
62 Happy Valley, Labrador City, Wabush, I mean, these are  
63 not very, very large metropolitan areas with large  
64 infrastructures to serve them from a utility point of view.  
65 You may be aware that I think there's evidence to the effect  
66 that essentially one office of Newfoundland and Labrador  
67 Hydro looks after the whole of the area.

68 MR. DRAZEN: Yes.

69 MR. YOUNG: So there's not big distinct groups of  
70 employees dealing with all these areas. There's a fair bit of  
71 commonality there.

72 MR. DRAZEN: Right. I understand that when Hydro  
73 acquired the Lab City system, it served it out of the same  
74 office as being used to serve Wabush.

75 MR. YOUNG: And further now, I think if you were going  
76 to look to some people to do some work and to make some  
77 decisions about Labrador City or Wabush, you may be  
78 aware that you'd have to go within Hydro, for example, to  
79 someone in Goose Bay, Happy Valley-Goose Bay to make  
80 the ...

81 MR. DRAZEN: Some of the costs would be common to all  
82 of the Labrador interconnected system but some would just  
83 be common to Lab City and Wabush.

84 MR. YOUNG: Right.

85 MR. DRAZEN: That's why I thought it would be possible  
86 to come up with a surplus calculation for Lab City, like  
87 Wabush, because the two are basically one subsystem.  
88 There might be some overheads that are common with  
89 Happy Valley-Goose Bay but there are some that aren't.

90 MR. YOUNG: Yeah. Now, on that surplus calculation, I  
91 think you've called it a cost analysis for the evidence that  
92 came in yesterday afternoon, you've taken, as I understand  
93 it, the calculation that Hydro has been doing for, well since  
94 the late '80s, and applied the same methodology to come up  
95 with a set of numbers for Lab City, and I gather, I just need  
96 to understand this a bit better than I do at present, but I  
97 gather you scale them up sometimes or scale them back and

1 use ratios, which you've explained to some extent this  
2 morning, to come up with these values, is that right?

3 MR. DRAZEN: Yes.

4 MR. YOUNG: Hydro has made comments both in its  
5 testimony and also in response to some of the information  
6 requests indicating that, you know, what it's provided to  
7 determine the Wabush surplus is not a cost of service kind  
8 of analysis, and I believe you probably would confirm that  
9 that's the case this morning. I'm just wondering if you draw  
10 a distinction between the sort of process you went through  
11 this morning and the sort of process that a utility would  
12 normally go to, go to to find the answers as to costs for an  
13 area.

14 MR. DRAZEN: The problem is that the process that Hydro  
15 went through was nothing.

16 MR. YOUNG: Hydro didn't draw these distinctions, as you  
17 say. If we looked to this, you're saying we might have  
18 found something but we had not in fact done this.

19 MR. DRAZEN: Correct.

20 MR. YOUNG: We've done ... you may be aware we've done  
21 what the Board asked us to do, which was to do the one  
22 study.

23 MR. DRAZEN: Right. So I took the best information that  
24 was available and used that as a basis for the Lab City  
25 calculation.

26 MR. YOUNG: If there are ... if there was some doubt as to  
27 the validity of the Wabush surplus information, because  
28 you've used that as a scale for the Lab City and sort of then  
29 made some conclusions from them, I suggest to you if the  
30 Wabush surplus information, had some doubt about it,  
31 there may be some concern about the outcome of your  
32 study, would you accept that, using it for what the  
33 purposes are here in your evidence, determining that there  
34 is in fact excess revenues that have a basis for continuing  
35 their difference in rate treatment?

36 MR. DRAZEN: I think I recall Hydro is proposing to refund  
37 something in excess of \$2 million to the customers in  
38 Wabush. That's a lot of money to have some doubt about,  
39 so I think it's, if it's good enough for their purpose, it's  
40 good enough as a basis for assessing, at least in this first  
41 instance, whether the Lab City rates are adequate.

42 MR. YOUNG: I wonder if I can refer you to **NP-199**,  
43 please? It'll probably be on your screen in a moment. Now  
44 if you read lines 14 to 19, perhaps you can just read that  
45 into the record for the purposes of, present purposes?  
46 This is part ... this is the second paragraph, part of an  
47 answer to a question we were asked.

48 MR. DRAZEN: Will I read that ... that says that, "If you

49 allocated overheads and other costs on an interconnected  
50 system-wide basis, the costs would be higher and there  
51 wouldn't be any surplus," which is another way of saying  
52 that the costs for Wabush alone, looking at the Wabush  
53 costs, are lower than the average of the interconnected  
54 system costs.

55 MR. YOUNG: It's also another way of saying that the way  
56 that Hydro, put this to you, that another interpretation here  
57 of these words, which I ask you to consider, is that there  
58 are overhead cost allocations, marginal cost allocations,  
59 rural deficit allocations, which were not done for the  
60 purpose of the Wabush surplus calculation which have  
61 been done for the purposes of the cost of services we've  
62 provided the Board. I think that's what this answer says.

63 MR. DRAZEN: It sounds like we're saying the same thing.

64 MR. YOUNG: Yeah, okay. I'm not sure if we are.

65 MR. DRAZEN: Oh, yes. If we focus on one part of that,  
66 which would be the rural deficit, I think the rural deficit  
67 portion for the interconnected system, Labrador  
68 interconnected system, is something like \$4 million, which  
69 is offset in large part by the CFB secondary surplus, if you  
70 will, of \$2.8 million, so the net rates include some rural  
71 deficit but not the full amount. This says if you allocate the  
72 rural deficit to the Wabush customers so that might wipe  
73 out the surplus, it doesn't say anything about the inclusion  
74 of the CFB secondary, and I think it also says that if you  
75 allocate the distribution costs in the rest of the system to  
76 Wabush, they might be higher than they are for Wabush  
77 alone.

78 MR. YOUNG: I wonder if I could bring you to **Schedule 3**  
79 **of John Brickhill's second supplementary evidence** just for  
80 a moment? What this schedule shows, and I'm not sure if  
81 you followed along with the course of the development of  
82 this schedule and how it arose, but I, just for the purposes  
83 of context there were some errors and corrections required  
84 in relation to some allocation changes that occurred, and  
85 these were determined after the hearing started and filed  
86 shortly thereafter. As you can see it says September 2001  
87 revision. I think what you'd see if you look at the rural  
88 Labrador interconnected is that there is, because of these  
89 changes, a fair bit of change over the, from the original  
90 submission to the revised submission. These relate to  
91 different allocations and changes within the allocations  
92 that arose from some fairly low level fundamental changes  
93 that were made and introduced by Mr. Reeves in his  
94 evidence. What you do see though is a difference of  
95 roughly \$1 million. I'm just wondering if you had  
96 considered any of these kinds of changes, these allocation  
97 changes, which go into a proper costing of an area like  
98 Wabush or Labrador City when you came up with your  
99 numbers and would this kind of analysis have any impact

1 on the method you used?

2 MR. DRAZEN: To the extent that that would change the  
3 overheads that might be allocated to Wabush and Labrador  
4 City, yes, they should be included, but it's still the same,  
5 you have the same underlying problem that we don't have  
6 an analysis of the Lab City costs from Hydro so we have to  
7 use what's available, my calculations, something like  
8 \$500,000 in surplus that's available to cover these overhead  
9 costs. How much the overhead costs, how much of  
10 overhead costs would be rightly attributable to Lab City is  
11 something that would take further analysis.

12 (10:15 a.m.)

13 MR. YOUNG: Yes, I agree, it could ...

14 MR. DRAZEN: It still doesn't mean that the rate should be  
15 equalized. You have that underlying difference that doesn't  
16 change even though the overhead costs change.

17 MR. YOUNG: I guess what I'm suggesting to you is the  
18 method you've used and the method that this Board has  
19 normally seen from Hydro is to allocate costs between  
20 customer groups is, you know, they're different,  
21 considerably different.

22 MR. DRAZEN: I wouldn't say the method is different. I  
23 would say that the degree of inquiry is different. Hydro  
24 didn't look for any difference amongst the subsystems of  
25 the Lab interconnected system but the same costing  
26 method could apply but it's just a question of how you  
27 break up the classes. If someone were to come along and  
28 say we should treat the entire Hydro system as one system,  
29 you'll be more surprised if you find that the cost of serving  
30 customers in Labrador is the same as the cost of serving  
31 customers on the island, but you would find that only  
32 because you hadn't looked for a difference. When you  
33 distinguish between the two systems you find a difference.  
34 When you distinguish ...

35 MR. YOUNG: I think if you drill down deep enough into  
36 the system in various distribution areas, you'd find  
37 differences all over the place, wouldn't you?

38 MR. DRAZEN: You'd find what?

39 MR. YOUNG: Differences in various areas of the province  
40 if you were to isolate, you know, going ... you know, if you  
41 took an academic exercise, for want of a better term, and  
42 you looked at various areas of, for example, the  
43 interconnected regions on the island, I mean, if you looked  
44 hard enough you'd find differences.

45 MR. DRAZEN: That's correct, and that's why you have a  
46 policy decision. When you have rates that are the same, at  
47 what point does it justify it to separate them ...

48 MR. YOUNG: That's right.

49 MR. DRAZEN: ... and conversely when you have rates  
50 that are different, at what point is it, do you combine them,  
51 but I don't think you combine them just because you say  
52 we decided to. The other point is, and I think it came up in  
53 the transcript at one point, that if you look hard enough  
54 you can say that customers located in one part of the city  
55 might have different costs than customers located in  
56 another part of the city, but to the extent that that cost is  
57 not, that cost difference is not sustainable over time or will  
58 vary over time, then you say it doesn't make sense to  
59 recognize it, but when you have a totally different  
60 distribution system, that's something that is not going to  
61 change, not change very quickly.

