

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
3 morning. Beautiful day out there. Before we get started I'll
4 ask counsel if there are any preliminary matters.

5 MR. KENNEDY: Yes, Chair. I believe Hydro has some
6 preliminary matters that they want to bring to the panel's
7 attention.

8 MR. NOSEWORTHY, CHAIRMAN: Okay, Ms. Greene.

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

10 MR. NOSEWORTHY, CHAIRMAN: Good morning.

11 MS. GREENE, Q.C.: This is to advise the panel and the
12 parties of information we received last week with respect to
13 JD Edwards' support of the current product, World Vision.
14 We were notified last week that they will be continuing
15 their support of World Vision beyond 2005, and because of
16 that we are now assessing our plans with respect to that
17 and it is possible, in fact most likely, that we will be asking
18 to defer the capital project that's associated with that,
19 which was the replacement of the AS 400, which was \$2.1
20 million. I wanted to advise the panel and the parties as
21 soon as possible. We only received the notice last week
22 and the staff are assessing what the implications are, and I
23 will be advising of course formally later but I wanted to
24 give you that heads-up at this point.

25 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
26 Greene. No other preliminary matters?

27 MR. KENNEDY: I believe that's all the preliminary matters.
28 Mr. Hutchings may introduce ...

29 MR. HUTCHINGS: Mr. Chair, just to introduce to the
30 Board the gentleman on my left is Patrick Bowman, who is
31 associated with Inter-Group (phonetic) of Winnipeg and
32 works with Mr. Cam Osler, whose evidence has been pre-
33 filed before the Board. Mr. Bowman will be assisting me
34 through this point with the cross-examination and
35 hopefully Mr. Osler will be with us at a little later time.

36 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
37 Hutchings. Good morning, Mr. Bowman, and welcome. I
38 guess we'll proceed directly now. Ms. Greene, are you in a
39 position to call Mr. Osmond?

40 MS. GREENE, Q.C.: Yes, thank you, Mr. Chair. Our next
41 witness is Derek Osmond, the Vice-President of Finance
42 and Chief Financial Officer for Newfoundland Hydro.

43 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.
44 Osmond, and welcome.

45 MR. OSMOND: Good morning.

46 MR. NOSEWORTHY, CHAIRMAN: Great anticipation that
47 I welcome you this morning.

48 MR. OSMOND: I hope there's no disappointments.
49 (laughter)

50 MR. NOSEWORTHY, CHAIRMAN: Take the Bible in your
51 right hand. Do you swear on this Bible that the evidence
52 to be given by you shall be the truth, the whole truth, and
53 nothing but the truth, so help you God?

54 MR. OSMOND: I do.

55 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
56 Mr. Osmond. You can be seated, please. Ms. Greene.

57 MS. GREENE, Q.C.: Good morning, Mr. Osmond. For the
58 record could you please state your full name and your
59 address.

60 MR. OSMOND: My name is Derek Osmond and I'm Vice-
61 President of Finance, Newfoundland Hydro.

62 MS. GREENE, Q.C.: And your address?

63 MR. OSMOND: St. John's.

64 MS. GREENE, Q.C.: Okay. How long have you been in that
65 current position?

66 MR. OSMOND: Since January the 1st, 1997.

67 MS. GREENE, Q.C.: And prior to that what position did
68 you occupy?

69 MR. OSMOND: I've been the Vice-President of Hydro
70 since January the 1st, 1985, as Vice-President, Corporate
71 Services, as well as Vice-President, Corporate Planning.

72 MS. GREENE, Q.C.: And prior to 1985 what was your
73 position at Hydro?

74 MR. OSMOND: I was the Corporate Controller of Hydro
75 and prior to that I was the Assistant Controller.

76 MS. GREENE, Q.C.: When did you join the Hydro Group?

77 MR. OSMOND: December the 9th, 1975.

78 MS. GREENE, Q.C.: Mr. Osmond, evidence was filed in
79 your name with the application on May 31st, 2001. Do you
80 accept that pre-filed evidence as your evidence for the
81 purpose of this hearing?

82 MR. OSMOND: Yes, I do.

83 MS. GREENE, Q.C.: First supplementary evidence was
84 further filed in your name and it was entitled
85 "Supplementary Evidence of D.W. Osmond." Do you
86 accept that supplementary evidence as your evidence for
87 the purpose of this hearing?

88 MR. OSMOND: Yes, I do.

89 MS. GREENE, Q.C.: Second supplementary evidence in
90 your name dated October 31 and filed October 31 was also
91 filed. Do you adopt the second supplementary evidence

- 1 for the purpose of this hearing?
- 2 MR. OSMOND: Yes, I do.
- 3 MS. GREENE, Q.C.: Thank you, Mr. Chair. That completes
4 the direct examination of Mr. Osmond.
- 5 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
6 Greene. I move now to cross-examination by
7 Newfoundland Power, Ms. Butler, please.
- 8 MS. BUTLER, Q.C., Q.C.: Thank you, Mr. Chairman. Good
9 morning, Mr. Osmond.
- 10 MR. OSMOND: Good morning, Ms. Butler.
- 11 MS. BUTLER, Q.C., Q.C.: Can we start with **your second**
12 **supplementary evidence, Schedule A**, please? And here,
13 Mr. Osmond, you've very kindly in one schedule outlined
14 with references the various components of your evidence,
15 original submission revised and second revision, and I
16 want to start with line seven, the No. 6 fuel price, if I might.
17 And do you know today what the current price of No. 6
18 fuel is?
- 19 MR. OSMOND: The most recent price that I've seen, and
20 that's basically by just seeing what's in the papers and in
21 the media, is approximately \$18 a barrel as of Friday, with
22 numbers being fluctuating up and down over the last two
23 weeks with no consistency, and to my knowledge we don't
24 have a revised forecast as Mr. Henderson said a week or so
25 ago from PEERA (phonetic). That's something they're
26 reviewing. But they're about \$18 a barrel as of last Friday.
- 27 MS. BUTLER, Q.C., Q.C.: Thank you. And the amount
28 that's currently built into the forecast is \$28.46.
- 29 MR. OSMOND: The purchase price is \$28.46. The amount
30 that we've included in our rates is \$20 per barrel with the
31 difference going to the Rate Stabilization Plan.
- 32 MS. BUTLER, Q.C., Q.C.: Yes. But in terms of the forecast
33 price you're looking at \$28.46.
- 34 MR. OSMOND: That's correct.
- 35 MS. BUTLER, Q.C., Q.C.: I'm sorry, Mr. Osmond, \$18
36 Canadian or \$18 US?
- 37 MR. OSMOND: I think it was ... when you see the TV, they
38 talk about crude as opposed to No. 6 fuel, and when you
39 do the conversions from crude to Bunker C, with the
40 exchange they pretty well work out the same, so I think it
41 was \$18 US for crude which equates to about \$18 for No. 6
42 fuel.
- 43 MS. BUTLER, Q.C., Q.C.: I want to talk about ... you can
44 leave that schedule, thanks, Mr. O'Rielly ... the RSP in some
45 detail, since Mr. Wells puts you forward as one of the few
46 people who truly understands it, and I think as Mr. Alteen
47 alerted you or your counsel perhaps last week, I'd like to go
48 through one example of the Rate Stabilization Plan in its
49 operation. So we have a hand-out ... has it already been
50 distributed, Ms. Blundon ... which is the **Rate Stabilization**
51 **Plan Summary for January 2001**. And just for
52 confirmation purposes, Mr. Osmond, we can see on the
53 opening page of this in the top right-hand corner that this
54 as well as others were a part of a reply to an RFI, being **IC-**
55 **73**.
- 56 MR. OSMOND: That's correct.
- 57 MS. BUTLER, Q.C., Q.C.: And this document that we're
58 looking at, which is in total 17 pages long, would be
59 prepared by your department?
- 60 MR. OSMOND: It's prepared within my division and it's
61 two separate departments. The Controller's Department, as
62 Mr. Roberts mentioned the other day, does a fair amount of
63 the analysis right up to the, with all the allocations, and the
64 Rates Department allocated amongst the customer classes.
- 65 MS. BUTLER, Q.C., Q.C.: So we're talking about Mr.
66 Roberts' department, being the Controller's Department.
- 67 MR. OSMOND: Yes, and the Rates Department, which is
68 Customer Services.
- 69 MS. BUTLER, Q.C., Q.C.: Mr. Banfield?
- 70 MR. OSMOND: Banfield.
- 71 MS. BUTLER, Q.C., Q.C.: Both within the Division of
72 Finance.
- 73 MR. OSMOND: That's correct.
- 74 MS. BUTLER, Q.C., Q.C.: Okay. But you would be familiar
75 with this document.
- 76 MR. OSMOND: Yes, I am.
- 77 MS. BUTLER, Q.C., Q.C.: Do we need to have it marked
78 now?
- 79 MR. KENNEDY: If it's ... I was going to ask counsel if it's,
80 no revisions or changes made to the original IC-73, then it's
81 probably unnecessary to label it as another exhibit.
- 82 MS. BUTLER, Q.C., Q.C.: Well, Mr. Osmond, as you can
83 see by glancing at page two as a starting point, we have,
84 for the benefit of my cross-examination, added some letters
85 and mathematical formulas to the exhibit ...
- 86 MR. OSMOND: Yes.
- 87 MS. BUTLER, Q.C., Q.C.: ... to make it easier to understand,
88 and these are all the work of individuals at Newfoundland
89 Power, so perhaps with those ...
- 90 MR. KENNEDY: We should label it again then.
- 91 MS. BUTLER, Q.C., Q.C.: ... changes it should be labelled
92 as an exhibit.

1 MR. KENNEDY: It would be NP-8.

2 **EXHIBIT NP-8 ENTERED**

3 MS. BUTLER, Q.C., Q.C.: Okay. Can we start then with the
4 page which is actually numbered one, Rate Stabilization
5 Plan Summary?

6 MR. OSMOND: Certainly.

7 MS. BUTLER, Q.C., Q.C.: Mr. Osmond, the ten factors that
8 are outlined there, which your department or division
9 describes as, "A summary of key facts used in the Rate
10 Stabilization Plan," is it fair to say that all ten of these
11 would flow from Board orders or reports?

12 MR. OSMOND: That's correct. The RSP was approved by
13 the Board in 1985 or 1986, so that would reflect the, and
14 confirmed in 1992, so that would reflect the Board's
15 decisions and recommendations.

16 MS. BUTLER, Q.C., Q.C.: And what about the interest
17 rates, number eight, 8.4 percent?

18 MR. OSMOND: The 8.4 percent is the embedded cost of
19 debt that we're using and that would change every year
20 and you can see, I think we filed an RFI last Friday, and it
21 showed the embedded cost of debt for the years 1992 right
22 up to 2001, so that's the embedded cost of debt for that
23 year.

24 MS. BUTLER, Q.C., Q.C.: So does that strictly speaking
25 flow from a Board order or not?

26 MR. OSMOND: Well, the calculation, whether interest
27 should be charged to the RSP, that was approved in '85 and
28 also '92, so the interest then would have been based on the
29 embedded cost of debt, so the amount would not have
30 been confirmed. It's the methodology.

