(9:30 a.m.)

MR. NOSEWORTHY, CHAIRMAN: Thank you and good morning. Counsel, are there any preliminary items this morning?

MR. KENNEDY: No, Chair, no preliminary matters as far as I'm aware.

MR. NOSEWORTHY, CHAIRMAN: Thank you very much. Good morning, Mr. Roberts.

MR. ROBERTS: Good morning.

MR. NOSEWORTHY, CHAIRMAN: How are you this morning? Good morning, Ms. Butler. I wonder could I ask you to continue with your cross-examination?

MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Good morning, Mr. Roberts.

MR. ROBERTS: Good morning.

MS. BUTLER, Q.C.: Can I return just very briefly to an issue from yesterday, which is in the **transcript at page 41**? Around line 37, Mr. O'Rielly, in the hard copy it appeared. Okay. Just take a minute to refresh our collective memories on the discussion we were having, and this related to the $1 million increase in capitalized expenses. We're talking about line 37 there. Okay. Which arose between May when you first filed the application and October when you filed the revised schedule, and then the answer which you gave me, which goes from lines 43 and following, you got into the discussion of the concerted effort at Hydro to ensure the capital program for 2001 was completed.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. And then on to the top ... there you go. Similar discussion then in paragraph, from line 56 to 75, where you discuss that efforts will be made in 2002, because the focus basically ... let's see the line here, line 66. "Not only do you have to bring the project in on time and on budget, but it's also crucial as to the years that the project is completed now and that the costs are incurred because the approval process" ... now, with that little bit of history I wonder if we might just look at **NP-3**, page two of three, Mr. O'Rielly, line 34. Do you have your hard copy?

MR. ROBERTS: Yes, I do.

MS. BUTLER, Q.C.: Okay, great. So line 34 is of course Hydro's capitalized expenses, which is the topic we were addressing yesterday, and just go through the figures here. The last time that Hydro was before the Board you were seeking capitalized expenses or estimating capitalized expenses as $5,071,000.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: And they came in actually at $6,296,000.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: And then we just read along line 34 to the other years. In 1993 they came in at $5.8 million; '94, $6.4 million; '95 was $7.2 million; '96 was $6.07 million; and '97 was $6.9 million approximately. Now we have to go to line 77 of the next page, Mr. O'Rielly, please. Okay. '98 it went up as high as $8.6 million; '99 is $8.5 million; 2000, $7.2 million. And now you're estimating for 2001, $5.6 million, but that's the figure that of course you've now recently increased by $1 million.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: Okay. You didn't, however, increase your forecast for the test year 2002, which remains at $5.7 million.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: Okay. So the capital ... Hydro's capitalized expenses for the test year are in fact lower than any other year on record before the Board.

MR. ROBERTS: That's what NP-3 is showing, yes.

MS. BUTLER, Q.C.: And given that they're lower than the last ten years, Mr. Roberts, and given that you've increased 2001 by $1 million, since you filed in May, is it reasonable for the Board to increase the allowance for capitalized expenses in the test year?

MR. ROBERTS: I don't believe it is. At this point we have no knowledge to indicate that the amount of capitalized allocation to take place for 2002 would be any different than what's shown there.

MS. BUTLER, Q.C.: The result of course if the Hydro capitalized expenses are increased is that revenue requirement in the test year reduces.

MR. ROBERTS: Yes, but the increase in capitalized expense can be offset by an increase in an operating cost and have no effect coming down through. As an example, I raise the, and it's also raised by Grant Thornton, is the increments of overtime to complete a capital project.

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

MR. ROBERTS: Even though the capitalized expense number could go up, but there would be a corresponding increase in, say, the salaries line, line 61, which is what's found here on this page.

MS. BUTLER, Q.C.: But given the history here of Hydro's capitalized expenses over the ten years which the Public Utilities Board has on record, clearly Hydro's capitalized expense allowance for 2002 test year is lower than any other year on record, so we know that. We've just seen that from

NP-3.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And the capitalized expenses result, I think you told me yesterday, from subjective decisions by managers, some subjectivity.

MR. ROBERTS: Some of it is.

MS. BUTLER, Q.C.: Okay. And the amount of capitalized expenses, as you indicated to me yesterday, and I think again today, can be volatile.

MR. ROBERTS: Yes, it can fluctuate.

MS. BUTLER, Q.C.: And Hydro's capital budget for the test year is the largest in history, that is the history before the Public Utilities Board.

MR. ROBERTS: If you say so. I just know the amount is $43 million.

MS. BUTLER, Q.C.: Okay. Well, I'll suggest that it is and we'll let the record speak for itself. And you told me yesterday that there is an internal focus to complete the capital projects.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. On time, on budget, and in the year for which they're allocated.

MR. ROBERTS: In the year in which they are scheduled to do.

MS. BUTLER, Q.C.: My view of it, I guess, is that the figure that you're showing does stand out as being significantly low for a test year.

MR. ROBERTS: I guess you're using histories compared to a forecast and it's difficult to do that without looking at the make-up of the capital program because that's, it's the make-up of the capital program that will dictate the amount of capitalized expense. The more direct purchases that Hydro has in its capital program in a particular year will result in a lower number in that particular category, and I used an example yesterday that in the case of the purchase of vehicles there is no capitalized expense attached to that. The same thing also happens in the case of a capital project for which most of the work is contracted out rather than done by our own internal forces. An example of that is the VHF radio system. The bulk of that will be either a direct purchase or a contract out to complete the work. Consequently, you wouldn't have a high number in there. However, if circumstances were to change on a project and the decision was that Hydro will be doing the work, then, yes, that number would change, but that number right now is based on what our estimate is of the involvement of our staff in the capital program for 2002.

MS. BUTLER, Q.C.: And in terms of the history, which I'm using as a comparison, and your suggestion to me now that in fact maybe the history is not as relevant as the nature of the capital projects ...

MR. ROBERTS: I think you can look at history but I also think without looking at what's happening in individual years, it's difficult to draw a conclusion that, yes, 2002 should be higher.

MS. BUTLER, Q.C.: Uh hum. Is there anything particular about the nature of the capital projects in 2002 that would cause you to believe that it would not increase because we've just seen that you've increased 2001 by $1 million from May to October and that's part of your history too.

MR. ROBERTS: Yes. All I can say to you is that this was our best estimate based on the people that prepare these particular capital budget proposals.

MS. BUTLER, Q.C.: I'd like to turn now, if I can, Mr. Roberts, to an issue of supplies inventory, and I think the starting point here would be your **Schedule 1A**. That's the **Revised Schedule 1 to your supplementary evidence**. Item 13 ... okay, wait now. Page three of four, Item 13. Okay. We can go back in a moment, Mr. O'Rielly, but not right now, to see where that footnote, what line it actually relates to, but I wonder if you might just read line, Footnote 13 for me, please, Mr. Roberts.

MR. ROBERTS: "Increase primarily due to additional write-offs of inventory, $688,000, and additional staff training mainly related to diesel service representatives, $150,000."

MS. BUTLER, Q.C.: Okay. And is the suggestion here that you decided to write off obsolete inventory of $688,000 since you originally filed in May?

MR. ROBERTS: Yes. That was not reflected in the revenue requirement in May.

MS. BUTLER, Q.C.: Okay. Can we go back then to page one of three and see which line Footnote 13 relates to? If you've got the hard copy there you ... okay. Miscellaneous expense.

MR. ROBERTS: That's correct, at line 27.

MS. BUTLER, Q.C.: At line 27, okay. Now, in the same re-filed evidence, your Schedule 2A, I notice that you haven't reduced your inventory estimate. Can you look at **Schedule 2A**? Supplies inventory is still showing for 2002 at $21,095,000.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. Is there a discrepancy here or am I missing something?

MR. ROBERTS: That supplies inventory is based on the

December 31st, 2000, balance. Hydro does not budget for changes in its inventory. They may happen during the year but it doesn't budget for it. It has no idea how much will be added through inventory during the year and relieved from inventory.

MS. BUTLER, Q.C.: Okay, but I just saw that you had written off or plan to write off $688,000 of obsolete inventory in 2001.

MR. ROBERTS: That's correct. It has been done to the best of my knowledge. Inventory has been reduced.

MS. BUTLER, Q.C.: Shouldn't that be reflected on one of these schedules? So that I make sure that I'm understanding this, what we see in here for 2002 filed should reflect the opening inventory balance?

MR. ROBERTS: If you'll just bear with me for one second?

MS. BUTLER, Q.C.: Sure.

(9:45 a.m.)

MR. ROBERTS: The supplies inventory that you see here is based on the December 31st, 2000, balance and that is the amount that's been used here in calculation of the rate base. Whether or not that write-down would change that value if we had the actual inventory values, I don't know. I guess all I'm saying is that this is based on a December 31st, 2000, balance ...

MS. BUTLER, Q.C.: Yes.

MR. ROBERTS: ... because we don't project inventory changes over the course of a year.

MS. BUTLER, Q.C.: Okay.

MR. ROBERTS: So consequently, I don't know if the inventory value at December 31st, 2001 or 2002, would be different in that number. That's the best average that I have.

MS. BUTLER, Q.C.: Alright. But given that this is a test year of course and the estimates have to be as precise as possible, and given that you've indicated now in your supplementary testimony that there was a conscious decision to write off $688,000 of obsolete inventory ...

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: ... I expected, you see, to see a reduction in that figure from filed to revised. So given that it's not there, I wonder whether you'd be able to give us an undertaking to provide the best figures you have, because you're saying that you don't know whether that figure would be different based on actual.

MR. ROBERTS: All I would be able to provide would be our actual inventory balances from January of 2001 up to the end of September and October.

MS. BUTLER, Q.C.: Yeah, and the write-off would be apparent off that, right?

MR. ROBERTS: It would have been off ... would be off of that, whenever the amounts occurred, that's correct.

MS. BUTLER, Q.C.: Okay. So could you do that for me?

MR. ROBERTS: I guess all I'm trying to say is that the averages may or may not change that value.

MS. BUTLER, Q.C.: I accept that, yeah, but ...

MR. ROBERTS: But you would like to have those inventory values for January to October?

MS. BUTLER, Q.C.: Right. Well I would say that that would be your best estimate and that should be what's before the Board. Yeah, okay. Do you know, Mr. Roberts, what items were written off?

MR. ROBERTS: No, I don't.

MS. BUTLER, Q.C.: Or when they became obsolete?

MR. ROBERTS: I honestly couldn't answer that. Our Materials Management Section are continually reviewing the inventories with the various areas to determine whether or not the inventory items are still required and used and useful, and if they're not, then they are to be disposed of.

MS. BUTLER, Q.C.: Okay. I'm just going to leave that schedule for the moment, Mr. Roberts, and look at **Grant Thornton's Report for 2001, page 32**, and perhaps, Mr. O'Rielly, you might just show first the date on Grant Thornton's Report ... there you go ... dated August 15th, 2001, and at page 32. No, right at the bottom of the page, I believe. Okay. Can you just read into the record, Mr. Roberts, from your hard copy, if you have it there, the last paragraph, please?

MR. ROBERTS: "The decrease in miscellaneous expense for 2001 as compared to 2000 is primarily attributable to the extra staff training related to programs such as diesel system representatives, reliability centre maintenance, work protection code and JD Edwards implementation which occurred in 2000. However, this decrease is partially offset by an increase in inventory losses. Hydro's intention is to reduce the Bishop's Falls inventory for writing off more obsolete items to make room for newer inventory purchased through bulk ordering."

MS. BUTLER, Q.C.: Okay. So that relates to the same item we were talking about, the $688,000 in inventory written off?

MR. ROBERTS: It's the same type of adjustment to inventory.

MS. BUTLER, Q.C.: Yes, okay. So clearly by August, Mr. Brushett of Grant Thornton, knew that it was Hydro's intention to reduce the Bishop's Falls inventory. Is he talking about the $688,000?

MR. ROBERTS: No, no. He's talking ...

MS. BUTLER, Q.C.: Is he talking about an additional amount?

MR. ROBERTS: He's talking about, if you go up into the table ...

MS. BUTLER, Q.C.: Yes.

MR. ROBERTS: Mr. O'Rielly, you can just move up.

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: You'll find a line item there called "Inventory Gain and Loss."

MS. BUTLER, Q.C.: Yes.

MR. ROBERTS: That's the line that he's referring to.

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

MR. ROBERTS: We make a provision for it and there were some things that were known.

MS. BUTLER, Q.C.: Help me then with respect to whether it is additional to the $688,000 referred to in your supplementary evidence or ...

MR. ROBERTS: The 688 is in addition to what's reflected there.

MS. BUTLER, Q.C.: Alright. And is the figure that's reflected here, which is the, for the test year, $594,000, is that reflected in the figure that we just saw on your Schedule 2A?

MR. ROBERTS: As I mentioned, the figure on 2A is based on the December 2000 balance because we don't project inventory balances on a month-by-month basis.

MS. BUTLER, Q.C.: Alright. Let's look at **NP-269** where Newfoundland Power asked a question about the statement that had been made in the Grant Thornton Report. Okay. The question was, in reference to page 32, reference to Hydro's intention to reduce the Bishop's Falls inventory by writing off more obsolete items, provide an estimate of the total carrying value of obsolete items included in inventory. Can you just read the answer there for us, Mr. Roberts, please?

MR. ROBERTS: "Hydro's inventories are periodically reviewed for obsolete parts as major equipment or components are replaced due to end of life cycle, changes in engineering standards or technological change. The value of obsolete items remaining in inventory at this time is insignificant."

MS. BUTLER, Q.C.: Now this RFI was given September 7th, 2001. Did you know at that time that it was your intention to write off $688,000 of obsolete items that are reflected in your supplementary testimony?

MR. ROBERTS: I certainly wasn't aware of it.

MS. BUTLER, Q.C.: Because it seems to me anyway, there's a bit of an inconsistency with saying ...

MR. ROBERTS: That's correct. I agree.

MS. BUTLER, Q.C.: ... that these obsolete items ...

MR. ROBERTS: Yeah. We're saying there's none and we just made a provision to write off $688,000.

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: There's no dispute on that.

MS. BUTLER, Q.C.: Sorry?

MR. ROBERTS: I say there's no dispute with that. There is an inconsistency there.

MS. BUTLER, Q.C.: Thank you, Mr. O'Rielly. Can I turn now, Mr. Roberts, for a moment to the issue of re-call sales?

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Now, as I understand it, Hydro receives income from the sale of re-call energy to Hydro-Quebec, which you've indicated of course is part of your non-regulated operations.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And the Board asked in an RFI some questions about that which are **PUB-56**, specifically 56.1 ... there you go ... line three. Okay. The question was seeking the details of all adjustments to revenue requirement related to non-regulatory costs and the effect of export sales to Hydro-Quebec, etcetera, specifically referencing your original evidence, and I believe in the answer at line 13 you refer to an attached reconciliation.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. So can we look at page two, please, for the reconciliation? And we have to get on the screen, Mr. O'Rielly, at line 32, if possible ... is it possible to get the headings in the same picture? Thank you. If I'm reading this correctly, Mr. Roberts, at line 32, Hydro had originally forecasted $92.784 million in interest expense?

MR. ROBERTS: That is the corporate ...

MS. BUTLER, Q.C.: Sorry?

MR. ROBERTS: That is the corporate financial statement revenue number, yes.

MS. BUTLER, Q.C.: Yes. Hydro's corporate ...

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: ... financial statements, what we call the consolidated.

MR. ROBERTS: No.

MS. BUTLER, Q.C.: No?

MR. ROBERTS: No, that is not consolidated. I referred to corporate. Consolidated financial statements are different.

MS. BUTLER, Q.C.: You're talking about the affiliates with the consolidated ...

MR. ROBERTS: Yeah, where you add all the numbers together and that's why I say corporate ...

MS. BUTLER, Q.C.: Yeah, okay.

MR. ROBERTS: ... versus consolidated.

MS. BUTLER, Q.C.: Alright. How does corporate, being regulated and non-regulated together.

MR. ROBERTS: Yes. Hydro is a separate entity by itself.

MS. BUTLER, Q.C.: Right. Originally showed interest expense of $92.784 million. And in response to the question from the Board you indicated that that had been increased to $93.584 million for revenue requirement purposes.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: In other words, you're adding $800,000 in interest expense to the regulated expense.

MR. ROBERTS: I'm adding back $800,000 to the financial statement number to arrive at the regulated number, yes.

MS. BUTLER, Q.C.: Okay. Now, what exactly is happening here in terms of the addition of this $800,000 to regulated expense?

MR. ROBERTS: Each month we bill Hydro-Quebec for sales of re-call power. Those funds are received by Hydro and has been deposited into its bank account. The agreement with the province is that by March the 31st of the following year, these funds will be paid to the 100 percent to the province of the net re-call revenue. So we have these funds sitting in our bank account for approximately 12 months and it's impacting the amount of interest expense that's being recorded. So what we have done here is we have gone back and re-ran the interest model and eliminated the impact or the additional revenue received from Hydro-Quebec on those re-call sales to arrive at what the regulated interest number should be.

MS. BUTLER, Q.C.: Is the $800,000, because it's a round number obviously, a nominal calculation only?

MR. ROBERTS: No, it is not. I believe the calculation was made reference to in NP-244.

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: I think we actually showed the calculation of short-term interest with and without.

MS. BUTLER, Q.C.: Yes, okay. I can ...

MR. ROBERTS: And I think that amount ...

MS. BUTLER, Q.C.: I can look at that for you, if you wish.

MR. ROBERTS: That amount, I think, came to $892,000, and then there was an error in the way that the debt guarantee fee was calculated, and that resulted, when that was done, it resulted in a reduction of $92,000, and that's how you arrive at the net of 800, but as I pointed out, there was an error in the calculation of the debt guarantee fee initially and that compounded this particular problem.

MS. BUTLER, Q.C.: Do you see that the issue of ... let me re-word that. Do you see that the debt guarantee fee is related to the interest?

MR. ROBERTS: The debt guarantee is a percentage based on the amount of debt outstanding.

MS. BUTLER, Q.C.: Right.

MR. ROBERTS: We, from the point of view of financial disclosure, combine interest and debt guarantee fee in a one line, but in our financial statements, in the note that describes the breakdown of the interest component that we provide on the income statement, it's clearly evident that here is the interest and then we come down and say here is the debt guarantee fee, here is our total interest and debt guarantee fee.

MS. BUTLER, Q.C.: Okay. Does the amount which we show on the screen for the 2002 year in any event, the $800,000 adjustment, does that become the subject of approval by the Board? Does Hydro seek approval by the Board for that $800,000 in, as a regulated expense?

MR. ROBERTS: I think if the Board accepts and reviews and it concurs that the interest cost is 93.584, that is the true number.

