

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Good morning. Before  
3 we get started, Mr. Kennedy, are there any preliminary  
4 matters, please?

5 MR. KENNEDY: Yes, Chair, there's a preliminary matter,  
6 and I noticed this this morning actually. There's a revised,  
7 revisions have been made to a page of the December 3rd  
8 transcript. Executech have, I believe, forwarded that by  
9 email to all counsel, and it's on page one of the December  
10 3rd transcript. The actual change that's made, it's in bold,  
11 I believe, which is at line 23, and I believe that's the only  
12 preliminary matter unless another counsel has something  
13 they wish to raise.

14 MR. NOSEWORTHY, CHAIRMAN: Thank you. No other  
15 items? Thank you very much. Good morning, Mr.  
16 Bowman.

17 MR. BOWMAN: Good morning.

18 MR. NOSEWORTHY, CHAIRMAN: Good morning, Ms.  
19 Butler. I wonder could I ask you to proceed with your  
20 cross-examination, please?

21 MS. BUTLER, Q.C.: Thank you, Mr. Chair. Good morning,  
22 Mr. Bowman. Mr. O'Rielly, I wonder if we can look at **Mr.  
23 Bowman's pre-filed, please, page five?** Mr. Bowman, can I  
24 start by asking you to read lines 21 to 22? Feel free to  
25 finish the thought by going to page six, if you wish.

26 MR. BOWMAN: "The Board should eliminate the Rate  
27 Stabilization Plan. The elimination of the RSP should be  
28 gradual in order to spread the rate impact over time."

29 MS. BUTLER, Q.C.: Now, you are one of two experts being  
30 called by the Consumer Advocate. The other was Dr.  
31 Kalymon, the cost of capital expert.

32 MR. BOWMAN: Yes.

33 MS. BUTLER, Q.C.: Okay. And he testified last month,  
34 and relevant to this I wonder if we can look, Mr. O'Rielly,  
35 please, to the **transcript of November 13th, page 29?** Here  
36 at lines 59 to 67 I was asking Dr. Kalymon about the Rate  
37 Stabilization Plan. You see I've asked him here, "If the Rate  
38 Stabilization Plan was eliminated, would it impact your  
39 recommendation for a return on equity?" His answer, if  
40 you could read it for me, Mr. Bowman, from line 62 to 67?

41 MR. BOWMAN: "That depends on what exactly it is  
42 replaced by. I mean, I have made, have not made  
43 alternative assumptions. I can move one towards the  
44 higher rather than the lower end of the spectrum, for  
45 example, but it really does depend a lot on what it is  
46 replaced with."

47 MS. BUTLER, Q.C.: Okay. And then I followed up and  
48 suggested, "And if it's replaced with nothing?" And his

49 answer from line 69 to 74, if you could?

50 MR. BOWMAN: "Well it can't be replaced by, with  
51 nothing because it has to do with how the forecasts are  
52 treated, you know. Is there margins in forecast, etc., etc.?  
53 So it can't be replaced by nothing, it has to be replaced by  
54 something, but it would tend to increase the risk."

55 MS. BUTLER, Q.C.: Thank you. Now, Dr. Kalymon clearly,  
56 as a cost of capital expert in any event for the Consumer  
57 Advocate, had testified that if you eliminate the RSP it  
58 would have to be replaced with something. When you filed  
59 your original evidence on August the 17th, 2001, and we  
60 saw a moment ago that you supported the abolition of the  
61 RSP, can you tell me whether there was anything in that  
62 evidence, the full 23 pages of it, that suggested that it be  
63 replaced with anything?

64 MR. BOWMAN: If it's eliminated, then it would be  
65 replaced by simply the Board indicating what was an  
66 appropriate revenue requirement.

67 MS. BUTLER, Q.C.: I'm sorry, perhaps you misunderstood  
68 my question. I was asking you whether there was anything  
69 in the pre-filed document, the 23 pages long, that you could  
70 point me to in which you had suggested that the RSP rather  
71 than simply being abolished be replaced with something?

72 MR. BOWMAN: Yes, and by being eliminated, that means  
73 the Board would simply set the revenue requirement on the  
74 basis of what it deemed was an appropriate revenue  
75 requirement, so it would take into account the actual fuel  
76 costs.

77 MS. BUTLER, Q.C.: Let's try it again. Can you point me to  
78 anything in your 23 page pre-filed testimony that suggests  
79 that other than the statement that we have on the screen  
80 that the Board should eliminate the RSP?

81 MR. BOWMAN: I think ... well, it's inherent ... if you're  
82 asking me have I said, if I said anything in my pre-filed  
83 testimony that indicates what it should be replaced with,  
84 the answer is no.

85 MS. BUTLER, Q.C.: Thank you. I'm also asking you have  
86 you said anything in your 23 page pre-filed testimony of  
87 August 17th that suggests that it should be replaced with  
88 something?

89 MR. BOWMAN: And I thought that's the answer I just  
90 gave. I haven't said what it should be replaced with.

91 MS. BUTLER, Q.C.: Are you suggesting in your pre-filed  
92 testimony that it has to be replaced with something, not  
93 just what it might be replaced with, Dr., Mr. Bowman, that  
94 it has to be replaced with something? Is there anything in  
95 that pre-filed that suggests that to the Board?

96 MR. BOWMAN: I think it's fair to say that I said it should

1 be eliminated and I'm not sure I understand exactly what  
2 you're saying but I haven't given an actual replacement, if  
3 that's what you're asking.

4 MS. BUTLER, Q.C.: I recognize that you haven't given an  
5 actual replacement. Is there anything in your pre-filed that  
6 suggests that the RSP should be eliminated and replaced  
7 with anything?

8 MR. BOWMAN: No. I've just said it should be eliminated.

9 MS. BUTLER, Q.C.: So since Mr. Kalymon gave his  
10 testimony on November the 13th, you've now raised this  
11 issue in the opening statement or opening remarks  
12 document that's now before the Board as **Exhibit CA-6**.

13 MR. BOWMAN: I'm not sure what Exhibit CA-6 is.

14 MS. BUTLER, Q.C.: Your opening remarks.

15 MR. BOWMAN: Oh. I've given some guidelines as to  
16 what I think it should be replaced with, yes.

17 MS. BUTLER, Q.C.: In the document that was given to us  
18 two days ago.

19 MR. BOWMAN: Yes.

20 MS. BUTLER, Q.C.: And clearly the RSP is a large issue in  
21 this proceeding, would you agree?

22 MR. BOWMAN: Yes.

23 MS. BUTLER, Q.C.: And I wonder if we might go to **page**  
24 **ten of the document which was referred to as CA-6** and  
25 which is on the screen. Have you got your hard copy  
26 there, Mr. Bowman? Okay. Now, the lines aren't numbered  
27 but there is a reference there and I counted down about  
28 nine or ten lines, a reference to the NRRI. Would you be  
29 kind enough to read into the record for us, please, the  
30 sentences that start with "We contacted the NRRI"?

31 MR. BOWMAN: "We contacted the NRRI and they  
32 indicated that no US utility utilizes an RSP like that used in  
33 Newfoundland." Continue?

34 MS. BUTLER, Q.C.: You can continue, yeah.

35 MR. BOWMAN: "NRRI did indicate that fuel adjustment  
36 clauses are common," and I think I indicated yesterday that  
37 it was based on the literature that I reviewed later in the  
38 1990s, fuel adjustment clauses were under fire in those  
39 years. I'm not saying that I was bringing them under fire,  
40 I'm saying they were under fire by various consumer  
41 groups because they tended not to send efficient price  
42 signals to the utilities.

43 MS. BUTLER, Q.C.: Okay. Let's just read in the full  
44 paragraph so we can get the thought. You say, "NRRI did  
45 indicate." Can you just follow through there?

46 MR. BOWMAN: ... "did indicate that fuel adjustment  
47 clauses are common, although they have been under fire in  
48 recent years because fuel prices have tended to be more  
49 stable and because they provide little incentive for utilities  
50 to do a good job managing fuel costs." Continue?

51 MS. BUTLER, Q.C.: Yes, please.

52 MR. BOWMAN: "NRRI did indicate that all but one state  
53 that had fuel adjustment clauses balanced its fuel  
54 adjustment account either annually or semi-annually.  
55 Connecticut uses a monthly balancing mechanism similar  
56 to a fuel adjustment clause that preceded (phonetic)  
57 Newfoundland's RSP. According to NRRI, no state utilized  
58 the fuel adjustment clause that balances over a period  
59 greater than one year."

60 MS. BUTLER, Q.C.: Thank you. Now, looking up in that  
61 paragraph, I know you indicated in your answer to Mr.  
62 Young's question yesterday that really if there was a quote  
63 here from the NRRI, in that sentence, "We contacted the  
64 NRRI," I'm sorry, the sentence following, you indicated that  
65 NRRI did indicate that fuel adjustment clauses are common.  
66 That's the end of what you took from NRRI, and the  
67 balance of that thought was your own.

68 MR. BOWMAN: Yes.

69 MS. BUTLER, Q.C.: Correct, okay.

70 MR. BOWMAN: I think it's fair to ... this was not meant to  
71 be testimony. This is meant to be opening remarks and it  
72 has since been filed as testimony and I wasn't given the  
73 opportunity to make any changes to it.

74 MS. BUTLER, Q.C.: Okay, but with that understanding, I  
75 know now what you're ...

76 MR. BOWMAN: Yes, I'm saying that ...

77 MS. BUTLER, Q.C.: ... to what you're ascribing.

78 MR. BOWMAN: ... quote there did not come from NRRI  
79 itself.

80 MS. BUTLER, Q.C.: No, except that they did indicate to  
81 you that fuel adjustment clauses are common.

82 MR. BOWMAN: Yes. Everything else that I read there is  
83 attributable to NRRI.

84 MS. BUTLER, Q.C.: Everything else ...

85 MR. BOWMAN: That I just read to you can be attributed  
86 to NRRI.

87 MS. BUTLER, Q.C.: Can be attributed to them?

88 MR. BOWMAN: Can be with the exception of that  
89 statement that although they've been under fire in recent  
90 years.

91 MS. BUTLER, Q.C.: Okay, yes, that's fine. My question

1 though relative to the NRRI is when you contacted them. 46 thought down a little, a few more lines.

2 MR. BOWMAN: It was in the last three or four weeks. 47 MR. BOWMAN: "Although Newfoundland is an isolated

3 MS. BUTLER, Q.C.: I'm sorry? 48 system, there are elements of competition that could be

4 MR. BOWMAN: It was in the last three or four weeks and 49 introduced to the benefit of consumers. For example,

5 I didn't contact them myself, one of my staff did. 50 multiple distribution companies could be formed and forced

6 MS. BUTLER, Q.C.: Okay. And this was obviously 51 to compete against each other."

7 subsequent to the filing of your pre-filed testimony, which 52 (9:45 a.m.)

8 was August 17th. 53 MS. BUTLER, Q.C.: Okay, thank you. "Multiple

9 MR. BOWMAN: Yes. 54 distribution companies could be formed and forced to

10 MS. BUTLER, Q.C.: Okay. And the information that we 55 compete against each other." Can you tell us how many

11 have here was not contained in your pre-filed testimony 56 multiple distribution companies exist in North America?

12 clearly in relation to the information you took from the 57 MR. BOWMAN: Ontario has something in the order of 90

13 NRRI. 58 to 100 right now, in that jurisdiction. They started out, I

14 MR. BOWMAN: That's right. 59 think, two years ago. Well, when I was there there was

15 MS. BUTLER, Q.C.: But did you not know that fuel 60 something in the order of 230 or thereabouts, it may have

16 adjustment clauses were common prior to contacting the 61 been. The intent there is to encourage mergers and

17 NRRI? 62 acquisitions and the number now, as I understand it, is

18 MR. BOWMAN: Yes. 63 down to about 90 to 100.

19 MS. BUTLER, Q.C.: And you knew that anyway. 64 MS. BUTLER, Q.C.: And how many distribution systems

20 MR. BOWMAN: I knew that fuel adjustment clauses were 65 are there in North America?

21 common. 66 MR. BOWMAN: I don't know.

22 MS. BUTLER, Q.C.: Sure. If you knew that fuel adjustment 67 MS. BUTLER, Q.C.: Somewhere around 2,000?

23 clauses were common, I'm just wondering why that wasn't 68 MR. BOWMAN: I don't know.

24 pursued in your original pre-filed testimony. 69 MS. BUTLER, Q.C.: Well, you must know approximately.

25 MR. BOWMAN: Because I prefer not to have fuel 70 I mean, is it 90 to 100 or is it 100,000?

26 adjustment clauses either. I prefer to just have the utility 71 MR. BOWMAN: I know there's 90 to 100 in Ontario. I

27 set their rates on the basis of the revenue requirement. 72 don't know how many there are in North America.

28 MS. BUTLER, Q.C.: And you are maintaining of course, 73 MS. BUTLER, Q.C.: Well, that's multiple distribution

29 notwithstanding the document filed yesterday, that the 74 companies. I was asking you how many distribution

30 RSP should be abolished. 75 systems there are in North America.

31 MR. BOWMAN: Yes. 76 MR. BOWMAN: I don't know how many distribution

32 MS. BUTLER, Q.C.: Okay. Now, can I turn to a second 77 systems there are in North America.

33 point, and that is made reference to at **page 19 of your** 78 MS. BUTLER, Q.C.: Alright. Relative to the thought that

34 **original evidence**, and this is in association with 79 multiple distribution companies could be formed and forced

35 competition in the Province of Newfoundland, and perhaps 80 to compete against each other, do you agree that in some

36 for the benefit of the record, Mr. Bowman, you could read 81 jurisdictions with multiple distribution companies,

37 in lines 12 to 17 for us. 82 regulatory commissions such as ours have assigned

38 MR. BOWMAN: "Competition. Newfoundland's power 83 territories to each utility to prevent duplication of service?"

39 sector lacks competition all over the world. Countries are 84 MR. BOWMAN: That's the way it is in pretty much, well

40 moving towards more competitive power market structures 85 in most jurisdictions I'm aware of.

41 in order to raise private sector capital, reduce subsidies, 86 MS. BUTLER, Q.C.: Even Ontario, Mr. Bowman?

42 reduce cost to consumers, transfer risk for consumers to 87 MR. BOWMAN: Yes.

43 investors, and increase service offerings to consumers." 88 MS. BUTLER, Q.C.: Okay.

44 MS. BUTLER, Q.C.: Thank you. Now, how many multiple 89 MR. BOWMAN: Now that's the wires part of the business.

45 distribution ... oh, I'm sorry, I need you to continue that 90 Supply can transgress boundaries.

1 MS. BUTLER, Q.C.: Mr. Bowman, supply is not  
2 distribution, is it?

3 MR. BOWMAN: Well, depends how you define  
4 distribution. Newfoundland Power does both supply and  
5 wires business.

6 MS. BUTLER, Q.C.: Well, when you were using the term as  
7 in the answer that you gave me, was supply distribution?  
8 Did you mean it in that sense?

9 MR. BOWMAN: When I'm saying you can force  
10 competition amongst distribution companies, I was  
11 referring to the wire companies, but you can also do it on  
12 the supply side as well.

13 MS. BUTLER, Q.C.: Can you provide any examples for this  
14 board where the existence of multiple distribution  
15 companies has improved efficiencies and reduced costs for  
16 customers?

17 MR. BOWMAN: I would say in the UK with their ... I don't  
18 remember how many distribution companies they have  
19 there now. They have 12 to 14, as I recall, and the  
20 information I've got on my pre-filed there shows that they  
21 have brought costs down under performance-based  
22 regulation.

23 MS. BUTLER, Q.C.: Can you refer to me an example in  
24 North America?

25 MR. BOWMAN: Well, Ontario has just implemented there  
26 so it's still too early to tell.

27 MS. BUTLER, Q.C.: Can we look at the same, on the same  
28 topic, to **page seven of your pre-filed, lines one to five?**  
29 Perhaps we'll just go back to the bottom of page six so you  
30 can see what we're talking about there. Thank you.  
31 Starting at line 23, "Competition should," can you just read  
32 that for me, please?

33 MR. BOWMAN: "Competition should be assessed at the  
34 generation procurement level and at the distribution level  
35 and the Board should move to a more light-handed form of  
36 regulation based on performance with incentives. The  
37 current mechanism is too heavy-handed and not consistent  
38 with today's competitive market. The roles of government,  
39 the Board and utilities need to be reviewed and clarified."

40 MS. BUTLER, Q.C.: What occurred to me when I read this,  
41 the earlier portion that you just read into the record and  
42 this portion at pages six to seven, is that on the one hand  
43 you were suggesting that the Board should force the  
44 creation of multiple distribution companies to create  
45 competition, which I would take to be a heavy-handed form  
46 of regulation?

47 MR. BOWMAN: I did not say that.

48 MS. BUTLER, Q.C.: Okay. Do you ...

49 MR. BOWMAN: I said that's one thing they should look  
50 at.

51 MS. BUTLER, Q.C.: Alright. That's one thing they should  
52 look at, that's fine.

53 MR. BOWMAN: It's a study ...

54 MS. BUTLER, Q.C.: I'll accept that.

55 MR. BOWMAN: ... and that's one thing that should be  
56 considered. I'm not saying that should be done.

57 MS. BUTLER, Q.C.: Okay. But on the other hand ... well,  
58 let me just go back there for a second. As a  
59 recommendation or as something that could be looked at,  
60 it would form, from my perspective in any event, heavy-  
61 handed form of regulation to force competition by the  
62 creation of companies to compete against a power  
63 distribution company. Would you agree with that?

64 MR. BOWMAN: That's, when I say light-handed  
65 regulation I'm referring to the ongoing operations of the  
66 utilities. I'm talking about performance-based regulation  
67 mechanism.

68 MS. BUTLER, Q.C.: I understand. Now you're on page six  
69 of seven. I'm back to where we were for a moment where  
70 you talked about "Multiple distribution companies could  
71 be formed and forced to compete against each other."  
72 Would that be a heavy-handed form of regulation?

73 MR. BOWMAN: No, I wouldn't say that, no. I would say  
74 they're being forced to compete against one another under  
75 a performance-based regulatory mechanism. I'm also  
76 saying that's, on the ... I'll clarify that again. I'm saying that  
77 they should look at this, a study should look at various  
78 means of encouraging competition amongst utilities. I'm  
79 not saying they should do this; I'm saying they should  
80 consider that as one of the options.

81 MS. BUTLER, Q.C.: If they did do it, if one of the options  
82 they considered and followed through with was the  
83 creation of multiple distribution companies to force  
84 competition, would you see that as being a heavy-handed  
85 form of regulation?

86 MR. BOWMAN: No.

87 MS. BUTLER, Q.C.: How would you describe that?

88 MR. BOWMAN: I would describe that as one of the  
89 alternatives. The regulatory mechanism would still be light-  
90 handed if you went to performance-based regulation. The  
91 two are two different things.

92 MS. BUTLER, Q.C.: So you don't see potential  
93 inconsistency with recommending on the one hand that  
94 one of the things this board consider is the creation of  
95 multiple distribution companies to be forced to compete

1 against each other, and as we see on the screen, on the  
2 other hand, suggest the current mechanism, I'm sorry, that  
3 the Board should move to a more light-handed form of  
4 regulation. You don't see an inconsistency between those  
5 two statements?

6 MR. BOWMAN: No.

7 MS. BUTLER, Q.C.: Okay. Let's look now to the issue of  
8 rates at **page three of your original pre-filed testimony,**  
9 **please, lines 20 to 22.** Okay. On the screen it's 21 to 23,  
10 Mr. Bowman, and feel free to go on to page four to finish  
11 the thought. Can you start reading for me, "In spite of the  
12 Board's efforts"?

13 MR. BOWMAN: "In spite of the Board's efforts over the  
14 years, Hydro's proposed rates fail to meet its design  
15 criteria, particularly with regard to market efficiency and  
16 cost-based rates. In this regard I recommend that the Board  
17 hire an independent consultant to review the recommended  
18 rate designs for customers in Newfoundland. The Board  
19 should table the independent consultant's report at a public  
20 hearing and make this recommendation on the basis of the  
21 following."

22 MS. BUTLER, Q.C.: Thank you. There was a question put  
23 to you yesterday by Mr. Young relative to this point. I  
24 wonder if we could look at the **transcript from yesterday at**  
25 **page 12?** Okay. Try line 25. You can go back to line 21  
26 and you'll see Mr. Young asked you here, "This is a rather  
27 important, potentially at least, point you're raising here  
28 about having another report or perhaps another inquiry.  
29 I'm not sure exactly what's being recommended." And your  
30 answer was, "I would have them look at all the rates and  
31 not just the rural rate subsidy," to which Mr. Young said,  
32 "Don't you think that's what we've been doing here for a  
33 number of months, looking at all the rates of Hydro?" And  
34 you go on to say ... would you mind, Mr. Bowman, reading  
35 lines 30 to 35?

36 MR. BOWMAN: "I'd say you've got, well you've got rate  
37 design experts from all the stakeholder groups here and not  
38 one of them has proposed an actual rate design and the  
39 reason they haven't is because they don't have the  
40 information necessary to do that, and I'll point to Dr.  
41 Wilson's evidence."

42 MS. BUTLER, Q.C.: Thank you. Isn't it a fair statement to  
43 say that all the cost of service experts who participated in  
44 these hearings would review the rates?

45 MR. BOWMAN: Yes.

46 MS. BUTLER, Q.C.: Okay. And you would have done the  
47 same.

48 MR. BOWMAN: Yes.

49 MS. BUTLER, Q.C.: And what does a cost of service expert

50 such as yourself need to design or recommend rates to a  
51 board like this?

52 MR. BOWMAN: I would have preferred to see some  
53 marginal costs.

54 MS. BUTLER, Q.C.: Well, I know that's what you would  
55 have preferred, but what do you need to design or  
56 recommend rates to a board?

57 MR. BOWMAN: For me to design rates I need to see the  
58 marginal costs.

59 MS. BUTLER, Q.C.: And why is that?

60 MR. BOWMAN: Because I feel marginal costs should be  
61 reflected in the rate designs.

62 MS. BUTLER, Q.C.: Now let's assume that you were not  
63 making a recommendation of marginal costs to be  
64 embedded in the rate design but instead were using the  
65 embedded cost method, then what would a cost of service  
66 expert such as yourself need to recommend rates?

67 MR. BOWMAN: You would need the cost of service  
68 study and the billing determinants.

69 MS. BUTLER, Q.C.: Right. So you'd need number of  
70 customers by class, which is information contained in the  
71 cost of service study, and you'd need the cost of service  
72 by class, which of course is the cost of service study.

73 MR. BOWMAN: Uh hum.

74 MS. BUTLER, Q.C.: And the bill frequency distribution by  
75 class.

76 MR. BOWMAN: Bill frequency distribution by class.

77 MS. BUTLER, Q.C.: Yes. What was the term that you  
78 used, I'm sorry, when I asked you, billing determinants?

79 MR. BOWMAN: Billing determinants, yeah.

80 MS. BUTLER, Q.C.: Okay. I think we're saying the same  
81 thing. And that information is before the Board, is it not,  
82 Mr. Bowman?

83 MR. BOWMAN: That's right.

84 MS. BUTLER, Q.C.: And specifically you are  
85 recommending a demand energy rate for Newfoundland  
86 Power, and I think we can see that at **page four, lines 12 to**  
87 **22 of your original evidence.** Again on the screen it's just  
88 slightly off, Mr. Bowman. Could you read lines 13 to 23,  
89 please?

90 MR. BOWMAN: "Hydro has not submitted for the Board's  
91 review a revised wholesale rate design for sales to  
92 Newfoundland Power in spite of the Board's order to do so  
93 back, as far, so far back, so as far back as 1992. The current  
94 design with only five per kilowatt hour energy charge

1 sends incorrect price signals to Newfoundland Power and  
2 is not reflective of the cost it imposes on the system. There  
3 are many benefits to be gained from a rate design  
4 (inaudible) time varying demand energy charges, as well as  
5 (inaudible) rate option. Newfoundland Power represents  
6 over 60 percent of Hydro's sales in the test year and over  
7 200 million in annual revenues at current rates. This clearly  
8 justifies a more complex rate structure."

9 MS. BUTLER, Q.C.: Okay. Now, what does an expert such  
10 as yourself require in order to recommend to this board a  
11 demand energy rate for Newfoundland Power?

12 MR. BOWMAN: In order to design a, what I would judge  
13 to be an effective rate design, you would need marginal  
14 cost information.

15 MS. BUTLER, Q.C.: So are we back to the same exchange  
16 you and I had a moment ago, that that is because you are  
17 supporting marginal cost issue design?

18 MR. BOWMAN: I'm supporting marginal cost issues  
19 design, yes.

20 MS. BUTLER, Q.C.: And were you not recommending  
21 marginal cost issues, then is it fair to say that the  
22 information you would need to make the rate  
23 recommendation to this board, demand energy rate, is  
24 before the Board in the formal cost of service study?

25 MR. BOWMAN: Let me go back here for a minute. I  
26 haven't recommended that a demand energy charge rate,  
27 wholesale rate, be adopted. That's not one of my  
28 recommendations.

29 MS. BUTLER, Q.C.: Okay.

30 MR. BOWMAN: I say I'm the only rate design expert in  
31 this hearing who hasn't recommended that before the Board  
32 at some point in time. Dr. Wilson has made that  
33 recommendation, Mr. Osler has made that recommendation,  
34 Mr. Brockman has made that recommendation back in 1990,  
35 Dr. Surekais (phonetic), representing Mr. Brickhill's firm,  
36 made that recommendation, and I believe Mr. Hamilton  
37 made that recommendation. I'm recommending that an  
38 independent consultant look at it and propose a rate design  
39 and I'm recommending that because in spite of Board  
40 direction as far back as 1992, a rate design has not been  
41 submitted, so it seems to me that for whatever reason  
42 Hydro is not going to make a recommendation in this  
43 regard, so an independent consultant should be hired to  
44 make such a recommendation.

45 MS. BUTLER, Q.C.: But, Mr. Bowman, you are  
46 independent, are you not?

47 MR. BOWMAN: Yes.

48 MS. BUTLER, Q.C.: And you are an expert.

49 MR. BOWMAN: Yes.

50 MS. BUTLER, Q.C.: So you could have taken the  
51 opportunity on this occasion to make a recommendation on  
52 a rate design instead of recommending that an independent  
53 consultant come back next year and do it, couldn't you?

54 MR. BOWMAN: I could have but I don't have marginal  
55 cost information to make an appropriate recommendation.

56 (10:00 a.m.)

57 MS. BUTLER, Q.C.: Now, on the same page, lines 4 to 10,  
58 there's a different issue being addressed. It's actually  
59 electronically 5 to 10. I wonder could you read in what  
60 you've indicated there from lines 5 to 12, please?

61 MR. BOWMAN: "Hydro believes it is unable to meet its  
62 rate design criteria owing to historical linkages between  
63 Newfoundland Power and island interconnected system  
64 and isolated rural system rates. However, test year sales to  
65 customers with rates linked to Newfoundland Power rates  
66 represent less than six percent of Hydro's total estimated  
67 test year sales. There's a great deal that Hydro can do with  
68 the rates covering the other 94 percent of sales and much  
69 that can be done to improve rural rate design in spite of  
70 historical linkages."

71 MS. BUTLER, Q.C.: Alright. The point I want to address  
72 is your statement that, "There is a great deal that Hydro can  
73 do with the rates covering the other 94 percent of sales."  
74 Now, what specific proposals can you suggest?

75 MR. BOWMAN: Demand energy rate, wholesale rate with  
76 time varying charges, and the industrial customers have  
77 indicated a desire to see more rate options. I think you can  
78 see time varying rates for them, also perhaps interruptible  
79 options that better fit their operations.

80 MS. BUTLER, Q.C.: But I had just understood you to say  
81 that you weren't recommending a demand energy rate.

82 MR. BOWMAN: I'm recommending that ... this is part of  
83 my justification for an independent consultant looking at  
84 the rates.

85 MS. BUTLER, Q.C.: Okay, but let's look at what you've  
86 said. "There's a great deal that Hydro can do with the rates  
87 covering the other 94 percent of sales and much that can be  
88 done to improve rural rate design in spite of historical  
89 linkages." And when I asked you what specific proposals  
90 you can suggest, the first one you mentioned was a  
91 demand energy rate.