31 MS. BUTLER, Q.C., Q.C.: The principle.

32 MR. OSMOND: Principle, yes.

33 MS. BUTLER, Q.C., Q.C.: Now, item one, the normal annual
34 hydraulic production ...

35 MR. OSMOND: Yes.

36 MS. BUTLER, Q.C., Q.C.: ... 4,205.32 gigawatt hours, is the
37 amount approved, is the forecast hydraulic production for
38 the '92 test year.

39 MR. OSMOND: Yes. I should say, if I could, everything
40 underneath the heading, one to ten, all those assumptions
41 formed part of the 1992 cost of service study, so they
42 would be valid from '92 to 2002. We could not ... we
43 couldn't make any revisions to any of those assumptions.
44 So the 4,205.32 is the production that we had estimated
45 back in 1992 for an average water year, and that has been
46 used consistently right up to 2001.

47 MS. BUTLER, Q.C., Q.C.: And likewise for number two, the
48 cost of service oil price, is the Board approved rate per
49 barrel in the 1992 report.

50 MR. OSMOND: Yes. It was based on \$12.50 a barrel but
51 when we did the cost of service we had to break it out by
52 month, so in the particular month of January, that was the
53 average consumption price taking into account the 1991
54 inventory, the \$12.50 purchase price, so for the month of
55 January it would have been \$12.31. If you went to the
56 February report you see it changing slightly and March
57 and so on, but that's generally as confirmed by the Board.

58 MS. BUTLER, Q.C., Q.C.: So as I understand it, the Board
59 in '92 approved a rate per barrel at \$12.50 but Hydro itself
60 breaks that down into variations for each month of the
61 year?

62 MR. OSMOND: What it does, it's \$12.50 is the purchase
63 price for 1992.

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

65 MR. OSMOND: And we had starting inventory, starting
66 over from January the, December 31st, 1991, so you take the
67 purchase price and the inventory and that's what this will
68 work out to be on a monthly basis, January being \$12.31
69 (inaudible) purchase coming (inaudible) \$12.50, (inaudible)
70 so we do it on a monthly basis for the cost of service.

71 MS. BUTLER, Q.C., Q.C.: Item three, Holyrood average
72 annual operating efficiency is 605 kilowatt hours per barrel.

73 MR. OSMOND: Yeah. That's the efficiency at Holyrood
74 that we were getting 605 kilowatt hours from the units at
75 Holyrood. That is confirmed by the Board.

76 MS. BUTLER, Q.C., Q.C.: So for my purposes can I say it's
77 the assumed average kilowatt hours of output from a barrel
78 of fuel burned at Holyrood, approved by the Board for the
79 test year.

80 MR. OSMOND: That's correct.

81 MS. BUTLER, Q.C., Q.C.: And again of course that's been
82 unchanged since 1992?

83 MR. OSMOND: That's correct.

84 MS. BUTLER, Q.C., Q.C.: Now item four, the Holyrood mill
85 rate based on, as you say there, the \$12.31 per barrel, is a
86 calculation of item two divided by item three?

87 MR. OSMOND: That's correct. It's \$12.31 divided by the
88 efficiency at Holyrood, 605, which will give you the 20.35
89 mills per kilowatt hour.

90 MS. BUTLER, Q.C., Q.C.: Can I call that Hydro's cost?

91 MR. OSMOND: 20.35 mills?

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

- 1 MR. OSMOND: That's correct.
- 2 MS. BUTLER, Q.C., Q.C.: Okay. And then number five, the
3 retail energy mill rate, 45.31 mills, can I call that
4 Newfoundland Power's price?
- 5 MR. OSMOND: That's right, for firm energy. It's not
6 including the RSP. It's the firm energy rate.
- 7 MS. BUTLER, Q.C., Q.C.: And a mill is one-tenth of a cent?
- 8 MR. OSMOND: That's correct.
- 9 MS. BUTLER, Q.C., Q.C.: So when we see a mill rate there
10 in number four of 20.35 mills per kilowatt hour, equivalent
11 of 2.035 cents per kilowatt hour?
- 12 MR. OSMOND: That's correct.
- 13 MS. BUTLER, Q.C., Q.C.: Item six to ten relate directly to
14 the industrial customers.
- 15 MR. OSMOND: Except for number nine.
- 16 MS. BUTLER, Q.C., Q.C.: Yes, with the exception of
17 number nine. So I'm going to skip over those for the
18 moment but just touch on them briefly but without any
19 detail. Firming up charge relates to energy purchases by
20 Hydro from Deer Lake Power?
- 21 MR. OSMOND: It used to be Deer Lake Power. Called
22 Corner Brook Pulp and Paper right now. They merged with
23 or combined with Corner Brook. But that's right, is the
24 energy we buy from Corner Brook Pulp and Paper and we
25 firm it up and sell it to Newfoundland Power and the firming
26 up charge is 10.40 mills per kilowatt hour.
- 27 MS. BUTLER, Q.C., Q.C.: Would it be fair to say that for
28 purposes of the RSP that's fairly insignificant, that firming
29 up charge?
- 30 MR. OSMOND: Almost lose it in rounding, it's so small.
- 31 MS. BUTLER, Q.C., Q.C.: Okay. Number eight, we've
32 addressed the interest rate. Number nine, the retail Rate
33 Stabilization Plan adjustment, can you explain that?
- 34 MR. OSMOND: This is the automatic adjustment for, it's
35 recovering one-third of the balance in the Rate Stabilization
36 Plan that was approved by the Board, and for
37 Newfoundland Power that adjustment, it takes place on
38 July 1st of every year based on the previous December
39 balance, so for number nine, the July 1, 2000, adjustment of
40 1.75 mills per kilowatt hour, that was based on December '99
41 balance of approximately 21.5 million divided by three,
42 which would be approximately \$7 million was recovered
43 from Newfoundland Power from July 1st, 2000, to June 30th,
44 2001.
- 45 MS. BUTLER, Q.C., Q.C.: So to simplify it for my purposes,
46 Mr. Osmond, the amount indicated at line nine, the mill rate
- 47 per kilowatt hour, is a surcharge to Newfoundland Power
48 and it represents a monthly charge against the balance in
49 the Retail Rate Stabilization Plan?
- 50 MR. OSMOND: Yes. It takes the balance in the prior year
51 and recovers over three years based on the energy sales in
52 those months, and for Newfoundland Power it would lag,
53 not lag, it'd be July 1st, and taking the energy sales each
54 month, the mill rate times the 1.75 mills as a direct recovery
55 from Newfoundland Power.
- 56 MS. BUTLER, Q.C., Q.C.: Okay. So we'll see ...
- 57 MR. OSMOND: As a surcharge, yeah.
- 58 MS. BUTLER, Q.C., Q.C.: We'll see how that works now in
59 a moment. And ten of course is the same for the industrial
60 customers.
- 61 MR. OSMOND: Ten is the same thing. The only difference
62 is ten, is that the industrial customers several years ago
63 asked that we use a September balance for their budgeting
64 purposes for the next year to give them some advance
65 notice as to what it might be, so theirs start on January the
66 1st but it's based on the prior September balance. So, for
67 instance, January 1st, 2000, was based on September 30th
68 balance, sorry, 2001, based on September 30, 2000, which
69 was \$10 million divided by three which would be 4.3 (*sic*)
70 million.
- 71 MS. BUTLER, Q.C., Q.C.: I read an RFI on that and I gather
72 that the purpose of the Industrial Rate Stabilization Plan
73 adjustment being different from Newfoundland Power's
74 essentially related to the commercial customers' year end.
- 75 MR. OSMOND: The different periods?
- 76 MS. BUTLER, Q.C., Q.C.: Yeah.
- 77 MR. OSMOND: That's correct, and also for budgeting
78 purposes. They say they want to have their budget, which
79 is fair enough, in by January the 1st, so they want to have
80 the September balance units for that and that's not an issue
81 with us.
- 82 (9:45 a.m.)
- 83 MS. BUTLER, Q.C., Q.C.: So although page one outlines
84 ten key facts used in the plan, Mr. Osmond, is it fair to say
85 that the three primary components of the Rate Stabilization
86 Plan, which we'll see as we go through the exhibit, are the
87 hydraulic production variation, the load variation and fuel
88 cost variation calculations?
- 89 MR. OSMOND: That's right, and there's one other minor
90 one, which is the rural rate alteration, and that's something
91 I think was added by the Board in 1992. Basically what that
92 is is that if Newfoundland Power's rates change at all, if
93 they have a rate increase and the rates are increased, our
94 island interconnected and rural customers' rates go up, so

1 that additional revenue would normally come to Hydro's
2 bottom line. In 1992 I think it was approved that that
3 additional revenue would go to the RSP so we would not
4 gain by that. It would go back to the RSP and reduce the
5 consumers' rates, but that is not a major portion, you're
6 right. The other three are the big ones, fuel, hydraulic and
7 load.

8 MS. BUTLER, Q.C., Q.C.: Okay. So I want to go through
9 each component with you in some detail, onto the next
10 page. The first one that we have is the hydraulic
11 production component.

12 MR. OSMOND: That's correct.

13 MS. BUTLER, Q.C., Q.C.: Okay. So here we have the
14 calculation of the adjustments due to variations from test
15 year forecast of hydraulic production. Is that right?

16 MR. OSMOND: That's correct.

17 MS. BUTLER, Q.C., Q.C.: Okay. And the hydraulic
18 production for the test year which stems from a Board order
19 is actually the amount shown at the bottom of Column A,
20 which is 4,205.32?

21 MR. OSMOND: That's correct, and the remainder is just
22 breaking it out by month, cost of service production by
23 month.

24 MS. BUTLER, Q.C., Q.C.: Right. So what Hydro does is
25 Hydro breaks out for each month from January to
26 December in different numbers your own forecast of the
27 production within that global number which was approved
28 by the Board.

29 MR. OSMOND: Yeah, and that was explained by Mr.
30 Henderson, how he goes back over a period of time with
31 regards to hydraulic generation, taking into account rainfall
32 and snowfall and when we expect to get that in the spring
33 and based on that what generation would be and how that
34 would taper in the summertime, pick up in the fall, so it's a
35 monthly allocation based on historical data comprising the
36 4,205.

37 MS. BUTLER, Q.C., Q.C.: So because the document that
38 we're looking at relates to January of 2001, what we've
39 circled there as "A" represents the forecast production for
40 the month of January 2001.

41 MR. OSMOND: That's correct.

42 MS. BUTLER, Q.C., Q.C.: And what you've recorded in the
43 second column, and that we've circled as "B," represents
44 the actual hydraulic production that month.

45 MR. OSMOND: That's correct.

46 MS. BUTLER, Q.C., Q.C.: And "C" represents the
47 difference between the two, which you describe as a

48 monthly variance, in this case 88.13 gigawatt hours.

49 MR. OSMOND: That's correct.

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

51 MR. OSMOND: If you move just across the page you'll see
52 where that came from. You can see our major hydraulic
53 facilities. We have Bay d'Espoir. We've identified the, I
54 guess the five major facilities which we have which is Bay
55 d'Espoir, Hines Lake, Upper Salmon, Cat Arm and Paradise
56 River. For instance, in Bay d'Espoir we had estimated in the
57 cost of service for Bay d'Espoir facility 231.14 gigawatt
58 hours. Actual generation out of Bay d'Espoir was 281.39,
59 so it's an increase of 50.25. You go down through each one
60 of these, they will total up to 88.13 increase, so it's just
61 splitting out the 88.13 by the various generating facilities,
62 what we actually generated versus what we had estimated
63 the cost of service.