MS. BUTLER, Q.C.: Does the $800,000 sit in a separate bank account?

MR. ROBERTS: No, it does not.

MS. BUTLER, Q.C.: And does Hydro have a written policy on the allocation of interest expense between regulated and non-regulated?

MR. ROBERTS: A written policy, no.

MS. BUTLER, Q.C.: We might just take a moment to look at **NP-244**, for the details of the calculation. As I recall, it was a fairly long explanation that was given. Maybe we could just look at the next page, Mr. O'Rielly, for the schedules. Okay. And the interest rate that's being used, Mr. Roberts, is it prime plus or what?

MR. ROBERTS: It's our estimated short-term borrowing rate.

MS. BUTLER, Q.C.: Uh hum. Which at that time was between 4.5 and 4.9, looks like.

MR. ROBERTS: That's the way it appears to me.

MS. BUTLER, Q.C.: Rather than go through the details of the calculations, can I just ask you was the $800,000, which of course you estimated based on these calculations, actually paid to any third party?

(10:00 a.m.)

MR. ROBERTS: Was this $800,000 paid?

MS. BUTLER, Q.C.: We're talking about the 2002 year of course. Will the $800,000 that you estimate for 2002 actually be paid or is it a paper entry?

MR. ROBERTS: 75 percent of it will be paid to the province. The other 25 percent at this point in time will remain with Hydro.

MS. BUTLER, Q.C.: Okay. And why 75/25?

MR. ROBERTS: The 75/25 is supplying it at the same as net operating income, and the interest at this point is being treated differently than 100 percent of the net re-call revenue which is the sale minus the cost of the power purchase and the interest associated with that. At this point we have not been instructed by the province to pay over 100 percent of the interest associated with this.

MS. BUTLER, Q.C.: So the province gets the debt guarantee fee plus 75 percent of the interest?

MR. ROBERTS: It's getting ... it will be getting 75 percent of the interest in its dividend.

MS. BUTLER, Q.C.: In its dividend. At what level of Hydro, Mr. Roberts, was the $800,000 adjustment or estimate, the actual policy of paying the interest, approved?

MR. ROBERTS: The actual calculation was done by the Treasurer of the Company and his staff, who reports to the Vice-President of Finance, so the Vice-President of Finance, Mr. Osmond, was briefed and aware of it, as well as other members of the Rate Committee including the President of the Company, the Vice-President, Legal Counsel, myself, and other members that have already testified here.

MS. BUTLER, Q.C.: I might have mis-spoken. I might have said actually paid. I appreciate that it has not been paid. The calculation, as you say, was done by the Company Treasurer, and that is who?

MR. ROBERTS: Mr. Bradbury.

MS. BUTLER, Q.C.: Mr. Bradbury, right. As you say, approved, and Mr. Osmond was briefed as VP Finance and aware, but in terms of the actual ... perhaps we can just go back to the schedule where we started, **PUB-56**. Okay, the table. There you go. Thank you. The actual decision to increase regulated revenue requirements by $800,000 based on the calculations that you've done, the decision to do that was at what level?

MR. ROBERTS: The decision ... I guess it's not a point of having to make a decision at a level. It's that if you go back and you recognize that the re-called revenue that we're receiving is impacting the regulated operations, then it's automatically that you would adjust and take that out.

MS. BUTLER, Q.C.: Yes, and at what level was it decided to recognize that?

MR. ROBERTS: Well, once it was recognized within Treasury that this was in fact the case and this was impacting the amount of promissory notes and the amount of interest expense, then the decision was to quantify that amount, the impact that it would have for 2002, because it was also done back in earlier years, and to adjust the interest expense accordingly for the filing.

MS. BUTLER, Q.C.: Okay. You say it was done for previous years as well. So can you tell me how long this practice has been ongoing?

MR. ROBERTS: Re-called sales started March the 9th, 1998, so the first invoice that was ever sent to Hydro-Quebec was sometime in 1998.

MS. BUTLER, Q.C.: Thank you, Mr. Roberts. Mr. Roberts, you had mentioned the invoices to Hydro-Quebec.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: So there would have been one a year from March ...

MR. ROBERTS: Bear with me for my memory now. I think the first invoice to Hydro-Quebec related to re-call was issued in either October or November. The reason for the delay was to iron out some of the items related to the re-call agreement, where the billing points were, etcetera, that was required to be done, and I think the first billing was issued either October or November of '98. Since then it is monthly.

MS. BUTLER, Q.C.: Before I leave this area, can I just go back to **NP-3**, Mr. O'Rielly, please, and, Mr. Roberts, my question for you on NP-3 is whether you've been making the adjustment to the revenue requirement for this interest in the years since ...

MR. ROBERTS: Yes, I understand ...

MS. BUTLER, Q.C.: Since 1998.

MR. ROBERTS: ... that it has been made ...

MS. BUTLER, Q.C.: Can you show me there ...

MR. ROBERTS: ... 2002.

MS. BUTLER, Q.C.: Yeah, I know. I know for 2002, but for the past years, '98, '99 and 2000, 2001.

MR. ROBERTS: It's netted into that interest number. They're not just numbers being grossed up.

MS. BUTLER, Q.C.: The interest number is at what line, please?

MR. ROBERTS: On this screen I think it's line 84.

MS. BUTLER, Q.C.: Okay, thank you. I'm going to turn now to the issue of employee future benefits. Mr. Roberts, I recognize that all corporations that have employees and offer benefits to those employees will have an issue of employee future benefits. When we talk about this category for Hydro and the election that's been made with respect to certain accounting treatment of these expenses, can you tell us what employee future benefits we're actually speaking of?

MR. ROBERTS: Employees are entitled to a retiring allowance upon retirement. There is a cap on it. It's based on the number of years of continuous service and I think it's one week for every year up to a maximum of 20 or 23, I'm not sure right off the top of my head as to what it is, as well as health, dental and a life insurance.

MS. BUTLER, Q.C.: And when we speak of these employee future benefits, in Hydro's case would it definitely not include any pension, right?

MR. ROBERTS: We are definitely not including pension.

MS. BUTLER, Q.C.: Okay. So there are a couple of issues here on employee future benefits that were addressed by John Brown when he testified for Newfoundland Power last week or the week before. First he points out, as of course I think you do in your application, that the CICA has recommended certain accounting treatment for these expenses on an accrual method.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And he expresses the opinion that the CICA of course cannot tell the Board how to treat the expense for rate-making purposes. Do you agree with that?

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: The second point he makes, I think, is that the practical result of the recommendation of the CICA, which Hydro has elected to follow, is that instead of expense in this year, say 2001, the amount of the benefits, retiring allowance, heath, dental, life insurance, you actually paid to retired employees in 2001, you will expense the value of the benefits that you estimate you will later pay to employees based on the service they provided in 2001.

MR. ROBERTS: The comparison that he was making was going with a cash basis versus an accrual basis.

MS. BUTLER, Q.C.: Have I ...

MR. ROBERTS: We've adopted the accrual basis.

MS. BUTLER, Q.C.: Yeah. Have I accurately described the difference though?

MR. ROBERTS: I think so. We reflect the benefit that I am earning in this particular year, as an example, and I'll use my own case, and that's part of the cost within his particular year, and not to be charged to a future year.

MS. BUTLER, Q.C.: Okay. And it starts to sound like an issue of inter-generational equity.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: Okay. And Hydro did choose or elect to convert from the cash method to the accrual method.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And Newfoundland Power takes no issue with that. But having decided to convert, you also decided to write off the accrued to date present value of those employee future benefits.

MR. ROBERTS: Yes, we did.

MS. BUTLER, Q.C.: Okay. And that's what he referred to as the transitional obligation.

MR. ROBERTS: Yes, that's the amount that was accrued up to that point in time.

MS. BUTLER, Q.C.: Okay.

MR. ROBERTS: Up to the end of 1999.

MS. BUTLER, Q.C.: Kathleen McShane, on your behalf, indicated that of course there was another option, maybe more, but the one she referred to was that Hydro could have chosen to amortize the expense ...

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: ... with the result that your equity would be higher, and she calculates 1.5 percent.

MR. ROBERTS: Yes. We had the option not to write that 20 odd million dollars off against retained earnings but to defer and amortorize *(sic)* it on a go-forward basis.

MS. BUTLER, Q.C.: Okay. Going forward now, leaving the transitional obligation for the moment, on a go-forward basis, the conversion to the accrual method results in $1 million in additional expenses now, that's in the test year, although not actually spent in the test year.

MR. ROBERTS: The write-off that's taking place as a result of switching to the accrual basis is in the red approximately $2.2 million.

MS. BUTLER, Q.C.: Okay. Go ahead, okay.

MR. ROBERTS: Okay. One of the questions that was asked was what would this be on a cash basis. I think the answer was our estimate right now was approximately one point million or $1.2 million, so in effect there is an extra million dollars going through into revenue requirement.

MS. BUTLER, Q.C.: Okay. The difference between ...

MR. ROBERTS: Over and above what appears to be at this point a cash basis.

MS. BUTLER, Q.C.: So I think we're saying the same thing. I had suggested ...

MR. ROBERTS: I think so, yes.

MS. BUTLER, Q.C.: And in terms of the details, we can actually see them, for the Board's benefit if you wish, but perhaps rather than get it on the screen I'll just make ... the accrual method, the $2.2 million you spoke of, is shown in **NP-4**, page two of three, and the cash method is shown in **NP-53**, the $1.2 million.

MR. ROBERTS: That sounds right. I guess the only caution that I would add on the cash payments that we made is we anticipate 1.2 but if more people retire, and they can, then that number of 1.2 can go to something else.

MS. BUTLER, Q.C.: Sure. But of course the actuarial ...

MR. ROBERTS: So I just want to say it's not an absolute and it's not a fixed number.

MS. BUTLER, Q.C.: But the actuarial calculation of the future benefits may turn out not to have been precise either, so ...

MR. ROBERTS: Well, it's fixed for a three-year period. We're required to go back and re-valuate this next year, so it's not something that will stay there forever. It will automatically be revised every three years ...

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

MR. ROBERTS: ... and it will take into account new history and what's actually happened in the number of people that have retired, so the amount in 2003, or whenever the next review period is, the amount may change downward rather than remain the same or continuing on.

MS. BUTLER, Q.C.: So because Newfoundland Power takes no issue with the decision that you've made, my only question in this area is what consideration, if any, was given within Hydro when making the election to the consumer impact of the election, which is $1 million in the test year?

MR. ROBERTS: What management looked at, what was being fair and looking at the customers and looking at the inter-generational equity and saying that these costs which are $20 million had occurred in prior years, and based on that the decision of management was that Hydro would write that amount off rather than try to recover it in future years from ratepayers. It was a benefit that has been earned in the past and that's the decision that was made.

MS. BUTLER, Q.C.: But you're talking about a transitional obligation now.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: I'm talking about the go-forward ...

MR. ROBERTS: You can't write one off without full accrual and you amortorize all of it or you're strictly on a cash basis. From an accounting perspective, our decision was we would go with an accrual rather than continue with a cash basis of accounting.

(10:15 a.m.)

MS. BUTLER, Q.C.: Alright. Let's have a look at the calculations which were given in **NP-160**. Okay. Now, as I understand it, at the beginning of the year 2001, when you say opening balance, Hydro was estimating, Hydro was carrying on its books at that time an obligation for future employee benefits of $22.8 million.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. In the year 2001, with adjustments obviously, you're adding on current service and interest expense and you deduct then what you pay out of that in actual employee future benefits that year.

MR. ROBERTS: That's the way that the system is designed, that any retirements and payments for retired employees would go against this particular account.

MS. BUTLER, Q.C.: Okay. And I'm going to be coming back to this screen in a minute, but you'll see the similar type of calculation of course for the test year 2002. What I want to focus on is the payments out of $675,000.

MR. ROBERTS: Uh hum.

MS. BUTLER, Q.C.: And there was another RFI asked about that figure in **NP-250**, and you corrected that figure from $675,000 to one million one ninety-nine. We see it at line ...

MR. ROBERTS: 11.

MS. BUTLER, Q.C.: 11.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And the last sentence there says, "This revision will be reflected in a revised cost of service to be filed at a later date."

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Mr. Roberts, can you tell me, because I know the cost of service obviously has been revised and filed, was that adjustment, the $1.199 million, instead of 675, reflected in the new cost of service?

MR. ROBERTS: Yes, it is.

MS. BUTLER, Q.C.: Okay. Can you show me where because unfortunately I couldn't see it?

MR. ROBERTS: You won't find it through the revenue requirement because it's a balance sheet item.

MS. BUTLER, Q.C.: Okay.

MR. ROBERTS: If I may refer you to **Schedule 11A in my revised evidence**, which is the revised projected balance sheet. Close to the bottom of the table you'll find a line there referred to as employee future benefits.

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

MR. ROBERTS: And you'll find it at 25.076.

MS. BUTLER, Q.C.: Okay. 2002 used to be 25.123.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And it's now in column three, 25.076.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: So the difference there is a decrease of ...

MR. ROBERTS: Yes.

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

MR. ROBERTS: There was an error in the calculation of the employee future benefits related to interest which impacted 2001 and flowed over into 2002.

MS. BUTLER, Q.C.: Okay. Well while we have perhaps **Schedule 11A** out, let's just go back to **NP-160** then and tell me how the numbers are supposed to work. Okay, there you go. So we've got, we're looking at 2002, we know that the figure at line 13 has been adjusted because in **NP-250** we saw that (inaudible) to 1.199 million.

MR. ROBERTS: I'm sorry, I ...

MS. BUTLER, Q.C.: I'm sorry.

MR. ROBERTS: Okay.

MS. BUTLER, Q.C.: Okay. Do you have the copy of ...

MR. ROBERTS: NP-150?

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: At line 13 for 2002, that figure is now changed, right? You changed that in NP-250.

MR. ROBERTS: The 675 ...

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: ... is now changed. We said it should be one million, one ninety-nine.

MS. BUTLER, Q.C.: Yes. Now if I plugged that figure in there ...

MR. ROBERTS: It's not going to work for you.

MS. BUTLER, Q.C.: Why not?

MR. ROBERTS: Because we've revised 2001 as well.

MS. BUTLER, Q.C.: Okay. So what I need to see is the revision for 2001, revision ...

MR. ROBERTS: And 2.

MS. BUTLER, Q.C.: And 2. I really don't think I actually have that anywhere between NP-160, 250 or your revised Schedule 11A.

MR. ROBERTS: No, you don't.

MS. BUTLER, Q.C.: Okay. Would you be able to give me that?

MR. ROBERTS: Yes, we can.

MS. BUTLER, Q.C.: Thank you very much. Can I look now to the issue of hearing cost deferrals, which is referred to in your direct evidence? That's **the supplementary evidence at page one, line 11**. Okay. Just explain to me what's happening here, Mr. Roberts, please.

MR. ROBERTS: Are you talking about the PUB deferral costs?

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: Do you want ... it's not on the screen. At least it's not on mine.

MS. BUTLER, Q.C.: Okay.

MR. ROBERTS: Page up, Terry.

MS. BUTLER, Q.C.: Let me just put to you then that somewhere between May of 2001 when you first filed and October 31st, 2001, when you filed the supplementary, a decision was made to defer certain rate hearing costs from 2001 and amortize them over two years.

MR. ROBERTS: And ask the Board for approval to do that.

MS. BUTLER, Q.C.: Oh, yes, of course, yeah. Alright.

MR. ROBERTS: Yes, yes.

MS. BUTLER, Q.C.: Now, on **Schedule 1A, line 33** ...

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay, here we go. We have the rate hearing cost deferrals.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Now, I can clearly see in Column C that you've taken off two million.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And you're showing that that is fully related to increases or decreases in Column D.

MR. ROBERTS: Some of those costs, if I may, some of the costs would initially have been in C and additional costs are added in D.

MS. BUTLER, Q.C.: I think it's B and C actually, Mr. Roberts. I think you're saying that some ...

MR. ROBERTS: Oh, okay.

MS. BUTLER, Q.C.: ... some of the costs were initially in ...

MR. ROBERTS: In ...

MS. BUTLER, Q.C.: ... B.

MR. ROBERTS: Yes. And now they've been added to C. In other words, as an example, in the professional services ...

MS. BUTLER, Q.C.: Line?

MR. ROBERTS: Line 24.

MS. BUTLER, Q.C.: 24, yeah.

MR. ROBERTS: There were some provisions in there for costs associated with this rate hearing.

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

MR. ROBERTS: And it has now been re-forecasted higher. The same thing would apply in the case of the salary and fringe benefits category, that additional overtime has been incurred.

MS. BUTLER, Q.C.: Yes, line 18.

MR. ROBERTS: Which is line 18.

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

MR. ROBERTS: There are also additional travel costs in line 25 that are associated with this rate hearing.

MS. BUTLER, Q.C.: But to be precise, I wonder if we might just go through the three. I clearly understand you though that the full $2 million is not a new $2 million. There were some costs associated with this hearing built into the original numbers in Column B ...

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: ... which Hydro had made the decision not to seek deferral of.

MR. ROBERTS: Initially, yes.

MS. BUTLER, Q.C.: Right. But sometime between May and October you made the decision that you were going to seek approval to defer some of them.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: So let's look at what the actual numbers are. We can take them in order that you address them. In the professional services, line 24, which is $4.506 million, it was $4.506 million ...

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. Let's take that one first. And if you scroll over, Mr. O'Rielly, to Column D, you'll see the Footnote No. 11 relates to that. How much of the increase relates to the hearing costs? It's actually thirteen fifty, right?

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: Because your increase of eleven hundred was actually offset by something else.

MR. ROBERTS: By other reduction ... that's right.

MS. BUTLER, Q.C.: Okay. So we've captured thirteen fifty of the $2 million. Let's go back then to the schedule. The next one is, I believe, Note 7 at line 18, salaries and fringe benefits. How much of the salaries and fringe benefits relates to the rate hearings, looks to me like it's $173,000.

MR. ROBERTS: $173,000 there.

MS. BUTLER, Q.C.: And the third category you wanted to address was travel. We might look at that, line 25, for the benefit of the Board, Footnote 12.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And how much is that?

MR. ROBERTS: $75,000.

MS. BUTLER, Q.C.: $75,000. Now if I added the three I'd get $1,598,000?

MR. ROBERTS: I'm not sure. If you wanted me ... if it would make it easier, I can quite easily tell you the components that make up the $2 million.

MS. BUTLER, Q.C.: Sure. Well, let me just tell you, just for the benefit of the transcript if nothing else, $1,350,000 in professional services, $173,000 in overtime and $75,000 in travel by my calculation adds up to $1,598,000 of the $2 million that we're talking about.

