

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Good morning. I hope
3 everybody had an enjoyable Christmas, wish everybody a
4 happy new year and those new year's resolutions that
5 haven't been broken to date, I wish you well with them.
6 (laughter) I'd like to as well congratulate Mr. Hutchings
7 on his appointment as Queen's Counsel. Mr. Hutchings,
8 congratulations, sir.

9 MR. HUTCHINGS, Q.C.: Thank you very much, Mr. Chair.

10 MR. NOSEWORTHY, CHAIRMAN: I don't have any other
11 preliminary matters. I'll ask counsel, actually counsel, if
12 you could, to review the schedule for the next few days and
13 I guess toward the end of the month just to confirm in
14 everybody's mind that at this point in time and if there are
15 any preliminary matters before we start this morning,
16 please.

17 MR. KENNEDY: Yes, Chair, the schedule calls for Mr.
18 Brushett to take the stand. I see he's quite eager and
19 already is here this morning, and the intention is to
20 complete the cross-examination of Mr. Brushett by the end
21 of tomorrow, following which, as currently scheduled, we
22 would start Thursday morning, being the 10th, with the
23 Abitibi witnesses. I'll let the counsel for the Industrial
24 Customers confirm exactly who will be testifying on behalf
25 of Abitibi on Thursday morning. And that would be
26 followed by the re-call of Mr. Henderson, Hydro's
27 employee, to file his latest updated information which was
28 filed before we broke before Christmas. We then are
29 scheduled to have final written arguments filed by no later
30 than 4 p.m. on the 18th of January and we are then
31 scheduled to return for oral presentations on the 28th and
32 the 29th of January, and upon the completion of those, that
33 would be the completion of this phase of the hearing
34 regarding the evidence, and I believe that's the schedule.
35 Again just the, as far as confirmation for the witnesses from
36 the counsel from Abitibi, that might be appropriate just to
37 get that now.

38 MR. NOSEWORTHY, CHAIRMAN: Sure. Ms. Henley
39 Andrews, good morning.

40 MS. HENLEY ANDREWS, Q.C.: Good morning, Mr.
41 Chairman. That is correct with respect to Abitibi witnesses,
42 however, when we had an opportunity on the 18th of
43 December or the 19th of December to review with all of our
44 clients the industrial contract, and as was indicated in the
45 letter which accompanied it or certainly Ms. Greene's or Mr.
46 Young's comments, when the last version of the industrial
47 contract was filed, one of the industrial customers has
48 difficulty with the ceiling on the liability for service
49 provision in Article 9, and that's North Atlantic Refining.
50 The paper companies don't have any difficulty with the \$1
51 million ceiling. The nature of the operations at the refinery

52 and therefore the exposure, the financial exposure in the
53 event of a loss of energy due to negligence, that would
54 only be in those circumstances where it would be due to
55 negligence, North Atlantic Refining feels that the \$1 million
56 cap is too low. Mr. Mifflin has indicated that he would like
57 to provide evidence just on that point of the potential
58 exposure. He's getting the data to me today and I hope to
59 be in a position, with leave obviously from the Board at this
60 late point, to file that tomorrow, and we would then
61 propose that he would testify on Thursday, provided that
62 when people had had an opportunity to take a look at his
63 testimony, they felt that they had adequate time to prepare.

64 MR. NOSEWORTHY, CHAIRMAN: Okay, thank you.
65 That's something additional, I guess, to the schedule.
66 What I'll ask counsel to do is to ... I think your intention is
67 to probably meet with counsel sometime today, Mr.
68 Kennedy, is that correct, with the other parties?

69 MR. KENNEDY: Yes, that's correct, Chair. I was hoping to
70 be able to initiate a discussion with counsel regarding a
71 couple of matters, one of which is an application that's
72 before the Board, but certainly we can discuss the issues
73 regarding the industrial contracts at the same time and how
74 that should be handled.

75 MR. NOSEWORTHY, CHAIRMAN: With leave of the
76 Board, is that satisfactory? Okay, that's it. Thank you very
77 much. Are there any other preliminary matters, Mr.
78 Kennedy, please?

79 MR. KENNEDY: Not that I'm aware of, Chair, other than
80 the fact that there is an application that's been filed by
81 Newfoundland and Labrador Hydro, filed, the date escapes
82 me but it was the Friday before new year's.

83 MS. GREENE, Q.C.: December 28th.

84 MR. KENNEDY: December 28th. Thank you, counsel.
85 And with the Board's indulgence it was my intention to
86 canvass counsels, counsel for the parties to determine if
87 they had a response to that and, if so, how substantive it
88 would be for the purposes of trying to determine the
89 amount of time that should be allotted to deal with that
90 application and that I could report back to the panel on that
91 and we could set a time for it perhaps later in this week in
92 anticipation of trying to complete the evidence portion of
93 the hearing.

94 MR. NOSEWORTHY, CHAIRMAN: Thank you.

95 MR. KENNEDY: The only other thing I would ask, Chair,
96 is, with the panel's indulgence, if it was appropriate to sit to
97 4:30 today, which I think would be efficient use of the day,
98 again in an effort to try to complete Mr. Brushett's cross-
99 examination in time.

100 MR. NOSEWORTHY, CHAIRMAN: Certainly I think that

1 that's fine. We'd even go to five o'clock if that was
2 appropriate to try and finish this evidence, quite frankly,
3 this week on schedule and to ensure that it's timely for
4 everybody. That would be fine.

5 MR. KENNEDY: Well, perhaps we could do the same as
6 we were doing during the cost of service experts, which is
7 allow the counsel who's doing cross-examination at the
8 time at the end of the day to use their discretion in
9 extending beyond 4:30, if it ...

10 MR. NOSEWORTHY, CHAIRMAN: Absolutely, that's
11 fine.

12 MR. KENNEDY: ... if they feel that that's appropriate.

13 MR. NOSEWORTHY, CHAIRMAN: Thank you.

14 MR. KENNEDY: And that's, I believe, all the preliminary
15 matters I have at this particular time, Chair.

16 MR. NOSEWORTHY, CHAIRMAN: Are you in a position
17 to introduce your witness, Mr. Kennedy, please?

18 MR. KENNEDY: I am, Chair, thank you.

19 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.
20 Brushett.

21 MR. BRUSHETT: Good morning.

22 MR. NOSEWORTHY, CHAIRMAN: You're finally here,
23 looking forward to this, I'm sure. I wonder could you take
24 the Bible in your right hand, please, Mr. Brushett? Do you
25 swear on this Bible that the evidence to be given by you
26 shall be the truth, the whole truth and nothing but the
27 truth, so help you God?

28 MR. BRUSHETT: I do.

29 MR. NOSEWORTHY, CHAIRMAN: Thank you, sir, very
30 much. Please be seated.

31 COMMISSIONER SAUNDERS: Normally Mr. Brushett's
32 appearance means the end is near. *(laughter)*

33 MR. HUTCHINGS: Of the hearing. *(laughter)*

34 MR. NOSEWORTHY, CHAIRMAN: Oh my, thank you,
35 Mr., Commissioner Saunders. Your levity is welcome. You
36 may proceed, Mr. Kennedy, please.

37 MR. KENNEDY: Thank you, Chair. Mr. Brushett, you
38 have filed with the Board of Commissioners of Public
39 Utilities a report entitled, "The Financial Consultant's
40 Report of Newfoundland and Labrador Hydro for the 2001
41 General Rate Hearing," dated August the 15th, 2001. Do
42 you adopt that report in its entirety?

43 MR. BRUSHETT: I do.

44 MR. KENNEDY: You have filed supplementary evidence,
45 "The Newfoundland and Labrador Hydro 2001 General Rate
46 Hearing, Supplementary Evidence by Grant Thornton,"
47 dated December the 13th, 2001. Do you adopt that
48 supplementary evidence in its entirety?

49 MR. BRUSHETT: Yes, I do.

50 MR. KENNEDY: Thank you, Mr. Brushett. Chair, that
51 completes the direct examination. The witness is available
52 for cross-examination by Hydro's counsel.

53 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
54 Kennedy. I'll move now to Ms. Greene. Good morning,
55 Ms. Greene.

56 MS. GREENE, Q.C.: Good morning.

57 MR. NOSEWORTHY, CHAIRMAN: I'll ask you to begin
58 your cross-examination, please.

59 MS. GREENE, Q.C.: Thank you. Good morning, Mr.
60 Brushett.

61 MR. BRUSHETT: Good morning, Ms. Greene.

62 MS. GREENE, Q.C.: You also filed and completed a report
63 dated August 7th, 2001, on the 2000 year Hydro, is that
64 correct?

65 MR. BRUSHETT: Yes.

66 MS. GREENE, Q.C.: And I will be asking you a number of
67 questions on that report as well, and I note that your
68 counsel didn't ask you to adopt that as your evidence for
69 the purpose of this hearing but I assume that you did
70 complete the 2000 report which is actually dated July 24th,
71 2001. Is that correct?

72 MR. BRUSHETT: Yes, that ... I don't think there's a date on
73 the cover of that, Ms. Greene, but that would be about the
74 time that it was completed, I guess, 2000 Annual Review,
75 Annual Financial Review Report.

76 MS. GREENE, Q.C.: That's correct, and I was referring to
77 the date on the covering letter.

78 MR. BRUSHETT: Okay, yes.

79 MS. GREENE, Q.C.: So I will have a number of questions
80 for you on the 2000 report as well as the 2001 report, and
81 if we could look first at the 2000 report, Mr. O'Rielly. The first
82 thing I'd like to look at is the terms of reference on page one
83 of that 2000 report. One of the terms of reference was to
84 review Hydro's operations and administration expenses and
85 the other expenses listed in Section 3, is that correct?

86 MR. BRUSHETT: That is correct.

87 MS. GREENE, Q.C.: I'd like next to move to page 11 of the
88 same report. Actually, perhaps if you could just go back to
89 page 10, Mr. O'Rielly. Beginning on page 10, is that a
90 summary of your findings with respect to the costs that
91 were listed in Section 3 in the terms of reference?

1 MR. BRUSHETT: That would be ... it's essentially an
2 introductory section to that major section of the report but
3 it would be a summary, I guess, of the major findings, yes.

4 MS. GREENE, Q.C.: Now then to the next page, page 11,
5 and I would ask you, if you could, please, Mr. Brushett, to
6 read in the last paragraph on page 11.

7 MR. BRUSHETT: "Based on the results of our procedures,
8 nothing has come to our attention to indicate that the
9 operations and administration expenses, fuels, power
10 purchased and interest costs are imprudent or
11 unreasonable in relation to sales of power and energy,
12 however, as noted throughout this section of the report,
13 there are several expenses that are experiencing trends that
14 will require monitoring and will be subject to our review and
15 preparation for the 2001 fall rate hearing."

16 MS. GREENE, Q.C.: Thank you. And I wanted to explore
17 that conclusion or opinion you reach there in relation to the
18 expenses that were reviewed by your firm. Is it correct that
19 the next few pages of your report then deal in detail with
20 each of the categories of expenses that are listed in Section
21 3 of the terms of reference?

22 MR. BRUSHETT: Yes, that would be correct.

23 MS. GREENE, Q.C.: You mention that there were certain
24 expenses that were experiencing trends, and I believe you
25 made a similar comment in your December 13th
26 supplementary evidence. Could you please indicate what
27 those expense categories were?

28 MR. BRUSHETT: The individual expense categories would
29 all show some, some would show increases, some would
30 show decreases of course, and for the most part we would
31 attempt to obtain explanations as to why those trends or
32 those changes were occurring, but the several categories
33 that were certainly showing trends over the past number of
34 years would be certainly system equipment maintenance,
35 I believe, would have been one of the major categories
36 where there have been some significant increases that have
37 occurred over the last number of years, and another
38 category that comes to mind is certainly in the area of
39 professional fees where we've seen some significant
40 increases on a, certainly on a percentage basis in that
41 category, and it's difficult, I guess, from my perspective in
42 terms of the review, to get an appropriate level of comfort
43 that some of those are reasonable until you get, you know,
44 really deep into the detail of that.

45 *(9:45 a.m.)*

46 MS. GREENE, Q.C.: So the two that you mentioned in
47 terms of increasing trends just then were system equipment
48 maintenance and professional fees. I believe a third
49 category, if you review your report as well as your
50 supplementary evidence, that you express that point as

51 well was salaries and fringe benefits, that category.

52 MR. BRUSHETT: Yes. Well salaries and fringe benefits
53 would be the other category, you're right.

54 MS. GREENE, Q.C.: So those are the three categories that
55 were, you pointed out in your opinion were needed to be
56 reviewed in more detail, is that correct?

57 MR. BRUSHETT: Yes.

58 MS. GREENE, Q.C.: And now what I wanted to do was to
59 look at each of those three categories with you. The first
60 category that is first in terms of your report is salaries and
61 benefits, and looking at the 2000 report on page 12,
62 commencing on that page is a more detailed review of each
63 of the components of that category, is that correct, Mr.
64 Brushett?

65 MR. BRUSHETT: Yes.

66 MS. GREENE, Q.C.: And you would have reviewed all of
67 the categories of expenses that are included under that
68 broad category of salaries and benefits, is that correct?

69 MR. BRUSHETT: Yes, we would have had ... we would
70 have conducted a review of that and different levels of
71 review, I guess, for some of the categories, but certainly we
72 would have obtained explanations where we could for
73 changes in each of the categories.

74 MS. GREENE, Q.C.: And if you could, please, read in the
75 first paragraph under the column that begins with "While
76 salaries," because I think this explains the reason for the
77 increase.

78 MR. BRUSHETT: Yes. "While salaries and benefits
79 increased in almost every category in 2000, the majority of
80 the overall increase can be attributed to the following
81 categories: employee future benefits, \$2.243 million; hourly
82 wages, \$755,000; and fringe benefits, \$691,000. These three
83 categories account for \$3.689 million or 87 percent of the
84 overall increase."

85 MS. GREENE, Q.C.: And the rest of the section until page
86 15 goes into a detailed explanation of those, each of those
87 reasons, is that correct?

88 MR. BRUSHETT: To page 15, did you say, Ms. Greene?

89 MS. GREENE, Q.C.: Yes, that's correct. Commentary on
90 each of those.

91 MR. BRUSHETT: Yes. There may be some additional
92 commentary throughout those pages but essentially it's to
93 review the impact of those changes, yes.

94 MS. GREENE, Q.C.: Having gotten the explanation of each
95 of the categories of expenses, did you conclude that any
96 portion of the 2000 salary benefits costs were not prudent
97 or were not reasonable?

1 MR. BRUSHETT: I guess the conclusion is that based on
2 the explanations that we received, nothing came to our
3 attention to indicate that they were not or that they were
4 imprudent or unreasonable, and that's the basis of our
5 conclusion.

6 MS. GREENE, Q.C.: Turning now to the 2001 report, and I'd
7 like first to look at the terms of reference which are on page
8 one of that report, I'm looking at No. 7, is it fair to say that
9 Section 7 in the 2001 report which relates to the, what I will
10 call the revenue requirement, is essentially the same as the
11 same terms of reference we saw in your 2000 report?

12 MR. BRUSHETT: Yes, it would be essentially the same
13 objective.

14 MS. GREENE, Q.C.: Turning to page 25 of this report,
15 please ... actually it's 24, sorry. Here we find a similar
16 description of the category of salaries and benefits for 2001
17 and 2 that we had seen for 2000, is that correct?

18 MR. BRUSHETT: Yes. This would be similar in terms of
19 commentary as to the changes in those, in that expense
20 category.

21 MS. GREENE, Q.C.: And I wonder if you could, the lines
22 aren't number on your report, but if you could read the
23 paragraph that's halfway down the page that begins with
24 "Per review"?

25 MR. BRUSHETT: "Per review of Exhibit 3(A), the most
26 significant variances between 2001 and 2002 forecasts and
27 2000 actuals occur in the following categories of salaries:
28 increase in permanent salaries for 2001 and 2002, decrease
29 in temporary salaries for 2001 and 2002, decrease in
30 overtime for 2001 and 2002."

31 MS. GREENE, Q.C.: And then I won't ask you to read all of
32 the following, but then you went on to review the reasons
33 for the increase in permanent salaries, is that correct?

34 MR. BRUSHETT: Yes.

35 MS. GREENE, Q.C.: And over on page 25 I'd like to refer to
36 your conclusion on the increase in permanent salaries, and
37 it begins with the part that begins, "The net difference,"
38 and I wonder if you could just read actually half a sentence
39 really beginning the second last line after the word "and,"
40 which in my view was your conclusion on that category of
41 expense.

42 MR. BRUSHETT: Right at the end of the second last line?

43 MS. GREENE, Q.C.: Yes. If you like you can read the
44 whole paragraph to yourself first and if you want to read
45 any additional comments feel free to do so.

46 MR. BRUSHETT: The final part of that last sentence is that
47 the forecast 2001 permanent salaries appear reasonable, and
48 that's made within the context of our review where I guess

49 we've looked at the reconciliation of how the budgeting
50 and forecasting has been done for the 2001 salaries, where
51 we start with the permanent salaries for 2000 and try to
52 reconcile what the major changes would be in that expense
53 category. It does come down to a net difference of
54 \$400,000, which is a potential over-budgeting, but we do
55 acknowledge that there's a decrease in the forecast
56 temporary salaries. Overall it appeared reasonable, and I
57 guess the standard that we're trying to apply is
58 reasonableness and prudence overall, which is sort of a
59 very high level general standard and, so that everyone
60 understands, I guess, that's the context in which the review
61 was undertaken. That wouldn't necessarily, Ms. Greene, I
62 guess, lead you to a definitive conclusion as to efficiencies
63 or whether there were other efficiencies there. That's sort
64 of, I guess, a normal management day-to-day thing where
65 you would be exploring (phonetic) and looking for
66 efficiencies in terms of your operations, but on an overall
67 basis there's nothing that came to our attention to indicate
68 anything was unreasonable or imprudent.

69 MS. GREENE, Q.C.: And if anything had come to your
70 attention I assume you would recommend that it would not
71 be allowed, such as the spousal travel?

72 MR. BRUSHETT: That would be correct, yes.

73 MS. GREENE, Q.C.: Where you did not recommend that
74 the spousal travel be allowed as a reasonable expense, is
75 that correct?

76 MR. BRUSHETT: Well, I guess our recommendation is that
77 as a regulated expense the spousal travel, you know ...
78 again that would be the decision of Hydro management as
79 to whether they allowed it per se. It's ... from a rate-setting
80 point of view, it should not be regulated. That's the
81 recommendation.

82 MS. GREENE, Q.C.: And looking to the next paragraph, a
83 similar, you made a similar conclusion with respect to the
84 2002 forecast permanent salaries, is that correct?

85 MR. BRUSHETT: Yes.

86 MS. GREENE, Q.C.: As you did with respect to 2001.

87 MR. BRUSHETT: Yes, we did, and there is no similar
88 reconciliation because of, I guess, the sensitivity as to the
89 forecast that Hydro has made with respect to increases for
90 union and non-union employees, but we have reviewed a
91 similar reconciliation and our conclusion was that they
92 were reasonable based on that reconciliation. It certainly
93 covered off similar adjustments and there was nothing
94 came to our attention that indicated there was any problem.

95 MS. GREENE, Q.C.: So again for 2002, you did not
96 recommend or find that any of the expenses included in this
97 category were unreasonable or not prudent or should not

1 be included as a regulated expense?

2 MR. BRUSHETT: That's correct.

3 MS. GREENE, Q.C.: I believe the next category that you
4 referred to as indicating (inaudible) trend was system
5 equipment maintenance, is that correct?

6 MR. BRUSHETT: That's correct.

7 MS. GREENE, Q.C.: And I'd like to look first at your 2000
8 report where you reviewed this category of expense, and it
9 would be on page, beginning on page 16 of the 2000 report.
10 Again, with respect to system equipment maintenance, a
11 similar approach was taken with respect to salaries, Mr.
12 Brushett, and that you reviewed the detail provided of each
13 of the expense categories under that broad heading of
14 system equipment maintenance, is that correct?

15 MR. BRUSHETT: Yes, that's correct, and we would have
16 looked at it on a, sort of a departmental basis as well, just
17 to get to the detail to be able to assess the explanations
18 and so on that were given for the variances that occurred
19 from year to year.

20 MS. GREENE, Q.C.: And with respect to your 2000 report,
21 what was your conclusion with respect to this category?

22 MR. BRUSHETT: There were some concerns with this
23 category and unlike the salaries there was certainly no,
24 unless you can point something out to me on the screen, I
25 think the conclusion was that there was concern with this
26 and that further review was required on certain, in certain
27 areas.

28 MS. GREENE, Q.C.: And those certain areas, I believe, on
29 page 17, you referred to the increasing expenses at the
30 Holyrood thermal plant as your area of concern.

31 MR. BRUSHETT: Yes, that was the primary area of concern
32 with respect to system equipment maintenance. There were
33 fluctuations up and down with respect to Holyrood and
34 there has been over a number of years and it's very difficult
35 to assess what an appropriate normalized level of
36 expenditure would be, I guess, in that area.

37 MS. GREENE, Q.C.: So when I read this report and as well
38 the 2001 report, my conclusion of your conclusion was that
39 the, your concern was primarily with the Holyrood thermal
40 plant maintenance costs, is that correct?

41 MR. BRUSHETT: That was the only area where we really
42 identified significant fluctuations where we couldn't get a
43 certain comfort level, I guess, with respect to whether they
44 were reasonable or prudent or not. There were trends in
45 other categories as well but that was really the focus of our
46 comments, you're right, and certainly in the 2000 report.

47 MS. GREENE, Q.C.: And with respect to Holyrood, have
48 you any engineering expertise with respect to the

49 maintenance that would be required for a thermal plant of
50 that age?

51 MR. BRUSHETT: No, you're absolutely correct, I would
52 not. I guess my focus has been from a financial point of
53 view. Assessing whether the changes and the
54 explanations given by management are reasonable in the
55 circumstances, having knowledge that there are certainly,
56 it's an aging plant and there are, from an engineering point
57 of view, I'm sure there are quite, I was going to say detail,
58 I guess, I don't know if that's the right word, but certainly
59 quite a lot of effort that goes into scheduling and
60 maintenance and determining what maintenance is required
61 and so on. I acknowledge all that but from an overall
62 financial point of view, the inconsistencies that occur there
63 are very difficult to assess the reasonableness, I guess,
64 overall of the expenditures.

65 MS. GREENE, Q.C.: From a financial perspective.

66 MR. BRUSHETT: From a financial perspective, that's
67 correct.

68 MS. GREENE, Q.C.: Did you recommend that any of the
69 expenses in the 2000 category of system equipment
70 maintenance not be allowed as reasonable or prudent
71 regulated expense?

72 MR. BRUSHETT: No, we did not.

73 MS. GREENE, Q.C.: I'd like now to look at your 2001 report
74 on the same topic of system equipment maintenance, and
75 it begins on page 28 of your 2001 report where again you
76 review the categories and on page 29 you outline your
77 conclusion, and I wonder if you could read the last
78 paragraph on page 29, please?

79 MR. BRUSHETT: "Except for our comments above on
80 annual routine maintenance for the Holyrood thermal plant,
81 based on the results of our review, nothing has come to our
82 attention to indicate that the system equipment
83 maintenance costs for 2002 are unreasonable."

84 MS. GREENE, Q.C.: So that was a similar conclusion to
85 what you just outlined to me in your previous answer
86 about this topic, is it?

87 MR. BRUSHETT: That's similar to the concerns in 2000,
88 and actually would have arisen in prior years as well but in
89 2000 you're correct, what we just reviewed.

90 MS. GREENE, Q.C.: And your concern relates primarily to
91 the Holyrood thermal plant.

92 MR. BRUSHETT: Holyrood thermal plant and the
93 maintenance costs associated with that.

94 (10:00 a.m.)

95 MS. GREENE, Q.C.: The third category that you have

1 indicated had an increasing trend in professional services.
2 MR. BRUSHETT: Yes.

3 MS. GREENE, Q.C.: And if we could look at the 2000 report
4 on page 20 to look at your comments on this category?
5 Thank you. Again as with the other categories you outline
6 the reasons for, or the main contributors to this category of
7 expense on page 20, is that, then over to 21, is that correct?

8 MR. BRUSHETT: Yes.

9 MS. GREENE, Q.C.: Did you obtain explanations of the
10 increases in professional service category shown there on
11 page 20?

12 MR. BRUSHETT: Yes, we have obtained explanations and
13 have conducted detailed analysis of that.

14 MS. GREENE, Q.C.: And some of that additional
15 explanation is provided on page 21, is that correct?

16 MR. BRUSHETT: Yes. Page 21 is really almost a listing of
17 some of the significant projects included in that cost
18 category and was really provided in the report to illustrate
19 the types of things that were ... it's not meant to be a
20 complete analysis and I don't think it does tie back into the
21 totals that are there. It was to highlight some of the
22 significant items.

23 MS. GREENE, Q.C.: And it demonstrates that you had
24 gotten additional detail of some of the expense categories,
25 is that correct?

26 MR. BRUSHETT: Yes, that is correct.

27 MS. GREENE, Q.C.: Having gotten a detailed explanation
28 did you recommend that any of the 2000 expenditures
29 under the category of professional services not be included
30 as a reasonable or prudent regulated expense?

31 MR. BRUSHETT: Nothing came to our attention to
32 indicate that any of these were unreasonable or imprudent
33 in terms of the review and the inquiry and analysis that we
34 conducted, you're correct. The ...

35 MS. GREENE, Q.C.: I want ...

36 MR. BRUSHETT: I'm sorry.

37 MS. GREENE, Q.C.: Go ahead.

38 MR. BRUSHETT: The difficulty, if you read through, and
39 I was trying to find the explanations that were here, some
40 of the difficulty is not that an individual project was
41 unreasonable or imprudent, and it would be very difficult,
42 as you I'm sure would agree with me, for us as financial
43 consultants, to indicate whether an engineering study was
44 imprudent in terms of what its objective was and what the
45 outcome was. The concern is with the trend that's here and
46 whether all of the studies are required and whether there are
47 certain things that can be deferred or scheduled at different
48 times in terms of controlling the overall level of expenditure
49 in this category. I think that's really the focus of what our
50 concerns are with respect to professional fees.

51 MS. GREENE, Q.C.: Could I just go back to the terms of
52 reference in the 2000 report, please, Section 3, page 1? And
53 I wonder if you could just read the first sentence in that
54 terms of reference in Section 3?

55 MR. BRUSHETT: "Conduct an examination of operations
56 and administration expenses, fuels, power purchased,
57 depreciation and interest to assess the reasonableness and
58 prudence in relation to sales of power and energy."

59 MS. GREENE, Q.C.: And that is what you undertook to do.

60 MR. BRUSHETT: Oh, yes, it is.

61 MS. GREENE, Q.C.: The 2001 report with respect to system
62 equipment maintenance on page 34 ...

63 MR. BRUSHETT: I'm sorry, what's the reference, Ms.
64 Greene, to system equipment maintenance on page ...

65 MS. GREENE, Q.C.: I have the wrong page reference here,
66 sorry. It's actually page 29. And again ... sorry, it was
67 professional services commentary. We hadn't finished that
68 in the 2001 report, and again that was starting on page 33
69 of the 2001 report, sorry, and I just wanted you to outline
70 or to allow you to see that you've outlined a similar
71 conclusion on page 34 as you've just outlined to the Board,
72 which is the increasing trend of professional services, and
73 that is your third category and the last category where you
74 had indicated an increasing trend that should be monitored,
75 is that correct?

76 MR. BRUSHETT: In the third paragraph? I'm sorry, I ...

77 MS. GREENE, Q.C.: Your conclusion actually is on page 34
78 on professional ...

79 MR. BRUSHETT: Yes, okay.

80 MS. GREENE, Q.C.: ... services, right?

81 MR. BRUSHETT: Yes.

82 MS. GREENE, Q.C.: And it's in the last paragraph before
83 travel and conferences.

84 MR. BRUSHETT: Yes. Yeah, that's the basis of the
85 conclusion that's carried forward, I guess.

86 MS. GREENE, Q.C.: But again with respect to your 2001
87 report, there were no 2001 or 2002 expenditures in the
88 category of professional services that you recommended
89 not be included as a reasonable or prudent regulated
90 expense, was there?