64 MS. BUTLER, Q.C., Q.C.: Okay. And there's your variance,
65 88.13. Now down below that we've circled another
66 calculation and labelled it "D." So is it accurate to say that
67 Item D is an estimate of the number of barrels of fuel that
68 would be required to produce that 88.13 variance?

69 MR. OSMOND: What Item D does, it takes the variation in
70 hydrology, which this case is 88.13, and it divides it by the
71 efficiency at Holyrood, which is 605, to see the fuel that we
72 actually save by having more water, because that fuel cost
73 is in our current rates, okay. So we divided it by .00605 and
74 that gives us approximately 145,669 barrels. You don't see
75 that there.

76 MS. BUTLER, Q.C., Q.C.: That's correct.

77 MR. OSMOND: Times \$12.31 a barrel, which gives us a
78 credit of \$1.793 million, which means that if we didn't have
79 this element, the Rate Stabilization Plan, that would have
80 fallen out to Hydro's bottom line as a profit, but with the
81 RSP it goes in there and it's monies owing to customers.

82 MS. BUTLER, Q.C., Q.C.: Right. And I think actually, Mr.
83 Osmond, although you've offered it up, the explanation for
84 that does appear on page three.

85 MR. OSMOND: That's correct.

86 MS. BUTLER, Q.C., Q.C.: For the month of January. And
87 perhaps we'll just read that into the record.

88 MR. OSMOND: "The hydraulic production variation's
89 actual production in January 2001 is 470.55 gigawatt hours
90 compared with the cost of service study of 382.42 gigawatt
91 hours, an increase of 88.13 gigawatt hours. This increase
92 in hydraulic production result in a savings to the plan of
93 \$1,793,000 excluding interest, representing amount owed by
94 Hydro to customers based on the \$12.31 per barrel cost
95 which is estimated in the cost of service study." I would

- 1 just add on, for the month of January.
- 2 MS. BUTLER, Q.C., Q.C.: So that is the first of the three, as
3 I described, primary components of the RSP, and for the
4 month of January that component ends up with the amount
5 of \$1.793 million owed by Hydro to customers.
- 6 MR. OSMOND: That's correct.
- 7 MS. BUTLER, Q.C., Q.C.: Now let's look at the second
8 component, which starts on page four, and is described as
9 "load variation."
- 10 MR. OSMOND: Yes, and that's basically ... when we say
11 load, that's basically, compares the actual firm energy sales
12 ...
- 13 MS. BUTLER, Q.C., Q.C.: Yes.
- 14 MR. OSMOND: ... to the cost of service from energy sales.
15 We always go back to the cost of service, so it's the actuals
16 versus the cost of service for energy sales specifically.
- 17 MS. BUTLER, Q.C., Q.C.: Okay. So I'm going to skip pages
18 four and five and go to the details on page six, and again
19 we've circled some numbers and labelled them, for
20 purposes of easier cross-examination. The number
21 487,300,000 ...
- 22 MR. OSMOND: Yes.
- 23 MS. BUTLER, Q.C., Q.C.: ... circled as "A" ...
- 24 MR. OSMOND: Yes.
- 25 MS. BUTLER, Q.C., Q.C.: ... is the Board approved forecast
26 of the 1992 test year sales to Newfoundland Power for the
27 month of January.
- 28 MR. OSMOND: Yes. That was the load forecasts that were
29 provided by Newfoundland Power in 1992 for sales to them.
- 30 MS. BUTLER, Q.C., Q.C.: And then again similar to the first
31 component of hydrology, we've circled as "B" the actual
32 kilowatt hours for that month at 515,517,884.
- 33 MR. OSMOND: That's correct.
- 34 MS. BUTLER, Q.C., Q.C.: And once again the variance,
35 which we've labelled as "C," is the difference between the
36 two.
- 37 MR. OSMOND: That's correct.
- 38 MS. BUTLER, Q.C., Q.C.: So similar to hydrology now we
39 have actual sales higher than the forecast sales for the
40 month of January.
- 41 MR. OSMOND: That's right.
- 42 MS. BUTLER, Q.C., Q.C.: Now can you just explain the
43 basis of the mill rate, which is circled and labelled by us as
44 "D," of 24.96? The calculation that's shown under, for the
45 Board's benefit, and just go back to page one, you'll see
46 those two numbers, 20.35 and 45.31, are the numbers as key
47 fact four and key fact five.
- 48 MR. OSMOND: Yes.
- 49 MS. BUTLER, Q.C., Q.C.: Okay. So you're subtracting the
50 price to Newfoundland Power from, yeah, price to
51 Newfoundland Power and the cost of Hydro or to Hydro,
52 to come up with a difference of 24.96 as a mill rate?
- 53 MR. OSMOND: That's correct. And what this component
54 is trying to do basically in the load variation is to insulate
55 Hydro's net income from any variations in load, whether
56 positive or negative, and, as you just stated, we take the
57 cost of oil at Holyrood, which in this case is 20.35 mills a
58 kilowatt hour, from the actual sales or the energy sales to
59 them of 45.31, so without this load variation we would have
60 benefitted positively by \$704,000 in that month, but in this
61 case it goes in the RSP to be refunded to consumers as one
62 of the elements in the RSP.
- 63 MS. BUTLER, Q.C., Q.C.: So the column which is the final
64 column over and which we've labelled as "E," the
65 \$704,318.38, represents the mill rate of 24.96 times the actual
66 variance.
- 67 MR. OSMOND: That's correct.
- 68 MS. BUTLER, Q.C., Q.C.: And again in this particular
69 month again, money owed by Hydro back to customers.
- 70 MR. OSMOND: Yes, for that element as well as hydrology.
- 71 MS. BUTLER, Q.C., Q.C.: For the second component.
- 72 MR. OSMOND: Yeah, that's correct.
- 73 MS. BUTLER, Q.C., Q.C.: So the load variation component
74 here protects Hydro from variations between load, forecast
75 and actual load. This is Mr. Budgell's area, right?
- 76 MR. OSMOND: I think I can generally respond to it
77 though.
- 78 MS. BUTLER, Q.C., Q.C.: Oh, sure.
- 79 MR. OSMOND: Okay.
- 80 MS. BUTLER, Q.C., Q.C.: But this is the area that he ...
- 81 MR. OSMOND: Oh, yes, it's Mr. Budgell's load forecast.
- 82 MS. BUTLER, Q.C., Q.C.: Right.
- 83 MR. OSMOND: You're right, it's generally the actual sales
84 compared to the test year sales.
- 85 MS. BUTLER, Q.C., Q.C.: Right.
- 86 MR. OSMOND: But up or down, variation goes in the RSP.
87 It could be positive, could be negative.
- 88 MS. BUTLER, Q.C., Q.C.: Right. Whereas the first

1 component we were addressing, the hydrology, is
2 basically, or the hydraulic forecast, Mr. Henderson's area.

3 MR. OSMOND: That's correct.

4 MS. BUTLER, Q.C., Q.C.: And the final component I want
5 to address is the third one, starts the discussion at page
6 eight, fuel cost variations, and Item A here is an item that
7 we addressed a few moments ago. The total, which
8 actually adds up to 12.45, is the number that's approved by
9 the Board and you've broken it out by month?

10 MR. OSMOND: That's correct.

11 MS. BUTLER, Q.C., Q.C.: Okay. So for January the fuel
12 cost you're carrying is \$12.31, but the actual fuel cost in
13 January that Hydro incurred at Column B was \$35.01?

14 MR. OSMOND: That's right. As I mentioned before, in the
15 cost of service you can see the \$12.31, how it rose during
16 the year to get to \$12.50 by year end.

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

18 MR. OSMOND: That's where we took the \$12.50 purchase
19 price. And you're right, the actual cost in January was
20 actually \$35.01 compared to the \$12.31, for a difference of
21 \$22.70.

22 MS. BUTLER, Q.C., Q.C.: And that's the variance that's
23 shown in the column that we've labelled as "C."

24 MR. OSMOND: That's correct.

25 MS. BUTLER, Q.C., Q.C.: So now similar to what we did on
26 the earlier two components, you've taken your variance of
27 22.7.

28 MR. OSMOND: Yes.

29 MS. BUTLER, Q.C., Q.C.: Okay. And in terms of Item D
30 now, the 442,711 barrels, that is the estimate of the barrels
31 of No. 6 fuel that Hydro estimated it would use from the '92
32 test year forecast?

33 MR. OSMOND: That's correct.

34 MS. BUTLER, Q.C., Q.C.: Item E represents the actual
35 number of barrels that you used.

36 MR. OSMOND: That's correct.

37 MS. BUTLER, Q.C., Q.C.: Okay. And that was significantly
38 less than the estimate.

39 MR. OSMOND: Yes, and significantly less than the
40 estimate. As we went through the first part we talked about
41 hydrology.

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

43 MR. OSMOND: And because the hydraulic generation
44 was up, we saved approximately 145,000 barrels. Right here

45 we're showing a variance down by 122,000.

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

47 MR. OSMOND: 145,000 of that was due to more water, and
48 then the other difference is due to primarily the load or
49 purchase from the (unintelligible), but the big part was the
50 fact that we had more water than we had anticipated, and
51 that's why the fuel generation is down.

52 MS. BUTLER, Q.C., Q.C.: Okay. So the actual barrels of
53 fuel burned in January 2001 was significantly down from
54 forecast but the price per barrel was significantly up from
55 forecast.

56 MR. OSMOND: That's correct.

57 MS. BUTLER, Q.C., Q.C.: And we'll see now as we go onto
58 the next page how the math of that actually works out.
59 Actually it's not page nine, it's page ten. Now the first
60 column there where we've circled the letter "A" ...

61 MR. OSMOND: Yes.

62 MS. BUTLER, Q.C., Q.C.: ... I need a little bit of explanation
63 on this. As I understand it, this is a breakdown of the total
64 barrels of fuel used in the month of January.

65 MR. OSMOND: That's correct, and we've broken it down
66 by the period of time. From January the 1st to the 29th we
67 actually consumed 305,000 barrels, and the average cost for
68 that was \$35.05 approximately. For the period, the last two
69 days of the month, January 30th to 31st, we consumed
70 15,595 at \$34.16.

71 MS. BUTLER, Q.C., Q.C.: Can I stop you there for a
72 moment before you get into the third component? Why
73 was it that you broke it down in that manner?

74 MR. OSMOND: This is a consumption schedule and there
75 would have been a shipment come in between, so it would
76 have changed the average price. We're trying to reflect the
77 true cost in the period that we actually generated that fuel.

78 MS. BUTLER, Q.C., Q.C.: So if there had been a delivery in
79 the middle of the month, we'd see different dates.

80 MR. OSMOND: That's right.

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

82 MR. OSMOND: There'd be another table actually showing
83 inventory levels that tie back into this coming up with the
84 average price in the tanks at the end of the period.

85 MS. BUTLER, Q.C., Q.C.: Okay. And what's the
86 emergency fuel adjustment?

87 MR. OSMOND: That's a good question. I think that was
88 some emergency that we, fuel that we've used to provide
89 energy to one of our customers that would not form part of
90 the RSP, very, very small amount.