62 MR. YOUNG: Yeah, but there could be ... I mean, I accept  
63 for the purposes of your point something ... but of course  
64 if the system grows, the plant changes, it gets changed out,  
65 ages, it hits its useful life, things tend towards the middle,  
66 if you see my point. There may be differences now but, I  
67 mean, if you, unless you accept that they'll never change,  
68 you can assume that they will change and probably change  
69 towards the average. Would you agree? You know, for  
70 example now, let me put that in somewhat direct context. I  
71 mean, what we're dealing with here in Labrador City and  
72 Wabush is systems which were bought at essentially  
73 nominal value, some significant reinvestment was done, but  
74 going forward, that plant, which was bought at nominal  
75 value, will have to be replaced and the cost of replacing  
76 that plant will tend on average to be closer to the average  
77 cost that Hydro incurs elsewhere the full cost over time.

78 MR. DRAZEN: That may be depending on the type of  
79 plant, but if hypothetically you were to say that in 25 years  
80 the average cost in Lab City will be the same as it is in  
81 Happy Valley-Goose Bay, that doesn't mean that you  
82 should equalize the rates in five years.

83 MR. YOUNG: And that I suppose ...

84 MR. DRAZEN: Especially given that the equalization  
85 means a substantial increase for a lot of the customers.

86 MR. YOUNG: And that is one of the issues of the  
87 judgement, comes in. You touched upon that a few  
88 moments ago, which I think I probably should ask you  
89 about because it is a matter which is relevant to people in,  
90 as I understand you're speaking from, from Labrador West,  
91 Labrador City and Labrador, and Wabush, that this is the,  
92 the surplus which is forecast to result from sales to CFB  
93 Goose Bay, Hydro's proposal, you seem to be very aware,  
94 is to keep the benefit of that surplus within the Labrador  
95 interconnected system, and there has been at least one  
96 other expert who suggested that we treat that in another  
97 way, distributed just against the rural deficit. I'm just  
98 wondering if you have any comment on that or, you know,  
99 if it's not something you've given any thought to we can,



- 1 we can move on.
- 2 MR. DRAZEN: I can't say it's something that I've thought  
3 a lot about. I understand it's an issue ...
- 4 MR. YOUNG: I realize ...
- 5 MR. DRAZEN: ... as is the rural deficit.
- 6 MR. YOUNG: Yeah, and I realize it's not your evidence. I'm  
7 just wondering if you had any comments on that. If I can,  
8 just a few more questions, but I do have a couple of  
9 questions on your cash working capital matter. You  
10 mentioned this morning when you answered essentially  
11 **NLH-90** that Alberta was one jurisdiction that has accepted  
12 the point you raised. It wasn't accepted in Quebec, I  
13 understand. You weren't able to say whether it was  
14 accepted or not in the, by the National Energy Board. In  
15 your evidence though you've indicated that you've given  
16 testimony in British Columbia, Nova Scotia, Ontario,  
17 Saskatchewan. You didn't mention those in that context.  
18 I'm just wondering which they use. Do they use the  
19 interest expense in their lead lag study in the manner that  
20 you're proposing?
- 21 MR. DRAZEN: I didn't mention those because I didn't ... I  
22 think in, say, Nova Scotia, my evidence only concerned  
23 rate design. In Saskatchewan I think it was also only  
24 concerned with rate design. It's been a while and the  
25 Saskatchewan Public Utilities Review Commission was  
26 disbanded back in the '80s. Ontario, that was only rate  
27 design, so I just don't recall how they treat them.
- 28 MR. YOUNG: Okay. So you can't provide any evidence as  
29 to whether they've been accepted there ...
- 30 MR. DRAZEN: That's right.
- 31 MR. YOUNG: ... this proposal. Okay. In that case, that's  
32 all my questions. Thank you, Chair. Thank you, Mr.  
33 Drazen.
- 34 MR. DRAZEN: Thank you.
- 35 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
36 Young. Thank you, Mr. Drazen. We'll move now to cross-  
37 examination by Newfoundland Power. Good morning, Ms.  
38 Butler.
- 39 MS. BUTLER, Q.C.: Thank you, Mr. Young. Good  
40 morning, Mr. Drazen.
- 41 MR. DRAZEN: Good morning.
- 42 MS. BUTLER, Q.C.: Newfoundland Power's only interest  
43 is in relation to the cash working capital recommendation  
44 which you make, and I wonder if we can look at **your**  
45 **evidence at page six**? Yeah, I think we have page six on the  
46 screen, do we? That is the formal recommendation that  
47 you're making for the inclusion of the offset to cash  
48 working capital.
- 49 MR. DRAZEN: Yes.
- 50 MS. BUTLER, Q.C.: Okay.
- 51 MR. DRAZEN: Now, I misspoke earlier in my summary. I  
52 said the (inaudible) was \$10 million. It's actually \$13 million.
- 53 MS. BUTLER, Q.C.: Can you go back to **page five of your**  
54 **pre-filed** to see the details of what you're recommending  
55 here? Can we just see that full paragraph, Mr. O'Rielly, that  
56 starts with "For bonds," etcetera? No. Just scroll down.  
57 There you go, thank you. And I wonder, Mr. Drazen,  
58 perhaps you just might read in the paragraph there that  
59 starts with, "For bonds with," just down to the reference to  
60 Schedule 1? Can you read that into the record for us?
- 61 MR. DRAZEN: Sure. "For bonds with semi-annual  
62 payments, on average the expense is incurred with a lag of  
63 one-quarter a year or 91.25 days. The Company collects  
64 revenues in order to pay the interest cost throughout the  
65 year which on average is before it must actually pay the  
66 interest. Accordingly this represents a source of working  
67 capital, or a negative CWC requirement. Schedule 1  
68 provides some of the regulatory precedents for this."
- 69 MS. BUTLER, Q.C.: Okay. Now, Schedule 1 then came a  
70 few days after your pre-filed. I think it's also electronically  
71 stored, Mr. O'Rielly. No, actually Mr. Drazen's Schedule 1  
72 to his pre-filed is the reference to the other jurisdictions.
- 73 MR. O'RIELLY: I don't believe I have that.
- 74 MS. BUTLER, Q.C.: Okay. On August the 27th we  
75 received by facsimile the Schedule 1 to your evidence  
76 which had been omitted inadvertently from the submission  
77 of August 23rd, and it makes references to four American  
78 jurisdictions that I presume you feel support the reference  
79 that you make at page five.
- 80 MR. DRAZEN: Yes.
- 81 MS. BUTLER, Q.C.: Okay. And they were US Federal  
82 Energy Regulatory Commission, Maine, Massachusetts  
83 and Missouri, and what I wanted to ask you about these  
84 four American jurisdictions relevant to the reference on  
85 page five ... if we could just look at that again, please, Mr.  
86 O'Rielly? Thank you ... is whether in fact the interest  
87 adjustment is the only adjustment that they make in terms  
88 of the lead lag study or are there other financial issues that  
89 they also adjust for in terms of the cash working capital  
90 requirement?
- 91 MR. DRAZEN: I don't recall if they also include preferred  
92 stock in that. It could be although that wasn't an issue  
93 here.
- 94 MS. BUTLER, Q.C.: And what about depreciation?

1 MR. DRAZEN: Depreciation I think is usually not  
2 included.

3 MS. BUTLER, Q.C.: You think usually it's not?

4 MR. DRAZEN: Right.

5 MS. BUTLER, Q.C.: Okay. And I wonder in relation to  
6 **NLH-90**, and perhaps ... I know the question is  
7 electronically stored, if we might just look at that, Mr.  
8 O'Rielly.

9 MR. O'RIELLY: No, it is not.

10 MS. BUTLER, Q.C.: Oh, it's not, okay. NLH-90 asked you  
11 to provide the date, company and regulatory jurisdictions  
12 in Canada in which you had presented testimony that the  
13 interest expense should be included in the lead lag study,  
14 and I know you've undertaken to provide an answer to that  
15 question today in writing, notwithstanding what you said  
16 about the Province of Alberta. I'd be more interested, not  
17 just simply in jurisdictions in which you had testimony but  
18 whether you actually knew of any other jurisdictions in  
19 Canada that applied this principle, even if you hadn't  
20 testified there. Would it be possible for you to enlarge  
21 your undertaking to include those?

22 MR. DRAZEN: I'd be happy to.

23 MS. BUTLER, Q.C.: Okay. And likewise in the Province of  
24 Alberta where you've testified today that they do include  
25 the interest as an adjustment, can you tell us whether they  
26 also include other financial adjustments to the cash  
27 working capital issue?

28 MR. DRAZEN: Alberta includes the depreciation and  
29 equity return.

30 MS. BUTLER, Q.C.: Okay. Thank you very much, Mr.  
31 Drazen.

32 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
33 Butler. Thank you again, Mr. Drazen. We'll move now to  
34 industrial customers, Ms. Henley Andrews, please.

35 MS. HENLEY ANDREWS, Q.C.: Good morning, Mr.  
36 Drazen.

37 *(10:30 a.m.)*

38 MS. HENLEY ANDREWS, Q.C.: Good morning. Earlier this  
39 morning in your testimony in reference to the gas turbine  
40 in Goose Bay you indicated that this does not really serve  
41 the Wabush and Labrador City areas. What do you mean  
42 by that?