91 MR. BRUSHETT: That is correct.

- 1 MS. GREENE, Q.C.: I just wanted to briefly look now at
2 some of the attachments to your 2001 report. I found it
3 helpful in putting these, all of the categories of expenses
4 into context, and the first one I wanted to look at was
5 Exhibit 5(A) of the 2001 report. Can you explain, Mr.
6 Brushett, what Exhibit 5(A) demonstrates?
- 7 MR. BRUSHETT: 5(A) is a graphical illustration of the
8 comparison of total cost of energy to kilowatt hours sold
9 and used, and total cost of energy includes all operating
10 costs in addition to depreciation and fuel, purchased
11 power, interest expense and the margin or the net income
12 earned, so it's essentially the revenue requirement on it, the
13 actual revenue requirement for the years and the forecast
14 revenue requirement for 2001, 2002.
- 15 MS. GREENE, Q.C.: As filed with the original application,
16 just ...
- 17 MR. BRUSHETT: That's correct, yes.
- 18 MS. GREENE, Q.C.: Now if we could turn to the next page,
19 which is Exhibit 5(B), which also has a total cost of energy
20 per kilowatt as a heading in the graph, but how is that
21 different from Exhibit 5(A)?
- 22 MR. BRUSHETT: 5(B) excludes the cost of fuel from the
23 total cost of energy to be able to isolate, I guess, the impact
24 of that particular item on the analysis.
- 25 MS. GREENE, Q.C.: And what does the table demonstrate,
26 the Exhibit 5(B)?
- 27 MR. BRUSHETT: Well, it shows a decreasing trend from
28 1998 to 2002 in terms of the cost per kilowatt hour and that's
29 attributed to, if you look at the table really, it would be the
30 decrease in interest and the decrease in margin would
31 contribute quite a bit to that because of the decreasing
32 trends in those two categories.
- 33 MS. GREENE, Q.C.: That it shows it for 2002, the lowest
34 cost of energy per kilowatt hour for any of the years shown
35 on the graph.
- 36 MR. BRUSHETT: Excluding the fuel, yes.
- 37 MS. GREENE, Q.C.: Excluding fuel, that's correct. Now the
38 next table that I wanted to look at was 6(C), was it 6 or ...
39 it's the pie charts that are attached where it shows the
40 comparison of cost as a percentage of total revenue, 6(C).2,
41 in ...
- 42 MR. BRUSHETT: 5(C).2, Ms. Greene.
- 43 MS. GREENE, Q.C.: 5, is it? And again I wonder if you
44 would explain what these charts indicate?
- 45 MR. BRUSHETT: Well, these charts would show from '97,
46 1997 to 2002 the breakdown or the percentage that each
47 cost category, including margin, would be of the total
48 revenue requirement, and it shows it again in a graphical
49 form in a pie chart.
- 50 MS. GREENE, Q.C.: And would show again that these
51 categories of cost have been decreasing from 2000, in 2002
52 versus 2001, 2000, is that correct?
- 53 MR. BRUSHETT: Which category are you referring to, Ms.
54 Greene, other costs?
- 55 MS. GREENE, Q.C.: Other costs, the total of other costs.
- 56 MR. BRUSHETT: Yes, other costs as a percentage of the
57 total revenue requirement is decreasing.
- 58 MS. GREENE, Q.C.: And what is that category of other
59 costs? Would it be fair to categorize it as Hydro's
60 controllable costs, it excludes interest margin, depreciation,
61 fuel and power purchased?
- 62 MR. BRUSHETT: That is correct, and I think it's been
63 referred to throughout, several times throughout the
64 hearing as controllable and you would expect those to be
65 the costs that, under control of management more so than
66 the others, yes.
- 67 MS. GREENE, Q.C.: The charts show decreasing trend in
68 the controllable costs since '99, is that correct?
- 69 MR. BRUSHETT: There is, in terms of the percentage of
70 the total revenue requirement, yes, from 2000 at 32 percent,
71 it decreases to 28 percent, although the total absolute
72 dollar amount of those costs are increasing. That was back
73 on the 5(A), I believe.
- 74 MS. GREENE, Q.C.: Yes. And the last schedule, which is
75 a similar one, I think it's Exhibit 5(D).2, which illustrates the
76 same point in a different way, is that correct?
- 77 MR. BRUSHETT: Yes, yes.
- 78 MS. GREENE, Q.C.: And can you explain what this chart
79 shows, Mr. Brushett?
- 80 MR. BRUSHETT: This is just a line graph that shows the
81 trend from 1997 to 2000 of other costs, and this is not total
82 revenue requirement as you saw in the other schedules.
83 This is the total of other costs including the salaries.
- 84 MS. GREENE, Q.C.: And again it shows the declining trend
85 as a percentage.
- 86 MR. BRUSHETT: A declining trend on a kilowatt hour
87 basis, yes.
- 88 MS. GREENE, Q.C.: I'd like now to turn to your
89 supplementary evidence of December 13th on the topic of
90 controllable operating and maintenance costs, and that
91 begins on page four of your supplementary evidence.
92 Beginning on line 21 you refer to the fact that the Board
93 ordered a productivity allowance for Newfoundland Power

1 in 1996, is that correct?

2 MR. BRUSHETT: That's correct.

3 MS. GREENE, Q.C.: And what happened at Newfoundland
4 Power's 1998 hearing with respect to the productivity
5 allowance?

6 MR. BRUSHETT: There was no productivity allowance
7 ordered in '98, if that's what you're asking. To my
8 knowledge there was no ...

9 MS. GREENE, Q.C.: And do you know if the Board
10 specifically dealt with the issue?

11 MR. BRUSHETT: I am sure the Board considered it. I
12 would expect they would have considered it in the context
13 of the overall level of operating expenses, but in the report
14 itself and in the order, I don't think it was specifically
15 referenced, no.

16 MS. GREENE, Q.C.: So it wouldn't surprise you, if I refresh
17 your memory, the fact that the Board specifically rejected
18 the application for productivity allowance in 1998?

19 MR. BRUSHETT: That would be the outcome, I guess, if,
20 the fact that it wasn't ordered, yes.

21 MS. GREENE, Q.C.: As we've just reviewed with you, you
22 did not recommend that any of the expenses in 2000, 2001
23 or 2002, be not included as reasonable prudent regulated
24 expenses, is that correct?

25 MR. BRUSHETT: The conclusion that we have made is
26 that, based on the results of our review and our
27 examination of those individual cost categories, nothing
28 has come to our attention to indicate that any of those
29 expenses are unreasonable or imprudent in terms of the
30 operation of the utility.

31 *(10:15 a.m.)*

32 MS. GREENE, Q.C.: I wanted now to turn to another
33 category and that's the Rate Stabilization Plan, and if we
34 could look back to the 2000 report, please, again to the
35 terms of reference, this time to page two, and I'd ask you to
36 read number six into the record, please.

37 MR. BRUSHETT: "Conduct an examination of the changes
38 to the Rate Stabilization Plan to assess compliance with
39 Board directives."

40 MS. GREENE, Q.C.: And I understand from your report
41 that you did review the Rate Stabilization Plan activity as a
42 result of, as part of your 2000 review, is that correct?

43 MR. BRUSHETT: Yes, that's correct.

44 MS. GREENE, Q.C.: And I'd like you to now turn to page 33
45 of the 2000 report and I'd ask you to read your conclusion
46 into the record, please.

47 MR. BRUSHETT: "Based upon our review, we report that
48 the adjustments made to the RSP in 2000 are reasonable and
49 it has been operating in accordance with Board directives."

50 MS. GREENE, Q.C.: And the review that was undertaken
51 for the purpose of the 2000 review was of the actual activity
52 that had occurred in the Plan in relation to existing Board
53 recommendations, is that correct?

54 MR. BRUSHETT: That's correct, in terms of the
55 methodology and the charges to the plan, yes, and the
56 recoveries.

57 MS. GREENE, Q.C.: In the 2001 report I'd like to turn to that
58 report on the same topic of the Rate Stabilization Plan, and
59 again if we look at the terms of reference, page two, I
60 wonder if you could read number 11 on page two into the
61 record, please?

62 MR. BRUSHETT: "Review the Rate Stabilization Plan,
63 including the rebase of data and the Company's request to
64 increase the cap for Newfoundland Power to \$100 million."

65 MS. GREENE, Q.C.: So is it fair to say that your review this
66 time was a bit broader in the sense that you were also
67 looking at recommended changes or changes proposed by
68 Hydro to the RSP?

69 MR. BRUSHETT: Yes, yes, in terms of the rebasing of data
70 and the increase in the cap, in particular those are
71 referenced there.

72 MS. GREENE, Q.C.: Your review of the Rate Stabilization
73 Plan commences on page 43 of the 2001 report. In your
74 2001 review, did anything come to your attention with
75 respect to the application of the methodology of the RSP
76 that would have changed the conclusion outlined in your
77 2000 report?

78 MR. BRUSHETT: I'm not sure. The conclusion being that
79 it was in accordance with, in compliance with the Board
80 directives?

81 MS. GREENE, Q.C.: Yes, that's correct.

82 MR. BRUSHETT: No, but I guess the changes that were
83 being proposed were not, are being, are part of the
84 application, so there's no Board directives with respect to
85 the implementation of the proposed changes, so we
86 wouldn't be able to draw the same conclusion as we did in
87 2000 that it's in accordance with Board directives. I'm not
88 sure I understand your question.

89 MS. GREENE, Q.C.: I just wanted to make sure that in
90 doing the additional work in 2001 nothing had come to your
91 attention that would have caused you to change your 2000
92 opinion. I recognize it's with respect to how the Plan had
93 operated, not with respect to the proposed changes.

94 MR. BRUSHETT: No, nothing did come to our attention to

1 indicate there was anything incorrect in the 2000, that's
2 correct.

3 MS. GREENE, Q.C.: And nothing has come to your
4 attention throughout the course of this hearing, is that
5 correct, because you made no reference to it in your
6 supplementary evidence?

7 MR. BRUSHETT: Not in terms of the scope of the review
8 that we undertook, no, no.

9 MS. GREENE, Q.C.: Looking at now some of your evidence
10 with respect to the proposed changes, the first one that I
11 wanted to explore with you is the increase in the cap.

12 MR. BRUSHETT: Yes.

13 MS. GREENE, Q.C.: And to do that I'd like to look at your
14 supplementary evidence of December 13th, and that
15 begins, your commentary on the cap begins on page seven
16 of your supplementary evidence, and I just wonder if you
17 could, Mr. Brushett, to ensure everyone understands your
18 recommendation, outline what your recommendation is as
19 contained, well it's really contained on page eight but your
20 commentary begins on page seven, so if you could, please,
21 outline what you're recommending to the Board with
22 respect to the cap, the proposed increase in the cap.

23 MR. BRUSHETT: The conclusion or the recommendation
24 that we are presenting in this supplementary evidence
25 really starts at line four on page eight, and based upon the
26 commentary we have in the preceding page as well as the
27 review of the evidence and discussion and so on
28 throughout the hearing, we're recommending that the Board
29 approve a temporary or an interim increase in the retail cap
30 for the Plan at this time, but the cap should be set in
31 reference to the revised projected peak balance of the retail
32 plan over the 2002 and 2000 (*sic*) time period as opposed to
33 the \$100 million requested by Hydro. I believe there is a ...
34 and if I can explain the basis for that, that recommendation.

35 MS. GREENE, Q.C.: Yes, I'd like you to, thank you.

36 MR. BRUSHETT: I believe there is a concern expressed by
37 a number of parties certainly about the growth of the RSP
38 in terms of the total dollars that are effectively deferred into
39 future years and that \$100 million would certainly be almost
40 a third of the total revenue requirement of the Utility, and
41 deferral of cost of that magnitude is certainly something
42 that should be of concern to, I'm sure it's a concern to
43 Hydro as well as to the Board and to the regulator, and it
44 really needs to be reviewed in probably more detail. Now,
45 the understanding is that Hydro is coming in in 2003 for
46 another rate application and I think it would be prudent for
47 the Board to approve a temporary increase in that cap until
48 such time as it can review the effectiveness and any other
49 approaches that can be taken with respect to the RSP. So
50 that's the basis and the context in which we recommend

51 only a temporary increase in the cap, and it should be set
52 in reference to what the forecast is over that short, shorter
53 time frame of 2002, 2003 period.

54 MS. GREENE, Q.C.: So just to explore with you that a bit
55 further, you're recommending that the cap be increased as
56 proposed by Hydro but that it would be a temporary
57 increase and not a permanent one. Is that a correct
58 statement of your recommendation on that part?

59 MR. BRUSHETT: Temporary in the sense that it should be
60 reviewed again, and the next paragraph actually refers to
61 the Board having the opportunity to review it again within
62 a reasonable time frame, temporary in the sense that until
63 there's more in-depth review probably of the operating
64 mechanisms and the recoveries of the plan, that it be
65 temporary in that sense, yes.

66 MS. GREENE, Q.C.: And the size of the cap, the amount of
67 the cap, how do you suggest that it be set?

68 MR. BRUSHETT: I believe there are revised forecasts for
69 the, certainly for 2002, with respect to the balance in the
70 retail, in the RSP overall and the retail portion of the Plan,
71 and I think it should be set in reference to that, and I
72 believe the revised projection is somewhere in the range of
73 \$65 million to the end of 2002, so I think it should be set in
74 reference to that, not at \$65 million necessarily because
75 there has to be some room for ... nothing is precise, it's all
76 forecasting. But maybe a 70 or \$75 million cap at this point
77 and if circumstances were such that Hydro felt it was going
78 to exceed that, then maybe they should come forward and
79 do a more detailed review, would be an indication that
80 things certainly weren't unfolding as projected today, so I
81 think maybe it would be prudent to carry out further review
82 at that time.

83 MS. GREENE, Q.C.: Perhaps, Mr. Brushett, if we could for
84 everyone's benefit, you've referred to the response to PUB-
85 81, perhaps if we could bring that up on the screen? And
86 if you ... just to ensure that everyone is with us, if you
87 could read the question that's there, Mr. Brushett?

88 MR. BRUSHETT: "The RSP follow-up to PUB 78. Please
89 provide the schedules, including the revised split for retail
90 and industrial for 2001 and 2002 that was included in your
91 response to PUB-78, incorporating the changes that result
92 in the No. 6 fuel prices that were provided by Mr.
93 Henderson's supplementary evidence filed on Wednesday,
94 December 12th, 2001."

95 MS. GREENE, Q.C.: Okay. So this is the update that you
96 referred to where Hydro provided a response to the answer
97 of the revised forecast of the RSP balance for 2002. Mr.
98 O'Rielly, if you could scroll down, please, till we see the
99 actual, the schedule, which is the next page? And that is
100 2001 where we see the balance at the end of the year in the

1 retail plan is ... could you read it there, please, Mr. Brushett,
2 "December"?

3 MR. BRUSHETT: "December balance 2001, \$60,356,209."

4 MS. GREENE, Q.C.: Okay. And the next page, Mr. O'Rielly,
5 page (inaudible). And again, Mr. Brushett, this is the RSP
6 balance for 2002 revised, is that correct?

7 MR. BRUSHETT: That's correct, forecast, revised forecast
8 balance as of December 2002, retail plan, \$64,947,655.

9 MS. GREENE, Q.C.: So we know what the revised 2002
10 balance is. You're suggesting, if I understand your
11 recommendation, that looking at what the forecast is for
12 2002 and 2003, that we have some guide as to what the cap
13 on the RSP would be but that it would not necessarily be
14 tied specifically to what the forecast is recognizing it's only
15 a forecast, is that correct?

16 MR. BRUSHETT: That would be correct. I certainly
17 wouldn't be recommending setting at, you know, at 65 ...

18 MS. GREENE, Q.C.: 64 ...

19 MR. BRUSHETT: \$65 million and not ... forecast is
20 obviously subject to some degree of projection and will
21 change, so it should be said in reference to that, I guess the
22 comment was more that setting it at \$100 million when
23 you're now forecast to be at 65 is probably not appropriate,
24 should review that in reference to the revised forecast.

25 MR. NOSEWORTHY, CHAIRMAN: Excuse me, Ms.
26 Greene, we're going to have to take a break now, if that's
27 okay. Actually we'll take a 15-minute break early this
28 morning if that's okay, please. Thank you.

29 (10:25 a.m.)

30 (break)

31 (10:50 a.m.)

32 MR. NOSEWORTHY, CHAIRMAN: Thank you.
33 (inaudible) believe there's somebody doesn't (inaudible).
34 Thank you very much. We will proceed on with the cross-
35 examination, Ms. Greene. I can't promise there won't be
36 another interruption but we'll certainly go as long, I'm sure,
37 as we possibly can. Thank you.

38 MS. GREENE, Q.C.: That's fine. Thank you, Mr. Chair. I
39 suffered the stomach flu last Thursday and Friday so I'm
40 quite sympathetic. Mr. Brushett, we were talking about the
41 Rate Stabilization Plan before the break and I wanted to
42 continue that discussion and to discuss with you your
43 proposal or your alternatives to recover the balance in the
44 Plan which you have outlined in your December 13th
45 evidence, and I wonder if you could, please, summarize the
46 two alternatives you have suggested to the Board for
47 consideration that are outlined on page nine of your

48 December 13th evidence?

49 MR. BRUSHETT: Yes. Just so you understand, I guess,
50 the, this section of the supplementary evidence deals with
51 certain alternatives to recovering the balance in the Plan
52 that the Board may wish to consider. You'll note there's
53 really no recommendation. I think that the idea was that the
54 Board should at least have some options available to them
55 that they may be able to consider if it was their desire to
56 pursue that. The options that we've put forward are really
57 examples or alternatives that, to the existing recovery
58 methodology, and the first, referenced on page nine of the
59 supplementary evidence, is to, titled (A) at line four, it says,
60 "Freeze the balance of the Plan and recover, continue to
61 recover that balance," which is the balance that's arising up
62 to the end of December 2001, "using the three-year
63 declining balance method and then to alter the recovery for
64 future increases in the Plan using a straight-line basis over
65 a two-year period." The second option that they may want
66 or alternative they may want to consider is to, and this will
67 have the impact of accelerating the recovery, is to recover
68 it over a, the existing balance over a three-year period and
69 use a two-year period for any subsequent additions to the
70 Plan, the whole basis of these two alternatives is, or the
71 effect is to increase or accelerate the recovery.

72 MS. GREENE, Q.C.: And the only difference between the
73 two is the change in the declining, from the declining
74 balance method in (A) to a straight-line basis in (B) for the
75 current outstanding balance as of December 31, is that
76 correct?

77 MR. BRUSHETT: That is correct. One of the impacts of
78 using declining balance of course is that it, while it's meant
79 to be a three-year recovery or certainly conceptually it
80 appears to be a three-year recovery, using the declining
81 balance method, makes it much longer than that.

82 MS. GREENE, Q.C.: And I believe you've illustrated the
83 impact of that in Exhibit 4 attached to your supplementary
84 evidence, is that correct?

85 MR. BRUSHETT: Yes, that's correct.

86 MS. GREENE, Q.C.: I wonder if we could turn to that,
87 please? Mr. Brushett, we had a little bit of difficulty in
88 understanding the Exhibit 4 and I wondered if you could
89 explain under Option "A," which is the third column in, the
90 assumptions that you use for the retail adjustment for July
91 1, 2002?

92 MR. BRUSHETT: July 1 of 2002?

93 MS. GREENE, Q.C.: Yes, and then for 2003. What
94 assumptions did you use for the RSP retail adjustment?
95 They're set out above. For example, in "B" you say what
96 the retail sales are for December 2000, for 2001 and 2002,
97 and with respect to retail sales, what forecast energy sales,

1 what energy sales were used in doing the RSP retail split in
2 your Exhibit 4 there?

3 MR. BRUSHETT: In Exhibit 4. It should ... I can check the
4 calculations, if you wish, but for Option "A," July 1, 2002,
5 is to take the assumption of a \$65 million balance in the
6 Plan as of December 2001, divide that by three and the retail
7 sales number used for calculating the mill rate is the 4,475
8 gigawatt hours for the year ended December 31st, 2001, so
9 the math should work out. It would be one-third of \$65
10 million divided by 4,475 gigawatt hours.

11 MS. GREENE, Q.C.: And in doing, looking at that for 2002,
12 it appeared when we did the calculation that the energy
13 sales used was the 2001 energy sales, is that ...

14 MR. BRUSHETT: For 2002 recovery ...

15 MS. GREENE, Q.C.: Yes. The split was based on the 2001
16 sales.

17 MR. BRUSHETT: Yes, for the year ended December 31st,
18 2001.

19 MS. GREENE, Q.C.: Yeah, and you know ...

20 MR. BRUSHETT: And the balance was December 31st,
21 2001, which is a mil rate adjustment on July 1 of 2002.

22 MS. GREENE, Q.C.: Okay. So that is what you did in
23 Exhibit 4. You are aware that Hydro is proposing as one of
24 the changes in the Plan on a go-forward basis to use the
25 current year's forecast of energy sales as a basis for doing
26 the split.

27 MR. BRUSHETT: Uh hum.

28 MS. GREENE, Q.C.: So if that were done it would change
29 some of the numbers in your Option "A," is that correct?

30 MR. BRUSHETT: Yes. I haven't done those calculations
31 but you're right, yes, it would.

32 MS. GREENE, Q.C.: And with respect to the period of time
33 that you used in Exhibit 4 for the ... how long did you
34 assume that the 4.84 mils would be in effect in 2002?

35 MR. BRUSHETT: In 2002 it would be in effect from July 1
36 to the end of 2002 as well as from January 1 of 2003 to June
37 30th of 2003.

38 MS. GREENE, Q.C.: Yes, but it would only be in effect for
39 six months in 2002, wouldn't it?

40 MR. BRUSHETT: That's correct.

41 MS. GREENE, Q.C.: And I guess that's where we had some
42 of the difficulty in doing the numbers, so I would like to
43 circulate a new Exhibit 2, and I would take you through
44 some of the assumptions when we do that. Now that
45 everybody has a copy, Mr. Brushett, I just wanted to
46 explain what this is where this is the first time you've seen
47 it.

48 MR. BRUSHETT: Yes.

49 MS. GREENE, Q.C.: So we tried to reproduce your
50 calculations in Exhibit 4 and had some difficulty with the
51 numbers in Option "A" shown in your Exhibit 4, and I think
52 the first reason for the changes, as I've indicated and as
53 you've just testified, in preparing Exhibit 4 you used the
54 2001 sales to determine the 2002 customer splits in the RSP,
55 is that correct?

56 MR. BRUSHETT: Our assumption is that the retail balance
57 in the Plan is \$65 million at the end of 2001 and \$70 million
58 at the end of 2002.

59 MS. GREENE, Q.C.: And then in ...

60 MR. BRUSHETT: When you're referring to the customer
61 splits, what ...

62 MS. GREENE, Q.C.: Yes, because you had to do the retail
63 adjustment, you see, that's shown up in Option "A."

64 MR. BRUSHETT: Yes. Well, it's based on the \$65 million
65 as being the retail balance.

66 MS. GREENE, Q.C.: Okay. And I guess what this exhibit is
67 doing is using the same numbers but using, as you can see,
68 using assumptions stated revised as follows, we've
69 indicated what the two changes are as we have been able
70 to determine, and I know you're seeing this for the first time
71 so ...

72 MR. BRUSHETT: Yes.

73 MS. GREENE, Q.C.: ... it's subject to verification by you
74 obviously. We have used the 2002 sales forecast to
75 determine the 2002 recovery and that is Hydro's proposal
76 for a change in the RSP methodology on a go-forward basis
77 as you do the splits of the energy forecast sales for the
78 year, and the other one is the ...

79 MR. BRUSHETT: The splits with respect to the ...

80 MS. GREENE, Q.C.: Industrial and retail.

81 MR. BRUSHETT: The increases in the Plan, is that what ...

82 MS. GREENE, Q.C.: Right.

83 MR. BRUSHETT: Yes.

84 MS. GREENE, Q.C.: But when you get to the balance and
85 how you do, going to be doing it based on the ...

86 MR. BRUSHETT: Yes.

87 MS. GREENE, Q.C.: ... forecast energy for the ...

88 MR. BRUSHETT: Yes, I understand that and our example,
89 I guess, was much more simpler. It assumed ...

90 MS. GREENE, Q.C.: Yes.

1 MR. BRUSHETT: ... what the balances were going to be
2 without calculating splits based on what you're proposing.

3 MS. GREENE, Q.C.: And the only reason we're doing it, I
4 guess, is just to demonstrate that even with your Option
5 "A," the percentage of the increase, if we use the, I guess
6 the more detailed method calculation ...

7 MR. BRUSHETT: Yes.

8 MS. GREENE, Q.C.: ... would be a little bit lower than what
9 you've suggested.

10 MR. BRUSHETT: Yes, sure.

11 MS. GREENE, Q.C.: And the other there, in "B," the
12 second assumption that we changed is what the mill rate
13 adjustment would be for six months in 2002, and I guess
14 that's subject to check. I just ... if you could confirm
15 whether you agree with the calculations in the revised
16 Exhibit 4. We just wanted to understand the basis for your
17 ...

18 MR. BRUSHETT: Yes, sure.

19 MS. GREENE, Q.C.: Okay.

20 MR. BRUSHETT: I can undertake to ...

21 *(11:00 a.m.)*

22 MR. KENNEDY: Chair, this would be Hydro-2.

23 **EXHIBIT HYDRO-2 ENTERED**

24 MR. NOSEWORTHY, CHAIRMAN: Thank you, counsel.

25 MS. GREENE, Q.C.: So going back to ... as you're saying,
26 you're not making a specific recommendation to the Board,
27 is that correct, with respect to the, a changed recovery
28 method, but you're illustrating two different approaches for
29 the Board's consideration, is that correct?

30 MR. BRUSHETT: That's correct, yes. The alternatives, if
31 the Board having considered all of the evidence decided
32 that this was an area where they wanted to change, I guess
33 our objective here was to place several alternatives before
34 them so they could understand the impact of that type of
35 a change.

36 MS. GREENE, Q.C.: And Exhibit 4 that we just reviewed
37 illustrates what the impact of the changed recovery method
38 would be, is that correct?

39 MR. BRUSHETT: In terms of the mil rate adjustments that
40 would occur in subsequent years, yes.

41 MS. GREENE, Q.C.: I'd like now to turn to the topic of
42 Hydro's capital budget and I'd like first to look at your 2001
43 report at page 14 where you review the history of Hydro's
44 capital expenditures since '96, and I wondered was there
45 any reason why you included 1996 which was a year prior,

46 was a year that Hydro's capital budget wasn't regulated?

47 MR. BRUSHETT: No. There's a five-year history, as
48 basically we were looking for some extended history to be
49 able to work out an average. There's no reason other than
50 that.

51 MS. GREENE, Q.C.: Because under The Hydro Act the '96
52 budget was deemed to have been approved. Do you recall
53 that?

54 MR. BRUSHETT: Yes, that would be correct.

55 MS. GREENE, Q.C.: And were you ... I believe you were
56 present, at least for part of the evidence of Messrs.
57 Osmond and Roberts.

58 MR. BRUSHETT: Yes.

59 MS. GREENE, Q.C.: And did you hear their evidence with
60 respect to the change in approach of the capital budget
61 because of regulation?

62 MR. BRUSHETT: Yes, I did hear that and I guess my
63 understanding or interpretation of that is that with respect
64 to the way those projects are managed, the objective is to
65 try and complete the projects within the time frames that are
66 being submitted to the Board in terms of the application,
67 and really in terms of our review, we don't really take
68 exception or have a concern with the way the projects are
69 being managed, and as you've indicated before, not being
70 an engineer, it's not my area of expertise really to assess the
71 management of individual capital projects. It was more
72 again from the financial point of view. For various reasons
73 projects get delayed or deferred and that is really a common
74 occurrence, and the impact of that is that there is under
75 (inaudible).

76 MS. GREENE, Q.C.: And you're pointing out that the
77 average for the five-year period you've chosen there is a 15
78 percent variance.

79 MR. BRUSHETT: Correct.

80 MS. GREENE, Q.C.: Which is your conclusion on page 15
81 of that report. Are you familiar with how the Board treated
82 the similar issue for Newfoundland Power in 1996 and 1998?

83 MR. BRUSHETT: Yes.

84 MS. GREENE, Q.C.: In the 1996 hearing, and perhaps it
85 might be helpful for the other parties if ... I have a copy of
86 the extract of the Board order, to, and it might be helpful for
87 everybody if I distributed it at this time. Mr. Chair, I have
88 identified at the top of this extract that it is an extract
89 commencing on page 73 of the PUB Order No. 7 of 1996-
90 1997 and that it was issued with respect to a Newfoundland
91 Power application. I don't know, Mr. Brushett, if you've
92 had the opportunity to review it and see if it looks familiar
93 to you.