1 MS. BUTLER, Q.C., Q.C.: Okay. Well, in any event, what
2 we have circled there as "A" matches what we have circled
3 as "E" on page eight.

4 MR. OSMOND: Yes. That's the actual barrels consumed
5 that you would have seen on page eight.

6 *(10:00 a.m.)*

7 MS. BUTLER, Q.C., Q.C.: Now, then you take your Column
8 B average price, and this represents the average price of the
9 oil that was in the tanks and used that month, is that it?

10 MR. OSMOND: It's the average consumption price for the
11 month, that's correct, \$35.

12 MS. BUTLER, Q.C., Q.C.: And when you multiply "A"
13 times "B" you get "C," which is Hydro's total cost?

14 MR. OSMOND: That's correct.

15 MS. BUTLER, Q.C., Q.C.: Of the fuel burned in the month
16 of January 2001.

17 MR. OSMOND: That's correct.

18 MS. BUTLER, Q.C., Q.C.: Alright. Can we look now at the
19 math that applies to the fuel cost variation provision as the
20 third component in the plan?

21 MR. OSMOND: Okay.

22 MS. BUTLER, Q.C., Q.C.: Now, Item D, which we've circled
23 again as the same price per barrel that we saw carried
24 forward, the cost that's built into Newfoundland Power's
25 rate based on the '92 forecast.

26 MR. OSMOND: Yes.

27 MS. BUTLER, Q.C., Q.C.: And "E" is the actual price per
28 barrel, that's Hydro's actual cost of No. 6 fuel for the month.

29 MR. OSMOND: That's correct.

30 MS. BUTLER, Q.C., Q.C.: Which really is the same as "B"
31 above, right?

32 MR. OSMOND: That's correct.

33 MS. BUTLER, Q.C., Q.C.: And your variance once again is,
34 in this particular case, Hydro's shortfall that month between
35 actual price and what you can charge.

36 MR. OSMOND: That's the price above what we have in
37 our rates at \$12.31, \$22.70.

38 MS. BUTLER, Q.C., Q.C.: And the actual barrels of fuel ...
39 so you have your variance, then you have your actual
40 barrels of fuel used, which is "G," 320,686 barrels.

41 MR. OSMOND: That's correct.

42 MS. BUTLER, Q.C., Q.C.: And in this particular case then
43 we have shown as the final amount the \$7,279,572 which is
44 your variance times your actual number of barrels of fuel
45 used.

46 MR. OSMOND: It's the price of fuel, the \$22.70 that's
47 above our base rate of \$12.30.

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

49 MR. OSMOND: Times 320,000, which is \$7,279,000 that
50 would have hit Hydro's net income if we didn't have the
51 RSP, so in this particular plan in this month we had a
52 negative of \$7.3 million, but on hydrology we had a
53 positive of 1.8 million, and also had a positive on load, so
54 you got two going in one direction, one going the other,
55 but this one would have been a direct hit to our, direct hit
56 to Hydro in that current month of \$7.3 million.

57 MS. BUTLER, Q.C., Q.C.: Okay. So for the third
58 component, the fuel cost variation, we now have customers
59 owing Hydro \$7.3 million.

60 MR. OSMOND: That's correct.

61 MS. BUTLER, Q.C., Q.C.: I wonder can I skip to page 14
62 and see how these things come together? You have here
63 your three main components as headings. We've got the
64 hydraulic production variations, which consumes the first
65 three columns, then the load variations, which consume
66 about six columns, and the fuel cost variations for the last
67 three, and then you've got that small rural rate alteration
68 which you referred to a little earlier.

69 MR. OSMOND: That's correct.

70 MS. BUTLER, Q.C., Q.C.: Alright. So looking at the
71 hydraulic production variations then, we see as a summary
72 page that again Hydro owed back to its customers \$1.793
73 million for the difference in the hydrology.

74 MR. OSMOND: That's correct.

75 MS. BUTLER, Q.C., Q.C.: And under "Load" we see that
76 Hydro owed back to its customers, as circled "B," \$704,000,
77 for the difference in load.

78 MR. OSMOND: That's correct.

79 MS. BUTLER, Q.C., Q.C.: And as Item C, that the
80 customers owe Hydro now the \$7.280 million for the fuel
81 cost variation.

82 MR. OSMOND: That's correct.

83 MS. BUTLER, Q.C., Q.C.: And again the rural rate
84 alteration, which we didn't address in any detail, but the
85 number that's circled as "D," represents the rural rate
86 charges as a result of Newfoundland Power's customers'
87 rates having to match your rural rate.

88 MR. OSMOND: That's right. The increase in
89 Newfoundland Power rates because they went up have

1 gone to the RSP as opposed to coming to revenue for
2 Hydro.

3 MS. BUTLER, Q.C., Q.C.: Okay. So if the balance in the
4 Rate Stabilization Plan prior to this entire exercise was zero,
5 the result of the month of January 2001 as a result of "A,"
6 "B," "C" and "D" being added together, is that customers
7 now owe Hydro \$4,712,000.

8 MR. OSMOND: That's right. This table basically reflects
9 the changes in the month only.

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

11 MR. OSMOND: And you're right, those four changes will
12 constitute the \$4.7 million negative in the month, two going
13 in one direction, three going in one direction positively and
14 the other one going negatively.

15 MS. BUTLER, Q.C., Q.C.: Can you go now back to **page 12**
16 **of the hand-out?** And this page represents, I believe, the
17 calculation of the monthly amount recovered from Hydro's
18 customers.

19 MR. OSMOND: That's correct.

20 MS. BUTLER, Q.C., Q.C.: So Item A here was the total
21 kilowatt hour sales to Newfoundland Power during January
22 of 2001?

23 MR. OSMOND: That's right. We mentioned earlier the mill
24 rate adjustment of a kick-in which is 1.75 mills, which I think
25 started in July 2000, and we've taken that basically times
26 the energy sales for Newfoundland Power in the month of
27 January, so it'd be 515,517 times the 1.75 mills, which will
28 give us the \$902,000.

29 MS. BUTLER, Q.C., Q.C.: Okay. Actually I was looking at
30 the total there because of the secondary energy sales to ...

31 MR. OSMOND: Okay. Same thing, yeah.

32 MS. BUTLER, Q.C., Q.C.: Yeah, okay. So I've circled as
33 "A" the 515,522, or 515,000,000, is it, sorry, times "B," the
34 mill rate adjustment, to get an amount of \$902,164.42.

35 MR. OSMOND: That's correct.

36 MS. BUTLER, Q.C., Q.C.: What that represents, as I
37 understand it, Mr. Osmond, is an amount now that will be
38 added to Newfoundland Power's bill from Hydro in the
39 month of January.

40 MR. OSMOND: That's correct.

41 MS. BUTLER, Q.C., Q.C.: And in addition, the Rate
42 Stabilization Plan balance will be reduced by the same
43 amount?

44 MR. OSMOND: That's correct. It's one-third recovery, so
45 it's based ... it's one-third of recovery of the balance in the
46 plan at the end of 2000, that recover over a 12-month basis,

47 so the plan will reduce, and you'll see that as we get to the
48 last page.

49 MS. BUTLER, Q.C., Q.C.: Well actually you can go to page
50 13 and read the first sentence of the last paragraph there
51 that starts with, "During the month."

52 MR. OSMOND: Certainly. "During the month" ... "During
53 the month, total sales to retail customers was 515.52
54 gigawatt hours, and we multiply it by the recovery rate of
55 1.75 mills per kilowatt hour for the current month's sales,
56 results in \$902,000 of the balance outstanding being
57 recovered from retail customers. Also during the month,
58 total sales to industrial customers for 107.22 gigawatt
59 hours, and we multiply it by the recovery rate of 2.80 mills
60 per kilowatt hour, results in 300,000 of the balance
61 outstanding being recovered from industrial customers."

62 MS. BUTLER, Q.C., Q.C.: Okay. Well, the second sentence
63 doesn't really relate of course to what we were doing,
64 because we were fixing only on the Newfoundland Power
65 example, right. Now we can look at page 16, I think, for the
66 summary of activity for both retail plan and industrial plan,
67 and again I'm just focused for the moment on the retail plan
68 which should consume the first six or seven columns.
69 Alright. So "A," the figure that we've circled there, 22,684,
70 or ... and that's dollars, correct?

71 MR. OSMOND: That's correct.

72 MS. BUTLER, Q.C., Q.C.: That's the balance in the Retail
73 Rate Stabilization Plan as of December 31st, 2000, because
74 we're dealing with January 2001?

75 MR. OSMOND: That's correct.

76 MS. BUTLER, Q.C., Q.C.: Okay. So a moment ago we saw
77 that the total adjustments to the plan based on the three
78 primary components were going to be \$4.9 million?

79 MR. OSMOND: That's correct.

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

81 MR. OSMOND: \$4.7 million.

82 MS. BUTLER, Q.C., Q.C.: \$4.7 million, sorry. Now on this
83 page, Item B ...

84 MR. OSMOND: Yes.

85 MS. BUTLER, Q.C., Q.C.: ... of the \$4.7 million that we
86 calculated a while ago for the fuel, load and hydrology
87 adjustments, 2.945 simply represents the retail share of that
88 total 4.7?

89 MR. OSMOND: That's correct.

90 MS. BUTLER, Q.C., Q.C.: And the industrial customers'
91 share of it is shown without a circle around it, but on the
92 same line for the month of January it's shown towards the

1 middle of the page as 1.790.

2 MR. OSMOND: That's correct.

3 MS. BUTLER, Q.C., Q.C.: Okay. So focus back on the
4 Retail Plan again. We've got 2.945 as Item B and Item C
5 was the amount we addressed a moment ago as the amount
6 that you add to Newfoundland Power's bill that month,
7 \$902,000.

8 MR. OSMOND: Uh hum.

9 MS. BUTLER, Q.C., Q.C.: And Item D is the interest
10 adjustment.

11 MR. OSMOND: That's correct.

12 MS. BUTLER, Q.C., Q.C.: So, E, the Retail Rate Stabilization
13 Plan balance, can you just explain that there for Item E?

14 MR. OSMOND: Okay. The retail total to date takes into
15 account the opening balance of \$22,684, started January the
16 1st, 2001.

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

18 MR. OSMOND: You add on the \$2,945,000, the activity in
19 the month that was allocated to Newfoundland Power, you
20 take off \$902,000, which is the monthly adjustment to
21 recover one-third of the balance in the plan, you add on
22 \$153,000 in interest as it relates to the opening balance, and
23 that will give you \$24,880,000 as of the end of January 2001.

24 MS. BUTLER, Q.C., Q.C.: Thank you. And that series of
25 calculations we just went through of course relate only to
26 the Retail Rate Stabilization Plan but the calculation is
27 exactly the same for the industrials, right?

28 MR. OSMOND: The same principle applies right through
29 for the industrials as it does for Newfoundland Power.

30 MS. BUTLER, Q.C., Q.C.: With the only exception being
31 that the calculations for load variations and month
32 recovery adjustment differ because of the different mill
33 rates?

34 MR. OSMOND: That's correct.

35 MS. BUTLER, Q.C., Q.C.: Mr. Osmond, the current
36 allocation methodology used to split the monthly activity
37 between the Retail Rate Stabilization Plan and the Industrial
38 Rate Stabilization Plan, can you explain the current
39 methodology and the change that Hydro is proposing in
40 this hearing?