92 MR. BOWMAN: I can specifically recommend that an  
93 independent consultant look at that and come up with a  
94 demand energy charge with time varying charges. I don't  
95 have the marginal cost information that would allow me to  
96 do that.

1 MS. BUTLER, Q.C.: So we're back to the lack of the  
2 marginal cost information again.

3 MR. BOWMAN: Yes, it appears that way.

4 MS. BUTLER, Q.C.: Beyond what you've indicated, are  
5 there any other specific proposals?

6 MR. BOWMAN: I think an independent consultant might  
7 propose a five-year plan as recommended by the Board to  
8 the bringing up of government rates to full cost of service  
9 in isolated areas. On the other hand, I think the Board  
10 could probably do that itself.

11 MS. BUTLER, Q.C.: And you're aware of course that other  
12 experts have recommended that at this time.

13 MR. BOWMAN: Have recommended that the government  
14 rates be ... sorry, what have other experts recommended?

15 MS. BUTLER, Q.C.: Other cost of service experts have  
16 recommended that the rate over, rate of time or the rate by  
17 which the government rates be eliminated be sped up, I  
18 suppose, to use my term. You're aware that that's a  
19 recommendation.

20 MR. BOWMAN: Yes.

21 MS. BUTLER, Q.C.: So given that that's already before the  
22 Board and that other experts at this time have also  
23 recommended demand energy rate, back to your statement,  
24 there is a great deal that Hydro can do with the rates  
25 covering the other 94 percent of the sales, is there anything  
26 else that you can suggest beyond what you told me,  
27 industrial customers want more rate options, perhaps  
28 interruptible options?

29 MR. BOWMAN: The interruptible and I think they  
30 indicated some other preferences like real time pricing.

31 MS. BUTLER, Q.C.: Sorry, real time ...

32 MR. BOWMAN: Real time pricing.

33 MS. BUTLER, Q.C.: Have you completed your answer  
34 now?

35 MR. BOWMAN: Can you remind me what the question  
36 was?

37 MS. BUTLER, Q.C.: Yeah. There is a great deal that Hydro  
38 can do with the rates covering the other 94 percent of sales,  
39 etc., etc. What is the great deal that Hydro can do with the  
40 rates?

41 MR. BOWMAN: The great deal has to do with the 94  
42 percent of their sales, and that would be a demand energy  
43 charge, the time varying charges on the wholesale rate, and  
44 then more in the way of options for the industrial  
45 customers.

46 MS. BUTLER, Q.C.: And your specific recommendation is

47 that an independent consultant come back at a later time to  
48 review that issue and report to the Board.

49 MR. BOWMAN: Review those issues and other issues  
50 relating to the rate designs in ...

51 MS. BUTLER, Q.C.: And report to the Board.

52 MR. BOWMAN: Yes.

53 MS. BUTLER, Q.C.: Okay. Can I move now to **page 12,**  
54 **Item 6 of the opening remarks filed yesterday, CA-6?** Mr.  
55 Bowman, I think for the benefit of all of us, maybe you  
56 could read in the full, this point, number six?

57 MR. BOWMAN: "All cost of capital experts testified that  
58 the RSP offers protection from variations in forecast load,  
59 generation mix and fuel prices. They indicated that this  
60 protection enables a reduction in the rate of return required  
61 by Hydro. I totally agree with this assessment but must  
62 point out that protection is offered by the fuel adjustment  
63 component of the RSP alone, not the balancing account.  
64 Only one rate of return expert testified concerning the  
65 effects of the balancing account and that was Dr. Kalymon.  
66 He testified under cross-examination if the outstanding  
67 balance in the RSP becomes too large, the financial  
68 community may view this negatively, resulting in an  
69 increase in required rate of return, therefore, Hydro and NP  
70 by endorsing the RSP in its present form are promoting  
71 higher rates for consumers."

72 MS. BUTLER, Q.C.: Thank you. What I want to pursue  
73 here is what you say about four or five lines down, "I  
74 totally agree with this assessment, that the RSP offers  
75 protection from variations in forecast load, generation mix  
76 and fuel prices," etc. "but must point out that the  
77 protection is offered by the fuel adjustment component of  
78 the RSP alone, not the balancing account." Did any of the  
79 cost of capital experts, from your review of their pre-filed  
80 testimony or the transcript of their evidence, make this  
81 qualification in their evidence?

82 MR. BOWMAN: If we go to the **November 19th**  
83 **transcript, page 17, lines 5 to 15.**

84 MS. BUTLER, Q.C.: And whose testimony is this, Mr.  
85 Osmond?

86 MR. BOWMAN: I have to take a look at it here first.

87 MS. BUTLER, Q.C.: Sure.

88 MR. BOWMAN: Here it's ... I think he indicates as a  
89 strength that the RSP offers protection from variations in  
90 forecast load, generation mix and fuel prices. Mr. Osmond  
91 says, yes, he does, so ... who is that attributable to? I'm not  
92 sure who they're talking about there but this particular  
93 expert has said forecast load, generation mix and fuel  
94 prices, that's the fuel adjustment component of the RSP.

1 MS. BUTLER, Q.C.: Okay, hold on now. The point that  
2 we're pursuing in this portion of my cross-examination  
3 relates to the qualification that you've put on the  
4 conclusions of the cost of capital experts. You had said at  
5 your testimony that they indicated the RSP gives, enables  
6 a reduction in the rate of return.

7 MR. BOWMAN: My understanding is that the fuel  
8 adjustment component of the RSP enables a reduction in  
9 the rate of return.

10 MS. BUTLER, Q.C.: Okay. Let's go back to what you said.  
11 Number six, "All cost of capital experts testified the RSP  
12 offers protection from variations in load, generation mix and  
13 fuel prices."

14 MR. BOWMAN: Yes, and that's how I had understood  
15 this transcript, which isn't there now.

16 MS. BUTLER, Q.C.: And then you go on to say two lines  
17 down, "I agree with this assessment but must point out  
18 that the protection is offered by the fuel adjustment  
19 component of the RSP alone." Now, I'm asking you  
20 whether that qualification was made by any of the cost of  
21 capital experts in their pre-filed or their sworn testimony.

22 MR. BOWMAN: Okay. I'm making that qualification.

23 MS. BUTLER, Q.C.: I'm aware you are.

24 MR. BOWMAN: That's how I understand their testimony.

25 MS. BUTLER, Q.C.: Yes, I'm aware you are, Mr. Bowman.  
26 I'm asking you whether you are aware whether any of the  
27 cost of capital experts made that qualification in their  
28 testimony.

29 MR. BOWMAN: I'm not aware that they did, no.

30 MS. BUTLER, Q.C.: And specifically let's go back to that  
31 transcript that you were referring to, which was in reference  
32 to my cross-examination of Mr. Osmond. Does he not  
33 confirm here that Ms. McShane indicates as a strength that  
34 the RSP offers protection from variations in load,  
35 generation mix and fuel prices?

36 MR. BOWMAN: Yes, and he's saying those components  
37 relate to the fuel adjustment components of the RSP, not  
38 the balancing account.

39 MS. BUTLER, Q.C.: That's your opinion.

40 MR. BOWMAN: Yes.

41 MS. BUTLER, Q.C.: Okay. Let's go to what **Ms. McShane**  
42 **said herself in her pre-filed testimony, please, at page 17,**  
43 **line 12.** The question put to Ms. McShane in her pre-filed  
44 was, "(inaudible) the key business risk elements that would  
45 determine a reasonable capital structure for Hydro on a  
46 stand-alone basis." And her answer was given in terms of  
47 strength and challenges, and the first strength, at line 14,  
48 can you read it, please, Mr. Bowman?

49 MR. BOWMAN: "RSP offers protection from variations in  
50 forecast load, generation mix and fuel prices."

51 MS. BUTLER, Q.C.: Okay. So this cost of capital expert  
52 makes no qualification as to which component of the RSP  
53 offers the protection. She deals with the RSP itself.

54 MR. BOWMAN: She certainly does. She's saying forecast  
55 load, generation mix and fuel prices, that's fuel adjustment  
56 clause component.

57 MS. BUTLER, Q.C.: So you feel that this is a qualification  
58 on the RSP in terms of it being a strength as a, in terms of  
59 determining a reasonable capital structure for Hydro?

60 MR. BOWMAN: I note under challenges she's saying the  
61 RSP defers recovery of actual costs.

62 MS. BUTLER, Q.C.: It does.

63 MR. BOWMAN: Yes.

64 MS. BUTLER, Q.C.: Let's look at Dr. Kalymon, who is the  
65 cost of capital expert for the Consumer Advocate, at page  
66 eight of his pre-filed, lines five to six. Sorry, **Kalymon, pre-**  
67 **filed, page eight.** Thank you. Lines five and six. He says,  
68 "In terms of forecasting risk, Hydro essentially avoids most  
69 of the short-term risks associated with input fuel costs,  
70 water levels and demand volumes through the operation of  
71 the Rate Stabilization Plan." Does he make the  
72 qualification?

73 MR. BOWMAN: Yes.

74 MS. BUTLER, Q.C.: Where?

75 MR. BOWMAN: Fuel costs, water levels and demand  
76 volumes.

77 MS. BUTLER, Q.C.: So you take that as a qualification on  
78 the portion of the RSP that assists in forecasting risk, I'm  
79 sorry, of avoiding short-term risks.

80 MR. BOWMAN: That is the component of the RSP that  
81 relates to the fuel adjustment clause.

82 MS. BUTLER, Q.C.: Did you see any reference in the  
83 evidence of Dr. Vilbert?

84 MR. BOWMAN: I don't recall offhand what ... I believe I  
85 read the transcripts, if that's what you're asking.

86 MS. BUTLER, Q.C.: And what about Mr. Hall, Doug Hall?

87 MR. BOWMAN: I may have read his transcripts, I don't  
88 recall.

89 MS. BUTLER, Q.C.: Can we look, Mr. O'Rielly, please, to  
90 **DH-1?** This is the DBRS report that Doug Hall filed with  
91 his, I'm sorry, presented as an exhibit when he was on the  
92 stand, page two. Under "Considerations," there,



1 "Strengths," to the left, thank you. Can you just read in  
2 number five, please?

3 MR. BOWMAN: "The Rate Stabilization Plan contributes  
4 to earning stability over the longer term. The RSP provides  
5 for the deferral of cost variances resulting from changes in  
6 fuel price, levels of precipitation and load. Customer rates  
7 are adjusted every 12 months to recover outstanding  
8 balances in the RSP over the following three years."

9 MS. BUTLER, Q.C.: Okay. Does Mr. Hall, I'm sorry, does  
10 this exhibit, referred to or relied upon by Mr. Hall, make the  
11 qualification that you have made?

12 MR. BOWMAN: When he says, "Customer rates are  
13 adjusted every 12 months to recover outstanding balances  
14 in the RSP over the following three years," he's talking  
15 about the balancing account, but otherwise he's talking  
16 about cost variances resulting from the changes in fuel  
17 prices, levels of precipitation and load, he's referring to the  
18 fuel adjustment clause. I think if we ... although any cost  
19 variances under challenges, although any cost variances  
20 from changes in fuel prices and water levels are deferred to  
21 the Rate Stabilization Plan and recovered over time, and  
22 therefore do not impact earnings, they can cause  
23 significant changes in cash flows from one year to the next,  
24 I'd say he's saying the balancing account is actually  
25 increasing the risk.

26 MS. BUTLER, Q.C.: Mr. Bowman ...

27 MR. BOWMAN: You really need to look at the entire  
28 report if you're going to see both sides of it.

29 MS. BUTLER, Q.C.: Sure, no problem. I want to go back  
30 though to where we were. The statement that you had  
31 made, and we can keep this on the screen, but the  
32 statement that you had made at **page 12, Item 6 of the**  
33 **testimony of December 4th, of the opening remarks of**  
34 **December 4th**, was, "I agree with this assessment" ... that's  
35 the assessment of the cost of capital experts ... "but point  
36 out that the protection is offered by the fuel adjustment  
37 component of the RSP alone, not the balancing account."

38 *(10:15 a.m.)*

39 MR. BOWMAN: Yes, and I simply, what we've just gone  
40 through verifies that.

41 MS. BUTLER, Q.C.: Do you feel that this report we're  
42 looking at, the DBRS report, makes that same qualification?

43 MR. BOWMAN: Yes.

44 MS. BUTLER, Q.C.: You do. Can you go back to where we  
45 were on **page 12, Item 6 of the December 4th testimony**,  
46 please? And generally in that paragraph number six where  
47 you refer to the evidence of the cost of capital experts and  
48 their assessments, notwithstanding the debate that you

49 and I have in relation to what they say ...

50 MR. BOWMAN: I wasn't aware we were having a debate.

51 MS. BUTLER, Q.C.: Okay. Well, sorry, my word, not  
52 yours. Can I ask you as a cost of service expert how you  
53 feel qualified to assess the conclusions reached by the cost  
54 of capital experts?

55 MR. BOWMAN: I feel fairly qualified after we just went  
56 through what we ... I'm not a cost of service expert. I do  
57 believe that each one of these cost of service experts were  
58 talking about the Rate Stabilization Plan.

59 MS. BUTLER, Q.C.: I'll correct you before you go any  
60 further. You said I'm not a cost of service expert but I'm  
61 sure that's not correct.

62 MR. BOWMAN: Cost of capital.

63 MS. BUTLER, Q.C.: You are not a cost of capital expert,  
64 right?

65 MR. BOWMAN: Right.

66 MS. BUTLER, Q.C.: Right. But you are a cost of service  
67 expert.

68 MR. BOWMAN: Yes.

69 MS. BUTLER, Q.C.: Okay. Go ahead then, just finish your  
70 thought.

71 MR. BOWMAN: In my read of this, all of them are saying  
72 that it's the fuel adjustment clause component that is  
73 reducing the actual risk that Hydro takes on.

74 MS. BUTLER, Q.C.: And do you feel qualified as a cost of  
75 service expert to be able to make that conclusion from the  
76 evidence of the cost of capital experts?

77 MR. BOWMAN: I feel the exercise we just went through  
78 pretty much makes the case. I don't know if I need to be  
79 qualified to do that or not.

80 MS. BUTLER, Q.C.: Mr. Bowman, I'm sure you weren't here  
81 for the evidence of Mr. Osmond in relation to the Rate  
82 Stabilization Plan. Did you sit through that?

83 MR. BOWMAN: I saw the last half day of it.

84 MS. BUTLER, Q.C.: Okay. He probably went through the  
85 Rate Stabilization Plan in the very first part of his cross-  
86 examination, and he was very methodical, I thought, in  
87 terms of answering my questions on the three separate  
88 components which exist to the Rate Stabilization Plan.

89 MR. BOWMAN: I think I read that in the transcripts, yes.

90 MS. BUTLER, Q.C.: Okay. So let me perhaps close out this  
91 section with this question. Are you suggesting that the  
92 other two components of the Rate Stabilization Plan are not  
93 important at all?

1 MR. BOWMAN: I don't know what other two components  
2 you're talking about. I see two components. I see only the  
3 fuel adjustment clause component and the balancing  
4 account. The fuel adjustment component talks to the fuel  
5 cost variations, load variations and hydraulic variations.

6 MS. BUTLER, Q.C.: So you weren't aware that there were  
7 three primary components of the RSP before you get into  
8 the balancing account.

9 MR. BOWMAN: I thought I just said ... I think you're  
10 referring to the load hydraulic production and fuel cost  
11 elements.

12 MS. BUTLER, Q.C.: Yes, right.

13 MR. BOWMAN: Yes. I consider those three together to  
14 be the fuel adjustment component.

15 MS. BUTLER, Q.C.: Alright. Well that's perhaps why we  
16 were having the debate we had. So your qualification here,  
17 when you say, "Point out that the protection is offered by  
18 the fuel adjustment component of the RSP alone," the  
19 document on the screen.

20 MR. BOWMAN: Yes.

21 MS. BUTLER, Q.C.: Okay. Are you suggesting that the  
22 hydraulic variation component is not important?

23 MR. BOWMAN: No. I'm suggesting it's part of the fuel  
24 adjustment clause component that I'm referring to.

25 MS. BUTLER, Q.C.: Okay. So when you use the term,  
26 "Fuel adjustment component," you're talking about what  
27 we heard evidence on as being the three primary  
28 components.

29 MR. BOWMAN: That's right. In every one of those  
30 references you brought up, they mention those three  
31 elements. In response each time I said those three elements  
32 were the fuel adjustment clause component.

33 MS. BUTLER, Q.C.: Alright. So now we understand each  
34 other. So you feel that all three components are what's  
35 referred to in your term fuel adjustment component.

36 MR. BOWMAN: Yes.

37 MS. BUTLER, Q.C.: Okay. Now on that same page, the  
38 conclusion you had reached, the last sentence in section  
39 six, "Hydro and Newfoundland Power, by endorsing the  
40 RSP in its present form, are promoting higher rates for  
41 consumers." Can you show me where you have assessed  
42 the link between a higher RSP balance or an RSP balance  
43 and higher rates for consumers?

44 MR. BOWMAN: Yeah. I believe Dr. Kalymon's testimony  
45 indicated that if that balance gets too large, it would be  
46 viewed negatively by the financial community (inaudible)  
47 potential for the required returns to increase.

48 MS. BUTLER, Q.C.: Okay. I'm aware of the evidence of Dr.  
49 Kalymon on that point and I agree with the way you put it,  
50 that he referred to it as being, if it got too large then there  
51 were risks, but I'm asking you because of the statement that  
52 you've made here, Hydro and Newfoundland Power by  
53 endorsing the RSP in its present form are promoting higher  
54 rates for consumers. Have you assessed the link between  
55 the RSP balance and higher rates for consumers, beyond  
56 what Dr. Kalymon has said?

57 MR. BOWMAN: No. I'm just saying a potential, according  
58 to Dr. Kalymon, potential exists for the risk to increase if  
59 that balance gets too large. I'm not sure what he judges to  
60 be too large.

61 MS. BUTLER, Q.C.: Okay, I accept that, but, you see, he  
62 didn't actually say there was potential. Your conclusion  
63 was that Hydro and Newfoundland Power, the two utilities  
64 here today, by endorsing the RSP in its present form, are  
65 promoting higher rates for consumers.

66 MR. BOWMAN: Okay. Let me insert the word  
67 "potentially" promoting higher rates for consumers.

68 MS. BUTLER, Q.C.: If you haven't done an analysis of how  
69 the balance in the RSP actually relates to the rates which  
70 consumers pay, how can you make that conclusion?

71 MR. BOWMAN: I'm basing it on what Dr. Kalymon said  
72 that you just said you accepted, that that potential exists.

73 MS. BUTLER, Q.C.: I accepted what, that you had repeated  
74 what Dr. Kalymon said correctly.

75 MR. BOWMAN: Yes. And I'm basing it on what I'm  
76 saying he has said, the potential exists for rates to be  
77 higher if that balance gets too large.

78 MS. BUTLER, Q.C.: Can you just scroll up into the whole  
79 paragraph of number six, please? Okay. So because you  
80 refer to ... actually, I don't see it there. I don't see a  
81 reference to your ascribing this conclusion to Dr. Kalymon  
82 in this paragraph of your opening remarks.

83 MR. BOWMAN: Yes, I guess I'll have to find that. Like I  
84 said, I wasn't submitting this as testimony, but I'll be happy  
85 to produce that reference for you, but I think you just said  
86 you accepted that, so ...

87 MS. BUTLER, Q.C.: That you had repeated what Dr.  
88 Kalymon said accurately.

89 MR. BOWMAN: Yes.

90 MS. BUTLER, Q.C.: Yeah. Page 13, please, Mr. O'Rielly.  
91 (inaudible), Mr. O'Rielly, the **original pre-filed evidence,**  
92 **August 17th.** Let's try lines nine to ten, and can you read  
93 in what you describe there as the notion, please?

94 MR. BOWMAN: "The notion that Hydro and

1 Newfoundland Power should forego a demand energy rate  
2 because it would tend to create earnings volatility from  
3 year to year is difficult to accept."

4 MS. BUTLER, Q.C.: And this is a reference, I believe, to  
5 Mr. Brockman's evidence.

6 MR. BOWMAN: That's in relation to the letter in response  
7 to **IC-205**, I believe.

8 MS. BUTLER, Q.C.: Okay, that's correct, because of course  
9 this was filed before Mr. Brockman's evidence, I believe. In  
10 any event, I want to follow through with that point, and I  
11 will go now to **Mr. Brockman's first supplemental at pages**  
12 **10 and 11**. Thank you. At the bottom of page 10, lines 19,  
13 there you go. Mr. Bowman, would you indulge me, please,  
14 by reading in lines 19 to 23 of page 10 and lines 1 to 8 of  
15 page 11?

16 MR. BOWMAN: "If the demands of Newfoundland Power  
17 customers were five percent above forecast, approximately  
18 50 megawatts, due to a few very cold winter days, there  
19 would likely be minimal impact on revenues to  
20 Newfoundland Power as the vast majority of revenues from  
21 weather sensitive loads come from energy charges.  
22 However, the purchase power expense under the assumed  
23 demand energy tariff would increase by two percent, i.e.,  
24 five percents times forty percent of wholesale costs  
25 recovered in demand charges. Two percent of Hydro's  
26 proposed annual revenue from Newfoundland Power is  
27 approximately 4.2 million. For each \$90,000 increase in  
28 expenses, the return on rate base for Newfoundland Power  
29 decreases by approximately one basis point, so \$4.2 million  
30 increase in annual purchase expense would reduce return  
31 on rate base by 45 basis points. The full range of return on  
32 rate base set by the Board for Newfoundland Power is  
33 'question mark' 18 basis points."

34 MS. BUTLER, Q.C.: Plus or minus 18 basis points. Mr.  
35 Bowman, let's take this in pieces. Were you aware that the  
36 full range of return on rate base set by the Board for  
37 Newfoundland Power was plus or minus 18 basis points?

38 MR. BOWMAN: No.

39 MS. BUTLER, Q.C.: Okay. So assuming that as a given for  
40 the moment, as I understand ... maybe, Mr. O'Rielly, we can  
41 try and get that full paragraph that Mr. Bowman kindly read  
42 in on the one screen. Okay, thank you. As I understand  
43 Mr. Brockman's point here, correct me if I'm wrong, he's  
44 showing that a five percent spike in demand of  
45 Newfoundland Power due to weather could cause  
46 Newfoundland Power's rate of return on rate base to vary  
47 by more than 45 basis points under a demand rate. Am I  
48 correct?

49 MR. BOWMAN: I'm not sure what he's getting at here, to  
50 be honest.

51 MS. BUTLER, Q.C.: Well, you're ...

52 MR. BOWMAN: I think ... yeah, I see ...

53 MS. BUTLER, Q.C.: ... another cost of service ...

54 MR. BOWMAN: I agree that's what he seems to be saying,  
55 yes.

56 MS. BUTLER, Q.C.: Okay. And his evidence, quite frankly,  
57 at the moment on that point, Mr. Bowman, remains  
58 unchallenged, so have you got any calculations to suggest  
59 that this is incorrect?

60 MR. BOWMAN: What I do have, in my testimony I  
61 indicated that any change in revenue stability is likely to be  
62 within the bounds other like utilities would experience.  
63 That's my evidence that's on the record and no one has put  
64 evidence to suggest that that's not the case either. I think  
65 the issue here is does it cause revenue instability that's  
66 outside the bounds that you would expect for a utility of its  
67 size, and I don't think anyone has put forward any evidence  
68 that would indicate that it is.

69 MS. BUTLER, Q.C.: Alright. Now I'm going to ask you first  
70 about Mr. Brockman's evidence and then with your  
71 permission you could take me back to where you've  
72 actually made the statement you just referred to in your  
73 evidence, so refresh my memory to do that with you if I  
74 forget in a moment. Let's deal with this one first. Have I  
75 correctly summarized what Mr. Brockman is saying about  
76 the effect of a spike, five percent spike in demand of  
77 Newfoundland Power based on his calculations would  
78 cause Newfoundland Power's rate of return on rate base to  
79 vary by more than 45 basis points under a demand rate.

80 MR. BOWMAN: Under the scenario he's presented in his  
81 calculations, I think that's correct, that that's what he's  
82 saying.

83 MS. BUTLER, Q.C.: Okay. So when he says a full range of  
84 return on rate base set by the Board for Newfoundland  
85 Power, let's assume a range, I'm sorry, a return on rate base  
86 of 10 percent. Plus or minus 18 basis points simply means  
87 10.18, 9.82, right?

88 MR. BOWMAN: Yes.

89 MS. BUTLER, Q.C.: Okay. And by his calculation the five  
90 percent spike would cause it to vary by more than 45, so  
91 9.65 to 10.45 using my example.

92 MR. BOWMAN: Yes.

93 MS. BUTLER, Q.C.: Okay. Now, we started with this  
94 exercise by a reference to **page 13 of your pre-filed, lines**  
95 **nine to ten**, if we can just go back to that thought, please.  
96 "The notion that Hydro and Newfoundland Power should  
97 forego a demand energy rate because it would tend to  
98 create earnings volatility from year to year is difficult to

1 accept." Now, Mr. Brockman's first supplemental  
2 testimony, of course, with those calculations in it was not  
3 in your hands when you note this evidence, so I want to  
4 ask you, given Mr. Brockman's evidence now, his first  
5 supplemental, do you accept that, well do you accept what  
6 he has said there?

7 MR. BOWMAN: I don't know how valid his comparison is.  
8 I don't know ... I haven't seen any evidence to suggest that  
9 that's a realistic scenario and I would like to see a  
10 comparison to what other utilities experience. If it brought  
11 it outside of what other utilities experience, I would agree  
12 with that, but I haven't seen any evidence to indicate that  
13 it does.

14 (10:30 a.m.)

15 MS. BUTLER, Q.C.: Mr. Bowman, can you show me where  
16 you would have made a similar assessment to suggest that  
17 Mr. Brockman is in error?

18 MR. BOWMAN: I have not made a similar assessment to  
19 suggest he's in error. I said I would like to have seen this  
20 put in the context of what other utilities experience because  
21 I don't know what this means. I don't have any idea what  
22 validity this type of comparison has.

23 MS. BUTLER, Q.C.: And you haven't done any similar  
24 assessment to challenge what he has said.

25 MR. BOWMAN: I haven't done something to challenge  
26 what he has said and neither has he done something to  
27 challenge what I've said. I said if he has put it ...

28 MS. BUTLER, Q.C.: Right. Now let's go ...

29 MR. BOWMAN: If he had put it in the context of what  
30 other utilities experience, then I would, that's something I  
31 could have related to.

32 MS. BUTLER, Q.C.: Let's go back to where you wanted me  
33 to, or where I said I would return and that is where you say  
34 you make a statement in your pre-filed.

35 MR. BOWMAN: This may take me a minute. Yeah, page  
36 **13 of my pre-filed, starting line 20.**

37 MS. BUTLER, Q.C.: Okay. So you can read in whatever  
38 portion it is that you feel is addressing the point that I just  
39 had you read from Mr. Brockman.

40 MR. BOWMAN: Okay. "Thirdly, companies the size of  
41 Hydro and Newfoundland Power should be able to manage  
42 this low level volatility with little impact on rates. Most  
43 every utility in North America manages volatility. The vast  
44 majority of utilities have demand charges and time varying  
45 rates in their wholesale and retail tariffs. These utilities  
46 have determined that the benefits of these rate structures  
47 exceed the costs associated with any increase in volatility."

48 MS. BUTLER, Q.C.: So that general statement based on  
49 most every utility in North America managing volatility  
50 with demand charges is what you were relying upon.

51 MR. BOWMAN: I was relying on Mr. Brockman to  
52 respond to that statement and show me that falls outside  
53 that range. He submitted two sets of supplementary  
54 testimony and in neither case addressed that.

55 MS. BUTLER, Q.C.: Alright. Let's go back to what Mr.  
56 Brockman said, and you don't feel that his specific  
57 assessment of what would happen, using the example of  
58 the demand to Newfoundland Power customers, five  
59 percent above forecast, taking Newfoundland Power  
60 outside of the range, return on rate base permitted by this  
61 Board.