43 MR. DRAZEN: As a practical matter of the supply from,  
44 the supply for Wabush and Goose Bay comes from  
45 Churchill Falls. You don't get back flow, as it were, from the  
46 other end of Labrador.

47 MS. HENLEY ANDREWS, Q.C.: So would you propose  
48 that the gas turbine in Goose Bay should be specifically  
49 assigned to the Goose Bay system, their generation costs?

50 MR. DRAZEN: (inaudible) common.

51 MS. HENLEY ANDREWS, Q.C.: And what would need to  
52 occur in order for the gas turbine in Happy Valley-Goose  
53 Bay to be regarded as a common cost?

54 MR. DRAZEN: The situation right now is that the supply  
55 from Churchill Falls is sufficiently reliable that you don't  
56 need additional peaking power or backup power. You have  
57 to have changes such that you either needed occasional  
58 backup power that could not be supplied otherwise or that  
59 Churchill Falls would become less reliable.

60 MS. HENLEY ANDREWS, Q.C.: We've had evidence here  
61 that the standard definition of a common cost is a, or  
62 common plant is plant which provides substantial benefit  
63 to two or more customers. Would you agree that that's a  
64 fairly common definition of common plant?

65 MR. DRAZEN: I agree with perhaps one change, that it's  
66 used or required to be used to serve them.

67 MS. HENLEY ANDREWS, Q.C.: So it's required to be used  
68 to serve them?

69 MR. DRAZEN: Right. You used the word "benefit," and  
70 sometimes that leads you into problems in assigning costs.  
71 If my neighbour puts up a fence to keep a dog in, I agree  
72 it's a benefit to me but I don't think I should have to pay for  
73 that.

74 MS. HENLEY ANDREWS, Q.C.: Okay. The other question  
75 that I had in, arising out of Mr. Young's questions to you  
76 this morning is, from your perspective what would have to  
77 change in Labrador in order for common rates between the  
78 Labrador City/Wabush and the Happy Valley-Goose Bay  
79 area to be justified?

80 MR. DRAZEN: I think you'd have to find based on a cost  
81 analysis that the cost of service is sufficiently similar, that  
82 it doesn't make sense to have separate rates.

83 MS. HENLEY ANDREWS, Q.C.: Thank you. Those are all  
84 my questions.

85 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
86 Henley Andrews. We'll move now to the Consumer  
87 Advocate, Mr. Browne, please, if you would.

88 MR. BROWNE, Q.C.: Thank you, Mr. Chairman. Can we  
89 go to **CA-175**, please? CA-175, put the question, "Provide  
90 a comparison of the cost components and their  
91 contributions to the basic customer charge for domestic  
92 and general service customers on the island interconnected  
93 system, the Labrador interconnected system and the  
94 isolated rural system." And I gather, Mr. Drazen, you're

1 here dealing with the Labrador integrated system, is that  
2 correct?

3 MR. DRAZEN: Yes.

4 MR. BROWNE, Q.C.: And these customer cost and basic  
5 charges for domestic rate in Happy Valley-Goose Bay and  
6 the domestic rate in Labrador City/Wabush, are you taking  
7 issue with these?

8 MR. DRAZEN: In effect, yes, because this shows the cost,  
9 going to say the domestic cost to be the same in both  
10 areas, but the reason it's the same is the total cost of the  
11 interconnected system was allocated equally to all the  
12 customers and then divided by the number of customers,  
13 so if there's a cost difference it's lost in this analysis.

14 MR. BROWNE, Q.C.: What is the source of generation for  
15 Happy Valley-Goose Bay?

16 MR. DRAZEN: Churchill.

17 MR. BROWNE, Q.C.: And what is ...

18 MR. DRAZEN: I'm sorry, well, Churchill and the turbine.

19 MR. BROWNE, Q.C.: Sure.

20 MR. DRAZEN: On an occasional basis.

21 MR. BROWNE, Q.C.: What is the source of generation for  
22 Labrador City/Wabush?

23 MR. DRAZEN: Churchill.

24 MR. BROWNE, Q.C.: So it's your argument because they're  
25 going in two different directions from the point of  
26 generation that the costs should be determined from that  
27 point forward, is that what you're saying?

28 MR. DRAZEN: I was saying that ... I'm taking the cost of  
29 Churchill being the same for both of them, that the  
30 Churchill cost is what I referred to earlier as the quarter  
31 penny power. It's a very small portion of the total so the  
32 fact that that cost is the same for both ends of Labrador, if  
33 you will, doesn't mean the rate should be the same because  
34 you've also got the distribution cost which is different as  
35 between the two.

36 MR. BROWNE, Q.C.: So you narrow it down to the  
37 transmission and distribution costs or to the distribution  
38 cost alone?

39 MR. DRAZEN: I (inaudible) the distribution cost alone  
40 because that is an identifiable cost that's recorded by  
41 Hydro.

42 MR. BROWNE, Q.C.: And that being the case, could a  
43 similar argument or would you adopt a similar argument, as  
44 Mr. Young put to you, in reference to the island portion of  
45 the province if there could be a distinct distribution cost  
46 attributed to a particular area, that the cost should be

47 reflected for that particular area as opposed to be  
48 generalized across the island?

49 MR. DRAZEN: If you can identify a cost difference it's  
50 worth looking at and discussing.

51 MR. BROWNE, Q.C.: Historically where do you begin with  
52 that? Newfoundland Power, as we know it, is a relatively  
53 new company. I think it came into being in the 1960s, but  
54 we have companies such as the United Towns Electric out  
55 around Conception Bay historically gave, was a distributor,  
56 and, indeed, I guess, a generator out there. When  
57 Newfoundland Power came to acquire these particular  
58 companies, is it your argument that we should go back and  
59 look to the distribution costs for these particular companies  
60 and Conception Bay, which was serviced by United Towns  
61 Electric should be a different charge than St. John's, which  
62 was serviced by another small company at the time? Is that  
63 what you're arguing?

64 MR. DRAZEN: I'm not arguing that, although if you  
65 wanted to you could. The difference, I suggested earlier,  
66 might be that distribution cost there is a smaller portion of  
67 the total. I mean, you've got oil-fired generation, the cost  
68 is much higher than it is from Churchill, and also to the  
69 extent that you have changes in the distribution systems in  
70 those towns, you have to look at the current cost.

71 MR. BROWNE, Q.C.: So your pricing is based on  
72 distribution costs.

73 MR. DRAZEN: All I'm saying is that if there's a difference  
74 in distribution cost that's material, it can be, it can and  
75 should be reflected, which is really no different than what  
76 you find in many systems that you have a general service  
77 rate that's different than the domestic rate because the  
78 general service customers require proportionally less  
79 distribution cost than the domestic customers do.

80 MR. BROWNE, Q.C.: In terms of Labrador, we also have  
81 the Labrador isolated systems, and you can see their rates  
82 there in **CA-175** as well, the domestic rate and the basic  
83 customer charge, which is a lot higher than the domestic  
84 rate and basic customer charge for Happy Valley-Goose  
85 Bay and Labrador City/Wabush. Is there any, in your  
86 opinion, any social justification for one system assisting  
87 the other for the isolated system being assisted by the  
88 Labrador interconnected system when pricing is being  
89 adopted?

90 MR. DRAZEN: Are you asking whether there's a basis for  
91 the rural deficit subsidy?

92 MR. BROWNE, Q.C.: No. I'm asking in terms of pricing.  
93 When electricity is being priced for the isolated systems,  
94 should there be ... I guess, yeah, that's what essentially ...  
95 should there be some kind of subsidy built into the  
96 Labrador rates to help the other Labrador customers?

1 MR. DRAZEN: There again you're into a policy issue as to  
2 how you make up the deficit on those customers. I don't  
3 have a ...

4 MR. BROWNE, Q.C.: You don't have a position on that?

5 MR. DRAZEN: ... an answer for that. I haven't analyzed  
6 that issue. I understand it's an issue of some contention.

7 MR. BROWNE, Q.C.: Are you familiar with Bond Bright's  
8 principles ...

9 MR. DRAZEN: Yes.

10 MR. BROWNE, Q.C.: ... in rate design?

11 MR. DRAZEN: Yes, I am.

12 MR. BROWNE, Q.C.: Okay. Can we go to **CA-181** for a  
13 moment, please? CA-181 is a study completed by Dr.  
14 Wilson and in that study he makes reference to Bond  
15 Bright's principles of rate design.

16 MR. O'RIELLY: (inaudible)

17 MR. BROWNE, Q.C.: That's not available electronically?  
18 Okay. Maybe the witness could be shown that while I'm  
19 finding my page. Can you go to page 18, sir?

20 MR. DRAZEN: I have that.

21 MR. BROWNE, Q.C.: You have that? The author, Dr.  
22 Wilson, made reference to previous Bond Bright principles.  
23 Then it says, "In addition," this is the second paragraph,  
24 "Bond Bright identified several other criteria that are not  
25 necessarily subsumed by three (phonetic) primary criteria.  
26 They are the related practical attributes of simplicity,  
27 understandability, public acceptability and feasibility of  
28 application. In terms of public acceptability, in terms of  
29 rates, we visited Labrador some months ago and we had  
30 presentations from people along the coastal areas of  
31 Labrador who are very much aware of, and some of these  
32 were native peoples, they were in Labrador before, before  
33 we came there, and they, some of these people had a  
34 difficulty understanding why in Labrador City they're  
35 paying, I think, what amounts to 2.1 cents a kilowatt  
36 whereas a lot of them were on a two-tier system or a three-  
37 tier system, a lifeline rate, and paying substantially higher  
38 than that. Do you have any thoughts as to how you would  
39 explain that to them, the fact that Labrador City is getting  
40 its electricity at 2.1 cents and up the coast they are paying  
41 through the nose?