- 1 MR. BRUSHETT: Yes.
- 2 MS. GREENE, Q.C.: On page 74 at the top of the page,
3 would you agree that that schedule there sets out
4 experience of Newfoundland Power with respect to its
5 capital budget experience and its under (inaudible)?
- 6 MR. BRUSHETT: Yes, I accept that that's what that
7 represents. I wouldn't obviously be able to check the
8 details out but I accept that that's what that represents, yes.
- 9 MS. GREENE, Q.C.: Now we'll rely ... I'd like to refer to the
10 second paragraph on that page where we see the Consumer
11 Advocate provided argument that the traditional capital
12 (inaudible) rate amounted to 12 percent.
- 13 MR. BRUSHETT: Yes.
- 14 MS. GREENE, Q.C.: And if you could turn to the next page,
15 could you indicate what the actual order of the Board was,
16 given that experience?
- 17 MR. BRUSHETT: Would you like me to read it?
- 18 MS. GREENE, Q.C.: Yes, please, under "Board
19 Determination."
- 20 MR. BRUSHETT: Yes. "The Board orders that for rate-
21 setting purposes the 1997 capital expenditure budget be
22 reduced by four percent and that the 1997 depreciation
23 expense be reduced by \$40,000."
- 24 MS. GREENE, Q.C.: And that was in light of the historical
25 experience set out in page 74 of the order.
- 26 MR. BRUSHETT: Yes.
- 27 MS. GREENE, Q.C.: That was the 1996 hearing. I'd like now
28 to look at the '98 hearing, and I have a copy of that extract
29 to distribute at this time.
- 30 MS. HENLEY ANDREWS, Q.C.: Has the first one ... we
31 didn't mark the first one?
- 32 MR. KENNEDY: No, but it wouldn't be necessary, counsel.
33 It's a Board order. Similarly the one just handed out by
34 counsel for Hydro is a Board order, so ...
- 35 MS. GREENE, Q.C.: And again, Mr. Brushett, you'll see at
36 the top it's been identified as an extract from PUB Order No.
37 36 from 1998-99, concerning the Newfoundland Power '98
38 hearing, is an extract that begins on page 77.
- 39 MR. BRUSHETT: Yes.
- 40 MS. GREENE, Q.C.: And I don't think it's necessary to read
41 it all, but beginning there at the, under the heading,
42 "Discount of four percent versus ten percent."
- 43 MR. BRUSHETT: Uh hum.
- 44 MS. GREENE, Q.C.: And I wonder if you could just read
45 the second sentence that begins, "The Board's financial
46 consultant." I believe that was you at the time, Grant
47 Thornton.
- 48 MR. BRUSHETT: Yes.
- 49 MS. GREENE, Q.C.: Okay. Could you read that?
- 50 MR. BRUSHETT: So beginning with "The Board's
51 financial" ...
- 52 MS. GREENE, Q.C.: Yes.
- 53 MR. BRUSHETT: "The Board's financial consultants have
54 reviewed the variances in the capital budgets for the period
55 1992 to 1997 and conclude that the average over-budgeting
56 for all expenditure categories has ranged from 3.75 percent,
57 1993, to 19.04 percent in 1995, to give a total average
58 variance of 10.1 percent." References the Grant Thornton
59 Report, page 20.
- 60 MS. GREENE, Q.C.: Now if you could turn the page, so
61 you made a similar finding as you made with respect to
62 Hydro, that with respect to the actual level of the, what
63 you're calling the over-budgeting over a period of time, is
64 that correct?
- 65 MR. BRUSHETT: That is correct.
- 66 MS. GREENE, Q.C.: If you look to page 78 in the
67 highlighted section, which is the Board's finding, I wonder
68 if you could read the second sentence in the second
69 paragraph on page 78?
- 70 MR. BRUSHETT: "The Board accepts the position of the
71 Company that a four percent discount is reasonable and
72 will not require any further discounting of the capital
73 budget."
- 74 MS. GREENE, Q.C.: So in both of those cases there was a
75 discount applied that was lower than the actual over-
76 budgeting as reflected in the financial report, is that
77 correct?
- 78 MR. BRUSHETT: The Board had ordered in both those
79 situations, yes, a lower discount from what, the average of
80 the over-budget.
- 81 MS. GREENE, Q.C.: And I didn't take from your evidence
82 that you were making any specific recommendation, only
83 pointing out the implications, is that correct?
- 84 MR. BRUSHETT: That is correct.
- 85 MS. GREENE, Q.C.: I'd like now to turn to the topic, Mr.
86 Brushett, of the Holyrood efficiency factor, which you dealt
87 with at length, or was the first topic dealt with in your
88 December 13th supplementary evidence.
- 89 MR. BRUSHETT: Yes.
- 90 MS. GREENE, Q.C.: And I'd like first to look at the rationale
91 for the Holyrood efficiency factor and to review that with

1 you, and I wonder here, Mr. O'Rielly, if you could bring up
2 the transcript of October 9th, please, at page 34? We
3 should begin at line 79, and I think it would be helpful, Mr.
4 Brushett, for the purpose of this, if you could read
5 beginning with the line 81, "I grant you that," because this
6 sets out the explanation or rationale for Hydro's
7 recommendation.

8 MR. BRUSHETT: "I grant you that but what we do with a
9 conversion factor is try again to come up with an average
10 that will be applicable over a wide range of operating levels
11 at Holyrood, so if you take a particular year with a high
12 production level, then you'll get a higher conversion factor,
13 but then as you vary, pluses or minuses around the
14 average hydraulic production here at Holyrood, production
15 will go up and down and what we're trying to do with the
16 610 kilowatt hours per barrel is try to come up with an
17 average conversion factor that would apply in those
18 extremes, and what happens is when you go, you only can
19 go so far up and you can go way down. You saw in the
20 previous page that went down to 570." Would you like me
21 to continue, Ms. Greene?

22 MS. GREENE, Q.C.: I think the last, the next sentence
23 would be the last.

24 MR. BRUSHETT: "So we're trying to strike a balance. That
25 balance (inaudible) the resulting production at Holyrood
26 from wet and dry years so that you come up with an
27 average conversion factor for Holyrood, not one that is
28 perfectly fitted to the forecast year because again this is a
29 factor that goes into the Rate Stabilization Plan that has, as
30 you know, pluses and minuses in it for variances in
31 hydrology."

32 MS. GREENE, Q.C.: And there are other references
33 throughout but that explains the basis for the 610
34 recommended by Hydro is based on, looking back over
35 experience, over a period of time, is that correct?

36 MR. BRUSHETT: That is correct.

37 MS. GREENE, Q.C.: And you do recognize that this basis
38 for coming up with the recommendation is consistent with
39 past practice before this Board?

40 MR. BRUSHETT: Yes, I acknowledge that certainly and
41 we'd have to go back obviously to 1992 which would have
42 been the last time that the Board would have looked at this
43 and the evidence would have been presented on it but ...

44 MS. GREENE, Q.C.: And in previous rate referrals prior to
45 '92.

46 MR. BRUSHETT: I'll accept that. I don't have any
47 knowledge of that.

48 MS. GREENE, Q.C.: And I wonder if we could look now at
49 NP-51, please, Mr. O'Rielly? That shows the efficiency

50 factor back to 1992, is that correct, Mr. Brushett?

51 MR. BRUSHETT: Yes, that is correct.

52 MS. GREENE, Q.C.: Subject to check, would you agree
53 that, having a quick look over that, that the average, if you
54 work out the average for that period of time, is 605.7
55 kilowatt hours per barrel?

56 MR. BRUSHETT: That would appear reasonable.

57 MS. GREENE, Q.C.: In your supplementary evidence you're
58 recommending that rather than looking at experience over
59 a period of time, could try to come up with a forecast of
60 what the efficiency factor will be in the test year, is that
61 correct?

62 MR. BRUSHETT: Yes, and certainly in the sense that in
63 any circumstance where you're trying to forecast you
64 would look at history to try and predict the future, but the
65 idea behind setting a revenue requirement in a test year
66 would be to forecast what the conditions would be in that
67 year. That would be my understanding of looking at
68 history, would be for the purpose of trying to forecast and
69 predict.

70 MS. GREENE, Q.C.: And if we could, please, look at page
71 three of your supplementary evidence now, please? I
72 guess there's a couple of statements made on page three
73 that we had difficulty in understanding, so I'll give you the
74 opportunity to explain what you meant by that. The first is
75 if you could read into the record line one, starting at line
76 one, that first sentence.

77 MR. BRUSHETT: "Based on information provided by
78 Hydro for the first ten months of 2001, the thermal
79 production level in 2001 is likely to be more representative
80 of an average hydrological year."

81 *(11:15 a.m.)*

82 MS. GREENE, Q.C.: And again if you go down to line 17,
83 would you read that as well, which is a similar thought, I
84 believe?

85 MR. BRUSHETT: "Since 2001 thermal production is more
86 representative of an average hydrological year, then the
87 efficiency factor of 633 kilowatt hours per barrel may be a
88 better proxy for the forecast efficiency at Holyrood in the
89 test year 2002.

90 MS. GREENE, Q.C.: What did you mean by both of those
91 statements? Are you implying, which obviously couldn't
92 be correct, that 2001 was an average hydraulic year?

93 MR. BRUSHETT: What this, the context in which I guess
94 these statements are made is that 2001 is more
95 representative of what would be viewed, particularly if you
96 look at 2001 and 2002 in your forecast as being based on
97 average, your average hydrological record, then 2001 is

1 certainly more representative of that average hydrological
2 production than the period 1996 to 2000.

3 MS. GREENE, Q.C.: I wonder if we could look at U-Hydro-
4 17 revised, please, and it's actually the last chart attached
5 to that. I'll give you a moment to look at that, Mr. Brushett,
6 and if you'd like to look back at the beginning page of it as
7 well to refresh your memory as to what that demonstrated.
8 It did demonstrate hydraulic conditions over the period and
9 this chart summarized the previous pages from 1950 to 2000.
10 Figure 7 is a compilation of all of the hydraulic production
11 and the previous figures would have been different plants.
12 So this is illustrative of the total system and I just wanted
13 to show or for you to indicate where on the chart you see
14 2000 ... first of all you'll see that, would you agree, that the
15 solid line there is, and this is showing the difference
16 (inaudible) the rolling (phonetic) averages, but the lines, all
17 of them show what the average hydraulic production would
18 be using different periods, and you'll see below the pink
19 one is 30-year average, the solid one is reduced full average
20 and the dotted one is full average based on different ways
21 of calculating it.

22 MR. BRUSHETT: Yes.

23 MS. GREENE, Q.C.: Can you also see from the chart at the
24 bottom that the square box is supposed to be the 2001
25 hydraulic estimate, 2001 hydraulic year, and if you look up
26 on the chart you'll see that that is well below the historic
27 average. So I guess we had some difficulty in
28 understanding your statement that 2001 was an average
29 hydraulic year.

30 MR. BRUSHETT: And I didn't reference this particular
31 chart when I was doing that review, Ms. Greene, but in
32 terms of the production at Holyrood, the production level
33 at Holyrood on the thermal side, was, for 2001, certainly the
34 actuals experienced up to October was indicative of the
35 level of thermal production that was being proposed by
36 Hydro for 2001 and 2002 in terms of, and that was being
37 characterized as being an average hydrological record used
38 for purposes of determining the thermal and hydraulic split,
39 so that was, I guess, the basis for referencing the level of
40 thermal production as being based on an average
41 hydrological year in terms of our analysis.

42 MS. GREENE, Q.C.: Okay, but you can see from that that
43 I guess 2001 wouldn't be considered to be an average
44 hydraulic year, would it?

45 MR. BRUSHETT: It's based on what the, and subject to
46 checking, where these numbers come in on this chart, no,
47 it's below the line obviously, yes.

48 MS. GREENE, Q.C.: Coming back, you're recommending
49 that the Board adopt a new approach to setting the
50 efficiency factor based on the forecast for the test year as

51 opposed to look at past experience, and I wanted to review
52 with you what the implications of doing that would be.
53 Could we look at NP-262, please? I'll just give you a
54 moment to review that, Mr. Brushett. The question was,
55 Hydro was asked to quantify the impact of a change in the
56 fuel efficiency factor at Holyrood, which is what you and I
57 have been talking about, to being ten percent less than the
58 forecast, and of course the forecast that we're talking about
59 is the 610 which has been recommended by Hydro, and I
60 wonder if you could just read the answer in?

61 MR. BRUSHETT: "A two percent reduction in the forecast
62 Holyrood fuel efficiency factor would result in a conversion
63 factor of 597.8 kilowatt hours per barrel. This will result in
64 approximately 72,000 more barrels of No. 6 fuel being
65 consumed. Assuming the cost of service is established as
66 per Hydro's application at \$20 per barrel, using a 610
67 kilowatt hour per barrel conversion factor, the impact on
68 2002 results would be an increase to the RSP balance of
69 approximately 500,000 and a reduction in Hydro's net
70 income of approximately \$1.5 million."

71 MS. GREENE, Q.C.: And that talks about a two percent
72 reduction, and what I wanted to work through with you is
73 what would be the reduction if Hydro experienced the same
74 type of year as it did in 1999, and if you go back to NP-51
75 for a moment, 1999, two years ago, where the efficiency
76 factor was 577.1 kilowatt hours per barrel, and if you
77 compare that to your, page three of your evidence, you're
78 suggesting that the line 18, the efficiency factor of 633
79 kilowatt hours per barrel may be a better proxy for the
80 forecast?

81 MR. BRUSHETT: Yes.

82 MS. GREENE, Q.C.: And I wanted to demonstrate with you
83 what the impact would be on Hydro if the 663 were used
84 but Hydro's actual efficiency was the same as it experienced
85 in 1999.

86 MR. BRUSHETT: Yes.

87 MS. GREENE, Q.C.: I think the calculation is simple ...

88 MR. BRUSHETT: Yeah.

89 MS. GREENE, Q.C.: ... and we can work through it.

90 MR. BRUSHETT: Sure, yes.

91 MS. GREENE, Q.C.: The difference between 633 and 577
92 works out to be an 8.8 percent reduction. Would you,
93 subject to check, will you accept my math?

94 MR. BRUSHETT: Yes.

95 MS. GREENE, Q.C.: Now if we could, please, go back to
96 262, Mr. O'Rielly, where we saw that a two percent
97 reduction reduced Hydro's net income by 1.5 million, so if
98 we have an 8.8 percent reduction, if we have the efficiency

1 of 1999, that would be 4.4 multiplied by the 1.5 of, or a total
2 reduction of 6.6 million, again subject to checking my math,
3 Mr. Brushett.

4 MR. BRUSHETT: That's sounds reasonable. If you want
5 to just ...

6 MS. GREENE, Q.C.: It's an 8.8 percent reduction, if instead
7 of the 633 you suggested on page 3, we actually achieve
8 577, so it's an 8.8 percent reduction, and using the same
9 basis of calculation as **NP-262**, that works out to about
10 \$6.6 million reduction.

11 MR. BRUSHETT: Using the same basis of calculation as in
12 NP-262, that math would work out, yes.

13 MS. GREENE, Q.C.: So that's a fairly significant impact for
14 Hydro.

15 MR. BRUSHETT: That would be if that were the end result,
16 yes.

17 MS. GREENE, Q.C.: Assuming, I'm asking you to ...
18 obviously you would have to agree that the, if that's the
19 assumptions that did prevail. I'd like now to look at what
20 the return on equity that Hydro is actually asking for in the
21 test year, and here the easiest way to find the revised one
22 is in John Brickhill's schedule, revision two, of October 31,
23 page 1 of 94, Mr. O'Rielly, and you'll see on line 21 that the
24 return on equity being requested is only \$5.6 million, so if
25 1999 were to repeat we would wipe out the, but just with
26 the efficiency factor, we'd wipe out the profit we're asking
27 for, is that correct?

28 MR. BRUSHETT: Based on the calculation you just ... let
29 me see, Ms. Greene, that would be correct, \$6.6 million, that
30 would be deducted from the proposed return there. Subject
31 to checking those calculations in terms of the number of
32 barrels and so on that would result from that, the details of
33 the calculation in NP-262.

34 MS. GREENE, Q.C.: Having read your evidence of
35 December 13th, I didn't find that you were making a
36 recommendation as you did, for example, on the cap on the
37 RSP, is that correct?

38 MR. BRUSHETT: That is correct. There is no specific
39 recommendation. Again, the, starting on page 3 there is a
40 table which illustrates the potential savings at the various
41 efficiency levels, and starting at 615, 620, increments of five
42 up to 625. As a matter of fact, as you can see, it doesn't,
43 it doesn't show what the 633 would be. The objective here
44 again is to present evidence for the Board that would be
45 able to allow them to assess the impact of any changes
46 they may contemplate, and I think those changes would
47 have to be made in the context of any other changes they
48 were considering with respect to the application, whether
49 it be the price of fuel in the revenue requirement as well as

50 the efficiency factors, and all these things are interrelated,
51 of course, so it's no specific recommendation and I think
52 the Board certainly would be able to assess that in the
53 context of any other changes they're proposing.

54 MS. GREENE, Q.C.: As with your previous comments this
55 morning, I assume that you're not expressing any
56 engineering opinion as to what the fuel efficiency of the
57 thermal plant should be.

58 MR. BRUSHETT: No, I guess one of the underlying
59 assumptions, Ms. Greene, is that obviously Hydro has the
60 expertise to operate Holyrood and are operating in the most
61 efficient manner possible, and that's sort of, I guess, an
62 underlying assumption and obviously I'm not an engineer
63 and couldn't attest to that.

64 MS. GREENE, Q.C.: Then the purpose of your
65 supplementary evidence was to demonstrate the financial
66 impacts of different conversion factors, is that correct?

67 MR. BRUSHETT: Yes.

68 MS. GREENE, Q.C.: Thank you, Mr. Brushett, that
69 concludes my questions.

70 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
71 Greene, thank you, Mr. Brushett, we'll move now to
72 Newfoundland Power's cross, Ms. Butler please, and good
73 morning.

74 MS. BUTLER, Q.C.: Good morning, and thank you, Mr.
75 Chairman. Good morning, Mr. Brushett.

76 MR. BRUSHETT: Good morning.

77 MS. BUTLER, Q.C.: I'd like to start, if I might, with the
78 budgeting process at Newfoundland Hydro, which you
79 commented on, and I wonder, Mr. O'Rielly, if we might look
80 at **NP-179**. Mr. Brushett, this evidence generally about the
81 budgeting process within Hydro was the subject of
82 evidence from at least two other witnesses, Mr. Reeves and
83 Mr. Roberts. You recall the evidence as it starts at the
84 bottom of ... with 150 business units and it spans a period
85 of some eight or nine months?

86 MR. BRUSHETT: Yes.

87 MS. BUTLER, Q.C.: Okay, and you're familiar with the
88 details of that particular budgeting process?

89 MR. BRUSHETT: Yes, we have reviewed the process
90 followed by Hydro for their operating budget.

91 MS. BUTLER, Q.C.: Okay, and I wonder, aside from this
92 question and answer, **NP-179**, if we might just go into the
93 report itself that you wrote for 2001 on page 5, in the
94 paragraph just prior to the title, "Review of Assumptions",
95 and maybe you could just read that into the record please.

96 MR. BRUSHETT: As a result of our review we have

1 determined that the overall methodology used by Hydro for
2 forecasting revenue, expenses, and net income, is
3 reasonable and appropriate. Our observations with respect
4 to the reasonableness of individual expense estimates and
5 revenue from rates are included within the respective
6 sections of our report that follows.

7 MS. BUTLER, Q.C.: Does it necessarily follow, Mr.
8 Brushett, that a process which is, as you described there,
9 reasonable, will result in accurate forecasting of actual
10 expenses?

11 MR. BRUSHETT: Well, that's the nature of the forecasting
12 itself. You will not be accurate in the sense that ... the only
13 thing that can be certain about a forecast is that it will vary,
14 the actuals will vary, and it's just to what degree and how
15 reliable the forecasting may be, but no, it will not be
16 accurate, no forecasting is. That's not an issue with respect
17 to this application or this forecast, it's just the nature of
18 forecasting, it's trying to predict the future.

19 MS. BUTLER, Q.C.: And with your general accounting
20 background and experience, can you tell the Board, is there
21 a range of reasonableness in terms of variances from
22 forecast to actual which is acceptable?

23 MR. BRUSHETT: I would not suggest that there is a
24 specific range. It obviously would be acceptable to have
25 variances around ranges that, I would suggest, would be
26 different for different expenditures categories and so on.
27 It's not something where you could say plus or minus five
28 percent is reasonable. Most people would consider that
29 somewhat reasonable, but in an area where you should be
30 able to forecast a higher degree of precision, five percent
31 variance may be very unusual, so it would have to depend
32 on the individual expense category or the individual, the
33 nature of the individual item that you're looking at.

34 MS. BUTLER, Q.C.: Would it be fair to say that through
35 the process of your 2000, 2001, and then the ultimate
36 supplemental evidence you filed in December, you would
37 have commented on any variances that you found to be
38 outside of a range of normal, or which deserved
39 commentary?

40 MR. BRUSHETT: That would be the nature of our review.
41 Anything that we found to be outside of what we would
42 consider to be reasonable would have raised some
43 commentary in our report.

44 MS. BUTLER, Q.C.: In relation to the 150 business units at
45 which level the entire budgeting process starts, to your
46 knowledge, can you tell us whether, from your general
47 experience, 150 business units is an unusually large
48 number?

49 MR. BRUSHETT: Certainly on the surface it would appear
50 to be a very large number. I think in terms of the way

51 Hydro operates, it's not unmanageable in the sense that it
52 leaves the impression there is a, in terms of a hierarchical
53 structure, there is 150 people reporting up the line. It's
54 much more focused or condensed than that, and what's
55 referred to as a business unit may be a specific piece of
56 property that would have specifically identifiable costs and
57 operating parameters around it, so they would identify that
58 as a business unit or a budget unit within their systems.
59 That doesn't mean that it requires a significant amount of
60 management and supervision around that particular item,
61 so it's like ... I don't think it's unmanageable in that sense.
62 It's unusual to talk in terms of 150 business units. Most
63 people think of business units as almost a self-contained
64 division or something of that nature and that's not the
65 context, or not the basis of the way Hydro breaks down its
66 business units.

67 MS. BUTLER, Q.C.: Okay, would it nevertheless be a given
68 that having 150 business units would amount to increased
69 time and effort as well as increased costs associated with
70 the budgeting process?

71 MR. BRUSHETT: To a certain degree I guess it would and
72 it would depend on what management Hydro viewed as
73 being essential for control purposes, to what level of detail
74 they needed to get down to. It certainly can add more time
75 and effort to the process to get to that level of detail and it
76 probably wouldn't be significant, that level of detail would
77 be developed at a lower level within the organization so it's
78 probably not something that you could say is really
79 burdensome on the overall management of the company
80 but it would be more time and effort to develop budgets at
81 that level, yes.

82 MS. BUTLER, Q.C.: Are you also the advisor to this Board
83 for Newfoundland Power?

84 MR. BRUSHETT: Yes.

85 MS. BUTLER, Q.C.: And are you aware of how many
86 business units, just on a comparable basis, Newfoundland
87 Power had at its last hearing?

88 MR. BRUSHETT: No, my memory is not that good. Maybe
89 you can remind me?

90 MS. BUTLER, Q.C.: If I suggested to you that it was
91 approximately 22?

92 MR. BRUSHETT: That would sound about reasonable,
93 about right.

94 MS. BUTLER, Q.C.: Yes, and in terms of your report and
95 primarily, of course, we're using the 2001 report on Hydro,
96 do you, did you consider it part of your mandate to
97 comment on, or make a recommendation to the Board on
98 Hydro's 150 business units and whether they could be
99 condensed?

1 MR. BRUSHETT: No, we certainly did not focus on that,
2 and didn't see any major problems with that, with that set
3 up in terms of Hydro's business units and their system of
4 accounts.

5 MS. BUTLER, Q.C.: Okay, Mr. Brushett, when I read
6 through your 2001 report in terms of the details of your
7 discussion of the operating budget process, I noted that
8 you didn't specifically refer to the same process in terms of
9 the compiling of the capital budget. Do your general
10 comments with respect to the process and the time that it
11 takes and your overall opinion on the capital budget
12 process apply equally to what you said of their operating
13 budget process?

14 MR. BRUSHETT: We have reviewed their capital budget
15 process and yes it is comprehensive and we would have
16 similar conclusions to the operating budget process.

17 MS. BUTLER, Q.C.: Now in relation to the capital process,
18 you note that Hydro does not budget for overtime on
19 capital projects, do you recall that note that you made in
20 your 2001 report?

21 MR. BRUSHETT: Yes, that was in the section on salaries,
22 I think.

23 MS. BUTLER, Q.C.: And I wonder, can you tell the Board
24 how does Hydro's decision not to budget for overtime on
25 capital projects relate to Hydro's ability to manage projects
26 to the budgets established?

27 MR. BRUSHETT: Specifically to capital projects and
28 capital budget?

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

30 MR. BRUSHETT: I have not reviewed that specifically, the
31 issue of whether they budget overtime, so I really couldn't
32 provide any specific comment on it. Maybe you could
33 rephrase the question and I might be able to help you.

34 MS. BUTLER, Q.C.: As a general comment, would it be fair
35 to say that not budgeting for overtime on capital projects
36 makes it more difficult to manage projects to the budget
37 established?

38 MR. BRUSHETT: That could be the case but not
39 necessarily, I guess, if the plan is that the work would be
40 carried out in a normal timeframe so that there may not be
41 a need to budget for overtime. You would expect to
42 complete projects without incurring overtime by use of
43 your own forces on a regular basis. What typically I would
44 suspect, and I'm speaking in more general terms now
45 because I have no detailed review of Hydro's projects or
46 causes for delays, but if a project were delayed, that might
47 give rise, because of materials being late delivered to a site
48 or something, those are the type of situations I can imagine
49 would give rise to having to incur overtime or additional

50 time in order to keep a project on schedule and so on, so
51 you wouldn't be planning for those types of things, I
52 guess, so not planning or not budgeting for overtime may
53 not cause you problems. However, as a result of those
54 types of things if you had to incur overtime, yes, maybe it
55 would cause you problems in meeting your budget if you
56 were incurring overtime that you didn't anticipate and the
57 most likely result would be that you will be over budget.

58 MS. BUTLER, Q.C.: Well, in your general accounting and
59 auditing experience is it more customary to budget for
60 overtime on capital projects or not?

61 MR. BRUSHETT: I would say not because if you were
62 anticipating X number of man hours to complete a project,
63 you would try and budget for that workforce to be available
64 to you if you were planning, at the planning stage. You
65 wouldn't be planning to work overtime.

66 MS. BUTLER, Q.C.: Thank you. I want to turn now to
67 Hydro's 2001 original operating budget as presented to the
68 Minister of Mines and Energy, which is shown in **NP-24**.
69 I apologize, Mr. Chairman, but that is electronically
70 incomplete. Mr. Brushett, have you located the document?
71 It's page six that I'm looking at?

72 MR. BRUSHETT: Page six of which ...

73 MS. BUTLER, Q.C.: It's the 2001 budget, actually dated
74 October 2000.

75 MR. BRUSHETT: Page six, yes.

76 MS. BUTLER, Q.C.: Okay, the original net operating
77 expenses projected at that time for 2001 were \$87,011,000.

78 MR. BRUSHETT: Yes.

79 MS. BUTLER, Q.C.: And I wonder, Mr. O'Rielly, if we might
80 look at **U-Hydro No. 3**, and I think this shows at the top,
81 Mr. Brushett, that what's not included in that figure is a
82 loss on disposable fixed assets so that the total operating
83 costs in the budget are really \$88,059,000?

84 MR. BRUSHETT: Yes.

85 MS. BUTLER, Q.C.: Okay, and that, as I say, speaks as of
86 October of 2000 when it was first prepared. Can you look
87 now at **JCR Schedule 1** which was filed on May 31st, 2001,
88 line 39, for 2001, column G, so the comparable figure for
89 budget at that time was \$90,204,000?

90 MR. BRUSHETT: Yes.

91 MS. BUTLER, Q.C.: And that figure would be comparable
92 to that \$88,059,000 figure I gave you a moment ago.

93 MR. BRUSHETT: Yes.

94 MS. BUTLER, Q.C.: Okay, thank you, now let's see how
95 that was revised again on October 31st, Mr. O'Rielly please,

1 **JCR Schedule 1A**, page 1 of 4, thank you, line 38, column
2 C, \$91,050,000.