62 MR. BOWMAN: This example does nothing to address  
63 the issue that's laid out here.

64 MS. BUTLER, Q.C.: That's your opinion.

65 MR. BOWMAN: Yes.

66 MS. BUTLER, Q.C.: Let's go back to **page 13 of your pre-**  
67 **filed testimony, line 21**, to continue the thought on this.  
68 What you had just read, "Companies the size of Hydro and  
69 Newfoundland Power should be able to manage this low  
70 level of volatility with little impact on rates," isn't that  
71 exactly what Mr. Brockman's example is addressing when  
72 he shows that a five percent spike results in the utility  
73 being taken outside of its permitted rate of return on rate  
74 base with a demand charge?

75 MR. BOWMAN: No, I don't think it is. I think it's ... he's  
76 put together a scenario. I don't know how much validity it  
77 has, I don't know how that compares to what other utilities  
78 deal with. It doesn't address this statement.

79 MS. BUTLER, Q.C.: Would you agree that if his example  
80 were accurate that a risk that takes a utility outside of its  
81 authorized range of normal return on equity would not be  
82 described as a low level of volatility?

83 MR. BOWMAN: I'd have to know what the probability of  
84 occurrence is and I can't ... I can come up with a scenario  
85 that is certainly detrimental to the revenues but you need  
86 to put some boundaries on it.

87 MS. BUTLER, Q.C.: Did you?

88 MR. BOWMAN: I suggested that boundaries be put on it  
89 and no boundaries have been put on it. Like I haven't seen  
90 anything that would tell me that their revenue instability  
91 resulting from this would put them outside the bounds that  
92 a normal utility would face.

93 MS. BUTLER, Q.C.: Okay. Despite what Mr. Brockman  
94 says.

1 MR. BOWMAN: He doesn't address it at all.

2 MS. BUTLER, Q.C.: And in this section at page 14 you  
3 conclude by saying, lines five to seven, "In summary, a  
4 small increase in volatility is a minor consideration when  
5 weighed against the benefits arising from the introduction  
6 of more complex rate structures for large volume  
7 customers," correct?

8 MR. BOWMAN: Yes.

9 MS. BUTLER, Q.C.: Okay. And do you maintain the  
10 opinion that what Mr. Brockman has done does not  
11 address the conclusion that you reach there at lines five to  
12 seven?

13 MR. BOWMAN: I still maintain that the increase in  
14 volatility that we're talking about here falls well within the  
15 bounds of normal utilities, what a normal utility that size  
16 would expect.

17 MS. BUTLER, Q.C.: Mr. Bowman, can you tell me what you  
18 would expect for a normal utility, what are the bounds?

19 MR. BOWMAN: I would expect them to be able to cover  
20 this, a demand energy charge. I think that is the industry  
21 norm and I think that they fall within that norm with a  
22 demand energy charge.

23 MS. BUTLER, Q.C.: When you wrote this pre-filed then on  
24 August the 17th and the portion that we see on the screen,  
25 is it fair to say that you did not know how large the  
26 volatility was?

27 MR. BOWMAN: I still don't know how large volatility is.

28 MS. BUTLER, Q.C.: Okay. Because you didn't do the  
29 calculations.

30 MR. BOWMAN: I haven't seen any evidence put before  
31 me. I don't know. I don't know what the calculation ... I  
32 can't do those calculations for power.

33 MS. BUTLER, Q.C.: But, you see, if you can't do the  
34 calculations, Mr. Bowman, I'm wondering how you can  
35 make the statement which is a conclusion on the screen, "A  
36 small increase in volatility is a minor consideration when  
37 weighed against the benefits arising."

38 MR. BOWMAN: I'm making this conclusion because I feel  
39 this falls well within the realm of utilities of similar stature.  
40 If they come in low, you know, under their revenue  
41 requirement, they always come in for a rate case.

42 MS. BUTLER, Q.C.: So that's the answer.

43 MR. BOWMAN: Yeah. Like I said, I don't see any  
44 evidence to suggest that this volatility falls outside the  
45 realm of what a typical utility experiences.

46 MS. BUTLER, Q.C.: I want to go back ... leave that for a

47 moment, Mr. Bowman, and just go back to something you  
48 said to me a moment ago in relation to the section on rates,  
49 and this related to your **pre-filed, page 4, lines 4 to 10**.  
50 Yeah. Lines 10 and 11 actually, "There's a great deal that  
51 Hydro can do with the rates covering the other 94 percent  
52 of sales." See if we can get our minds back to that thought.  
53 If you don't have the marginal rates, I'm sorry, marginal  
54 costs to design the rates, how do you know that the 94  
55 percent of sales that you refer to there can be improved  
56 upon?

57 MR. BOWMAN: I don't. That's why I'm indicating that an  
58 independent consultant should take a look at it.

59 MS. BUTLER, Q.C.: I just want to clarify one other point,  
60 Mr. Bowman, relative to something you said to me very  
61 early in this cross-examination, and perhaps it was an  
62 oversight from yesterday, but the document **CA-6**, which  
63 is now labelled and entered, can we just have a look at that,  
64 being the opening statement from December 4th? Just go  
65 back one page, Mr. O'Rielly. Thanks. Do you adopt this  
66 testimony as part of your sworn testimony in this  
67 proceeding?

68 MR. BOWMAN: I certainly adopt what I said on the  
69 transcript. I read most of this into the transcript. I would  
70 like to have had an opportunity to put this in a format that  
71 would be, you know, line numbering and that, but I have,  
72 I think I'm in a position where I have to adopt this as  
73 testimony.

74 MS. BUTLER, Q.C.: Thanks you very much. Mr. Chairman,  
75 I believe I'm complete. I'll just take a moment, if I might,  
76 maybe during the break with my colleague, to see if there's  
77 any other questions he has arising but I think I'm complete.

78 MR. NOSEWORTHY, CHAIRMAN: Okay.

79 MS. BUTLER, Q.C.: Mr. Chairman, he tells me he's content,  
80 so I am indeed complete, Mr. Bowman. Thank you very  
81 much.

82 MR. BOWMAN: Thank you.

83 MR. NOSEWORTHY, CHAIRMAN: Well, thank you, Ms.  
84 Butler. Thank you, Mr. Bowman. It is quarter to 11 now  
85 and we normally break at 11. If you're prepared, Ms.  
86 Henley Andrews, to continue, I think I'd like ... or do you  
87 wish to take the break now or ...

88 MS. HENLEY ANDREWS, Q.C.: Mr. Chairman, it really  
89 doesn't matter to me one way or the other.

90 MR. NOSEWORTHY, CHAIRMAN: I think we'll go  
91 through to 11, if that's okay.

92 MS. HENLEY ANDREWS, Q.C.: Okay, that's fine.

93 MR. NOSEWORTHY, CHAIRMAN: Thank you.

1 MS. HENLEY ANDREWS, Q.C.: Mr. Bowman, I take it from  
2 your testimony that you would agree with Mr. Osler that a  
3 1-CP allocator is more appropriate?

4 MR. BOWMAN: For generation demand?

5 MS. HENLEY ANDREWS, Q.C.: For generation demand,  
6 yes.

7 MR. BOWMAN: Yes.

8 MS. HENLEY ANDREWS, Q.C.: And I think that it's also  
9 quite clear from your testimony this morning that you  
10 favour a multi-part rate for Newfoundland Power with a  
11 demand and an energy component?

12 MR. BOWMAN: I certainly favour that but I have also  
13 suggested that an independent consultant look at it to  
14 come up with an appropriate design.

15 MS. HENLEY ANDREWS, Q.C.: And would you agree that  
16 the issue of rate design is really the issue that addresses  
17 the volatility aspect and how you structure your rate to the  
18 circumstances of the individual utilities?

19 MR. BOWMAN: The rate design does balance those  
20 various criteria.

21 MS. HENLEY ANDREWS, Q.C.: When you discuss  
22 performance-based regulation in your opening statements,  
23 would you agree that there is currently very little  
24 information before the Board on performance-based  
25 regulation and the options on how to go about it?

26 MR. BOWMAN: Yes.

27 MS. HENLEY ANDREWS, Q.C.: So you would agree that  
28 we're, while it's something that the Board should possibly  
29 look at in the future, that it's something that we're not ready  
30 for as a result of this rate hearing?

31 MR. BOWMAN: That's right.

32 MS. HENLEY ANDREWS, Q.C.: Have you given any  
33 consideration to how the fact that Newfoundland and  
34 Labrador Hydro is a Crown corporation would fit into the  
35 whole concept of performance-based regulation?

36 MR. BOWMAN: Yeah. I think performance-based  
37 regulation works better when you have an investor-owned  
38 utility climate. On the other hand, there's no reason you  
39 can't apply the same principles to a Crown-owned  
40 company.

41 MS. HENLEY ANDREWS, Q.C.: In setting the revenue  
42 requirement for Newfoundland and Labrador Hydro and in  
43 looking at its cost of service study, would you agree that  
44 the single most important thing is that the assumptions  
45 used be as correct as possible?

46 MR. BOWMAN: That's certainly an important

47 consideration.

48 MS. HENLEY ANDREWS, Q.C.: Have you taken a look at  
49 any of the testimony relating to the estimates of the fuel,  
50 the amount of fuel required for Holyrood?

51 MR. BOWMAN: Sorry, could you repeat the question?

52 MS. HENLEY ANDREWS, Q.C.: When it comes to Hydro's  
53 forecast for fuel at Holyrood, there are, I suppose, three  
54 components. One is the cost of fuel, correct?

55 MR. BOWMAN: Yes.

56 MS. HENLEY ANDREWS, Q.C.: A second is the number  
57 of barrels of fuel.

58 MR. BOWMAN: Yes.

59 MS. HENLEY ANDREWS, Q.C.: And within the calculation  
60 of the number of barrels of fuel there's the issue of the  
61 efficiency at Holyrood?

62 MR. BOWMAN: Yes.

63 MS. HENLEY ANDREWS, Q.C.: If we are using average  
64 water conditions, average hydraulic production on a long-  
65 term basis to forecast the amount of fuel required in  
66 Holyrood, do you agree that it would be inappropriate to  
67 utilize an efficiency factor based upon high water years?

68 MR. BOWMAN: Using an efficiency factor based on  
69 historical figures in high water years would certainly have  
70 an impact on the results.

71 MS. HENLEY ANDREWS, Q.C.: And the impact would be  
72 that if the evidence before the Board is that the efficiency  
73 improves with the more the units are run, that in a high  
74 water year with less running of the units you would expect  
75 a lower efficiency, correct?

76 MR. BOWMAN: Could you repeat that? I got lost in the  
77 ...

78 *(10:45 a.m.)*

79 MS. HENLEY ANDREWS, Q.C.: If you use average water  
80 and you use an efficiency factor based on a time period  
81 when the efficiency was lower than it normally would be  
82 because of high water, then you would over-estimate the  
83 number of barrels of fuel that you would need?

84 MR. BOWMAN: You should use an efficiency factor that  
85 reflects expected operation of those units in the test year.  
86 I think I'm answering your question, but if not I'm sure  
87 you'll let me know.

88 MS. HENLEY ANDREWS, Q.C.: And I think you're  
89 answering my question too, but would you agree that if  
90 you're going to use average water you should use average  
91 fuel efficiency for a similar type of water period?

1 MR. BOWMAN: I think you should take into account the  
2 expected operation of a plant.

3 MS. HENLEY ANDREWS, Q.C.: Thank you. I'd like you to  
4 take a look at **page 7, lines 16 to 19 of your pre-filed**  
5 **testimony**. Okay. And we think we need to go, yeah, to go  
6 back a little. Right there. So at line 16 to 17 you say that  
7 your review of the cost of service study relates to the  
8 methodology only and that you did not review the  
9 assignment of each piece of equipment on the system. I  
10 take it from that that you did not take a, do a review of  
11 Hydro's assignment of specific transmission or generation  
12 plant to its various customers?

13 MR. BOWMAN: That's true, I didn't look ... I didn't do any  
14 kind of in-depth analysis of the assignment of each piece  
15 of equipment on the system, that's right.

16 MS. HENLEY ANDREWS, Q.C.: We have had evidence  
17 that in determining common plant the test is whether the  
18 plant provides a substantial benefit to two or more  
19 customers.

20 MR. BOWMAN: Yes.

21 MS. HENLEY ANDREWS, Q.C.: Is that your ... is that also  
22 your understanding of an appropriate definition of common  
23 plant?

24 MR. BOWMAN: That's my understanding.

25 MS. HENLEY ANDREWS, Q.C.: And in that context how  
26 would you define substantial?

27 MR. BOWMAN: More than average, I guess.

28 MS. HENLEY ANDREWS, Q.C.: More than a little?

29 MR. BOWMAN: More than a little. I don't have a  
30 dictionary here in front of me. I think that's pretty  
31 judgemental, requires judgement on the part of the cost of  
32 service person.

33 MS. HENLEY ANDREWS, Q.C.: Looking at your **opening**  
34 **statement at page three** under the topic, "Rate Design,"  
35 you've testified that you have recommended that the Board  
36 hire an independent consultant to review and recommend  
37 rate designs for customers in Newfoundland, and the  
38 subsequent sentences seem to relate to the previous  
39 recommendation of the Board that Hydro develop a  
40 demand energy rate or a three-part rate for Newfoundland  
41 Power. Is that correct?

42 MR. BOWMAN: That's certainly part of it, yes.

43 MS. HENLEY ANDREWS, Q.C.: Are you also  
44 recommending that the independent consultant review the  
45 industrial rate design?

46 MR. BOWMAN: Yes.

47 MS. HENLEY ANDREWS, Q.C.: In what respects?

48 MR. BOWMAN: On response to one of the information  
49 requests that I submitted, the industrial customers  
50 indicated that they were interested in seeing other rate  
51 design options. I would like to see the independent  
52 consultant include that in a study.

53 MS. HENLEY ANDREWS, Q.C.: So you're not  
54 recommending that the independent consultant look at the  
55 demand energy rate for the industrial customers?

56 MR. BOWMAN: Well, part of that study would be to look  
57 at the existing rates, yes.

58 MS. HENLEY ANDREWS, Q.C.: Could we go to **page six,**  
59 **the section that's called "Industry and Regulatory**  
60 **Structure?"** Am I correct that in this particular section of  
61 your testimony the, what you're basically talking about is  
62 the idea of a substitute for competition?

63 MR. BOWMAN: I think it's fair to say that performance-  
64 based regulation is a substitute for competition. You have  
65 regulation because you don't have competition in the  
66 industry, so performance-based regulation is still regulation  
67 but it imposes a competitive element in a business.

68 MS. HENLEY ANDREWS, Q.C.: And what is the theory of  
69 that competitive element?

70 MR. BOWMAN: One way you might look at it is if you did  
71 have a number of distribution companies and a competitive  
72 element might come through if you publish the actual rates  
73 for each distribution company and its performance, and if  
74 you made, like I say, if you publish those and made them  
75 available to the public and if, for example, a utility in Corner  
76 Brook had low rates and high reliability whereas one in St.  
77 John's had higher rates and lower reliability, then that  
78 would create a certain competition between those two  
79 utilities, and the customers in each ... well, customers in St.  
80 John's would be putting pressure on their utility to do a  
81 better job.

82 MS. HENLEY ANDREWS, Q.C.: I would consider that to  
83 be real competition and what I was wondering about is that  
84 if you assume for the sake of discussion that we continue  
85 to have primarily two utilities, being Hydro and  
86 Newfoundland Power, I can see how performance-based  
87 regulation might provide some incentive for an  
88 independent utility, but I'm a little at a loss with respect to  
89 a Crown-owned utility and I really just wondered how you  
90 could reconcile the theory of performance-based regulation  
91 when dealing with a Crown-owned utility.

92 MR. BOWMAN: If you had a price cap mechanism for  
93 Hydro, for example, the price cap might set, say the  
94 revenues were capped at \$300 million and that's what  
95 they're going to get in each of the subsequent years, it was

1 allowed to increase, say, at some inflation factor but then  
2 decreased according to a productivity factor, then their  
3 revenues would be tied to that. Now if they could do better  
4 than that, then they would increase their return to their  
5 shareholder.

6 MS. HENLEY ANDREWS, Q.C.: So the idea would be that  
7 you would provide, because they would have to meet these  
8 efficiency targets in order to earn their profit, they would  
9 have an incentive to keep their costs down?

10 MR. BOWMAN: That's correct.

11 MS. HENLEY ANDREWS, Q.C.: Mr. Chairman, this would  
12 be a good place to break.

13 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
14 Henley Andrews. We'll break until 10 after.

15 (break)

16 (11:15 a.m.)

17 MR. NOSEWORTHY, CHAIRMAN: Ms. Henley Andrews,  
18 could I ask you to continue with your cross, please?

19 MS. HENLEY ANDREWS, Q.C.: Yes, Mr. Chairman. Mr.  
20 Bowman, some of your testimony yesterday focused on the  
21 issue of managing the cost of fuel. Do you recall that?

22 MR. BOWMAN: Yes.

23 MS. HENLEY ANDREWS, Q.C.: And one of the things  
24 you were asked about, for example, were things like  
25 financial instruments and contract type relationships to  
26 manage the cost of fuel?

27 MR. BOWMAN: Yes.

28 MS. HENLEY ANDREWS, Q.C.: Are you familiar with the  
29 concept of strategic fuel purchasing?

30 MR. BOWMAN: No.

31 MS. HENLEY ANDREWS, Q.C.: Would you agree that the  
32 amount that's outside of the financial instrument side or the  
33 contractual side of reducing your risk on fuel, that the  
34 amount of flexibility that a utility has will depend in part on  
35 how much fuel storage it has?

36 MR. BOWMAN: That's certainly a consideration, yes.

37 MS. HENLEY ANDREWS, Q.C.: And its ability to  
38 purchase fuel when fuel prices are lower is going to be a  
39 function of ... and the benefit that it can receive from that is  
40 going to be a function of how much storage it has?

41 MR. BOWMAN: Well, this is out of my area. Certainly, it's  
42 a function of the fuel storage they have, but I think you  
43 could probably store it off site, as well. This is definitely  
44 getting out of my area of expertise.

45 MS. HENLEY ANDREWS, Q.C.: But would you agree with

46 me that when you look at the issue of fuel purchasing, that  
47 it's a broader issue than just looking at the financial  
48 instruments?

49 MR. BOWMAN: There's a number of considerations, yes.

50 MS. HENLEY ANDREWS, Q.C.: One of the areas that  
51 Newfoundland Power asked some questions on this  
52 morning was the assertion in your evidence that there is  
53 insufficient material available or insufficient information  
54 available to you to design a rate at this time, and I gathered  
55 from your answer that the type of rate that you would  
56 propose, if you were to design a rate, would be a marginal  
57 cost type of rate?

58 MR. BOWMAN: I would be looking to incorporate  
59 marginal cost elements in a rate.

60 MS. HENLEY ANDREWS, Q.C.: First of all, are you talking  
61 about short-run marginal costs or long-run marginal costs?

62 MR. BOWMAN: Both.

63 MS. HENLEY ANDREWS, Q.C.: And what margin cost  
64 information do you think that you need that is not  
65 available?

66 MR. BOWMAN: I need to know what the short-run  
67 marginal costs are, what the cost of capacity is, what those  
68 costs are in varying time periods.

69 MS. HENLEY ANDREWS, Q.C.: And what would be the  
70 relevance of what the costs are in the time periods?

71 MR. BOWMAN: To incorporate time of use elements in  
72 the tariff.

73 MS. HENLEY ANDREWS, Q.C.: And if there were to be no  
74 time of use elements incorporated into the tariff, what  
75 would be the information that you would need to design  
76 the rates that's not currently available?

77 MR. BOWMAN: You would need certainly the short-run  
78 marginal costs and then consumption of various levels.  
79 You might want to design run out, block rates that reflect  
80 marginal costs.

81 MS. HENLEY ANDREWS, Q.C.: Would you look at a run  
82 out rate for the wholesale rate?

83 MR. BOWMAN: Not very likely.

84 MS. HENLEY ANDREWS, Q.C.: I was intrigued by your  
85 suggestion this morning that the industrial customers were  
86 looking for real time pricing, and I was wondering where  
87 you got that impression?

88 MR. BOWMAN: I got that from one of the information  
89 requests, and I would have to look that up. I believe they  
90 indicated that they would be interested in other rate design  
91 options, and as I recall real time pricing was one of the for



1 examples listed.

2 MS. HENLEY ANDREWS, Q.C.: Okay, but it's not in any  
3 of the evidence filed by Mr. Osler, for example?

4 MR. BOWMAN: No.

5 MS. HENLEY ANDREWS, Q.C.: Now, I note, from your  
6 resume, which is attached to your evidence, that you have  
7 given expert testimony in Nova Scotia with respect to  
8 interruptible rate design?

9 MR. BOWMAN: Yes.

10 MS. HENLEY ANDREWS, Q.C.: And what would be ... do  
11 you think it's appropriate to have an interruptible rate  
12 available for those customers whose demand is large  
13 enough to take advantage of it?

14 MR. BOWMAN: Yes.

15 MS. HENLEY ANDREWS, Q.C.: Do you think this is  
16 something that the Board should be encouraging?

17 MR. BOWMAN: Interruptible rates?

18 MS. HENLEY ANDREWS, Q.C.: Yes.

19 MR. BOWMAN: Yes.

20 MS. HENLEY ANDREWS, Q.C.: When you look at the ...  
21 could we take a look at **NP-133**, and in particular I'd like  
22 you to take a look at how the interruptible rate for the  
23 industrial customers is calculated?

24 MR. BOWMAN: Sorry, you want me to take a look at how  
25 it's calculated?

26 MS. HENLEY ANDREWS, Q.C.: Yeah, just take a look at it,  
27 and it may be easier for you to actually look at the hard  
28 copy, but if you want to look at it on the screen that's fine.  
29 In particular it's the answer to A.

30 MR. BOWMAN: I'm somewhat familiar with this response.  
31 I certainly haven't memorized it, but ...

32 MS. HENLEY ANDREWS, Q.C.: Okay. You can see that  
33 the interruptible rate that's made available to the industrial  
34 customers is made available during four months of the year,  
35 from December to March?

36 MR. BOWMAN: Yes.

37 MS. HENLEY ANDREWS, Q.C.: And that that is basically  
38 the time when Hydro would expect its peaks to occur?

39 MR. BOWMAN: Yes.

40 MS. HENLEY ANDREWS, Q.C.: Is it reasonable to design  
41 an interruptible rate that focuses on a specific time of year  
42 like that, or would you suggest that an interruptible rate  
43 should be available year round?

44 MR. BOWMAN: Depends on the utility. Certainly, there's  
45 a much greater demand here in the winter months and the  
46 non winter months. Like, in our case in Ontario, we spread  
47 the interruptible discounts throughout the year. We had a  
48 summer peak, to some extent, and there was some value in  
49 interrupting in those months as well.

50 MS. HENLEY ANDREWS, Q.C.: Would you agree that the  
51 rate or the compensation that should be made available to  
52 anyone who is providing this type of service should be  
53 based upon the value that the service is providing?

54 MR. BOWMAN: I think the ... yeah, the value should be  
55 reflected in the rate.

56 MS. HENLEY ANDREWS, Q.C.: And would you agree that  
57 an interruptible rate has value in the winter in  
58 Newfoundland, with Newfoundland's load profile by  
59 avoiding peakers in the winter?

60 MR. BOWMAN: I would certainly expect that to be the  
61 case.

62 MS. HENLEY ANDREWS, Q.C.: But would you agree that  
63 it has little, if any, value in the summer, if there's no peaking  
64 in the summer?

65 MR. BOWMAN: I'd be surprised if there's much value in  
66 the summer. On the other hand, I'm not that familiar with  
67 their maintenance program. There may be some value and  
68 there may be some transmission value as well.

69 MS. HENLEY ANDREWS, Q.C.: So would you agree then  
70 that the cost to be incurred by Hydro to purchase this type  
71 of capacity, because that's really what you're doing with an  
72 interruptible rate, should be tied to the value that it  
73 produces during the time of year when it produces that  
74 value?

75 MR. BOWMAN: I think that's right, yes.

76 MS. HENLEY ANDREWS, Q.C.: Are you aware of the  
77 Newfoundland Power generation credit?

78 MR. BOWMAN: I'm aware of it, yes.

79 MS. HENLEY ANDREWS, Q.C.: And would you agree that  
80 ... with Mr. Budgell, that it provides a ... the Newfoundland  
81 Power generation availability has a similar role as the  
82 interruptible from the industrial customers?

83 MR. BOWMAN: It plays a similar role, but generation is  
84 certainly different than interruptible load.

85 MS. HENLEY ANDREWS, Q.C.: Would you agree that in  
86 the way in which it is utilized, and the evidence indicates  
87 that it's used from a peaking perspective, that its real value  
88 is in the winter during peak periods?

89 MR. BOWMAN: In terms of deferring the need for  
90 additional capacity, I would say that's correct. Within that  
91 ... we have seen testimony that indicates that it's winter

1 peak demands that drive generation investment.

2 (11:30 a.m.)

3 MS. HENLEY ANDREWS, Q.C.: Now, I want to ask you  
4 some questions relating to rate stabilization, the Rate  
5 Stabilization Plan and also with respect to rate stabilization  
6 or fuel adjustment mechanisms. Could we take a look, Mr.  
7 O'Rielly, at **NLH-99**, page 1 of 2? And if you could leave  
8 that on the screen? I'd like to take a look at page 10 of your  
9 opening statement, and on the previous page you had  
10 recommended that the RSP be eliminated gradually in order  
11 to spread the rate impact over time?

12 MR. BOWMAN: Yes.

13 MS. HENLEY ANDREWS, Q.C.: When you were asked  
14 some questions this morning with respect to the phase out  
15 of the preferential rates for government customers on the  
16 isolated system ... on the interconnected system and the  
17 isolated system you indicated that a five year period would  
18 be a reasonable period to do that?

19 MR. BOWMAN: I think what I indicated was that was  
20 what the Board felt was a reasonable period.

21 MS. HENLEY ANDREWS, Q.C.: Okay, and do you think  
22 that five years would also be a reasonable period of time to  
23 get rid of the existing balance in the RSP?

24 MR. BOWMAN: Possibly. I'd have to see ... I think it's a  
25 function of where rates are going in the future. Like, you  
26 want to minimize the rate impact so you'd have to take into  
27 account what rate impacts are expected in the future and  
28 just how much you want to write off in any given year.

29 MS. HENLEY ANDREWS, Q.C.: So you wouldn't want to  
30 create a huge bump in customer's rates, so I guess it falls  
31 into the category of gradualism, would you agree?

32 MR. BOWMAN: That's right.

33 MS. HENLEY ANDREWS, Q.C.: Now, when we look at the  
34 top of page 10 of your evidence, or your opening  
35 statement, you say that the RSP, broken down into its  
36 principal components, includes a fuel adjustment charge to  
37 enable refunds or pass throughs and a balancing account.  
38 Would you ... how do you ... what do you consider is in the  
39 fuel adjustment charge?

40 MR. BOWMAN: Well, certainly the variations in hydraulic  
41 production, and as well, and the changes in the cost of fuel,  
42 there could be a load element as well, a growth element.

43 MS. HENLEY ANDREWS, Q.C.: Now, when you talk about  
44 substituting other mechanisms, I take it you don't favour  
45 any form of fuel adjustment account?

46 MR. BOWMAN: I wouldn't say any form. If I favoured a  
47 form of fuel adjustment I would want incentives on the

48 utility to do a better job of managing that fuel element.

49 MS. HENLEY ANDREWS, Q.C.: So I take it that your  
50 preference would be to not replace the RSP with a fuel  
51 adjustment rider?

52 MR. BOWMAN: A fuel adjustment rider that would allow  
53 the utility to directly pass through those costs to  
54 consumers, no matter what they were.

55 MS. HENLEY ANDREWS, Q.C.: You would favour that or  
56 not?

57 MR. BOWMAN: I would not favour that.

58 MS. HENLEY ANDREWS, Q.C.: Okay. Now, when you  
59 look at **NLH-99** you'll see that the question was would Mr.  
60 Osler support elimination of the RSP for industrial  
61 customers and have it replaced by a fuel adjustment  
62 charge, and when you go down to subparagraph 1 in the  
63 answer, you see that Mr. Osler has indicated that load  
64 variance risks normally reside with the utility?