42 MR. DRAZEN: I have thoughts as to how I'd explain it  
43 because it's based on the difference in cost. Whether they  
44 would find that to be (inaudible) persuasive, I don't know.

45 MR. BROWNE, Q.C.: Sure, but you would explain it from  
46 a logical perspective ...

47 MR. DRAZEN: Yes.

48 MR. BROWNE, Q.C.: ... from a rate design perspective.  
49 But you can see the conundrum, I guess, from their  
50 perspective too. They probably don't understand it from a  
51 practical perspective, do they?

52 MR. DRAZEN: That's true. Whenever I think about utility  
53 rates and the fact that they're, to my mind, relatively logical  
54 and straightforward, I think about life insurance and  
55 medical insurance rates, which I don't understand at all, and  
56 I can understand other people's dilemma.

57 (10:45 a.m.)

58 MR. BROWNE, Q.C.: I'll have to remember that analysis  
59 the next time I visit the coast. On **page 18 of Dr. Wilson's**  
60 **evidence**, he makes reference to, the last two lines, "Most  
61 notably, beginning in the late 1970s, with the passage of  
62 *The Public Utilities Regulatory Policies Act* in the United  
63 States and corresponding initiatives at the provincial level  
64 in Canada, the complementary goals of conservation,  
65 efficiency and equity emerged as the hallmark of modern  
66 electric utility rate design." Do you agree with that?

67 MR. DRAZEN: I agree that conservation became more of  
68 a concern at that point because the cost of energy was  
69 increasing. The efficiency and equity I think had always  
70 been concerns.

71 MR. BROWNE, Q.C.: Were electricity in a comparatively,  
72 I guess, to anywhere else on the island, I think our own  
73 witness said anywhere else in the world actually, is very  
74 cheap in Labrador City and Wabush. You're paying 2.1  
75 cents, less than a cent American, someone said. Do you  
76 know if any other jurisdiction has electricity that cheap?  
77 Can you come up with anything?

78 MR. DRAZEN: Offhand I can't think of any other  
79 jurisdiction that has the, currently, I mean, has the  
80 fortunate situation of having such cheap supply as you  
81 have from Churchill. I think hydro systems have been,  
82 turned out to be quite economical. The problem is some of  
83 those hydro systems having cheap power enable the  
84 utilities to make some expensive mistakes. Thinking, for  
85 example, the Bonneville (phonetic) power administration  
86 signed up for a lot of nuclear-fired power and the  
87 (inaudible) that turned out to be quite expensive, so  
88 Churchill is an extremely attractive resource.

89 MR. BROWNE, Q.C.: And where it is so cheap in Labrador  
90 City and in Wabush at 2.1 cents, how does that jive with  
91 the principle of conservation if people see it as being as  
92 cheap as it is and may not put the value on it someone  
93 would put on, say, in coastal Labrador where they're  
94 paying more expensive ... is there a correlation between  
95 cheap power and conservation principles?

96 MR. DRAZEN: The issue here isn't that the power will be  
97 any less cheap to the extent that the rates in Lab West are

1 increased, the rates in Happy Valley-Goose Bay will be  
2 decreased because of equalization. Yes, power in Lab City  
3 is attractively priced, so with all due respect to Mr. Hearn's  
4 home town it doesn't look like there's a mad rush to move  
5 to Lab City just to get the cheap power and use it up.

6 MR. BROWNE, Q.C.: No, and granted that there are  
7 particular requirements there. You're living in the north and  
8 people need heater blocks for their cars and so on during  
9 the winter, which you don't require in a lot of the, in the  
10 southern portions of the province. But come back to my  
11 question, the fact that electricity is 2.1 cents a kilowatt, is  
12 there any ... what exactly are we teaching ... is it realistic to  
13 teach people that electricity is that cheap or can be valued  
14 so cheaply, less than a cent American? Are we sending the  
15 wrong message there to people in terms of conservation  
16 principles, you don't value something?

17 MR. DRAZEN: In the abstract you could argue that as a  
18 practical matter. I don't think that's the issue here. The  
19 power ... Hydro is not going to recover more than the cost  
20 of acquiring that resource and the fact is that's a very  
21 attractively priced supply of power right now and will  
22 remain so for a long time.

23 MR. BROWNE, Q.C.: Will there be a case in a place such  
24 as Labrador City and Wabush for the implementation of  
25 demand side management programs to ensure that people  
26 do see the value of electricity, as cheap as it might be?

27 MR. DRAZEN: To the extent that people in Lab City  
28 reduce their usage of power and the question is, where is  
29 it going to go, is that going to benefit the other residents of  
30 Labrador or Newfoundland or is this going to be of benefit  
31 to Quebec? I understand that's a political issue. But  
32 demand side management is not free, it has a cost, and to  
33 say to people in Lab City, you ought to implement demand  
34 side management and spend 100 hours in order that you  
35 can reduce your cost of power by \$50 a year and let  
36 Quebec make a lot more money, doesn't seem to make a lot  
37 of sense to me. Demand side management makes sense  
38 where it's cost-effective but in jurisdictions where the price  
39 of power is considerably higher it's not really that cost-  
40 effective in many cases.

41 MR. BROWNE, Q.C.: So in Labrador City you don't see  
42 that as an option, Labrador City or Wabush.

43 MR. DRAZEN: I don't see that as something that would  
44 make sense even if you had equalized rates, economically.  
45 As I said before, to the extent that you increased the rates  
46 in west Labrador and then decreased the rates in Happy  
47 Valley and Goose Bay and, following your argument, make  
48 demand side management less attractive.

49 MR. BROWNE, Q.C.: These are all my questions. Thank  
50 you very much, sir.

51 MR. DRAZEN: Thank you.

52 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
53 Browne. Thank you, Mr. Drazen. It's 5 to 11:00. I think  
54 we'll break now a little bit early, if you don't mind, and we'll  
55 reconvene at 10 after. Thank you.

56 *(break)*

57 *(11:15 a.m.)*

58 MR. NOSEWORTHY, CHAIRMAN: Thank you, we'll move  
59 now to cross-examination by Mr. Kennedy, but before that  
60 I think, are there any preliminary matters?

61 MR. KENNEDY: There are, Chair. There's a couple of  
62 preliminary matters, with the indulgence of the witness as  
63 well. We'd just like to take care of those before we  
64 continue and finish with Mr. Drazen. I think Hydro is  
65 probably best to lead off here with some additional filings  
66 that they wish to make.

67 MR. NOSEWORTHY, CHAIRMAN: Ms. Greene?

68 MS. GREENE, Q.C.: Thank you, Mr. Kennedy. In  
69 anticipation of not being here this afternoon, I took the  
70 liberty over the coffee break to circulate some of the  
71 documents I referred to yesterday, and I just wanted to  
72 briefly mention them now. The first that I'd like refer to is  
73 the supplementary evidence of Robert Henderson that has  
74 been filed, and as we have mentioned before, we said that  
75 we would file evidence of the most current forecast of No.  
76 6 fuel and diesel fuel and what this impact, how this  
77 impacts Hydro's revenue requirement in the test year, and  
78 this is what this supplementary evidence covers. It will  
79 now be necessary to agree among counsel on a date to call  
80 Mr. Henderson, which I anticipate would be for a very  
81 short period and limited to this second supplementary  
82 evidence, the purpose of his recall.

83 MR. NOSEWORTHY, CHAIRMAN: Thank you.

84 MS. GREENE, Q.C.: The other documentation that has  
85 been circulated is in response to an undertaking to the  
86 Consumer Advocate, and it is the customer, the 2001  
87 customer surveys, and I wanted to note that this year there  
88 are two. The first study is the 2001 customer satisfaction  
89 research tracking study, and that's of our residential  
90 customers, and for the first time in 2001, we did a separate  
91 survey of our general service accounts, so there are two  
92 surveys, in fact, being filed in response to that undertaking.  
93 Thank you, that concludes my comments.

94 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
95 Greene.

96 MR. KENNEDY: And Chair, U-Hydro No. 35, and I think  
97 we can lump them both together as one document, will we?  
98 This is the ... I'm sorry, this is the Market Quest

1 documentation. There's actually two documents but I think  
2 for the purposes, they're both addressing the same  
3 undertaking so we can file them as ...

4 MS. HENLEY ANDREWS, Q.C.: Could we call them A and  
5 B?

6 MR. KENNEDY: Yeah, perhaps ... we'll call the final report  
7 for the baseline study, A, and the final report for the  
8 tracking study, B.

9 **U-HYDRO NO. 35 A and B ENTERED**

10 MR. KENNEDY: Chair, just before moving on to the issue  
11 involving a request by the recently appointed counsel for  
12 CFB Goose Bay, perhaps we can deal with the timing of Mr.  
13 Henderson's testimony. Right now we have scheduled to  
14 commence on Monday morning, December the 17th, with  
15 the testimony of the Abitibi witnesses, Mr. Mel Deane, and  
16 Mr. Jean, and I think it's proposed that perhaps with the  
17 consent of the other counsel, that the most appropriate  
18 time for Mr. Henderson to take the stand would be after the  
19 Abitibi witnesses and before Mr. Bill Brushett ... as Mr.  
20 Brushett is scheduled to commence right now after the  
21 Abitibi witnesses, but that's what I would propose, that Mr.  
22 Henderson be slotted in between those witnesses, and  
23 unless there's an objection by other counsel, that's what I  
24 was going to propose.