41 MR. OSMOND: The old methodology, (unintelligible) the
42 old methodology up to the year 2001, we basically take all
43 the inputs we have here, the change in the load, the change
44 in hydrology, the change in the fuel, and re-run the cost of
45 service as if it took place at the time we did the cost of
46 service ten years ago, and that would flow out monthly

47 what the allocation should be to each of our customers
48 using the average in excess demand ratios that we had
49 approved by the Board in 1992. The new methodology, as
50 far as allocation, is used in the last 12 months, actual
51 energy sales, and also taking into account we're using 2 CP,
52 which is coincident peak, which doesn't have a demand
53 allocator, the AED did, and allocating on a more accurate
54 basis based on the energy sales over the 12, the last 12-
55 month period. So in January you'd have January of this
56 year plus the last 11 months of 2000, and continuing on
57 each month, but when you get to the end of the year you'd
58 have 12 months' actuals. So that's the basic change is
59 based on energy as opposed to based on re-running the
60 cost of service and the allocations.

61 MS. BUTLER, Q.C., Q.C.: Hydro is proposing other
62 changes to the RSP as well. Of course we're talking about
63 changing the fuel price, which they'll do to the RSP, from
64 \$12.50 a barrel to \$20 a barrel.

65 MR. OSMOND: That's correct.

66 MS. BUTLER, Q.C., Q.C.: And the other changes that you
67 describe as minor are actually outlined on an RFI known as
68 **IC-120**, if we could have a look at that. Yeah, it was
69 question one that asked you to detail all the changes from
70 existing to what you propose in the application, so if we
71 could look at **answer to number one**?

72 MR. OSMOND: Okay. Just going through on line 23, the
73 Rate Stabilization Plan as we propose, there are minor
74 revisions. The first was on hydraulic production variation,
75 and you'll see that on the next page. We're recommending
76 revising that to add the min-hydro plants we have and the
77 efficiency that we've obtained to date, and I think Mr.
78 Henderson explained the mini-hydros, primarily Snooks
79 Arm, Venom's Bight, and the Roddickton mini-hydro. Also
80 based on historical information at Holyrood, the efficiency
81 factor at Holyrood, we're recommending increasing from
82 605 kilowatt hours per barrel to 610 kilowatt hours per
83 barrel. On load variation, previously we had an
84 interruptible included in the load variation. What we're
85 recommending now is basing the load variation on firm
86 energy sales as opposed to including some of the minor
87 interruptible sales you had previously. On the customer
88 splits ...

89 MS. BUTLER, Q.C., Q.C.: This is the one that you just
90 addressed with me.

91 MR. OSMOND: That's the one I just mentioned, yeah.

92 MS. BUTLER, Q.C., Q.C.: You can go ahead and ...

93 MR. OSMOND: And that gets into a bit of a technical
94 error. I'll go as far as I can before I actually get into the
95 quicksand.

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

2 MR. OSMOND: On the customer splits, the RSP is split no
3 longer based on the test year cost of service, and that's
4 where we went back in 1992. I used to use a phrase before,
5 if we knew then what we know now, run it all through and
6 what would the numbers be. Instead we're now using 12
7 months to date invoice transmission bulk energies used,
8 which is basically the sales for the last 12 months, as well
9 as the rural deficit allocation, which we base on the 2 CP
10 method, which Mr. Brickhill and Mr. Hamilton will explain.
11 The rate calculations, just use the energy rates established
12 on the same basis as a split, whatever those mill rates were
13 for the last 12 months. And under "Other," finance charge,
14 would use the embedded cost of debt, change from the
15 embedded cost of the debt to the weighted average cost of
16 capital, and then we're recommending to the Board that the
17 cap for Newfoundland Power increased from \$50 million up
18 to \$100 million.

19 MS. BUTLER, Q.C., Q.C.: Okay. So these changes, in
20 addition of course to the price of fuel, are the changes that
21 Hydro seeks to make with approval from the Board?

22 MR. OSMOND: That's correct.

23 MS. BUTLER, Q.C., Q.C.: And I was just wondering
24 whether in fact I had missed it in any particular portion of
25 the evidence, Mr. Osmond, but with the exception of the
26 cap and the increase in the fuel price, can you tell me
27 whether these individual changes were addressed in the
28 evidence, in any particular portion of the evidence that I
29 can sort of put my finger on?

30 MR. OSMOND: Any of our witnesses?

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

32 MR. OSMOND: I think Mr. Henderson referred to the fact
33 that the hydrology would be increased primarily due to
34 Snooks Arm, Venom's Bight and the Roddickton mini-
35 hydro, so he would have addressed that. He also would
36 have addressed, I'm pretty sure, I know he talked about it
37 on the stand, was the efficiency factor for Holyrood and
38 that it should go from 605 kilowatt hours based on
39 historical information up to 610, so those two for sure were
40 addressed, and I know Mr. Brickhill in his evidence is
41 addressing the issue of the customer splits and the
42 coincident peak method as well as the last 12 months of
43 energy as opposed to what we had previously, so they
44 would be there as well, and I think Mr. Roberts addressed
45 the issue of going to the weighted average cost of capital
46 rather than embedded cost of capital, the interest rate, and
47 I know in my evidence I referred to the \$50 million cap
48 going to \$100 million for the RSP.

49 MS. BUTLER, Q.C., Q.C.: Uh hum, yeah, you definitely did.

50 MR. OSMOND: So I think they were covered off by what
51 I had plus the other witnesses as well.

52 (10:15 a.m.)

53 MS. BUTLER, Q.C., Q.C.: Okay. So through various
54 witnesses' testimony. Is this a fair summary of the changes
55 that you're looking for?

56 MR. OSMOND: In IC-120?

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

58 MR. OSMOND: Yes, it is.

59 MS. BUTLER, Q.C., Q.C.: Now the history and purpose of
60 the Rate Stabilization Plan is set out in your supplementary
61 evidence where you also address the suggestion by some
62 intervenors to eliminate the plan.

63 MR. OSMOND: That's correct.

64 MS. BUTLER, Q.C., Q.C.: And can you tell us what review,
65 if any, of the Rate Stabilization Plan fuel price assumptions
66 have been made by this Board since '92?

67 MR. OSMOND: Price of fuel has changed from what we
68 had. From the original 1986?

69 MS. BUTLER, Q.C., Q.C.: Yeah. What review of the fuel
70 price assumptions has been made by the Board?

71 MR. OSMOND: Oh, I guess in each of the hearings ... the
72 plan actually came in January 1986. I'm trying to remember.
73 My memory is not as good as it used to be. We had
74 hearings in 1989 and we had a hearing in 1991 and also
75 1992, and at those times the assumptions underline each
76 one of our applications as well as the RSP, would have
77 been reviewed by the Board, as well as the fuel prices to be
78 used to be included in the RSP and if there were any other
79 changes. I don't think there were any substantive changes
80 to the plan as far ... other than the update on hydrology, I
81 think was done in '89 or '90. The biggest change would
82 have been the change as it relates to the price of fuel, and
83 the only other ... I can't remember the exact date, is when
84 the rural rate authorization went in. I think that was in the
85 late '80s, maybe early '90s. It wasn't in originally in 1986 but
86 it did come after. I think it was in one of the latter hearings,
87 late '80s or very early 1990.

88 MS. BUTLER, Q.C., Q.C.: And no fuel price assumption
89 review since 1992.

90 MR. OSMOND: That's correct.

91 MS. BUTLER, Q.C., Q.C.: And you had said, Mr. Osmond,
92 that fair treatment of ratepayers using power at different
93 time periods requires that the energy-related rates and bills
94 (phonetic) reflect reasonably current market conditions, and
95 do you accept therefore that the Board should review the
96 RSP more frequently than once every eight or nine years?

1 MR. OSMOND: Well I guess the Board ... we actually
2 review the RSP with the Board every quarter and we go
3 through our assumptions and where we are with regards to
4 the balance in the RSP, where the current fuel prices are
5 and what's happening, so, I mean, that's done now on
6 pretty well a quarterly basis, three or four times a year.

7 MS. BUTLER, Q.C., Q.C.: But it doesn't result in any
8 substantial review in terms of rate making.

9 MR. OSMOND: No. There are no revisions to the rates
10 coming out of those meetings. That will require an
11 application to the Board.

12 MS. BUTLER, Q.C., Q.C.: So back to my question then. Do
13 you accept that the Board should review the RSP more
14 frequently than once every eight or nine years for purposes
15 of rate making if they are to ensure that the bills being
16 received by consumers do reflect current market
17 conditions?

18 MR. OSMOND: I'm not sure if that needs to be done. It
19 depends on the direction where the RSP is actually going.
20 If there's a tendency, the prices of fuel are really rising or
21 dropping significantly, then that may be an issue that the
22 Board may want to consider and Hydro may have to come
23 back, but if it's operating based on the four components in
24 the plan and staying within a reasonable balance, I don't
25 think there'd be a necessity to come back to the Board, and
26 as you can see just going through January, we have four
27 variations. Three are in one direction, one is in the other.

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

29 MR. OSMOND: So I don't ... I would not see the
30 requirement to come back on a more regular basis unless
31 things really went out of whack, and this is why the cap is
32 there, to protect that from happening, then we'll come back
33 to the Board.

34 MS. BUTLER, Q.C., Q.C.: Well I guess a suggestion of an
35 increase in a cap from \$50 million to \$100 million might
36 suggest that things are going out of whack.

37 MR. OSMOND: Well, I guess the most significant thing
38 there is the price of fuel we had, and it's \$12.50, and that
39 really took off in 1999, peaking at \$40 a barrel, and that's
40 why we recommended the increase in the cap to 100.

41 MS. BUTLER, Q.C., Q.C.: Okay. Well, I'm going to come to
42 the details of that in a moment, but clearly the three
43 components that we've just addressed reduces the
44 volatility associated with dramatic changes in fuel,
45 hydrology and load.

46 MR. OSMOND: That's correct.

47 MS. BUTLER, Q.C., Q.C.: And I think you've indicated in
48 answer to several or a couple of Consumer Advocate RFIs

49 that you feel customers generally do not want to be
50 exposed to price volatility, excessive price volatility.

51 MR. OSMOND: That's my sense and I guess ... I was
52 reading through this the weekend again. I don't have much
53 of a life for the last six or seven months. *(laughter)*

54 MS. BUTLER, Q.C., Q.C.: Welcome to the room.

55 MR. OSMOND: I know. Hopefully, hopefully there's light
56 at the end of the tunnel. But just reading it through, there's
57 probably four people in this room that were here in 1986,
58 Mr. Hutchings being one, Ms. Greene was ...

59 MS. BUTLER, Q.C., Q.C.: At a different table, I note.

60 MR. OSMOND: At a different table. *(laughter)* And Ms.
61 Greene and myself and John Roberts were involved in the
62 Rate Stabilization Plan in '86, and the wrath of that and the
63 concerns that we had and the fact we had Kentucky Fried
64 Chicken and *(inaudible)* shutting down the lights and the
65 papers that were coming and the calls we were getting. It
66 was horrendous. I can't remember getting a call since 1986
67 from a customer who was irate with regards to the
68 adjustment of the RSP, and prior to that you were almost
69 afraid to pick up the phone. It was just unbelievable the
70 amount of information that was coming, so I think in that
71 regard I think customers have accepted it and the fact that
72 it wasn't a major issue in our '89 and '90 hearing from
73 consumers sort of confirm that, and as well in 1992. The
74 plan seems to be working as intended back in 1986.