MR. ROBERTS: Some costs were already in the original number, so ...

MS. BUTLER, Q.C.: Okay.

MR. ROBERTS: ... that's why I'm saying if you bear with me, let me deal with what's in the revised number that's making it up, then maybe this may be of some help to you.

MS. BUTLER, Q.C.: Go ahead.

MR. ROBERTS: The components that make up the requested $2 million deferral are $75,000 for travel ...

MS. BUTLER, Q.C.: Okay, we've got that one.

MR. ROBERTS: ... $175,000 for overtime ...

MS. BUTLER, Q.C.: Okay. We had 173, but anyway ...

MR. ROBERTS: ... $750,000 for consultants incurred by Hydro, and we had estimated approximately $1 million for costs billable by the Board, including the approved intervenors' costs, and I use the word "estimated." At this point we're not sure what those final numbers will be but this was an estimate that we used based on our own knowledge at this point as to what the costs could possibly be, and that's what makes up the components of the $2 million deferral that we're requesting approval of the Board to defer and amortorize over a two-year period.

MS. BUTLER, Q.C.: Can we just look at the **Grant Thornton Report for 2001**, please, page 33? Okay. Underneath the yellow table. Thanks, Mr. O'Rielly. Here the Board's financial consultant is suggesting in the paragraph under the yellow table there that the high costs in the PUB-related costs category for 2000 and 2001 relates to the rate hearing. Category includes the rate assessment and the rate referral costs for the engagement of various consultants. Costs forecast for 2002 include the PUB's rate assessment and costs associated with regulatory reviews. So as I understand what he's saying there, correct me if I'm wrong, Mr. Roberts, but the $4.5 million shown under 2001 includes consultants' fees.

MR. ROBERTS: It would include consulting fees as well as PUB-related costs (inaudible) before the Board.

MS. BUTLER, Q.C.: So how much of the figure you've just given us now, which is $750,000, was originally built into the 2001 figure of 4.5?

MR. ROBERTS: I believe there was 1/2 million dollars included in the PUB-related costs associated with the hearing.

MS. BUTLER, Q.C.: And those were the costs that Hydro had originally elected not to defer into the test year.

MR. ROBERTS: That's correct.

(10:30 a.m.)

MS. BUTLER, Q.C.: Mr. Roberts, before I leave that area, perhaps you could just tell the Board why the decision was made to defer those costs into the test year?

MR. ROBERTS: Hydro looked at the costs that were being incurred relative to the hearing and the length of time that it was with this particular rate hearing in light of the magnitude of what these costs will be. It was decided that we would ask the Public Utilities Board for approval to defer and amortorize over a two-year period, similar to what had been done with a hearing of Newfoundland Power in 1998, as I understand.

MS. BUTLER, Q.C.: Thank you. And why two years?

MR. ROBERTS: Two years was picked because of the fact that we anticipate being back here in 2003 for 2004 and we didn't want to have these costs flowing over into the 2004 test year.

MS. BUTLER, Q.C.: Thank you. Okay. I want to turn now to a discussion that I had with Mr. Reeves on the issue of some salaries in the TRO Division and some savings that were, Mr. Reeves indicated, reflected in the Finance Department budget.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. I wonder, Mr. O'Rielly, can you get the transcript for October 1st at page 39 on the screen? Did you want the hard copy of that, Mr. Roberts, or are you okay with the screen for that?

MR. ROBERTS: Try it on the screen.

MS. BUTLER, Q.C.: Lines 56 to 61 on the hard copy, it was. Let's just see what comes up here. It looks to be around lines 48, 50, around there, and up to 55. Starting at line 52 I'll just read what I had asked him. "Are you saying then that of the salaries shown for 2001 for your division of $19.4 million, really there should be savings of how much off that?" And he said, "Well, probably at least $1.5 million." He did indicate that this would be reflected in the Finance budget. Is he correct when he suggests that the savings from TRO salaries are reflected in the Finance budget?

MR. ROBERTS: On a budget basis, salary increases, vacancy reduction, as well as proposed complement reductions, are reflected in the Finance Division, and that's done for the purposes of trying to maintain confidentiality.

MS. BUTLER, Q.C.: Yes, I did understand that from him and I can accept that you don't want staff to be aware that you're necessarily downsizing their particular department.

MR. ROBERTS: It's difficult if you don't do it that way.

MS. BUTLER, Q.C.: Yeah. But we've already seen from your **Schedule 1A**, and perhaps you might just go back and look at that, that Hydro is currently forecasting an increase in salaries, on line 18. So for the 2001 year, which was the year Mr. Reeves was addressing, rather than showing a reduction of $1.5 million, you're showing now an increase of $1.7 million.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. So just explain to me what's happened here. Has the savings that he, his department found been eroded and an additional $1.7 million needed in salaries?

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. And how did this occur?

MR. ROBERTS: As I mentioned yesterday when I read out the changes that's on Schedule 1A, page two of four, these are the components that make up the change of $1.7 million and the salaries employee, in the salaries and fringe benefit grouping.

MS. BUTLER, Q.C.: Note 7, is that right?

MR. ROBERTS: Yes, where I make reference to why it's gone up to $1.7 million, higher wages, mainly to backfilling permanent positions, additional capital work, lower permanent salaries due to additional vacancies, higher overtime mainly related to additional maintenance, rate hearing, more capital work, revised employee future benefits and higher fringe benefits.

MS. BUTLER, Q.C.: Thank you. So going back to the schedule then at line 18, where are his savings reflected?

MR. ROBERTS: The original budget savings were reflected in the $60.3 million.

MS. BUTLER, Q.C.: They were already ...

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: ... deducted then?

MR. ROBERTS: Yes. Anticipated savings from the proposed reduction in the complement was reflected in that initial number.

MS. BUTLER, Q.C.: Okay. The other issue relative to this that I wanted to talk to you about was the vacancy adjustment.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: And your budget for 2.5 percent vacancy adjustment is shown at **NP-255, lines 23 to 25**.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay. So Hydro does estimate approximately 2.5 percent of total permanent salaries is representative of vacancies, amounts to approximately $1 million.

MR. ROBERTS: That's correct. That's what we have used for 2002, I believe, yes.

MS. BUTLER, Q.C.: Right. So for the test year you're using an adjustment of $1 million on the basis of 2.5 percent.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: But again Mr. Brushett, Grant Thornton, 2001 at page 25, suggests that the vacancy allowance, if I can find his reference for you, the top of the page there. He says ... middle of that paragraph, Mr. O'Rielly, please. "Per hour review of actual and budgeted permanent salaries, '97 to 2000, Hydro has over-budgeted on average by four percent to compensate for this potential over-budgeting, Hydro budgets a vacancy credit, included in the Finance Department forecast. Credit budgeted for 2001, 2002 is $1 million." I'm interested in, Mr. Roberts, as Controller, your position on the difference between the 2.5 percent vacancy adjustment and what Grant Thornton is suggesting should perhaps be four percent.

MR. ROBERTS: If you look back at what's actually happened ...

MS. BUTLER, Q.C.: Yeah.

MR. ROBERTS: ... in the last four years, the average is approximately 3.8 percent, which is the four percent referred to by Grant Thornton. I guess to add further to that, in the year 2000 positions were, permanent positions were left vacant in light of the fact that there were going to be reductions in the complement in 2001, so that the vacancy reduction on an actual basis for the year 2000, I would have expected it to be higher than a 2 1/2 percent, because we knew that certain positions were going to be eliminated and they were not filled. For setting the vacancy reduction for the year 2001 and 2002, we were cognizant of the fact that there were going to be staff reductions and positions eliminated, and that's why 2 1/2 percent was used rather than, say, four or five. It was recognizing the fact that these positions were going to be gone and there would be no savings arising from these positions.

MS. BUTLER, Q.C.: Can I have the same numbers from Hydro for '97, '98, '99, 2000?

MR. ROBERTS: Budget against actual?

MS. BUTLER, Q.C.: Yeah. I don't think we have them.

MR. ROBERTS: No, you haven't asked for them.

MS. BUTLER, Q.C.: No. Can we have them now, Mr. Roberts?

MR. ROBERTS: Would you like for me to ... do you want them written or do you want me to just give you the percentage ...

MS. BUTLER, Q.C.: If you have them.

MR. ROBERTS: Oh, I have the percentage.

MS. BUTLER, Q.C.: Sure.

MR. ROBERTS: I asked somebody to go back and do it for me. '97 was 6.4 percent; '98 was 3 percent; '99 was 1.6 percent; and 2000 was 4.4 percent.

MS. BUTLER, Q.C.: Do you have your most recent estimate of the vacancy allowance that you will achieve in 2001?

MR. ROBERTS: At this point I believe we will achieve $1 million but I can't tell you any more than that at this point.

MS. BUTLER, Q.C.: What's the percent?

MR. ROBERTS: I think it's 2 1/2 percent. I think that's approximately what we've used for 2001 and 2.

MS. BUTLER, Q.C.: Yes, it is, for 2001 and 2. Are you sticking with 2.5 percent for 2002?

MR. ROBERTS: Yes, we are.

MS. BUTLER, Q.C.: $1 million?

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Now, I know from yesterday, very early part of your testimony, that you talked about regularly assessing the financial statement. Would that include the vacancy allowance?

MR. ROBERTS: That would include assessing positions. The vacancy allowance is the fall-out from that. If positions ... and I just ... if positions don't materialize, if vacancies don't occur, then we will never obtain that, but we recognize from the point of view of the, when a position becomes vacant and by the time we get somebody hired and filled into that position, if you have approval to fill it immediately, you're talking at least a minimum of 30 days, so it's difficult to determine how long positions are going to be vacant. It may be relatively easy for me to fill an accounting position but to fill an engineering position to go into St. Anthony or up in Happy Valley or some other area, it may take a lot longer, so it's difficult to try and gauge what the amount should be and it really has to come back to what is your best estimate taking into account the circumstances that you're aware of.

MS. BUTLER, Q.C.: Well, when was the last review completed?

MR. ROBERTS: The vacancy reduction is part of the review that's done by Management Committee when they review the operating budgets.

MS. BUTLER, Q.C.: Refresh my memory. Last month?

MR. ROBERTS: It's reviewed in June and it's also reviewed when we come back with a revised budget in September, before it gets completely finalized.

MS. BUTLER, Q.C.: I think I'm into my last area actually, Mr. Roberts, bear with me, and that's a revenue requirement issue again, back to your **Schedule 1**. Mr. O'Rielly, is this Schedule 1 or Schedule 1A?

MR. O'RIELLY: 1A.

MS. BUTLER, Q.C.: Okay. I'd like to see 1, please, which is the original one, the 2002 column, which is "I." Okay. So when it was filed in May, the revenue requirement forecast for 2002 was $322.3 million.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Let me just make a note of that number because I want to just point out Mr. Brickhill's evidence, **JAB-1**, Mr. O'Rielly. That's cost of service. Is that in ... Schedule 1.1, page one of two, revenue requirement. Thank you very much. Column 2 at the bottom, total ... no, that's column 3. Column 2, thank you, at the bottom, revenue requirement was $318.846 million. Now it was the ... it was the discrepancy between those two numbers when the application was originally filed that caused Newfoundland Power to ask a question about the reconciliation between the two numbers. So we're comparing your $322.3 million to his $318.8 million, and that's **NP-1**.

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Okay then. We just see the reconciliation there and you have to scroll down a little further. Thanks, Mr. O'Rielly. So between line 13 and line 22 we see the adjustments.

MR. ROBERTS: That's correct.

MS. BUTLER, Q.C.: Okay. And the largest of these of course is the IOCC revenue adjustment which relates to a non-regulatory item, right?

MR. ROBERTS: Yes.

(10:45 a.m.)

MS. BUTLER, Q.C.: I guess my point here, Mr. Roberts, is that it's this kind of adjustment and, at first glance, discrepancy between the number which wouldn't need explanation if we were keeping a separate set of regulatory books, right?

MR. ROBERTS: Yes.

MS. BUTLER, Q.C.: Yeah. Mr. Chairman, those are my questions, I believe, for Mr. Roberts, and thank you very much, Mr. Roberts.

MR. ROBERTS: Thank you.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms. Butler. Thank you, Mr. Roberts. Mr. Hutchings, I would ask for your direction. Would you like your break now or would you like to go through till 11?

MR. HUTCHINGS: We can carry on till 11 with a few items and then come back, Mr. Chair, I think.

MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you, sir.

MR. HUTCHINGS: Good morning, Mr. Roberts.

MR. ROBERTS: Good morning.

MR. HUTCHINGS: I'd just like to briefly, before we break, deal with a couple of items that you discussed already to some extent with Ms. Butler. Looking at your **Schedule 1A**, on the question of the hearing cost deferrals, do I understand correctly that the $2 million that we're talking about now represents your best estimate of the total hearing costs?

MR. ROBERTS: No. The $2 million is our estimate of the incremental costs. Our estimate of the total cost of this hearing including the internal time associated with it will be in the order of $3 1/2 to $4 million.

MR. HUTCHINGS: Okay. I was a little bit confused, I guess, by line four at page two of your pre-filed evidence where you said that Hydro's current estimate is that will incur approximately $2 million of costs associated with the current rate hearing for these particular items, but what you're telling me is that this is $2 million in addition to your initial estimate. Is that fair?

MR. ROBERTS: I guess ... just let me try and give it to you this way. The $3 1/2 to $4 million that I'm referring to as being the total cost would include the allocation of my time as an example to the work order that we have established for this.

MR. HUTCHINGS: Right.

MR. ROBERTS: And my time is, I refer to it as sunk.

(laughter)

MR. HUTCHINGS: You're expecting a cheque every week anyway, right?

MR. ROBERTS: I certainly hope so.

MS. GREENE, Q.C.: It doesn't include overtime.

MR. ROBERTS: And I don't get paid overtime and I really wish I did. So these are additional costs in addition to the internal costs that would be incurred in any respect.

MR. HUTCHINGS: Okay. So does the $2 million then represent all of the outside costs, the out-of-pocket costs, shall we say?

MR. ROBERTS: There are some out-of-pocket costs that aren't included but they are not significant, and I'll use an example of our staff getting overtime meals when they work on weekends or at night ...

MR. HUTCHINGS: Sure.

MR. ROBERTS: ... which is an $11 or $12 to compensate for a meal, and that's not included, but the overtime and the estimate of the costs billable by the Board for their costs as well as the intervenors', the overtime and travel have been included.

MR. HUTCHINGS: Okay. Now, in ordinary accounting practice, am I correct in assuming that these costs would normally be expensed in the year in which they're incurred?

MR. ROBERTS: That's correct. There would be no basis without regulatory approval to defer these costs and amortize them.

MR. HUTCHINGS: If we can look briefly at your **initial Schedule 1**, not 1A but the original schedule, this has the 2000 actuals on it as well, and I'm trying to project some sort of understandable progression in the professional services, which are at line 24, and it appears that we don't have what I would have expected to be a considerable increase relative to the rate hearing shown here. Granted there's an extra $700,000 in 19, in 2001 compared to 2000, but overall that's not a huge increase and the projection was for a slight decrease in 2002. Is there some reason why the expense doesn't show up as a particular peak?

MR. ROBERTS: This one is the original filing.

MR. HUTCHINGS: Yes.

MR. ROBERTS: Like the Schedule 1A that's attached provides you with the revised number for professional services which is now grown to $5.6 million ...

MR. HUTCHINGS: Right.

MR. ROBERTS: ... which is picking up an extra $1.3 million in costs associated with this particular hearing.

MR. HUTCHINGS: So is it ... is the 3.8, shall we say, in 2000, clear of any hearing costs?

MR. ROBERTS: It should be. The costs that are in 2000 are related to other items like the PUB assessment, other professional services that are required for other purposes. There may be some professional services in there in assisting Hydro in writing a cost of service model in the year 2000 as an example, but the majority of the costs are in 2001.

MR. HUTCHINGS: So the initial estimate was somewhere in the range of $700,000 for an increase in professional services largely due to the rate hearing.

MR. ROBERTS: Primarily due to the rate hearing.

MR. HUTCHINGS: So going back to your **Schedule 1A**, do I take it that the $1 million increase in professional services for 2002 represents the amortization of the deferred hearing costs?

MR. ROBERTS: Yes, it does.

MR. HUTCHINGS: Okay. And your rationale for asking the Board to approve the deferral is based upon the impact on your bottom line basically in 2001.

MR. ROBERTS: It's combination looking at the magnitude of the cost being incurred and, yes, it will have an impact on the bottom line in 2001 of approximately $2 million if a deferral doesn't take place.

MR. HUTCHINGS: So looking at line 40 then on Schedule 1A, what you're saying is that the $11 million, $11.3 million, you project to make in 2001, would be down to a mere $9 million.

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Just one other quick question before we break on your initial **Schedule 1**. Looking at the allocations there that start at line 32, I recognize that a new one has been added on Schedule 1A for the requested cost deferral for the rate hearing, but do those items constitute all of the allocations that there are supposed to have been deducted from the revenue requirement in each of those years?

MR. ROBERTS: That's the only allocations that have been done and they primarily consist of the capitalized expense and the administrative services agreement with Churchill Falls Labrador Corporation Limited.

MR. HUTCHINGS: Right.

MR. ROBERTS: As I mentioned sometime yesterday, we do have other entities but they are (inaudible) inactive.

MR. HUTCHINGS: Uh hum, yeah, and I notice LCDC is in there simply because, I guess, in 1992 it was a ...

MR. ROBERTS: In 1992 ...

MR. HUTCHINGS: ... little less inactive.

MR. ROBERTS: Yes.

MR. HUTCHINGS: Yeah, okay. But the reason for my question is that there doesn't seem to be a line 36 on the schedule and I'm wondering if there is supposed to be something else in there.

MR. ROBERTS: No.

MR. HUTCHINGS: No. That's purely typographical, as far as you know?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Yeah, okay. Alright. Well perhaps we'll break there, Mr. Chair, and start again.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr. Hutchings. We'll reconvene at 11:10.

(break)

(11:15)

MR. NOSEWORTHY, CHAIRMAN: Could I ask you to continue, Mr. Hutchings, please?

MR. HUTCHINGS: Yes, thank you, Mr. Chair. Mr. Roberts, just a couple of questions with respect to Newfoundland and Labrador Hydro's long-term debt. In the bond issues that are outstanding, and some of them obviously have been outstanding for some time and has significantly higher interest rates than we expect today, are there any provisions for prepayment of those series?

MR. ROBERTS: I'm not sure what's in the current ones that are outstanding, but since, I guess, `92 to now, there were some high coupon debt that had provisions like a year or two years before the actual maturity date, and those were exercised over the years.