25 MS. GREENE, Q.C.: That's acceptable to Hydro, that Mr.  
26 Henderson would testify after the Abitibi witnesses. We  
27 wouldn't want to interfere with the arrangements, because  
28 somebody is travelling from out of the province for Abitibi,  
29 and that's fine with Hydro if that's the suggestion.

30 MS. BUTLER, Q.C.: That's satisfactory, Mr. Chair.

31 MR. BROWNE, Q.C.: We agree.

32 MR. NOSEWORTHY, CHAIRMAN: Thank you. That's  
33 fine, Mr. Kennedy, thank you.

34 MR. KENNEDY: Yes, Chair, the other issue involves the  
35 request by, as I mentioned, the recently appointed for CFB  
36 Goose Bay to be able to make a presentation or a  
37 submission to the Board regarding the CFB Goose Bay.  
38 What's proposed is that the counsel for CFB Goose Bay  
39 with the consent of the panel, would be invited to seek  
40 formal intervenor status in the matter, be that it is late, but  
41 in any event, that this would be the most sensible  
42 approach, that he apply for intervenor status. If the Board  
43 was to deem that that's appropriate, that the purpose of the  
44 intervenor status would allow the counsel for CFB Goose  
45 Bay to file a written argument concerning their position on  
46 December the 10th, which is ... oh, sorry, January the 10th,  
47 which is the same date as the final written arguments are  
48 due to be filed by all other counsel, and that they would, as  
49 well, be invited to provide an oral argument on December

50 (*sic*) the 17th, or 18th as the case may be, which are the two  
51 dates set aside for oral arguments. I am proposing that in  
52 light of the narrowness, if you will, of the issue in which  
53 CFB is coming under, that they be afforded a half an hour  
54 of time for their oral presentation, whenever it's deemed  
55 appropriate for them to be slotted in. It's been suggested  
56 by one counsel that perhaps the most appropriate point to  
57 have them do the oral presentation, just from a timing  
58 perspective, would be the last, so in other words, after oral  
59 arguments are heard from all other parties, then we would  
60 hear oral argument from the counsel for CFB Goose Bay.  
61 So I don't know if you want to solicit the ... it would  
62 probably be appropriate just to solicit the comments of  
63 counsel for the other intervenors, and then if the panel  
64 could provide me with instructions, directions to be able to  
65 contact counsel for CFB Goose Bay in this regard, to let  
66 them know what their best procedure is?

67 MR. HEARN, Q.C.: Mr. Chairman, if I could only just make  
68 a comment, I think that it may be that we're the intervenor  
69 most directly affected by the possible intervention of CFB  
70 Goose Bay, first of all I believe that Counsel for the Board  
71 may have misspoken when he was saying dates. He said  
72 December 17th and 18th, and I take it that he meant January  
73 17th and 18th, and it's just for clarification, and the notion  
74 that CFB Goose Bay would go last, perhaps that's  
75 something that in a break we might be able to discuss with  
76 the other counsel and then talk to the intervenor. The  
77 question would be whether or not we would then have an  
78 opportunity to reply to the various issues in relation to  
79 Labrador West, which it may or may not do, or whether in  
80 fact the Labrador West submission ought to be heard, oral  
81 submission ought to be heard last.

82 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
83 Hearn. Ms. Greene, would you have any comment on this  
84 matter, please?

85 MS. GREENE, Q.C.: Thank you, Mr. Chair. We are  
86 agreeable with the proposed arrangements set out by Mr.  
87 Kennedy, and have ... with respect to the actual order of  
88 the argument, again, I have no problem with what Mr.  
89 Hearn has suggested as I long as I get the last right of  
90 reply to all of the others. I don't really care about the order  
91 of argument.

92 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
93 Greene. Ms. Butler or Mr ...

94 MS. BUTLER, Q.C.: Mr. Chairman, the only point we would  
95 make, I guess, is that if written briefs are being filed by all  
96 parties including CFB Goose Bay, then nobody other than  
97 Hydro has a right of reply in any event.

98 MR. NOSEWORTHY, CHAIRMAN: Uh hum.

99 MS. BUTLER, Q.C.: So I don't think it matters that the CFB

1 Goose Bay representative gives his argument last. We're all  
2 going to be responding to each other's written briefs in our  
3 verbal submissions in any event.

4 MR. NOSEWORTHY, CHAIRMAN: Right, thank you. Ms.  
5 Henley Andrews?

6 MS. HENLEY ANDREWS, Q.C.: Mr. Chairman, I don't have  
7 any real difficulty with the proposal for the reasons that  
8 Ms. Butler has indicated. I am assuming that the only  
9 presentations will be by counsel and that there is no  
10 contemplation of any evidence at this point on the part of  
11 CFB Goose Bay, and if that's the case I have no difficulty.

12 MR. NOSEWORTHY, CHAIRMAN: That would be my  
13 understanding of what's being proposed. This is not  
14 evidentiary in nature, is it?

15 MR. KENNEDY: It's been explained to the counsel for CFB  
16 Goose Bay that the written arguments are just that,  
17 arguments, and clearly if there, if counsel for CFB Goose  
18 Bay, playing devil's advocate, were to take lend with the  
19 facts, or introduce new evidence that's not been tendered  
20 by a witness, then it would be clearly incumbent on the  
21 counsel affected by that to point that out to the Board in  
22 their oral submission, in reply to the written argument, but  
23 clearly that's the purpose behind providing for this period  
24 of time between the written arguments and the oral  
25 arguments, that if there's, to allow for the critiquing of the  
26 positions outlined in those final arguments, so I think it  
27 could be addressed that way, but I have, I can indicate that  
28 in my discussions with the counsellor for CFB Goose Bay  
29 that it was clearly indicated that there would be no new  
30 evidence tendered by them in that regard.

31 MR. NOSEWORTHY, CHAIRMAN: Thank you. Mr.  
32 Browne, would you have any comments on this matter?

33 MR. BROWNE, Q.C.: I think it's been canvassed, the  
34 proposal put forward is reasonable. I understand Mr.  
35 Hearn's concern and we would agree with him. He should  
36 be given the opportunity to present his oral argument after  
37 CFB Goose Bay because he is a registered intervenor and  
38 has called evidence, unlike CFB Goose Bay.

39 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
40 Browne. I'll, I guess, canvass the panel at ... unless they  
41 have any particular issues ... are you okay? I think, if I'm  
42 understanding everybody correctly, that the proposal is  
43 fine, Mr. Kennedy, and I'd just ask you to work it out with  
44 the counsel for CFB Goose Bay in light of Mr. Hearn's  
45 comments as well please. Thank you, and we'll proceed on  
46 now with your cross-examination please, Mr. Kennedy?

47 *(11:30 a.m.)*

48 MR. KENNEDY: Thank you, Chair. Mr. Drazen, I just have  
49 a couple of questions and they both involve the cash

50 working capital issue. First of all, this is a follow-up to a  
51 question that counsel for Newfoundland Power asked you  
52 concerning the, concerning the fact that in some  
53 jurisdictions that have included an adjustment for interest  
54 payments in the cash, the cash working capital allowance  
55 that in addition to the interest, that they also allot a certain  
56 adjustment for depreciation. I think that your evidence was  
57 that that is the case in some jurisdictions.

58 MR. DRAZEN: In Alberta.

59 MR. KENNEDY: Alberta, and just so I understand you  
60 correctly, while making adjustment for interest payments  
61 for the cash working capital allowance, in effect, I guess  
62 almost always will cause a decrease in the cash working  
63 capital allowance, correct?

64 MR. DRAZEN: Yes.

65 MR. KENNEDY: That if a provision is made for  
66 depreciation, it would have the opposite effect normally,  
67 wouldn't it? It would increase the cash working capital  
68 allowance?

69 MR. DRAZEN: It would. It depends on what lag is  
70 assumed for a particular expense, and I think there's two  
71 ways of treating it, and one is to assume that the lag is zero,  
72 that depreciation expense is incurred basically on the date  
73 the service is rendered, and the other is to assume that the  
74 lag is equal to the revenue lag, which has the effect of  
75 creating a zero cash working capital requirement for that  
76 particular item. Alberta treats it as a zero lag which  
77 increases the cash working capital.

78 MR. KENNEDY: In regards to the, in regards to the interest  
79 adjustment to the cash working capital allowance, clearly  
80 that would be a shift in the arrangement of the calculation  
81 that's currently employed by both Hydro and as I  
82 understand it, by Newfoundland Power. This would be a  
83 deviation from what is being proposed in Hydro's  
84 application.

85 MR. DRAZEN: It would be a change. Deviation has  
86 somewhat a pejorative sound to me.

87 MR. KENNEDY: A change, that's fine, and I'm quite  
88 acceptable of that. Can I ask you to play your own critic  
89 and provide, if you could, what the cheap criticism is of  
90 including an interest adjustment to the cash working capital  
91 allowance. What's the most often heard criticism of that  
92 proposal, and then you can criticize the criticism.