65 MR. BOWMAN: Yes.

66 MS. HENLEY ANDREWS, Q.C.: Would you agree that that  
67 is true in North America? And take the time to read the  
68 paragraph, if you like.

69 MR. BOWMAN: I'll do that. I can't really say that I've  
70 reviewed fuel adjustment clauses to the extent that I would  
71 be able to make that assertion. I think that's probably the  
72 case, but I can't say that with any real support.

73 MS. HENLEY ANDREWS, Q.C.: And I take it you're not in  
74 a position to disagree with Mr. Osler?

75 MR. BOWMAN: That's right.

76 MS. HENLEY ANDREWS, Q.C.: Are you familiar with how  
77 the load variation adjustment works for Newfoundland  
78 Hydro's Rate Stabilization Plan?

79 MR. BOWMAN: To the extent that it allows them to  
80 compensate for variations in load growth relative to what  
81 is forecast.

82 MS. HENLEY ANDREWS, Q.C.: Would you agree that the  
83 way in which it is applied, so that by doing a monthly rerun  
84 of the cost of service study and then reassigning costs  
85 between customers based upon what their actual loads  
86 have been versus the forecast loads, effectively changes  
87 the rates for the customers for that month?

88 MR. BOWMAN: I think whenever there's an RSP  
89 adjustment it's changing the rates. If you're ... I'm not sure,  
90 are you asking me if just doing it on that basis changes the  
91 rates? I think the rate level certainly is changing.

92 MS. HENLEY ANDREWS, Q.C.: That's what I mean. In  
93 other words, the Board sets rates in a hearing such as this

1 one, and I know that the proposal for Hydro on a go  
2 forward basis is different than what the past has been, but  
3 those costs go into a cost of service study, correct, during  
4 a general rate hearing?

5 MR. BOWMAN: Yes.

6 MS. HENLEY ANDREWS, Q.C.: And the forecasts for  
7 load, both with the demand and the energy components,  
8 determine how much revenue is to be recovered from each  
9 customer, each customer class, correct?

10 MR. BOWMAN: In a cost of service study?

11 MS. HENLEY ANDREWS, Q.C.: That's right.

12 MR. BOWMAN: Yes.

13 MS. HENLEY ANDREWS, Q.C.: And as part of the  
14 general rate application the Board then sets rates to recover  
15 the forecast costs that is has determined are going to be  
16 assigned to each class of customers, correct?

17 MR. BOWMAN: Yes.

18 MS. HENLEY ANDREWS, Q.C.: But when you rerun the  
19 cost of service the month after the rates have been set, for  
20 example, and you put a credit into one customer's account  
21 and a debit into another customer's account to reflect the  
22 difference between what they've actually consumed versus  
23 the forecast, you are changing the amount of revenue  
24 which will be recovered from them, isn't that correct?

25 MR. BOWMAN: That's right.

26 MS. HENLEY ANDREWS, Q.C.: So to that extent, in the  
27 case of the customer that has received the debit, who  
28 subsequently gets an RSP adjustment to recover that cost,  
29 that customer is contributing more to the revenue  
30 requirement than was originally in the rates set by the  
31 Board?

32 MR. BOWMAN: The RSP is certainly assigning revenue  
33 requirement to the various customer classes, yes.

34 MS. HENLEY ANDREWS, Q.C.: Okay, and that aspect of  
35 it has nothing to do with fuel, would you agree?

36 MR. BOWMAN: Which aspect?

37 MS. HENLEY ANDREWS, Q.C.: That when you are  
38 rerunning your cost of service, that deals with the demand  
39 and the energy from your classes of customers and how  
40 the costs are assigned between the customers, but it's not  
41 a direct result of variations in fuel, fuel costs?

42 MR. BOWMAN: And was there a question in there?

43 MS. HENLEY ANDREWS, Q.C.: Yes. I'm asking you, do  
44 you agree with that?

45 MR. BOWMAN: I apologize for this, but could you run me

46 through that once more? I'm not sure I got it.

47 MS. HENLEY ANDREWS, Q.C.: Okay. Would you agree  
48 that a load variation adjustment of the sort that we have  
49 just described, that I have just described to you ...

50 MR. BOWMAN: Meaning load adjustments on the basis  
51 of demand and energy?

52 MS. HENLEY ANDREWS, Q.C.: That's right.

53 MR. BOWMAN: Yes.

54 MS. HENLEY ANDREWS, Q.C.: Is not a fuel adjustment?

55 MR. BOWMAN: Generally, changes in fuel prices are  
56 recovered in energy, the energy component in price.  
57 However, rates vary, rates can ... like, the rates don't  
58 recover the exact components coming out of the cost of  
59 service study, to begin with. I think the RSP component,  
60 there's no question it's administratively complex, and I think  
61 the issue we're discussing here really is an interpretation of  
62 what was ... what the Board meant, what the Board's  
63 direction was at that time, and it's difficult for me to actually  
64 know what it was the Board had in mind at that time.

65 MS. HENLEY ANDREWS, Q.C.: Okay. Now, when you  
66 talk about using indices for fuel prices?

67 MR. BOWMAN: Yes.

68 MS. HENLEY ANDREWS, Q.C.: Would you agree that that  
69 would ... the type of indices that might be used would be  
70 something that would require some further study?

71 MR. BOWMAN: Yes.

72 MS. HENLEY ANDREWS, Q.C.: So that's also something  
73 that the Board might be able to look at in the future but it's  
74 not something that there's enough information available  
75 here right now for the Board to make a ruling on?

76 MR. BOWMAN: If you're talking about in terms of a  
77 performance type incentive, I agree. If you're talking about  
78 in terms of setting the revenue requirement, I don't think  
79 they have any choice in the issue.

80 MS. HENLEY ANDREWS, Q.C.: You're suggesting that the  
81 Board should determine what the price of Bunker C would  
82 be, utilizing these various indices that you have referred  
83 to?

84 MR. BOWMAN: I'm suggesting a performance mechanism  
85 in the future could be based on an indicia tied to some well-  
86 known published index.

87 MS. HENLEY ANDREWS, Q.C.: Okay.

88 MR. BOWMAN: I'm saying that's something that the  
89 Board could look at in the future.

90 MS. HENLEY ANDREWS, Q.C.: Let's assume for the

1 moment that Hydro's customers want some form of  
2 smoothing mechanism for fuel price and that the Board  
3 feels that that's appropriate, notwithstanding that that's not  
4 your position.

5 MR. BOWMAN: Uh hum.

6 MS. HENLEY ANDREWS, Q.C.: Would you agree that one  
7 of the problems is that the smoothing mechanism or the  
8 mechanism, I won't call it smoothing, the mechanism that  
9 was in place in the 19 ... prior to the RSP, so prior to 1986,  
10 where the fuel adjustment was made monthly, really  
11 provided very little smoothing effect?

12 MR. BOWMAN: That's right.

13 MS. HENLEY ANDREWS, Q.C.: And that when you look  
14 at fuel adjustment riders, the types of riders that have been  
15 in place in various jurisdictions, that most of them would  
16 not make the adjustment on a monthly basis?

17 MR. BOWMAN: That's correct, and my opening remarks  
18 here suggests that only one state is actually doing it on a  
19 monthly basis.

20 MS. HENLEY ANDREWS, Q.C.: And that's Connecticut?

21 MR. BOWMAN: That's right.

22 MS. HENLEY ANDREWS, Q.C.: And that does provide for  
23 a lack of predictability and a fair amount of waxing and  
24 waning, if you like, in the price of electricity for customers,  
25 right?

26 MR. BOWMAN: It could.

27 MS. HENLEY ANDREWS, Q.C.: And is it correct that most  
28 of the jurisdictions which have adopted fuel riders or fuel  
29 adjustment riders would smooth the impacts of variation in  
30 fuel prices over periods of 6 to 12 months?

31 MR. BOWMAN: Yes, that's right.

32 *(11:45)*

33 MS. HENLEY ANDREWS, Q.C.: And that if you're looking  
34 at a jurisdiction, such as Newfoundland, where there's no  
35 summer peak because there's very little air conditioning  
36 used, but there is a winter peak, that a 12 month smoothing  
37 period would provide a reasonable degree of stability to  
38 customers, including industrial customers?

39 MR. BOWMAN: I think so yes.

40 MS. HENLEY ANDREWS, Q.C.: Now, would you agree  
41 that when it comes to looking at the existing Rate  
42 Stabilization Plan and the balance in the fuel component,  
43 it's just the fuel component, not the hydraulic component  
44 of the plan, that a large part of the problem is that Hydro's  
45 rates set in 1992 assumed a \$12.50 per barrel cost of Bunker  
46 C and that the plan has been allowed to grow?

47 MR. BOWMAN: That's a problem, yes.

48 MS. HENLEY ANDREWS, Q.C.: And would you also agree  
49 that if the fuel price, the price of fuel had been adjusted  
50 periodically during the last ten years, then the amount in  
51 the Rate Stabilization Plan, the balance in the fuel portion  
52 of the Rate Stabilization Plan would not be as large as it is  
53 today, nor would it grow to the same extent in the future, if  
54 the price was set appropriately?

55 MR. BOWMAN: That would certainly help reduce the  
56 balance. As I understand it, they've had above average  
57 hydro conditions here in the last few years. I'd say it's  
58 certainly contributing to the imbalance.

59 MS. HENLEY ANDREWS, Q.C.: Well, that leads me into  
60 the issue of the hydraulic portion. You would agree that if  
61 you look at hydraulic production, it has a ... the main driver  
62 behind the amount of hydraulic production would be  
63 weather?

64 MR. BOWMAN: That's a major consideration, yes.

65 MS. HENLEY ANDREWS, Q.C.: Okay, and to the extent  
66 that it's not weather, for example, to the extent that a  
67 reduction in hydraulic production results from a mechanical  
68 failure, that that would generally be a risk that would be  
69 borne by a utility?

70 MR. BOWMAN: Yes.

71 MS. HENLEY ANDREWS, Q.C.: That with respect to  
72 hydraulic, again, if customers wished to have some  
73 protection from dry periods and were prepared to have an  
74 account that balanced out some of the risks associated with  
75 dry periods versus wet periods, the fact that over the last  
76 number of years the amounts that have been built up in the  
77 fuel adjustment portion of the RSP, the fact that those have  
78 been offset by Hydro by the amounts that were being  
79 credited to the hydraulic means that today, at the end of a  
80 wet period, there is very little in the account to protect  
81 customers from dry periods into the future? Want me to try  
82 that an easier way?

83 MR. BOWMAN: Yes.

84 MS. HENLEY ANDREWS, Q.C.: Okay. Even by my  
85 standards that was a long question. If customers felt that  
86 it was important to have a hydraulic adjustment mechanism,  
87 then you would expect that since weather variations occur  
88 over a much longer period of time than fuel variations, but  
89 that type of an adjustment plan would have a much longer  
90 curve, would you agree?

91 MR. BOWMAN: Yes. I've actually heard climatologists say  
92 that we're in the midst of a 10,000 year cooling cycle right  
93 now.

94 MS. HENLEY ANDREWS, Q.C.: But it could be 30 years?

1 For example, Environment Canada uses 30 years from a  
2 forecasting perspective?

3 MR. BOWMAN: Could be 30 years or it could be one year,  
4 could be five years, could be 10,000 years.

5 MS. HENLEY ANDREWS, Q.C.: Okay. Now, let's assume  
6 that in looking at the fuel adjustment you want to start  
7 fresh.

8 MR. BOWMAN: Okay.

9 MS. HENLEY ANDREWS, Q.C.: You have two ... would  
10 you agree with me that there would then be two issues, one  
11 issue would be how would you recover the existing balance  
12 in the RSP?

13 MR. BOWMAN: Right.

14 MS. HENLEY ANDREWS, Q.C.: And the second issue  
15 would be how would you design the adjustment into the  
16 future to recover the amount of fuel variation that you're  
17 prepared to commit?

18 MR. BOWMAN: Yes.

19 MS. HENLEY ANDREWS, Q.C.: And that all of that would  
20 have to, in coming up with that plan to have a new system  
21 on a go forward basis and to amortize the existing balance,  
22 one of the elements you'd have to look at would be the  
23 impact on customer's rates?

24 MR. BOWMAN: That's right.

25 MS. HENLEY ANDREWS, Q.C.: Those are all my  
26 questions. Thank you.

27 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
28 Henley Andrews. Thank you, Mr. Bowman. We'll move  
29 now to questions, cross-examination by counsel. Mr.  
30 Kennedy, please?

31 MR. KENNEDY: Thank you, Chair. Mr. Bowman. Mr.  
32 Bowman, just a couple of curiosities of my own, first,  
33 relating to the interruptible rate concept. Is the  
34 interruptible rate that would be afforded by Hydro, in this  
35 case to the industrial customers, is that conceptually  
36 associated or tied to the concept of the coincident peak in  
37 any way?

38 MR. BOWMAN: Indirectly. I think they've based it on the  
39 expected operating pattern of a combustion ... well, a  
40 peaking option, and the peaking option is ... the expectation  
41 is that it would operate during peak periods, but I wouldn't  
42 say it's direct, for rate making purposes I wouldn't say  
43 there's a correlation there with coincident peak. There are  
44 a number of coincident peaks, if that's what you're asking.

45 MR. KENNEDY: Okay. I guess the curiosity arises from  
46 the fact that the interruptible rate applies over a four month  
47 period is, I think has been established in the evidence?

48 MR. BOWMAN: Yes.

49 MR. KENNEDY: And that they are the four winter months,  
50 and that I'm assuming the rationale is that Hydro provides  
51 this interruptible rate and has contractually secured the  
52 ability to interrupt the power to the industrial customers for  
53 that four month period because it's that four month period  
54 where they may need to interrupt the rate?

55 MR. BOWMAN: That's my understanding, yes.

56 MR. KENNEDY: Okay.

57 MR. BOWMAN: From a planning perspective. I'm not  
58 sure whether they need it over the entire year from an  
59 operating perspective. There's no doubt in my mind their  
60 operators would like to have that flexibility.

61 MR. KENNEDY: So conceptually, there's no direct or even  
62 indirect tie between the concept of the coincident peak and,  
63 for instance, it being a 1-CP or a 4-CP and then the  
64 interruptible rate and the need for power over, in this case,  
65 a four month period?

66 MR. BOWMAN: I don't see any connection to the  
67 coincident peaks, no.

68 MR. KENNEDY: The interruptible rate, as I understand it,  
69 and I think you established in questioning to Ms.  
70 Andrews, is one of the rationales for that is that it voids the  
71 requirement to build generation or increase capacity on the  
72 system because it allows them to decrease the amount of  
73 power that they're delivering to a particular customer, high  
74 energy customer?

75 MR. BOWMAN: That's certainly the most significant  
76 benefit, I would say.

77 MR. KENNEDY: And so in the case of the marginal cost  
78 based rate design, would that interruptible rate be then tied  
79 to the long-run marginal cost?

80 MR. BOWMAN: Yes.

81 MR. KENNEDY: Okay. They were my curiosities on  
82 interruptible rates. The questions, more substantive, I  
83 guess, questions, just relating to one aspect of your pre-  
84 filed testimony, Mr. Bowman, and that's relating to your  
85 recommendation of an independent consultant, and I'm  
86 wondering if you could provide some elaboration on the  
87 process that would be ... that you would recommend that  
88 the Board or the panel would employ in retaining a  
89 consultant, assuming that was something that they would  
90 entertain?

91 MR. BOWMAN: Are you talking in terms like a terms of  
92 reference for the independent consultant?

93 MR. KENNEDY: Well, I guess that's the thing. You would  
94 initially have to establish a terms of reference for this

1 independent consultant?

2 MR. BOWMAN: Yes.

3 MR. KENNEDY: Okay, and the process, would that  
4 independent consultant normally require a marginal cost  
5 study be completed prior to them doing their own work?

6 MR. BOWMAN: They would have to work with Hydro's  
7 staff to develop marginal costs. I should say, I did this  
8 once for the Regulatory Board in Nova Scotia, and  
9 basically they hired me to work with Nova Scotia Power's  
10 staff and that was to develop various rate options under  
11 their expansion program.

12 MR. KENNEDY: Okay. Well, let's take that concrete  
13 example then in Nova Scotia. You were hired by or given  
14 the mandate by the Public Utilities Board of Nova Scotia to  
15 implement a new rate design for the public utility?

16 MR. BOWMAN: Well, it was to design rate designs, and  
17 then those rate designs were put forward when the utility  
18 came in for the next rate case.

19 MR. KENNEDY: So these were put forward by you as sort  
20 of an option A, option B, option C of rate designs or did  
21 you design one overall rate design and say that that's your  
22 recommendation?

23 MR. BOWMAN: No. I designed rates that were supposed  
24 to be consistent with their expansion program and I filed a  
25 report, so basically, the designs in that report were  
26 discussed as part of the next rate application by the utility.

27 MR. KENNEDY: So when you came up with this design  
28 was this done as independent of the utility or did you work  
29 with the utility in coming up with the design?

30 *(12:00 noon)*

31 MR. BOWMAN: Well, my design was independent, but I  
32 had to work with the utility to come up with those designs.

33 MR. KENNEDY: Okay, so it was ultimately though your  
34 own design, your recommendation of what you deemed to  
35 be a best design for rates in the circumstances?

36 MR. BOWMAN: It was certainly mine. It's pretty fair to  
37 say that Nova Scotia Power weren't going to adopt those  
38 recommendations.

39 MR. KENNEDY: Okay, but preceding that recommendation  
40 you needed to work with the utility in order to secure the  
41 information necessary for you to make that rate design  
42 recommendation?

43 MR. BOWMAN: That's correct.

44 MR. KENNEDY: And that involved a marginal cost study?

45 MR. BOWMAN: Yes.

46 MR. KENNEDY: Okay. Now, I understand that in order to  
47 do an appropriate marginal cost study in these  
48 circumstances that it may involve both utilities, both Hydro  
49 and Newfoundland Power would need in a marginal cost  
50 study, is that your position, as well?

51 MR. BOWMAN: Yes.

52 MR. KENNEDY: Okay, so and the same independent  
53 consultant, would that independent consultant be in  
54 charge of having the marginal cost study conducted?

55 MR. BOWMAN: They would be involved in the process,  
56 and I will say, Newfoundland Power has developed  
57 marginal costs, I think back in '98, maybe.

58 MR. KENNEDY: '97 as a result of Mr. Bowman's  
59 recommendations in 1996.

60 MR. BOWMAN: Thank you.

61 MR. KENNEDY: Okay, so would you ... that would just  
62 need to be freshened up, I take it, or it could be used as at  
63 least a starting point on a marginal cost study?

64 MR. BOWMAN: I would expect they'd be in a pretty good  
65 position to update those figures.

66 MR. KENNEDY: Okay, so it's starting from there you  
67 would ... the independent consultant would work with both  
68 Newfoundland Power and Hydro in first generating a  
69 marginal cost study?

70 MR. BOWMAN: That would be one of the first steps, yes.

71 MR. KENNEDY: Okay. That's one of the first steps?

72 MR. BOWMAN: Yeah.

73 MR. KENNEDY: And then is there a step between that and  
74 then the independent consultant actually generating a rate  
75 design that they then recommend?

76 MR. BOWMAN: Yeah. You would need the ... like I said  
77 earlier, you'd need the billing determinant data and various  
78 load data. If you're going to design run out block rates,  
79 you need to know consumptions of various levels, so the  
80 utility would have a great deal more information as well on  
81 actual load shapes and such.

82 MR. KENNEDY: Okay, and that's information in addition  
83 to the information that comes out of the marginal cost  
84 study then?

85 MR. BOWMAN: Yes.

86 MR. KENNEDY: Okay. Is there another step in addition to  
87 that? So there's the marginal cost study that needs to be  
88 generated, there's additional information to be obtained  
89 from the utility relating to load characteristics and billing  
90 determinants?

1 MR. BOWMAN: Yeah. These are things they should  
2 have.

3 MR. KENNEDY: Yes.

4 MR. BOWMAN: Yeah, and with that, the independent  
5 consultant should be able to come up with rate designs.

6 MR. KENNEDY: And would the ... in the case of Nova  
7 Scotia, were you give an free hand on the rate design or  
8 were you given instructions by the utility board concerning  
9 what the objective of the rate design was?

10 MR. BOWMAN: Yes, I was given objectives, so the  
11 objective was that that rate designs be consistent with their  
12 expansion plans, so by inference, it meant you had to  
13 employ marginal cost aspects in the rate design.

14 MR. KENNEDY: Okay, and again, I just want to try to get  
15 a firm understanding of the process that would need to be  
16 employed, so independent consultant hired, a marginal cost  
17 study generated by working with the utilities, the gathering  
18 of additional information that's required, the determination  
19 by the independent consultant of a rate design that they  
20 then recommend, and then that goes back before the Board,  
21 is that what happened in Nova Scotia?

22 MR. BOWMAN: Yes. Then the report is filed with the  
23 Board.

24 MR. KENNEDY: Mr. Bowman, sort of one issue I had with  
25 your recommendation concerning the abandonment of the  
26 RSP. Presumably this independent consultant, that if they  
27 were, in fact, charged with this duty to do this review and  
28 recommend a rate design, would look to the RSP itself and  
29 make determinations regarding its appropriateness, and  
30 conceivably that independent consultant may, in fact, feel  
31 that an RSP in one form or another is an appropriate part of  
32 a rate design mechanism, correct?

33 MR. BOWMAN: That's possible.

34 MR. KENNEDY: So if it was the case that the panel was to  
35 follow your recommendation of an independent consultant  
36 conducting this review it would be premature, wouldn't it,  
37 to in this application, abandon the RSP when, in fact, the  
38 independent consultant may just end up recommending  
39 implementation of another RSP?

40 MR. BOWMAN: Well, since Newfoundland is the only  
41 jurisdiction that uses this type of RSP I'd be very much  
42 surprised if the independent consultant would make that  
43 recommendation.

44 MR. KENNEDY: But it is conceivable? We could be on  
45 the avant-garde of rate making design and everyone follow  
46 us for a change, and I don't mean to be factious, but it is  
47 conceivable that the RSP, for whatever circumstances that  
48 are peculiar to Newfoundland, is particularly appropriate for

49 Newfoundland?

50 MR. BOWMAN: It's entirely ... like I say, it's without  
51 regulatory precedent that an RSP like that is used in North  
52 America. If Newfoundland thought it was leading the way  
53 and this is something that was going to gain widespread  
54 regulatory acceptance, then I would agree with that. On  
55 the other hand, it's been in place now for 15 years and no  
56 one's adopted it, so if it is on the leading edge it's taken a  
57 long time to appear.

58 MR. KENNEDY: Just one further point on this, and I don't  
59 mean to oversimplify your concerns, but in regards to the  
60 RSP, if I gather you correctly, one of your chief principal  
61 concerns is that it places too much emphasis on stability at  
62 the risk of increasing the cost that might otherwise be  
63 decreased without trying to achieve that additional stability  
64 inside the RSPs?

65 MR. BOWMAN: I think that would be an  
66 oversimplification. Because I think the seven reasons I've  
67 given here in my opening remarks are more accurate.

68 MR. KENNEDY: Okay. I'm just curious. The RSP, as you  
69 know, was borne out of some concerns expressed by  
70 consumers and a response to that dating back into the '80s,  
71 and you've given evidence on your interpretation of what,  
72 in actual fact, you felt those consumers were expressing as  
73 a concern and how the response to the RSP didn't address  
74 that?

75 MR. BOWMAN: That's correct.

76 MR. KENNEDY: So this rate design person, the  
77 independent consultant, when they go through this  
78 process that we just went through, where is it that they  
79 take into account the wishes, if you will, of the consumers  
80 of Newfoundland and what peculiarities those consumers  
81 may have that are different than the consumers of other  
82 jurisdictions?

83 MR. BOWMAN: Well, it would be appropriate to list that  
84 in the rate design objective. If the consultant isn't to use  
85 what I'll refer to as standard Bond Bright criteria then that  
86 should be included in his terms of reference.

87 MR. KENNEDY: So would you though need to conduct  
88 some sort of survey to determine whether, for instance,  
89 stability is the ... as far as the consumer is concerned, a  
90 much more important principle to take into account than the  
91 lowest possible costs and therefore, you know, that's  
92 something that the independent consultant should take  
93 into account when they go forward with their recommended  
94 rate design?

95 MR. BOWMAN: That would be useful information for the  
96 consultant if you could conduct such a survey and word it  
97 properly.

1 MR. KENNEDY: And so that would potentially be another  
2 step in that process that the independent consultant would  
3 need to do?

4 MR. BOWMAN: That's something you could do unless  
5 you wanted the independent consultant to just kind of start  
6 from a clean slate.

7 MR. KENNEDY: Could you tell me ... give me your best  
8 guesstimate as to the amount of time that that would  
9 require from the moment that the independent consultant  
10 is actually given this objective or entrusted with this  
11 obligation and then when they would return with the  
12 recommended rate design?

13 MR. BOWMAN: I mean, how many of my competitors hear  
14 it. I think that this is ... actually, maybe we should ask Dr.  
15 Wilson, since he did a review of Newfoundland Power's  
16 rates, but I'm trying to remember how long it took me in  
17 Nova Scotia, and I believe it ... I certainly don't think it was  
18 as long as six months. I think it was more like four months  
19 or something like that.

20 MR. KENNEDY: So a four to six month process?

21 MR. BOWMAN: I think that's a pretty generous timeframe.

22 MR. KENNEDY: Okay.

23 MR. BOWMAN: But by the time you write the report and  
24 everything that might be realistic.

25 MR. KENNEDY: That's all the questions that I have, Chair.  
26 Thank you, Mr. Bowman.

27 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
28 Kennedy. Thanks again, Mr. Bowman. We'll go now to  
29 Mr. Browne on redirect, please?

30 MR. BROWNE, Q.C.: Thank you, Mr. Chair. In a question  
31 from Ms. Butler you made reference to the distribution  
32 systems in Ontario. Can you expand upon that a little?  
33 You mentioned that there were between 90 and 100?

34 MR. BOWMAN: Yes. Well, back when I was working for  
35 Ontario Hydro I think there was of the order of 327  
36 municipal utilities. Ontario is deregulating, going to a  
37 competitive market, we think, early next year. They've put  
38 in a performance based regulatory mechanism. One of the  
39 objectives of that was that it was judged that there was a  
40 lot of inefficiencies with that number of distribution  
41 companies. One of the objectives was to provide incentive  
42 for mergers and acquisitions to get it down to a more  
43 manageable number, and it has worked to the extent that I'm  
44 told that the number of distribution companies now in  
45 Ontario is somewhere between 90 and 100.

46 MR. BROWNE, Q.C.: And in Ontario is it true that a  
47 number of cities operate their own distribution systems?

48 MR. BOWMAN: That's right.

49 MR. BROWNE, Q.C.: How does that work, can you expand  
50 upon that a little? Like the City of Toronto, for instance?

51 MR. BOWMAN: Well, the City of Toronto is now a  
52 distribution company not unlike Newfoundland Power, so  
53 they have their own distribution facilities, they purchase  
54 power at wholesale, and they're also, as I understand it  
55 they're ... so they're a distribution company, like a wires  
56 company owner, and in addition, I think they have a supply  
57 company, so they are actually competing for various  
58 customers on the supply side of the business, as well.  
59 Supply being arranging of fuel supplies and metering and  
60 billing.

61 MR. BROWNE, Q.C.: As a curiosity, how would a city be  
62 able to ... like the City of Toronto, be able to get into that  
63 business? It seems like it would take a lot of money  
64 initially?

65 MR. BOWMAN: Yeah. Well, they've been doing this  
66 since the beginning of time, so they were already in the  
67 business, but there's mergers and acquisitions going on.  
68 Yes, you would have to ... if you were going to merge you  
69 would have to purchase those ... sorry. If you were going  
70 to acquire you would have to purchase those facilities of  
71 the other distribution company.