3 MR. BRUSHETT: Yes.

4 MS. BUTLER, Q.C.: Okay, now Mr. Brushett, do I have to
5 add the loss on disposable fixed assets to that one or is
6 that comparable to the \$88,000,000 figure?

7 MR. BRUSHETT: I believe that's comparable, the loss on
8 disposable fixed assets is above.

9 MS. BUTLER, Q.C.: Is above, so it includes that, okay. So
10 keeping this document on the screen then, if I compare the
11 \$91,000,000 in the revised 2001 forecast with the
12 \$88,000,000, the original forecast, we see an increase in the
13 operating budget of approximately \$3,000,000?

14 MR. BRUSHETT: Yes.

15 MS. BUTLER, Q.C.: And to your knowledge, as advisor to
16 the Board, that increase is not related to the general rate
17 review that we're in today because Hydro has elected to
18 defer \$2,000,000 of hearing costs, right?

19 MR. BRUSHETT: That is, yes, that would be essentially
20 the case, although the deferral is not necessarily all of the
21 internal costs, but it was meant to represent, I believe, the
22 external costs rather than the costs that they were
23 forecasting.

24 MS. BUTLER, Q.C.: Okay, well what makes up the variance
25 between the original \$88,000,000 budget for 2001 and the
26 most current budget for 2001 of \$91,000,000?

27 MR. BRUSHETT: I would have to do an analysis of that,
28 Ms. Butler. I'm not sure if there's a document that already
29 does that comparison for us, but right offhand I don't recall
30 all the details of what makes up those differences. I recall
31 looking at them earlier in this hearing but right offhand I
32 don't think I can ...

33 MS. BUTLER, Q.C.: No, that's fine.

34 MR. BRUSHETT: ... specifically, although the ...

35 MS. BUTLER, Q.C.: It is footnoted here ...

36 MR. BRUSHETT: In the previous ... yes, go ahead.

37 MS. BUTLER, Q.C.: Okay, Mr. O'Rielly, can you just scroll
38 up so Mr. Brushett can see the title of the document that
39 we're looking at here? Okay, this is page one of four.

40 MR. BRUSHETT: Yes.

41 MS. BUTLER, Q.C.: On pages 2, 3, and 4 of the same
42 schedule, we do have the footnotes talking about the
43 increases and decreases.

44 MR. BRUSHETT: Yes, but you were asking to compare it
45 back to the original budget as opposed to the previous

46 filing. These footnotes I think refer to the previous filing.

47 MS. BUTLER, Q.C.: Correct, yes. Just go back, Mr.
48 O'Rielly, to page 1 of 4? Thanks. Does your 2001 report,
49 which we don't need to get on the screen for a moment,
50 made a conclusion on the variances between Hydro's
51 operating budget forecast versus actual similar to what you
52 concluded for the variances between the capital budget
53 forecast and actuals in your report?

54 MR. BRUSHETT: Looking back over a number of years?

55 MS. BUTLER, Q.C.: Yes.

56 MR. BRUSHETT: No, it doesn't.

57 MS. BUTLER, Q.C.: Okay, and I just wonder why it
58 doesn't?

59 MR. BRUSHETT: It was just a matter of the approach
60 we've taken in terms of reviewing these items. We did not
61 look at the budgets in those years and compare the actual
62 results. We were comparing year over year comparisons
63 and identifying trends and assessing the reasonableness of
64 the forecast in relation to actuals and trends in actuals over
65 a period of about five years.

66 MS. BUTLER, Q.C.: Okay, can we just leave that for a
67 moment, Mr. O'Rielly, please, and have a look at **NP-22**. I
68 don't know if this one is electronically complete. Okay, we
69 have to look, if we might, at page 40 of the report, which
70 was your 1999 annual review.

71 MR. BRUSHETT: Yes, that's right.

72 MS. BUTLER, Q.C.: When you locate that document, Mr.
73 Brushett, it's page 40 that I was looking at.

74 MR. BRUSHETT: Yes.

75 MS. BUTLER, Q.C.: I'll just wait for the Commissioners to
76 get their copy. Okay, can you just read the last paragraph
77 please, and maybe before you do that, just satisfy yourself
78 whether you're addressing here the operating budget or the
79 capital budget.

80 MR. BRUSHETT: Yes, I'm familiar with this.

81 MS. BUTLER, Q.C.: Are you addressing operating or
82 capital budget.

83 MR. BRUSHETT: Operating.

84 MS. BUTLER, Q.C.: Thank you, and perhaps you could
85 just read it in for me?

86 MR. BRUSHETT: Overall we have observed some
87 significant variances between original budgets and actual
88 results for the 1998 and 1999 fiscal years. While Hydro has
89 provided reasonable explanations for these variances, this
90 does not necessarily provide comfort for the Board in terms
91 of the assessment of budgeted or forecast expenses for a

1 test year. In light of our observations, the Board will need
2 to be diligent in their review of Hydro's forecast of test year
3 expenses.

4 MS. BUTLER, Q.C.: So although this conclusion does not
5 appear in the 2001 report, would you say, Mr. Brushett, that
6 the same conclusion applies in terms of the need for the
7 Board to be diligent in review of Hydro's forecast test year
8 expenses?

9 MR. BRUSHETT: Yes, it does, and if I could, just to
10 explain, I guess, back in the 1999 review we did undertake
11 an additional procedure which we do not undertake each
12 year, which was to assess the variance from budget, actual
13 versus budget for those two years, the purpose of which
14 was to assess how the budgeting process was working and
15 the conclusion was that there were some significant
16 variances. One of them would have been in fuel, and I
17 think we've heard throughout the hearing the way Hydro
18 budgets for fuel and budgets in terms of its hydraulic
19 versus thermal split, so that would account for a significant
20 portion of that. But the experience was that there were
21 enough variances that would cause concern in terms of
22 being diligent on a go-forward basis in terms of examining
23 the forecast, and while we didn't undertake this type of a
24 review, you know, that's the nature of actually the 2000
25 review as well as the 2001, 2002 forecast, was with this in
26 mind that there would have to be close scrutiny, I guess, of
27 those forecasts and the basis for the forecast.

28 MS. BUTLER, Q.C.: Okay, and in terms of the
29 recommendations that you make in this report, that's the
30 2001 report, relevant to the operating budget, is it fair to
31 say that your recommendation is that of a productivity
32 allowance?

33 MR. BRUSHETT: The recommendation with respect to the
34 productivity allowance certainly takes into consideration
35 this, but also looks in terms of the trends in expenses, and
36 the fluctuations in expenses, and all of the evidence, I
37 guess, that we've heard with respect to efficiencies and
38 opportunities for improved efficiencies within Hydro's
39 operations throughout its operations, so it's not directly
40 tied to this recommendation if that's what you're asking.

41 MS. BUTLER, Q.C.: Alright, let's have a look at page four
42 of the 2001 report. I'm sorry, it's actually your ...

43 MR. BRUSHETT: Supplementary.

44 MS. BUTLER, Q.C.: December supplementary, page 4. Mr.
45 O'Rielly, is that page 4? Thank you, line 11.

46 MR. BRUSHETT: Yes.

47 MS. BUTLER, Q.C.: Okay, and do you make a specific
48 recommendation, and if not in writing, do you have one for
49 the amount or the level of the productivity allowance?

50 MR. BRUSHETT: I think I would leave that to the Board,
51 having heard all the evidence, to make a decision as to
52 whether an allowance is appropriate and the level of that
53 allowance. I think that our recommendation is that if the
54 Board were to consider this then a productivity allowance
55 in the range of one to one and a half percent would be
56 reasonable. Those numbers would not be unreasonable in
57 terms of putting Hydro at risk or in terms of meeting its
58 financial parameters and so on.

59 MS. BUTLER, Q.C.: Okay, I want to turn now to a different
60 area and this relates to the 2001 report at page 38.

61 MR. BRUSHETT: Yes.

62 MS. BUTLER, Q.C.: Okay, you comment in the last
63 sentence on cost levels over the 2000 to 2002 period.
64 Could you read the last sentence for the record please?
65 "Each of these exhibits".

66 MR. BRUSHETT: Each of these exhibits show that while
67 generation levels are increasing, costs beginning in 2001
68 are declining from 2000 and continue to decrease into 2002
69 with the exception being the cost of fuel.

70 MS. BUTLER, Q.C.: Okay, so the suggestion is clearly that
71 Hydro's other costs are showing a downward trend in
72 comparison to 2000?

73 MR. BRUSHETT: On a per kilowatt hour basis.

74 MS. BUTLER, Q.C.: Okay, now I wonder if we might look
75 relevant to that point to **NP-3**, page 3 of 3. Thank you, line
76 72. Are we speaking in terms of apples versus apples when
77 I address that subtotal line, Mr. Brushett, in terms of the
78 point that you were making for other costs?

79 MR. BRUSHETT: Yes, I believe that is the same category
80 that we're referring to in the exhibits, the same subtotal.

81 MS. BUTLER, Q.C.: Okay, thank you. So first, let's look at
82 2000 other costs, \$102,033,000?

83 MR. BRUSHETT: Yes.

84 MS. BUTLER, Q.C.: And in 2001, \$97,768,000, but that has
85 since been revised by Mr. Roberts, I'll just ask you to make
86 a note, if you might, if you've got any paper up there, to
87 \$101,592,000, and that's apparent, we don't need to look it
88 up, Mr. O'Rielly, but you'll see that in JCR Schedule 1A.
89 And in 2002 forecast \$97,394,000, which has also been
90 revised by Mr. Roberts, I believe, to \$99,275,000.

91 MR. BRUSHETT: Yes.

92 MS. BUTLER, Q.C.: Okay, now line 29, do you have page
93 2, Mr. O'Rielly, are the earlier years. Is it fair to say that the
94 other costs, that's the subtotal of other costs for 2000 were
95 the highest of the ten years presented?

96 MR. BRUSHETT: Yes, I think that would be correct.

- 1 MS. BUTLER, Q.C.: So I guess my point is, when you talk
2 about the declining trend you speak of it as a declining
3 trend because we're talking about 2000 reducing to 2001
4 and reducing to 2002.
- 5 MR. BRUSHETT: That is correct.
- 6 MS. BUTLER, Q.C.: But 2000's happen to be the highest
7 year on record historically back to 1992.
- 8 MR. BRUSHETT: Yes.
- 9 MS. BUTLER, Q.C.: Okay, now in your 2001 report,
10 Schedule 5 D-1.
- 11 MR. BRUSHETT: Yes.
- 12 MS. BUTLER, Q.C.: It's going to be hard to read, I think,
13 but we'll see. Alright, so the heading is helpful, here we
14 have a comparison of other costs, which is the category we
15 were just looking at from **NP-3**.
- 16 MR. BRUSHETT: Yes.
- 17 MS. BUTLER, Q.C.: By breakdown before allocations,
18 right?
- 19 MR. BRUSHETT: Yes.
- 20 MS. BUTLER, Q.C.: Okay, the first three columns all relate
21 to 1997.
- 22 MR. BRUSHETT: Yes.
- 23 MS. BUTLER, Q.C.: And at the top of the columns you've
24 got indicated there kilowatt hours sold and used by Hydro
25 as \$6.816 million?
- 26 MR. BRUSHETT: Yes.
- 27 MS. BUTLER, Q.C.: Underneath that where you deal with
28 costs and the second area that's sort of shaded beige, cost,
29 salaries, 51,863.
- 30 MR. BRUSHETT: Correct.
- 31 MS. BUTLER, Q.C.: That is in thousands of dollars, so
32 that's \$51 million, right?
- 33 MR. BRUSHETT: Yes.
- 34 MS. BUTLER, Q.C.: Okay, and if we scroll to the bottom
35 part of the table in the second last row on that page, you
36 see total operating costs of \$31.558 million.
- 37 MR. BRUSHETT: Yes.
- 38 MS. BUTLER, Q.C.: For 1997, okay, and the grand total
39 there of \$83.421 million.
- 40 MR. BRUSHETT: Yes.
- 41 MS. BUTLER, Q.C.: So the total salaries in 1997 was that
42 figure.
- 43 MR. BRUSHETT: Yes.
- 44 MS. BUTLER, Q.C.: The cost in the first column, which is
45 the \$83.421 million is divided by the number of kilowatt
46 hours sold above, and that's 6.816?
- 47 MR. BRUSHETT: Yes.
- 48 MS. BUTLER, Q.C.: To arrive at the cost per kilowatt hour?
- 49 MR. BRUSHETT: Yes.
- 50 MS. BUTLER, Q.C.: Okay, so if we're looking right at the
51 bottom of the page, the second column, .01224 per kilowatt
52 hour is derived from dividing the \$82.421 million by the
53 6.816 kilowatt hours sold.
- 54 MR. BRUSHETT: That's correct.
- 55 MS. BUTLER, Q.C.: Okay, and these costs don't include
56 fuel?
- 57 MR. BRUSHETT: No, they do not.
- 58 MS. BUTLER, Q.C.: When we look at the 0.01224, is that a
59 measure of efficiency of productivity?
- 60 MR. BRUSHETT: I think you could certainly consider that
61 to be some form of measure of efficiency in terms of the
62 operation compared to the output.
- 63 MS. BUTLER, Q.C.: Okay, now looking across the bottom
64 of the table when we look at the cost per kilowatt hour for
65 1997 of .01224 and then compare that to the same number
66 for 2002, would you just scroll right there.
- 67 MR. BRUSHETT: Yes.
- 68 MS. BUTLER, Q.C.: And the figure now is 0.01345?
- 69 MR. BRUSHETT: Yes.
- 70 MS. BUTLER, Q.C.: Alright, and if I just compare the two
71 numbers by dividing the 0.1345 by the 0.01224 to be just
72 short of a ten percent increase in the cost per kilowatt hour
73 over that six year period.
- 74 MR. BRUSHETT: That certainly appears reasonable based
75 on those numbers, yes.
- 76 MS. BUTLER, Q.C.: Okay, now some of these figures might
77 have been slightly updated in JCR Schedule 1A.
- 78 MR. BRUSHETT: Yes, they are.
- 79 MS. BUTLER, Q.C.: But for the purpose of my point that
80 I'm making, I don't think it will make a significant difference.
81 If I look at the other costs per kilowatt hour as a measure of
82 efficiency, I'd like to get your opinion on a hypothesis if I
83 could.
- 84 MR. BRUSHETT: Yes.
- 85 MS. BUTLER, Q.C.: If the other costs per kilowatt hour of

1 1997 of 0.01224 was applied in 2002 instead of the 0.01345
2 ...

3 MR. BRUSHETT: Yes.

4 MS. BUTLER, Q.C.: The total operating expenses would
5 be, I'm sorry, \$88.985 million?

6 MR. BRUSHETT: That sounds reasonable.

7 MS. BUTLER, Q.C.: And just for the benefit of the Board,
8 that would then compare to what is shown as \$97,803
9 million.

10 MR. BRUSHETT: What was that number again, Ms. Butler,
11 88?

12 MS. BUTLER, Q.C.: \$88.985 million.

13 MR. BRUSHETT: Yes, that sounds reasonable.

14 MS. BUTLER, Q.C.: Thank you, and my point is, speaking
15 hypothetically, that if the same productivity level as the
16 company experienced in '97 was maintained in 2002, the
17 operating costs shown on this schedule would have been
18 about \$9 million lower.

19 MR. BRUSHETT: That is correct, yes.

20 MS. BUTLER, Q.C.: Thank you, I'm finished with that
21 screen, Mr. O'Rielly. I want to ask a few questions now, if
22 I might Mr. Brushett, about regulated versus non-
23 regulated, and the separation of accounting records.

24 MR. BRUSHETT: Yes.

25 MS. BUTLER, Q.C.: I'm sure you were here for the
26 evidence of Mr. John Browne.

27 MR. BRUSHETT: Yes, I was.

28 MS. BUTLER, Q.C.: And his prefiled evidence and the oral
29 evidence that he gave when he testified suggested that this
30 was the appropriate time for Hydro to commence the
31 maintenance of separate accounting records for regulated
32 operations. Do you recall that recommendation?

33 MR. BRUSHETT: Yes, I do recall the recommendation,
34 yeah.

35 MS. BUTLER, Q.C.: And can you tell the Board please
36 your view of that recommendation?

37 MR. BRUSHETT: Certainly the recommendation, I have no
38 disagreement with it in principle because it's important for
39 the utility and for the Board to be able to identify and
40 segregate non-regulated expenses from the financial
41 information that is generated by Hydro and non-regulated
42 expenses cannot be recovered from ratepayers so they
43 must be identified and specifically excluded. Hydro, I
44 believe, has the ability to be able to segregate and identify
45 those expenses within its code of accounts. The system of

46 accounts that they have would allow them to be able
47 through the account code structure, to separate those
48 accounts out and be able to extract them, I think, from their
49 financial records, so to set up separate accounting, I'm not
50 sure what Mr. Browne meant exactly in his comment and
51 maybe it was similar to what I'm suggesting is that they
52 should be specifically directed to set up an account code
53 structure that will allow them to identify those accounts
54 very easily and I don't think that would be a problem for
55 Hydro to do that. Maintaining separate records I don't
56 think is necessary, and I don't ... that's probably what he
57 meant at the time.

58 MS. BUTLER, Q.C.: And that's my overall view of the
59 evidence of both Mr. Osmond and Mr. Roberts when they
60 testified was that they certainly weren't against the
61 separation or the establishment of a separate set of
62 accounts, regulatory and non-regulatory at this time.

63 MR. BRUSHETT: I don't think they would be, and as a
64 matter of fact, I think they're more or less set up that way as
65 it is now.

66 MS. BUTLER, Q.C.: Okay, I think though, Mr. Brushett, in
67 fairness that Mr. Browne went a little further in terms of
68 recommending that Hydro also be required to provide a
69 clear definition, a written definition of what constitutes
70 regulated operation.

71 MR. BRUSHETT: I don't recall that specifically but I accept
72 that that's part of his recommendation, yes.

73 MS. BUTLER, Q.C.: Okay, well maybe we might just look
74 at the transcript, I believe it is November 1st, page 34. It
75 was lines 47 to 54 in my hard copy, let's see where it falls
76 here. Okay, yeah, it's line 37, I think he says here, Hydro ...
77 at the very least should require of Hydro to have a clear
78 written definition of its regulated operations and it should
79 require them to maintain separate financial reports for its
80 regulated operations as if they were carried out by a
81 separate company. It's that specific recommendation that
82 I'd like your view on.

83 MR. BRUSHETT: The recommendation that they require a
84 clear definition, written definition of its regulated
85 operations?

86 MS. BUTLER, Q.C.: Uh hum.

87 MR. BRUSHETT: We've already spoken about the
88 separate accounts.

89 MS. BUTLER, Q.C.: Yes.

90 MR. BRUSHETT: Clearly I think that that is appropriate
91 and it may be better for all parties particularly when you get
92 into a setting like this in a hearing where we have
93 intervenors without the detailed knowledge to be able to
94 separate that. I think the Board probably already has a

1 pretty clear understanding of what the nonregulated
2 operations of Hydro are, but you're right, it isn't written or
3 incorporated into any specific report that's been filed or
4 order that's been issued, and it may be appropriate to do
5 that for purposes of the record on a go-forward basis so I
6 don't have a problem with that recommendation at all. I
7 think that there is certainly an understanding of what is
8 regulated and not regulated and there are some areas where
9 there's, you know, I was going to say grey, but not grey
10 but where there is some overlap and the Board needs to be
11 cognizant of that and I think they are. So having a clear
12 written definition would certainly be beneficial to everyone.

13 MS. BUTLER, Q.C.: And Mr. Brushett, relevant to that, I
14 think as you alluded to, he actually said in his prefiled
15 testimony that good regulatory control requires a clear
16 definition of regulated operations, but what you've just
17 indicated is that you believe the Board has an
18 understanding of it and you do from your experience.
19 Because Hydro doesn't have a written definition of
20 regulated operations, on what do you base your
21 assessment of what's regulated and nonregulated when
22 you're reviewing Hydro's books?

23 MR. BRUSHETT: It would be regulatory precedent
24 primarily and just understanding of the operations of
25 Hydro themselves.

26 MS. BUTLER, Q.C.: Okay, so a definition would make your
27 job a little easier to do.

28 MR. BRUSHETT: Yes, sure.

29 MS. BUTLER, Q.C.: And perhaps relevant to that issue,
30 there is the other issue of intercorporate charges, which Mr.
31 Browne also addressed, and here he said in the November
32 1st transcript, page 36, lines 46 to 49, the Board should
33 focus on the policies and procedures for intercorporate
34 charges rather than to get mired down in a detailed review
35 of the individual transactions. Do you agree with that?

36 MR. BRUSHETT: Yes, obviously the Board, I think the
37 Board's role is to review those policies and procedures and
38 where they feel they're appropriate approve them or
39 otherwise give direction to the company by way of order as
40 to what policies and procedures they would like to see in
41 place. So I think that's the Board's role primarily. The
42 detailed review is really just from a compliance perspective
43 assessing whether the utility is complying with the Board's
44 direction.

45 MS. BUTLER, Q.C.: Okay, well on that point, I understand
46 that Hydro recently changed their methodology for
47 allocating intercorporate costs in response to
48 recommendations that I think you made in your 1999 annual
49 review.

50 MR. BRUSHETT: Yes, they certainly undertook a review

51 which resulted in some changes, and I guess being more
52 specific in terms of how they track intercorporate costs.

53 MS. BUTLER, Q.C.: Yes, and I think you address that
54 specifically in the 2001 report, if I might, Mr. O'Rielly, at
55 page 37. There you go, the paragraph that Mr. O'Rielly has
56 put his signal by, starting with "We have reviewed". I
57 wonder could you just read that paragraph, Mr. Brushett,
58 please?

59 MR. BRUSHETT: Yes, we have reviewed the
60 methodological changes proposed by Hydro for
61 determining intercompany charges. Under the revised
62 approach, the calculation or determination of cost
63 recoveries is based more on actual documentation and less
64 on management judgement. The result should be a more
65 accurate determination of the cost of providing services.
66 Based upon our review we conclude that the new
67 methodology for determining intercompany charges is
68 reasonable and appropriate.

69 MS. BUTLER, Q.C.: Okay, so that's a positive message, but
70 then later on the same page you indicate, the second last
71 paragraph, the first sentence, that the forecast for 2001 and
72 2002 was not prepared using the new methodology.

73 MR. BRUSHETT: Well, no, that's correct, it was estimates
74 of what the intercompany charges would be, and I think it's
75 essentially looking back to 2000 with some adjustments for
76 some billing adjustments, I guess, that were made early in
77 2001, and that's the basis for the budget or the forecast of
78 what the intercompany charges would be in 2001 and 2002,
79 and it's, I didn't have, I certainly don't have a problem with
80 that because the level of services is not forecast to change,
81 the activity in CF(L)Co, for example, is not forecast to
82 change, so I think that was a reasonable basis for
83 determining what they should be. Obviously if the new
84 approach is to track actual time spent based on time
85 reporting and so on, you can't use that methodology, you
86 have to look back and see what the basis is for 2001 and
87 2002 and whether it's reasonable in relation to the
88 experience in the prior year.

89 MS. BUTLER, Q.C.: Okay, so we know that there is a
90 methodological change proposed by Hydro and we know
91 that what we've got before us for 2001 and 2002 was not
92 prepared using that, but should the methodology be
93 something that's approved by the Board?

94 MR. BRUSHETT: Yeah, I think the Board probably should
95 specifically approve that methodology, and well, should
96 review that methodology and approve it or order any
97 changes they feel are appropriate in terms of the process
98 and the procedures that are followed.

99 MS. BUTLER, Q.C.: Thank you, I'm going to turn now, and
100 I think just briefly, Mr. Brushett, to the issue of recall sales.

- 1 MR. BRUSHETT: Yes.
- 2 MS. BUTLER, Q.C.: And you're obviously familiar with the
3 \$800,000 increase in interest expense to regulated
4 operations based on cash flow from recall sales because
5 you comment on it in your report.
- 6 MR. BRUSHETT: Yes, I am.
- 7 MS. BUTLER, Q.C.: I'm going to just get everybody's mind
8 back around this. If we might look at **PUB-56.1**, the
9 attached reconciliation. Thank you. Page 2 of 4, line 32,
10 okay, so there's the adjustment there in the third column
11 which, as we can see, is an \$800,000 increase to interest
12 expense?
- 13 MR. BRUSHETT: Yes.
- 14 MS. BUTLER, Q.C.: And these are the regulated expenses.
- 15 MR. BRUSHETT: Yes.
- 16 MS. BUTLER, Q.C.: Now we'll leave that on the screen. In
17 your 2001 report you indicated that you had reviewed the
18 rationale for that adjustment and concluded that it was
19 appropriate.
- 20 MR. BRUSHETT: Yes, we reviewed the rationale put
21 forward and we've also checked the basis for the
22 calculations and we felt it was reasonable. I have no
23 problem with it certainly on a conceptual level that, as put
24 forward by Hydro, that to the extent they have those funds
25 available, they are to reduce costs that they, or avoid costs
26 that they would otherwise incur.
- 27 MS. BUTLER, Q.C.: Okay, is it fair to say though, Mr.
28 Brushett, that there is subjectivity involved here in both
29 the adjustment itself and in the interest rate chosen to
30 calculate the adjustment?
- 31 MR. BRUSHETT: I'm sorry, would you repeat that?
- 32 MS. BUTLER, Q.C.: Sure, I asked whether you would agree
33 that there was some subjectivity involved in both the
34 decision to have an adjustment and the calculation of the
35 actual adjustment based on the interest rate?
- 36 MR. BRUSHETT: Yes, some subjectivity involved in the
37 calculation, I guess, but the way Hydro has done is they've
38 run their financial model which calculates their interest
39 expense based on cash flow with the recall power in and
40 out so I guess the assumptions used with respect to the
41 interest rates are consistent with the assumptions used
42 with respect to interest rates as it applies to the whole
43 application, so that's the way it's been calculated.
- 44 MS. BUTLER, Q.C.: Alright, again, as financial advisor to
45 the Board, is it your view that the adjustment, if any, and
46 the methodology or calculation should be Board approved?
- 47 MR. BRUSHETT: I think the Board should, should
48 approve the adjustments to the revenue requirement that
49 appear here, similar to what we were talking about just a
50 little while ago in terms of regulated versus non-regulated.
- 51 MS. BUTLER, Q.C.: Right.
- 52 MR. BRUSHETT: This is an aspect or a notional
53 adjustment to the regulated expenses so I think the Board,
54 yes, should specifically address it.
- 55 MS. BUTLER, Q.C.: Okay, thank you, and are you aware
56 that there are other prominent Crown owned electric
57 utilities within regulated export sales?
- 58 MR. BRUSHETT: One in particular comes to mind, yes, BC
59 Hydro.
- 60 MS. BUTLER, Q.C.: BC Hydro, Manitoba, Hydro Quebec.
- 61 MR. BRUSHETT: I'm not familiar with ... well Hydro
62 Quebec obviously, but Manitoba, I'm not sure of the details
63 of that.
- 64 MS. BUTLER, Q.C.: Okay, and in concluding that this
65 particular notional adjustment was reasonable and
66 appropriate, I'm just wondering did you check with
67 anybody, any other similar utilities to determine whether
68 they are permitted that kind of a notional adjustment on
69 recall sales?
- 70 MR. BRUSHETT: I'm familiar with and did review in general
71 terms really what's happening at BC Hydro, and I believe
72 that they are, there's no similar adjustment because they
73 treat their export sales and account for it separately, so I
74 guess the implications in terms of cash flow is already
75 segregated, but that was my understanding of how they
76 were handled.
- 77 MS. BUTLER, Q.C.: Okay, now I wanted to deal with
78 capitalized expenses and the impact of general expenses
79 capitalized, if I can.
- 80 MR. BRUSHETT: Yes.
- 81 MS. BUTLER, Q.C.: Mr. O'Rielly, this is JCR Schedule 1A
82 from the October 31st filing, page 1 of 4, line 34. Okay,
83 when we see here a reference to Hydro capitalized expense,
84 can I make the point first that this is not all, or the entire
85 capitalized expenses of Hydro for 2001 but merely just a
86 portion being allocated?
- 87 MR. BRUSHETT: Yes, that would be correct.
- 88 MS. BUTLER, Q.C.: Okay, so what's happening here is that
89 from the subtotal which we see at line 30, of 97 or \$101
90 million depending on which figure you want to use.
- 91 MR. BRUSHETT: Yes.
- 92 MS. BUTLER, Q.C.: Hydro is allocating out at line 34
93 respectively \$5.6 million and in the revised figure \$6.6