93 MR. DRAZEN: As a practical matter, I'd say the usual  
94 criticism is that a lot of places don't do it, and I think I  
95 would attribute that more to the fact that there are other  
96 issues that are usually bigger, a little larger on the  
97 regulatory radar screen. We've done, on a couple of  
98 occasions, surveys of the different jurisdictions in the US

1 and Canada as to how they calculate cash working capital  
2 and what we found is that historically there was a  
3 development ... if I could take up a little paper here in the  
4 transcript ... the original idea was that somehow there was  
5 a 45 day lag which was deemed to be roughly close to one  
6 eighth of a year, so the cash working capital was calculated  
7 to be one eighth of the operation and maintenance expense.  
8 That seems to have been a, something that somebody  
9 thought at some point and a lot of jurisdictions accepted.  
10 The (inaudible) lag approach was a refinement on that,  
11 saying one eighth is somewhat imprecise. There are  
12 different lags for different costs, and let's be more precise  
13 in how we calculate it, so it's ... conceptually it was the  
14 same idea. The idea of including the financial expenses is  
15 something that, I think, some jurisdictions caught onto and  
16 others just didn't pay attention to, and first it was the  
17 interest expense was the obvious one because that's a cash  
18 expense, and it's collected, and it was clear that there was  
19 a net negative lag in the recovery of that, so it was an  
20 obvious one to include although I think a lot of  
21 jurisdictions simply didn't do it because the issue never  
22 came up. And then in Alberta the utility said well there's a  
23 logical extension to including the interest expense which is  
24 include the return on equity and the depreciation expense,  
25 and the treatment of those two, I think, somewhat go  
26 together. If you look into it further what you see is that if  
27 you include the return on equity with a zero lag the effect  
28 is to compound the return on equity, compounding it in a  
29 sense that if you ... a typical example would be if you put  
30 \$100 in the bank on January the 1st, and on ... and the bank  
31 says we'll pay you 12 percent interest, and on December  
32 31st, you look and there's \$112, you say that's 12 percent  
33 interest. If the bank says we'll pay you 12 percent interest  
34 but we'll compound it monthly, we'll pay one percent a  
35 month, at the end of the year you'll find you have more  
36 than \$112 because the compounding gives you interest on  
37 interest and your effect rate of interest is higher, and when  
38 you treat equity as having a zero lag, the effect of return on  
39 equity is higher in the nominal return. Pardon me.

40 If you want to get a return on equity that's equal  
41 to the nominal amount, you have to treat the equity as  
42 having a lag equal to, I think, one half year, so if you treat  
43 the equity as having a lag of a half a year the equity  
44 component creates a negative cash working capital  
45 requirement, the depreciation creates a positive cash  
46 working capital requirement, and in a rough sense those  
47 two offset, so excluding equity and depreciation makes  
48 some sense, although if you're striving for even more  
49 precision you could do it the way Alberta does. Now in the  
50 latest ... just a little more paper, in the latest round of  
51 hearings in Alberta, the Energy Utilities Board decided to  
52 include only half of the return on equity in the cash  
53 working capital requirement so it created less of a positive

54 working capital requirement, and perhaps that's more than  
55 you wanted to know about cash working capital.

56 MR. KENNEDY: So to be, to maintain conceptual integrity,  
57 if you will, you would include the depreciation and equity  
58 adjustments but they often cancel each other out and so  
59 for a, if I could, for a shorthand approach, they can be often  
60 ignored and then you deal just with the interest adjustment,  
61 is that what you're suggesting?

62 MR. DRAZEN: Yes.

63 MR. KENNEDY: Okay, and that the chief criticism of  
64 including an interest expense adjustment to the cash  
65 working capital allowance is the lack of regulatory  
66 precedent?

67 MR. DRAZEN: More the lack of regulatory consistency.  
68 I think there is precedent for it at this point but not all  
69 jurisdictions do it.

70 MR. KENNEDY: And are there, in addition to that criticism,  
71 if you will, or if it's not a criticism, it's more of a, just a  
72 reason not to do an interest adjustment is there a criticism  
73 that's more conceptual in nature about why an interest  
74 adjustment shouldn't be made to the cash working capital  
75 allowance?

76 MR. DRAZEN: I don't think so. I believe the focus on  
77 operation and maintenance expense was clear because  
78 those were cash expenses of the utility. The extension to  
79 interest made sense because that was also obviously a  
80 cash expense. Depreciation and equity return are not cash  
81 expenses, so it's easy to see why those weren't included  
82 from a practical standpoint, and I gave you the principle  
83 basis for doing that, but I think in principle, excluding the  
84 interest doesn't have a lot of merit. It is something that's  
85 collected through the rates, it provides cash working  
86 capital for the utility, and therefore it's more inaction than  
87 inappropriateness that keeps it out.

88 MR. KENNEDY: You indicated that this delay, if you will,  
89 in the interest expense itself, you indicate it's for bonds  
90 with semi-annual payments.

91 MR. DRAZEN: Yes.

92 MR. KENNEDY: So you would exclude from the interest  
93 adjustment the short-term debt, I take it?

94 MR. DRAZEN: Yes, like I say, in principle that should be  
95 included, the practical effects may not be very big. It  
96 depends on the short term ... the short-term debt doesn't  
97 necessarily mean that it's payable on a shorter payment  
98 schedule. It's just the principal isn't outstanding for as  
99 long.

100 MR. KENNEDY: That's all the questions I have, Chair,  
101 thank you very much, Mr. Drazen.



1 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,  
2 Mr. Kennedy. I'll move now to redirect, Mr. Hearn please?

3 MR. HEARN, Q.C.: Thank you, Mr. Chairman, just a couple  
4 of short points for clarification. I wonder if you might turn  
5 up **Newfoundland Power 199**. Mr. Drazen, in the answer to  
6 this interrogatory to which you were referred by my learned  
7 friend from Hydro, there's a reference in the answer that  
8 these costs do not include any overhead cost allocation,  
9 margin allocation, or rural deficit allocation. Were you  
10 made aware that Mr. Osmond, on November 26th in fact,  
11 clarified to the Board by saying that in response to a  
12 question of mine, that he had actually gone back and  
13 verified that there were some overheads included in the  
14 Wabush figures, and for the Board's assistance ...

15 MR. DRAZEN: Yes, he said there was \$77,000 of overhead  
16 in there.

17 MR. HEARN, Q.C.: Yes, and I would refer the Board, for its  
18 information, to **page 2 of the November 26th transcript**. So  
19 to the extent that there are overheads that may be included  
20 in the Wabush figures, then your Labrador City  
21 calculations could also reflect some portion of overhead,  
22 would that be fair to say?

23 MR. DRAZEN: Right, there'd be roughly three times as  
24 much overhead included in the calculation for Lab City.

25 MR. HEARN, Q.C.: Alright, in your direct evidence, and in  
26 response to the questions, you have made the point that  
27 you concentrated the differences on the distribution costs  
28 in Labrador West versus Happy Valley-Goose Bay. Were  
29 you aware that the, there in fact may also be transmission  
30 differences between the service to Labrador West and the  
31 service to Happy Valley-Goose Bay and that the lines to  
32 Labrador West is not owned by Hydro and the power is  
33 wheeled at no cost?

34 MR. DRAZEN: Yeah, I'm aware there's a difference. I tried  
35 to capture that in Schedule 1 where I took the, whatever the  
36 cost included for Wabush was, (inaudible) be the same  
37 cost on a unit basis for Lab City. To the extent that there's  
38 a difference reflected in the Wabush costs vis-a-vis Happy  
39 Valley-Goose Bay it's in there. If there's not then perhaps  
40 the calculation for Wabush includes something that  
41 shouldn't be there.

42 MR. HEARN, Q.C.: Those are my questions, Mr. Chairman.

43 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,  
44 Mr. Hearn. We'll move now to Board questions.  
45 Commissioner Powell please?

46 COMMISSIONER POWELL: Thank you, Chair. Good  
47 morning, sir.

48 MR. DRAZEN: Good morning.

49 COMMISSIONER POWELL: How are you enjoying  
50 Newfoundland?

51 MR. DRAZEN: Very nice, a little chilly.

52 COMMISSIONER POWELL: Gee, this is warm. I just have  
53 a couple of questions. The one on working capital, these  
54 interest costs you're talking about, these are real costs,  
55 these are not, to use the term notional costs, these are ... I  
56 say that because it's a follow up to the question when you  
57 talked about earlier, the interest costs you talk about that  
58 should be part of working capital, these are real payments  
59 that's paid out by the utility through the year on its bond  
60 issue, right?

61 MR. DRAZEN: That's correct.

62 COMMISSIONER POWELL: Okay, we had a discussion  
63 earlier on a few weeks ago when they were doing the cost  
64 of service, that Hydro does a calculation in addition to their  
65 interest cost, they calculate a cost of interest that they  
66 would earn on money that they receive as a pass through  
67 from Churchill Falls ... it flows through Hydro, and at the  
68 end of the year they pay dividends out to the government,  
69 and that's sitting in their bank account, and they do a  
70 calculation and they say, well if that was in a special fund  
71 or this is the cost of interest we pay, and a portion of that  
72 we don't pay because we have this money, we keep. They  
73 worked that back into cost of service. Would that interest  
74 work through your calculations for working capital as a  
75 lag?

76 MR. DRAZEN: I'm not aware of that transaction. That's  
77 money that's ...

78 COMMISSIONER POWELL: They get this flow of cash on  
79 a monthly basis from Churchill Falls that they keep and  
80 they pay it out as a dividend at the end of the year, it's a  
81 pass through, but it doesn't go through in one day out the  
82 next, it just sits there for a period of time, which we  
83 understand is approximately a year, and as a result they say  
84 it keeps their costs down.