75 MS. BUTLER, Q.C., Q.C.: Right. So my point is just that,
76 Mr. Osmond, that to the, with respect to the purpose of the
77 plan, you would accept that the Rate Stabilization Plan has
78 served customers well.

79 MR. OSMOND: Very much so.

80 MS. BUTLER, Q.C., Q.C.: Yeah. The RSP cap of \$50 million
81 stems from a 1985 report of the Board?

82 MR. OSMOND: That's correct.

83 MS. BUTLER, Q.C., Q.C.: And you would have been
84 around back at that time.

85 MR. OSMOND: Yes, I would have.

86 MS. BUTLER, Q.C., Q.C.: So do you agree that what the
87 Board did there was basically it accepted Hydro's own
88 proposal for a cap?

89 MR. OSMOND: Initially we didn't come in with a cap.
90 There was a lot of discussion on the whole RSP, and
91 rightfully so. It's a brand new mechanism.

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

93 MR. OSMOND: And I think the consumers, Mr. Hutchings
94 and others had raised issues, as well as Light and Power,

1 so the protection was put in there for the very reason you
2 raised a few minutes ago as far as not letting it get out of
3 control, and there's some concern with that and we put in
4 the \$50 million cap that if it reached that level then we'd
5 come back to the Board with a recommendation as to how
6 we would collectively move forward from an application,
7 and that's how it was derived.

8 MS. BUTLER, Q.C., Q.C.: Okay. But by seeking to double
9 the Retail Rate Stabilization Plan cap to \$100 million and
10 otherwise to operate the plan as you have with the price of
11 fuel adjustment we talked about and the other seemingly
12 minor changes that you want from the industrial customers'
13 RFI we just reviewed, it seems to me that without the RSP
14 as it is now, Hydro would likely have been back before the
15 Board sometime between '92 and 2000 because of the
16 fluctuating price of oil.

17 MR. OSMOND: Depending on what mechanism is in place,
18 if we had to have ... in 1985 we had a mechanism called a
19 fuel adjustment ...

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

21 MR. OSMOND: ... and we also had something called the
22 water variation provision which covered off variations in
23 water.

24 MS. BUTLER, Q.C., Q.C.: I saw the reference, yeah.

25 MR. OSMOND: Yeah. So which is really the same
26 (unintelligible) we have now in hydrology. So we were
27 protected at that point in time with regards to recovering of
28 our revenues. We got it right away but the consumer also
29 saw a major hit to their bills in that particular month, so
30 Hydro was very much protected back in 1985 and prior from
31 a financial point of view in that any variations were
32 recovered through the water equalization provision or the
33 fuel adjustment charge gave us our money back. The real
34 concern was morally the consumers' bills were literally
35 going through the roof. The fuel adjustment charge, the
36 percentage of their energy, was probably 60 to 70 percent
37 of their bills in the coldest winter months during the winter,
38 so from our point of view we are protected but was giving
39 the wrong ... it was really hitting consumers very hard and
40 that's why we had changed to the Rate Stabilization Plan,
41 so, no, I don't think it would have driven us back. If that
42 mechanism was in place, it would not have drove us back.

43 MS. BUTLER, Q.C., Q.C.: So you agree that by doubling
44 the cap there's less incentive to come back.

45 MR. OSMOND: I guess it's not an incentive. It's a matter
46 of deciding what a reasonable cap should be. If the \$12.50
47 equated to \$50 an hour of the 20, then certainly \$50 million
48 would not be appropriate. There needs to be a more
49 appropriate number. \$100 million is not a magic number.
50 It's just an arithmetic number and it's based on going to \$20

51 a barrel. So we have the same incentive to try and keep it
52 down but we have no control over climatic conditions, how
53 much rain we get, how much snow we get or the world price
54 of oil.

55 MS. BUTLER, Q.C., Q.C.: Okay. Well let's talk about the
56 things over which we do have some control, weather not
57 being one of them. A number of concerns have been
58 expressed about increasing the cap and one expressed by
59 Newfoundland Power's expert, Larry Brockman, is that by
60 doubling the cap to \$100 million, Hydro has decreased
61 incentive to be efficient. Do you agree with that general
62 principle?

63 MR. OSMOND: No, I don't.

64 MS. BUTLER, Q.C., Q.C.: Okay. Well tell me why you
65 don't.

66 MR. OSMOND: I think we've got the incentive to run an
67 operation efficiently, and just by the fact that we've got
68 \$100 million doesn't mean we're out there willy-nilly just
69 trying to buy oil on the spot market, whatever. We have to
70 try and operate Holyrood as efficiently as we can,
71 considering the loads that we have, the water conditions
72 that we have, the hydrology and so on. We also try to
73 manage our oil program, make sure we do get shipments on
74 time, when we require them, and not buying them early, not
75 stocking up our tanks, not playing with the market, and
76 trying to get the most appropriate price of fuel and manage
77 our system to the best of our ability, so it's not a matter of
78 we have a disincentive. I think we always have an
79 incentive to run our systems as operationally efficient as
80 well as financially efficient.

81 MS. BUTLER, Q.C., Q.C.: Let's look then, if I can, Mr.
82 O'Rielly, for a moment to **NLH-63, page one** ... A. And this
83 is a question that Hydro is asking Larry Brockman.
84 Perhaps you could just read the question into the record
85 for us, Mr. Osmond, please?

86 MR. OSMOND: "Please elaborate on how a cap of \$50
87 million provides Hydro an incentive to operate efficiently
88 and \$100 million cap does not."

89 MS. BUTLER, Q.C., Q.C.: And his answer there at, towards
90 the bottom of the page? Thank you. Could you read that?

91 MR. OSMOND: "If the cap remains at \$50 million instead
92 of being raised to 100, Hydro would have to request a
93 hearing to recover the additional amounts beyond the \$50
94 million. Presumably Hydro would not want to have such a
95 hearing but thus try to avoid it. This should tend to place
96 greater pressure on Hydro to be more efficient with regard
97 to spending."

98 MS. BUTLER, Q.C., Q.C.: Okay. Now, when I read that it
99 makes some sense to me. This was the principle that I was

1 pursuing with you, and as you see Mr. Brockman's answer
2 on the screen, do you accept that it's a reasonable answer?

3 MR. OSMOND: I understand what he's saying, accept
4 what he's saying for the reasons I just gave.

5 MS. BUTLER, Q.C., Q.C.: Okay. So this is a matter I'm
6 going to leave to yourself and Mr. Brockman, but I wonder
7 if I might just get on the screen first, before I do that, **NP-3,**
8 **page two?** Thank you. I don't think we need to enlarge that
9 any. Okay, thanks, Mr. O'Rielly. As I understand what Mr.
10 Brockman is saying here, Mr. Osmond ... look at the price
11 of fuel there at line five, okay.

12 MR. OSMOND: Yes.

13 MS. BUTLER, Q.C., Q.C.: And we can just take the 1992
14 final cost of service year. In that year the fuel cost was
15 \$37.856 million.

16 MR. OSMOND: That's correct.

17 MS. BUTLER, Q.C., Q.C.: Okay. Of a total revenue
18 requirement at line 43 of \$289.491 million.

19 MR. OSMOND: That's correct.

20 *(10:30 a.m.)*

21 MS. BUTLER, Q.C., Q.C.: Okay. And he's saying, Mr.
22 Brockman that is, that by avoiding rate hearings because
23 the cap has gone to \$100 million and there's no need for
24 you to come back to get approval to increase rates, you
25 avoid utility board review of the other costs which are from
26 lines 17 to 28, if we can just scroll up to that, Mr. O'Rielly,
27 lines 17 to 28, in that area there. You avoid regulatory
28 review of the other expenses over which you have some
29 control.

30 MR. OSMOND: That's what he's saying.

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

32 MR. OSMOND: It's not what I'm saying.

33 MS. BUTLER, Q.C., Q.C.: Okay. Now, are you aware of Mr.
34 Brockman's recommendation specifically, and that is to
35 leave the cap at \$50 million, allow Hydro to bank the
36 additional deficit beyond \$50 million, but if you wish to
37 apply balances greater than \$50 million to Newfoundland
38 Power, you have to come back on a separate application.

39 MR. OSMOND: I understand what he said, but, I mean, I
40 don't agree with this. That's not our recommendation.

41 MS. BUTLER, Q.C., Q.C.: I know it's not your
42 recommendation, but do you see that his recommendation
43 has some reasonableness?

44 MR. OSMOND: I can see why he would have proposed
45 that. I would not have proposed that. I mean, that just
46 locks ... the \$50 million, and the price of fuel, we know it's

47 going to be up around ... well, I shouldn't say know.
48 Nobody knows for sure what the price of fuel is going to
49 be, but if it's projected the way we expect it to go, \$12.50
50 would have provided a cap of 50. Now we see the price is
51 up to \$20 and maybe beyond, so obviously if you kept it at
52 50, we wouldn't even get out of this here and we're over \$50
53 million, pretty close to it right now. We'd be driven back to
54 the Board within a matter of months, and the regulatory lag
55 to do that would be horrendous, so we're looking at, it's a
56 more reasonable number in light of the projected fuel prices
57 to go from 50 up to 100.

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

59 MR. OSMOND: But on the issue of operating costs, I
60 mean, I would not agree with Mr. Brockman, that we have,
61 since 1992, reviewed all of our operating costs, we have
62 had several, two or three downsizings since 1992, so it
63 wasn't just willy-nilly, just rely on the price of fuel being up
64 there, we can live with the RSP. All those items were
65 logically looked at every year in our budget review and
66 revisions made where appropriate.

67 MS. BUTLER, Q.C., Q.C.: Okay, I hear you. Now back to
68 the issue of the Retail RSP balance, which, as you say,
69 currently exceeds \$50 million or close, the forecast,
70 however, in **NP-50, RFI NP-50,** and what you're projecting
71 here is actually that the RSP, Retail RSP balance will be
72 down below \$50 million, to \$37 million, in the year 2004.

73 MR. OSMOND: That's correct. Now when I referred to
74 going over 50, it was in this current year.

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

76 MR. OSMOND: And, yes, that would happen because if
77 our rates are approved, and the way we project it right now,
78 we're projecting price of fuel, I think, at \$28 a barrel, then
79 going down, I think in 2003, early 2004, to 26, and then
80 dropping off to 23, so price is reducing as well as
81 recovering one-third of the balance from the customers, so
82 that's not surprising to see the retail balance come down
83 below, down to around \$37 million. All other things being
84 equal, all other things being equal as it relates to
85 hydrology, a normal order year, same load as we forecast
86 and no adjustments for the rate alteration for
87 Newfoundland Power.

88 MS. BUTLER, Q.C., Q.C.: Have you re-worked these
89 numbers now with the new forecast price of fuel based on
90 today's dollars?

91 MR. OSMOND: Have we?

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

93 MR. OSMOND: Not to my knowledge, no.

94 MS. BUTLER, Q.C., Q.C.: But clearly if the price of fuel is

1 lower than what you had forecast, the balance in the RSP
2 would be lower.