72 MR. BROWNE, Q.C.: And do these companies actually  
73 make money for the cities?

74 MR. BOWMAN: Well, the intent is that they make a  
75 return. Like, on the distribution side they're on a  
76 performance based regulatory mechanism, and the hope is  
77 that they will make money, and they have an opportunity  
78 to make a higher rate of return if they perform better than  
79 the indicators in the performance based formula, so they  
80 make money for their owners, whoever that might be.

81 MR. BROWNE, Q.C.: So the City of Toronto, that could be  
82 helping out with the city's finances if they were indeed  
83 making money?

84 MR. BOWMAN: It could be, could become that way. If  
85 they own it and they are making revenues they could apply  
86 that to the City revenues. I'm not sure how they're doing  
87 the accounting, but that's certainly one possible scenario.

88 MR. BROWNE, Q.C.: And is that the way it developed in  
89 Ontario, the cities and towns ran the distribution systems  
90 or is that something that came in recent years?

91 MR. BOWMAN: Oh, no, that's been ... that goes back a  
92 long ways. I really don't know what the overall intent was  
93 at the time. I think it was to give the local municipalities a  
94 certain level of control over the electricity sector in their  
95 areas.



1 MR. BROWNE, Q.C.: You used the concept real time  
2 pricing. Can you give us some indication of exactly what  
3 that means?

4 MR. BOWMAN: Okay, but real time pricing, the intent,  
5 instead of setting rates ... like in Newfoundland, Hydro's  
6 case, they set rates that are in place now back in 1992, I  
7 believe, so under real time pricing you shorten that  
8 timeframe when the rates are applicable. In the real time  
9 pricing rate designs we had in Ontario we were setting the  
10 rates on a day ahead basis and they were based on the  
11 production costs of our marginal unit, so we recovered the  
12 fixed cost in a fixed cost of the system in a component that  
13 varied by season, it didn't vary by hour. It varied by time  
14 of day and it varied by season, but the energy component  
15 would vary to reflect the forecast production costs on a  
16 day ahead basis, so in that sense it was a purely marginal  
17 energy cost component, so real time is a bit of a misnomer  
18 in the sense that they're forecast a day ahead, but it's closer  
19 to real time, certainly, than setting rates on a year or two  
20 year ahead basis.

21 MR. BROWNE, Q.C.: In reference to the interruptible rate  
22 that you made reference to for Newfoundland Power and  
23 they've made available to them, how exactly would that  
24 work to go right down to the consumer level?

25 *(12:15 p.m.)*

26 MR. BOWMAN: The intent, as I understand it, and I  
27 understand this was a negotiated rate, but the information  
28 filed here, the intent was to give the interruptible customer  
29 a credit on the basis of its value and that's a marginal value,  
30 marginal cost value to the system. The intent there was to  
31 reflect what they're avoiding in the future as a result of  
32 having this interruptible contract, and in this case,  
33 Newfoundland Hydro indicates that it's a peaking option,  
34 a combustion turbine, so they drive the cost of that  
35 combustion turbine and tried to put it on a consistent basis  
36 with the characteristics of an interruptible load, okay, so  
37 the value that comes out of that is the fact that they're able  
38 to avoid constructing this combustion turbine in the future  
39 because that interruptible contract is there, so the theory  
40 behind it is there's benefits to all consumers on the system  
41 and there's a benefit to the interruptible customer because  
42 he gets a discount on his electricity charges.

43 MR. BROWNE, Q.C.: So from a practical perspective, for  
44 the ultimate consumer, the end user, me, say, for instance,  
45 how would it ... how would I get the benefit?

46 MR. BOWMAN: Your benefit arises because  
47 Newfoundland Hydro will be able to construct fewer new  
48 facilities in the future, at least it's delayed in the future, so  
49 that benefit of not introducing that capital cost into their  
50 rate base is passed on to consumers. Rates, generally, will  
51 be lower as a result of interruptible contracts.

52 MR. BROWNE, Q.C.: Ms. Henley Andrews asked you in  
53 reference to the RSP and the elimination of it and your  
54 evidence that it be done gradually. How do you see it ... no  
55 one has asked you this. How do you see it done gradually,  
56 can you tell us the way it would work, from your  
57 perspective?

58 MR. BOWMAN: Well, I would freeze the current account  
59 balance in the RSP, and you might look at different  
60 accounting mechanisms for recovering it, for example,  
61 through a surcharge on electricity rates in the future, but  
62 you would spread that out over a period of time so as to  
63 minimize the impact on consumer rates.

64 MR. BROWNE, Q.C.: And over what period are you ... are  
65 you prepared to say that or can you give us ...

66 MR. BOWMAN: Well, it depends on the amount that's in  
67 the account and where rates are going, so you want to  
68 smooth it out, and I know Hydro is coming back in 2003 for  
69 another rate case, so it would depend on what they're  
70 asking for, at that time.

71 MR. BROWNE, Q.C.: But you would freeze it the way it is  
72 now and sort of start over, is that what you're saying?

73 MR. BOWMAN: Well, I would freeze the account. I don't  
74 think you want to continue to add to that account,  
75 continue to put it in arrears.

76 MR. BROWNE, Q.C.: Philosophically you disagree with  
77 fuel adjustment charges and RSPs, and I know because  
78 we've had this discussion, but you're also for incentive  
79 based programs that would go along with such an  
80 elimination, is that accurate, or can you expand upon that?

81 MR. BOWMAN: Yeah, I'm not ... I'm opposed to fuel  
82 adjustment clauses where the utility is just allowed to pass  
83 through whatever the costs are, because there's no  
84 incentive for them manage those costs. I would ... I'm not  
85 opposed to a fuel adjustment clause that includes the  
86 incentive mechanisms that I talked about in my opening  
87 remarks. In other words, it puts some incentive on the  
88 utility, and I think Mr. Brockman elaborated on the  
89 mechanism they had in Florida. It puts some incentive on  
90 the utility to do a good job on maintaining its units to  
91 maintain a good conversion efficiency factor, and I believe  
92 he talked about an index. If you can negotiate contracts  
93 you come in under this index, then you can keep that  
94 money, and of course, if you do a worse job then your  
95 shareholders end up paying for it. In either case though  
96 the customer sees the index, so it's shielded from those  
97 risks, those upside risks.

98 MR. BROWNE, Q.C.: So it would be different than now  
99 where Hydro has the 50 million and now they want to go to  
100 the 100 million, sort of blank cheque type of thing?

1 MR. BOWMAN: That's right, there wouldn't be any of that  
2 any more under my ... my recommendation is that you  
3 would discontinue that.

4 MR. BROWNE, Q.C.: Okay. Thank you, very much.

5 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
6 Browne. Thank you, Mr. Bowman. Commissioner Powell,  
7 would you begin your questions, please?

8 COMMISSIONER POWELL: Thank you. Good day, sir.

9 MR. BOWMAN: Good day.

10 COMMISSIONER POWELL: I just have three short  
11 questions. One, maybe I misinterpreted what you said  
12 yesterday when you were talking about fuel and fuel prices  
13 and that. I thought I understood that one of the ways that  
14 we could get a better bang for our fuel buck is if Hydro had  
15 some sort of incentive that encouraged the purchasing of  
16 fuel if there's any savings to be shared amongst ... some of  
17 the benefit to be shared amongst those .. the purchasing of  
18 fuel, if there's any savings that are to be shared amongst ...  
19 or some of the benefits be shared amongst those within the  
20 organization, were able to keep a better rate?

21 MR. BOWMAN: That's true.

22 COMMISSIONER POWELL: Okay. My question then was  
23 one of the things that have been put into evidence over the  
24 last few weeks was Hydro has an executive incentive plan,  
25 it's a pilot project. Are you familiar with that?

26 MR. BOWMAN: I remember reading about it in the  
27 transcripts. I'm certainly not ...

28 COMMISSIONER POWELL: Would that type of plan  
29 cover that type of an issue?

30 MR. BOWMAN: You could certainly ... my understanding  
31 of most management programs is that you try to tie the  
32 incentives to the corporate goals, and if there's a corporate  
33 goal to reduce fuel costs because of this incentive  
34 mechanism then you could also tie that management  
35 program, their incentives, to the same thing. Now, you  
36 would want to only apply that to the managers who  
37 actually have some control over that aspect of the  
38 operations, but, yes, I think you could tie the two together.

39 COMMISSIONER POWELL: So the concept of their  
40 incentive plan, you think basically is a good idea? You  
41 may not specifically, this one, address that issue, but the  
42 concept of an executive plan is a ...

43 MR. BOWMAN: I think that's a good plan.

44 COMMISSIONER POWELL: Yeah, okay.

45 MR. BOWMAN: I think that would be a good way to get  
46 everyone in the company working towards the same goals.

47 COMMISSIONER POWELL: Good, okay. On page 6 of  
48 your pre-filed testimony?

49 MR. BOWMAN: Is that page 6?

50 COMMISSIONER POWELL: Page 6, yes, line 18. You say  
51 "I recommend that the Board encourage the government to  
52 complete its energy policy review." The word there  
53 "encourage" what's your definition of encourage?

54 MR. BOWMAN: I think you may want to ... I don't know  
55 how things work between the Board here and the  
56 government, but I think you might want to send a letter to  
57 the government saying that completion of its energy policy  
58 review would be a good idea and would be a good thing for  
59 consumers in this province.

60 COMMISSIONER POWELL: And then you go on to say,  
61 "Or alternatively, conduct its own hearing into the  
62 structure and regulation of the Newfoundland Power  
63 sector." Would you think that would benefit the  
64 government's initiative and energy policy review or would  
65 that hinder?

66 MR. BOWMAN: Well, I'm not sure where the government  
67 stands on its energy policy review. Like, I put that part in  
68 there in the event that the energy policy review has been  
69 stopped or left incomplete. I don't know where it stands, so  
70 I was not too sure what to recommend in that regard. I  
71 think the energy policy review is a good idea for  
72 Newfoundland and Labrador, and if the government is  
73 going to complete that study then that's positive. If they  
74 don't, I think it ... like, I think the Board, it would be good if  
75 the Board told them or passed along to them that it's a  
76 good idea to finish this energy policy review, you support  
77 the energy policy review.

78 COMMISSIONER POWELL: Okay. My final question is  
79 page 22 of your pre-filed evidence, line 20 under  
80 government involvement in the power sector, and it talks  
81 about the separating government from the regulatory  
82 process, and it specifically relates to the ... on page 23 it  
83 talks about the rural subsidy and talks about it being a tax.  
84 I'm wondering, did you see any documentation that you  
85 can provide to guide the panel on how we could refuse the  
86 passing on of this tax to the ...

87 MR. BOWMAN: I have no idea how you can refuse it. I  
88 think pretty much every rate design expert that's appeared  
89 before this Board, probably in the last decade, has referred  
90 to this as a tax, but, you know, I don't know. I certainly am  
91 not familiar with the legislation and what you can do to get  
92 out of it. The energy policy review might be a good way to  
93 address that.

94 COMMISSIONER POWELL: Would you recommend then  
95 that we order Hydro not to pass it on to the customers as  
96 a cost but actually as a tax and have it shown on their bills

1 as such?

2 MR. BOWMAN: I'm not ... well, I think it would be ... it's  
3 certainly good, I think, to let the customers know that there  
4 is this subsidy involved. I think it's good to let the ones  
5 who are paying it know about it and I think it's good to let  
6 the ones who are receiving it know about it, so I think it's  
7 a good thing to show on the bills, and I'm not sure if it's  
8 being shown there now or not, but it's good to inform  
9 consumers that this is going on. I think the more you can  
10 make these things transparent, the better I feel.

11 COMMISSIONER POWELL: Thank you. That's all, Mr.  
12 Chair.

13 MR. NOSEWORTHY, CHAIRMAN: Thank you,  
14 Commissioner Powell. Commissioner Saunders, please?

15 COMMISSIONER SAUNDERS: I have no questions, Mr.  
16 Chair.

17 MR. NOSEWORTHY, CHAIRMAN: Thank you.  
18 Commissioner Whalen?

19 COMMISSIONER WHALEN: No, Mr. Chair. I had a  
20 number of questions on the post RSP period and sort of  
21 how that would transpire, but Ms. Henley Andrews and  
22 also the Consumer Advocate on redirect, handled those  
23 quite nicely, so there's nothing outstanding for me. Thank  
24 you.

25 *(12:30 p.m.)*

26 MR. NOSEWORTHY, CHAIRMAN: Thank you,  
27 Commissioner Whalen. I know it's 12:30. I just have a  
28 couple of questions, I guess, if you can indulge me for a  
29 moment before lunch. Thank you very much, for your  
30 evidence and testimony, Mr. Bowman. One of the  
31 questions that I have, actually, Mr. Kennedy, I believe, got  
32 most of it in and I believe the Consumer Advocate  
33 addressed it somewhat on redirect as well, and it relates to  
34 the relationship, I guess, between the study that you're  
35 advocating here on rate design and the RSP, and I  
36 understood from your discussion with Mr. Kennedy,  
37 basically, that I think he was suggesting that if indeed the  
38 panel were to consider the recommendation that you have  
39 of looking at a consultant do a rate design, that indeed the  
40 RSP would be a very important part of that, and indeed it  
41 would not (inaudible) be better rather than eliminate it at  
42 this point in time to tie it to that really and have it dealt with  
43 in that vein. I think your response was basically that you're  
44 not in favour of the RSP and it should be eliminated now  
45 and you didn't see any reason for that. I suppose my  
46 question just expands that a little bit, because I heard you  
47 say after that ... and I did think you concurred with the RSP  
48 as being an important part, but there are issues here in  
49 relation to, on page 16, for example, of your opening  
50 statement you said, "But I don't think the Board had

51 enough information before it to allow design of such  
52 incentive mechanisms." And that was really, you were  
53 talking about there in relation to the RSP?

54 MR. BOWMAN: Yeah, in relation to a fuel adjustment  
55 component.

56 MR. NOSEWORTHY, CHAIRMAN: Right.

57 MR. BOWMAN: Yes.

58 MR. NOSEWORTHY, CHAIRMAN: Which would,  
59 presumably the RSP would be eliminated on that basis.  
60 You also, I think, talked to ... you just commented to Mr.  
61 Browne, I believe, on the fact of the matter that in transition  
62 you're proposing to freeze current account balance. The  
63 possibility of surcharge was an option in relation to the  
64 RSP, to look at where rates would be going in future, and I  
65 think you said it's really dependent on the amount in the  
66 account, so there are certain issues there as well. And I  
67 believe you had referred as well to the 2003 Hydro  
68 application or proposal to come back with another  
69 application in 2003, so I guess my question surrounds the  
70 fact that it just seems to me that, again, by way of process  
71 here, that if the Board was going to address the RSP in a  
72 deliberate way, that in essence, assuming that the study,  
73 consultant's study on rate design were to be carried out,  
74 that indeed it might be appropriate to look at the RSP as it  
75 relates to that as well. Because I think you could address  
76 three issues, one being to have a deliberate and conscious  
77 look at the RSP, what value it has had, what value it may  
78 have in future. Indeed the ultimate decision there may be  
79 to eliminate it based on the recommendation that you've  
80 come up with now. You could, as well, look at the  
81 transition issues in terms of the balance of the account. I  
82 think, by way of what you had indicated in Nova Scotia,  
83 the process that you had there was that the study was  
84 done, indeed it was brought back in relation to the next  
85 application?

86 MR. BOWMAN: That's correct.

87 MR. NOSEWORTHY, CHAIRMAN: Which would be  
88 consistent with what Hydro, at least, is proposing, at this  
89 point in time, and you could also address the incentives  
90 aspect of it, which, as you point out on page 16, I guess,  
91 there's really not enough information before us now to  
92 allow us to deal with that, so it just seems to me though by  
93 way of process, that there are ... there's some merit, if you  
94 will, along the lines that Mr. Kennedy had pointed out to  
95 looking at it in that way. Would you see that and would  
96 you expect that?

97 MR. BOWMAN: I see what you're saying, but I reach a  
98 different conclusion. I think there is merit in eliminating the  
99 RSP now, setting the revenue requirement on the basis of  
100 Hydro's forecast costs for the test year, and then having

1 the rate design expert look at the rate designs and file its  
2 report and then at that time he, or the Board itself, can look  
3 at performance based regulatory mechanisms. Like I said  
4 two days ago now, I know it was in your annual report that  
5 you're going to look at performance based regulatory  
6 mechanisms. If the Board conducted its report at the same  
7 time, made those two reports available to Hydro, then  
8 Hydro could submit its next rate application on the basis of  
9 that information. As I say, I don't see any reason for  
10 continuing the RSP. The chances of a rate design expert  
11 recommending that you implement an RSP seems very  
12 remote to me. Like I say, there's no regulatory precedent  
13 for doing such a thing.

14 MR. NOSEWORTHY, CHAIRMAN: There has not been  
15 much difference between the process that I describe and  
16 what you describe, except for what I would see as the  
17 elimination and the chopping virtually of the RSP at this  
18 point in time, and I guess what I'd be proposing is that that  
19 would be done, at least in a deliberate, conscious and  
20 considered way in relation to the study that you're  
21 advocating?

22 MR. BOWMAN: Well, I guess ... no, I think the difference  
23 is that I don't see ...

24 MR. NOSEWORTHY, CHAIRMAN: No, I understand.

25 MR. BOWMAN: Yeah, I think it's been discussed at length  
26 in this hearing.

27 MR. NOSEWORTHY, CHAIRMAN: I understand your  
28 position. Yeah, yeah. No, no, I understand you.

29 MR. BOWMAN: I don't think an independent ...

30 MR. NOSEWORTHY, CHAIRMAN: I understand your  
31 position. The other question that I have really relates to, I  
32 think, page 20 of your pre-filed. I would say in the 11  
33 weeks that we've been at this, if there is one conclusion  
34 that we have all reached at this point in time, and that  
35 there's unanimous consensus on among everybody in the  
36 room, is that the current form of regulation is slow, time  
37 consuming, cumbersome and expensive. I have no doubt  
38 in my mind that we would all, perhaps, nod in agreement  
39 with that and we should be looking at other ways of,  
40 perhaps, improving, if you will, some of those items.  
41 There's certainly no question about that.

42 MR. BOWMAN: That is one statement I haven't been  
43 challenged on.

44 MR. NOSEWORTHY, CHAIRMAN: No, no. I think it, as  
45 I say, unanimous agreement on that. Further on though  
46 you do say in line 17, 18 and 19 "Hydro and Newfoundland  
47 Power should have control and responsibility for their  
48 costs with their overall performance being subjected to  
49 public scrutiny." I guess what you're talking about there,

50 to some degree, is the performance based regulation. I  
51 asked the sort of the flip side of this question, I think, to  
52 Mr. Brockman the other day in relation to what does he see  
53 as the incentives, and you've commented along the same  
54 vein, with a view to the fact that you go on to say, as well,  
55 "The customers do not care how much Hydro spends on  
56 maintenance," for example. That indeed any familiarization  
57 that I have with performance based, not in the utility, but  
58 really would be set against standards, so I mean, there are  
59 standards in relation to maintenance, so ultimately there is  
60 a measure there, and certainly while customers may not be  
61 concerned with it explicitly they are concerned with it  
62 implicitly when they get their bills, and certainly it would be  
63 a responsibility of the Board to monitor that, and  
64 presumably would be one of the overall performance  
65 variables. And I would think that some of those  
66 performance variables are there right now, quite frankly, in  
67 terms of return on equity. I would think they're there in  
68 review of costs, for example, that we would undertake now,  
69 so I'm not, for the life of me, don't think that the ... I would  
70 agree that customers couldn't care less probably about  
71 what we're doing within the four walls of this room as long  
72 as they feel relatively confident that we're doing our job  
73 and that what's important to them is their bills, ultimately,  
74 so I think there are some considerations that we're going  
75 through now in relation to performance. But I'm wondering,  
76 I guess, what do you see, and again, it's probably the flip  
77 side of the incentive question, what do you see as the  
78 measures, if you will, of a utility in relation to the  
79 performance based regulation as being the overall measures  
80 that are indeed distinct and different from some of the  
81 things that we would be undertaking discussions on now  
82 within this room? There's costs, there's return on equity, I  
83 mean, these are the business measures basically that are  
84 there, regardless of what the business is. Could you  
85 comment on that briefly for me?

86 MR. BOWMAN: Well, I prefer ... when I'm talking about  
87 performance based regulation, you can have targeted  
88 incentives, like related to operating and maintenance cost.  
89 I prefer broad based incentives, in other words ...

90 MR. NOSEWORTHY, CHAIRMAN: For example?

91 MR. BOWMAN: For example, I would prefer just a  
92 regulatory mechanism that gives them ... sets the initial  
93 revenue requirement and then adjusts it according to some  
94 form of inflation factor, less some form of productivity  
95 factor. By doing that you're allowing the utility to expend  
96 the capital in those areas that gives it the most bang for its  
97 buck. If you start having specific targets then they might  
98 be concentrating on O & M costs when capital costs would  
99 be more effective, for example, so I like an overriding type  
100 of performance measure and that's based on the revenues.  
101 The other two things that I feel customers are concerned

1 about is just basic customer service in terms of when I have  
2 a billing complaint, when I call up the customer service line  
3 is there someone there to answer the phone, and the other  
4 thing is reliability, and there's a number of different  
5 measures for reliability but I would ... something in ... I think  
6 you heard a lot of testimony concerning (inaudible) earlier,  
7 system average interruption frequency and duration.  
8 Those are industry standards. I don't think they're the  
9 best. Like, I think of outages. From my perspective, I had  
10 a 36 hour outage, I think it was last summer. When that  
11 happened, number one, I'm mad that it took that long for  
12 them to respond. I can't, for the life of me, understand why  
13 it would take that long when there hasn't been an ice storm  
14 or anything. I reported immediately, and the other thing,  
15 when I called customer service to find out what was going  
16 on it was like I was being a real pain calling her and asking  
17 her when I might get my service back, so those are the  
18 types of things, I'd rather tie reliability to those types of  
19 things, customer service, because that's what the customer  
20 sees.

21 MR. NOSEWORTHY, CHAIRMAN: But, would you agree,  
22 I mean, it's not necessarily a country mile from the fact that  
23 we are here establishing revenue requirement on some  
24 basis, we're looking at maintenance costs, we're ... and I'm  
25 not suggesting that it shouldn't be, perhaps, done in a  
26 different way, a more expedient way, but those are indeed  
27 the measures that we're talking about here, quite frankly,  
28 and it may be a matter of setting some automatic  
29 adjustment and some performance incentives based on  
30 that, but the performance indicators really are not  
31 substantially different, are they?

32 MR. BOWMAN: Within this room or ... sorry, I ...

33 MR. NOSEWORTHY, CHAIRMAN: Well, you know ...

34 MR. BOWMAN: Like that the customers see?

35 MR. NOSEWORTHY, CHAIRMAN: Yeah. Well, I guess,  
36 you know, under a performance based regulation, and  
37 that's what I'm ... that's where I'm coming from. I'm asking  
38 you, I guess, what some of the performance indicators  
39 would be which would be different from setting the revenue  
40 requirement which you just mentioned is a performance  
41 indicator, maintenance costs, setting standards in relation  
42 to that, return on equity and setting incentives in relation  
43 to that. I'm trying to understand, I guess, what the  
44 performance measures would be which would be different  
45 from these?

46 MR. BOWMAN: The difference is, like, say, once every  
47 five years you look at things in some detail ...

48 MR. NOSEWORTHY, CHAIRMAN: I understand, in  
49 relation to the timing, I understand that quite well. I'm  
50 wondering if the indicators are different and what they

51 would be?

52 MR. BOWMAN: Well, the indicators between review  
53 periods are that you don't go back and look at every capital  
54 expenditure that's been looked at in this hearing, so in other  
55 words, you're allowing the utility to expend capital in the  
56 areas that are most benefit to it. You've got a performance  
57 mechanism in there that instead of reviewing each  
58 individual cost component you're giving them more of a  
59 free hand so they can employ capital and operating and  
60 maintenance costs in a more effective manner that way.

61 MR. NOSEWORTHY, CHAIRMAN: Right.

62 MR. BOWMAN: So I think the difference is that you're ...  
63 in between reviews you're still putting the incentive  
64 mechanisms on them.

65 MR. NOSEWORTHY, CHAIRMAN: Sure.

66 MR. BOWMAN: And there's incentive there for them to  
67 employ capital and in a more efficient manner.

68 MR. NOSEWORTHY, CHAIRMAN: So the difference is in  
69 the automatic ... the automation of the process, I guess, in  
70 relation to the fact that you don't review it as often or  
71 there's an automatic adjustment that's normally applied  
72 there?

73 MR. BOWMAN: That's certainly one of the major benefits  
74 of it, and then there's the freedom a utility has within ...

75 MR. NOSEWORTHY, CHAIRMAN: And then incentives  
76 in relation to the performance measures, but I'm not  
77 detecting any difference in the performance measures per  
78 se.

79 MR. BOWMAN: Well, except that the utility is allowed to  
80 keep higher rates of return.

81 MR. NOSEWORTHY, CHAIRMAN: Yeah, understood.

82 MR. BOWMAN: Or absorbs lower rates of return.

83 MR. NOSEWORTHY, CHAIRMAN: Understood, but that's  
84 incentives in relation to the performance indicators  
85 themselves, isn't it?

86 MR. BOWMAN: Yes.

87 MR. NOSEWORTHY, CHAIRMAN: Which would be  
88 return on equity, which would be maintenance costs, which  
89 would be the RSP fuel adjustment if indeed that were in  
90 place. Okay.

91 MR. BOWMAN: The utility is managing those rather than  
92 the regulatory board.

93 (12:45 p.m.)

94 MR. NOSEWORTHY, CHAIRMAN: Understood, yeah.  
95 Okay. Thank you, very much. I appreciate that. It's

1 quarter to now. We'll break for lunch. Does anybody have  
2 any objections? I can reconvene at quarter after if you  
3 wish. If there's any ... there's no preference to that? We'll  
4 do it ... I would prefer to begin at 2:00 so we'll have most of  
5 the afternoon. Anybody ...

6 MS. BUTLER, Q.C.: I think we're generally just trying to  
7 determine if there's questions arising from the Board's  
8 questions, Mr. Chairman.

9 MR. NOSEWORTHY, CHAIRMAN: Oh, I see. Well, we  
10 can go on and quickly deal with that, I guess, if it's of no ...

11 MS. GREENE, Q.C.: We have no questions arising.

12 MR. NOSEWORTHY, CHAIRMAN: Thank you.

13 MS. BUTLER, Q.C.: And we don't either, Mr. Chair.

14 MR. NOSEWORTHY, CHAIRMAN: Okay.

15 MS. HENLEY ANDREWS: And we don't either, Mr. Chair.

16 MR. BROWNE, Q.C.: And we have no questions.

17 MR. NOSEWORTHY, CHAIRMAN: Mr. Kennedy?

18 MR. KENNEDY: No questions, Chair.

19 MR. NOSEWORTHY, CHAIRMAN: Any redirect?

20 MR. BROWNE, Q.C.: No.

21 MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you,  
22 very much, Mr. Bowman. We'll return this afternoon at 2:00  
23 with Dr. Wilson. Thank you.

24 *(break)*

25 *(2:00 p.m.)*

26 MR. NOSEWORTHY, CHAIRMAN: Good afternoon,  
27 before we get started, Mr. Kennedy, are there any  
28 preliminary matters to be dealt with?

29 MR. KENNEDY: I don't believe so, Chair. I don't think  
30 there was any undertakings requested in the last day, so I  
31 wouldn't imagine there's any to be reported on. I can  
32 advise that it's the intention of counsel to meet on the  
33 break this afternoon in an effort to try to determine a  
34 schedule for next week, and hopefully I'd be in a position to  
35 report on that right after the break.

36 MR. NOSEWORTHY, CHAIRMAN: Good afternoon, Dr.  
37 Wilson.

38 DR. WILSON: Good afternoon.

39 MR. NOSEWORTHY, CHAIRMAN: Good to see you  
40 again. Could you take the Bible please in your right hand?  
41 Do you swear on this Bible that the evidence to be given  
42 by you shall be the truth, the whole truth, and nothing but  
43 the truth, so help you God?

44 DR. WILSON: Yes, I do.

45 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,  
46 you can be seated. Are you ready to begin, Dr. Wilson, are  
47 you prepared? Do you have all the information you need  
48 there?