85 MR. DRAZEN: And they earn interest on that.

86 COMMISSIONER POWELL: Well, they don't earn interest  
87 on it, but they have more money in their bank account,  
88 therefore they would borrow less.

89 MR. DRAZEN: I guess it sounds like, if they have cash  
90 coming in and it's not paid out for a while, if that could be  
91 used as a source of working capital.

92 COMMISSIONER POWELL: Yes.

93 MR. DRAZEN: Because it provides the cash.

94 COMMISSIONER POWELL: Well that would affect the  
95 calculation on lag, or should they exclude that?

1 MR. DRAZEN: Depending on how that's treated in the  
2 overall cost of service, I guess, that could be included. As  
3 I say, I wasn't aware of it, so I ...

4 (11:45 a.m.)

5 COMMISSIONER POWELL: But say ... going back to the  
6 evidence, I can't pinpoint you exactly but there is a number  
7 of times that it was brought up so you may want to see if  
8 that would make any difference to your calculation.

9 The logic for putting depreciation in as opposed  
10 to using the actual capital expenditure during a year, why  
11 would you do one, from an accounting point of view, do  
12 you always look upon depreciation as a non-cash item and  
13 your capital asset flow would be a demand on your cash  
14 which basically (inaudible). Why wouldn't you do some  
15 sort of an averaging on your capital expenditure as  
16 opposed to your depreciation, because it's the same as a  
17 maintenance cost except it's amortized over a period of time  
18 in terms of a ...

19 MR. DRAZEN: The reason for looking at depreciation as  
20 opposed to capital expenditure would be that it's the  
21 depreciation cost that's recovered in the rates, so money for  
22 depreciation is collected from customers at a certain point  
23 and although depreciation itself is a non-cash expense, it  
24 really is a deferral of an earlier expense, so what you're  
25 doing is taking the capital expenditures for a year and  
26 apportioning that out over future years, I'll say depreciating  
27 over 30 years, so you split it up into 30 equal portions and  
28 say we'll recover the depreciation expense amount in rates  
29 in any one year. Now that's, the money was actually laid  
30 (*phonetic*) out in the year the capital expenditure was  
31 made, so the cost of carrying that is reflected in the interest  
32 rate and the return on equity. I'm trying to think of way to  
33 make this simple, but what happens is, if you go to the  
34 calculation in detail ...

35 COMMISSIONER POWELL: But we're talking about a cash  
36 working capital, so it's the actual expenditure of funds  
37 flowing through your bank account, that's what you're  
38 trying to get at, it's a value, so it's the year of heavy capital  
39 expenditure your cash lag will be greater or less than would  
40 be of a low capital expenditure, and that would (inaudible)  
41 as opposed to the effect on the cash, I suppose, any  
42 depreciation.

43 MR. DRAZEN: That's true. I think the simplest way I can  
44 explain it is to say that the cash expenditure for capital  
45 items in one year and the recovery of that amount for all  
46 future years, it's really a combination of return on capital  
47 and return of capital, and return on depreciation. It should  
48 have a net, the net present value of the recovery should be  
49 equal to the capital expenditure. That's the theory behind  
50 the return, and trying to maintain consistency from year to  
51 year is done through usually straight line depreciation, so

52 because the rates are ... what you could do if you broke out  
53 the capital expenditure, you write, the working capital  
54 requirements in any one year could be related to the capital  
55 expenditures in that year. If you look at it on a year-to-year  
56 basis, doing it on the basis of capital expenditure versus  
57 doing it on the basis of return plus depreciation, should  
58 provide the same total dollars, net present value. You just  
59 have a somewhat different pattern.

60 COMMISSIONER POWELL: So this is one of those  
61 judgement things we talked about in rate setting.

62 MR. DRAZEN: Yes, it's trying to maintain consistency. I  
63 think the depreciation policy itself is ultimately a matter of  
64 a judgement as to how long you use and whether you use  
65 straight line or something else, and you do that, you use  
66 the straight line because it's the same charge each year,  
67 even though conceptually the economic depreciation could  
68 differ from year to year.

69 COMMISSIONER POWELL: A couple of questions on the  
70 Wabush/Lab City rates. Have you had any experience in  
71 other jurisdictions where the rates are different for different  
72 distribution systems? What do they do in Alberta, do they  
73 have a common rate throughout the province?

74 MR. DRAZEN: No, there are ... I just have to go back ...  
75 there are two, I guess there are two industrial owned  
76 distribution companies, one being, used to be Trans Alta  
77 and it's now Utili-Corp, and the other is Atco Electric, and  
78 then Atco Electric used to be Alberta Power. It makes  
79 (*phonetic*) a change every Thursday and Monday. And  
80 then there are municipal systems run by the City of  
81 Calgary, the City of Edmonton, Lethbridge and Red Deer.  
82 They all have different rates. The ...

83 COMMISSIONER POWELL: I guess they're in the  
84 competitive environment, but within their own systems, do  
85 they all have a common rate throughout?

86 MR. DRAZEN: They had a common, what (inaudible)  
87 starting in the 1980's there was a transmission, generation  
88 and transmission equalization regime so the cost of  
89 generation and transmission was equalized among  
90 everybody, all the utilities and therefore the differences in  
91 rates were attributable primarily to the differences in the  
92 cost of distribution. Now there it was clear because you  
93 had, because ... I'll say Lethbridge and Red Deer ran their  
94 own systems, they could maintain a separate rate. Had  
95 they been part of a larger system, the cost difference would  
96 have been there. Whether the rate difference would have  
97 been there is unclear.

98 COMMISSIONER POWELL: Is that because they're in  
99 more of an unregulated environment now, is that historic or  
100 ...

101 MR. DRAZEN: Actually now what they have is that the

1 only thing the distribution company has as its own cost is  
2 the distribution system, and everybody buys power from  
3 the common power pool and everybody gets transmission  
4 service from the province-wide transmission administrator  
5 so they have ... that's the, the competitive aspect is in  
6 transmission (*sic*) ... I'm sorry, in generation. Transmission  
7 is regulated, although equalized. Distribution is system by  
8 system.

9 COMMISSIONER POWELL: In Hydro's questions to you,  
10 Mr. Young gave you an example and asked if you did have  
11 a different rate and since one of the reasons why the rate is  
12 low is the system that was passed over to Hydro was given  
13 for a dollar, that it maintained the existing structure or  
14 something close thereto. If there was a major storm or a  
15 major fault in the system that required a substantial  
16 replacement, that would give ... and it had to be recovered  
17 in a relatively reasonably short period of time, that would  
18 have a significant increase in rates in all of one period of  
19 time. Would it not be unreasonable in a situation like that  
20 where you have a system that really has zero depreciation  
21 charge because of the zero cost, not to recognize the cost  
22 of the system and build into the rates future replacement  
23 costs that in anticipation eventually will have to be  
24 replaced and factor in sort of a, for a negative depreciation  
25 in terms of building a reserve for that eventual  
26 replacement? Would that not be normal or reasonably  
27 sound regulatory practice?

28 MR. DRAZEN: It could be. You could have a, set up a  
29 system whereby the rates ... well let's take Wabush as an  
30 example because there is a surplus there that Hydro says it  
31 plans to refund to the customers in the coming year. The  
32 possibility would be to retain part of that reserve, you  
33 know, that surplus and apply that against any future  
34 requirements for capital expenditures in that system, but  
35 that would still be a specific amount for that particular area.

36 COMMISSIONER POWELL: Do you have any, have you  
37 seen any evidence, or do you have anything on what it  
38 would cost if they were starting today, if they had to  
39 rebuild the system?

40 MR. DRAZEN: I have not.

41 COMMISSIONER POWELL: So we have no idea, but you  
42 wouldn't think it would be unreasonable of the Board to,  
43 suggest that there should be something built into the rates  
44 in Wabush and for Lab City to anticipate the rebuilding of  
45 the system at some point in time ... the reverse of  
46 depreciation where now you amortize the cost over 30  
47 years and say, okay, working it that way, because if not, if  
48 the system were to collapse, the rest of the system would  
49 have to provide the funding to rebuild it.

50 MR. DRAZEN: Well, what you're doing there though is a  
51 bit of a departure from normal accounting, normal

52 regulatory accounting. You're saying let's build up the  
53 reserve for costs that haven't been incurred yet.

54 COMMISSIONER POWELL: But you know what they're  
55 going to be.

56 MR. DRAZEN: In anticipation of the future, and that's not  
57 what Hydro is proposing. They're saying let's charge the  
58 customers in Lab West more so we can charge the  
59 customers in Happy Valley-Goose Bay somewhat less.  
60 That's not building up the reserve. If I understand you  
61 correctly, what you're saying is well maybe add an  
62 increment of maybe \$100,000 a year ... just pick a number ...  
63 to the rates in Lab West, accumulate that, and as capital  
64 additions or replacements are required, dip into that fund  
65 rather than include that in the future cost of service.

66 COMMISSIONER POWELL: I'm just throwing it out as  
67 Plan C or something. Based upon your experience in other  
68 jurisdictions, do you think it would make sense if we have  
69 rates in Wabush-Lab City, and we have different rates in  
70 Goose Bay, we have coastal Labrador and isolated sections  
71 of the island portion of the province, and then we have the  
72 provincial interconnect, that I think one of our witnesses,  
73 Dr. Wilson, basically said it costs so much to produce the  
74 unit of electricity and just sell it to everybody at the same  
75 rate throughout the whole system, the whole province, and  
76 whether you use it to heat your house or make paper or  
77 make donuts down at the corner, I mean a cost is a cost.  
78 What's your view on it?