3 MR. OSMOND: When you say the current dollars, the
4 current prices as of Friday type of thing?

5 MS. BUTLER, Q.C., Q.C.: Yes, yeah.

6 MR. OSMOND: I have not seen a new run based on \$18 a
7 barrel.

8 MS. BUTLER, Q.C., Q.C.: Okay. Does this exhibit that's on
9 the screen though basically tell us that the concern with
10 the RSP balance will no longer be an issue as of 2004?

11 MR. OSMOND: What it's showing is that if our projections
12 of fuel prices are correct and if we have the normal water
13 year and our load is the same, this is what the numbers can
14 be. The whole plan is developed on the basis that there be
15 plus or minuses and it's almost like a pendulum. You can
16 go this way with some items and this way on the others.
17 Over time it should come back towards zero. And there's
18 some years, as we've seen for the last seven or eight years,
19 we've had more hydraulic production than the norm, which
20 would mean that the retail balance will come down quicker.
21 If it goes the other way, it could go up, but assuming a
22 normal water year, average year, and the loads forecast
23 actually unfolds, then, yes, we would see the balance
24 below the \$100 million, assuming/the sooner (phonetic) we
25 get the one-third recovery.

26 MS. BUTLER, Q.C., Q.C.: Now the same exhibit also gives
27 us some details on the industrial portion of the Retail
28 Stabilization Plan, and there's currently no cap on the
29 industrial balance, right?

30 MR. OSMOND: That's correct.

31 MS. BUTLER, Q.C., Q.C.: Now, here Mr. Brockman on
32 behalf of Newfoundland is also recommending a cap be
33 implemented on the Industrial RSP.

34 MR. OSMOND: Yes.

35 MS. BUTLER, Q.C.: And we'll leave the numbers there on
36 the screen. I'll just tell you that at page ten of his pre-filed
37 he says that, "There are only a handful of customers on the
38 industrial rate. If one of the larger industrial customers
39 leaves the system, remaining customers might considerably
40 be left to pick up large deferred expenses in the RSP.

41 MR. OSMOND: That's correct.

42 MS. BUTLER, Q.C.: So you'll agree with that as a principle.

43 MR. OSMOND: Yeah. See, the plan is based on our retail
44 customer class being Newfoundland Power and industrial
45 class of customers which includes all of the industrials as
46 a class.

47 MS. BUTLER, Q.C.: Do you consider the industrial class a
48 higher risk than Newfoundland Power from the perspective
49 of recovering costs here?

50 MR. OSMOND: If the mechanism stays in place as we
51 have, which is a one-third recovery, they should be equal.
52 There may be more risk in the sense if there's a smaller
53 number of industrial customers. We have only four or five
54 right now, so if one does leave, then the burden falls on the
55 other customers, whether the paper mills or the oil refinery
56 are more risky, it's a matter of judgement.

57 MS. BUTLER, Q.C.: Let's look at **NP-24** then. This is, I
58 believe, Hydro's annual budget. There you go, thank you.
59 Is there any attachment there, Mr. O'Rielly, or is it not
60 electronically entered? Okay. Perhaps we might just look
61 at the hard copy of that exhibit, Mr. Osmond, if you don't
62 mind. Which year would ... 1993 industrial rate
63 recommendation. Have you found that, Mr. Osmond ...

64 MR. OSMOND: Yes, I think I have.

65 MS. BUTLER, Q.C.: ... **NP-24 revision** ...

66 MR. OSMOND: Yeah.

67 MS. BUTLER, Q.C.: ... for 1993 industrial rate
68 recommendation, page one?

69 MR. OSMOND: 1993 budget?

70 MR. ALTEEN: It's actually part of the revision, I think.
71 There was three pages that came out in a revised format for
72 NP-24, the response to NP-24.

73 MR. OSMOND: I have NP-24 revised.

74 MR. ALTEEN: Yeah. Looks like ...

75 MR. OSMOND: The next page is the operating capital
76 budget.

77 MR. KENNEDY: If you go past about six pages in there's
78 a blank page with income statement written on it, then it's
79 the next page.

80 MS. BUTLER, Q.C.: Do you have it?

81 MR. OSMOND: The sheet prior to that? It just says, "1992
82 Industrial Rates."

83 MS. BUTLER, Q.C.: I have 1993 industrial rate
84 recommendation.

85 MR. OSMOND: Okay. I've got that one here too.

86 MS. BUTLER, Q.C.: Yeah. Well that's ... the one that's in
87 your hand is the one I need you to find in your binder.

88 MR. OSMOND: I have it.

89 MS. BUTLER, Q.C.: I have a copy ...

90 MR. OSMOND: I have it. In the middle.

1 MS. BUTLER, Q.C.: I wonder can I ... Ms. Blundon, could
2 I get my exhibit back and maybe just make sure that the
3 Board members are following the same page, because, I
4 apologize, it was so deeply buried there in the NP-24
5 revised. Thank you. So we were talking about whether in
6 fact the industrials as a class were any higher risk than
7 Newfoundland Power as a class in terms of the Rate
8 Stabilization Plan. And I wonder whether you might just
9 read for us the paragraph there with the numbers 1, 2 and
10 3?

11 MR. OSMOND: Starting with "The Public Utilities Board"?

12 MS. BUTLER, Q.C.: Actually you can start with,
13 "However, there are several reasons why a higher industrial
14 coverage should be targeted."

15 MR. OSMOND: "However, there are several reasons why
16 a higher industrial coverage should be targeted at this time.
17 (1) The Public Utilities Board has not yet made a final ruling
18 on the new costing methodology; (2) a substantial risk still
19 exists with respect to amounts owing from Newfoundland
20 Processing; and (3) there's considerable uncertainty in the
21 pulp and paper industry regarding markets and market
22 prices.

23 MS. BUTLER, Q.C.: Okay. So what I was getting at, Mr.
24 Osmond, was whether in fact these confirm that Hydro's
25 annual budget itself reflects a higher risk for industrial
26 customers as a class.

27 MR. OSMOND: Yeah. There are ... I guess I have to admit
28 there are more risks with the industrial, primarily the
29 markets associated with the paper mills and the oil refinery.

30 MS. BUTLER, Q.C.: So would a cap on the industrial RSP
31 have value in a sense that it would minimize risk to other
32 customers?

33 MR. OSMOND: I think as far as coming back to the Board,
34 the fact we have a cap for Newfoundland Power would
35 automatically drive us back to the Board, in which case
36 we'd have to review the industrial rates as well as the retail
37 rates, so I don't think a cap specifically for them would be
38 a requirement.

39 MS. BUTLER, Q.C.: I wonder if I could refer to **page eight**
40 **of Dr. Kalymon's pre-filed testimony**, and Dr. Kalymon, as
41 you know, Mr. Osmond, is the, one of the experts for the
42 Consumer Advocate, and in this section ... are you
43 comfortable following it on the screen?

44 MR. OSMOND: That's fine.

45 MS. BUTLER, Q.C.: Okay. In this section of his testimony
46 he discusses risk and the Rate Stabilization Plan. So page
47 eight, line five first. There you go. He opens the
48 discussion, "In terms of forecasting risk," and says that,
49 "Hydro essentially avoids most of the short-term risks

50 associated with fuel, water and demand through the
51 operation of the RSP." Now, I wonder can we go to lines 11
52 to 13 there? Okay. He suggests that, "These
53 comprehensive recovery mechanisms be viewed very
54 favourably by utility investors and place Hydro at lower
55 risk than most electrical utilities." Do you agree with that
56 principle?

57 MR. OSMOND: I guess in my discussions with the rating
58 agencies, they like the principles of the RSP, they realize
59 the balances are outstanding, they accept they're going to
60 be recovered in a three-year period. They do indicate that
61 the plan has worked very well and I guess their statement
62 normally to me is that if we keep the mechanisms we have
63 in place now, to recover over three years, it is not an issue
64 with the credit rating agencies, that they can be recovered,
65 both industrial and retail.

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

67 MR. OSMOND: Without that I think there'd be some
68 concern with regards to the risk and so on.

69 MS. BUTLER, Q.C.: Alright. Well, in answering my
70 question you've addressed basically the Dominion Bond
71 Rating Service.

72 MR. OSMOND: That's correct.

73 MS. BUTLER, Q.C.: But I was asking you specifically to
74 confirm of course here that Dr. Kalymon is suggesting that
75 the RSP reduces Hydro's financial risk.

76 MR. OSMOND: It certainly lowers their risk with regards
77 to the fact that we don't have the variations with the fuel
78 and the water and so on, as long as there's a recovery that's
79 approved by the Board and stays in place.

80 MS. BUTLER, Q.C.: Alright. And I think something similar
81 is stated by Mr. Hall on his pre-filed at pages eight and
82 nine, at the bottom of page eight first. Okay. Can we
83 enlarge that a bit? Thanks. Alright. The sentence starting
84 at the bottom of the page there, "In general," line 30, and
85 we're going to go on to page nine. "In general, generating
86 companies in the electrical industry are seen to be exposed
87 to greater business risks than distribution utilities,"
88 etcetera. Then he goes on at lines four to seven, "The bias
89 would be to increase the allowed returns for the utility,
90 although continued regulatory control over the utility's
91 entire operations and the use of the RSP could offset these
92 higher risks." So I take it that Mr. Hall also sees that the
93 RSP reduces Hydro's financial risk.

94 MR. OSMOND: It reduces some of them. It doesn't reduce
95 all of them. It certainly reduces the risk associated with the
96 fuel price and hydrology, but there are other financial risks
97 as well.

98 (10:45 a.m.)