MR. HUTCHINGS: I was looking at your schedule which talks about the series V and X which have rates, coupon rates of over 10 percent on them, but they don't mature until 2014 and 2017?

MR. ROBERTS: Historic, I would suggest that it would be a year or two years prior to that you wouldn't.

MR. HUTCHINGS: And are any of the existing series subject to any other sorts of prepayment provisions?

MR. ROBERTS: To the best of my knowledge, no. There may be a sinking fund attached to the particular debt issue, but there would be no further option for retirement.

MR. HUTCHINGS: Yes, okay. Have you had discussions with your financial advisors about the possibility of including those types of provisions as a hedge against lower rates later on?

MR. ROBERTS: I wouldn't be able to speak directly to that. Treasury within Hydro is a separate function and the treasury reports directly to Mr. Osmond, the Vice-President of Finance, so he would have more in depth knowledge of discussions with the underwriters.

MR. HUTCHINGS: Okay. Thank you. I notice that one of the things that you report on here, and I don't think we need to look at it, but it's your Schedule 14, is the Rate Stabilization Plan. Can you just explain for us what your connection with that plan is?

MR. ROBERTS: I guess my department has the responsibility for issuing the monthly rate stabilization report, so information is provided to my section on the generation during the month. We do the calculations and actually record the entries. We obtain the information from Holyrood on the fuel consumed tying in as to when the purchases take place during a particular month, so we do that particular calculation. We do the calculation of the load section as well. When those three items are completed we forward that information to the rates department who then, in turn, provide a customer splits via the cost of service, so they would, once the splits and that are done ... and I should say in the same time they're confirming the calculations that my staff have done. Once that's done they will then provide me with the splits between the two customers and we will complete the typing of the document.

MR. HUTCHINGS: So, the calculations which give rise to the splits are all done in the rate section?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Okay, and then it's sent back to you for ...

MR. ROBERTS: And then it's sent back to me for final typing and issuing the document.

MR. HUTCHINGS: Uh hum, okay. As you're aware, obviously, the rate stabilization adjustment for industrial consumers is based upon the September balances?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Can you tell us now what the adjustment will be for the year 2002 for industrial customers?

MR. ROBERTS: I'm just trying to remember if that was attached to the ... if that was included in the September, 2001 plan or if it's not. We should be able to tell you the adjustment.

MR. HUTCHINGS: Okay. Well, perhaps you'll get a chance to check that over lunch and we can get that information? Is it fair to say though in terms of the Rate Stabilization Plan that your function is basically to manipulate the data and come up with the right numbers?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Okay, and am I correct in assuming that Mr. Osmond would speak to the principles behind the plan?

MR. ROBERTS: The workings and how it would go through with the cost of service would flow through from Mr. Osmond.

MR. HUTCHINGS: Okay. I think you've probably covered most of this with Ms. Butler now, but I did want to have a couple of questions addressed with respect to the regulatory and non-regulatory split. I guess part of the problem that I had with this was that in your initial evidence, at page 1, you talk about excluding some non-regulatory costs and then you talk at the top of the next page about the cost of service allocating certain costs to an unregulated customer, and when we asked in **IC-259** about regulatory costs, the word "include" was used rather than the word "this is" or "these are." Are we satisfied at this stage that the donations and the costs related to Muskrat Falls are the only non-regulated items within Hydro corporate?

MR. ROBERTS: From an operating expenditure perspective they are the only two costs.

MR. HUTCHINGS: Okay. The exclusion of CF(L)Co. itself, I take it, deals with most of the issues that would arise there, so when we're reduced to Hydro corporate we get rid of most of the aspects related to CF(L)Co?

MR. ROBERTS: Well, if you look at CF(L)Co., Hydro, on its financial records, has an investment in CF(L)Co. which is completely eliminated because the investment, and the other side of the entry is a portion of retained earnings and Hydro sheer capital, so they offset, together with some debt. The only other charge that's between Hydro and CF(L)Co. is through our administrative services agreement which we detailed in **NP-11(b)** and that outlines the services that Hydro is providing to CF(L)Co.. And this goes back to 1985 when a decision was made to integrate the head office functions of CF(L)Co. and Hydro, and at least ever since that date, and I can go back that far because I was there at that time, I, as an example, as being a corporate controller and a corporate controller for the Hydro Group, so I provide a similar function to CF(L)Co. the same as I do to Hydro and I allocate my time based on the hours that I spend. Other departments are providing similar services, so that CF(L)Co. does have, as an example, a separate legal department. It avails of the services from Newfoundland and Labrador Hydro's legal department, and those costs are charged appropriately by time sheets to a work order to account for those services being rendered.

MR. HUTCHINGS: Okay. In your discussion with Mr. Butler you referred to Twin Co. (phonetic) and indicated that basically their costs were paid for by CF(L)Co.?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Does that affect the administrative agreement between Hydro and CF(L)Co.?

MR. ROBERTS: Any time that I spend on Twin Co. is charged to the CF(L)Co. work order that I had created.

MR. HUTCHINGS: Okay.

MR. ROBERTS: So, from a costing perspective, if it's CF(L)Co. or Twin, it still gets charged to CF.

MR. HUTCHINGS: Okay, so the agreement between Hydro and CF(L)Co. extends to any services that Hydro itself provides to Twin Co.?

MR. ROBERTS: Provides to Twin, because there is an agreement going back in time when Twin was originally mothballed as a plant and Churchill was diverted the water from that particular facility. There was an agreement reached, at that point, between Twin and CF(L)Co. as to services that would be provided on an ongoing basis.

MR. HUTCHINGS: And the only other element that we seem to be dealing with here, to some extent, is your reference to an unregulated Labrador industrial customer, which I presume is Iron Ore Company of Canada?

MR. ROBERTS: That's correct, it's IOC.

MR. HUTCHINGS: Okay.

MR. ROBERTS: And the reason why that it is exactly as that, it is a customer, and the only true way to determine the cost to be assigned to that customer is through the cost of service. It's not a straightforward you buy something and you sell something.

MR. HUTCHINGS: So, once we account for the regulated activities of Hydro we account for IOCC, we account for CF(L)Co. and the sales of recall power to Hydro Quebec, we've basically exhausted everything that the Hydro Group does, is that fair?

MR. ROBERTS: That's correct, yes.

MR. HUTCHINGS: Okay. Can you identify for us the effect that the sales to IOCC have on the revenue requirement?

MR. ROBERTS: In 2002 the revenue requirement includes approximately $2.4 million associated with IOC, so this is over and above the cost that's been allocated to that particular customer, so if you want to call it profit the answer is yes.

MR. HUTCHINGS: Okay, and is that identified on your Schedule 1-A?

MR. ROBERTS: No, it's not, but earlier this morning before the coffee break Ms. Butler took me into **NP-1** and we made the reference there to the IOC revenue adjustment of 2,375, if memory serves me correctly.

MR. HUTCHINGS: Yes.

MR. ROBERTS: That is the profit on the sales to IOC, so in the original filing that is the number that's included.

MR. HUTCHINGS: Is that the only impact that IOCC has on your revenue requirement?

MR. ROBERTS: Yes, because the cost of services allocated in the other costs and this is the excessive revenue we're receiving from that customer above the costs that are allocated to it.

MR. HUTCHINGS: And what's the effect if the costs that are forecast to be associated with IOCC for the purpose of the cost of service study turn out not to be accurate when the actuals are known?

MR. ROBERTS: The element of profit that we'll receive on IOC will either go up or down depending on what's going on with cost. The cost of service is what will allocate the cost, so if the cost within the cost of service changes, then the proportionate share in accordance with the methodology that's being used, we'll allocate those costs to IOC as being a customer, so the element of profit that's arrived from IOC will vary based on that.

MR. HUTCHINGS: Okay, but your cost of service for the purpose of rate setting assumes a certain level of cost and a certain level of profit for IOCC?

MR. ROBERTS: It doesn't assume profit, it assumes that the costs will be allocated to that customer based on the methodology that's being used to allocate costs.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: The sales value that we're making to that customer is the load times that rate. The cost of service allocates the cost to that customer, the difference between the two represents this profit element.

MR. HUTCHINGS: Yes.

MR. ROBERTS: But the cost of service doesn't determine the revenue for that customer. Within the cost of service revenue and costs are deemed to be the same because it's not used for setting of a rate.

MR. HUTCHINGS: And those costs for IOCC show up within the Labrador interconnected system, in any event, don't they?

MR. ROBERTS: I guess all I could tell you is they're in the cost of service.

MR. HUTCHINGS: Okay. Alright, we can pursue that elsewhere if we see the need. I have a few questions on the subject of interest coverage. I guess this has been a source of some confusion through the years because we get so many different versions of interest coverage. For your purposes, what interest coverages do you use if, in fact, you use any, on any sort of regular basis?

MR. ROBERTS: I use what I refer to as the corporate interest coverage.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And I'll just try to elaborate on that a little bit for you. If you were to look at Hydro's financial statements and our income statement, which the corporate financial statements have been filed in one of the questions for Newfoundland Power.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And if you looked at the income statements you would come and we'll find and determine a net income before the following, and that following then deals with items related to CFL Co, so our net income is before any activity associated with CF(L)Co.

MR. HUTCHINGS: Right.

MR. ROBERTS: So, when I refer to the measurement that I use, I look at gross interest plus that margin to arrive at an interest coverage, so ...

MR. HUTCHINGS: That leaves out CF(L)Co.?

MR. ROBERTS: That leaves out CF(L)Co. and the ...

MR. HUTCHINGS: But would include IOCC?

MR. ROBERTS: But it would include IOC. We do it with and without recall. As you can appreciate, recall, to date, has a significant impact on the calculation of the interest coverage at a point in time, and the reason why I say that is because, at least at this point, the recall is not being paid until March, but in effect we have that amount of net profit sitting there up to the end of a particular year, so it does impact on what the interest coverage would be, so we have been calculating the interest coverage with and without recall, but not excluding the impact of IOC.

MR. HUTCHINGS: Okay, so in terms of the types of interest coverages we may see during the course of dealing with your presentations in hearings of this nature, we can see a regulated interest coverage which, I guess, is the one that shows up on **NP-2**?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Or one of the ones that shows up on **NP-2**?

MR. ROBERTS: Yes. **NP-2** is the cost of service regulated interest coverage.

MR. HUTCHINGS: Okay, and that leaves out all the CF(L)Co., all the recall and all of ...

MR. ROBERTS: IOC.

MR. HUTCHINGS: ... IOC?

MR. ROBERTS: And it would also adjust, within the interest number for anything that would have to be adjusted as well.

MR. HUTCHINGS: What would have to be adjusted within the interest number?

(11:30)

MR. ROBERTS: Just see if I can help you out a small bit. If I may, if I could refer you to **NP-240**, page 2 of 2?

MR. HUTCHINGS: Okay.

MR. ROBERTS: You will find there that adjustments are being made for the rural allocation?

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: In determining of the interest coverage because we're not allowed to earn a margin on the rural assets. On line 14.

MR. HUTCHINGS: Okay.

MR. ROBERTS: So as a result of not being allowed to earn a margin on those particular assets this is another factor that has to be considered now in the calculation of the regulated gross interest for calculation of the margin. On a go forward basis, as of the date of effect of this particular hearing, the calculation of interest coverage is just purely a financial tool because we will be regulated on a rate of return on a rate base.

MR. HUTCHINGS: Right, okay, so the only value of this type of calculation from this point on, I guess, will be possibly to make some comparison ...

MR. ROBERTS: That's correct.

MR. HUTCHINGS: ... with the older system?

MR. ROBERTS: And it will also identify, you know, the amount of margin that's ... or amount of interest that's associated with rural allocation.

MR. HUTCHINGS: Okay. That's the only other adjustment you would say that you would need to make?

MR. ROBERTS: That's the only one that comes to mind that I'm a aware of right now.

MR. HUTCHINGS: Okay. Alright, so in terms of our interest coverages then there is the regulated version which makes allowance for the rural deficit amount, as you point out. Then you would have a corporate version which would include IOCC but leave out CF(L)Co.?

MR. ROBERTS: That's correct. CF(L)Co. has never been included in the calculation of the interest coverages by Hydro.

MR. HUTCHINGS: Right, okay.

MR. ROBERTS: It has always been excluded.

MR. HUTCHINGS: Yeah, okay, but there'd be two of those because there'd be one with recall and one without recall?

MR. ROBERTS: Yes, we do do that.

MR. HUTCHINGS: Okay, and then if you can do, obviously, a consolidated version which would include CF(L)Co.?

MR. ROBERTS: Yes, it could be done but we don't do it.

MR. HUTCHINGS: Okay, and do you know which of these interest covers the bond rating agencies normally reports?

MR. ROBERTS: The calculation that I have seen is they calculate their own.

MR. HUTCHINGS: Okay. Which is unrelated to any of these?

MR. ROBERTS: Which is ... and the reason why I say that, because I did look at, I think it was either `99 or 2000 and they had calculated an interest coverage except they referred to it as like about 1.5, and as you can see, ours was certainly not up to 1.5, but they do their own calculation in their own terminology.

MR. HUTCHINGS: Okay. Do you know essentially what the difference is in their approach?

MR. ROBERTS: I think it's the way that they're treating other costs, and I think they include CF(L)Co.

MR. HUTCHINGS: Okay, so that is more likely the consolidated version?

MR. ROBERTS: Well, the calculation that I've seen is of the non-consolidated financial statements, but as a result of following proper accounting and equity accounting for CF(L)Co. it has the same effect. Net income would still be the same on a consolidated.

MR. HUTCHINGS: Yes, so, and I presume in the case of the bond rating agencies they include effects of recall power or anything else that's in there?

MR. ROBERTS: I can shed some information that I have, is that I sat in this year on some presentations made to the bond rating agencies whereby we did take them through Hydro's annual report and provided further explanation and commentary to them, as an example, that we were going for a hearing and what was being proposed in this particular hearing, and we certainly did provide them with the information that, you know, here's the interest coverages that we have and this does include the effect of recall and here's the amount, so it certainly ... they are certainly aware of the amounts and the magnitudes.

MR. HUTCHINGS: From your point of view as the Controller of Hydro which of these calculations is most significant in terms of reflecting Hydro's financial position?

MR. ROBERTS: Are you comparing return on rate base now to ...

MR. HUTCHINGS: No, no. On the interest coverages.

MR. ROBERTS: To me, the most important calculation is the one at corporate excluding recall. Recall to me is only a timing factor.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: It's eventually going to go out the door, it's just delayed.

MR. HUTCHINGS: Okay.

MR. ROBERTS: So if I was going to use the interest coverage, then that's the one that I would be referring to.

MR. HUTCHINGS: Just turning back to your discussions with Ms. Butler about that point and the $800,000 number in **PUB-56**. That $800,000 number, that is added to the financial statement interest in order to get regulated interest, and I understood you to say to Ms. Butler that that $800,000 was not actually paid out as interest, but 75 percent of it ultimately went to the government?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Okay, and the 75 percent that you're talking about is a dividend to government, correct?

MR. ROBERTS: Yes. We pay a dividend of 75 percent net operating income.

MR. HUTCHINGS: Yes. Well, that's what the policy says, correct?

MR. ROBERTS: Yeah.

MR. HUTCHINGS: This policy isn't always followed, I think, as we've learned, but assuming that the policy were followed, then that 75 percent of that $800,000 would go to government but not as interest?

MR. ROBERTS: No. It would go out as a dividend.

MR. HUTCHINGS: Yes, okay. As part of the return to government?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Okay, and the 25 percent, again, assuming the policy were to be followed, stays in the company's retained earnings?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Okay, so the $800,000 really represents an interest saving arising from the fact that you have this additional cash flow from the recall power?

MR. ROBERTS: Yes. As I mentioned, I think it was in **NP-240** we provided the details that shows where we actually went back and reran the short-term interest cost compared before and the after, and this how the amount was determined.

MR. HUTCHINGS: Okay. There is an effect also arising from this situation on the guarantee fee as well, isn't there?

MR. ROBERTS: Yes, it does impact the guarantee fee.

MR. HUTCHINGS: Okay, so, in terms of the guarantee fee that is included in regulated expenses for the purpose of this hearing, that's calculated on the basis of what interest would have been without the recall power, is that correct?

MR. ROBERTS: It's based on the debt, excluding the impact of recall.

MR. HUTCHINGS: Okay, so what do you actually pay the government, is it the one percent of the financial statement number or one percent of the revenue requirement number?

MR. ROBERTS: Good question. I don't know. I haven't thought about it, to tell you the truth.

MR. HUTCHINGS: Okay.

MR. ROBERTS: Once again, if I may, it's not to defer it, but treasury looks after that function and would pay and do the calculation and pay it.

MR. HUTCHINGS: Yes.

MR. ROBERTS: All I do is just provide an account for them to record it in.

MR. HUTCHINGS: Yes, okay. Alright, well, we'll perhaps ask Mr. Osmond about that and see which is which, but, I guess the point is that the number that would be calculated on the basis of the revenue requirement would actually be a higher number than the number that would be calculated on the basis of the financial statement?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Yeah, okay.

MR. ROBERTS: Because of that impact on the borrowing.

MR. HUTCHINGS: Okay. We spoke briefly before the break about the effect on your bottom line in 2001 of the rate hearing costs. I think we agreed that the effect if the Board declined to permit the deferral would be to reduce your margin in the year 2001 to $9.316 million from the $11.316 million?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Okay. Would you agree with me that even at $9.316 million on a regulated basis you'd still have an interest coverage of about 1.10? I think at the 13 you were predicting 1.14?

MR. ROBERTS: Bear with me for one second.

MR. HUTCHINGS: Sure.

MR. ROBERTS: Based on the $11.3 million the interest coverage is estimated to be about 1.12.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: If the 2 million is not there it's roughly $1 million a point.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: So could go to 110 or 1094, depending on where the rounding and the cut off is, but a rough rule of thumb is normally close between $800,000 to $1 million will change your interest coverage by a point.

MR. HUTCHINGS: Okay, so you will still be earning in excess of the interest coverage approved by the Board in 1992?

MR. ROBERTS: Well, in 1992 the Board recommended a target of 1.08. It didn't set a specific 1.08, it should aim to achieve the 1.08.

MR. HUTCHINGS: Uh hum, but the Board set rates on the basis of 1.08 in 1992 and that's the last time rates were set, correct?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Okay. I mean, looking at the information contained in **NP-3**, if I look back, for instance, to the year 1999 you're actually showing a negative margin in that year?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Minus $3.665 million?

MR. ROBERTS: Yes, and that's because of the write off for the Roddickton wood chip plant.