1 million of capitalized expenses to reduce the subtotal down.
2 MR. BRUSHETT: Yes, correct.
3 MS. BUTLER, Q.C.: The difference between the as filed
4 and the revised at line 34 is \$961,000 which is close enough
5 to a million that I'll refer to it as a million dollars there in
6 column D.
7 MR. BRUSHETT: Yes.
8 MS. BUTLER, Q.C.: Okay, and that increase is explained in
9 footnote 16, and can I go to that, Mr. O'Rielly please? And
10 could you read that explanation for us?
11 MR. BRUSHETT: Original forecast updated to reflect
12 increased involvement of internal forces in the capital
13 program.
14 MS. BUTLER, Q.C.: Alright, so does that suggest that
15 more internal staff are expected to work on the capital
16 program than previously was expected to the tune of
17 approximately \$1 million?
18 MR. BRUSHETT: I believe that is the basis of the
19 explanation, yes.
20 MS. BUTLER, Q.C.: Okay, now ...
21 MR. BRUSHETT: That variance should be consistent with
22 the variance in the salary or the explanation with respect to
23 salaries, I guess, noted at the bottom as well, and it's not on
24 the screen but I believe it would be.
25 MS. BUTLER, Q.C.: Note 7 I think you're looking for.
26 MR. BRUSHETT: Yes, some of those explanations there
27 are related to additional capital work and so on which are
28 capitalized.
29 MS. BUTLER, Q.C.: Well what we're seeing at note 7 is an
30 explanation, and we can go back to it in a second but not
31 right away, Mr. O'Rielly, if we might. This note 7 deals with
32 the full explanation of a \$1.7 million increase in salaries and
33 wages.
34 MR. BRUSHETT: Yes.
35 MS. BUTLER, Q.C.: And the references to the capital
36 program in that footnote to a temporary wage increase of
37 approximately \$200,000.
38 MR. BRUSHETT: (inaudible) and additional capital work,
39 yes.
40 MS. BUTLER, Q.C.: Okay, \$200,000, and overtime is
41 \$72,000 also associated with capital work.
42 MR. BRUSHETT: Uh hum.
43 MS. BUTLER, Q.C.: So of that total increase you've only
44 got \$272,000 associated with the capital program.
45 MR. BRUSHETT: That's partially what's causing the
46 increase in the capital work, yes.
47 MS. BUTLER, Q.C.: Yes, okay, am I correct in assuming
48 that \$272,000 of the \$961,000 that we just saw is actual
49 additional costs being incurred?
50 MR. BRUSHETT: That would be my understanding of the
51 explanations given by Hydro.
52 MS. BUTLER, Q.C.: Okay, and the balance then, the
53 difference between the \$961,000 and the \$272,000 is a
54 greater portion of permanent staff being charged to the
55 capital program, not additional staff being added.
56 MR. BRUSHETT: That's my understanding, yes.
57 MS. BUTLER, Q.C.: Okay, well let's just go back to page 1
58 of 4 there, thank you. As a matter of principle if nothing
59 else changed on that Schedule 1A, it doesn't matter what
60 year you pick, 2001 or 2002, other than an increase in the
61 portion of permanent staff time being allocated to capital
62 jobs, which is what's happening here, isn't it, with the
63 allocations?
64 MR. BRUSHETT: Yes.
65 MS. BUTLER, Q.C.: The result, of course, would be a lower
66 revenue requirement, right?
67 MR. BRUSHETT: That's correct.
68 MS. BUTLER, Q.C.: So in other words the higher the
69 charges to Hydro's capitalized expense, the lower the
70 revenue requirement.
71 MR. BRUSHETT: The higher the allocation of those other
72 costs to the capital program, yes, the lower the resulting
73 revenue requirement.
74 MS. BUTLER, Q.C.: Okay, now if we might look back then
75 to **NP-3** which shows the previous test year for Hydro,
76 1992, line 34, thank you. Hydro capitalized expenses, there
77 you go, in the final cost of service, thank you, Mr. O'Rielly,
78 were \$5,071,000.
79 MR. BRUSHETT: Yes.
80 MS. BUTLER, Q.C.: And what do they actually come in at
81 in the next column?
82 MR. BRUSHETT: \$6,296,000.
83 MS. BUTLER, Q.C.: And so in the third column, the
84 variance of \$1.225 million, what does that actually mean in
85 terms of margin for Hydro?
86 MR. BRUSHETT: Well what that means is Hydro has
87 increased the allocation to the capital program and
88 decreased its operating expenses which has the impact of
89 increasing its margin or its net operating income, that
90 particular line. That may be related to the change in

1 salaries above, although the cost of service actuals are
2 lower than, I think, the salaries and fringe benefits in the
3 cost of service as well.

4 MS. BUTLER, Q.C.: Alright, but this clearly shows that ...

5 MR. BRUSHETT: A higher allocation.

6 MS. BUTLER, Q.C.: Yeah, in the last test year the result of
7 low balling the capitalized expenses in this particular
8 example resulted in \$1.225 million in profit for the
9 corporation it wouldn't otherwise have had.

10 MR. BRUSHETT: Taking that in isolation, yes, I'm not sure
11 what other changes occurred in the '92 actuals versus its
12 forecast at that time, but yes, looking specifically at that
13 allocation that's what the impact would be.

14 MS. BUTLER, Q.C.: Well the point I'm making is only
15 related to that issue in isolation.

16 MR. BRUSHETT: Yes.

17 MS. BUTLER, Q.C.: Just perhaps to hallmark the danger or
18 the effect of low balling the general expenses capitalized.

19 MR. BRUSHETT: Yeah, that's correct.

20 MS. BUTLER, Q.C.: Let's go back to **NP-16**, page 2,
21 because here Hydro has listed their capitalized
22 expenditures for a ten year period beginning in '92, page 2,
23 thank you very much. And it's this (inaudible), I'll just
24 point out for the benefit of everyone, was filed prior to the
25 October 31st revision so in order to look at the most current
26 numbers we would have to add \$961,000 to the Hydro
27 capitalized expense for 2001 and so that \$6.064 million
28 number would actually become \$7.025 million. I wonder if
29 you might just make a note of that, Mr. Brushett, because
30 I'm going to be asking you where 2002 sits in relation to the
31 other years.

32 MR. BRUSHETT: Just go over that again, Ms. Butler, I
33 didn't ...

34 MS. BUTLER, Q.C.: Yeah, I think we saw a moment ago
35 that as a result of JCR Schedule 1A, the 2001 figure had
36 increased by \$961,000.

37 MR. BRUSHETT: Okay.

38 MS. BUTLER, Q.C.: So by my math that should take you to
39 \$7,025,500.

40 MR. BRUSHETT: Yes, okay.

41 MS. BUTLER, Q.C.: And of course the percentage would
42 change for 2001 and I think it would go to \$8.1 million.

43 MR. BRUSHETT: Okay.

44 MS. BUTLER, Q.C.: With that correction made, Mr.
45 Brushett, would you agree with me that Hydro capitalized

46 expense for 2002 at \$6,131,000 is the lowest of the ten years
47 we see here with the exception of '93 and '96?

48 MR. BRUSHETT: '92 and '96, I guess you're referring to.
49 Would you repeat that again please?

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

51 MR. BRUSHETT: 2002 is lower than all years with the
52 exception of '93.

53 MS. BUTLER, Q.C.: I guess '92, '93 ... I'm sorry, '92, you're
54 correct.

55 MR. BRUSHETT: No, and it is '93, I was reading ... '93 and
56 '96.

57 MS. BUTLER, Q.C.: Yes.

58 MR. BRUSHETT: Okay, yes, I agree with that.

59 MS. BUTLER, Q.C.: And the capitalized expenses as a
60 percentage of capital expenditures is also much lower in the
61 test year, 2002, than any other year.

62 MR. BRUSHETT: Yes, quite dramatically obviously. The
63 2002 capital expenditures, as well as 2001 to a large extent
64 I think probably include, in this summary include Granite
65 Canal and so that would have a significant impact on the
66 percentage itself.

67 MS. BUTLER, Q.C.: Now in some other cases you've
68 concentrated on a five year history. If you looked at a five
69 year history of capitalized expense for '97 to 2001, and
70 using the revised figure for 2001 of \$7.025 million, would
71 you accept my math that the average for that five year
72 period would be closer to \$7.8 million?

73 MR. BRUSHETT: Sure, I'll accept that. The analysis
74 though you would have to, I think, look through what's
75 causing that. My memory is going back to '98 and '99
76 reviews and so on, but I do believe those were the years
77 when there was some fairly significant costs associated
78 with the Lower Churchill negotiations so, which were all
79 capitalized 100 percent, so that may be impacting some of
80 those numbers and the trends you're talking about, but I
81 haven't done a detailed analysis of that, so I can't say for
82 sure, but that's my ...

83 MS. BUTLER, Q.C.: Well, I can refer you to a portion of
84 your report where you've addressed the decline from 2001
85 to 2002.

86 MR. BRUSHETT: Yes.

87 MS. BUTLER, Q.C.: And of course it is a decline, yeah,
88 despite what we see on the screen because of the
89 adjustment.

90 MR. BRUSHETT: Okay.

91 MS. BUTLER, Q.C.: So perhaps maybe we could just go

1 back to your 2001 report, page 26.

2 MR. BRUSHETT: Yes.

3 MS. BUTLER, Q.C.: And just start with what's at the
4 bottom of the page then, Mr. Brushett, referring to Exhibit
5 3H.

6 MR. BRUSHETT: Exhibit 3H indicates the allocation of
7 gross payroll costs from 1997 to forecast 2002 between
8 operations and capital. The payroll costs charged to
9 capital are forecast to decrease by \$1.6 million in 2001 with
10 only slightly higher charges in 2002. The main reasons
11 given by Hydro for the declining capitalized salaries in 2001
12 are no allowances ...

13 MS. BUTLER, Q.C.: You don't need to give the details as
14 long as you just get the point from the bullets for sure.

15 MR. BRUSHETT: I'm sorry, you didn't want to read the
16 whole amount, the whole ...

17 MS. BUTLER, Q.C.: Feel free to read it if you need to or
18 summarize the main ...

19 MR. BRUSHETT: Well, the main reasons are, as I
20 indicated, the Labrador River project, or the Lower
21 Churchill negotiations were capitalized in prior years and
22 there was no allowance forecast for those costs included in
23 the operating expenses and no recovery obviously through
24 the capitalized expenses, and also it's the reference, I think
25 you mentioned it earlier, with respect to the fact no
26 overtime is forecast for capital projects, so if you look at
27 the forecast for overtime costs in the salaries category, that
28 would be lower and also as reflected in the capitalized
29 salary forecast, capitalized expense forecast, there's
30 \$700,000 in 2000 that doesn't appear in 2001, so those are
31 the two main reasons for the decrease as presented by
32 Hydro.

33 MS. BUTLER, Q.C.: Thank you, now this does not refer
34 specifically to the 2002 capitalized expenses.

35 MR. BRUSHETT: No, I believe they were forecast to be ...

36 MS. BUTLER, Q.C.: Almost identical to 2001?

37 MR. BRUSHETT: Yes.

38 MS. BUTLER, Q.C.: Okay, so is that why you didn't bother
39 to mention it?

40 MR. BRUSHETT: Well, there was no, we did review that
41 and I'll tell you the explanation ... that was the basis for the
42 forecast so there was nothing, no further information which
43 to review at that point.

44 MS. BUTLER, Q.C.: I agree that that was correct at that
45 point, but of course we've seen subsequently that that was,
46 2001 was increased by \$961,000.

47 MR. BRUSHETT: Yes.

48 MS. BUTLER, Q.C.: So 2002 is now for capitalized
49 expenses lower than 2001.

50 MR. BRUSHETT: Correct.

51 MS. BUTLER, Q.C.: So have you received a reasonable
52 explanation for the decline in 2002 compared to the revised
53 2001 number?

54 MR. BRUSHETT: Well, we haven't conducted any further
55 review of 2002 since that change occurred, but I guess you
56 would have to look to the explanation in 2001 as being a
57 higher use of internal forces. Does that mean there will be
58 increased use of internal forces in 2002, I think, you know,
59 you'd have to apply judgement in that case and it's difficult
60 to say whether it would necessarily result in a higher
61 allocation. It may, you know, I can certainly concede that
62 point that it may mean that there would be a higher
63 allocation in 2002 also, but I don't think it necessarily
64 follows that there will definitely be a higher allocation.

65 MS. BUTLER, Q.C.: Well, would you agree with the
66 proposition that Hydro's capitalized expenses for 2002 are
67 conservatively estimated?

68 MR. BRUSHETT: They are conservative in the sense that
69 they are now lower than 2001 and certainly lower than they
70 have been in prior years, and I would certainly agree with
71 that comment.

72 MS. BUTLER, Q.C.: And we saw from your earlier exhibit
73 a moment ago, the natural effect of that in terms of rates ...

74 MR. BRUSHETT: Yes, yes.

75 MS. BUTLER, Q.C.: Okay, now were you aware that
76 Newfoundland Power had a full review by the Board of
77 capitalized expenses with a separate Board order approving
78 the methodology and the method of recording capitalized
79 expenses?

80 MR. BRUSHETT: That Newfoundland Power had a
81 separate ...

82 MS. BUTLER, Q.C.: Had a full review of the Board of their
83 capitalized expenses.

84 MR. BRUSHETT: Yes, yes.

85 MS. BUTLER, Q.C.: And because you're the Board's
86 financial advisor for both corporations can you tell us
87 whether the method being used by Hydro is the same as
88 Newfoundland Power's Board approved method?

89 MR. BRUSHETT: No, it is not.

90 MS. BUTLER, Q.C.: Okay, and as Board advisor, do you
91 have an opinion as to whether the methods of the two
92 separate corporations should be the same or appropriately

1 different, whether the Board should approve the method?

2 MR. BRUSHETT: I ... they're certainly different and I think
3 it may be appropriate on a go-forward basis to undertake a
4 similar review of Hydro but I wouldn't offer an opinion at
5 this point without looking at such a review or undertaking
6 such a review as to whether that was appropriate for Hydro
7 or not.

8 MS. BUTLER, Q.C.: As to what would be appropriate,
9 sorry?

10 MR. BRUSHETT: To use the incremental approach which
11 is used by Newfoundland Power in terms of capitalizing
12 expenses.

13 MS. BUTLER, Q.C.: Right, okay.

14 MR. BRUSHETT: It would certainly have an impact on the
15 revenue requirement and that the Board would have to do
16 some sort of review to assess those impacts, as well as
17 assess the appropriateness of going to incremental and it
18 would depend on the nature of the capital project and the
19 program undertaken by Hydro versus Newfoundland
20 Power and consider all those factors.

21 MS. BUTLER, Q.C.: Mr. Chairman, what time did you wish
22 to break today, because I'm ...

23 MR. NOSEWORTHY, CHAIRMAN: I'd like to break now
24 if I could.

25 MS. BUTLER, Q.C.: Would you, okay, grand.

26 MR. NOSEWORTHY, CHAIRMAN: Okay, thank you, we'll
27 reconvene at 2:00.

28 *(break)*

29 *(2:10 p.m.)*

30 MR. NOSEWORTHY, CHAIRMAN: Good afternoon.
31 Before we get started, Mr. Kennedy, are there any
32 preliminary matters?

33 MR. KENNEDY: Chair, as you're aware, we had a meeting
34 of counsel and it was to cover mostly scheduling, so I
35 wanted to place on the record what the understanding
36 reached was, and it's that we would continue with the
37 cross-examination of Mr. Brushett and that presuming that
38 we're going to complete his cross-examination tomorrow
39 with still time available for some further evidence, that we
40 would slot Mr. Henderson in to be heard right after Mr.
41 Brushett, and then that would complete tomorrow. On
42 Thursday morning at 9:30 we would commence with the
43 Abitibi witnesses who are sitting as a panel, and then right
44 after that would be Mr. Mifflin putting into evidence his
45 direct files which the counsel for the Industrial Customers
46 has indicated will be the case, and then presuming that that
47 takes less than the full day we would deal with the

48 application before the Board submitted by Hydro on the
49 28th, and that would be it for the schedule itself, Chair.

50 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
51 Kennedy. Does the panel consent to those revisions?
52 Okay. Thank you, very much. We'll proceed now with
53 cross-examination, Ms. Butler, please? We'll try and ... for
54 the benefit, I guess it's quarter after two now. We said we'll
55 go to 4:30 or 5:00, as necessary. We'll try and break
56 somewhere between 3:15 and 3:30, if that's okay, please?
57 Thank you.

58 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Mr.
59 Brushett, on page 25 of your 2001 report you had
60 addressed Hydro's vacancy allowance or vacancy
61 adjustment for staff?

62 MR. BRUSHETT: Yes.

63 MS. BUTLER, Q.C.: And while we're waiting for that to
64 come up on the screen, you essentially indicated that they
65 were budgeting for a \$1 million vacancy allowance?

66 MR. BRUSHETT: Yes. I think the terminology they use is
67 a vacancy credit which effectively represents the positions
68 that aren't filled, yes.

69 MS. BUTLER, Q.C.: Okay, and there was an RFI,
70 information request which suggested that the \$1 million
71 vacancy allowance equated with a 2.5 percent vacancy rate.
72 Are you familiar with that?

73 MR. BRUSHETT: Maybe I should ... you can refer me to
74 that again so I can ...

75 MS. BUTLER, Q.C.: Okay. Well, before we lose page 25
76 which is now on the screen, your indication from page 25
77 is that the \$1 million represents four percent. I'm sorry. Is
78 that the vacancy allowance is one million but that
79 historically Hydro has over budgeted by four percent. Can
80 we see that fifth line there?

81 MR. BRUSHETT: Yes, that is correct.

82 MS. BUTLER, Q.C.: Alright, so we know that it's one
83 million?

84 MR. BRUSHETT: Yes.

85 MS. BUTLER, Q.C.: And we know that on average,
86 historically it's been four percent?

87 MR. BRUSHETT: Yes.

88 MS. BUTLER, Q.C.: Now, can we look at **NP-255**, lines 23
89 to 25? Okay, thank you. Hydro estimates that
90 approximately 2.5 percent of total permanent salaries is
91 representative of the vacancies and amounts to
92 approximately one million?

93 MR. BRUSHETT: Yes.

1 MS. BUTLER, Q.C.: Okay, so what I want to ask you about
2 is given your conclusion that historically the vacancy rate
3 has been four percent, whether you have a
4 recommendation on the vacancy allowance? The
5 calculation for Newfoundland Power was that four percent
6 amounted to 1.8 million as opposed to one million.

7 MR. BRUSHETT: No, I don't have a specific
8 recommendation. I guess if you wanted to go back to the
9 reconciliation in our report where we tried to assess overall,
10 because we did start out in that reconciliation with actual
11 salaries in 2000, I believe, that we had reconciled it down
12 with the other factors that had to be considered there,
13 down to about a \$400,000 difference and assess that in
14 relation ... that could have been a potential over budgeting
15 which would really be picked up, I guess, in terms of the
16 four percent average versus the two and a half percent
17 credit of a million on the permanent salaries. However,
18 there was also a significant, I think fairly significant
19 reduction in the temporary salaries and so on which is
20 usually tied into the permanent compliment in terms of what
21 we refer to as backfilling or just using temporary people to
22 do the work that would otherwise fall to the permanent
23 position. So it seems reasonable in an overall ... from an
24 overall perspective. However, you're right, you know,
25 historically, on the permanent salaries categories alone
26 that's four percent and the credit at a million dollars is two
27 and a half percent, so there is a difference there.

28 *(2:15 p.m.)*

29 MS. BUTLER, Q.C.: Thank you. The issue of employee
30 future benefits was addressed in the evidence of John
31 Browne as well. Do you recall that?

32 MR. BRUSHETT: Yes, I recall that.

33 MS. BUTLER, Q.C.: And we know and accept that Hydro
34 has shifted to the accrual method of accounting for
35 employee future benefits?

36 MR. BRUSHETT: Right.

37 MS. BUTLER, Q.C.: In response to the CICA Handbook
38 recommendations or requirements?

39 MR. BRUSHETT: Yes.

40 MS. BUTLER, Q.C.: Are you aware of how Newfoundland
41 Power has dealt with the new requirements?

42 MR. BRUSHETT: Yes. It's been some time ago now, but I
43 did review that. I do know that it's not ... it's essentially not
44 been implemented by Newfoundland Power. The
45 recommendations from the CICA have not been
46 implemented, waiting for direction from the Board as to how
47 those costs will be recovered, I guess, is probably the way
48 I understand it's been handled.

49 MS. BUTLER, Q.C.: So until there's a shift Newfoundland
50 Power continues on what's called a cash basis as opposed
51 to an accrual basis?

52 MR. BRUSHETT: That's correct, yes.

53 MS. BUTLER, Q.C.: Okay, and the move to the accrual
54 basis in the test year for Hydro, if we might look at **NP-53**,
55 page 2 of 2, line 16? Amounts to, I believe, a \$1.2 million
56 increase in revenue requirements?

57 MR. BRUSHETT: You're taking that ... maybe we should
58 work through that.

59 MS. BUTLER, Q.C.: Sure. Did you want to see how the
60 question was worded? We can scroll up to question ...

61 MR. BRUSHETT: But part C I ... yeah, sure. Part C, I
62 understand, is the cash basis.

63 MS. BUTLER, Q.C.: Okay. C was, "Provide a projection of
64 the impact on revenue requirement if Hydro had elected to
65 account on a cash basis rather than accrual."

66 MR. BRUSHETT: Yes.

67 MS. BUTLER, Q.C.: Okay, and we'll go back to the answer
68 again, so for 2002, which is the test year, it was
69 approximately 1.2 million?

70 MR. BRUSHETT: That's correct.

71 MS. BUTLER, Q.C.: Okay. Now, John Browne took the
72 position that a regulatory board could deem continuation
73 of the cash method as more just and reasonable. Do you
74 agree with that?

75 MR. BRUSHETT: A regulatory board certainly could do
76 that, yes.

77 MS. BUTLER, Q.C.: Given the \$1.2 million increase that the
78 shift to the accrual method would have in the test year and
79 all of the factors which are currently before the Board on
80 this application, do you have an opinion on whether, in
81 fact, this is the right time for Hydro to shift to the accrual
82 method?

83 MR. BRUSHETT: Well, I think you would have to look at
84 it in terms of the impact of Hydro's decision overall and the
85 fact that ... and I shouldn't quote numbers, I guess, from
86 memory, but the fact that they did do retroactive
87 adjustment and effectively accrued without any intent of
88 recovering it from ratepayers, the accrual to the end of '99,
89 I think you would want to take that into consideration in
90 addition to considering whether on a go forward basis it is
91 a higher expense under the accrual method versus the cash
92 basis. I guess the assumption is that these benefits are
93 being provided, and at some point they have to be funded
94 by ratepayers, so I don't think I would necessarily be
95 recommending deferral of those into future periods if there

1 was a reasonable basis for proceeding with the adoption
2 right now, particularly considering the fact that the
3 retroactive adjustment is charged off to retained earnings
4 with no intent of recovering from ratepayers, as I
5 understand.

6 MS. BUTLER, Q.C.: Hydro has made the decision, as
7 you've indicated, to totally absorb the amount standing on
8 the books to the end of '99?

9 MR. BRUSHETT: Correct.

10 MS. BUTLER, Q.C.: And they did not have to do that, but
11 ...

12 MR. BRUSHETT: That's correct.

13 MS. BUTLER, Q.C.: ... you're saying that given that they
14 did you have no difficulty with the decision to shift to an
15 accrual basis at this time?

16 MR. BRUSHETT: I think with that consideration, no, I
17 have no difficulty.

18 MS. BUTLER, Q.C.: Okay, but that is without establishing
19 a regulatory precedent for any other company that may
20 choose a different approach?

21 MR. BRUSHETT: I think that the Board would have to hear
22 the case for each utility on this issue separately, yes.

23 MS. BUTLER, Q.C.: Okay. Related to the issue of deferred
24 hearing costs, I wonder if we might look back at **JCR-1A**
25 which is the October 31st filing? And if we can scroll down
26 to line 33? Okay. We saw this table earlier this morning
27 when we were talking about different allocations, I believe,
28 but here we see the \$2 million decrease in rate hearing cost
29 deferrals?

30 MR. BRUSHETT: Yes.

31 MS. BUTLER, Q.C.: And I think we heard evidence from,
32 I believe it was Mr. Roberts, could have been Mr. Osmond,
33 that although Hydro had originally elected to absorb
34 certain hearing costs, sometime between May and October
35 they made the decision to seek to defer two million of
36 hearing costs over a two year period?

37 MR. BRUSHETT: Yes.

38 MS. BUTLER, Q.C.: Okay. Now, are you familiar with the
39 situation that exists historically with Newfoundland Power
40 and their rate hearing cost deferral approved by this Board?

41 MR. BRUSHETT: Yes.

42 MS. BUTLER, Q.C.: Okay, and can you just for the record
43 indicate your understanding of that?

44 MR. BRUSHETT: The specifics, I'd have to be careful on,
45 but, certainly, in 1998 there was ... that would be the most
46 recent situation, and during 1998 I believe there were two

47 hearings, or certainly over that short period of time,
48 whether it spanned over the course of ... extended over the
49 12 month period, I'm not sure, but there was a cost of
50 capital hearing as well as a general rate hearing in that fall
51 and there were some significant costs incurred as a result
52 of both of those hearings. And at that time, in the fall
53 application, I believe, Newfoundland Power came forward
54 and the Board accepted a deferral of those costs over a
55 three year period.

56 MS. BUTLER, Q.C.: Okay, and are you aware whether the
57 costs that were deferred were external only?

58 MR. BRUSHETT: They were external, yes.

59 MS. BUTLER, Q.C.: Okay, so internal hearing costs were
60 not deferred?

61 MR. BRUSHETT: No.

62 MS. BUTLER, Q.C.: And of the \$2 million that we see on
63 the screen here for Hydro's proposal for hearing cost
64 deferrals, are you familiar with how much of that is external
65 and how much is internal?

66 MR. BRUSHETT: There is an information request, and I
67 don't recall the number. Maybe someone else can help me
68 with that. It was a question that was put to Hydro after
69 they filed the October revision and it's ...

70 MS. BUTLER, Q.C.: Is that one of the last few questions in
71 December before we broke?

72 MR. BRUSHETT: No. That would have been issued in
73 around the second week of November.

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

75 MR. BRUSHETT: And the question was posed from the
76 Board staff whether in fact there were any internal costs
77 being proposed for deferral, and I think the response was,
78 I'm going from memory, was that there were not, and this
79 was their estimate of the external costs.

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

81 MR. BRUSHETT: And it was their own witness, expert
82 witness costs as well as costs being billed through from the
83 Board which would represent the Board's costs as well as
84 the Consumer Advocate's costs, and that was their estimate
85 of the incremental costs.

86 MS. BUTLER, Q.C.: I'm sorry, Mr. Brushett. In terms of the
87 precedent and the order that ... the last order that was given
88 in relation to Newfoundland Power, was it merely the
89 Board's costs that Newfoundland Power was allowed to
90 defer or was it Newfoundland Power's external costs being
91 third party costs?

92 MR. BRUSHETT: I don't recall that there was a restriction.
93 There was an estimate similar to what was done here, there

1 was an estimate of what the cost would be, and I don't
2 recall whether there was any specific exclusions. There
3 doesn't appear to be a specific exclusion. I don't recall a
4 specific exclusion at the Board's ... of Newfoundland
5 Power's external costs.

6 MR. KENNEDY: **PUB-75**, I think is the ...

7 MR. BRUSHETT: Right. That's the ...

8 MR. KENNEDY: Hearing costs.

9 MR. BRUSHETT: Hearing costs. With respect to the
10 Newfoundland Power deferral, Ms. Butler, I don't recall
11 there being a restriction. There may have been. We could
12 certainly look it up, I guess, in one of the orders, but I don't
13 recall there being a restriction. It was meant to ... my
14 recollection is that it was meant to be what I'll call
15 incremental costs, which would be, for the most part, all the
16 external costs.

17 MS. BUTLER, Q.C.: Thank you. Now, we have **PUB-75** on
18 the screen which relates to the two million?

19 MR. BRUSHETT: Right.

20 MS. BUTLER, Q.C.: And, of course, the question is asked
21 whether they are incremental in nature, so what does the
22 answer tell you in terms of what is incremental, do you
23 agree that all those are incremental?