79 MR. DRAZEN: As I recall Dr. Wilson's evidence, he said  
80 there can be differences in the cost depending on what the  
81 delivery costs are. There can be time of day differences,  
82 which I don't think really applies in the case of Churchill  
83 power. There could be voltage differences and there can  
84 also be differences in the cost of the facilities that it takes  
85 to deliver the power. The idea that the cost is the same for  
86 everybody is something that really isn't applied in my  
87 experience, and I think even the marginal cost studies, there  
88 are differences between primary and secondary distribution  
89 and the idea that the marginal cost is the same wherever  
90 you provide the service is true but you still have to  
91 reconcile that with the fact that the embedded cost is not  
92 the same, and that's always been the difficulty with  
93 marginal cost pricing, that you have to reconcile it to what  
94 the actual embedded costs are and scale the marginal costs  
95 either down or up to equal the embedded costs. You're  
96 talking about a fairly material embedded cost difference.

97 COMMISSIONER POWELL: Do you have any knowledge  
98 or any experience that you can point the Board to that  
99 shows that the low consumer electricity costs and rates has  
100 an economic benefit to an area?

101 MR. DRAZEN: Sorry, is a benefit to whom?

1 COMMISSIONER POWELL: To an area.

2 MR. DRAZEN: All other things being equal, lower cost is  
3 more beneficial than a higher cost.

4 COMMISSIONER POWELL: But electricity as a marketing  
5 tool, one of the witnesses in the Lab City, when we were  
6 there mentioned that one of the few things ... I should say  
7 few things, but one of the things that they use as a tool for  
8 trying to attract people to come and live in the Lab  
9 City/Wabush area is the low electricity rates and I'm just  
10 wondering in your experience if you found that, is that a  
11 tool that communities use or is it an effective tool, does it  
12 really make any difference?

13 MR. DRAZEN: I think in terms of attracting businesses,  
14 that can be an effective tool, but then business has to  
15 weigh the locational aspects as well.

16 COMMISSIONER POWELL: But you don't, you can't point  
17 me to any studies or anything that back that up other than  
18 you feel that would be a ...

19 MR. DRAZEN: No, I don't have a particular study in mind,  
20 but I know that as odd as it may seem, one of the things  
21 that motivated California to deregulate electricity pricing  
22 there was the fact that a number of companies were leaving  
23 California and moving eastward to Utah because electricity  
24 costs were lower there. Obviously that's an extreme  
25 example and California seems to have moved even further  
26 in the wrong direction, but that's ... it does make a  
27 difference in some cases.

28 COMMISSIONER POWELL: Good, that's all. Thank you,  
29 Mr. Drazen.

30 MR. NOSEWORTHY, CHAIRMAN: Thank you,  
31 Commissioner Powell. Commissioner Saunders please?

32 *(12:00 noon)*

33 COMMISSIONER SAUNDERS: No questions, Mr. Chair.

34 MR. NOSEWORTHY, CHAIRMAN: Thank you.  
35 Commissioner Whalen?

36 COMMISSIONER WHALEN: No questions, thank you,  
37 Mr. Chairman.

38 MR. NOSEWORTHY, CHAIRMAN: I have no questions,  
39 Mr. Drazen, thank you very much for your evidence and  
40 your testimony, sir.

41 MR. HEARN, Q.C.: Mr. Chairman, I'd like to thank the  
42 Board for accommodating both the Town of Labrador City  
43 and especially Mr. Drazen on a fixed schedule. It's much  
44 appreciated, thank you.

45 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
46 Hearn. We'll just go through and I'll see if there's any  
47 questions on matters arising, and we'll conclude if there  
48 aren't any. Mr. Young?

49 MR. YOUNG: Nothing arising from the Board, thanks.

50 MR. NOSEWORTHY, CHAIRMAN: Ms. Butler?

51 MS. BUTLER, Q.C.: No, thank you, Mr. Chairman.

52 MR. NOSEWORTHY, CHAIRMAN: Ms. Henley Andrews?

53 MS. HENLEY ANDREWS, Q.C.: Just one question, Mr.  
54 Chairman. Mr. Drazen, in the example that, or the  
55 hypothetical that Mr. Powell gave you concerning the  
56 possibility of, I suppose, setting up a recovery mechanism  
57 for potential future distribution costs, wouldn't one of the  
58 problems of building in a fund into the rates be that present  
59 ratepayers would be funding assets to be used by future  
60 ratepayers?

61 MR. DRAZEN: Yes, it could be.

62 MS. HENLEY ANDREWS, Q.C.: That's my only question,  
63 thank you.

64 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
65 Henley Andrews. Mr. Browne please?

66 MR. BROWNE, Q.C.: Yes, Mr. Drazen, you mentioned in a  
67 response from Commissioner Powell, time of day rates in  
68 reference to Churchill power, I think you said it really  
69 doesn't make a difference. Can you elaborate?

70 MR. DRAZEN: The cost of power is a quarter of a cent,  
71 how big are the time of day differentials going to be?

72 MR. BROWNE, Q.C.: It's because the power is so cheap.

73 MR. DRAZEN: Right.

74 MR. BROWNE, Q.C.: Okay, thank you, sir.

75 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
76 Browne. Mr. Kennedy?

77 MR. KENNEDY: No questions, Chair.

78 MR. NOSEWORTHY, CHAIRMAN: Thank you, sir. Do  
79 you have any redirect, Mr. Hearn?

80 MR. HEARN, Q.C.: Nothing further arising, Mr. Chairman.

81 MR. NOSEWORTHY, CHAIRMAN: Okay, thank you very  
82 much, Mr. Hearn. Thank you once again, Mr. Drazen,  
83 you're excused. Before we conclude, Mr. Kennedy, could  
84 you just review the schedule from here on in for us please,  
85 just to refresh my mind?

86 MR. KENNEDY: No problem, Chair, and other counsel can  
87 correct me if I'm wrong. My recollection is that we are  
88 scheduled to reconvene now at 9:30 on Monday morning,  
89 December the 17th, and leading off would be presumably  
90 Mr. Mel Deane or Mr. Jean, but in either event, they're the  
91 two Abitibi witnesses that would start that morning.

1 Following completion of the two Abitibi witnesses we will  
2 now call Mr. Henderson for the purposes of putting in the  
3 supplementary evidence, then I imagine counsel will want  
4 to be afforded an opportunity to cross-examine Mr.  
5 Henderson on that. Excuse me, once Mr. Henderson is  
6 completed, then Mr. Brushett will be called to the stand,  
7 and Mr. Brushett is filing supplementary evidence. It was  
8 hoped that that would be filed today, but for reasons of  
9 doing, with just scheduling, it now will be filed first thing  
10 tomorrow morning, which I think still provides the parties  
11 with an opportunity to be able to review that in anticipation  
12 of Mr. Brushett taking the stand later on Monday, and I  
13 imagine that Mr. Brushett's testimony will spill into  
14 Tuesday, December the 18th, and upon the completion of  
15 Mr. Brushett, that's it for the scheduled witnesses, and then  
16 the ... as was indicated earlier, the filed written arguments,  
17 final written arguments are to be filed January the 10th, and  
18 then we reconvene on the 17th of January for the purposes  
19 of the oral presentations. I think ... and that too would  
20 extend to the next day, the 18th, which is Friday. I think  
21 that's the sum total of the schedule and witnesses.

22 MS. HENLEY ANDREWS, Q.C.: Mr. Chairman, there's one  
23 clarification to that and that is that I think we had agreed  
24 that the two Abitibi witnesses would testify as a panel  
25 rather than one after the other.

26 MR. KENNEDY: Correct, Counsel, sorry.

27 MS. HENLEY ANDREWS, Q.C.: As indicated by Mr.  
28 Kennedy. The other point that I want to raise is that Mr.  
29 Jean has acquired a scheduling problem that he didn't have  
30 when we worked on this, so rather than fool things up, we  
31 were trying to, we're trying to work our way around that  
32 scheduling problem, and in the event that we're not able to  
33 do that, Mr. Bachus will testify in his place. Mr. Bachus  
34 has worked in a number of mills within the current Abitibi  
35 organization and he can provide a lot of the same  
36 information, so what we're proposing to do is we will, when  
37 we file Mr. Jean's evidence, hopefully later today, or early  
38 tomorrow, we'll also file evidence on behalf of Mr. Bachus  
39 at the same time, which will be identical and we will  
40 withdraw one or the other on Monday depending on which  
41 witness ends up being available to testify.

42 MR. NOSEWORTHY, CHAIRMAN: I presume you don't  
43 feel you'd be in a position to, before Monday to indicate  
44 who?

45 MS. HENLEY ANDREWS, Q.C.: If I am, I will.

46 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms. ...

47 MS. HENLEY ANDREWS, Q.C.: Friday, Mr. Deane tells me  
48 that we should know by Friday.

49 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,  
50 Ms. Henley Andrews. That, I think, concludes our work for

51 the day. Mr. Browne, if you could pass on our  
52 congratulations to the proud parents-to-be, whenever that  
53 occasion might arise, we'd appreciate it. Thank you very  
54 much.

55 MR. BROWNE, Q.C.: And we'll send an e-mail.

56 MR. NOSEWORTHY, CHAIRMAN: And we'll reconvene  
57 at 9:30 on Monday morning, thank you.

58 *(hearing adjourned)*