MR. HUTCHINGS: Yes, okay, but, the point being that you actually had a negative margin and hence, an interest cover of less than one?

MR. ROBERTS: When all factors are factored in, yes.

MR. HUTCHINGS: All in, yeah.

MR. ROBERTS: Yes.

MR. HUTCHINGS: And in that year you did not ask the Board to defer any costs?

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Nor did you apply for any rate increase?

MR. ROBERTS: No. We had a hearing for approval from the Board to abandon the Roddickton wood chip plant.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And that's what was recorded, and it was written off to retained earnings. And at that point there was no approval requested of the Board to consider that asset as an abandoned asset and request permission or approval to defer and amortize over a future period.

MR. HUTCHINGS: Okay. Looking for a moment, Mr. Roberts, at your pre-filed evidence on page 12, line 11. You're discussing there the conditions, surveys on thermal units, and the recommendation that Holyrood unit No. 3, for instance, have an additional service life of at least 20 years, and you're saying this recommendation is implemented effective January 1, 2002. What's the effect on depreciation expense, if any, of that recommendation?

MR. ROBERTS: It will from what would have happened. It will reduce the amount of depreciation expense in the future, spreading it out over a longer period of time.

MR. HUTCHINGS: Okay, so the effect has simply been to take the undepreciated capital cost existing with the Holyrood unit and spread it out over a longer period?

MR. ROBERTS: That's correct.

(11:45)

MR. HUTCHINGS: Okay. I had had a number of questions on the issue of employee future benefits, but Ms. Butler has covered most of that ground. Just from a very high level point of view, the amount that is now in Hydro's books as no cost of capital in respect of this transitional obligation, can we foresee a time when that will be removed from the books of Hydro or is that going to be a permanent fixture?

MR. ROBERTS: I don't think it will ever be removed. I think there will always be some balance in that account because annually, following that the method that we're using as the actual, you are booking the cost today of the service that's going to get, be paid to me in the future, as an example, so my portion that I've earned, if I stay with Hydro, as an example, for another ten years and decide to retire, well, that cost will continue to be added to that particular account, and in ten years time if I go to retire then that cost will then go back against that liability that's being created as worked, so I would anticipate there always being a balance here.

MR. HUTCHINGS: Okay. Can you just explain for me, and I'm looking at **NP-160**, how the interest expense shown in the calculation is put together?

MR. ROBERTS: I can tell you how it's supposed to be put together.

MR. HUTCHINGS: Okay.

MR. ROBERTS: And that's ...

MR. HUTCHINGS: I think we're getting some updated numbers, yeah.

MR. ROBERTS: Yeah, and that's part of the issue that Ms. Butler asked for the update. The interest is supposed to be calculated on the opening balance on the account at the beginning of the year, plus the current service cost, less one half of the payments that are projected to be made.

MR. HUTCHINGS: And what's the rationale for one half of the payments?

MR. ROBERTS: I guess it's recognizing the time factor of that these payments are going to be paid sometime over the 12 month period.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And the midpoint of the payment as being one half, so basically as you make the payment the first of July isn't different from the first half of the year and the last half of the year.

MR. HUTCHINGS: Okay. Is there a reason why we're simply focusing on interest here as opposed to return, generally?

MR. ROBERTS: Well, the interest is used here because this was done by an actuarial actuary.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And it's projecting here's the current situation, what do you have to use as an interest cost to add to this particular account, so that by the time these payments had to be made in the future sufficient funds will have been built up.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And that's the discount rate that was used in the study that was carried out by the actuary.

MR. HUTCHINGS: Okay, so it's an expense based on a discount rate?

MR. ROBERTS: That's right.

MR. HUTCHINGS: As opposed to an interest rate?

MR. ROBERTS: That's right, and this will stay in effect, as I mentioned for another year and then every three years there's supposed to be a revised revaluation done.

MR. HUTCHINGS: Okay. I just want to turn, briefly, to another subject that you discussed with Ms. Butler, and that was the question of the supplies inventory as it appears on your Schedule 2. As I understood your answers to her, the number of $21,095,000 is an actual number as at the end of December of 2000?

MR. ROBERTS: Yes, it is. And I should point out that supplies inventory is basically four accounts, but it is based on the December 2000 balances. And when we looked at what number should be derived, we actually looked back at the actual balances for the previous 13 months and said that the balance at the end of December was representative of what would happen. There would be increases and there would be decreases throughout the year, but we have no reason to believe that the inventory may not change, so the 21,095 or the portion that supplies inventory purely was the amount that was used.

MR. HUTCHINGS: Okay.

MR. ROBERTS: Because we don't forecast changes in the inventory.

MR. HUTCHINGS: No. Did you compare that result in any number of years, the year end figure, with what the average would be?

MR. ROBERTS: Well, what was looked back was the effect of a 13 month average, so we went back and took January 1st, 2000, January 31st, 2000, all the way through, end of every month, look at that 13 month average, and based on that analysis then the decision was made that, you know, the end balance at the end of December is representative of what the average inventory would be outstanding.

MR. HUTCHINGS: Okay. I mean, but for how many years did you do that?

MR. ROBERTS: To the best of my knowledge, we just looked at the year 2000.

MR. HUTCHINGS: Okay. I mean, were you able to tell whether or not that was a coincidental result and whether or not, you know, the normal approach, as I would have thought, for a rate base calculation would have been to try to come up with a yearly average?

MR. ROBERTS: I don't believe that there's very significant movements in the inventory of ... you know, it's $10 million one year and it's 15 million the next and it drops down to 12 or it goes up to 20.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: A fair number of the items that are required in inventory are required there on an ongoing basis, so I don't think the fluctuations in the inventory count would be there. These are items that are being used for the various facilities and minimum stock levels would be maintained.

MR. HUTCHINGS: By choosing one particular point in time you're leaving yourself open to a potential fluctuation on that date for some unforseen reason?

MR. ROBERTS: Well, we looked at what the 13th month results were on an actual basis for the year 2000, and the decision was, the conclusion that was reached was that the year end balance at the end of December of $21 million was representative of what happened in the year 2000.

MR. HUTCHINGS: Yeah, and ...

MR. ROBERTS: And we have no further information to warrant it being something else for 2001 and 2002.

MR. HUTCHINGS: No, but, I'm not questioning your evaluation of the numbers in 2000 and the number at the year end of 2000, but are you suggesting that on an ongoing basis in each year you're going to pick the year end number?

MR. ROBERTS: When the actual calculations are done it will be based on what the actuals are in a test year, then we had no other choice but to pick based on the most current information that we had available to us in our analysis of that.

MR. HUTCHINGS: Okay, and your proposal is in any given test year to pick the last available year end number?

MR. ROBERTS: We would look back at the last year and do that particular calculation.

MR. HUTCHINGS: Okay. I guess we'll have to explore that a bit further at another time. I take it that the inventory itself is actually managed by the individual managers of the business units who would be responsible for that inventory, is that correct?

MR. ROBERTS: The responsibility for the inventory lies underneath the materials management department.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: Even though the inventories are located in the areas the materials management people had the responsibility of maintaining that inventory for the operations people.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: So they forward their request to materials management and they would arrange the acquisition of the various items that are required to either have in inventory for a particular job at that time ...

MR. HUTCHINGS: In the Grant Thornton report at page 32, in the breakdown of miscellaneous expenses, there is an item for inventory gain/loss, and just as an example, under the year 2000, the number is $462,000. Can you just explain what the significance of that $462,000 is?

MR. ROBERTS: That represents the book value of the inventory that has been disposed of, net of any salvage that had been received on the sale.

MR. HUTCHINGS: When you say inventory that is disposed of, you're not including things that you actually use, are you?

MR. ROBERTS: No, no.

MR. HUTCHINGS: No.

MR. ROBERTS: These would be items that have become obsolete from changing that equipment that's no longer required and spare parts were in inventory that no longer are needed by us. Could be all kinds of various reasons, in that respect, so these things would be identified by an analysis of the inventory and then, in consultation with the area office and the people that are involved in operations, it would be reviewed, do you really need these parts, you know, if they're not required then do we need them anywhere else in the system. If they have a like piece of equipment that they may be used then we'd transfer them. If the decision is that we are no longer using these particular parts then the materials management department would be responsible for disposal of those things, and any salvage that we would get on disposal would be netted back against the cost of the write off.

MR. HUTCHINGS: Okay, so these numbers represent losses as opposed to gains?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Yes.

MR. ROBERTS: If it was a gain it would be in brackets.

MR. HUTCHINGS: Yeah, okay. I want to come back to that note later, but, I think we're okay on the supplies and inventory for now. Just looking briefly at your Schedule 11-A. This is your projected balance sheet, excluding CF(L)Co., LCDC Inc., and contributed capital Muskrat Falls. I take it there is no adjustment in here anywhere for IOCC, nor any need for one?

MR. ROBERTS: There's no adjustment for IOC, no.

MR. HUTCHINGS: No, okay. You're showing, as an asset, on this balance sheet, an amount with respect to the Rate Stabilization Plan?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Okay.

MR. ROBERTS: That's a receivable.

MR. HUTCHINGS: Yeah. Those are monies that, over the next three year period, on an ongoing basis, you're going to be recovering from customers?

MR. ROBERTS: In theory, yes.

MR. HUTCHINGS: Yes, okay. If, in fact, the Rate Stabilization Plan had gone in the other direction and there were monies owning to customers, do I presume there would be an entry under the liability section to account for that?

MR. ROBERTS: Yes, it would.

MR. HUTCHINGS: Okay, and those monies that accrued due to customers under the Rate Stabilization Plan if, in fact, more prices were $6 a barrel instead of what they are, without the Rate Stabilization Plan those would go to Hydro's bottom line, I presume?

MR. ROBERTS: If no other mechanism was in place then you're correct, but I don't foresee that you would be able to eliminate the Rate Stabilization Plan without putting some mechanism in place ...

MR. HUTCHINGS: No, no.

MR. ROBERTS: ... to deal with the changes in water and fuel.

MR. HUTCHINGS: No, no, I'm not suggesting that. I'm just trying to make sure that we're clear on the accounting in terms of how it would work.

MR. ROBERTS: if there is no means of deferral then whatever is incurred would go straight through as an operating expenditure and fall through to Hydro's bottom line if it wasn't allowed for and included in the rate.

MR. HUTCHINGS: Okay, and it is, in fact, the order of the, or the order of the Board, I guess. Let's assume we're in a completely regulated situation. The order of the Board that establishes the Rate Stabilization Plan that allows you to account for it in this way?

MR. ROBERTS: Yes. This was done back in the 1985 hearing where it was first proposed to the Board for the implementation of this Rate Stabilization Plan.

(12:00)

MR. HUTCHINGS: Right, okay. Just turning over to your Schedule 12-A. I notice, in your revised numbers in the schedule for dividends, there's actually a decrease in dividends that are predicted for the year in question, and this deals with, obviously, 2002 and 2001, but there's a decrease in the test year dividend from $70 million to $67 million. Can you tell us how that came about?

MR. ROBERTS: Yes. Hydro's total dividend requirement to the province for, I think it's their year ending March 31st, 2002, I believe is in the order of approximately about $104 million, and that's then reduced by the amount of recall dividend that will flow through.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And then the balance is what will flow through from Hydro from its earnings. In the 2002 revised there is a change in the amount of load in Labrador that's being sold to the Labrador interconnected customers.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: When their load goes down the amount of money that's ... amount of power that's available to sell to Hydro Quebec increases, so consequently, what's happened in 2002 is the amount of funds that are available from the net recall revenue have increased, and therefore, the corresponding changes happen here in the dividend, so the total requirement from the province hasn't changed, it's just the source of where it's going to come from.

MR. HUTCHINGS: So if there's an increase in the so-called recall dividend and hence ...

MR. ROBERTS: Yes.

MR. HUTCHINGS: ... in the so-called regulated dividend?

MR. ROBERTS: Hence, a reduction, because there's no change in the overall requested total.

MR. HUTCHINGS: Okay. I want to discuss with you a little bit, Mr. Roberts, the cash working capital allowance and the lead lag analysis that was done. Does Hydro have any established plan to improve cash flows from the picture that is presented now by your lead lag analysis?

MR. ROBERTS: It doesn't have one yet, but it will.

MR. HUTCHINGS: Okay. When are we going to see that?

MR. ROBERTS: How about 2003?

MR. HUTCHINGS: Okay.

MR. ROBERTS: Seriously, this was our first attempt at it, based on the advice that we had received from Fosford and Associates (inaudible) as to the methodology and how it should be used.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And it will be updated now as we proceed through 2001, and if there are refinements that have to be made on a go forward basis then they will have to be made. The analysis that was done was based on the actual results for 2000, and in certain areas it can only be done on a sample basis, so.

MR. HUTCHINGS: Okay. If we can look at your Schedule 4 from your original evidence? This is the detail of the revenue lag, and basically I think, if my understanding of the theory is correct, these are the days that cost us money?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Yes, okay. In respect, you know, the service lag, I think, is probably something that is essentially fixed unless you want to go to more frequent billing?

MR. ROBERTS: That's correct. That's basically it's billed once a month and that's the midpoint.

MR. HUTCHINGS: Yes, okay. There are, I think, on file in the industrial contracts billing terms, payment terms. Are those similar for Newfoundland Power or is there anything in place?

MR. ROBERTS: There are contract terms with Newfoundland Power and I think it's approximately the 20th day after the end of the month.

MR. HUTCHINGS: Uh hum, okay.

MR. ROBERTS: If memory serves me correct.

MR. HUTCHINGS: Alright. The billing lag for both Newfoundland Power and for the industrial customers is in here at 7.6 days?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Does that strike you as being perhaps a bit long?

MR. ROBERTS: No, because it's taking into account that you have weekends, you may have off days. This is not, you know, your Monday to Friday. By the time the end of the month comes all the various readings arrive, they're checked and verified and the invoice is prepared, and the invoices, on average, take approximately about seven days to complete, but that's calendar days, not necessarily a work day.

MR. HUTCHINGS: No, I understand, but ...

MR. ROBERTS: And I guess, if I may, just to interject for one second, the overall collection date, and I'll just use Newfoundland Power as an example, I think it's approximately 20 days after the end of the month, and that is being adhered to.

MR. HUTCHINGS: Yes.

MR. ROBERTS: So, the split between billing and collection, you could almost combine them into one.

MR. HUTCHINGS: Well, although ...

MR. ROBERTS: In their particular case because, you know, there is an agreement that says on the 20th, I think, of the month, they pay us.

MR. HUTCHINGS: Yes, but the billing lag is one over which you have some control and the collection lag is perhaps one which is more in the control of your customers, up to the limit, I guess?

MR. ROBERTS: In certain respects we can reduce the billing lag.

MR. HUTCHINGS: Yeah. No, I mean, I'm told that there was a time, certainly, in Ontario, when industrial customers would receive their bills the day after the month expired. Do you know what the practice is elsewhere?

MR. ROBERTS: No, I do not.

MR. HUTCHINGS: Okay, and to this point there's no plan in place to make any specific attempt to reduce that lag, is there?

MR. ROBERTS: I think the thing to remember is that this is an average of what has happened for the 12 month period, some months may be four days, some months may be six, it depends on where the weekend fell and when a statutory holiday may have followed.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: So, I just want to caution that these are an average of what the results are for a 12 month period.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: So, in some cases, as I said, it could be four, it could be five, it could be six.

MR. HUTCHINGS: Okay, and if the Board were to take it upon themselves to reduce the allowance on the basis that these lag days are too long, that would certainly provide you with an incentive to move more quickly, wouldn't it?

MR. ROBERTS: The incentive happens to be what's in the particular contract. If the contract says pay me within 20 days, then the split between billing and collection is really an academic exercise. We still got 20 days in which we're going to get paid, so unless the payment terms were changed in the contract then it really has no relevance.

MR. HUTCHINGS: So, your contract is tied into 20 days from the end of the month as opposed to 20 days from the billing, is that ...

MR. ROBERTS: I think. I'm just saying normally Newfoundland, as I remember, used to always pay on the 20th of the month or thereabouts, depending on where it fell.

MR. HUTCHINGS: Okay.

MR. ROBERTS: And I think the industrials are, and I'm saying this without really knowing for sure, but I think they have a similar provision as to when they are supposed to pay.

MR. HUTCHINGS: Okay. Does Newfoundland and Labrador Hydro actually collect interest from any of its customers due to late payments?

MR. ROBERTS: I know we were charging interest to North Atlantic Refining when we were having difficulty in getting their payments. I don't believe we charge interest on Hydro rural yet, but I believe we are in the process of implementing that. In the case of Newfoundland Power, I do not believe we have ever charged them interest, and as I mentioned, I think the only industrial customer that comes to mind is the North Atlantic Refinery, and that's some years ago. That's not to say that we may not have spoken to them and said if we don't get our payment we're going to start charging you interest.

MR. HUTCHINGS: Okay.

MR. ROBERTS: But that's as much as I can provide right now.

MR. HUTCHINGS: Alright. I presume, however, that if any interest is, in fact, collected, then there will be the appropriate credit against what the charges would otherwise have been?

MR. ROBERTS: If we charge a customer interest then the other side of the entry would go against interest income and add as a reduction in operating cost.

MR. HUTCHINGS: Just looking over onto Schedule 5, and these are the operating expenses lag, and when these days are positive they should be saving us money, correct?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Okay. Now, but we do have a few here that are negative, and I guess I'm wondering how it is that the lag days for professional services, for instance, are negative?

MR. ROBERTS: It's a function of the payment terms that are in there. There are some people that we deal with in the provision of a maintenance agreement, as an example, on JD Edwards that require payment in advance, and it's very similar to what you will see here on the insurance. The insurance policies come up for renewal and we have to pay the full year's cost within, say, approximately 30 days. The same thing is happening in the case of professional services with certain particular suppliers that we deal with, that payments are being made in advance for the services.

MR. HUTCHINGS: And have you explored with your insurance providers more favourable payment terms?

MR. ROBERTS: There's a cost. They're only going to be financing exactly that. The reduction is ... I shouldn't say the reduction. The terms are that here's the insurance premium and historically if you wanted to go finance the operation I'm sure they would probably be willing to do that. Undoubtedly their costs would be higher than Hydro's, so it's a fairly normal operation in which to have to pay for insurance up front.

MR. HUTCHINGS: And your property rentals, I presume, are reflecting ...

MR. ROBERTS: I believe they're reflecting rentals that would be paid up front. First of the month the rent is due.

MR. HUTCHINGS: Uh hum, okay, and your lead lag analysis has not taken into account or made any adjustment for the dates upon which interest payments have to be made?

MR. ROBERTS: No, it has not.