24 MR. BRUSHETT: Based on my understanding, and I have
25 reviewed this response, I believe that they are incremental
26 costs. Your question initially was not incremental, was
27 external?

28 MS. BUTLER, Q.C.: Correct.

29 MR. BRUSHETT: And, of course, the first two categories
30 would be internal.

31 MS. BUTLER, Q.C.: Right.

32 MR. BRUSHETT: But I would view them as being
33 incremental in nature and costs that they would have
34 avoided had they not been in the hearing.

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

36 MR. BRUSHETT: So on that basis, they are ... you know,
37 the cost is the hearing itself.

38 MS. BUTLER, Q.C.: Thank you. Ms. Greene, fairly
39 exhaustively did some cross-examination with you this
40 morning on the Rate Stabilization Plan. I just have a couple
41 of questions on that. First of all, you correctly pointed out
42 that there was an information request, it's **PUB-81**, which
43 indicated the projections for the Rate Stabilization Plan
44 balance for 2001/2002?

45 MR. BRUSHETT: Right.

46 MS. BUTLER, Q.C.: Do you have any information on the
47 forecast balance for 2003?

48 MR. BRUSHETT: I should check the ... just give me a
49 second now, I'll check.

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

51 MR. BRUSHETT: No, I don't think we have ... I'm looking
52 at **PUB-82** wondering if there was any information there on
53 the 2003 year end balances. I don't think there is.

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

55 MR. BRUSHETT: But that's why I was hesitating.

56 MS. BUTLER, Q.C.: Let's look back, if we might, to your
57 December supplementary evidence, pages 5 to 9, in which
58 you address the RSP in some detail.

59 MR. BRUSHETT: Yes.

60 MS. BUTLER, Q.C.: I think it's pages 7 and 8 when you
61 address the cap, and this is what this relates to, of course?

62 MR. BRUSHETT: Yes.

63 MS. BUTLER, Q.C.: Let me just look at my hard copy for a
64 moment. Okay. At page 8, if I might, Mr. O'Rielly, lines 4 to
65 7. You see you're referring there to the cap being set in
66 reference to the revised projected peak over the 2002 and
67 2003 time period, but we don't seem to have any
68 information on that 2003 period. Do you have any reason
69 to believe that it would exceed the 65 million which is
70 projected for 2002?

71 MR. BRUSHETT: I have no reason to believe that it would.
72 The recovery, once it reaches that level, is quite significant
73 on a year-over-year basis, and with the ... certainly on the
74 fuel, which is what we ... I guess the only hard evidence, I'll
75 call it, that we have, it would not cause the plan to increase,
76 I think, I don't think beyond the recovery amount, the
77 difference between the forecast fuel price and the cost of
78 service fuel price. Whether other changes that flow
79 through that, the RSP would, you know, I guess it is
80 possible if fuel prices, for example, spiked for some reason,
81 beyond what the forecast was showing today, then yes,
82 there's an opportunity for the plan to continue to increase,
83 but, I think if that were to happen it's probably appropriate
84 that it be reviewed at some point earlier than it would
85 otherwise be, in any event, so keeping it at the level, close
86 to what is being forecast is, I think, a reasonable approach.

87 MS. BUTLER, Q.C.: Well, would it be fair to say that we are
88 where we are with the balance in the RSP because there
89 hasn't been a review since 1992?

90 MR. BRUSHETT: I would agree with that, yes.

91 MS. BUTLER, Q.C.: Yes, so I think we're all in agreement
92 with more frequent review, but at lines 9 to 13 here you are

1 suggesting a maximum of three years for review?

2 MR. BRUSHETT: Yes.

3 MS. BUTLER, Q.C.: But in the event that Hydro comes
4 forward with an application in 2003 this review can be
5 undertaken earlier?

6 MR. BRUSHETT: Yes.

7 (2:30 p.m.)

8 MS. BUTLER, Q.C.: Perhaps to state it in an even more
9 pointed manner, if the Board is satisfied that Hydro will
10 indeed be filing an application in 2003 for test year 2004,
11 then is your recommendation only that the RSP temporary
12 cap be limited to that period of time and recovered over, as
13 you say, a two year period instead of a three year period?

14 MR. BRUSHETT: I think that was sort of ... was there two
15 questions in there?

16 MS. BUTLER, Q.C.: Probably.

17 MR. BRUSHETT: Yes.

18 MS. BUTLER, Q.C.: I hope the transcript is kind to me, Mr.
19 Brushett.

20 MR. BRUSHETT: The recommendation would be that the
21 Board should request or order a review when Hydro comes
22 forward in 2003 for 2004 test year, assuming that they do,
23 and circumstances may change, who knows. I think that's
24 predicated a lot on in-service dates on Granite Canal and
25 things like that, so with that in mind, I think it should be the
26 earlier part of 2003 when there is another application or
27 three years beyond the end of this hearing, so that would
28 be my recommendation.

29 MS. BUTLER, Q.C.: Thank you. Now, you did have three
30 options on page 7 and they were indicated by bullets.
31 There you go.

32 MR. BRUSHETT: Yes.

33 MS. BUTLER, Q.C.: Neither of those three options, which
34 of course we can read for ourselves specifically addresses
35 the proposal which was a recommendation made by Mr.
36 Larry Brockman. Although it's possible, I suppose, the one
37 at line 26 could be considered similar to that. Do you recall
38 Mr. Brockman's specific recommendation on leaving the
39 cap at 50 million and allowing Hydro to book the difference,
40 in a sense, and make application back if it wished to recover
41 it?

42 MR. BRUSHETT: Yes, I recall it but not ... maybe we
43 should look at the detail if you want me to comment
44 specifically on it. I don't view it as a whole lot different
45 from increasing the cap on a temporary basis and looking
46 at possible different recovery methods for that access.

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

48 MR. BRUSHETT: So I don't view it as a whole lot different
49 from that.

50 MS. BUTLER, Q.C.: And by memory only then you had no
51 particular difficulty with what his proposed, did you?

52 MR. BRUSHETT: No, I guess I don't if we're... no
53 substantive difference of opinion with respect to what he's
54 saying, except I think that just it would be appropriate if
55 we're going to exceed 50 million it's just as well to say the
56 cap is a different number so that it's not viewed as being
57 outside, I guess, what the Board has permitted. I'm not
58 sure exactly how Mr. Brockman had intended, you know,
59 his proposal to work in practice, but I don't view it as a
60 whole lot different from what I'm suggesting, that
61 temporary increase in the cap which would allow you to
62 address the recovery of the excess in some different manner
63 possibly than the current mechanism.

64 MS. BUTLER, Q.C.: Okay, thank you. A follow-up
65 question actually from one that Ms. Greene asked you this
66 morning relates to your Schedule 5B, which was from the
67 2001 report.

68 MR. BRUSHETT: Yes.

69 MS. BUTLER, Q.C.: Can we scroll down there a bit, Mr.
70 O'Rielly? Thank you, very much. Now specifically, of
71 course, Ms. Greene pointed out that this table with bar
72 charts indicates a decreasing cost for kilowatt hour without
73 fuel being included?

74 MR. BRUSHETT: Yes.

75 MS. BUTLER, Q.C.: Okay, but does this table imply that
76 Hydro has become more efficient over the period covered?

77 MR. BRUSHETT: You'd have to look at the individual
78 components and it doesn't necessarily reflect that. For
79 example, a part of the reason that the total energy cost here,
80 excluding the fuel, is going down would be the reduction in
81 interest. That's not a reflection of efficiency in operations
82 at all. In addition, if you looked at '98 as being the peak,
83 the margin in that year was 25 million and in 2002, and this
84 is based on the original filing, it's 9.6 million, so that affects
85 the calculations which are here, so you have to look at the
86 individual components if you want to really look at
87 efficiencies with respect to controllable operating expenses
88 versus overall cost of electricity per kilowatt hour.

89 MS. BUTLER, Q.C.: Okay, thank you. Just a few questions
90 now, if I might, on the interest on overdue accounts.

91 MR. BRUSHETT: Okay.

92 MS. BUTLER, Q.C.: This is to the rural customers. I
93 believe both Mr. Roberts and Mr. Osmond addressed in
94 their testimony that Hydro does not currently charge

1 interest but will do so effective January 1st, 2002?
2 MR. BRUSHETT: Okay.
3 MS. BUTLER, Q.C.: And was that your understanding as
4 well?
5 MR. BRUSHETT: I haven't reviewed that area in detail
6 specifically, so I can't comment. I do remember though that
7 testimony and do acknowledge it, but I didn't undertake
8 any separate review of that in terms of policy.
9 MS. BUTLER, Q.C.: Okay. May I just ask for the transcript
10 of November 19th to be produced, please, page 46? And
11 lines 64 to 82. I had asked Mr. Osmond for 2002 if he could
12 tell me whether there'd been an adjustment to the revenue
13 requirement for the test year, and as you can see, his
14 answer there, he indicated that he'd be surprised because
15 it would be very difficult to estimate the interest forgone as
16 a result of not charging the interest on the overdue
17 accounts from the rural customers?
18 MR. BRUSHETT: Yes.
19 MS. BUTLER, Q.C.: Okay. My question first is whether
20 you feel it's appropriate for Hydro not to include any
21 interest revenue for overdue accounts in the test year?
22 MR. BRUSHETT: Well, just in principle the fact that they
23 plan to charge interest and there's none there, I guess, yes,
24 you know, in response to your question, it would be
25 appropriate to include the interest into the revenue ...
26 incorporate it into the revenue requirement. I'm not sure
27 that it would be significant. I certainly would ... in terms of
28 the rural customers and the arrears and the collectability
29 problems that might exist, I'm not sure how significant it
30 would be to the overall revenue requirement, but in
31 principle, yes, if there is policy to charge interest you
32 would expect to see that included in the revenue
33 requirement for the test year.
34 MS. BUTLER, Q.C.: Thank you, and secondly on that
35 point, do you have any suggestions on an appropriate
36 methodology to estimate the interest amount, or even
37 better, what a notional adjustment might be?
38 MR. BRUSHETT: I haven't considered that so you know,
39 I could review that, but I haven't considered that at this
40 point, no. Sorry.
41 MS. BUTLER, Q.C.: Mr. Chairman, those are my questions
42 for Mr. Brushett. Thank you, Mr. Brushett.
43 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
44 Butler. Thank you, Mr. Brushett. We'll move now directly
45 to the Industrial Customer's cross and Ms. Henley
46 Andrews, please. Good afternoon.
47 MS. HENLEY ANDREWS, Q.C.: Good afternoon. Mr.
48 Brushett, unfortunately since some of my questions arise

49 from other people's questions, and some of them I had
50 before I came, I might end up jumping back and forth a little
51 bit. In terms of your role and your terms of reference for
52 your 2001 report, as well in fact as for your 2000 report, you
53 don't look at issues like assignments of plant and those
54 types of things, is that correct?
55 MR. BRUSHETT: That would be correct.
56 MS. HENLEY ANDREWS, Q.C.: And when you are
57 looking at the reasonableness of expenses you have no
58 means of knowing whether a particular project is going to
59 cost this or that, correct?
60 MR. BRUSHETT: Maybe you should clarify. When you
61 say "(inaudible) or that" what are you ...
62 MS. HENLEY ANDREWS, Q.C.: For example, when you're
63 looking at Hydro's actual expenses for 2001, and if you are
64 looking at a capital project as an example, you can look at
65 what they spent versus what they budgeted, right?
66 MR. BRUSHETT: Yes.
67 MS. HENLEY ANDREWS, Q.C.: But you don't do any
68 review to determine whether what they spent was least
69 cost, or do you?
70 MR. BRUSHETT: No. It wouldn't be that detailed a review
71 in terms of investigating on a project by project basis
72 whether it's least cost or the most efficient way of doing
73 things. It's more an overall review of the reasonableness of
74 expense categories in relation to, I guess, the operations
75 and the activities that are undertaken.
76 MS. HENLEY ANDREWS, Q.C.: And would you also agree
77 that from a reasonableness point of view there is a range
78 that, I mean, there's no precise number that's the reasonable
79 number, but numbers could be on the high end or the low
80 end but still be reasonable?
81 MR. BRUSHETT: There's always a range of
82 reasonableness around any, I guess, activity or
83 expenditure, and particularly when it comes to, say, capital
84 projects where you're trying to plan and forecast those
85 sorts of things, yes.
86 MS. HENLEY ANDREWS, Q.C.: And one of the problems
87 with over budgeting, if there is over budgeting in the
88 revenue requirement, is that the consumers then pay rates
89 that are based upon overestimates of cost?
90 MR. BRUSHETT: Yes. Yeah, I agree with that, certainly
91 the principle that you're putting forward that to the extent
92 there is overestimating or over budgeting and the purpose
93 of the estimating is to set the revenue requirement, then
94 yes, rates based on that revenue requirement then capture
95 more than what is the actual costs are likely to be if, in fact,
96 it's proven to be over budget.

1 MS. HENLEY ANDREWS, Q.C.: When you took a look at
2 Hydro's system of accounts and in particular its JD
3 Edwards program, Ms. Butler asked you some questions
4 about, you know, being able to use different types of
5 categories for separating out the regulated versus the
6 unregulated expenses, but Hydro's system is also
7 sufficiently sophisticated to allow it to track the deficit from
8 its rural operations, it set it up that way, correct?

9 MR. BRUSHETT: Well, it's certainly a very comprehensive
10 accounting and integrated software program, so I'm sure it
11 could accommodate that. The question would be ... the
12 only thing I would have to qualify for would be to the
13 extent there may be common costs or overhead costs that
14 have to be allocated, then you would still have to go
15 through some sort of process of allocation and we wouldn't
16 necessary capture them, you know, directly into the
17 account system, but the system is fairly comprehensive
18 and could be used to capture those types of costs, yes.

19 MS. HENLEY ANDREWS, Q.C.: And since ... but would
20 you agree that when you look at the information requests
21 as a whole and then look at the work that Hydro has had to
22 do in order to generate its cost of service, that a significant
23 amount of time and effort in connection with this hearing
24 has been spent in getting information as to what has been
25 a cost associated with the rural and the isolated systems
26 versus what are costs of the non-subsidized part of the
27 system? And I'm thinking, for example, of the fact that the
28 central accounts had to be broken out and initially there
29 was a problem with breaking them out, that some of the
30 rural costs were included in common costs and that it
31 becomes a very difficult exercise?

32 MR. BRUSHETT: There may be some difficulty with that.
33 I can't speak with firsthand knowledge of the difficulty they
34 would have had in breaking out costs like that. In the
35 course of our review and the work that we do we don't look
36 at breaking out the cost in terms of cost of service
37 parameters, so I haven't directly dealt with that aspect of
38 their system, so I can't really speak to that, and how much
39 difficulty. I understand, from listening through a lot of the
40 testimony and seeing all the information that it was quite a
41 bit of effort required to generate that, but I can't speak with
42 firsthand knowledge of that.

43 *(2:45 p.m.)*

44 MS. HENLEY ANDREWS, Q.C.: But going back to my
45 original question, the accounting software system that's in
46 place would ... yes, you're right, there'd have to be some
47 judgment calls, but it would nevertheless permit those
48 costs being tracked separately if the Board decided that
49 that was the best way to have them tracked?

50 MR. BRUSHETT: I think so and to a certain extent those
51 costs already are tracked separately for isolated systems

52 and cost of diesel generating units. In Ramea is probably
53 ... they can pull those out of their system now. Those
54 would be tracked on a business unit basis, I think.

55 MS. HENLEY ANDREWS, Q.C.: Now, if you look at your
56 **Exhibit 5-C**, which were those pie charts.

57 MR. BRUSHETT: Yes.

58 MS. HENLEY ANDREWS, Q.C.: Ms. Greene suggested to
59 you that the pie charts show a decline in other costs over
60 the period from 1997 to 2002, but I would put it to you that
61 what **Exhibit 5-C** actually shows is the percentage that
62 those other costs are of the total?

63 MR. BRUSHETT: Yes, and I thought I had mentioned that
64 point in my response, that it was a decline in the
65 percentage of those costs relative to the total revenue.

66 MS. HENLEY ANDREWS, Q.C.: And at a time when fuel
67 costs are going up you would expect that ... and going up
68 much more rapidly than other costs, you would expect that
69 the other categories would decline, you know, from a
70 percentage of total cost perspective, right?

71 MR. BRUSHETT: Absolutely, yes.

72 MS. HENLEY ANDREWS, Q.C.: Now, I'd like to talk a little
73 bit about the RSP. One of the questions that you were
74 asked was the extent to which you had actually done a
75 review of the RSP plan, and I thought I understood from
76 you that one of the things that you had done was to review
77 how the plan had been applied by Hydro vis-a-vis the
78 directives from the Board. Is that correct?

79 MR. BRUSHETT: Yes. Well, the original directive or order
80 with respect to the methodology and the various
81 adjustments that flow through the plan, we have reviewed
82 those each year in terms of whether they're in accordance
83 with the original methodology.

84 MS. HENLEY ANDREWS, Q.C.: There are two RSP plans
85 though there's one for Newfoundland Power and there's
86 one for the industrial customers?

87 MR. BRUSHETT: Yes. I guess I haven't viewed it as such
88 that way. The costs are accumulated in there and then
89 split. I view it more as one plan with a split as opposed to
90 two plans.

91 MS. HENLEY ANDREWS, Q.C.: But, is it correct that the
92 plan that was approved by the Board and the directives
93 that have been issued by the Board with respect to the RSP
94 all related to the RSP for Newfoundland Power? There is
95 no Board approved RSP for the industrial customers?

96 MR. BRUSHETT: I guess I'll accept that. I'm thinking in
97 terms of the specific orders that were issued, and because
98 when the plan was set up in '86, of course, the regulatory
99 environment was different and it was a rate ... or a referral

1 essentially on the retail side only and the application at the
2 time for the plan was only related to the retail portion.
3 That's my understanding, subject to checking, going back
4 and checking those orders, but I believe it initially was all
5 in relation to the retail.

6 MS. HENLEY ANDREWS, Q.C.: And there hasn't been a
7 hearing since the industrial customers became regulated,
8 this is the first hearing dealing with it?

9 MR. BRUSHETT: That's correct, yes.

10 MS. HENLEY ANDREWS, Q.C.: Okay, so the directives
11 that you would have dealt with would have been directives
12 that were specifically aimed at the retail plan?

13 MR. BRUSHETT: Those directives that we would have
14 reviewed would have been ... yes, the directives that were
15 originally issued with respect to the set-up of the RSP
16 which was based on a retail plan, but over the years it has
17 been, I guess, carried forward as a, I refer to it as a total
18 plan with a retail and an industrial component to it, and
19 that's the way we have conducted our reviews on the total
20 of the plan.

21 MS. HENLEY ANDREWS, Q.C.: Ms. Greene had
22 suggested to you that in your review of the RSP you had
23 discovered no irregularities. Do you recall her putting that
24 question?

25 MR. BRUSHETT: Yes, I recall that question.

26 MS. HENLEY ANDREWS, Q.C.: But you would agree that
27 while your review didn't discover any irregularities as a
28 result of the information requests, it did become clear that
29 Hydro had not eliminated the impact of the rural rate
30 subsidy for the industrial customers?

31 MR. BRUSHETT: I certainly ... yes, I agree with you.

32 MS. HENLEY ANDREWS, Q.C.: And so that was an error
33 with respect to the application of the RSP?

34 MR. BRUSHETT: Yes, and that was effective January 1 of
35 2000 and ... yes.

36 MS. HENLEY ANDREWS, Q.C.: 2000, yeah.

37 MR. BRUSHETT: Yes.

38 MS. HENLEY ANDREWS, Q.C.: And did your review
39 indicate that the Hope Brook Gold and the Long Harbour
40 demand in energy were still being used for adjustments
41 even though they had closed a number of years ago?

42 MR. BRUSHETT: We did not identify those as issues in
43 terms of our review. Our understanding of the way the RSP
44 operated was that those elements, I'll call them, of the plan
45 were set as a part of the '92 cost of service and that that
46 was the basis of which the adjustments flow through the
47 plan all in reference to the '92 cost of service.

48 MS. HENLEY ANDREWS, Q.C.: For the retail plan?

49 MR. BRUSHETT: From our ...

50 MS. HENLEY ANDREWS, Q.C.: In 1992?

51 MR. BRUSHETT: ... perspective, our review was
52 conducted on the overall plan, I guess. That's the point I
53 made before.

54 MS. HENLEY ANDREWS, Q.C.: But in 1992 it was in
55 relation to the retail plan?

56 MR. BRUSHETT: Well, those elements were in there, so
57 they were incorporated. The industrial sales were in the '92
58 plan. However, I acknowledge your point that effectively
59 the industrial customers were not regulated at that time.

60 MS. HENLEY ANDREWS, Q.C.: And would you agree that
61 there is no Board directive that indicates that remaining
62 industrial customers should pick up the losses of others
63 who leave the system?

64 MR. BRUSHETT: No, there's nothing specific to my
65 knowledge on that.

66 MS. HENLEY ANDREWS, Q.C.: And would you agree that
67 the purpose of the RSP is to protect Hydro and its
68 customers from ... but in particular in dealing with Hydro,
69 it's to protect Hydro from revenue requirement problems as
70 a result of changes in the price of fuel?

71 MR. BRUSHETT: Yes, I would agree with that. Of course,
72 you can't disentangle the other element of that, which was
73 on the premise that under regulation a utility has the right
74 to recover its costs from ratepayers. Then it did ensure
75 Hydro had the opportunity to recover those costs and they
76 were deferred, and at the same time because of the
77 mechanism for recovery it prevented, I guess, significant
78 fluctuations in the price of the energy to the ratepayers.

79 MS. HENLEY ANDREWS, Q.C.: That's right, but it
80 smooths out the price fluctuations from a customer
81 perspective?

82 MR. BRUSHETT: Yes.

83 MS. HENLEY ANDREWS, Q.C.: But, from Hydro's
84 perspective the way that it works also means that they have
85 ... without going to a rate hearing they have a means of
86 recovering extra fuel costs if the price goes up?

87 MR. BRUSHETT: Yes.

88 MS. HENLEY ANDREWS, Q.C.: Or crediting back lower
89 fuel prices if the price goes down?

90 MR. BRUSHETT: It ensures they are able to recover the
91 full cost of fuel, yes.

92 MS. HENLEY ANDREWS, Q.C.: Now, you would have
93 read and heard most of the evidence concerning the RSP,

- 1 right?
- 2 MR. BRUSHETT: Yes.
- 3 MS. HENLEY ANDREWS, Q.C.: And so you would also
4 now be aware that Hydro was doing a revised cost of
5 service every month?
- 6 MR. BRUSHETT: Yes.
- 7 MS. HENLEY ANDREWS, Q.C.: And reallocating costs
8 between its customers?
- 9 MR. BRUSHETT: That's my understanding, I guess, from
10 what I've heard as to the impact of the revisions to the ... or
11 using the '92 cost of service to determine the splits in the
12 RSP.
- 13 MS. HENLEY ANDREWS, Q.C.: And was that something
14 that you would have been aware of at the time you were
15 doing your review?
- 16 MR. BRUSHETT: That is not an issue that was identified
17 as being a problem in our review. As a matter of fact, to be
18 quite honest with you, the splits was not a ... I refer to the
19 splits in the RSP, was not something that we did review in
20 detail in those years, so it didn't come to our attention.
- 21 MS. HENLEY ANDREWS, Q.C.: Okay, but you would
22 agree that doing those revisions on a monthly basis and
23 then incorporating the changes into RSP adjustments on an
24 annual basis would have the effect overall of changing the
25 rates as between the retail customers and the industrial
26 customers?
- 27 MR. BRUSHETT: I can't say I've done a sufficient review
28 of that, Ms. Henley Andrews, to sort of draw a conclusion
29 on it. I sort of view that more, I guess, in the area of cost of
30 service experts. We hadn't undertaken a detailed review of
31 the methodology and the impacts of the cost of service
32 methodology and how rerunning that impacted the splits.
- 33 MS. HENLEY ANDREWS, Q.C.: Would you agree that
34 there is no Board directive that specifically deals with the
35 issue of rerunning the cost of service on a monthly basis?
- 36 MR. BRUSHETT: That's my understanding, there's no
37 specific direction as to that it should be rerun or that it
38 shouldn't be rerun, there's no specific direction on how that
39 works.
- 40 MS. HENLEY ANDREWS, Q.C.: Okay. Now, have you
41 seen Hydro's November, 2001 RSP report?
- 42 MR. BRUSHETT: Yes. Can't say I have ...
- 43 MS. HENLEY ANDREWS, Q.C.: Do you have it there?
- 44 MR. BRUSHETT: Yes, in **PUB-83**.
- 45 MS. HENLEY ANDREWS, Q.C.: And that shows that the
46 RSP balance for Newfoundland Power now exceeds the \$50
47 million cap or did as of the end of November?
- 48 MR. BRUSHETT: I believe you're correct. I'll check that if
49 you wish.
- 50 MS. HENLEY ANDREWS, Q.C.: I think it's 56 million?
- 51 MR. BRUSHETT: Fifty-six, nine zero nine, two, yes.
- 52 MS. HENLEY ANDREWS, Q.C.: Closer to \$57 million?
- 53 MR. BRUSHETT: Yes.
- 54 MS. HENLEY ANDREWS, Q.C.: Would it be fair to say
55 that as a result of the hearing you now have a much better
56 understanding of the operation of the RSP than you did at
57 the beginning of the hearing?
- 58 MR. BRUSHETT: I think I had a reasonable understanding
59 of most of the methodology used in the RSP prior to this.
60 One area, as I've just talked about, using the '92 cost of
61 service to determine the splits in the RSP is something that
62 I'm obviously more familiar with now than I was before, but
63 other than that, you know, as you go along surely you,
64 yes, gained a better understanding, there's no doubt about
65 that.
- 66 MS. HENLEY ANDREWS, Q.C.: Now, one of the things
67 that you did in your December supplementary evidence
68 that Ms. Butler also referred you to on page 9 is look at the
69 options with respect to the RSP?
- 70 MR. BRUSHETT: Yes.
- 71 MS. HENLEY ANDREWS, Q.C.: And I'd like you ... before
72 I go back to that I'd like you to also take a look at your own
73 **Exhibit 4**.
- 74 MR. BRUSHETT: Yes.
- 75 MS. HENLEY ANDREWS, Q.C.: And I guess there's ... if
76 you look at Option A or Option B for the industrial
77 customers the additional increase would be 23 percent for
78 Option A and 50 percent for Option B?
- 79 MR. BRUSHETT: Those are the increases in the mill rate
80 relative to what they would otherwise be under the current
81 recovery method.
- 82 MS. HENLEY ANDREWS, Q.C.: Yeah.
- 83 MR. BRUSHETT: That's not a 23 percent increase in
84 overall rates, no.
- 85 MS. HENLEY ANDREWS, Q.C.: No, no.
- 86 MR. BRUSHETT: Okay.
- 87 MS. HENLEY ANDREWS, Q.C.: It would add 23 percent to
88 the increase?
- 89 MR. BRUSHETT: Yes.
- 90 MS. HENLEY ANDREWS, Q.C.: Yeah, and similarly, for the

1 retail it would be 19 percent additional increase under
2 Option A and 50 percent under Option B?

3 MR. BRUSHETT: Yes, that's what our calculation in this
4 exhibit shows.

5 (3:00 p.m.)

6 MS. HENLEY ANDREWS, Q.C.: And when we go back
7 now to page 9, depending on how any changes to the RSP
8 might be structured, you could reduce that impact, would
9 you agree? For example, if you froze the balance as of
10 December 31st, 2001, and recovered it over a five year
11 period instead of a three year period, you wouldn't get the
12 balance down quite as fast but the impact on the
13 consumers would be less?

14 MR. BRUSHETT: Absolutely, yes, I agree with you. The
15 two examples are alternatives we've suggested here are just
16 that, two alternatives that the Board could consider, and
17 both of them, of course, reflect an accelerated recovery on
18 them, and the premise there is that it is better to recover a
19 cost when incurred as opposed to deferring them into the
20 future, but if you are concerned and put more weight on, I
21 guess, the objective of minimizing the impact of any rate
22 changes or rate shock, if you want to call it that, then you
23 can consider deferring over an extended period of time and
24 minimize that.