49 DR. WILSON: Yeah, I do, thank you.

50 MR. NOSEWORTHY, CHAIRMAN: Okay, could I ask you  
51 to begin Mr. Kennedy please?

52 MR. KENNEDY: Dr. Wilson, I should ask, do you have an  
53 opening statement that you're providing here this  
54 afternoon?

55 DR. WILSON: I have pre-filed evidence and it's put in the  
56 record, as I understand, including a summary that's up  
57 front, and before the report itself.

58 MR. KENNEDY: And that's the summary report and then  
59 the actual report itself, they're both dated July 31, of 2001?

60 DR. WILSON: They are.

61 MR. KENNEDY: And is my understanding correct that  
62 you'd like to make a clarification concerning one of the  
63 items in your report itself?

64 DR. WILSON: I would. I'd like to withdraw one of the  
65 criticisms that I made of Hydro's proposed rates, and that's  
66 specifically with respect to the non-firm industrial rate. In  
67 the report that is covered at page 36. I think everything  
68 that's said on page 36 and 37 is sort of accurate, but Ms.  
69 Henley Andrews asked me a question on discovery and  
70 after I worked through it, I saw the error of my ways and I  
71 really don't think the conclusion is right, so let me see if I  
72 can find that data request. It was **IC-274**, and if the  
73 arithmetic that I did in IC-274 is correct, I think it indicates  
74 that the criticism that I made of the non-firm industrial rate  
75 proposal is inappropriate, and given what I've seen while  
76 I've been here, and further looking at the numbers, I think  
77 that that rate proposal is a good one.

78 MR. KENNEDY: Dr. Wilson, subject to that change or  
79 caveat, if you will, of your originally filed report, do you  
80 otherwise adopt your report in its entirety?

81 DR. WILSON: Yes, I do.

82 MR. KENNEDY: That's all the questions I have on direct,  
83 Chair. The witness is available for cross.

84 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
85 Kennedy. I'll ask Mr. Young to begin your cross-  
86 examination please?

87 MR. YOUNG: Thank you, Chair. Good afternoon, Dr.  
88 Wilson.

89 DR. WILSON: Good afternoon.

1 MR. YOUNG: The last qualification you made just a  
2 moment ago is going to change a couple of my questions  
3 and we won't be exploring that to any great, the  
4 interruptible rate for industrial customers, and I'll just touch  
5 upon it a little later. The first thing, I guess, we should talk  
6 about in that case is, it arises in **Mr. Brickhill's** evidence,  
7 I want to refer you to his. This is his **first supplementary**  
8 **evidence** at pages 12 and 13, and the topic of discussion is  
9 NCP versus CP distribution demand allocation.

10 DR. WILSON: Page 12.

11 MR. YOUNG: Page 12, yes, actually it's probably closer to  
12 the bottom of page 12. Yeah, this is the question that's in  
13 his testimony and his response follows at page 13. I think,  
14 I don't know if we have to read that in. A quick summary of  
15 that, I think, and perhaps you can agree with me on this or  
16 vary my answer, or my question if you think it's  
17 appropriate, but my characterization of the question and  
18 the answer here is that he's taken exception to your point  
19 that distribution demand allocation should be done  
20 according to non-coincident peak, and I think it's making  
21 the observation, which I'll ask you to comment on, that  
22 Hydro's rural customer areas, the area, the territories we  
23 serve and the loads in those areas, are different than what  
24 you might normally expect to find in an area that a  
25 distribution utility is operating in. I'm just wondering, did  
26 you take into account when you gave your evidence the  
27 nature of the Hydro rural service territories, or is this a more  
28 general comment you're making?

29 DR. WILSON: It's a general comment. Generally, to the  
30 extent that distribution demand costs are allocated on the  
31 basis of a peak measure, it's NCP for the reasons that I  
32 discussed in my pre-filed testimony, and also I had made  
33 the suggestion that consideration should be given to  
34 allocating a portion of distribution costs on the basis of  
35 energy rather than either NCP or CP. I would say that my  
36 observation and Mr. Bowman's on this matter is accurate.  
37 There may be a question of degree, and that is using CP as  
38 opposed to NCP, which is less important to me than the  
39 demand energy split. It may be less of a problem because  
40 of the nature of the service area as described by Mr.  
41 Brickhill which I would accept as accurate.

42 MR. YOUNG: I see. Okay, so the, I think the comments  
43 you've made and Mr. Bowman have made is that the  
44 predominant allocator (inaudible) in the industry is  
45 noncoincident peak for this, and I'm just wanting to  
46 ascertain on this point that that was your general point  
47 here, that that's generally correct.

48 DR. WILSON: It's generally viewed that local distribution  
49 facilities are built to serve the needs of the community  
50 where they exist rather than the coincident peak of the  
51 system as a whole, which is probably more generally

52 thought of as being appropriate for generating plant  
53 allocation.

54 MR. YOUNG: I suppose this could be the exception that  
55 proves the rule, to some extent, could it? I mean if indeed  
56 the ...

57 MR. NOSEWORTHY, CHAIRMAN: Excuse me, Mr.  
58 Young, I wonder could you pull the mic a little bit closer.  
59 We're having difficulty hearing up here.

60 MR. YOUNG: Sorry about that. I'll repeat my question, Dr.  
61 Wilson. I can hear myself better now, so ... I suppose then,  
62 Dr. Wilson, this might be the exception that proves the rule,  
63 is that a possibility here, that there may be rural areas  
64 where the loads are different than you'd expect in other  
65 kinds of areas, and that Hydro rural areas might be a case  
66 where NCP is perhaps not the ... the only appropriate way  
67 to do it, and that CP may be correct, is that your testimony?

68 DR. WILSON: No, I think that NCP continues to make  
69 sense, but the extent to which using a CP versus an NCP  
70 would produce a difference may be a lot less here, it may be  
71 minor here compared to be what it would be somewhere  
72 else, especially ... his point is that, as I understand it, the  
73 NCP methodology would be particularly appropriate where  
74 you have distinct differences between areas that are served  
75 by individual substations, let's say, and one local area that  
76 is predominantly commercial and another local area is  
77 predominantly residential, and therefore different demand  
78 patterns in those areas, and I think that he would agree that  
79 NCP would be most appropriate there. I think you may see  
80 argument that this is not really what you see in the  
81 Newfoundland Hydro system. I don't think he really argues  
82 that NCP is wrong. I think that he says that the choice of  
83 NCP versus CP is not a big deal given the homogenous  
84 nature of the Hydro area as he sees it.

85 MR. YOUNG: And I think that's also your comment on it  
86 also perhaps, that there's probably not a big difference, is  
87 that correct? I don't mean to put words in your mouth, but  
88 at least it's something to that effect.

89 DR. WILSON: Based upon what he has said, I would, my  
90 inclination would be to believe that there is less difference  
91 here than there would be in Ontario or British Columbia, or  
92 the US for example, and many other systems.

93 MR. YOUNG: Uh hum, I'd like to move on to another issue.  
94 You, in a sense, brought it up when you mentioned that  
95 you take a larger issue with the allocation of the ... or the  
96 fact that there's no allocation of distribution to energy, and  
97 I'd like to ask you about that as it relates to transmission  
98 costs. I put it to you, you're a little bit on your own on this  
99 one, at least in this hearing, and as I understand the view  
100 held by Mr. Brickhill and others, when they look at  
101 causality as it relates to transmission allocation, they try to

1 put themselves in the place of the engineer as to what the  
2 engineer is thinking when he's designing the system, and  
3 what considerations go into the sizing of the conductor,  
4 and the sizing of the structures, the poles, the transformers  
5 that carry the power, and as I understand it they say that if  
6 an engineer makes a decision based on cost causality,  
7 they'll do it to meet the peak as opposed to some other  
8 consideration. Is that your ... have I correctly laid out the  
9 way that Mr. Brickhill and others deal with this. I know this  
10 is an issue you're more than passingly familiar with.

11 DR. WILSON: Yeah, it's an interesting issue, and there's a  
12 couple of questions there. I agree that the exercise of cost  
13 allocation tends to be more engineering oriented, if you  
14 will, as a general proposition, whereas pricing and rate  
15 making tends to be more of an economic issue. I think  
16 economists probably have more of worth to say about  
17 pricing than they do about cost allocation, so to a large  
18 extent, a lot of the cost allocation kinds of things that have  
19 been discussed here, and indeed that I have discussed, are  
20 engineering. But from an engineering perspective, I don't  
21 think that there is a fundamental conceptual difference  
22 between what the experts have been telling the Board. I  
23 think that there is a conceptual agreement that if the facility  
24 is designed for energy purposes as well as demand  
25 purposes, that there ought to be some splitting of the  
26 revenue responsibility between those two cost categories,  
27 and there's, and in the application, I think we all agree that  
28 the transmission line, the radial line that runs from the  
29 generating plant to the grid, the Cat Arm line, if you will, is  
30 appropriately dealt with on the same basis as the  
31 generation itself, some of it being attributed to energy and  
32 some of it being attributed to demand. I would go further  
33 than that and say that the same logic applies to the grid  
34 itself, and I think that's where, that's where we sort of part  
35 company, and others, including Mr. Brickhill, have argued  
36 that, no, the grid itself, unlike the transmission radial, is  
37 built for peak demand. It's not built for energy purposes.  
38 I think that's wrong. I think that if all you were interested  
39 in was meeting a 1-CP, or for that matter, a 2-CP or a 4-CP,  
40 you would never build the type of transmission grid that  
41 we have here, nor for that matter the distribution lines and  
42 poles. You would have local generation that's directly  
43 connected to load, because that would be the cheapest  
44 way of meeting the coincident peak demand requirement.  
45 The only reason we spend tens of millions, hundreds of  
46 millions of dollars building expensive capital intensive  
47 transmission grids and distribution grids is that it's cheaper  
48 to deliver energy over a long period of time that way than  
49 to have local generation, small local generation connected  
50 directly to load, which would be very expensive to run, but  
51 much cheaper to install, so because we have ... I agree that  
52 once the system is built, it's going to handle both peak and  
53 off peak requirements, but the system, the decision to build

54 the system that way, to build that capital intensive  
55 transmission grid, is one that's driven by the fact that it's  
56 going to be needed thousands of hours per year and not  
57 just 1-CP or 4-CP, and so I would carry the logic of Cat Arm  
58 further than Mr. Brickhill does and say it's not only the Cat  
59 Arm radial that is built with energy in mind, the way that  
60 the hydro dam is built with energy in mind. The capital  
61 intensive transmission grid is built for much the same  
62 reason, and would not be built unless we were talking  
63 about being able to use it, thousands of hours, so as to  
64 bring down the cost of delivering energy.

65 (2:15 p.m.)

66 MR. YOUNG: You've answered a number of my questions  
67 in one, and that's useful. I would suggest to you that on  
68 the surface both views, and I think you perhaps already  
69 agreed with me on this point, they're both logical. One  
70 though is looking at the decision of the sizing of the line  
71 and determinations as to what's the appropriate plant. The  
72 other is looking at, well why do we need the line in the first  
73 place, why would we build the line, and that's an interesting  
74 point of departure.

75 DR. WILSON: I agree with that, with your statement. I  
76 think it's a very important one, that it's not that Brickhill's  
77 argument is illogical and mine's logical. There's logic to  
78 both of them.

79 MR. YOUNG: Yes, to both.

80 DR. WILSON: Sure there is.

81 MR. YOUNG: Different views of the same ...

82 DR. WILSON: And that's the nature of cost allocation, as  
83 opposed to rate design.

84 MR. YOUNG: Yes.

85 DR. WILSON: When it comes to rate design there are  
86 rights and there are wrongs, but when it comes to cost  
87 allocation there's rationale, and I think somebody earlier  
88 last week said that when it comes to cost allocation it's  
89 appropriate or inappropriate, depending upon what you're  
90 objective is, as opposed to correct or incorrect, and I think  
91 that rates can be done straightforwardly and they can be  
92 correct or they can be incorrect in relation to economic  
93 principles. Cost allocation is not that way and  
94 commissions, boards, have a lot of discretion in terms of  
95 which particular rationale they want to follow.

96 MR. YOUNG: You were asked in an information request on  
97 this issue, **NLH-38**, can we see that please ...

98 DR. WILSON: NLH-38?

99 MR. YOUNG: Yeah, it's on your screen there now. It's, I  
100 suppose there's two kinds of logic. There's the engineer's  
101 logic and there's someone's logic looking at it after the fact,



1 which is sort of an economist's logic, and then there's  
2 precedent which is lawyer's logic, I suppose, if that's logical  
3 at all.

4 DR. WILSON: Well you have to be careful of that too. I  
5 mean if you start, if you start allocating costs here  
6 according to rationales used in Southern California, that  
7 may be very fine for your, you know, avocado growers in  
8 the central part of the island, but it might not be so good  
9 for the pulp and paper industry.

10 MR. YOUNG: We would have a very good irrigation rate,  
11 I'm sure.

12 DR. WILSON: Exactly.

13 MR. YOUNG: Just back to NLH-38 though, you were asked  
14 if you would provide the names of any US or Canadian  
15 utilities that allocate transmission costs based on energy  
16 and your response was that you hadn't done a study at the  
17 time. I'm just wondering, have you had any opportunity  
18 since, or can you provide any further information on this at  
19 all as to other jurisdictions where this may be used and  
20 why it may be used, or why it may not be used, you know,  
21 that you have been involved in, for example.

22 DR. WILSON: Yeah, I have not done a survey and I can't  
23 give you a comprehensive list.

24 MR. YOUNG: No.

25 DR. WILSON: Transmission, as the Board probably  
26 knows, is to some extent allocated at two levels in the US.  
27 Wholesale rates are dealt with by the Federal Energy  
28 Regulatory Commission, and they essentially use what's  
29 known as a 12-CP. They take the coincident peak and  
30 twelve months so it's, you know, a little bit more energy-  
31 oriented than a 1-CP or a 4-CP. But that only applies to  
32 wholesale transactions and for the most part transmission  
33 is dealt with at the local level by state commissions and  
34 there's a lot of variation from commission to commission.  
35 They ... a couple that I have been involved in recently,  
36 Montana, Connecticut, and New York to some extent, it  
37 varies from utility to utility in some of these states too,  
38 allocate at least a portion of their transmission costs based  
39 on energy as has been pointed out, this Board does with  
40 respect to radial lines.

41 MR. YOUNG: So you made a point there which I think is  
42 interesting just from a point of looking at this  
43 comparatively. If a utility was going to allocate, or a  
44 regulator, I suppose, was going to allocate or have the  
45 allocation of transmission done on a 12-CP, that has shades  
46 of energy in it already. Is that the point you're making  
47 there?

48 DR. WILSON: Yeah, somebody made that observation  
49 before, the further you go away from a 1-CP, if you got to,

50 you know, 8,760, that would be an energy allocation.  
51 Obviously 12 is not going very far in that direction, but to  
52 some extent.

53 MR. YOUNG: Right, and in a related matter, although this  
54 probably doesn't have a huge impact on anyone's costs  
55 overall so it's probably not worth an awful lot of everyone's  
56 time, gas turbine fuel costs. Your evidence, I understand,  
57 is that the fuel cost relating to gas turbines should be  
58 allocated to energy as opposed to demand.

59 DR. WILSON: Now there I don't really know of any other  
60 place that I've seen fuel costs allocated on the basis of  
61 demand. Now that's not to say that there aren't any, but  
62 generally fuel costs, whether it's, whether it's coal or  
63 whether it's gas or oil, or what it is, it's allocated on the  
64 basis of energy with one exception, and that is the  
65 investment cost in the fuel itself. Oftentimes the coal pile  
66 or the fuel, the investment cost of the fuel that's sitting in  
67 the tank is thought of as a capital investment and would be  
68 allocated the same way that the generating plant is, but for  
69 the most part, the expense of the fuel is allocated to energy  
70 as a running cost as opposed to demand. But again,  
71 probably not a really big deal here because you don't use  
72 a lot of gas. It will be a much bigger problem if you were  
73 allocating the residual fuel oil, but obviously you're not.

74 MR. YOUNG: A very different issue, I would suggest to  
75 you, because I mean the view of it that's been taken that's  
76 inherent in the cost study Hydro has done, I think you'd  
77 acknowledge is that the only reason the gas turbines are  
78 there is to provide instantaneous capacity and the use  
79 pattern is not terribly high. There's not an awful lot of this  
80 fuel burned or at least forecast to be burned, so that, I  
81 suppose, and I'm putting the question to you, is one reason  
82 you could justify classifying it to demand as opposed to  
83 fuel. I mean it's really just to support a very short period of  
84 time that it's going to be run, but you need it to run the  
85 plant.

86 DR. WILSON: It's a rationalization. Again, it's not one of  
87 these things that is without logic.

88 MR. YOUNG: Moving on to the rural subsidy if I might. I'd  
89 like to refer you to page 32 of your report, and you mention  
90 there that Hydro has not made much progress, and then on  
91 page 41, and I guess this is getting into the meat of it ...

92 DR. WILSON: 41?

93 MR. YOUNG: Yeah, 41, in summary of recommendations.  
94 This is the last page of your report. You have a comment  
95 there that, well I'll just show it to you and ask you to deal  
96 with it. It says Hydro should continue to cover the rural  
97 deficit based on equity considerations that the Board  
98 deems appropriate. One equitable way to cover the rural  
99 deficit without distorting price signals would be to fund it

1 through marginal cost rate design procedures. I'm having  
2 a little bit of difficulty understanding exactly what's meant  
3 here, and I wonder if you could elaborate on it a little bit.  
4 Talking about the marginal cost application to this issue, I  
5 wonder if you could expand on that a bit.

6 DR. WILSON: It would actually be quite easy to do on the  
7 Hydro system. Hydro's system would be one of the most  
8 straightforward, I think, that I've ever seen in terms of being  
9 able to set up a marginal cost pricing arrangement that  
10 achieved all of the kinds of efficiency objectives that  
11 economists like and produce the revenues that are required  
12 to cover things such as the rural subsidy. We've had  
13 different people put in different numbers about the marginal  
14 cost of Holyrood. I think one of the numbers that was  
15 talked about today or yesterday was 4.59 cents, but that  
16 assumes a \$28.00 price of oil so with a lower price of oil it  
17 would be a little bit lower than that. But if ... and this also  
18 ties back to recommendations have been made in the past  
19 by Mr. Brockman on behalf of Newfoundland Power, which  
20 I understand they don't really fully support in this  
21 proceeding, they backed off it somewhat, but if you were to  
22 establish a marginal cost rate design for Hydro to charge  
23 the marginal running cost of Holyrood to energy, perhaps  
24 build some seasonal variation into it so as to recognize the  
25 energy component of transmission costs and so on, and a  
26 modest demand charge tied to the peaker method, let's say,  
27 something that would produce, you know, \$40.00 or so per  
28 kw per year. With those types of charges, you would be  
29 coming out, you would come out with a revenue amount  
30 that was very close to the revenue requirement plus the  
31 rural subsidy for the island interconnected system. You  
32 know, you could have Mr. Hamilton run the numbers for  
33 you, but I think if you charged, you know 4 1/2 cents for  
34 energy in the wintertime, and 4 cents for it in the  
35 summertime, and you had a \$4.00 or \$5.00 demand charge  
36 recognizing the marginal cost of generation capacity in the  
37 wintertime, and maybe \$2.00 or \$3.00 demand charge in the  
38 summertime, with whatever appropriate fiddling was  
39 necessary in order to deal with other objectives that the  
40 company and its customers and the Board may have, you  
41 would come out with something on the order of \$280 to  
42 \$290 million which would be sufficient to cover the revenue  
43 requirements of Hydro and the rural subsidy as well. If you  
44 didn't have quite enough well you could adjust that  
45 demand charge or energy charge a little bit so as to do it,  
46 and still have a price structure that rationally reflected what  
47 the marginal cost of producing a kilowatt hour was, and  
48 what the marginal cost of meeting incremental demand was,  
49 and have the revenues that were necessary to meet all of  
50 your revenue requirements. That's a lot easier approach to  
51 rate design than going through all of the rationalizations  
52 that we go through in cost allocations, and I realize that it  
53 may cut down on certain flexibilities but it would make a lot

54 of sense to me to go at it that way.

55 (2:30 p.m)

56 MR. YOUNG: If I understood what you just said, you're  
57 not suggesting a radically different treatment of the deficit.  
58 I mean it would still be included in Hydro's overall revenue  
59 requirement.

60 DR. WILSON: The RSP.

61 MR. YOUNG: Yeah ...

62 DR. WILSON: Sure.

63 MR. YOUNG: No, no, not the RSP, but on the ...

64 DR. WILSON: The rural subsidy.

65 MR. YOUNG: On the rural subsidy.

66 DR. WILSON: Yes.

67 MR. YOUNG: It would still be included in the overall  
68 revenue requirement and it would be collected from  
69 customers other than the rural customers. It's just that you  
70 would change the, well change the rates essentially to  
71 match marginal costing principles. Is that ...

72 DR. WILSON: It would and it would under the  
73 circumstances that exist here, given Hydro's cost structure,  
74 it would cover the rural subsidy as well. As an economist,  
75 I will say that I, and in relation to the discussion that  
76 existed earlier about is this a tax or is this a cost, I don't  
77 think that tax collection through utility rates is the best way  
78 to go about income distribution, but I think it's a political  
79 reality that most regulatory commissions to some extent  
80 have to deal with and that's true in the US as it is in Canada  
81 with lifeline rates. For whatever reasons, legislatures would  
82 rather have regulatory commissions deal with this aspect of  
83 income distribution than to deal with it directly, so as long  
84 as it's something that has to be dealt with, I think it's  
85 appropriate for commissions to do that. I don't think that  
86 I would recommend doing away with the rural subsidy, but  
87 I think that it can be accommodated without distorting price  
88 signals, especially given the fortuitous circumstances that  
89 Hydro is in.

90 MR. YOUNG: When I read your evidence, I had a different  
91 impression than the testimony you just gave, and that's  
92 probably my error and not any error in what was written. I  
93 wonder if I could, Mr. O'Rielly, please bring up the **1996**  
94 **Rural Report**, at page 23 at the bottom, and it goes on to  
95 page 24, and can we just see a little bit more of the ... at  
96 least some of the next page to make sure that we have the  
97 right ... yes, there we go. I'll just read some of it out and ask  
98 you to respond to this. The Board's consultant, Mr.  
99 George Baker, conducted a detailed examination of the  
100 costs associated with rural systems. In his analysis, Mr.  
101 Baker examined both the full embedded cost and the

1 marginal cost associated with increased consumption on  
2 isolated systems, and then, I won't read it all out, but you  
3 can see what he's done here, if you choose to take a  
4 moment to read it is he's actually done a marginal cost  
5 study in the diesel areas and proposed a rate structure  
6 based on that, so I just want to clarify this was not the sort  
7 of comment you had in relation to your proposal here in  
8 your testimony, is that correct, this is a different kind?

9 DR. WILSON: Yeah, my comments on the rural subsidy are  
10 not in the direction of trying to charge rural customers  
11 prices that more accurately reflect costs, that's obviously  
12 not the intent of the rural pricing program. The intent of  
13 the rural pricing program is to provide affordable rates that  
14 are admittedly below costs and the extent to which those  
15 rates are going to be below cost is to a large extent, I think,  
16 a policy issue as opposed to a straightforward economic  
17 issue. I would not object to a price that covered at least the  
18 short-run marginal cost, the cost of running these kinds of  
19 units in rural areas as long as it didn't interfere with  
20 whatever the overriding concerns with respect to income  
21 policy is. Would an economist rather have the government  
22 provide direct subsidies to consumers and then let  
23 consumers decide whether they're going to spend that on  
24 electricity or something else, by and large, they would, but  
25 there are social concerns that if you do that the distribution  
26 of cash may be spent on cigarettes and coca-cola as  
27 opposed to being spent on, or something else as opposed  
28 to being spent on electricity and that's not the intent of the  
29 income distribution policy, so I'm not really getting into an  
30 argument that rural rates ought to be more cost based. I  
31 think I accept the proposition that they're not, and for some  
32 of the same reasons that we have lifeline rates in other  
33 places.

34 MR. YOUNG: I wonder if I could refer you to page 38 and  
35 I have a question relating to the purchase from industrial  
36 customers. This is at the bottom. Perhaps I'll just, as a time  
37 saver I'll just read it out, it's not terribly long. It says,  
38 second, Hydro has used a system load factor to classify  
39 the cost of purchased power obtained from non-utility  
40 generators to demand and energy but has assigned all  
41 costs of purchasing power from industrial generators to  
42 energy. Unless there are fundamental differences between  
43 these two types of purchases, for example, a high  
44 probability that industrial purchases will not be available at  
45 the time of the system peak, it would be preferable to apply  
46 the same cost classification procedures to both types of  
47 purchases. Dr. Wilson, I'm just wondering if you have had  
48 an opportunity to learn as to, anything as to the timing of  
49 the purchases from industrial customers. I mean we  
50 generally call this secondary, it's sort of commonly called  
51 secondary energy purchases.

52 DR. WILSON: Uh hum.

53 MR. YOUNG: Made at times which you may or may not  
54 know, correct me if I'm getting into an area here where I'm  
55 providing you with information you didn't otherwise have,  
56 but made at time when those customers, perhaps, had no  
57 load in their own paper mills, as it comes to be in the real  
58 case, but in fact have generation available. Is that your  
59 understanding?

60 DR. WILSON: Yes, that is something that I've learned and  
61 I understand that that's the way in which that's done.

62 MR. YOUNG: So would you expect in that scenario that  
63 this would be sort of an incidental thing, having nothing to  
64 do with peak, or that it might follow the peak times, or be  
65 sort of random, or have you made any assessment of that?

66 DR. WILSON: I would think that you may have a situation  
67 in which more purchases would be made during off-peak  
68 times. That, of course, may result in hydro storage that is  
69 useful at peak times, but it wouldn't increase system  
70 capacity.

71 MR. YOUNG: Yeah, I guess one phrase we sometimes use  
72 when we talk to our industrial customers about this is, you  
73 know, we'll store your water in our reservoir, and that's not  
74 obviously what happens, but you're talking, I think, about  
75 essentially an energy issue, are you not? You're  
76 transferring the ... unless you have a low head problem, or  
77 something that really hits capacity in a hydro plant, you're  
78 talking about the availability of saving energy as opposed  
79 to capacity?

80 DR. WILSON: I think to a large extent you are, and I think  
81 that's true with regard to the non-utility generators as well.

82 MR. YOUNG: If a non-utility generator was there  
83 essentially all the time, as opposed to strictly being a run of  
84 the river plant, would that make a difference in your  
85 assessment?

86 DR. WILSON: I would agree that there is some element of  
87 that NUG purchase that is capacity related but by and large  
88 I would think that the NUG cost, much like the cost of a  
89 storage hydroelectric plant is energy related as opposed to  
90 being capacity related.

91 MR. YOUNG: Uh hum, yeah, no, I think that we probably  
92 agree there that the ... I guess where we're not sure we  
93 agree with you or not is whether in the instance of an  
94 industrial purchase, as we call the secondary energy  
95 purchase, whether it would be proper to allocate any of that  
96 to demand, given that Hydro in those scenarios, if you'll  
97 accept my point, really has very little control over when  
98 they come, can't require them at peak for example.

99 DR. WILSON: I don't have a problem with it being treated  
100 as an energy purchase. If anything, I probably would  
101 prefer to see equivalency between these two types of

1 purchases achieved by the NUG being thought of more as  
2 energy as opposed to the industrial purchase being  
3 thought of as capacity.

4 MR. YOUNG: I see, yeah. My final question is about the  
5 thing that you started off talking about, Dr. Wilson, which  
6 was the slight change you made in your evidence in  
7 relation to the non-firm industrial rate. I think you said that  
8 by and large you're fairly comfortable with the rate  
9 structure as it is now, having learned the cost components  
10 of it, and **IC-274** which you referred to, I think, ends up  
11 with a roughly 5 cent per kilowatt hour cost comprised of  
12 a demand and energy component and demand, \$1.50.

13 DR. WILSON: Depending on the load factor and  
14 depending upon the cost of oil, so that probably is a little  
15 bit high in relation to your actual cost of oil right now.