MR. HUTCHINGS: No, okay, and if I understood your earlier answer to date there has been no effort to collect any interest on rural accounts, Hydro rural?

MR. ROBERTS: I don't believe there is. I think we're in the process of implementing that change now, as we speak.

MR. HUTCHINGS: Okay.

MR. ROBERTS: We're advising our customers that we're about to implement that policy change.

(12:15)

MR. HUTCHINGS: You had some discussion earlier with Ms. Butler on the subject of the capital budget, and I believe you noted, in respect of the use of capital budget funds, that the amount that is expended at any particular point in time and the amount remaining to be expended within a particular calendar year could change daily?

MR. ROBERTS: It's possible that it could. It depends on how the work is being done on a particular project from when the original estimate was done. As you can appreciate, you know, I'm not a project manager now doing construction and stuff. I'm just trying to relay my understanding of what's happening.

MR. HUTCHINGS: Yeah, but I mean ...

MR. HUTCHINGS: When these projects ... an estimate is done and then approval is obtained to proceed then a refined estimate is prepared to bring it to an approved capital work order. In doing that, there may be plans there for, for instance, in a construction contract that they anticipate work being done at certain times and progress payments being made in relationship to that work. Of course, when it actually happens it could have been delayed in getting the tender awarded, there could have been delay in the contractor starting the work. The amount of work that's done could all vary, so the amount of cash flow can change from month to month by a particular item.

MR. HUTCHINGS: And we could be talking about significant amounts of money, in the millions of dollars on occasion?

MR. ROBERTS: I guess anything would be possible, depending on what's being done and what the results are. For instance, if you go to tender and the tenders are not acceptable or you consider that they're too high, you didn't get enough bids, then you may decide we will re-tender, and that will result in a delay. Whereas the project, when it was originally scooped out and approved, you weren't going on that basis as you were going to go to tender and not have enough people to bid and have to go back and redo it again.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: So there are changes that could happen. Yes, it could be millions of dollars and it could be less. You may be fortunate enough that you get better costs on the particular contracts when you do go to tender and you could end up with savings.

MR. HUTCHINGS: Yeah.

MR. ROBERTS: And we have experienced some of that recently, and the case of one that comes to mind, I think, was the insulator replacement. We were able to get a better price than originally estimated.

MR. HUTCHINGS: Yeah, and I mean, that's to everybody's benefit, obviously?

MR. ROBERTS: Yes.

MR. HUTCHINGS: Yeah. I mean, in terms of the timing of these particular projects, I take it, from what you were saying to Ms. Butler the other day that ... or yesterday, that this didn't impress you as being a particular problem, that the capital budget was not fully spent or was behind in its anticipated time of being spent?

MR. ROBERTS: I guess what I was trying to outline is that the project manager is managing the project and, yes, he has concerns about cash flow, but as a result of a way that we are now to be regulated the emphasis has increased in ensuring that where at all possible these cash flows match what's being provided in that capital budget. The overall capital project should still be completed on budget and on time, but there has to be an additional emphasis related to the cash flow for that project now.

MR. HUTCHINGS: Yeah. It just seems to me though that there is an implication for the timing and requirement of particular capital projects if, in fact, they can be deferred without creating major problems?

MR. ROBERTS: I'm not sure I understand that comment.

MR. HUTCHINGS: I mean, one would like to think that a project is only approved, let us say, for the year 2001 if there is a requirement that the project proceed in 2001, and if, in fact, there is a deferral and, you know, the money isn't spent until 2002 and that doesn't create a problem then it shouldn't have been approved for 2010 at all, it should have been approved for 2002?

MR. ROBERTS: The problem is is that you're approving cash flows in a year, not projects, and that's what causes part of the difficulty. That's why you would get ... you may have an overrun in one year and an underrun into the next year, but in total for the project, the project may still be okay.

MR. HUTCHINGS: But from the ratepayers point of view, obviously, we shouldn't be paying for projects until the time that they are required, correct?

MR. ROBERTS: Yes, and I guess all I'm trying to say is that the impact to cash flow has a significant impact on that.

MR. HUTCHINGS: Uh hum.

MR. ROBERTS: And right now, with the rate base methodology, it is critical to make sure that it is as close as possible to what it should be, both for the ratepayer as well as for the Company.

MR. HUTCHINGS: Yeah. From your description given to Ms. Butler in answer to her questions on the capital budget, it appeared to me that it was essentially entirely a bottom up sort of process in that the projects were generated from the business units and passed up through the system?

MR. ROBERTS: The actual proposals are developed out in the area of that people that have responsibility for maintaining these assets and then feed through, up to management, through to the Board of Directors and eventually to the Public Utilities Board for approval as well.

MR. HUTCHINGS: Yeah. Is there no element of sort of top down budgeting in the sense of saying your division is not going to get more than X million dollars this year and do with it what you can?

MR. ROBERTS: What's being looked at is a high level of guideline by management when they sit down and review the capital budget proposals. And I want to outline that the management committee does receive a report similar to what is filed in our capital budget proposal for the Board, but it also includes a copy of all the individual capital budget proposals and justifications that would be attached. These binders are also provided to all members of management committee for their review prior to the meeting on the capital budget. As a rough rule of thumb, what we have looked at at the management level, and it's only used as a rule of thumb and a guide, is that we have looked at what our net income is, plus depreciation as being our cash available for capital expenditures, recognizing the fact that there will be years in which it may be exceeded, but it will be for valid reasons. But as a rough rule of thumb, that guideline is being looked at by management, and that's taken into account during their assessment of the capital budget proposals that have come up through the ranks and is being presented by a vice-president to the management committee.

MR. HUTCHINGS: Does your net income, for that purpose, take into account the dividend policy?

MR. ROBERTS: No. We are just basing it on the net income and adding back depreciation.

MR. HUTCHINGS: Okay, so without making any reduction for the fact that you can expect to lose 75 percent of your net income as a dividend?

MR. ROBERTS: No, it hasn't been considered, to date.

MR. HUTCHINGS: Okay. I wanted to see if I could clarify in my own mind your budgeting practice with respect to overtime for capital work. You said, in response to Ms. Butler yesterday, that Hydro does not budget for capital overtime. Would the individual project manager, in putting together his labour budget factor in the notion that some of the work may have to be done on an overtime basis?

MR. ROBERTS: I don't believe that they are providing these jobs to be completed on overtime.

MR. HUTCHINGS: Okay. I mean there are, obviously, you know, in the planning of these things, times when it makes sense to budget overtime. I mean if, in fact, you know, you need to have someone in with a piece of equipment for two hours to do a particular thing and if he's doing that at the same time that ... if his doing that would require ten people to be standing around doing nothing waiting for him, you might be better off to bring him in on overtime and use your other people.

MR. ROBERTS: On an actual basis that may, in fact, happen, but if the job is planned correctly and coordinated with other areas that are affected, then you shouldn't have to incur that additional cost of overtime.

MR. HUTCHINGS: Okay, so all of the capital overtime that is actually incurred is a result of your initial plan not being met, is that correct?

MR. ROBERTS: It's a function of changing circumstances that may contribute to that.

MR. HUTCHINGS: I wonder if we could look briefly at **NP-179**, page 3? Line 20 talks about one of the criteria upon which projects are assessed, and that is to reduce costs and improve efficiency. Is there a procedure in place within Hydro on a post facto basis, that is to say, after the project has been complete, to examine whether or not projects which are justified on the basis of cost reduction and efficiency improvement do, in fact, reduce costs and/or improve efficiency?

MR. ROBERTS: I'm not aware of anything that is formalized.

MR. HUTCHINGS: Okay.

MR. ROBERTS: And I'll just elaborate a little bit for that. As to use an example that I would use is that if we have a diesel unit that we've had for the last 25 years and we've gone through maximum of overhauls that's been on that and it's been replaced by a new unit, then I would assume the people in operations are monitoring that efficiency. You automatically have a brand new unit so it should be, in theory at least, more efficient than the old, and I would assume the responsibility of the individuals that raised these capital work orders to replace that type of a piece of equipment are the people that would be ensuring that, yes, they are getting these efficiencies and there has been improvement, but to state that there is a formal mechanism in place, the answer is no, that I am aware of.

MR. HUTCHINGS: So there's no reporting requirement which will require the originator of the project to come back after it's done and establish that it was, in fact, good ...

MR. ROBERTS: Not that I am aware of. Now, whether or not it's done within the various divisions back to, you know, the individual director or regional manage.

MR. HUTCHINGS: Okay. Mr. Chair, that might be a good time to break. I may, in fact, be finished or I may have a few more minutes with Mr. Roberts after lunch but we can deal with that at 2:00.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr. Hutchings. Thank you, Mr. Roberts. We'll reconvene at 2:00

(break)

(2:00 p.m.)

MR. NOSEWORTHY, CHAIRMAN: Thank you and good afternoon. Are there any preliminary matters? I notice there's some additional paper ...

MR. KENNEDY: Yes, Chair, I believe ...

MR. NOSEWORTHY, CHAIRMAN: ... before us, Counsel.

MR. KENNEDY: ... Hydro's reporting on undertakings.

MR. NOSEWORTHY, CHAIRMAN: Ms. Greene?

MS. GREENE, Q.C.: Yes, thank you, Mr. Chair. The first document I'd like to refer to is the list of undertakings for November 14th. You'll see that there was one undertaking given yesterday, and there was an undertaking to counsel for Newfoundland Power with respect to interest coverages, and you'll also find there has been circulated a revised NP-2, and that the interest coverages are now plugged into the attached table on NP-2, where they are available. You will recall there's two years, 1996 and 1998 where they are not available. So that is the response to the undertaking that was given yesterday.

The other document that has been filed is entitled "Revised Hydrology Average in Comparison", and this is revised to U-Hydro No. 17, and we have filed this as a result of discussions with counsel for Industrial Customers, and hopefully it addressees some of the questions that he raised with us, so that is a revised U-Hydro 17. Thank you, those are all my comments.

MR. NOSEWORTHY, CHAIRMAN: Will this preclude the need to call Mr. Henderson back? Is this ...

MS. GREENE, Q.C.: I don't think counsel have had the opportunity to review it to make that determination.

MS. BUTLER, Q.C.: Was that the intent?

MS. GREENE, Q.C.: No, not necessarily. I understand Newfoundland Power may also wish ... while Mr. Hutchings expressed it on the record, I think Newfoundland Power may be interested as well, and they have not had the opportunity to review that document, I don't think, to make that decision.

MR. NOSEWORTHY, CHAIRMAN: I appreciate that.

MR. HUTCHINGS: It certainly raises the possibility.

MR. NOSEWORTHY, CHAIRMAN: Thank you.

MR. KENNEDY: Chair, as I understand it, the Industrial Customers also have a filing to submit.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms. Greene. Mr. Hutchings?

MR. HUTCHINGS: Yes, thank you, Mr. Chair. In response to the undertaking given by Dr. Vilbert in his evidence, we have distributed the stock and dividend information on Trans Canada Pipelines Limited from January 2000 to September 2001, which was in response to a question coming from the counsel for the Consumer Advocate. I suppose we need to mark this.

MR. KENNEDY: Yes, and I think it's the first filing on a reply to an undertaking by the Industrial Customers, and therefore it would be U-IC No. 1.

U-IC NO. 1 ENTERED

MR. HUTCHINGS: I was going to say, we have sort of a philosophical objection to that designation, Mr. Chairman *(laughter)*. If that's what it must be, that's what it must be.

MR. NOSEWORTHY, CHAIRMAN: I can appreciate that. Thank you, Mr. Hutchings. Have you completed your cross-examination of Mr. Roberts, Mr. Hutchings?

MR. HUTCHINGS: Just a couple of quick questions, Mr. Chair, to conclude. Mr. Roberts, just to revisit the issue on the payments of accounts that we discussed this morning. I was able to review the industrial customers contracts over the break, and the 20 day period that's provided for payment there runs from the time that the account is rendered under the draft contracts that are filed here. Are you aware of whether or not that is, in fact, the same provision in respect to Newfoundland Power?

MR. ROBERTS: No, I don't know.

MR. HUTCHINGS: Okay, I presume we can determine that. That's relative to the question, to the discussion we had this morning about the lead and lag obviously.

MR. ROBERTS: It should only be a matter of reviewing the contract to see if the term is the same.

MR. HUTCHINGS: I'm sorry, I didn't hear your answer?

MR. ROBERTS: I say it should only be a simple matter of reviewing the contract to see if the term is the same, 20 days from date rendered, or if it's 20 days from the date of invoice.

MR. HUTCHINGS: Okay, we'll take your undertaking then to provide that whenever it's convenient to you.

MS. GREENE, Q.C.: For the record, I should confirm that there is no current contract, formal contract between Newfoundland Power and Hydro that expired a number of years ago, so there is no formal contract. It's based on past practice at this point.

MR. HUTCHINGS: Well perhaps we can then get an undertaking to provide whatever Hydro regards as being the terms relative to payment as between themselves and Newfoundland Power?

MS. GREENE, Q.C.: That's fine, yes.

MR. NOSEWORTHY, CHAIRMAN: Thank you.

MR. HUTCHINGS: Mr. Roberts, in answering some of Ms. Butler's questions yesterday, you referred to the schedules **NP-8(b)**, specifically page 5 of 5 which dealt with capitalized expenses. Do you have that there?

MR. ROBERTS: Yes, I do.

MR. HUTCHINGS: Okay, your comment to her in respect of what I am taking to be an accounting change, I think is consistent with the note that appears at the bottom of this page that says effective 2000 these costs are netted against the appropriate expenses in the revenue requirement schedule, and those are the capitalized expense, travel district ...

MR. ROBERTS: District work orders.

MR. HUTCHINGS: Work orders, and capitalized fleet.

MR. ROBERTS: That's correct.

MR. HUTCHINGS: Am I correct in assuming that this is simply an accounting change you were referring to?

MR. ROBERTS: Yes.

MR. HUTCHINGS: And can you explain to us why this accounting change was implemented?

MR. ROBERTS: The change happened as a result of the implementation of the JD Edwards system, and the way the costs were being recorded.

MR. HUTCHINGS: Okay.

MR. ROBERTS: And you will find that I have restated this information so it would be comparable back in history.

MR. HUTCHINGS: Okay, and I take it that no similar change was mandated in respect of salaries or overtime as a result?

MR. ROBERTS: There's no further change. We're still disclosing these separately in separate accounts and providing them here as a separate item within the revenue requirement.

MR. HUTCHINGS: Aside from the peculiarities of the accounting software itself, I mean do you have a preference as to which way they should be stated?

MR. ROBERTS: I guess from my perspective on a go forward basis, I would suggest that the capitalized expense for travel and fleet remain back against the operating cost. For the sake of the amount that's involved I think the reclassification is not that significant. In the case of the capitalized salaries and the overtime, any allocations to these are in very specific accounts and materiality wise and size wise, I think it's important to have a look at those separately. We could quite easily have netted them back against the salaries grouping which is what we do do internally, but for purposes of the Board and trying to be as helpful as we possibly can in being able to look at things, the way things were presented in the past, we have restated the salaries grouping and removed these numbers and shown them separately as an allocation.

MR. HUTCHINGS: So the expense is still effectively capitalized, it's just ...

MR. ROBERTS: It's just the presentation that's different. Other than that everything still works the same as it did in the past.

MR. HUTCHINGS: Okay, thank you, Mr. Roberts, those are the only points I had remaining, Mr. Chair.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr. Hutchings. Thank you, Mr. Roberts very much. We'll move now to the Consumer Advocate for your cross-examination, Mr. Browne.

MR. BROWNE, Q.C.: Yes, Chairperson, we're going to require ten minutes because Mr. Fitzgerald had to go back to the office to retrieve some documents.

MR. NOSEWORTHY, CHAIRMAN: Okay, well we'll break for ten minutes until Mr. Fitzgerald returns.

(break)

(2:20 p.m.)

MR. NOSEWORTHY, CHAIRMAN: Thank you. Are you in a position to begin, Mr. Browne, at this point?

MR. BROWNE, Q.C.: Thank you, Mr. Chairperson, and Members of the Board, thank you for the indulgence. Good afternoon, Mr. Roberts.

MR. ROBERTS: Good afternoon.

MR. BROWNE, Q.C.: Mr. Roberts, can you go to **CA-6**? I should tell you at the beginning that Mr. Fitzgerald is also going to be doing some questions in different areas than the ones I'll undertake. **CA-6** is a Board report. I don't believe it's there, is it, Mr. O'Rielly, on the screen? **CA-6** is the report of the Board of Commissioners of Public Utilities to the Honourable W.W. Marshall, as he then was, Minister Responsible for Energy, Government of Newfoundland and Labrador, on the rate proposals filed by Newfoundland and Labrador Hydro on August 6th, 1985. Mr. Roberts, are you familiar with this particular report?

MR. ROBERTS: Yes, I was actually involved in that particular rate hearing.

MR. BROWNE, Q.C.: In fact you testified at that hearing, did you not?

MR. ROBERTS: Yes, I did.

MR. BROWNE, Q.C.: And were you there for the duration of the hearing?

MR. ROBERTS: To the best of my knowledge I was.

MR. BROWNE, Q.C.: And you will recall, that's the hearing in which the Rate Stabilization Plan was introduced.

MR. ROBERTS: Yes, it was.

MR. BROWNE, Q.C.: Okay, do you recall the politics at the time in reference to the Rate Stabilization Plan and specifically a group known as the, I think they called themselves the New Lab Society, Ms. Roma Peddle and company.

MR. ROBERTS: I remember the name of Ms. Peddle, yes.

MR. BROWNE, Q.C.: Okay, and do you recall their presence at the hearing?

MR. ROBERTS: No, I do not.

MR. BROWNE, Q.C.: Do you recall them testifying at the hearing?

MR. ROBERTS: I don't recall.

MR. BROWNE, Q.C.: Can you go for a moment to page 72 of the report and we'll see if we can bring some of it back. Page 72 of the report, this is the Board writing here. Can you go to the first paragraph, and can you read that into the record please?

MR. ROBERTS: New Lab is opposed to the escalating cost of the FAC over the year, especially the way it was done last winter. New Lab stated that NLP have a budget payment plan consumers can use and do not see the need of imposing this on everyone.

MR. BROWNE, Q.C.: And can you read the next paragraph please?

MR. ROBERTS: New Lab is opposed to Hydro's Rate Stabilization Plan because of the risk to which the consumers are exposed and the substantial and exaggerated changes that could occur in rates if there are high cost years and rejects the plan insofar as they understand it.

MR. BROWNE, Q.C.: Okay, so there's been a little bit of revisionist history we see, because people have made references to, throughout this hearing, to this particular group, and the fact that they wanted the Rate Stabilization Plan. Did the Board find according to that language, that it was New Lab who wanted the Rate Stabilization Plan in your opinion?