25 MS. HENLEY ANDREWS, Q.C.: Yes, and those are the
26 very things that have been discussed in the past with
27 respect to even things like preferential rates, which is that
28 once you make a change in the way that you've been doing
29 something you try and spread the financial impact over
30 perhaps a longer than ideal period of time in order to
31 minimize rate shock?

32 MR. BRUSHETT: Yes. Certainly, any time you make a
33 change that's going to cost consumers, whether they be
34 industrial or the retail consumers more you would be
35 cognizant of and give consideration to, I think, the impact
36 that that would have in terms of rate shock or the increase
37 in rates revenue and whether that could be spread over a
38 period of time.

39 MS. HENLEY ANDREWS, Q.C.: I'm going to move on to
40 Holyrood efficiency.

41 MR. BRUSHETT: Sure.

42 MS. HENLEY ANDREWS, Q.C.: And in particular I want
43 you to look at your supplementary evidence, page 2.

44 MR. BRUSHETT: Yes.

45 MS. HENLEY ANDREWS, Q.C.: And Ms. Greene had
46 asked you a lot of questions on your conclusion that a
47 conversion factor of 633 kilowatt hours per barrel was
48 probably more reasonable than the 610 that was proposed.

49 Do you recall that?

50 MR. BRUSHETT: Yes, I do.

51 MS. HENLEY ANDREWS, Q.C.: When you look at page 3
52 of your testimony, and in particular at the chart at the
53 bottom, it looks to me like there's roughly a \$700,000
54 change in revenue requirement for every five kilowatt hours
55 per barrel of efficiency?

56 MR. BRUSHETT: I think that math seems reasonable there,
57 yes.

58 MS. HENLEY ANDREWS, Q.C.: Okay, so when you go
59 from 610 to 630, leaving out the 33, just to make the math
60 easier, you're really looking at \$2.8 million?

61 MR. BRUSHETT: Yes.

62 MS. HENLEY ANDREWS, Q.C.: Roughly?

63 MR. BRUSHETT: Probably a little higher than that.
64 Probably closer to 3 million.

65 MS. HENLEY ANDREWS, Q.C.: Okay. Now, Ms. Greene
66 challenged you with respect to a number of your
67 assumptions on the 633, but would you agree with me that
68 one of the challenges in looking at an appropriate
69 conversion factor is to make sure that we're comparing
70 apples and apples, that when you are looking at a long-term
71 average hydraulic production that you have to make sure
72 that in using five years of efficiency that they relate to an
73 average water?

74 MR. BRUSHETT: I agree with you, and I think that's the
75 basis for the assumption that we've made, that the 2001
76 production level is more representative of the forecast or
77 expected planned, whatever word you want to use,
78 production in terms of thermal versus hydraulic in the test
79 year than the record that they've been using for purposes
80 of calculating an average efficiency aspect.

81 MS. HENLEY ANDREWS, Q.C.: And one of the things
82 that was put to you was that the Board's past practice has
83 been to look at the preceding five years. Do you recall
84 that?

85 MR. BRUSHETT: Yes.

86 MS. HENLEY ANDREWS, Q.C.: Now, I'd like, Mr. O'Rielly,
87 if we could, to look at **U-Hydro-17**, and the chart that we
88 looked at this morning that had the 30 years plotted on it
89 and the three graphs that ... yes, that one, Figure 7. When
90 Ms. Greene was referring you to Figure 7 she was focused
91 principally on the projected water levels for 2001 versus the
92 average, but I'd like to focus on the period around 1990,
93 because at the time of the 1992 hearing the five years that
94 would have been used in efficiency would presumably
95 have been the period from '87 to '91 or thereabouts. Now,
96 if you look at that chart it appears to me that in that time

1 period most of those little green markers are pretty close to
2 the average, would you agree?

3 MR. BRUSHETT: That's difficult to tell, Ms. Henley
4 Andrews.

5 MS. HENLEY ANDREWS, Q.C.: Well, if you look at 1990
6 and you go up from 1990.

7 MR. BRUSHETT: Yes.

8 MS. HENLEY ANDREWS, Q.C.: And you look at ... then
9 there's a cluster of about four of them?

10 MR. BRUSHETT: Yes, I see that.

11 MS. HENLEY ANDREWS, Q.C.: In that time period that is
12 pretty ... well, some are above the average and some are
13 below the average?

14 MR. BRUSHETT: Yes.

15 MS. HENLEY ANDREWS, Q.C.: And there might be one
16 year which was a fair bit below, but on the whole they were
17 close to the average?

18 MR. BRUSHETT: The actual energy which is the green
19 triangles?

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

21 MR. BRUSHETT: Yes, is focused around the lines that are
22 there.

23 MS. HENLEY ANDREWS, Q.C.: Yes, but that contrasts
24 quite ... it's quite different when you look at the five years
25 that we're looking at in this hearing, which were all ...

26 MR. BRUSHETT: When you move to the far end of the
27 graph, yes, they are all well above the lines which reflects
28 the average inflows.

29 MS. HENLEY ANDREWS, Q.C.: So that, in fact, when you
30 look at Figure 7 there may not have been a problem in using
31 the previous five years hydrology in determining the
32 efficiency factor, because it may very well be that most of
33 those five years were pretty close to the average, but our
34 problem here is that we have evidence that the last five
35 years have been, on the whole, very wet years and we
36 know that thermal efficiency is lower with the less thermal
37 energy we generate?

38 MR. BRUSHETT: Yes, I agree with that.

39 MS. HENLEY ANDREWS, Q.C.: In looking at the forecast
40 cost of fuel there are two forecasts that really need to be
41 dealt with. One is the actual forecast price per barrel which
42 is done in US dollars, correct?

43 MR. BRUSHETT: Yes.

44 MS. HENLEY ANDREWS, Q.C.: And the other is the
45 forecast for the exchange rate?

46 MR. BRUSHETT: Yes.

47 MS. HENLEY ANDREWS, Q.C.: Neither of which is
48 particularly easy to predict?

49 MR. BRUSHETT: I would agree with that.

50 MS. HENLEY ANDREWS, Q.C.: Have you, in your
51 evaluation of Hydro's practises and procedures, ever done
52 any study of whether Perra forecasts are more reliable or
53 less reliable than other means of looking at price?

54 MR. BRUSHETT: No, we haven't looked at that. I guess
55 the focus of our review when it comes to fuel and the two
56 parameters that you've suggested are the variables, we
57 have more, based on inquiry and so on, determined the
58 methodology that Hydro uses, and they use external
59 sources of information, you know, as opposed to trying to
60 predict that in-house, so you get some level of comfort that
61 at least they're using experts in the field, whether the one
62 they're using is more reliable than another, you know, we
63 haven't attempted to substantiate that.

64 MS. HENLEY ANDREWS, Q.C.: On the overtime issue,
65 which has also been explored with you a certain amount
66 today, I think your comment in your evidence was that the
67 fact that Hydro doesn't budget for overtime on capital
68 projects makes it harder to manage the capital budgets?

69 MR. BRUSHETT: No, I don't think I said that.

70 MS. HENLEY ANDREWS, Q.C.: Okay. I wrote it down. It
71 may have been Ms. Butler's question. Is it fair to say that
72 when we look at Hydro's history on spending of its capital
73 budget that the numbers for what it has spent include its
74 overtime?

75 MR. BRUSHETT: Looking back at the actual expenditures?

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

77 MR. BRUSHETT: They most certainly would. To the
78 extent overtime was incurred they would be included in the
79 actual expenditures.

80 MS. HENLEY ANDREWS, Q.C.: Okay, so that even
81 though your analysis of Hydro's records for both 2000 and
82 2001 indicates that Hydro generally underestimates or
83 under budgets for its overtime with respect to capital
84 projects, that is when we look at the, you know, 13 to 15
85 percent underspending of its capital budget over the last
86 number of years, the overtime is already in there?

87 MR. BRUSHETT: I ...

88 MS. HENLEY ANDREWS, Q.C.: In other words, if the
89 overtime had been properly budgeted for the differences
90 would be greater?

91 MR. BRUSHETT: No, I don't think I could come to that
92 same conclusion because the first part of your comment

1 there was that we had determined that they had under
2 budgeted overtime, and I don't think that was the
3 conclusion we had made.

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

5 MR. BRUSHETT: They hadn't included any budget for
6 overtime in 2001.

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

8 MR. BRUSHETT: But there was no analysis to go back
9 and say how much did they budget in prior years. To be
10 honest with you, I believe their practise would be that they
11 would not budget for any overtime in any given year, but
12 overtime would probably be incurred, depending on how a
13 project proceeded, so there was no analysis to say that
14 they had been under budgeting overtime per se.

15 *(3:15 p.m.)*

16 MS. HENLEY ANDREWS, Q.C.: Okay, but would it be ... if
17 we took 2000 as an example and if your understanding and
18 mine is correct, which is that Hydro generally doesn't
19 budget for overtime.

20 MR. BRUSHETT: Right.

21 MS. HENLEY ANDREWS, Q.C.: And we look at Hydro's
22 actual capital expenditures in 2000, then its actual capital
23 expenditures in 2000 would include any overtime that it had
24 incurred on its capital projects?

25 MR. BRUSHETT: That's correct.

26 MS. HENLEY ANDREWS, Q.C.: And when we were
27 comparing the costs to ... the actual costs to the budget for
28 the capital project you would, in fact, have ... the overtime
29 would be taken into account?

30 MR. BRUSHETT: It would be included in the actual, and
31 presumably not included in the budget, so to the extent
32 there was a variance it may be attributable to the fact that
33 overtime was incurred as opposed to regular time.

34 MS. HENLEY ANDREWS, Q.C.: And then if there had
35 been a budget for overtime in the 2000 capital budget we
36 would have to assume that that capital budget would have
37 been a little larger than it actually was?

38 MR. BRUSHETT: Sure.

39 MS. HENLEY ANDREWS, Q.C.: And at that point the
40 percentage unspent, if you like, of that budget that would
41 include the overtime would actually be greater than it is
42 right now?

43 MR. BRUSHETT: I can agree with what you're saying, I
44 guess, sort of in principle or conceptually because to the
45 extent they had not included a budget for overtime and
46 they incurred it, yes, that would be a part of the variance

47 and the variance would be larger had they budgeted
48 originally, but I guess you would also have to know what
49 caused the variance, whether it might be saving some
50 materials, it may also be, which I think you will find in a lot
51 of cases is more likely attributable to delays and carry
52 overs on projects, so to the extent it's just a delay and it's
53 spent in a subsequent year then it's not really a ... on a
54 project by project basis. As a matter of fact, I think my
55 report makes reference to that. We didn't do any detailed
56 review of it or analysis of it, but in recent years Hydro's
57 actuals come in closer than the variance we had determined
58 on a project by project basis, but the purpose of our
59 review, as I'm sure you're aware, is that for rate setting
60 purposes the capital budget reflects what the rate base is
61 going to be in the test year. Therefore, to the extent there
62 are even carry overs in that forecast or budget items in
63 there that end up getting carried over to a subsequent year,
64 then the rate base in the test year is overstated and the
65 revenue requirement in the test years is potentially
66 overstated, so that was the purpose of our review. It's not
67 to whether on an individual project basis they were over
68 budgeting or under budgeting.

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

70 MR. BRUSHETT: That was the purpose of the analysis
71 that we did.

72 MS. HENLEY ANDREWS, Q.C.: Uh hum. Now, can we
73 look at your Schedule 5-D.1 which is the other costs? Now,
74 Ms. Butler had asked you specifically about the third
75 column ... or the second column for each of the years,
76 which is the cost per kilowatt hour?

77 MR. BRUSHETT: Yes.

78 MS. HENLEY ANDREWS, Q.C.: And I think you had
79 agreed with her that that is a reasonable measure of Hydro's
80 efficiency?

81 MR. BRUSHETT: It is certainly one measure of efficiency
82 in terms of any utility. What your costs are on a per
83 kilowatt hour based on your output I think is a reasonable
84 approach to measuring overall efficiency.

85 MS. HENLEY ANDREWS, Q.C.: Okay, and I think that if I
86 understood it correctly, that she was suggesting to you
87 that since the cost per kilowatt hour has gone up by
88 roughly ten percent since 1997, from 1997 over the
89 projected for 2002, that effectively there's less efficiency
90 now than there was in 1997?

91 MR. BRUSHETT: I don't think she specifically said that,
92 but that would be the inference from the comments that
93 were made, that to the extent the costs per kilowatt hour
94 was higher in 2002 then you would presumably ... the
95 presumption would be that the efficiency was lower in
96 terms of that production, yes.

1 MS. HENLEY ANDREWS, Q.C.: Yes, and that, in fact, if
2 the productivity or the efficiency for 2002 had been
3 maintained relative to 1997 we'd be looking at roughly \$9
4 million less in revenue requirement at this hearing?

5 MR. BRUSHETT: That was ... yes, that was the basis of
6 the question she asked, and my response at the time. You
7 would obviously have to look in a little more detail, I think,
8 with respect to that. Some of those costs would potentially
9 be fixed and as you increase production you should be
10 seeing efficiencies. Others would increase just by virtue of
11 inflation and so on, so you know, you'd have to look in
12 more detail at the overall efficiency and what trends should
13 have been there as opposed to what ...

14 MS. HENLEY ANDREWS, Q.C.: Have you ever taken a
15 look at Hydro's capital projects and done an analysis of
16 the, I suppose a retrospective analysis of the cost benefit
17 of those projects in terms of efficiency?

18 MR. BRUSHETT: No, we haven't been asked to do that by
19 the Board, and as part of our reviews we haven't
20 undertaken any review of specific projects as opposed to
21 cost effectiveness or efficiency.

22 MS. HENLEY ANDREWS, Q.C.: You have, however,
23 looked at the capital budget?

24 MR. BRUSHETT: The capital budget in relation to variance
25 from, you know, budget to actual and underspending
26 versus overspending.

27 MS. HENLEY ANDREWS, Q.C.: But would you agree that
28 if you look over the years from 1997 forward that a fair
29 number of the capital projects indicate that there is
30 expected to be an increase in efficiency as a result of
31 upgrading certain plants or making certain capital
32 expenditures?

33 MR. BRUSHETT: I would agree with that.

34 MS. HENLEY ANDREWS, Q.C.: But the record here on the
35 schedule that's on the screen would indicate that on an
36 overall cost per kilowatt hour basis the costs have actually
37 gone up, not down?

38 MR. BRUSHETT: That would be correct overall, yes.

39 MS. HENLEY ANDREWS, Q.C.: That's a good point to
40 break, Mr. Chairman.

41 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
42 Henley Andrews. We'll break for 15 minutes, please.

43 *(break)*

44 *(3:45 p.m.)*

45 MR. NOSEWORTHY, CHAIRMAN: Thank you. I'd ask
46 Ms. Henley Andrews if you could continue, please.

47 MS. HENLEY ANDREWS, Q.C.: Thank you, Mr. Chairman.
48 Mr. Brushett, again going back to some of the questions
49 that were asked earlier today, first of all can we look at your
50 **Exhibit 5(D).2?** In your pre-filed evidence, the evidence
51 that was filed before the hearing began, this is attached to
52 that evidence, correct?

53 MR. BRUSHETT: Yes.

54 MS. HENLEY ANDREWS, Q.C.: So the ... in terms of total
55 other costs, the graphic representation, which is the green
56 line on the top of the plan, indicates that costs have been
57 declining since 2000, correct?

58 MR. BRUSHETT: The forecast costs are, yes, declining
59 below the 2000 level.

60 MS. HENLEY ANDREWS, Q.C.: And in fact in your pre-
61 filed testimony you indicated a declining trend, correct?

62 MR. BRUSHETT: In the forecast years, yes.

63 MS. HENLEY ANDREWS, Q.C.: Yes. However, you would
64 agree, I think, that if you look at the period from 1997 to
65 2000, which reflect actuals, in fact what you see over that
66 period of time is an increasing trend.

67 MR. BRUSHETT: Yes, over the full period 1997 to 2002,
68 yes.

69 MS. HENLEY ANDREWS, Q.C.: And would you agree that
70 if you took Hydro's latest forecast for 2001 as opposed to
71 the forecast that it was utilizing at the time that you
72 prepared this chart, that the decline in costs between 2000
73 and 2001 would not be nearly as great?

74 MR. BRUSHETT: That would be correct, yes. There's
75 obviously an increase in the revised 2001 forecast and the
76 decrease from 2000 would be much less.

77 MS. HENLEY ANDREWS, Q.C.: And if we could look at
78 **NP-3**, page three of three, and in particular line 72, the
79 expected decrease at the time that you did that plan of the
80 2001 other costs over the 2000 actuals was 4.265 million?

81 MR. BRUSHETT: Yes.

82 MS. HENLEY ANDREWS, Q.C.: But when you take the
83 figures that Ms. Butler went through with you and look at
84 the revised other costs budget of \$101,592,000 for 2001, in
85 fact the decrease is only about \$1 million.

86 MR. BRUSHETT: Yes.

87 MS. HENLEY ANDREWS, Q.C.: About a quarter of what
88 had been expected.

89 MR. BRUSHETT: Yes.

90 MS. HENLEY ANDREWS, Q.C.: And again because there
91 was very little decrease projected between the 2001 costs
92 and the 2002 forecast costs, your chart, if revised to reflect

1 the current forecasts, would not really show what you
2 could really call a declining trend.

3 MR. BRUSHETT: No, it wouldn't be certainly as significant
4 as was originally submitted and it would be much flatter, I
5 agree with you. 102 would drop down to ninety-nine two
6 seventy-five, ninety-nine two hundred and seventy-five I
7 believe under the revised 2002 forecast, so it's not
8 significant in terms of percentage drop.

9 MS. HENLEY ANDREWS, Q.C.: If we can look at Mr.
10 Roberts' Schedule 1A, and, let me see, line 38. Yeah. The
11 current figure for 2002 as revised for total other costs is
12 91,643,000, correct?

13 MR. BRUSHETT: Yes, that's net of the allocations and
14 recoveries.

15 MS. HENLEY ANDREWS, Q.C.: So you would have to ...
16 would you agree that that does not include the \$2 million of
17 proposed deferred hearing costs?

18 MR. BRUSHETT: The 2002 does not, however, I believe
19 the professional services, and maybe we can just confirm
20 this by checking the footnote, the professional services
21 which is showing an increase there is the amortization of
22 the \$2 million that is shown as a deferred or, amount in
23 2001, so effectively there's \$1 million worth of, and maybe
24 we should check the footnote on that if Mr. O'Rielly wanted
25 to scroll down. 25, yes.

26 MS. HENLEY ANDREWS, Q.C.: Can we go ...

27 MR. BRUSHETT: So the \$2 million that's being shown as
28 a reduction in the 2001 other costs, which is the deferred
29 rate hearing costs, \$1 million of that falls into the 2002
30 revenue requirement by virtue of the amortization.

31 MS. HENLEY ANDREWS, Q.C.: And can we go back to
32 JCR Schedule 1A again? When you look at the 2001, when
33 you look at line 38 in the 2001 budget ...

34 MR. BRUSHETT: Yeah.

35 MS. HENLEY ANDREWS, Q.C.: ... that \$91 million that is
36 showing there, that doesn't include the \$2 million in costs
37 that Hydro is proposing to defer from 2001, is that right?

38 MR. BRUSHETT: That is correct, it does not. It's a
39 reduction of the costs as shown in line 33.

40 MS. HENLEY ANDREWS, Q.C.: And would you agree that
41 in accordance with generally accepted accounting
42 principles, that \$2 million would normally be included in the
43 costs for 2001?

44 MR. BRUSHETT: Yes, you're correct in terms of what
45 generally accepted accounting principles and the rules
46 indicate are appropriate to defer costs into the future and
47 it's, the basic premise is that they should benefit future

48 periods, but from a regulatory perspective I think there is
49 certainly precedent for deferral such as this because the
50 underlying premise is that the Utility is permitted to recover
51 those costs from ratepayers and to the extent they are
52 unable to recover them in the year 2001, because there's no
53 increases there, the regulator, you know, there is regulatory
54 precedent for deferring such costs and allowing for them to
55 be recovered in future rates, so while that is I'll say contrary
56 to what would be normal generally accepted accounting
57 principles, in a regulatory environment it would be based
58 on order of the regulator that they would be permitted to be
59 deferred and recovered.

60 MS. HENLEY ANDREWS, Q.C.: Well really what the effect
61 would be is that if you included that \$2 million worth of
62 costs in 2001 and you kept the revenue requirement the
63 same, what would happen is that the margin of the return
64 on equity would drop to \$9 million.

65 MR. BRUSHETT: Exactly.

66 MS. HENLEY ANDREWS, Q.C.: Which in fact is less than
67 what Hydro is currently projecting, is more, sorry, than
68 what Hydro is currently projecting for 2002 in terms of its
69 margin of return on equity.

70 MR. BRUSHETT: In absolute dollar terms, yes, it is, yeah.

71 MS. HENLEY ANDREWS, Q.C.: And Ms. Butler had gone
72 through with you the budgeting process and since going
73 back initially to U-Hydro-3 and the revisions to the 2001
74 budget over that period of time, and if you go from the \$88
75 million originally forecast in October of 2000 to \$93 million,
76 which would be the forecast for total other costs if you
77 included the rate hearing costs in 2001, basically you've got
78 a 5.7 percent increase in the budgeted other costs since the
79 beginning of the budgeting process.

80 MR. BRUSHETT: I certainly acknowledge the, recall the 88,
81 and the ninety-one zero five zero plus the two will give you
82 93,050, and I'll accept your math that that represents a five
83 percent increase.

84 MS. HENLEY ANDREWS, Q.C.: One of the things that you
85 explored in your testimony was the possibility of a
86 productivity allowance, and you were asked some
87 questions about it and I realize that the Board ultimately
88 took a somewhat, didn't really follow that approach in terms
89 of Newfoundland Power, but how does a productivity
90 allowance work?

91 MR. BRUSHETT: Essentially the way it has worked in
92 terms of the previous situation in which the Board used
93 this, the Board would determine, based on its review of the
94 evidence, whether it was appropriate to apply such a
95 allowance to the forecast expenses in the test year and
96 would, based on that and their assessment, would take the
97 forecast operating expenses and do a overall allowance or

1 decrease in those expenses to reflect improvements that
2 they deem are appropriate in terms of efficiencies and cost
3 savings that may be available to the Utility that aren't
4 reflected in the forecast.

5 MS. HENLEY ANDREWS, Q.C.: And when you take an
6 approach similar to the approach that you've recommended,
7 which is that while you would leave the amount to the
8 discretion of the Board, that your suggestion is a one to 1.5
9 percent discount, if you like, then that basically just
10 provides an incentive to the Utility to keep its costs down
11 if it wants to earn its margin, right?

12 MR. BRUSHETT: It has the effect of providing certainly
13 some incentive to control costs in order to, yes, meet the
14 projected or the desired return.

15 MS. HENLEY ANDREWS, Q.C.: With respect to the
16 \$800,000 increase in the interest expense associated with
17 interest on the amount held by Hydro from the re-called
18 sales ...

19 MR. BRUSHETT: Yes.

20 MS. HENLEY ANDREWS, Q.C.: ... does the debt for the
21 purpose of calculation of the guarantee fee include the
22 amount held?

23 MR. BRUSHETT: I'm not 100 percent sure. I don't think it
24 does. The interest is calculated based on running the
25 financial model with the cash flows associated with the re-
26 call power excluded. That's my understanding of how it
27 works. I don't think that affects the calculation of the debt
28 guarantee fee but I would have to check that to make sure.

29 MS. HENLEY ANDREWS, Q.C.: And could you check that
30 for me?

31 MR. BRUSHETT: I can do that.

32 MS. HENLEY ANDREWS, Q.C.: Now, right now the
33 inclusion of that \$800,000 in interest in the revenue
34 requirement assumes that that money will be available to
35 Hydro throughout the year, right?

36 MR. BRUSHETT: It's based on the cash flow and the
37 forecast as to how the cash flow comes in in terms of
38 billings to Hydro Quebec, accounts receivable and the
39 collection period on accounts receivable being the normal,
40 I think it's probably 30 days, and then the timing of the
41 dividend payments to the province. The dividend
42 payments, I believe, are quarterly with sort of in arrears
43 with the balance paid out in the first quarter of the
44 succeeding year. I believe that's the approach used by ...

45 MS. HENLEY ANDREWS, Q.C.: And if government
46 directed Hydro to, at some point in the future to deal with
47 those dividends differently, then there would be an impact
48 on the revenue requirements?

49 MR. BRUSHETT: Well, you would have to determine what
50 impact that would have in terms of cash flow which would
51 impact, yes, the notional interest adjustment that's
52 calculated.

53 MS. HENLEY ANDREWS, Q.C.: But from a practical
54 perspective, which is from a consumer's perspective,
55 because the interest rate that is used to pay interest to
56 Hydro on that money is the same as the short-term debt
57 interest rate, it doesn't matter much to the consumers one
58 way or the other, would you agree?

59 MR. BRUSHETT: I'm not sure I follow your question.

60 MS. HENLEY ANDREWS, Q.C.: Okay. Which is that my
61 understanding, and I want to be corrected if I'm wrong, is
62 that the interest rate that is utilized to come up with that
63 \$800,000 in interest on the revenue from the re-call sales is
64 based upon Hydro's short-term debt cost.

65 MR. BRUSHETT: That's my understanding, yes, cost of
66 short-term borrowings, yes.

67 MS. HENLEY ANDREWS, Q.C.: Exactly. So whether
68 Hydro borrows on the basis of normal short-term debt or
69 whether Hydro utilizes that money, which is the re-call
70 money, to help its cash flow, it doesn't really matter to the
71 consumer because the consumer in the revenue
72 requirement is being allocated the short-term cost of debt
73 in any event.

74 MR. BRUSHETT: I think I follow what you're saying and
75 if I am following that correctly then I would agree that it's
76 a notional interest adjustment that is effectively, I guess
77 the way I term it is reflects the interest otherwise avoided,
78 so the consumer should be indifferent to that in that sense.
79 It's not, no extra costs or extra mark-up or anything in that
80 to my knowledge.

81 MS. HENLEY ANDREWS, Q.C.: And no benefit.

82 MR. BRUSHETT: And no benefit to ...

83 MS. HENLEY ANDREWS, Q.C.: The consumer.

84 MR. BRUSHETT: No benefit to the consumer, no.

85 *(4:00 p.m.)*

86 MS. HENLEY ANDREWS, Q.C.: On page six of your 2001
87 report you recommend that Hydro be requested to update
88 its assumptions and revenue and expense forecasts with
89 more current information at some point as the hearing
90 progresses, and you say an update based on data to the
91 end of the third quarter might be appropriate, and there
92 certainly has been an update I think to the end of the third
93 quarter, but there have been changes, would you agree, in
94 terms of forecasts, both with respect to fuel and thermal
95 production and consumption by, and demand by
96 Newfoundland Power and the industrial customers, would

1 you expect that you would have an opportunity, that if an
2 updated one were filed after the conclusion of the evidence
3 or after the conclusion of the hearing, would you expect
4 that you would have an opportunity to review and
5 comment on the update?

6 MR. BRUSHETT: I would say yes. My understanding
7 would be certainly the Board would want some review of
8 that information because it may be, some of the changes
9 there may be substantive depending on what the Board
10 orders in terms of the various issues that have been
11 presented and so I, considering that some of those
12 changes may be substantive, I would expect the Board
13 would want some review of that, and, yes, we would
14 normally be able to review that on their behalf.

15 MS. HENLEY ANDREWS, Q.C.: Have you reviewed Mr.
16 Drazen's evidence with respect to the working capital
17 allowance?

18 MR. BRUSHETT: I did review that pre-filed evidence, yes,
19 and read the transcript. I wasn't here the day he was on the
20 stand but I did review the transcript.

21 MS. HENLEY ANDREWS, Q.C.: Do you agree with his
22 conclusions with respect to handling of cash working
23 capital allowance?

24 MR. BRUSHETT: Well, he's proposing one adjustment, I
25 understand, which is related to the interest on the bonds
26 and the fact that because those, interest is paid on
27 (phonetic) arrears, then there is a contribution to cash
28 working capital or a reduction in the required cash working
29 capital. Conceptually, yes, I can see the basis for his
30 comments. I hadn't done a detailed review of that, to be
31 honest with you, Ms. Henley Andrews, but conceptually
32 there is some reasonable basis similar to the HST
33 adjustment that Hydro makes, that those funds are
34 available for a period of time to meet normal working capital
35 requirements in terms of paying the operating expenses.