16 MR. YOUNG: Yes, it may be in fact, yes, I agree. That's on  
17 \$28.00 and the load factor that was given in that question.  
18 But I just want to confirm that the point you made a few  
19 moments ago related to the rate being an acceptable one.  
20 Is that because you feel that these demand and energy  
21 price components properly monitor or properly follow the  
22 marginal costs in this circumstance and that that would be  
23 an appropriate kind of an approach to this rate?

24 DR. WILSON: I think they do, and you know, looking at  
25 my evidence as it was originally presented at pages 36 and  
26 37, I think my problem in looking at this was I ... and I  
27 incorrectly presumed that the energy charge in the firm  
28 industrial rate was reflective of system energy costs and it  
29 would be at \$12.50, but it's not at \$20.00, let alone \$28.00, so  
30 since we don't, since we're not really dealing with \$12.50 oil  
31 this charge in the firm industrial rate is not, does not cover  
32 marginal cost and if anything the implication of my  
33 discussion here is not that the interruptible energy charge  
34 is too low, or that the demand charge is inappropriate, but  
35 it really suggests that the energy component of the firm  
36 industrial tariff is on the low side and still more related to  
37 the \$12.50 oil price than to something else.

38 MR. YOUNG: I'm just curious though. On the, in the  
39 outcome here with the answer to **IC-274**, there were some  
40 questions before about the \$1.50 demand charge being an  
41 appropriate ... the question was to another witness ... being  
42 appropriate. Could you comment on whether or not with  
43 this marginal cost based energy rate, using the actual oil  
44 price in Holyrood, whether that demand charge is an  
45 appropriate figure?

46 DR. WILSON: I think it is, yes.

47 MR. YOUNG: Okay, thank you. Those are all my  
48 questions. Thanks, Chair. Thank you, Dr. Wilson.

49 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.  
50 Young. Thank you, Dr. Wilson. Ms. Butler, could I ask

51 you to begin your cross, please?

52 (2:45 p.m.)

53 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Good  
54 afternoon, Dr. Wilson. I wonder if we might look first to an  
55 exhibit that was attached to Mr. Brockman's testimony and  
56 it's referred to as **LBB-3**. Mr. Wilson, do you recall  
57 reviewing this in the course of you preparing for your  
58 testimony in the sense that what Mr. Brockman has done is  
59 listed the 26 Board recommendations from the generic  
60 hearing, and indicated to the right whether Hydro's 2001  
61 filing complies and if not, why?

62 DR. WILSON: Subsequent to filing my testimony, I think  
63 I've seen this, yes.

64 MS. BUTLER, Q.C.: Okay, would you scroll down and let  
65 the witness have a quick glance at the nature of it. It goes  
66 on for several pages, of course. In your review of it, was it  
67 substantial enough, Doctor, that you could say whether in  
68 fact you agree or disagree with Mr. Brockman's conclusions  
69 in the column to the right?

70 DR. WILSON: I'd have to look at each one individually.  
71 Maybe that's something you'd like me to do this evening  
72 and report back to you in the morning. I don't have this  
73 fresh in my mind right now, but I think that you can see  
74 from the thrust of my testimony, I generally felt that Hydro  
75 did comply with the, with the recommendations. I don't  
76 think there were many cases where they didn't comply.

77 MS. BUTLER, Q.C.: Okay, that's satisfactory to me. I  
78 wouldn't want you to be put through another exercise this  
79 evening. Mr. Young has asked you some questions about  
80 elements of this insofar as they address cost allocations.  
81 There are four in here that I want to look at and compare to  
82 your executive summary, so Mr. O'Rielly has very kindly  
83 set up the system where we can have both on the screen,  
84 with the screen split, there you go. Now this is the  
85 executive summary from your pre-filed which is, if we can  
86 just expand that a little so that the witness can see. Can  
87 you scroll down on the executive summary, Mr. O'Rielly?  
88 In the executive summary, I think we're going to be going  
89 to pages, Roman numerals two and three. Okay, that's  
90 great, thank you. So it's the first recommendation I wanted  
91 to ask you about at the outset, and perhaps if you could  
92 just take a moment to read that for us, Doctor?

93 DR. WILSON: That Hydro's cost of service study be of the  
94 embedded type and that the methodological objective be to  
95 allocate costs to rate classes in a fair and equitable manner  
96 based on causal responsibility for cost incurrence.

97 MS. BUTLER, Q.C.: Okay, now Mr. Brockman has certainly  
98 indicated that Hydro's filing complies with that. Do you  
99 agree with his conclusion on that particular one?

1 DR. WILSON: At least in part. I do think that, I do think  
2 that they've, they've done an embedded type cost of  
3 service study. I think that they have attempted and have  
4 generally explained why they've allocated costs in the way  
5 in which they did. I think that their attempts have been to  
6 be fair and equitable. I've indicated a number of ways in  
7 which I thought it would be more reasonable to allocate  
8 costs if cost causality was your objective. For example, we  
9 talked about the energy component of transmission, the  
10 energy component of distribution. Those are two places  
11 where I don't think the ... while there is some rationale to  
12 what Hydro does, I think that there are stronger rationales  
13 pushing in a different direction.

14 MS. BUTLER, Q.C.: Would it be fair to say that in the  
15 particular examples that you've just given me that there are  
16 judgement, there is judgement at play and you don't  
17 necessarily agree with the exercise of the judgement in the  
18 cost allocation?

19 DR. WILSON: I think that's true. I think that's generally  
20 true of cost allocation exercises. Another way of putting it  
21 is that there is in cost allocation, again, to distinguish it  
22 from rate design, there's a degree of arbitrariness in most  
23 things that are done in the cost allocation field. It's a  
24 question of, you know, more or less what is more  
25 reasonable, and of course all of these ways of expressing  
26 an implied judgement.

27 MS. BUTLER, Q.C.: Okay, so looking at the bottom of the  
28 screen which is Roman numerals, page two from your  
29 executive summary, you indicate substantive cost  
30 allocation and rate design topics that we believe merit  
31 particular consideration by the Board in this proceeding  
32 include the following, and then, of course, you have a  
33 number of them. If we could scroll down to the second last  
34 bullet on that page, the absence of marginal cost  
35 considerations in, if I can just add to what you've indicated  
36 there, number one, Hydro's cost allocation, and number  
37 two, rate design proposals. Is that fair to split it out that  
38 way? Are you making two separate points?

39 DR. WILSON: Yes, I think so. I think that, I think there are  
40 two separate points, and there are some ways in which  
41 marginal cost considerations (inaudible) either given some  
42 weight in the rate design proposals or at least the rate  
43 design proposals were not inconsistent with marginal cost  
44 principles ... the interruptible rate for example.

45 MS. BUTLER, Q.C.: Alright, but when I compare what's  
46 there at the bottom of the screen and Mr. O'Rielly has very  
47 kindly got his hand marker on it, absence of marginal cost  
48 considerations in Hydro's cost allocation. To the  
49 recommendation number one, which is that the study be of  
50 an embedded type, with methodological objective to  
51 allocate costs to rate classes, etcetera. Are you suggesting

52 that the cost of service study should have been a marginal  
53 cost of service study?

54 DR. WILSON: No, I'm not. Obviously the Board said do an  
55 embedded type, but I don't think that that foreclosed  
56 consideration of marginal cost principles, especially given  
57 all of the water that's been under the bridge in the last eight  
58 years here, and the extent to which the Board ... I realize,  
59 you know, the people who make up this panel and make up  
60 the Board change over time, but certainly it's been my  
61 impression that the thinking of the individuals that  
62 comprise the Board have not been stagnant for eight years,  
63 and that the, and that the opportunity is present to  
64 consider improvements to methodologies that may have  
65 been thought the way to go eight years ago, so I'm not  
66 saying that Hydro didn't do what they were told to do.  
67 What I'm suggesting is that the Board give consideration  
68 to the following points, and one of those points is trying to  
69 utilize marginal cost principles in rate design more so than  
70 is reflected in this application and frankly, to move in the  
71 direction that Newfoundland Power has suggested in the  
72 past, but not in this case.

73 MS. BUTLER, Q.C.: Yeah, but again, I can see that in  
74 relation to rate design, but the bullet actually says absence  
75 of marginal cost considerations in Hydro cost allocation as  
76 well.

77 DR. WILSON: Yes.

78 MS. BUTLER, Q.C.: So if we can just scroll up to the top of  
79 that again, so that we can see what the bullets relate to. It  
80 starts with "substantive". Substantive cost allocation and  
81 rate design topics which we believe merit particular  
82 consideration ... so what specifically are you asking the  
83 Board to do relative to that second last bullet on this  
84 application?

85 DR. WILSON: To give, give encouragement and direction  
86 to Hydro and probably to Newfoundland Power as well that  
87 they would like to see greater consideration of marginal  
88 cost principles as we move forward.

89 MS. BUTLER, Q.C.: On a go forward basis.

90 DR. WILSON: Uh hum.

91 MS. BUTLER, Q.C.: Now I'm going to be coming back to  
92 that split screen, Mr. O'Rielly, but I just need to go to a  
93 separate exhibit for a moment and that is page 21 of your  
94 pre-filed, that's, I think, the body of the report, and of the  
95 executive summary?

96 DR. WILSON: Page 3?

97 MS. BUTLER, Q.C.: Page 21.

98 DR. WILSON: Page 21.

99 MS. BUTLER, Q.C.: On the bottom of page 21 on my copy

1 ... yeah, it's 22, good, thank you, that's the one, Mr.  
2 O'Rielly. The last paragraph that you're addressing on  
3 page 21, Doctor, I wonder if you'd be kind enough to read  
4 that please?

5 DR. WILSON: It would be far better and a more reasonable  
6 regulatory procedure to calibrate Hydro's costs and  
7 wholesale rate structure in this proceeding so that retail rate  
8 design in the next NP rate case can reflect the appropriate  
9 cost based charges that NP will actually realize as its retail  
10 sales volumes change.

11 MS. BUTLER, Q.C.: I'm sorry to say, Doctor, that I don't  
12 understand that paragraph, perhaps you could explain to  
13 me what exactly you're recommending there. I think I'm  
14 particularly lost in reference to calibrate Hydro's costs.

15 DR. WILSON: I made the point prior to this that I did not  
16 agree that Hydro's charges to Newfoundland Power, the all  
17 energy rate was what was the best reflection of Hydro's  
18 costs and that a, that a rate that reflected both demand  
19 charges and energy charges as well as seasonal variation  
20 would be a better reflection of the costs that Hydro incurs  
21 as it incurs them, and my point is it would be more  
22 straightforward, and I think easier for Newfoundland Power  
23 to design and pass through rates to its customers if the  
24 prices that it paid to Hydro were cost reflective in the first  
25 place. That would be more sensible to me and I think more  
26 straightforward than for Newfoundland Power to attempt to  
27 design rates for its customers based upon some presumed  
28 cost structure that Hydro has that is not reflected in the  
29 rates that Power pays to Hydro.

30 MS. BUTLER, Q.C.: Okay, but on this same point, Mr.  
31 Brickhill has a Q. and A. which is relevant. I wonder if we  
32 can look at **Mr. Brickhill's supplementary** at page 4, and  
33 I'm looking for the question, will the proposed energy rates  
34 ... I apologize, Mr. O'Rielly, maybe it's ... thank you. Will  
35 the proposed energy rates of Newfoundland Power and the  
36 industrial customers cover marginal costs in the test year,  
37 and I wonder if you could just read his answer there?

38 DR. WILSON: In the case of Newfoundland Power, yes,  
39 and in the case of industrial customers, no. Newfoundland  
40 Power's energy rate includes its allocated demand costs,  
41 the rural deficit and the RSP. This results in the marginal  
42 revenues received from Newfoundland power exceeding  
43 the marginal energy costs of supplying Newfoundland  
44 Power by Hydro.

45 MS. BUTLER, Q.C.: Let me ask you first, do you agree with  
46 what he has said about Newfoundland Power's rate?

47 DR. WILSON: Yes, I think I do. I think that he is saying  
48 essentially that the rates, that is the dollars, the total  
49 amount of dollars that Newfoundland Power pays to Hydro  
50 will cover the marginal costs of serving Newfoundland

51 Power, and I think he's ... I think as far as that goes, he's  
52 right.

53 MS. BUTLER, Q.C.: What about line 18 though, where he  
54 says Newfoundland Power's energy rate includes its  
55 allocated demand costs, etcetera. Do you agree with that?

56 DR. WILSON: Sure, it includes allocated demand costs.  
57 That's not to say that there wouldn't be alternative ways of  
58 determining an allocated demand cost, but given the  
59 allocation and the classifications that Hydro used, yes, I  
60 agree that the rates that are being charged to  
61 Newfoundland Power on a total revenue basis are aimed at  
62 covering that revenue requirement.

63 MS. BUTLER, Q.C.: I had understood when we addressed  
64 this earlier with Mr. Brickhill and perhaps with others as  
65 well, that essentially what was being said that was as a  
66 result of the RSP, at the end of the day Newfoundland  
67 Power always pays its own way, notwithstanding ...

68 DR. WILSON: I don't, I don't take, I'm really not taking  
69 issue with that in the sense of total revenue being equal to  
70 total cost, that the total amount of dollars that are paid by  
71 Newfoundland Power are in some sense compensatory and  
72 in line with the cost of service allocations that Hydro has  
73 done. I think that that's, I think that's basically true. Is that  
74 satisfactory in terms of rate design, I don't think that that  
75 addresses the rate design question or the price signal  
76 question or efficiency questions at all.

77 (3:00 p.m.)

78 MS. BUTLER, Q.C.: So let's just go back to where we were  
79 with your pre-filed at page 21, that paragraph that I was  
80 having difficulty with, thank you. It would be far better,  
81 that paragraph there, so why would it be better to calibrate  
82 Hydro's costs on wholesale rate structure, etcetera, if in fact  
83 you agree with what Dr. Brickhill is saying at page four of  
84 his first supplementary evidence, ultimately that  
85 Newfoundland Power's rates are sufficient to cover the  
86 costs associated with the service.

87 DR. WILSON: I don't think that Mr. Brickhill really takes  
88 issue, or that we have a fundamental disagreement on  
89 pricing and price signals except that as he states in the  
90 testimony that you had up a moment ago, that he doesn't  
91 think price signals make any difference, that it's not  
92 important to have rates to Newfoundland Power that reflect  
93 the changes in costs that are incurred by Hydro as  
94 Newfoundland Power's energy demand requirements go up  
95 and down. I think it probably is. I will agree that you can,  
96 if you want to you can bypass the whole issue of prices  
97 reflecting costs to Newfoundland Power and deal only with  
98 is the total bill equivalent to the total cost, but that's not  
99 very helpful if we're talking about the Delta, if we're talking  
100 about changes, if we're talking about growth, if we're

1 talking about customers making decisions at the retail level,  
2 the Newfoundland Power level to buy electricity to heat  
3 their homes, or oil to heat their homes and the fluctuations  
4 that can take place over time in the energy sales and the  
5 power sales of the retail utility. I think that in order for the  
6 retail utility to have the right motivations, especially if there  
7 is going to be a significant passage of time between  
8 wholesale rate cases, I think it's desirable for the retail  
9 utility to have its own cost responsibility related to the cost  
10 structure of its supplier than simply be tied to some total  
11 revenue responsibility in a test year. I think that it will be  
12 easier and Newfoundland Power will have more motivation  
13 to have cost reflective retail rate designs if those cost  
14 reflective retail rate designs are tied to the wholesale rates  
15 that they pay in the first place, and I understand that Mr.  
16 Brickhill disagrees with that. And to a limited extent he and  
17 I have some agreement and that is that cost reflective rates  
18 are more important at the ultimate customer level. If we had  
19 to have them one place or the other, I would say that I  
20 would rather have them at the retail level which would be  
21 the point of sale that Hydro makes to, you know, it's own  
22 industrial customers and the customers that it serves at  
23 retail and then the prices that Newfoundland Power  
24 charges its customers at retail, but I think it would also, as  
25 a second concern, be desirable to have cost reflective  
26 wholesale rates.

27 MS. BUTLER, Q.C.: Okay, can we go back now, Mr.  
28 O'Rielly please, to the split screen that we had the two  
29 exhibits on? Thank you. The other recommendation from  
30 Mr. Brockman's list that I wanted to address was number  
31 12, and this was discussed a moment ago between yourself  
32 and Mr. Young, correct, in the sense that ...

33 DR. WILSON: Right.

34 MS. BUTLER, Q.C.: Cost of gas turbine and diesel fuel in  
35 the island interconnected system were recommended to be  
36 classified to demand and that is what Hydro reflected in the  
37 filing, do you agree with that?

38 DR. WILSON: Yes.

39 MS. BUTLER, Q.C.: Okay, and your point on this is  
40 actually at Roman numerals three of your executive  
41 summary. Thank you, it's that third bullet there on your  
42 screen. Classification of gas turbine and diesel fuel to  
43 demand ... now again, the heading, of course, for these  
44 bullets, in this particular case was additional issues for  
45 consideration.

46 DR. WILSON: Right, I put this as in issue for consideration  
47 but not ranked in importance with some of those above it.

48 MS. BUTLER, Q.C.: Okay, so the first series of bullets are  
49 actually of primary consideration and the remaining are of  
50 less importance, as you say.

51 DR. WILSON: I think so, yes.

52 MS. BUTLER, Q.C.: So while you agree that Hydro has  
53 done their filing in accordance with recommendation 12,  
54 you are recommending again on a go forward basis that  
55 there be some consideration to the classification of gas  
56 turbine and diesel fuel to demand, is that right?

57 DR. WILSON: I think they ought to be classified to energy  
58 as opposed to demand. I don't, other than the rationale  
59 that Mr. Young suggested to me, I don't know of any  
60 reason to classify those costs as demand charges. It seems  
61 strange to me.

62 MS. BUTLER, Q.C.: So in that sense you are disagreeing  
63 with the recommendation that was made by this Board.

64 DR. WILSON: Yes.

65 MS. BUTLER, Q.C.: Okay.

66 DR. WILSON: I can't think of anything more energy than  
67 fuel.

68 MS. BUTLER, Q.C.: Okay, recommendations 15 and 16,  
69 okay, transmission lines and substations to be classified in  
70 the same manner as the generating stations they serve. Do  
71 you agree that Hydro has complied with that as well?

72 DR. WILSON: Yes, they have.

73 MS. BUTLER, Q.C.: And number 16, transmission be  
74 classified 100 percent to demand and Hydro's filing  
75 complies with that as well?

76 DR. WILSON: Yes, it does.

77 MS. BUTLER, Q.C.: And number 18, transmission and  
78 subtransmission costs in the island interconnected be  
79 allocated by means of a 1-CP, and their filing is consistent  
80 with that as well?

81 DR. WILSON: Yes.

82 MS. BUTLER, Q.C.: Okay, now in your executive summary,  
83 page 2, the Roman numerals, once again you consider there  
84 is merit in the Board considering the assignment of network  
85 transmission costs to demand rather than energy as well as  
86 the allocation of these costs using a single CP, so again,  
87 Doctor, is it fair to say that in that sense you disagree with  
88 the Board's recommendations from the earlier report?

89 DR. WILSON: Yes, I think that those, that those directives,  
90 guidance should be reconsidered.

91 MS. BUTLER, Q.C.: And the final recommendation I just  
92 want to point out on which you may be making a different  
93 proposal is 19 and 20, can you just take a moment to read  
94 for yourself recommendation 19 and recommendation 20,  
95 that's the classification of distribution costs, and the  
96 allocating of distribution costs.

1 DR. WILSON: Well again, I'm recommending a departure  
2 from Hydro's procedure and the Board at that time did  
3 accept the classification of distribution for interim use, so  
4 if that is presumed to be a direction that's carried forward to  
5 this hearing, yes, that's another area where I'm  
6 recommending reconsideration.

7 MS. BUTLER, Q.C.: Okay, that was 19 you were  
8 addressing?

9 DR. WILSON: Uh hum.

10 MS. BUTLER, Q.C.: Do you agree that Hydro's filing  
11 complies with recommendation 19?

12 DR. WILSON: Yes, except that I don't see recommendation  
13 19 as constraining Hydro for purposes of this filing as you  
14 may be able to argue that the Board's directives with  
15 respect to some of the earlier things you asked did seem to  
16 constrain Hydro.

17 MS. BUTLER, Q.C.: And number 20, does Hydro filing  
18 comply with that as well?

19 DR. WILSON: Well they approved it at that time and I  
20 gather that Hydro is doing the same thing here, so again,  
21 they certainly don't seem to have been foreclosed from  
22 doing something else, but they don't appear to be doing  
23 something that is inconsistent with procedure that has  
24 been approved by the Board.

25 MS. BUTLER, Q.C.: Okay, now at the bottom part of the  
26 screen, in terms of the point that you make here, the  
27 assignment of no distribution system costs to energy is  
28 what you're recommending and the allocation of ...

29 DR. WILSON: No, I'm not recommending that. I'm saying  
30 that that's an issue to be addressed and I would  
31 recommend the assignment of distribution costs to energy  
32 because I believe that distribution systems are built for  
33 purposes other than simply peak load.

34 MS. BUTLER, Q.C.: I'm sorry, these bullets fall under the  
35 heading of the topics that you considered merited  
36 particular consideration by the Board on a go forward  
37 basis, right?

38 DR. WILSON: Sure.

39 MS. BUTLER, Q.C.: Okay, so back to the point again, the  
40 assignment of no distribution system costs to energy and  
41 the fact that you don't necessarily agree with  
42 recommendation, I guess it would be 19.

43 DR. WILSON: This is the interim issue, yeah.

44 MS. BUTLER, Q.C.: 19, okay, are you aware of any other  
45 utilities in Canada where a portion of distribution costs are  
46 classified as energy?

47 DR. WILSON: I don't know one way or the other. I haven't

48 surveyed Canadian utilities.

49 MS. BUTLER, Q.C.: Okay, so why do you consider that  
50 there is merit in considering this issue if you're not familiar  
51 with any other utility that does it?

52 DR. WILSON: Because I'm guided by logic and reason and  
53 not simply by precedent. If I was guided simply by  
54 precedent I guess I wouldn't be recommending the  
55 Commission reconsider any of its previous directives, but  
56 just because this was the way that it was done ten years  
57 ago, or this is the way that it's done in Nova Scotia or  
58 British Columbia, I don't think ought to be the end of the  
59 Commission's inquiry on the matter, and certainly when  
60 you think about the logic of it and the fact that distribution  
61 systems, transformers, poles, wires, are designed and  
62 configured with energy delivery considerations in mind,  
63 and the fact that they are used over an extended period of  
64 time and not just in order to meet the peak demand, and  
65 that's what drives the capital investment, it seems to make  
66 some sense to me as an economist that if you're going to  
67 allocate costs that consideration be given to the energy  
68 measure as well. The Commission in the future may want  
69 to decide to bypass a lot of these cost of service issues  
70 entirely, that is cost allocation issues and cut right to the  
71 chase, go to rate design and dispense with this elaborate  
72 system of rationalizations that we're dealing with, but if  
73 we're going to deal with an elaborate system of  
74 rationalizations, I think we ought to think about what the  
75 rationale is and not just what Ontario's doing.

76 MS. BUTLER, Q.C.: Okay, thank you. That's the end of  
77 that particular section, Mr. Chairman, and it is 3:15, if you'd  
78 like to break there.

79 MR. NOSEWORTHY, CHAIRMAN: Sure, I appreciate that.  
80 Thank you, Ms. Butler, Dr. Wilson, we'll break until 3:30.

81 *(break)*

82 *(3:40 p.m.)*

83 MR. NOSEWORTHY, CHAIRMAN: Thank you. Could I  
84 ask you to continue Ms. Butler, please.

85 MR. KENNEDY: Chair, just before Ms. Butler continues  
86 her cross-examination I would like to take the opportunity  
87 to report on the meeting of counsel during the break and  
88 what's being proposed for the schedule with the panel's  
89 willingness is that on Monday, December 10th would be an  
90 off day and we would not need to sit on Monday,  
91 December 10th. On Tuesday, December 11th, that we  
92 would commence the usual time at 9:30 on that morning  
93 with the capital budget application argument and that upon  
94 completing the argument that we would move to the JD  
95 Edwards demonstration and upon the conclusion of that  
96 we would end for the day. Wednesday, December 12th is  
97 being reserved exclusively for Mr. Drayson, for the cross-



1 examination of Mr. Drayson. As was already determined  
2 both Thursday and Friday are Board matter days. The next  
3 sitting day would be December 17th, and we would start  
4 again at the usual time of 9:30 with the Abitibi witnesses,  
5 Mel Dean and Mr. Jean and that both of those witnesses is  
6 proposed would take the stand at the same time, provide  
7 their evidence simultaneously and that would allow for  
8 cross-examination by counsel concerning Abitibi's affairs,  
9 and it was considered to be the most efficient way to do  
10 that, and that upon the cross-examinations being  
11 completed, the Abitibi witnesses, we would then start with  
12 Bill Brushett of Grant Thornton, the financial advisor for  
13 the Board and Mr. Brushett would continue until he's  
14 complete extensibly, Tuesday, December 18th and that  
15 would be the final witness and the conclusion of the  
16 evidentiary portion of the hearing, and so I guess upon the  
17 panel's return, perhaps on tomorrow morning, if they could  
18 confirm whether that's an appropriate schedule.

19 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,  
20 Mr. Kennedy.

21 MR. KENNEDY: Thank you, Chair.

22 MS. HENLEY ANDREWS, Q.C.: Mr. Chairman, Mr.  
23 Kennedy did indicate to us that there's a possibility that  
24 CFB Goose Bay wants to make a presentation. I don't know  
25 if you've had any thoughts on the scheduling on that.

26 MR. KENNEDY: There is an indication that CFB Goose  
27 Bay have retained counsel and have contacted the inhouse  
28 counsel of the Board, Ms. Dwanda Newman, concerning  
29 what mechanisms may be available to them to make  
30 presentation. It would seem to be fairly undecided, based  
31 upon my understanding of discussions that she has had  
32 with them to date about what type of presentation they  
33 would make, whether it would be just a presentation or  
34 evidentiary matter, and I think until that's determined it's  
35 difficult to figure out how we would slot them in, and but  
36 there have been some proposals put forward to them along  
37 those regards, whether they wanted to do a letter of  
38 comment or whether they wanted to do an actual  
39 presentation, as was indicated by the Base Commander  
40 when were in Goose Bay, and I think that's sort of subject  
41 to what way they want to go, that's going to drive in large  
42 part the recommendation that comes forward to the panel  
43 about what's an appropriate mechanism.

44 MR. NOSEWORTHY, CHAIRMAN: Excuse me, how is that  
45 to be handled counsel? The counsel that they have  
46 retained, will they be getting back to Ms. Newman soon?

47 MR. KENNEDY: I've asked your inhouse counsel to in turn  
48 ask the counsel for, the recently retained counsel for CFB  
49 Goose Bay once they've made a decision about what they  
50 would like to do to by letter make a formal request and that  
51 then could be tendered here in the hearing so that the

52 application, if you will, could be made to the panel and the  
53 panel could give leave, as it's deemed appropriate to them.  
54 So at this point the ball's in their court and we're waiting on  
55 a reply from them as to what they are proposing in that  
56 regard, but it would come to the panel for the panel's leave.

57 MR. NOSEWORTHY, CHAIRMAN: It would be nice to get  
58 that dealt with as quickly as possible. I guess given the  
59 schedule which you just reviewed with us there that seems  
60 to be the only potential additional item, certainly that we're  
61 aware of at this point in time and I guess with Christmas  
62 fast approaching, I'm sure everybody in this room would  
63 like to get through this hearing in advance of Christmas as  
64 quickly as possible, and so certainly if we could get some  
65 notion of that, what they would propose in any event fairly  
66 quickly, so we could deal with it, it would certainly be  
67 appreciated.