MR. ROBERTS: Just going from memory, I think the Board just stated that the plan that was put forward by Hydro would be implemented, and had recommended a change to include the load variation component. Hydro had recommended a water variation and a fuel cost variation and a coverage cap which, of course, an interest coverage cap whereas the final recommendation of the Board was not to have an interest coverage cap but to include another component called load within the Rate Stabilization Plan.

MR. BROWNE, Q.C.: But on its face, you'd have to agree with me that the consumers of the day, as stated in that decision, did not agree with the implementation of a Rate Stabilization Plan, is that fair comment from what you've read?

MR. ROBERTS: Certainly the New Lab group did not consent to what was being proposed.

(2:30 p.m.)

MR. BROWNE, Q.C.: And who did suggest the Rate Stabilization Plan?

MR. ROBERTS: The Rate Stabilization Plan was suggested by Newfoundland and Labrador Hydro.

MR. BROWNE, Q.C.: And did Newfoundland Light and Power as they were then, did they also advocate the Rate Stabilization Plan at that time to the best of your knowledge?

MR. ROBERTS: I don't think they objected to the implementation of a plan. They may have had some initial issues as to how the plan could fluctuate and if I remember correctly there were some various alternatives done altering water, fuel, and showing the impact on the plan in that particular year. I know Newfoundland Power certainly, if memory serves me correctly, had raised the issue that if the plan was implemented they would have to implement a similar type of plan which was called the Rate Stabilization Account in order for them to deal with the collection on their behalf.

MR. BROWNE, Q.C.: And Newfoundland Light and Power, do you know from your memory if they suggested a cap for the Rate Stabilization Plan at that time?

MR. ROBERTS: I remember something about a cap.

MR. BROWNE, Q.C.: Okay, we'll help you out there. Maybe if you go to page 51 of the decision, and the previous page indicates this is NLP submission on the Rate Stabilization Plan, and page 51, the last sentence in the first paragraph there. Can you read that into the record please?

MR. ROBERTS: Beginning with, "To be acceptable"?

MR. BROWNE, Q.C.: Page 51, "If the cap option is adopted", it's the fourth sentence down, I'm sorry, the first paragraph.

MR. ROBERTS: Oh, at the top of the page, okay. "If the cap option is adopted, NLP suggests that the fund for retailers should be limited to no more than $30 million in either direction."

MR. BROWNE, Q.C.: And that is the fund for retailers, we acknowledge, right?

MR. ROBERTS: Yes, just for Newfoundland Power.

MR. BROWNE, Q.C.: And in reference to the plan itself, and from a consumer perspective, I'd just like to go back to that for a moment. Can you go to **CA-179** please, and there's some reports here. I don't know, Mr. O'Rielly if they're all there, are they, and on page 179, Roman numeral four, page 22 of 23, we see here parts of a submission made by Ms. Roma Peddle, who was a member of the New Lab Action Society, and on page 22 of 23 of her submission, can you go to the last paragraph and read that into the record, sir, beginning with "We have attended".

MR. ROBERTS: We have attended most of the hearings and have listened to the arguments put forward by Newfoundland Hydro and the cross-examinations of the counsel for the Board and the counsel for Newfoundland Light and Power, also the consumer counsel, Mr. Joe Hutchings, and although we did not understand everything that was said, and all the data given, we have to say that we are opposed to what Newfoundland Hydro is proposing because of the risk that it exposes consumers to in the substantial and exaggerated changes that could occur in rates if there is high cost years and maybe it could work if there were some guarantees that the fuel and water cost variations could be restricted to small amounts that would include both positive and negative entries during the period between rate hearings. But we reject this proposal insofar as we can understand it. The only position that we can take at this time is as we have said before, that we feel that before any further increases are given to Newfoundland Hydro or to Newfoundland Light and Power, there be a public inquiry set out to inquire into all aspects of the electricity in Newfoundland including the advantages and disadvantages of nationalization of the whole complex.

MR. BROWNE, Q.C.: Once again, according to what you just read, were the consumers of the day, as represented by this particular group, advocating the establishment of a Rate Stabilization Plan as proposed by Hydro?

MR. ROBERTS: This group were not.

MR. BROWNE, Q.C.: And in fact, is it fair to say that they objected to ...

MR. ROBERTS: I would interpret that as saying they didn't, that they did object.

MR. BROWNE, Q.C.: And I guess it would follow that it would be fair to state that the Board imposed the plan over their objections, would that be fair comment?

MR. ROBERTS: The Board certainly did.

MR. BROWNE, Q.C.: I'd just like to go back and look at some of the articles for greater certainty in reference to that particular issue, and we have some newspaper articles which were provided to us from the files of Hydro, and do you recall the government of the day advocating the establishment of a Rate Stabilization Plan, did the government at the time advocate that?

MR. ROBERTS: I can't speak with definite assurances to what government may or may not have raised. I can only speculate from the point of view that the concern was that electricity bills were high and undoubtedly some of this feedback would have been provided to members of government.

MR. BROWNE, Q.C.: And can you go just for a moment to **CA-179(iv)**, page 11 of 23, and there's an article there with the headline, "Hydro caution scheme could haunt consumers", and can you read the first paragraph of that particular article, Mr. Roberts, please?

MR. ROBERTS: Yes. The provincial government's scheme to average out the fuel escalation cost to consumers during the winter months could come back to haunt consumers.

MR. BROWNE, Q.C.: And maybe if you just continue because I think this leads somewhere.

MR. ROBERTS: Okay, a Newfoundland and Labrador Hydro spokesman said Tuesday the Crown corporation will have to borrow money during the winter to meet its cost for oil generated electricity. The interest on that money, he said, may be passed back to the consumers. As an example, he said it cost Newfoundland Hydro $6.7 million in February to buy oil. He said that under the averaging system, Newfoundland Light and Power, which supplies consumers' electrical demands, was charged $5.4 million leaving a difference of $1.3 million. He said Newfoundland Hydro had to borrow the $1.3 million to meet its allowed payments. Sometime down the road, he said, the cost of borrowing that money will be passed on to Newfoundland Light and Power. He said the company in turn would then apply to the Public Utilities Board to determine if the cost should be absorbed by the company or passed on to its consumers. However, he pointed out that when the warm weather comes it is possible under the averaging system, Newfoundland Hydro will collect more money from Newfoundland Light and Power than it actually cost it to buy oil for a particular month. The averaging system will be used from February to August.

MR. BROWNE, Q.C.: Okay, so just based on that, it seems to be fair comment based upon what this reporter stated and what's printed in *The Telegram*, that the provincial government was advocating an averaging system, is that fair comment?

MR. ROBERTS: Yes, I think the provincial government asked to have the fuel escalation charges averaged over a three or four month period.

MR. BROWNE, Q.C.: And the caution that Hydro had at the time reflects the fact that consumers would be charged interest on an amount of money there, is it $1.3 million?

MR. ROBERTS: Yes, that's the concern that's raised if the total bill is $6.7 million, and Newfoundland Power has paid us the $5.4 million, then it leaves the shortfall of $1.3 million.

MR. BROWNE, Q.C.: And given that caution, what amount in the Rate Stabilization Plan today are the consumers paying interest on?

MR. ROBERTS: The balance in the plan is being charged with Hydro's embedded cost of debt for 2001, so if there's a balance owing from the customers, that balance is attracting interest at Hydro's embedded cost of debt.

MR. BROWNE, Q.C.: And what debt is owing by consumers in the plan today, can you just ball park it, sir?

MR. ROBERTS: How much is there?

MR. BROWNE, Q.C.: Yes, what's owing?

MR. ROBERTS: As of September, I would guess it's somewhere between $60 and $70 million.

MR. BROWNE, Q.C.: $60 and $70 million?

MR. ROBERTS: Yes, and that is the total plan that would be due from Newfoundland Power and the Industrial Customers.

MR. BROWNE, Q.C.: So I put it to you, sir, that if the Board had to adopt the provincial government scheme, which was to average out the cost between February and August, it would have been cheaper for consumers in the long run, is that fair comment?

MR. ROBERTS: The averaging that I think was being referred to here was only for a certain period in time. It didn't deal with the balance of the year. Whereas the Rate Stabilization Plan that came into effect January the 1st of 1986 now takes care of all those variations. Whereas back here, the concern appears to be just during that three or four month period, which is during the winter. It didn't address, excuse me, what would happen after that period was finished.

MR. BROWNE, Q.C.: But it was based upon a premise, I guess, that people would pay as they go on some kind of averaging system, is that fair comment?

MR. ROBERTS: What was happening is that the actual fuel adjustment charge was still being calculated and then being averaged over a three month, three to four month period to help people out over the winter period, so they were paying the additional fuel cost, not in the month in which the fuel was actually burned, but being averaged out over a three or four month period.

MR. BROWNE, Q.C.: Now if the Rate Stabilization Plan was not advocated by the consumers of the day, and people are left to read these articles, the same group, I think, are mentioned in all the articles. It was Hydro, I believe, according to your evidence, who advocated the establishment of the plan, is that correct?

MR. ROBERTS: Hydro proposed the creation of a Rate Stabilization Plan, yes.

MR. BROWNE, Q.C.: And can you go for a moment please to **DH-1**, the DBRS report of Newfoundland and Labrador Hydro. It's referred to as "Current Report, October 2, 2001", and if you look to the DBRS report under considerations, strengths, and the fifth bullet there under the strengths column, and are you familiar with this particular piece of paper?

MR. ROBERTS: Yes, I've read it.

MR. BROWNE, Q.C.: What does it say, the fifth bullet?

MR. ROBERTS: The Rate Stabilization Plan contributes to long-term earning stability.

MR. BROWNE, Q.C.: Now where would DBRS have gotten that particular information? Do you have any idea of how these reports work?

MR. ROBERTS: That is their assessment of Newfoundland and Labrador Hydro, based on their interpretation of Hydro's annual report and from meetings and discussions that they would have with Hydro officials. I should mention, that is their, that is their conclusion. That is not an item that was written by Hydro. This is their opinion.

MR. BROWNE, Q.C.: But the DBRS people before they write a report, do they normally come down and meet with executives of Hydro?

MR. ROBERTS: Yes, they normally come down and meet with the Province as well as Hydro.

MR. BROWNE, Q.C.: Do they meet with the Province and Hydro at the same time?

MR. ROBERTS: They certainly didn't this year because I was involved in the meeting. They met with the Province separately from Newfoundland and Labrador Hydro.

MR. BROWNE, Q.C.: And these meetings, if you can just give us some idea of how they transpire, and what the DBRS people ask?

(2:45 p.m.)

MR. ROBERTS: What was done is we gave them a presentation on Newfoundland and Labrador Hydro and provided them with the consolidated financial statements and annual report as well as Hydro's nonconsolidated financial statements, and discussed such items as the current rate hearing application that we were filing, what was being proposed in the application. We also talked about payment of dividends. We also talked about the impact of the price of oil and what it was adding both the Rate Stabilization Plan and what we were proposing in our application. We also discussed the impact of the recall sales to Hydro Quebec by Newfoundland and Labrador Hydro. In addition to that, in the presentation, they were giving an overview of the system as to what actually Hydro consists of, and some of those slides that they received were used in the same presentations that were done by Mr. Henderson and Mr. Reeves, so that they have an understanding of the system, the location of our assets, and what's entailed.

MR. BROWNE, Q.C.: And did you point out to them that under your proposal before the Public Utilities Board, in reference to the Rate Stabilization Plan, that the deficit in the plan was moving towards $100 million. Did you disclose that?

MR. ROBERTS: We provided them with our estimate of where we saw the plan going based on the information that we had and what's included in my Schedule 14, I believe it is, so they were aware of the projections that we were anticipating, including in this application.

MR. BROWNE, Q.C.: And did they make any comment on that? Did they say good show, or, you know, like where are we going with this, or what did they say?

MR. ROBERTS: They understood as to what the plan consisted of, and they also, in my opinion, were left with the understanding as to what Hydro was proposing to do in this rate application in respect to moving the price of Bunker C fuel closer to what the actual price is that's being paid.

MR. BROWNE, Q.C.: Did they express any concern whatsoever that you were moving the plan to the $100 million mark?

MR. ROBERTS: Not that I recall, and they were also aware that, you know, relative to the plan, there is an automatic rate adjustment that does take place each year which is designed to recover one third of the balance, so they are aware of that rate mechanism that is in place from a recovery perspective.

MR. BROWNE, Q.C.: Were you here yesterday when Dr. Basil Kalymon testified?

MR. ROBERTS: Early in the morning I was not.

MR. BROWNE, Q.C.: So you weren't here for his questions from Commissioner Powell in which he asked about the $100 million ceiling?

MR. ROBERTS: Yes, my apologies. I have to figure out which day now ... it was Tuesday I wasn't here, but yesterday I was. Sorry about that.

MR. BROWNE, Q.C.: That's quite okay. The transcript there, can we go to page nine of yesterday's transcript.

MR. ROBERTS: I have it.

MR. BROWNE, Q.C.: Okay, on line 30, Commissioner Powell poses a question to Dr. Kalymon, "You're aware that they're asking to increase the ceiling to $100 million from $50 million", and Dr. Kalymon responded, "Correct, and that's where it starts becoming visible in the capital structure. I mean there is $1.2 billion of debt and $100 million is starting to be 9 percent, I guess, of that. It starts to become visible as opposed to being what it should normally be, which is just a fluctuating account that moves up and down from year to year." Did Dr. Kalymon have it right in reference to the debt?

MR. ROBERTS: $1.2 billion, that's approximately correct of Hydro's debt.

MR. BROWNE, Q.C.: And did they have it right in reference to the $100 million accumulated debt which would be about nine percent that that would be attributed to the Rate Stabilization debt?

MR. ROBERTS: It would be approximately $100 million owing from the customers.

MR. BROWNE, Q.C.: And you're Controller of the company, do you express any concern to the Board about allowing this Rate Stabilization Plan to move as Hydro has proposed to $100 million?

MR. ROBERTS: When you say to the Board, to the Public Utilities Board?

MR. BROWNE, Q.C.: Yes sir, thank you.

MR. ROBERTS: I think it's going to be a function that the plan in the last three to five years has been increasing significantly because of the price of fuel. What's included in the rates and used in the RSP is only $12.50 per barrel and we paid in excess of 30 odd dollars. Yes, the plan is growing and Hydro is recommending increasing the cap to $100 million, but the plan was designed to go up as well as to go down and unfortunately in the last four or five years it's been going up, and it's primarily as a result of the price of Bunker C fuel that's being consumed in Holyrood. The mechanism in the Rate Stabilization Plan still provides the rate stability to customers, and that was part of the reason why it was implemented in the first place, was to provide stability. Yes, it was recognized that things would be financed and paid for over a three year period, but the emphasis was to obtain a rate stability to customers. Customers at the end of the day could turn around and look at their load, here's their price, and they knew what that price was for a year, and that was part of the reason behind the implementation of the Rate Stabilization Plan.

MR. BROWNE, Q.C.: The fact that it's moving toward $100 million though, as Controller, does that cause you any concern?

MR. ROBERTS: I guess any increase in the receivable would cause me concern, but I also look at the fact, is that the receivable is due from Newfoundland Power and four industrial customers, and I have no reason to believe that they're not going to be going concerns, and therefore from the financial respectability, or collectability, at this point I don't have a major concern. I still have a concern because of the fact that it is a receivable and it has to be collected, but I believe in my own mind that it is there. Hydro is very cognizant of the balance and certainly a lot of the factors that are affecting that plan are outside of our control.

MR. BROWNE, Q.C.: And if you're saying to the Board you have concern that it's getting to $100 million, if it goes beyond $100 million, at what point should we push the panic button here? $120 million? $125 million? Can you pick a number for us? $150 million?

MR. ROBERTS: I don't think there's any magic number. It may not sound like ... but there's nothing scientific. It's a judgement call as to where you think it's going to be. Next year, instead of a projection of $100 million, maybe the account will be down to $90 million. It will be a function of what the weather happens to be, and where the price of fuel goes. I know my own case, every night I watch NTV news and the first thing I want to see is the price of crude, and every time it goes down, I say "yes!", because I know the impact that it has and when it rains in Bay d'Espoir I'm delighted, but, yes ...

MR. BROWNE, Q.C.: And you may get lucky, if you watched the news last night you saw that crude was down below $20.00, right?

MR. ROBERTS: It was down almost $2.00. You know, there's also the timing factor and the price of No. 6 is not really that price. That's just the market to give you an indication of where it will go, because of the fact that when we acquire fuel, it's at the peak time that everybody else is also looking at acquiring their fuel, so we may not be as fortunate as you think in being able to utilize those prices.

MR. BROWNE, Q.C.: Because I believe some years ago I read somewhere there was a coal strike in Great Britain, and therefore they needed Bunker C to generate their own electricity which was normally generated by coal. Do you recall that episode?

MR. ROBERTS: I don't specifically recall that one.

MR. BROWNE, Q.C.: I read it there, and in any case, it had a bearing here because he drew on the price of fuel.

MR. ROBERTS: Yes.

MR. BROWNE, Q.C.: So there are world events that can affect Bunker C which even though the price of light crude might come down, Bunker C might still stay high.

MR. ROBERTS: The demand for the product may still stay high, as I understand it.

MR. BROWNE, Q.C.: In reference to that DBRS report, well let's go back to it again, can you refer for a moment to the annual reports of Hydro, and I think they're found in **CA-101**. I am not certain if they're, and Mr. O'Rielly is nodding no, so you're going to need the hard copy here. Some of them are in nice colours so they'll liven us all up late in the day, make our eyes sparkle *(laughter)*. We won't go to some of the pictures, we'll have mercy. Okay, thank you, Mr. Roberts. If you go to page 30 in the last report, the report of the year 2000, and Mr. O'Rielly has located that, and under the Rate Stabilization Plan, it says notes to consolidated financial statements. What does that mean, a note to a consolidated financial statement, sir?

MR. ROBERTS: It's an explanatory note to a particular item that's contained within the financial statements. It's providing additional detail which you wouldn't normally find on the face of, say a balance sheet or an income statement, so it's trying to provide additional information to the reader as to what a particular item is.

MR. BROWNE, Q.C.: Sure, and one of the notes there makes reference to the Rate Stabilization Plan, can you read that into the record for us, sir, please?

MR. ROBERTS: Yes, on January 1, 1986, Hydro having received concurrence of the PUB implemented the Rate Stabilization Plan which primarily provides for the deferral of cost variances resulting from changes in fuel prices, level of precipitation, and load. The balance in the plan is amortized over a three year period. Adjustments required in retail rates to cover the amortization of the balance in the plan do not require a reference to the PUB and are amended on July 1 of each year. (inaudible) adjustments required in industrial rates are implemented on January 1 of each year.