36 MS. HENLEY ANDREWS, Q.C.: So you ... basically your
37 reaction is that it's a reasonable recommendation?

38 MR. BRUSHETT: I think conceptually I would agree that
39 it's reasonable but I haven't done a detailed review of his
40 calculations and what the, all the impacts are.

41 MS. HENLEY ANDREWS, Q.C.: Okay. Now when we look
42 at page 13 of your evidence ... you would, I think, have to
43 agree that a considerable amount of time and effort has
44 been spent during this hearing looking at the issue of rate
45 of return, correct?

46 MR. BRUSHETT: Not as considerable or ...

47 MS. HENLEY ANDREWS, Q.C.: A considerable amount of
48 time has been spent looking at that issue and discussing
49 rates of return on equity and all those types of things.

50 MR. BRUSHETT: I guess I would say there's been
51 considerable time and effort put into that in terms of the
52 cost of capital experts. I think I could agree with that. I
53 don't recall it being canvassed a whole lot in terms of, you
54 know, cross-examination and so on and spending a lot of
55 time in that regard.

56 MS. HENLEY ANDREWS, Q.C.: In 1992, in looking at the
57 approved interest rate coverage for Hydro, the amount
58 approved by the Board was 1.08 times the interest expense,
59 correct?

60 MR. BRUSHETT: I believe that's correct, yes.

61 MS. HENLEY ANDREWS, Q.C.: And Hydro has operated
62 since 1992 with that approved amount of profit, correct?

63 MR. BRUSHETT: Has certainly operated with rates based,
64 set based on that parameter at that time, yes, 1.08 interest
65 coverage.

66 MS. HENLEY ANDREWS, Q.C.: And are you aware of any
67 detriment that that has had on Hydro from a financial
68 perspective?

69 MR. BRUSHETT: No, not based on the information that
70 certainly is available to me. I have no knowledge of any
71 problems that that has caused Hydro over the period from
72 1992.

73 MS. HENLEY ANDREWS, Q.C.: So that when we look at
74 your conclusion at the bottom of page 13 of your 2001
75 report, which is that interest coverage for the 2002 test year
76 has been calculated at 1.09 times, and that's, we're talking
77 about the regulated portion of Hydro's operations, then
78 would you agree with me that when you look at Hydro's
79 proposed dollars for rate of return, that in fact what's
80 projected at three percent is effectively the equivalent of
81 the profit level that the Board has approved for Hydro
82 since 1992?

83 MR. BRUSHETT: I guess it has the same result in terms of
84 interest coverage, yes, I would have to, but there are a
85 number of things I'm sure that have changed in the interim
86 in terms of Hydro's total debt that's outstanding and the
87 interest rates on that debt and so on, and I think there have
88 been a lot of things that have changed between 1992 and
89 2002 in terms of the debt and the profile and so on in terms
90 of capital structure of Hydro.

91 MS. HENLEY ANDREWS, Q.C.: But most of that ...

92 MR. BRUSHETT: But at the end result, yes. 1.09 times
93 interest coverage excluding re-call power is comparable to
94 1.08 times in 1992. I can't, you know ...

95 MS. HENLEY ANDREWS, Q.C.: And you'd agree that
96 most of the differences in terms of Hydro's capital structure
97 are as a result of (inaudible) dividends and therefore

1 reduction in the amount of equity.

2 MR. BRUSHETT: Well that is certainly one of the changes
3 that has occurred. You know, there was foreign debt that
4 was re-financed and a lot of bond issues with fairly high
5 interest rates carried over from the '80s and so on that have
6 matured and there's been a lot of changes, I guess, in the
7 intervening period that you would have to look at.

8 MS. HENLEY ANDREWS, Q.C.: But you would agree that
9 the 1.08 times has been sufficient to enable, the interest
10 coverage of 1.08 times has been sufficient to enable Hydro
11 to maintain its credit rating.

12 MR. BRUSHETT: I have to be careful in terms of
13 responding to that because I think that's more a question
14 for someone who would be considered a cost of capital
15 expert and things such as the government guarantee on the
16 debt and so on all has to be considered in terms of the
17 credit rating and whether that impacts credit rating and how
18 1.08 is viewed relative to 1.15 or 1.05. I don't feel like I
19 should comment specifically on the fact that 1.08 is
20 sufficient or give any opinion with that respect. I will
21 acknowledge that I am not aware of any problems that
22 Hydro has had over the years because of the 1.08.

23 MS. HENLEY ANDREWS, Q.C.: And you have already
24 acknowledged that Hydro's proposed three percent rate of
25 return on equity for 2002 yields 1.0 times the interest.

26 MR. BRUSHETT: 1.09.

27 MS. HENLEY ANDREWS, Q.C.: 09 times the interest.

28 MR. BRUSHETT: Based on the original application and the
29 financial forecast included in the original application.

30 MS. HENLEY ANDREWS, Q.C.: Okay. Now when we take
31 a look at the capital expenditures, and in particular page 14
32 of your evidence, and you have concluded that basically
33 Hydro's capital expenditures have been lower than budget
34 by an average of 15 percent over the last five years, right?

35 MR. BRUSHETT: Yes, 1996 to 2000, correct.

36 MS. HENLEY ANDREWS, Q.C.: And that in fact, that
37 average is normalized, that if you look at the pure numbers,
38 the actual budget versus the actual expenditures, the
39 average is quite a bit higher. It's more like 23 percent?

40 MR. BRUSHETT: I'll accept your number because I don't
41 recall it right offhand but I did see it calculated before
42 obviously normalization, but, yes ...

43 MS. HENLEY ANDREWS, Q.C.: But the ... and then you
44 did the normalization in order to try and take out anything
45 really unusual that might have impacted the spending of
46 the budgets?

47 MR. BRUSHETT: Yes, that's correct.

48 MS. HENLEY ANDREWS, Q.C.: And the result of the
49 normalizing is the 15 percent.

50 MR. BRUSHETT: That's correct, after normalizing, there is
51 still a variance of 15 percent in terms of over-budgeting
52 versus actual.

53 MS. HENLEY ANDREWS, Q.C.: And your
54 recommendation is that there be a downward adjustment to
55 the 2001 and 2002 forecast capital expenditures, is that
56 right?

57 MR. BRUSHETT: My comments in terms of our report are
58 to provide for the benefit of the Board what the impact
59 would be of a downward adjustment but essentially, you
60 know, I would recommend that they consider a downward
61 adjustment on the basis that because of things such as just
62 delays, weather, any delays in receiving material, it is more
63 often than not, and as evidenced by the 15 percent
64 average, that budgets aren't completely spent in any given
65 year and that some downward adjustment should be
66 reflected for purposes of rate setting. That's not to say
67 these budgets shouldn't be approved by the Board
68 because if Hydro has an estimate, you have to assume that
69 they're trying to spend least, you know, premise, least cost,
70 and they will go out and try and do it as efficiently as they
71 can, but for purposes of rate setting, because the forecast,
72 the capital budget has an impact on what the forecast rate
73 base is, then, yes, it should be a downward adjustment to
74 reflect what is more likely to happen in the test year.

75 MS. HENLEY ANDREWS, Q.C.: If I understand your
76 example on page 15, then if Hydro's projected capital
77 budget for 2001 is 15 percent too high, then the amount
78 that would be included in the revenue requirement for 2001
79 that shouldn't be there is \$157,000 for depreciation expense
80 and \$350,000 for interest expense?

81 MR. BRUSHETT: Those are, yes ... that's the calculations
82 we've made with respect to the impact of the 15 percent
83 reduction and those are ...

84 MS. HENLEY ANDREWS, Q.C.: And they would total
85 \$507,000?

86 MR. BRUSHETT: Well, the total, yes, of 157 and 350 is 507.
87 Another way to approach that would be to take the
88 reduction in the capital budget and adjust the rate base and
89 calculate the rate of return on rate base which is the way
90 Hydro works through its cost of service, and you would
91 get a similar result, I guess, in terms of a reduction. That is
92 the, our estimate of the impacts associated with
93 depreciation and interest.

94 (4:15 p.m.)

95 MS. HENLEY ANDREWS, Q.C.: And similarly if Hydro
96 under-spends its 2002 capital budget by the 15 percent that

1 it's under-spent its capital budget for the, on average over
2 the last five years, then there will be included in the
3 revenue requirement \$122,000 in depreciation expense and
4 \$302,000 in interest that would not in fact be incurred, so
5 the revenue requirement would be over-stated by \$424,000?

6 MR. BRUSHETT: In 2002, yes. That's based on the
7 numbers that were presented in the original application
8 with respect to the capital budget.

9 MS. HENLEY ANDREWS, Q.C.: So with respect to the test
10 year of 2002, if the capital budget or the salaries or the fuel
11 or any of those things are over-estimated, then the rates
12 that are set will be based upon a revenue requirement that's
13 too high.

14 MR. BRUSHETT: The rates will be set higher than what
15 will be required to recover the actual cost because they
16 would come in lower, yes.

17 MS. HENLEY ANDREWS, Q.C.: Okay. Now, on page 19,
18 your last paragraph, you said that, "We're able to verify the
19 calculation of revenue for industrial customers and
20 Newfoundland Power 100 percent and for rural customers
21 on a test basis," and that was with respect to the re-
22 calculating the 2002 forecast revenue from (phonetic) rates.

23 MR. BRUSHETT: Yes, that's correct.

24 MS. HENLEY ANDREWS, Q.C.: Have you been able to do
25 that for the latest revision?

26 MR. BRUSHETT: No, we haven't undertaken that
27 calculation or that, checked those numbers for the latest
28 revision, but, you know, it certainly could be done.

29 MS. HENLEY ANDREWS, Q.C.: Would that be something
30 that you would normally undertake before the rates were
31 finally approved by the Board?

32 MR. BRUSHETT: Yes, we would and as a matter of fact
33 generally when the rate schedule is submitted in the past,
34 particularly with respect to Newfoundland Power, we'd
35 verify that the rates schedule when applied to the forecast
36 energy sales generates the required revenue requirement,
37 so we will undertake to check those calculations.

38 MS. HENLEY ANDREWS, Q.C.: Now, let's move to page
39 22 of your report, and page 22 is the start of your
40 discussion on the fuel issues, and at the bottom of page 22
41 you observe that the reason for the large variation is
42 attributed to an increase in consumption of approximately
43 1.639 million barrels as well as an increase in average price
44 forecast, right?

45 MR. BRUSHETT: Yes. This is the, what I'll call the fuel
46 cost or the fuel expense before adjustment for recoveries
47 through the RSP.

48 MS. HENLEY ANDREWS, Q.C.: Now when you ... on page

49 23, the paragraph that begins, "Based on our analysis of
50 the cost of No. 6 fuel from 1997 to 2000."

51 MR. BRUSHETT: Yes.

52 MS. HENLEY ANDREWS, Q.C.: That Hydro's actual costs
53 have always been less than budget?

54 MR. BRUSHETT: Yes.

55 MS. HENLEY ANDREWS, Q.C.: And the difference ranges
56 from, am I correct, a low of \$9.9 million in 1997 to \$30.3
57 million in 2000?

58 MR. BRUSHETT: That's correct.

59 MS. HENLEY ANDREWS, Q.C.: And as with the capital
60 expenditures, you would agree that if Hydro overestimates
61 the cost of fuel for its test year then the rates that are set as
62 a result will be too high?

63 MR. BRUSHETT: Well, it's not quite the same as the
64 capital expenditures, I guess. In this particular case what's
65 happening with fuel, Hydro generally does not forecast,
66 and as we've heard the evidence presented here by their
67 own ... Mr. Henderson, I believe, and maybe others from
68 the company, they certainly have not budgeted on the
69 basis of thermal hydraulic split in energy production that
70 they have experienced over the years, so in other words,
71 the actual hydraulic production has always been higher
72 than what they forecast, similar to the way they've come
73 forward here with an average hydraulic year.

74 MS. HENLEY ANDREWS, Q.C.: Uh hum.

75 MR. BRUSHETT: So that's the reasoning why you see
76 such a wide variation in the budget for fuel versus the
77 actual fuel.

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

79 MR. BRUSHETT: And so it's not quite similar to the capital
80 expenditures. I think what you need to focus on with
81 respect to fuel is the forecast in the price itself, whether that
82 is reasonable or whether it should be higher or lower and
83 the efficiency factor which affects the amount of fuel
84 consumed to generate the forecast thermal production.

85 MS. HENLEY ANDREWS, Q.C.: You would agree that if
86 Hydro's 2002 forecast is \$9 million over what its actuals
87 turn out to be that the customers will pay more than they
88 should.

89 MR. BRUSHETT: No, not ... I don't know ... we'd have to
90 work through exactly what you meant by it being \$9 million
91 over.

92 MS. HENLEY ANDREWS, Q.C.: Well, you indicated here
93 that based upon your analysis of the cost of No. 6 fuel,
94 Hydro's actual costs have been less than budget.

1 MR. BRUSHETT: Yes.

2 MS. HENLEY ANDREWS, Q.C.: And the difference ranges
3 from \$9.9 million in 1997 to \$30.3 million in 2000.

4 MR. BRUSHETT: Yes.

5 MS. HENLEY ANDREWS, Q.C.: And let's assume that
6 there had been a rate hearing in 1996 for the 1997 test year.

7 MR. BRUSHETT: Yes.

8 MS. HENLEY ANDREWS, Q.C.: That \$9.9 million in costs
9 would have been included in Hydro's forecast, right?

10 MR. BRUSHETT: Yes.

11 MS. HENLEY ANDREWS, Q.C.: And at the end of the year
12 it wouldn't have been spent, right?

13 MR. BRUSHETT: Right.

14 MS. HENLEY ANDREWS, Q.C.: But the rates that would
15 have been set for Hydro's customers for 1997 would have
16 assumed that that \$9.9 million would be spent.

17 MR. BRUSHETT: The rates would have been set based on
18 that being included in the revenue requirement, yes.

19 MS. HENLEY ANDREWS, Q.C.: And if it hadn't been
20 included, and therefore, the rates would have been higher
21 than they should have been based upon the actual
22 experience.

23 MR. BRUSHETT: Based on the actual experience, however,
24 unlike depreciation or professional fees or whatever, the
25 savings doesn't fall to Hydro's bottom line with respect to
26 fuel, particularly if it relates to a variation in the price, if it's
27 a credit into the RSP, so it goes back to customers.

28 MS. HENLEY ANDREWS, Q.C.: And how it goes back to
29 the customers and all those kinds of things depends on
30 how the RSP operates.

31 MR. BRUSHETT: Yes, that is correct.

32 MS. HENLEY ANDREWS, Q.C.: Now on the bottom of
33 page 24, you talked about the staff realignment and the
34 elimination of the permanent staff and that type of thing
35 and that according to the company the reduction in staffing
36 levels was expected to provide cost savings of
37 approximately \$1.3 million on an annualized basis?

38 MR. BRUSHETT: Yes, I think that's the calculation that
39 they have provided.

40 MS. HENLEY ANDREWS, Q.C.: In looking at the 2002
41 forecast, and doing your analysis of it, is this savings
42 seen? I mean is it incorporated into ...

43 MR. BRUSHETT: Yes, it has. You won't see the detail, I
44 guess, in our report and it was a function of some
45 sensitivity with respect to the forecast increases for

46 employees in terms of union and union contracts that
47 hadn't been negotiated, so the details aren't laid out in the
48 report explicitly, however, we have had the opportunity to
49 review 2002 forecasts with respect to the annualized
50 savings from the staffing reductions and the estimated
51 increases that they have built into their forecasts for wage
52 increases and other adjustments that may be there,
53 although there weren't any other significant adjustments
54 that I recall in terms of staffing levels or whatever, and so
55 we have been able to recalculate the 2002 forecast for
56 salaries taking into account the \$1.3 million annualized
57 reduction.

58 MS. HENLEY ANDREWS, Q.C.: And are you satisfied that
59 that has been achieved?

60 MR. BRUSHETT: I'm satisfied that the \$1.3 million has
61 been incorporated into their calculation and is reflected in
62 there. You know, it hasn't, and subject to the
63 reasonableness of all the other adjustments that are there.

64 MS. HENLEY ANDREWS, Q.C.: Now when we look at
65 page 25, as I understand your report, when you do a
66 reconciliation of the, of Hydro's calculations or Hydro's
67 proposals with respect to its permanent salaries, it's your
68 conclusion that there may be \$400,000 over budgeted for
69 permanent salaries?

70 MR. BRUSHETT: When we completed an overall
71 reconciliation of the permanent salaries category, yes, it
72 showed that there was a ... if you take into account the
73 expected savings from the elimination of the positions, the
74 impacted increases in salaries for union and non-union,
75 management and so on, that resulted in a figure of \$42.2
76 million. The forecast net of the vacancy credit or vacancy
77 allowance is \$42.6, so there is a \$400,000 difference between
78 our reconciliation of the changes that were expected within
79 that category and what the forecast shows. What we have
80 considered though is that how reasonable is that \$400,000
81 relative to the overall category of salaries and benefits
82 considering that certain other categories were projected to
83 go downward and that's the basis for our conclusion there.

84 MS. HENLEY ANDREWS, Q.C.: Okay, and if that \$400,000,
85 if the Board didn't approve that \$400,000, then obviously
86 the revenue requirement would go down by \$400,000.

87 MR. BRUSHETT: That's correct.

88 MS. HENLEY ANDREWS, Q.C.: On page 27, and Mr.
89 Chairman, I realize that it is a little after 4:30. I think I can
90 finish in 15 minutes.

91 MR. NOSEWORTHY, CHAIRMAN: Please proceed.

92 MS. HENLEY ANDREWS, Q.C.: You'll notice that I made
93 no commitment, but I think I can. If you look at page 27,
94 and that is the executive salaries for the period from 1997 to

1 2000.

2 MR. BRUSHETT: Yes.

3 MS. HENLEY ANDREWS, Q.C.: When you look at ... the
4 total number of executives has remained the same over that
5 period?

6 MR. BRUSHETT: Yes.

7 MS. HENLEY ANDREWS, Q.C.: But the average salary
8 and the total executive salaries have increased by 16
9 percent?

10 MR. BRUSHETT: Yes, subject to checking that. I think I
11 can agree with that.

12 MS. HENLEY ANDREWS, Q.C.: Okay, do you know when
13 the wage freeze on provincial government employees
14 ended?

15 MR. BRUSHETT: I can't recall.

16 MS. HENLEY ANDREWS, Q.C.: Would you agree that the
17 increases, if you look at the average salary increase, the
18 increase from 1997 to 1998 was fairly large on a percentage
19 basis.

20 MR. BRUSHETT: Yes, it's about 10,000 average, increase
21 in the average.

22 MS. HENLEY ANDREWS, Q.C.: Which is somewhere
23 around 8 percent, I think, 7 percent?

24 MR. BRUSHETT: Subject to checking I'll take your word
25 on that. There were other ... I'm not sure, I would have to
26 go back and check the reports and so on where we
27 undertook our review during that period of time. We would
28 have reviewed those increases and there may have been
29 some reassignment of responsibilities and those sorts of
30 things during that period. I don't recall. Those are the
31 types of changes that I would have expected to be there if
32 we went back and looked at the explanation.

33 MS. HENLEY ANDREWS, Q.C.: But you would agree that
34 looking at the numbers, it certainly appears that there is a
35 16 percent increase in salaries.

36 MR. BRUSHETT: Oh yes, yeah, there's no disputing the
37 numbers. Those are correct.

38 MS. HENLEY ANDREWS, Q.C.: And there's a projection
39 then of a three percent increase, an additional three percent
40 increase in 2001 and ... on January 1st of 2001 and a further
41 two percent increase on July 1st of 2001.

42 MR. BRUSHETT: Yes, with further increases in 2002 which
43 are consistent with what's projected for the non-union,
44 etcetera, which ...

45 MS. HENLEY ANDREWS, Q.C.: Which I think by my
46 calculation would mean that by 2002 that executive salaries
47 would have increased by over 20 percent compared to
48 1997?

49 MR. BRUSHETT: Subject to checking now, yes, 16 percent
50 plus the 5 percent, sounds reasonable.

51 MS. HENLEY ANDREWS, Q.C.: Now on the ... on page 29
52 on the maintenance projects, the last sentence of the third
53 from last paragraph, it appears that some of the
54 maintenance projects may be discretionary in nature, at
55 least with regard to timing, and you say that therefore
56 determining the appropriate level of expenditure for the
57 2002 test year requires further review. Did you identify
58 specific maintenance projects that you thought might be
59 discretionary?

60 MR. BRUSHETT: No, it's more a review of the overall
61 projects, the total projects that are contemplated there.
62 Some of them, and they vary in size, but just the nature of
63 them, I guess it's more a general comment, the nature of
64 them is that they are, they would give the appearance at
65 least in the review of being discretionary in nature, should
66 we repair this, upgrade this piece of equipment this year
67 versus next year, and the timing of when that would be
68 required ... certainly appeared to be discretionary in nature
69 and that while Hydro staff in terms of their budgeting
70 would look at that presumably, there's no, I guess,
71 evidence that I could obtain that would say, you know,
72 these projects were essential at this time, so it was difficult
73 to assess whether they were all required to be carried out as
74 planned in the test year.

75 MS. HENLEY ANDREWS, Q.C.: I'm sure you've seen the
76 evidence that, with respect its capital projects, and in
77 particular with respect to diesel generators, Hydro has in
78 the past replaced diesel generators after six or seven
79 overhauls and has now adopted a policy to replace them
80 after five overhauls on the whole. Have you done an
81 analysis of the reasonableness of that policy change?

82 MR. BRUSHETT: No, I have not.

83 MS. HENLEY ANDREWS, Q.C.: On page 46, the bottom
84 conclusion which is the swing in rural rate alteration is
85 primarily due to the rebate issued to consumers by
86 Newfoundland Power in April of 2001. Hydro was also
87 required to provide the rural customers with the same
88 rebate.

89 MR. BRUSHETT: Yes.

90 MS. HENLEY ANDREWS, Q.C.: Forgetting for the moment
91 that Hydro's rates for its rural interconnected customers are
92 generally, and also, I suppose, for the first block for the
93 isolated customers are generally pegged at the same as
94 Newfoundland Power's residential rate, given the deficit in
95 the operation of both the interconnected rural and the
96 isolated rural systems, does it make any sense to be

1 providing a rebate to the rural customers when Hydro has
2 not overearned?

3 MR. BRUSHETT: I think that is more of a ... not more, it is
4 a policy issue and it's really ... the decision or the direction
5 to do that is, to my knowledge, not based on what costs are
6 incurred or whether there are deficits. It's to provide
7 consistent electricity rates across the entire province as
8 opposed to being based on cost of service and the cost of
9 serving those customers, so it's more of a policy issue.
10 Obviously, if you're asking my opinion on whether it makes
11 sense I think it makes sense that ... I'll make a general
12 statement which won't help you, I'm sure, that people who
13 cause costs to be incurred should be the ones who pay
14 them, but having a policy that sets uniform rates across the
15 province is, you know, a matter of policy which is
16 something that the Board and Government have dealt with
17 in the past.

18 MS. HENLEY ANDREWS, Q.C.: And I can see, I guess I
19 can see the policy side of setting the uniform rates, but
20 depending on what causes the rebate for Newfoundland
21 Power's customers, I don't necessarily see the logic of
22 Hydro having to refund because the refund could have ...
23 the refund to Newfoundland Power's customers could have
24 absolutely nothing to do with Hydro's costs or Hydro's
25 expenses.

26 MR. BRUSHETT: No, and I'm sure that that applies in most
27 situations, yes. The reasons giving rise to an increase or
28 decrease for Newfoundland Power would not be
29 representative of any change in costs for Hydro's rural
30 customers, so that would be true in almost all situations
31 where you would see that situation arise.

32 MS. HENLEY ANDREWS, Q.C.: Now on page 48 you deal
33 with other RSP changes, and at the bottom it says
34 according to **IC-120** the RSP for 2002 includes several
35 other changes that are different from the current practice
36 that will require the Board's approval, and then you outline
37 on page 49 three of them. In its application I don't see any
38 specific request by Hydro for approval of some, of the first
39 two of those changes. Would you agree with that?

40 MR. BRUSHETT: I think you're right. I don't recall seeing
41 anything requesting specifically those changes.

42 MS. HENLEY ANDREWS, Q.C.: But you would agree that
43 the RSP being a creature, I suppose, of the Board and being
44 subject to the approval of the Board, that any changes to
45 it would also require a directive from the Board?

46 MR. BRUSHETT: Yes, I believe they should be reviewed
47 and the Board should deal with them specifically
48 (inaudible).

49 MS. HENLEY ANDREWS, Q.C.: Okay, now on page 6 of
50 your supplementary evidence, when ... am I correct that

51 when you do your analysis of costing No. 6 fuel, whether
52 it's \$20.00 per barrel, \$22.00 per barrel, \$24.00, \$26.00, that
53 there is obviously a relationship between the rates that
54 would be set based upon the revenue requirement,
55 depending on which of those you chose, and that the
56 higher the number that you choose then the impact on the
57 RSP adjustment in 2003 would be lowered?

58 MR. BRUSHETT: Oh absolutely, yes, that's the point, and
59 we did not have the information at the time to calculate
60 that, but that would be the impact. For example, I think if
61 you look at the last column over, which is \$26.00 per barrel,
62 that is the revised forecast of fuel into the test year and
63 presumably if cost of service fuel were set at \$26.00 per
64 barrel, there would be no fuel adjustment in the RSP,
65 everything else being equal.

66 MS. HENLEY ANDREWS, Q.C.: However, because the
67 balance that has already accumulated in the RSP is so high,
68 there'd be a very significant rate increase.

69 MR. BRUSHETT: There would still be a significant rate
70 increase, but therefore the increase in the revenue
71 requirement you would see as a result of changing or
72 increasing the cost of No. 6 fuel in the revenue requirement,
73 the test year revenue requirement, there would be, I'll say
74 a corresponding decrease in the RSP adjustment in that
75 particular year.

76 MS. HENLEY ANDREWS, Q.C.: Okay, now when you've
77 done this recalculation on page 6, in looking at the revenue
78 requirement and picking the choices of, like the \$20.00, the
79 \$22.00, the \$24.00, the \$26.00, do your numbers for the
80 additional revenue requirement incorporate an improved
81 fuel efficiency for Holyrood at 633?

82 MR. BRUSHETT: No, it does not.

83 MS. HENLEY ANDREWS, Q.C.: Okay, so these, if we were
84 to incorporate 633 kilowatt hours per barrel as opposed to
85 610 kilowatt hours per barrel for the fuel efficiency, then the
86 additional revenue requirement would go down.

87 MR. BRUSHETT: To what it is, yeah, it would be an offset,
88 a partial offset to the additional revenue requirement
89 reflected in the statement, yes.

90 MS. HENLEY ANDREWS, Q.C.: So in order to really look
91 at the impact you'd need to have the numbers run as to
92 what, depending on the assumptions that were used?

93 MR. BRUSHETT: Yes, I think that's something that the
94 Board will deliberate on and will reach its conclusions with
95 respect to these issues, but they all, they are all interrelated
96 in the sense that you may increase the cost of number six
97 fuel and increase the efficiency and have some offset effect
98 in the revenue requirement and that needs to be considered
99 in an overall context as well as reviewing the issues on an

1 individual basis.

2 MS. HENLEY ANDREWS, Q.C.: Now with respect to your
3 comments at lines 13 to 17 on page 6, do you now have the
4 information that you need in order to figure out the impact
5 on the rates, on the mill rates?

6 MR. BRUSHETT: Actually, I did have, and we were hoping
7 to see Mr. Henderson on the stand to clarify that, I'm not
8 sure I have ... the response to **PUB-82** provides some of
9 that detail, but I think, subject to checking with him that
10 those numbers are based on **PUB-78** as opposed to
11 rebasing the opening balances, so I'm not sure it gives the
12 exact information we wanted, although it certainly reflects
13 the impacts in those years on the mill rate adjustments of
14 change in the fuel price, but it uses as its base the **PUB-78**
15 number, so I'm not sure it gives us the exact numbers
16 (inaudible).

17 MS. HENLEY ANDREWS, Q.C.: Those are all my
18 questions, Mr. Chairman. Thank you, Mr. Brushett.

19 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
20 Ms. Henley Andrews. Thank you, Mr. Brushett. We'll
21 adjourn for this evening and we'll reconvene at 9:30
22 tomorrow morning with the Consumer Advocate's cross,
23 please. I want to thank Commissioner Whalen for her
24 resolve today. I know it hasn't been an easy day for her.
25 Thanks, see you in the morning.

26 *(hearing adjourned to January 9, 2001)*