68 MR. KENNEDY: I should add one further comment. There  
69 was a letter of comment received from IOCC, and as was  
70 correctly pointed out by counsel for the Industrial  
71 Customers, there are some statements made in that letter by  
72 the representative for IOCC that was suggested they may  
73 be confused about the process employed, and I was going  
74 to suggest that the Secretary to the Board reply to IOCC to  
75 explain to them the process that's available for them to  
76 make whatever representations they want to make. Clearly  
77 the letter was accepted as a letter of comment, but they  
78 seem to indicate in that letter of comment that they're  
79 perhaps seeking further opportunities or redress and that  
80 in turn needs to be addressed.

81 MS. GREENE, Q.C.: Mr. Chair, if I might, there is one other  
82 item that might potentially impact the schedule and I have  
83 mentioned that at the meeting of counsel and that would be  
84 the filing of additional documentation Hydro has agreed to  
85 file, and there are four items; one is the most recent forecast  
86 of fuel prices, and we will be in a position next week to file  
87 that forecast. As of this point in time I'll be planning to do  
88 that, I guess then there will be the question as to whether  
89 there needs to be any examination, but it would be the most  
90 current forecast of No. 6 fuel and diesel fuel. The other  
91 item would be a revision to the capital budget, which I had  
92 mentioned to you earlier, arises from the decision of JD  
93 Edwards to continue in support of the current software  
94 application which has allowed us to defer the purchase of  
95 two computers beyond the 2002 capital budget year. I will  
96 be filing that formally which will be to remove \$2.1 million  
97 that's now in there for that purchase as a result of that  
98 information we received, and as a result of that I need to  
99 add approximately \$143,000 to purchase the existing lease  
100 which will expire in 2002, because we need some computer  
101 application. And the other pieces of information are simple  
102 undertakings, the 2001 customer survey, the letter from the  
103 government hopefully will be available next week with

1 respect to Harbour Deep, and the last piece, which I don't  
2 think will be available next week, is the report on the  
3 architectural strategy for the computers. I just wanted to  
4 mention that we will be filing information next week which  
5 we had agreed to provide before, and there may be  
6 something coming out of that other counsel may wish to  
7 raise.

8 MR. NOSEWORTHY, CHAIRMAN: Yes, I think we were  
9 aware of those items, it's a matter I guess, and I'm sure you  
10 will get those to us as quickly as possible so we can try  
11 and tie up certainly the loose ends, before Christmas.  
12 Thank you very, Ms. Greene. Ms. Butler, could I ask you  
13 to continue your cross please.

14 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. I'll just be  
15 another five minutes, I think Dr. Wilson, Mr. Wilson, sorry.  
16 I wonder if we might just address the rural deficit again. I  
17 know Mr. Young asked you some questions about this and  
18 I think you have a reference in your Executive Summary,  
19 page 8, just under the paragraph where you are Mr.  
20 O'Rielly, please. Thank you. Lines 18 to 20, feel free to go  
21 on to the next page if you wish. Dr. Wilson can you read  
22 the, I think the first sentence is fine.

23 DR. WILSON: The Board should consider developing an  
24 evidentiary record regarding the extent in which the rural  
25 deficit should be reduced and the extent to which universal  
26 service should be subsidized.

27 MS. BUTLER, Q.C.: If Hydro filed annually reports with the  
28 Board identifying the amount of the deficit and steps being  
29 taken, or activities being implemented to reduce the deficit,  
30 do you agree that that would be one approach towards or  
31 consistent with the recommendation you make here?

32 DR. WILSON: It would not be inconsistent, but I don't  
33 think that would necessarily answer the question as to  
34 whether and the extent to which it should be reduced.

35 MS. BUTLER, Q.C.: In relation to its reduction, as I  
36 understand it, we can go to the exhibit if you wish but if  
37 you recall the number then we won't need to, Hydro is  
38 proposing an increase of 3.5 percent to rural customers as  
39 a result of this application?

40 DR. WILSON: I recall that, yes.

41 MS. BUTLER, Q.C.: Okay, and for the benefit of the record,  
42 you won't need to go it, Mr. O'Rielly, but that is found in  
43 Mr. Hamilton's, page 1 of his second supplementary. Do  
44 you view Doctor, a 3.5 percent increase as being significant  
45 enough to move towards the phase out of the preferential  
46 rates which obviously play a significant role in this deficit?

47 DR. WILSON: No, I didn't see the 3.5 percent  
48 recommendation as moving in that direction. I saw that as  
49 merely tying the rural rate to the Newfoundland Power rate,

50 but not with the intent of reducing the deficit.

51 MS. BUTLER, Q.C.: Alright. In relation to the deficit, and  
52 the price paid by these customers in terms of preferential  
53 rates, were you aware of the RFI which is CA-155 which  
54 indicated that the price to customers on preferential rates  
55 would be expected to approximately double once the rates  
56 are completely phased out?

57 DR. WILSON: I recall that, yes, and would move to some  
58 percentage, it was at 20 percent, I don't remember what the  
59 percentage of cost was, but it was still significantly below  
60 cost, which I don't really argue with.

61 MS. BUTLER, Q.C.: Okay. Mr. O'Rielly has very kindly put  
62 that on the screen for us, and at lines 8 to 11 you'll see that  
63 based on actual 2000 data, according to Hydro the  
64 consumers pay \$215,000, and without those preferential  
65 rates they would pay approximately \$620,000, so almost  
66 double.

67 DR. WILSON: Sure.

68 MS. BUTLER, Q.C.: Okay. Now in terms of phasing out  
69 the preferential rates, even over a five year period, do you  
70 agree that the result would be a significant increase to  
71 those customers?

72 DR. WILSON: To phase it out entirely?

73 MS. BUTLER, Q.C.: Yes.

74 DR. WILSON: Sure it would be ... depending on what  
75 significant means ... it would be more than significant, it  
76 would be very, very large, probably more than, I think it  
77 would be a very large increase to them, certainly more than  
78 they would want to see.

79 MS. BUTLER, Q.C.: Alright. Let's just go back to page 9 of  
80 your executive summary then. Yeah, there you go. I'm  
81 reading now from line 19 on page 8, and right through to  
82 page 9, the extent to which the rural deficit should be  
83 reduced and the extent to which universal service should  
84 be subsidized, Hydro should continue to cover the rural  
85 deficit based on equity considerations that the Board  
86 deems appropriate. One equitable way to cover the rural  
87 deficit without distorting price signals would be to fund it  
88 through marginal cost rate design methods. Now, I guess  
89 what I'm curious about is what you're actually  
90 recommending, knowing that of course in order to recover  
91 its cost, I mean we've seen that the prices would double.

92 DR. WILSON: My recommendation is not to remove the  
93 rural deficit by increasing the rate to the rural customers,  
94 but rather to pay for the rural deficit through the difference  
95 between revenues that would be generated at marginal cost  
96 rates and the cost of service revenue requirement. I think  
97 the type of marginal cost rate design that I suggested  
98 earlier in my talk with Mr. Young would produce something

1 in the order of \$15 or \$20 million or so more than the cost of  
2 service revenue requirements. So it would be a way for  
3 compensating Hydro for the cost of serving rural  
4 customers without charging rural customers all this cost.

5 MS. BUTLER, Q.C.: Thank you, Doctor, and thank you,  
6 Mr. Chairman. Those are my questions for Dr. Wilson.

7 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
8 Butler. Thank you once again, Dr. Wilson. Ms. Henley  
9 Andrews can I ask you to begin your cross-examination,  
10 please.

11 MS. HENLEY ANDREWS, Q.C.: Yes, Mr. Chairman. Dr.  
12 Wilson, is it correct to say that there are, that within the  
13 cost of service expert community, if you like, there are  
14 experts who fall into, I suppose the embedded cost of  
15 service proponents and those who fall into a category of  
16 marginal cost of service proponents?

17 DR. WILSON: I don't think it can be broken down quite  
18 that cleanly. I think that to an extent, most cost of service  
19 practitioners agree that the total revenues to be recovered  
20 by a utility should reflect the embedded actual cost of the  
21 utility, and I think that most people that, even in this  
22 proceeding, that have suggested embedded cost ideas as  
23 being the place where they get their primary guidance, have  
24 acknowledged that there are also ways in which marginal  
25 cost pricing can make a positive contribution to good  
26 results as they see them. So I think there tends to be a mix  
27 in which most people would agree that rates should be  
28 designed so that the total revenues that they produce are  
29 equal to the actual embedded cost of the utility, the  
30 facilities that are actually there and the cost the utility is  
31 going to incur based upon the test year, but that to the  
32 extent that one wants efficient price signals so that  
33 consumption is not discouraged when it provides greater  
34 value than cost and should be discouraged when the value  
35 that it provides is less than cost, to that extent that  
36 marginal cost pricing is appropriate within an embedded  
37 context. I would say that there are others, and I would  
38 probably fall into this camp, that would like to do less in  
39 terms of cost allocation and to the extent possible cut right  
40 to the chase as far as rate design is concerned, and then  
41 balance the rate design with the total revenue requirement  
42 of the utility. My suggestion that, of course, is not  
43 original, this is something that Mr. Brockman had  
44 recommended in the past and I think it's been suggested in  
45 this forum as well as a number of others.

46 MS. HENLEY ANDREWS, Q.C.: Wouldn't you agree that  
47 in order to take your preference, your preferred route, that  
48 you would still have to study Hydro's embedded costs?  
49 You would still have to know what those embedded costs  
50 are?

51 DR. WILSON: You would but you know those pretty much

52 from the financial records and the operational records of  
53 the company. You wouldn't have to go through the kind of  
54 elaborate cost allocation procedures that are reflected in  
55 Hydro's cost of service study that Mr. Brickhill presented,  
56 and you certainly wouldn't have to come up with  
57 interesting ideas like splitting costs between energy and  
58 demand based upon system load factor which is an  
59 interesting compromise but has no particular theoretical  
60 foundation for it.

61 MS. HENLEY ANDREWS, Q.C.: In addition to looking at  
62 what the embedded costs are though, you would have to  
63 then study the long run marginal costs and the short run  
64 marginal costs, correct?

65 DR. WILSON: You'd have to estimate what they are, but  
66 on this system its straightforward, as I think was illustrated  
67 in my discussion with Mr. Young. You would not have to  
68 spend a weeks on it. It's something that we could figure  
69 out with the help of Hydro, people like Mr. Osmond, Mr.  
70 Hamilton, in fairly short order.

71 MS. HENLEY ANDREWS, Q.C.: Dr. Wilson, I participated  
72 in the 1993 cost of service methodology hearing, and my  
73 recollection is that during that hearing there was  
74 considerable discussion of, particularly from Mr. Baker,  
75 with respect to marginal cost of service versus embedded  
76 cost of service methodology, and I think we spent a  
77 considerable number of days just dealing with the  
78 appropriateness of the equivalent peaker as the measure of  
79 long run marginal cost, and would you agree that when  
80 you're looking at long run marginal cost, one of the things  
81 that you first have to determine is what your benchmark is  
82 going to be for the cost of adding capacity in the future?

83 DR. WILSON: What the actual engineering plan is for the  
84 utility?

85 MS. HENLEY ANDREWS, Q.C.: And what the cost is of  
86 the equivalent peaker that you're going to use if that's the  
87 methodology that you choose?

88 *(4:00 p.m.)*

89 DR. WILSON: Well first of all I do not agree that you have  
90 to spend a lot of time dealing with the utilities actual  
91 capacity expansion plan, and the issue may not be what  
92 type of peaker is going to be installed. The question is  
93 what is a reasonable estimate of the cheapest type of  
94 capacity that would be available to meet 1 kw of demand,  
95 and if you agree with the proposition that when a utility  
96 spends more than the cheapest cost of capacity that is  
97 builds efficient thermal plants, that run economically, or  
98 builds hydro plants that store large amounts of water, they  
99 are incurring those extra costs, those costs in excess of the  
100 cheapest type of capacity that could be built would be very  
101 expensive to run. You're incurring those additional

1 capacity costs in order to produce lower cost energy, and  
2 if you accept that proposition then the rest is pretty easy,  
3 it's pretty straightforward, it's not something that's going to  
4 take long periods of time to study. You may have hours of  
5 argument about the validity of the proposition I just stated,  
6 but once that proposition is established, determining  
7 approximately what the number is is not going to take long,  
8 now there may be some fine tuning that's going to take a  
9 longer period of time or you're going to charge, you know  
10 4 cents a kilowatt hour, or 4.1 cents a kilowatt hour, that,  
11 there may be some computations that are related to the  
12 revenue requirement that need to go into that one.

13 MS. HENLEY ANDREWS, Q.C.: Dr. Wilson, are you aware  
14 that in the 1977 to 1979 period, the Ontario Public Utilities  
15 Board had a generic hearing on marginal cost of service?

16 DR. WILSON: I was the advisor to the Ontario Municipal  
17 System in that proceeding, and you're right, it went on for  
18 more than a year.

19 MS. HENLEY ANDREWS, Q.C.: It went for 120 sitting  
20 days?

21 DR. WILSON: It went on for a long time, and there were  
22 lots of viewpoints expressed.

23 MS. HENLEY ANDREWS, Q.C.: And at the end the  
24 Ontario Public Utilities Board retained the embedded cost  
25 of service methodology?

26 DR. WILSON: An embedded cost of service methodology,  
27 at least to some extent, yeah.

28 MS. HENLEY ANDREWS, Q.C.: Dr. Wilson, I take it from  
29 your pre-filed testimony that you have not looked at issues  
30 of assignment by Newfoundland and Labrador Hydro as  
31 between common and specifically assigned?

32 DR. WILSON: I haven't looked in detail at it. I understand  
33 what their guiding philosophy is and I considered that but  
34 it's not something that I spent a good deal of time at  
35 looking at the individual facilities. I'm aware of some of the  
36 controversies involving individual pieces of equipment, but  
37 I was not focused on that primarily.

38 MS. HENLEY ANDREWS, Q.C.: You would agree that  
39 Hydro's proposed definition of common plant which is that  
40 is plant that is of substantial benefit to two or more classes  
41 of customers is a fairly well recognized definition of  
42 common plant?

43 DR. WILSON: Did it say two or more classes of customers  
44 or two or more customers?

45 MS. HENLEY ANDREWS, Q.C.: I think it says, oh two or  
46 more firm customers, I'm sorry.

47 DR. WILSON: There are many instances where direct  
48 assignments are made even though more than one

49 customer is served off a particular facility. I understand, I  
50 guess, the logic of this but I would not object to a direct  
51 assignment of a line that served two paper plants, simply  
52 because it was serving two or more customers. I think that  
53 if those were the only two customers that were being  
54 served, it would make more sense to assign that and divide  
55 it between those two customers than to allocate it as a  
56 common cost element.

57 MS. HENLEY ANDREWS, Q.C.: Prior to preparing and  
58 filing your testimony, were you aware that in October of  
59 2000, the Board had conducted a hearing to get input from  
60 the parties as to whether the 1993 generic methodology was  
61 still appropriate in the current day rate setting  
62 environment?

63 DR. WILSON: I was not aware of that, no.

64 MS. HENLEY ANDREWS, Q.C.: So prior to filing your  
65 testimony, were you aware that in October of 2000, when  
66 the Board ordered Hydro to file this rate application, or file  
67 a rate application, that having heard the parties the Board  
68 decided that Hydro would use the 1993 generic cost of  
69 service methodology?

70 DR. WILSON: No, I was aware of that. I think that's  
71 reflected in my pre-filed testimony, that Hydro did indeed  
72 follow the procedures for the most part that the Board had  
73 specified.

74 MS. HENLEY ANDREWS, Q.C.: And I take it then that  
75 your evidence on a number of issues as Ms. Butler pointed  
76 out to you before the break, where you suggest to the  
77 Board that they should depart from their 1993 cost of  
78 service methodology, are simply your indication that that  
79 would be your preference, if it's open for debate?

80 DR. WILSON: Yes, I think that's a fair statement. I think  
81 that I have presumed that the Board did not wish to  
82 foreclose or limit their consideration to determinations that  
83 had been made eight years ago and that they did want me  
84 to identify areas of possible consideration and change for  
85 the future.

86 MS. HENLEY ANDREWS, Q.C.: However, you would  
87 agree that if the Board made a determination in 2000 that the  
88 1993 cost of service methodology was still appropriate in  
89 the current day rate setting environment, then in fact its  
90 opinion expressed in 1993 had been reconfirmed a number  
91 of years later?

92 DR. WILSON: I would have seen that more as a, you know,  
93 starting point for the purposes of this hearing as opposed  
94 to resolving in year 2000 the questions about cost of  
95 service methodology that may be raised in the hearing. I  
96 did not see it as something that was reaching final  
97 determinations on these matters with respect to the hearing,  
98 but rather as giving some indication to Hydro as to a, as to

1 a starting point that would be appropriate for the filing, not  
2 that modifications to that wouldn't be appropriate.

3 MS. HENLEY ANDREWS, Q.C.: You are aware though that  
4 this was not intended to be a generic cost of service  
5 methodology hearing?

6 DR. WILSON: It's a specific hydro hearing, but it's  
7 certainly possible that policy matters that are addressed  
8 here would be of relevance in a subsequent Newfoundland  
9 Power hearing, but it does apply to Hydro's rates as  
10 opposed to NP's rates, that's true.

11 MS. HENLEY ANDREWS, Q.C.: In relation to the Rate  
12 Stabilization Plan, are you aware of any other utilities in  
13 North America which have an adjustment for load  
14 variation?

15 DR. WILSON: I really have not canvassed that, I cannot  
16 recite to you or give you a list of those that do, but on the  
17 other hand I can't really tell you authoritatively that there  
18 are none. I don't know of any that have a rate stabilization  
19 plan that's just like this. I do know of many utilities that  
20 have what are known as regulatory assets or deferred  
21 revenue accounts, that sometimes exceed \$100 million or  
22 even a billion dollars which conceptually are not terribly  
23 different than the RSP and I think would create many of the  
24 same types of problems that the RSP could create.

25 MS. HENLEY ANDREWS, Q.C.: I take it from your  
26 testimony with respect to non-utility generation and  
27 secondary energy, that you really haven't studied what the  
28 non-utility generators, what the purpose of that, those  
29 purchases really were with respect to demand versus  
30 energy?

31 DR. WILSON: Not in detail, no. I know generally about  
32 non-utility generators in various markets, but I don't know  
33 anything about, really about the specifics of the non-utility  
34 generators here.

35 MS. HENLEY ANDREWS, Q.C.: Those are all my  
36 questions, Dr. Wilson. Thank you.

37 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.  
38 Henley Andrews, Dr. Wilson. Mr. Browne, if I can ask you  
39 to begin your cross-examination please.

40 MR. BROWNE, Q.C.: Thank you, Mr. Chairman. Dr.  
41 Wilson, the requirement for conservation in this particular  
42 industry, from a consumer perspective, is that always a  
43 constant? People always be aware that conservation is  
44 important of electricity?

45 DR. WILSON: Certainly, to an extent, I think an economist  
46 would say, with regard to rate structure, which is central to  
47 this hearing, that if you have a rate design that reflects the  
48 additional cost of producing another unit of output or the  
49 cost that would be saved if a unit of output is not

50 consumed that that will serve as a strong and an  
51 appropriate conservation signal. Prices that are  
52 substantially in excess of marginal cost will curtail  
53 consumption more than marginal cost prices, but usually  
54 that's not thought of as good conservation by economists,  
55 just suppressing demand. What we would like to do is  
56 avoid demands that produce less benefit than they do  
57 costs and to serve those demands where the benefits  
58 exceed the cost, and in that sense I think that conservation  
59 so as to maximize the use of resources and the benefits that  
60 are derived from resources is always a good thing.

61 MR. BROWNE, Q.C.: So is it fair to say it's not something  
62 that should be turned on and off, like we have conservation  
63 measures some years but not in others?

64 *(4:15 p.m.)*

65 DR. WILSON: If you adhering to my implied definition of  
66 conservation which is prices that reflect marginal cost, I  
67 would agree with you. If you mean something different,  
68 then I'd have to know what your referring to as a  
69 conservation measure.

70 MR. BROWNE, Q.C.: Just that the consumers always have  
71 conservation put forward to them by utilities, all of the time,  
72 year over year over year, that's all I'm asking. Is there merit  
73 in that, so people are always aware of the benefits in  
74 conservation. Does that help the system?

75 DR. WILSON: I think so, but I would go beyond that and  
76 say if the utilities do a good and efficient job in their  
77 pricing, there probably is an awful lot other than that that's  
78 required to achieve reasonable levels of conservation.  
79 That's not to say that I'm against consumer education, but  
80 I think that the most important thing to achieve  
81 conservation that is efficient is a price system that exists in  
82 other markets where prices reflect marginal cost of  
83 production.

84 MR. BROWNE, Q.C.: In terms of this particular province,  
85 there's been a lot of discussion concerning the Holyrood  
86 generating plant out there and the fact that oil is being  
87 consumed there in part to produce electric heat in other  
88 parts of the province, and we had Ms. Pauly from the  
89 Federal EnerGuide Program who testified and I think it's a  
90 fair paraphrase of her evidence she asked why would you  
91 have Bunker C oil burning at the Holyrood generating  
92 station to produce electricity to heat people's homes  
93 instead of telling people it might be more economical from  
94 an environmental perspective and from an efficiency  
95 perspective if people ordered their own oil in their own  
96 homes to cut down the cost associated with the Holyrood  
97 generating station and the requirement to purchase so  
98 much oil, I guess. Is there any merit in that, in her  
99 comments there?

1 DR. WILSON: No, setting aside, you know, possible  
2 issues like I would expect that people in their own homes if  
3 they burn oil are going to burn distillate which costs more  
4 than the residual fuel oil that's burned at Holyrood.

5 MR. BROWNE, Q.C.: And that's true, they would ...

6 DR. WILSON: I think if the Holyrood, if the price that is  
7 charged to consumers reflects the additional running costs  
8 of Holyrood, I think if we're talking about \$20.00 oil, if it's  
9 priced not below the 4.59 cents, plus delivery costs, line  
10 losses, that sort of thing, and people choose to incur that  
11 cost as opposed to buying distillate, I don't see anything  
12 objectionable about that. I would not, you know,  
13 recommend charging 15 cents a kilowatt hour for home  
14 heating to force people to shift to wood or oil if the  
15 marginal costs of producing and delivering electricity is  
16 only 5 or 6 cents.

17 MR. BROWNE, Q.C.: And if people when they heat their  
18 own homes with the alternate fuel, with oil or propane, if  
19 they're paying as they go according to markets, they pay  
20 when the oil man comes, I think is an old saying around  
21 here, do you think it's fair that people who heat their homes  
22 with electricity are really given a benefit through the Rate  
23 Stabilization Plan, because they're not paying the true price  
24 that it costs for a barrel of oil. Is that fair to both  
25 consumers, from a consumer perspective do you think?

26 DR. WILSON: Well, within at least a limited sense, as Mr.  
27 Bowman indicated oftentimes there are rate stabilization  
28 plans over shorter periods of time, the propane companies  
29 or oil companies will introduce as well, pay fixed ...

30 MR. BROWNE, Q.C.: Sure six to 12 months, or equal  
31 payment plans, or something like that.

32 DR. WILSON: Right.

33 MR. BROWNE, Q.C.: So you do pay within the year?

34 DR. WILSON: Right, and I think that that, certainly that  
35 aspect of rate stabilization is something that some  
36 consumers like and it does disconnect the immediate price  
37 signal from the immediate consumption, but I think most  
38 people probably understand when they see their bill even  
39 though they're not paying that cost now that they did incur  
40 it, and they incurred that cost and they're going to have to  
41 pay over the next 12 months for that consumption that they  
42 had, so I'm not terribly troubled about that. I think it is, I  
43 think you do have an issue when you start deferring  
44 today's cost to future time periods, unless you have some  
45 strong belief that these oil prices that you're deferring are  
46 going to come down in the future and there is some social  
47 merit to spreading out those costs over a number of years.  
48 The prospect of a growing and increasing deferred revenue  
49 item that's large in relation to the utility company's total  
50 revenue requirement can become a financial problem for the

51 utility and as I've testified can seriously distort price  
52 signals.

53 MR. BROWNE, Q.C.: And it's your belief consumers  
54 should have correct price signals?

55 DR. WILSON: In short, generally I would agree with that.

56 MR. BROWNE, Q.C.: On page 9, lines 7 to 9 of your pre-  
57 filed evidence, if we can go to that place, you state that  
58 consideration should be given to eliminating the RSP  
59 component that intentionally defers cost recovery to future  
60 time periods. Can you elaborate on that, sir?

61 DR. WILSON: Well, I have in the testimony, I've discussed  
62 that in some detail on pages 33 through 36, but just to  
63 summarize to the extent that the RSP defers costs for a  
64 substantial period of time, it may, one, shift costs from  
65 those who benefitted from the consumption to somebody  
66 else; it can separate charges from costs in terms of price  
67 signals so that people do indeed consume electricity, even  
68 though the benefit they're deriving from it is less than the  
69 cost that the utility is incurring in order to produce it; and  
70 moving in this direction of deferring costs should be done,  
71 if at all, carefully by a regulatory commission that considers  
72 what the benefits are that are being created from that  
73 deferral and weighing those benefits against the cost of  
74 doing it.

75 MR. BROWNE, Q.C.: We heard from Dr. Osler in his  
76 evidence that when he referred to the Rate Stabilization  
77 Plan when it was introduced, he referred to in terms of  
78 extremes. We have one extreme where there was nothing,  
79 and then we went to the other extreme where we went into  
80 this three year continuum. Do you have any comments on  
81 that as to how any plan should be established? What  
82 would be your views on what the replacement for the RSP  
83 should be?

84 DR. WILSON: I think the RSP mixes at least two different  
85 objectives. One objective which is a common objective in  
86 utility pricing and regulation is cost recovery and that type  
87 of cost recovery is reflected in fuel adjustment clauses that  
88 many utilities have when they operate in environments that  
89 have unpredictable or unstable fuel costs. Those usually  
90 have (inaudible) mechanisms that is passing those costs or  
91 cost reductions through the customers in a fairly short  
92 period of time, oftentimes as frequent as monthly  
93 adjustments. While I share some of the concerns about  
94 those types of fuel adjustment programs or policies that  
95 Mr. Bowman, for example, testified to, that is shifting risk  
96 from the enterprise to consumers, I think that that type of  
97 adjustment procedure, that type of adjustment provision is  
98 pretty common in utility pricing and there are arguments  
99 both ways on it. When it comes to the second apparent  
100 purpose of the RSP, and that is take costs of providing  
101 service this year and defer them two or three years down

1 the road so that they would be covered by future  
2 consumers in association with future consumption, I think  
3 that's a more, that's a somewhat more troubling aspect of it,  
4 particularly if the balance is growing substantially over  
5 time, and so I think that those two objectives should be  
6 thought of probably separately, and it may be beneficial to  
7 have separate provisions for those two objectives, if both  
8 objectives are desired.

9 MR. BROWNE, Q.C.: It's 4:30, what's the will of the panel,  
10 Mr. Chairperson?

11 MR. NOSEWORTHY, CHAIRMAN: May I ask, Mr.  
12 Browne, how long you might be. Would you have any  
13 notion at this stage?

14 MR. BROWNE, Q.C.: I could be an half hour, but if you  
15 give me the night I could be 15 minutes. So if you're going  
16 to continue tomorrow, if you see continuing with Dr.  
17 Wilson tomorrow, I can see some advantage to stopping  
18 now but if your intention is to try to finish with Dr. Wilson,  
19 I would continue on. Do you want to continue on and try  
20 to finish with Dr. Wilson.

21 MR. NOSEWORTHY, CHAIRMAN: Well, I certainly  
22 wouldn't mind continuing on and finishing with Dr. Wilson  
23 if that was possible and I haven't asked anybody if that  
24 was possible by 5:00, but I mean we have fair bit to go  
25 through yet, I don't know how much redirect, for example,  
26 at this point in time, realizing that the cross is not finished,  
27 Mr. Kennedy.

28 MR. KENNEDY: I think an overnight might be appropriate,  
29 Chair, I don't think there's any flights out anyways.

30 DR. WILSON: I would have nothing to do tomorrow  
31 morning (*laughter*).

32 MR. BROWNE, Q.C.: That might be the answer (*laughter*).

33 MR. NOSEWORTHY, CHAIRMAN: Some others might  
34 have something to do. We'll come back here at 9:30. Thank  
35 you very much.

36 (*hearing adjourned to December 7, 2001*)