MR. BROWNE, Q.C.: Now, if you read that, you'd be hard pressed to find the word consumer there, wouldn't you? It's not there. There's no reference to the fact that the Rate Stabilization Plan was established to assist consumers, is it?

MR. ROBERTS: There's no reference there for consumers.

MR. BROWNE, Q.C.: But instead what we find is the plan described in the notes to the consolidated financial statements of Hydro in their annual report, and to whom does the annual report go?

MR. ROBERTS: There is a wide distribution list. Any member of the public is free to ask for it, and it will be provided. It would go to various bondholders, rating agencies, banks, other utilities, just about anybody you can think about that would require, or would like to have a copy of this. It's also available on our website as well, as far as I know.

MR. BROWNE, Q.C.: So even though the popular myth is that the consumers asked for the Rate Stabilization Plan, we now find that the consumers of the day, as presented to the Public Utilities Board, didn't ask for any such thing, and we now find that the plan has a prominent place in the financial statements of Hydro, and in the DBRS reports. Is it fair comment to say, based on that, that the plan really had little to do with the consumers, it had more to do with the volatility in earnings and to produce stability in earnings for both Hydro and, I guess, for Newfoundland Power by proxy?

MR. ROBERTS: No, I don't support that, and the reason why I don't is because prior to the implementation of the Rate Stabilization Plan on January the 1st, 1986, Hydro had two mechanisms that were in place. One was called a Water Equalization Provision, and the other one was the Fuel Adjustment Charge, so both of these mechanisms that were in place prior to January the 1st, 1986 became part of the Rate Stabilization Plan, so the only new thing that got added with the Rate Stabilization Plan was the load variance. In the case of the Fuel Adjustment Charge, the difference was billed the following month to Newfoundland Power or to our industrial customers. In the case of the Water Equalization Reserve, and I'm going from a lot of memory here, that was an agreed upon provision whereby Hydro would accumulate, if memory serves me correctly, $36 million in the fund, I think based on $7.50 a barrel for fuel, to cover the cost of fuel for the three driest years and when that fund exceeded that $36 million, then any excess would be refunded back to Hydro's customers. So prior to the implementation of the Rate Stabilization Plan, there were two things already in place that was normalizing the impact of water and fuel. The difference is is the timing of being paid or payable.

MR. BROWNE, Q.C.: The price per barrel in 1992 was set at $12.50. I think that's a matter of record. Do you agree with that?

MR. ROBERTS: Yes.

MR. BROWNE, Q.C.: But when the plan was instituted the price was set at $30.00 a barrel for fuel, is that correct?

MR. ROBERTS: I think the price has changed two or three times in the Rate Stabilization Plan. There was the hearing in '85 which created the plan in '86, and there was a hearing in '92, and I think there was one or two more prior to that ... I think '89 and maybe '90 or '91 was another hearing, and I think ...

MR. BROWNE, Q.C.: But if we go back to ...

(3:00 p.m.)

MR. ROBERTS: Every time that the price of fuel would have been an issue in that particular hearing as to what should or should not be include in the base rate.

MR. BROWNE, Q.C.: Sure, but according to the August 6th, 1985 report, it was Hydro's proposal at the time, as found in page 39 and 40, that provision will be adjusted by using $30.00 per barrel for fuel as used in the 1986 cost of service study. Do you recall it being $30.00 a barrel?

MR. ROBERTS: I can't remember that.

MR. BROWNE, Q.C.: It's all there, it's all a matter of record. And the Board is notified on a monthly basis of the deficits or balances as the case may be in the Rate Stabilization Plan, is that correct?

MR. ROBERTS: We continue to prepare a monthly Rate Stabilization Plan and to the best of my knowledge it's still distributed to the industrial customers, to Newfoundland Power, and the Board, and I think in the quarterly reporting to the Public Utilities Board now, I think the report for that particular quarter is included as part of that report, so the information is made available monthly to the people that are affected by it.

MR. BROWNE, Q.C.: And does Hydro from time to time, through its executives, have regulatory meetings with the Public Utilities Board?

MR. ROBERTS: Yes, they do.

MR. BROWNE, Q.C.: Have you ever attended any of those?

MR. ROBERTS: I attended one, and I honestly can't tell you why, but I did, and I don't know if any of the present Board members were on the Public Utilities Board at the time. I don't think they were. I think Mr. Vardy was Chair at that time, and Ms. Galway, the two that I specifically remember.

MR. BROWNE, Q.C.: And these meetings are held, do you know, on a monthly basis, or do you know anything of them at all?

MR. ROBERTS: Well, I know they're held. I thought the intent was maybe monthly or quarterly, I'm not sure, but Mr. Osmond could certainly clarify as to what the timeframes are.

MR. BROWNE, Q.C.: And are minutes kept of those meetings?

MR. ROBERTS: I understand there's transcripts similar to what we're getting now, because I have read some of them.

MR. BROWNE, Q.C.: Did you take it upon yourself to notify any of the people attending those meetings that the Rate Stabilization Plan would be approaching $100 million and to notify the Board of that fact?

MR. ROBERTS: My understanding is that in the meetings with the Public Utilities Board, Mr. Osmond does take the Board through the results of the Rate Stabilization Plan, and now that I recollect my one and only meeting with the Public Utilities Board was for that purpose, was to take them through the Rate Stabilization Plan for that particular activity.

MR. BROWNE, Q.C.: Okay, we'll probably pick up that topic then with Mr. Osmond, and give him some notice there. In the annual report of 2000, **CA-101**, there are a number of officers listed on page 44 of that report of various companies.

MR. ROBERTS: Yes.

MR. BROWNE, Q.C.: And you're listed there on page 44 as Corporate Controller of Hydro. You're listed as Corporate Controller of Churchill Falls Labrador Corporation, as Corporate Controller of the Twin Falls Power Corporation, as Corporate Controller of Gull Island Power Company Limited.

MR. ROBERTS: That's correct.

MR. BROWNE, Q.C.: Can you tell us what work you're involved in in reference to the Churchill Falls Labrador Corporation Limited as Corporate Controller?

MR. ROBERTS: My involvement with Churchill is very similar to what I outlined to Ms. Butler in the functions that I carry out my responsibility. I have a dual role so that I have staff that look after payments of suppliers for both Hydro and CF(L)Co.. I have staff that maintain the general ledger, books of account. I have staff that provides financial assistance to non-accounting related people within both these entities. We prepare financial statements for both of those entities. I maintain fixed asset records for both companies. It's whatever basically I'm doing for Hydro, I'm also providing a similar service to CF(L)Co. except in the case of CF(L)Co., I have some different items that I have responsibility for that I do not have in Hydro, and that's referring to, they have a retail services side of Churchill Falls where it happens to be a company-owned town, and they have housing, a department store, and a grocery store, and a school, all those types of facilities. I also have different tax knowledge that I'm required to have, and my staff have, for dealing with items related to Churchill Falls as well. But the basic accounting type items that are carried out for Hydro, I also perform those roles for CF(L)Co..

MR. BROWNE, Q.C.: So do you deal with these other companies on a daily basis?

MR. ROBERTS: In the case of CF(L)Co., yes it would be daily. Gull Island, as I mentioned, is an inactive company. It does have an annual meeting, we do prepare an annual financial statement.

MR. BROWNE, Q.C.: And that's your responsibility?

MR. ROBERTS: And that's my responsibility to prepare a financial statement for that. In the case of Twin Falls, the involvement is very limited as well. It is, for all intents and purposes, an inactive company, even though it does have revenues and costs, but the amount of involvement that's required for Twin is relatively small because it is a mothballed hydroelectric plant in Labrador. The majority of the involvement would be associated with Churchill Falls.

MR. BROWNE, Q.C.: And the ratepayers in reference to those other companies which don't affect us, the consumer, how are they compensated for your work in those other companies?

MR. ROBERTS: As I outlined in discussions with Ms. Butler in **NP-11(b)**, which describes the administrative services agreement that we have with Churchill Falls, that also includes the cost of my staff and others involved in providing services to Twin, so both of the costs for those companies are recorded by work orders and these administrative agreements are approved. The real world happens. At the end of the year we revise these agreements based on the actual results and then we'll square up with the company either to refund or to charge them for any difference between the actual and what was based on a forecast.

MR. BROWNE, Q.C.: And the Gull Island, do we get any compensation there for your preparation of the annual return there?

MR. ROBERTS: No, there has been no charge to Gull Island for the little amount of involvement that is with that inactive company.

MR. BROWNE, Q.C.: And what little amount do we mean?

MR. ROBERTS: Well, it's an hour or so to prepare a set of financial statements, and whatever it takes for to have an annual meeting for an inactive company. That's the involvement with that particular company.

MR. BROWNE, Q.C.: So it's less than a day?

MR. ROBERTS: I would suggest in total it would be less than a day.

MR. BROWNE, Q.C.: And are you satisfied that the ratepayers are properly compensated for the work you provide to these other companies?

MR. ROBERTS: I feel reasonably comfortable that the services that I am providing to CF(L)Co. and to Twin are reasonable and fair.

MR. BROWNE, Q.C.: There are some questions that I am reserving for Mr. Osmond, but can you tell us this as Controller of the company, is there money in the current budget to extend the level of executive compensation for the executives at Hydro?

MR. ROBERTS: The salary increase that's provided in the budget didn't differentiate between management, or a union employee, or say senior management. There was a provision provided in the 2002 budget to cover the anticipated increases.

MR. BROWNE, Q.C.: And in reference to executive compensation, is that the bailiwick of Mr. Osmond, would he be best to discuss the ..

MR. ROBERTS: It would be safer if he dealt with that one than me.

MR. BROWNE, Q.C.: In reference to your supplementary evidence, **Schedule 1(a)** at page 1 of 4, dated October 31, 2001, under fuel we see an increase in No. 6 fuel from $103,802,000 to $110,360,000 for a $6,000,000 increase, is that correct?

MR. ROBERTS: Yes, it is.

MR. BROWNE, Q.C.: And why would that be?

MR. ROBERTS: The increase is outlined on page 2 of 4 and it's attached to that. It says the increase is primarily due to lower hydraulic production anticipated this fall as a result of the current low reservoir storage levels.

MR. BROWNE, Q.C.: And that was as of October 31, 2001?

MR. ROBERTS: No, this revised forecast that's done here would take into account the results up to the end of August 31, 2001, and based on the water levels at that point, what our predictions are for the balance of the year.

MR. BROWNE, Q.C.: Have the water levels improved, do you know, since that time in August? Are you the best one to answer that? I think there's a new hydraulic forecast there, maybe ...

MR. ROBERTS: I wouldn't be able to answer that one.

MR. BROWNE, Q.C.: Okay.

MS. GREENE, Q.C.: The new hydraulic forecast to the end of October is shown in **U-Hydro 17**.

MR. BROWNE, Q.C.: Where does ... as Controller and this cost for fuel comes under your bailiwick, I guess, have you ever attended any meetings to discuss the cost of fuel or ways to bring down the cost of fuel in the thermal generating plant at Holyrood?

MR. ROBERTS: I have not. The responsibility for that fuel is Mr. Henderson. My involvement is just to accept and record the results and report on them. I have not been involved in any discussions that Operations may have in endeavouring to obtain a lower price as well as efficiencies, although I do know that in the case of the efficiencies, they are certainly under review at Holyrood on a continuous basis, in order to try and maintain the units as efficiently as possible.

MR. BROWNE, Q.C.: Okay, these are my questions. Mr. Fitzgerald ... now we didn't take any break, Mr. Chairperson, because we started late.

MR. NOSEWORTHY, CHAIRMAN: I would like to take a ten minute break in any event, Mr. Browne. There are a few of us on the panel that are male and over fifty with all the inherent problems that that entails these days *(laughter)* so I would like to take a ten minute break, thank you.

(break)

(3:30 p.m.)

MR. NOSEWORTHY, CHAIRMAN: Mr. Fitzgerald, if I could ask you to begin your cross please?

MR. FITZGERALD: Thanks, Mr. Chairman. Good afternoon, Mr. Roberts.

MR. ROBERTS: Good afternoon.

MR. FITZGERALD: There's just one quick area I'd like to explore with you and that's the matter in rate base referred to as the cash working capital allowance, and in particular, at your **revised evidence, Schedule 2(a)**

MR. ROBERTS: Yes.

MR. FITZGERALD: Okay, originally as filed, the cash working capital allowance was included in rate base in an amount of $3.96 million, and as revised it's now showing at $3.2 million.

MR. ROBERTS: Yes.

MR. FITZGERALD: Now, I understand from going through your evidence particularly at page four of your originally filed evidence, and this is more or less a, I wouldn't say a simple math thing, but this figure, whichever it is, the revised figure or the originally filed cash working capital allowance figure, is a net amount once you've adjusted for HST that you collect during the year.

MR. ROBERTS: That's correct.

MR. FITZGERALD: Okay, and on page five you describe the adjustment for HST and this is projected for the test year to be $2.4 million.

MR. ROBERTS: That's correct.

MR. FITZGERALD: Okay, now do I understand that that's cash that's available to Hydro to, for ongoing cash flow purposes?

MR. ROBERTS: That's the amount of cash, the amount of HST that Hydro has for a period of time before it has to pay it to the federal government.

MR. FITZGERALD: Right.

MR. ROBERTS: So it is funds that have been received from invoicing of sales to customers and we have a delay before we have to turn that over to government.

MR. FITZGERALD: And during that delay the cash is utilized by Hydro.

MR. ROBERTS: Yes, it is.

MR. FITZGERALD: For operating purposes?

MR. ROBERTS: It just forms part of a common pool.

MR. FITZGERALD: Alright, the figure here that's shown as $2.4 million, does that include interest on the amount, or is that ...

MR. ROBERTS: No, it does not.

MR. FITZGERALD: So is there any interest accumulated on the HST account?

MR. ROBERTS: No, any interest would be reflected in the interest expense of the corporation because these funds are in effect reducing promissory notes so the impact of having those funds for a period of time has caused interest to be lower than it would have been if we didn't have these funds.

MR. FITZGERALD: Now in your originally filed evidence at page three, you give a background relating the procedure to be followed in determining the cash working capital allowance, and you analyze, or you conduct, as I understand, lead and lag studies in cash flow.

MR. ROBERTS: Yes.

MR. FITZGERALD: Okay, the question that I had for you, if you look at Schedule 3(a) of your October 31st evidence, are you with me there?

MR. ROBERTS: Yeah.

MR. FITZGERALD: I see that as filed, you have a revenue lag of 39.46 days. You revised that on October 31st to 39.47.

MR. ROBERTS: That's right.

MR. FITZGERALD: Likewise there is a similar change in the expense lag.

MR. ROBERTS: Yes.

MR. FITZGERALD: The net result or the end result, I guess, is that you end up with a higher net lag figure, or sorry, overall figure, the 5.39 percent. My question to you is that based on Ms. McShane's evidence or did the change occur as a result of new information you got between the first filing and the second filing?

MR. ROBERTS: The changes occurred because of the additional expenses that have been added. For instance, we have increased the salaries and fringe benefits grouping, and the payment of those particular items are quicker, so it has had an impact on the calculation of the expense lag.

MR. FITZGERALD: Okay, that was the part that I didn't quite understand. I'm looking at page two of your revised evidence at line 23. Okay, the Schedules 3(a) and 4(a), which are the lead lag analysis, are associated with the calculation of the cash working capital allowance and changed only because of revisions to revenue requirement.

MR. ROBERTS: That's correct. What has happened is that as a result of the revised revenue requirement, we now have new revenue so it's having some minor impact and that's why you get that .01 change in the number of days. In addition to that, the operating expenses have also changed. It actually increased, but it's the mix of what the increase happens to be, like for instance, the insurance that's gone through, we've increased the insurance bill by $129,000. The actual payment for that, as I outlined this morning, that's all paid up front, so it's not that it's a payment that's paid 30 days after the date of the invoice, it's just one of these things that happens to be paid in advance and that's what has impacted this calculation.

MR. FITZGERALD: But that's not really related to the revenue requirement. That's just you have to pay up front for some things.

MR. ROBERTS: But I guess this lead lag analysis is dealing with the amount of time in paying the operating expenses that form part of the revenue requirement.

MR. FITZGERALD: Okay, so it's not only as a result of the increase in revenue requirement, it's also related to the timing of the extra expenses that you have.

MR. ROBERTS: When I refer to revenue requirement, I refer to operating expenses plus profit, equals revenue requirement.

MR. FITZGERALD: Alright, well then go ... okay.

MR. ROBERTS: It takes me a while just being an accountant that's used to looking at an income statement to realize that part of revenue requirement is a margin, so ...

MR. FITZGERALD: Okay, so then when I look at Schedule 3(a) then, your October 31st evidence, in that table, the third line from the bottom, when we're trying to do the multiplication there to sort out what the correct amount is, there are two figures there. There is the original lead lag time of, or the percentage of 5.31, and there's the revised 5.39.

MR. ROBERTS: Yes.

MR. FITZGERALD: Which one do we use ... well obviously by this number that you arrived at, you have used the 5.39 percent figure.

MR. ROBERTS: 5.39 is applied against the revised operating expenditures and power purchased. They're shown, unfortunately there is no lines, unless ... just three or four lines up above that, we see the $105,853,000 which consists of two components, the operating expenditures and the power purchases

MR. FITZGERALD: Yeah, okay, why is it that you include, and this may be an accounting issue as well, why do you include the previous as-filed figure of 5.31 percent?

MR. ROBERTS: The reason why ... this schedule is trying to highlight to the readers, here is the before and here is the revised, so that you can see on one page what has actually changed, so we're trying to be helpful, and that's been done in all of my schedules to show you what was originally filed and what is now the results of having the revised information available.

MR. FITZGERALD: Okay, Mr. Roberts, that's essentially all I wanted to know.

MR. ROBERTS: Thank you.

MR. NOSEWORTHY, CHAIRMAN: Are you finished, Mr. Fitzgerald? Thank you. Thank you, Mr. Roberts. We move now to Counsel's cross, please?

MR. KENNEDY: Chair, I'm wondering with the panel's indulgence whether we could break early. I realize it's quarter to four, rather than trying to start a cross. I don't have any quick snappers that would be ready to go, and I think if I had an opportunity to just review it over that it would go much faster tomorrow morning as well, which we're going to spill into in any event, so with the panel's indulgence.

MR. NOSEWORTHY, CHAIRMAN: Okay, that will be fine.

Thank you and we'll reconvene at 9:30 in the morning.

(hearing adjourned to November 16, 2001)