- 1 MS. BUTLER, Q.C.: On behalf of Hydro itself, I think Ms.
2 McShane said something similar though, didn't she?
- 3 MR. OSMOND: It's my understanding she did, without
4 going back to the transcripts.
- 5 MS. BUTLER, Q.C.: Alright. We'll look back at, let's see ...
6 I think **her pre-filed actually contains a statement at page**
7 **17, lines 14 and 15.** Here she's ... if you look up at line
8 nine, enumerating the key business risk elements that
9 would determine a reasonable capital structure for your
10 company on a stand-alone basis, and I think she indicates
11 as a strength that the RSP offers protection from variations
12 in forecast load, generation mix and fuel prices.
- 13 MR. OSMOND: Yes, she does.
- 14 MS. BUTLER, Q.C.: Okay. So that's a similar principle to
15 what's been expressed by Kalymon and Hall.
- 16 MR. OSMOND: Yeah. Oh, I don't disagree with what
17 Kathy was saying, Doug, with regards to the risks. I just
18 refer ... I guess there were other risks such as exchange and
19 change in interest rates. Certainly as it relates to these, I
20 agree with what Doug and Kathy have said.
- 21 MS. BUTLER, Q.C.: And finally then, I wonder if we could
22 look at **Exhibit DH-1**, which was an exhibit entered by
23 Doug Hall, when he testified, from the Dominion Bond
24 Rating Service, and under the "Considerations" section,
25 lower left-hand ... there you go, right there ... "Strengths."
26 He refers again to the Rate Stabilization Plan contributing
27 to long-term earning stability.
- 28 MR. OSMOND: Yes, I agree.
- 29 MS. BUTLER, Q.C.: Okay. So in protecting the customer
30 from annual or seasonal rate spikes, Dr. Kalymon, Mr. Hall,
31 Ms. McShane and the DBRS, all refer specifically to the
32 Rate Stabilization Plan as reducing Hydro's financial risk.
- 33 MR. OSMOND: Certainly has a major impact on ...
- 34 MS. BUTLER, Q.C.: And therefore there is significant
35 evidence, Mr. Osmond, I'm sure you'll agree, before the
36 Board to continue the Rate Stabilization Plan as opposed to
37 eliminating it.
- 38 MR. OSMOND: Oh, most definitely.
- 39 MS. BUTLER, Q.C.: Okay. I'm going to leave the issues of
40 the RSP now and turn to the wholesale rate which is
41 charged by Hydro to Newfoundland Power. Mr. Osmond,
42 the basis for the monthly bill from Hydro to Newfoundland
43 Power is energy only.
- 44 MR. OSMOND: That's correct.
- 45 MS. BUTLER, Q.C.: It's energy usage, so it's called an
46 energy only bill.
- 47 MR. OSMOND: That's correct.
- 48 MS. BUTLER, Q.C.: However, the wholesale energy rate by
49 Newfoundland Power to its own customers ... I'm sorry, let
50 me rephrase that. The wholesale energy rate paid by
51 Newfoundland Power to Hydro flows from the cost of
52 service study.
- 53 MR. OSMOND: That's correct.
- 54 MS. BUTLER, Q.C.: So the demand requirements of
55 Newfoundland Power are reflected in a cost of service
56 study?
- 57 MR. OSMOND: Yes, they are.
- 58 MS. BUTLER, Q.C.: And there's also, as we've seen in the
59 RSP, a component which in effect protects Hydro and
60 Hydro's earnings from variations in the energy sales to
61 Newfoundland Power.
- 62 MR. OSMOND: Yes, a load variation.
- 63 MS. BUTLER, Q.C.: The load variation component. So at
64 the end of the day Newfoundland Power will always end up
65 paying its own way, so to speak.
- 66 MR. OSMOND: It will pay its own ... yes. The energy rate
67 plus any RSP adjustment, usually it's fluctuations they
68 would pay.
- 69 MS. BUTLER, Q.C.: Right. Now Newfoundland Power
70 includes demand charges in the rates it charges to its own
71 customers with demands of ten kilowatts and above. Were
72 you aware of that?
- 73 MR. OSMOND: Yes, for the general service customers.
- 74 MS. BUTLER, Q.C.: Okay. So the implementation of a
75 wholesale rate to Newfoundland Power from Hydro with
76 those demand and energy components would not
77 necessarily result in a change in Newfoundland Power's bill
78 to its customers.
- 79 MR. OSMOND: I'm sorry, would you mind repeating that
80 again?
- 81 MS. BUTLER, Q.C.: Yeah. A change in the rates from
82 Hydro to Newfoundland Power from energy only to
83 demand energy ...
- 84 MR. OSMOND: Uh hum.
- 85 MS. BUTLER, Q.C.: ... would not necessarily result in a
86 change in Newfoundland Power's bills to its own
87 customers.
- 88 MR. OSMOND: That's correct.
- 89 MS. BUTLER, Q.C.: Now, over the longer term, as I
90 understand it, as demand increases, costs allocated to
91 Newfoundland Power change because costs caused by

1 changes in demand are long-term costs of adding
2 equipment to your system. Is that a fair statement?

3 MR. OSMOND: That's correct.

4 MS. BUTLER, Q.C.: And I wonder if we might look to **Mr.**
5 **Brockman's supplemental evidence, his first supplemental**
6 **evidence, page 12**, and there's a table here. Thank you. If
7 we can just scroll up just momentarily, Mr. O'Rielly, so we
8 can see what's shown? No, that's fine. Just to the
9 paragraph above the table. Thank you. There you go. He
10 says, "It's worth noting that Newfoundland Power's actual
11 annual peak demands have not increased in the last decade
12 as shown in the table below." So just take a moment and
13 review the data there. Do you agree that there's no
14 obvious growth in the demand requirements of
15 Newfoundland Power in that ten-year period?

16 MR. OSMOND: That's what the table seems to be saying.

17 MS. BUTLER, Q.C.: So can we assume that or take from
18 this that what's really important is sending a price signal to
19 customers is the rates charged by Newfoundland Power
20 and not the structure of the wholesale rate charged by
21 Hydro to Newfoundland Power?

22 MR. OSMOND: I guess if the demand component and the
23 energy component that's in the general service rates are
24 properly structured ...

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

26 MR. OSMOND: ... that signal should be forthcoming to
27 customers.

28 MS. BUTLER, Q.C.: Okay. And Hydro's position on this
29 hearing is that it is content with the rate that it charges to
30 Newfoundland Power as an energy only rate.

31 MR. OSMOND: That's correct.

32 MS. BUTLER, Q.C.: And Newfoundland Power's position
33 is that they are content with the energy only rate.

34 MR. OSMOND: That's my understanding too, yes.

35 MS. BUTLER, Q.C.: Okay. And are you aware that Mr.
36 Brockman, I'm sorry, Mr. Bowman and Mr. Wilson are both
37 recommending a more complex rate structure from Hydro to
38 Newfoundland Power?

39 MR. OSMOND: Yes. I can't recall the exact mechanics but
40 I know it's a more complex structure.

41 MS. BUTLER, Q.C.: Do you agree, Mr. Osmond, that a
42 more complex demand energy rate from Hydro to
43 Newfoundland Power would create volatility in Hydro's
44 earning streams?

45 MR. OSMOND: Yes, I would.

46 MS. BUTLER, Q.C.: I wonder if we might look at Mr. Larry

47 Brockman's explanation of this earnings volatility at pages
48 8 to 11 actually? See where I can get you to start here.
49 Yes, at the **bottom of page eight of Larry Brockman's**
50 **supplemental**, he discusses the proposed cost of service
51 study, and this discussion goes on for several pages. Do
52 you recall reading this portion of Mr. Brockman's evidence,
53 pre-filed evidence, Mr. Osmond, as it relates to a demand
54 energy wholesale tariff and assuming that that was
55 implemented?

56 MR. OSMOND: I've read them all but they're all not coming
57 to light as to the exact recommendations. Is there a
58 particular reference you want me to refer to?

59 MS. BUTLER, Q.C.: Well, the discussion is quite long. It
60 ends actually on page 11 at lines 10 to 14. Perhaps you
61 might just read in that short paragraph there, "With the
62 existing energy only wholesale tariff."

63 MR. OSMOND: "With the existing energy only wholesale
64 tariff, Newfoundland Power would incur no additional
65 purchase power costs in the scenario above. It is this
66 potential revenue volatility that has caused concern for
67 Newfoundland Power in trying to negotiate an agreement
68 with Newfoundland Hydro in the determination of a
69 demand and energy rate."

70 MS. BUTLER, Q.C.: Okay. And without getting into the
71 details of the discussion that is continued there at pages 8
72 to 11, do you agree with his conclusion? Is it a fair
73 statement of fact that the potential revenue volatility has
74 caused concern for Power in trying to negotiate an
75 agreement with Hydro in the determination of that rate?

76 MR. OSMOND: It has definitely.

77 MS. BUTLER, Q.C.: Okay, thank you. You can leave that
78 section. I've just got a couple of quick questions for you
79 on the energy policy review, Mr. Osmond, if I might, before
80 we break. You're familiar with the energy policy review
81 because it's referred to in your pre-filed.

82 MR. OSMOND: Am I familiar with it?

83 MS. BUTLER, Q.C.: You are familiar with it, I know,
84 because it's referred to in your pre-filed testimony.

85 MR. OSMOND: Oh, yes, I'm familiar from the point of view
86 that I know the Province was reviewing an energy policy
87 review.

88 MS. BUTLER, Q.C.: Okay. And you indicate in your pre-
89 filed that it is not yet complete.

90 MR. OSMOND: That's my understanding.

91 MS. BUTLER, Q.C.: Do you have any more current
92 information than what was contained in your pre-filed?

93 MR. OSMOND: I don't personally. I have not read the

1 document or gone through a document at all, so I really
2 can't respond to the, where we are with the energy policy
3 review. I think it's still being worked on. I'm not sure of the
4 timing of when it actually goes to Cabinet or whatever, but
5 I have not seen or reviewed a final document, and I haven't
6 participated in any meetings associated with the EPR since
7 1998.

8 MS. BUTLER, Q.C.: Alright. But because you're one of the
9 individuals in the room who has been here over the history,
10 the energy policy review was to be a comprehensive review
11 of the electrical rates and marginal costs in the province.

12 MR. OSMOND: That's my understanding.

13 MS. BUTLER, Q.C.: Okay. And there is some suggestion
14 by the various cost of service witnesses that marginal cost
15 rate designs should be developed.

16 MR. OSMOND: Yes.

17 MS. BUTLER, Q.C.: Now, Newfoundland Power's position
18 on this hearing is that marginal cost based rate should be
19 deferred until after the energy policy review is complete.

20 MR. OSMOND: Yes.

21 MS. BUTLER, Q.C.: Because to define marginal cost based
22 rate you'd need to know what the marginal costs are going
23 to be.

24 MR. OSMOND: That's correct.

25 MS. BUTLER, Q.C.: Is that also Hydro's position?

26 MR. OSMOND: Yes. I think you need to know what's
27 coming out of the policy review as it relates to those
28 issues. It'd be premature, I think, to try and do anything
29 prior to that, and whether that's being addressed, I really
30 don't know, but I think it'd be premature to try and do
31 anything on marginal cost till we see where the province is
32 going on the energy policy review, and I presume that will
33 come out for public input and debate and review.

34 MS. BUTLER, Q.C.: Thank you, Mr. Osmond. I'm going to
35 ask the Chairman if it would be an appropriate time to break.

36 MR. NOSEWORTHY, CHAIRMAN: Sure. Thank you very
37 much, Ms. Butler, Mr. Osmond. We'll break now until
38 quarter after.

39 *(break)*

40 *(11:15)*

41 MR. NOSEWORTHY, CHAIRMAN: Thank you. I ask Ms.
42 Butler, if you're ready to continue?

43 MS. BUTLER, Q.C.: I am. Thank you, Mr. Chairman. Mr.
44 Osmond, Hydro's expert witnesses and other experts, as
45 well, have recommended a 60/40 capital structure for Hydro,
46 and I believe you addressed this in your pre-file testimony?

47 MR. OSMOND: Yes.

48 MS. BUTLER, Q.C.: As well as a return on equity of 11 to
49 11.5, which is also addressed in your testimony at page 4?

50 MR. OSMOND: That's correct.

51 MS. BUTLER, Q.C.: But I think the point that you make
52 here, pages 4 and 5, is that it's premature for Hydro to move
53 to a 60/40 debt equity ratio until the energy policy review
54 that we discussed before the break is completed?

55 MR. OSMOND: Yes. The point I was trying to make here
56 is that other than the three percent ROE and the 11 percent
57 that's been recommended by financial people 60/40 seems
58 like a reasonable way to go, but before we, I guess, cement
59 that into the pavement, we need to know what the EPR is
60 going to recommend. And coming out of that then we
61 should be able to come back in our next application and
62 indicate the measures to attain getting to 60/40, that that
63 still is an EPR, and how we'd approach that to get back to
64 a reasonable debt equity ratio. Because there may or may
65 not be things in the EPR. We just don't know at this point
66 in time.

67 MS. BUTLER, Q.C.: If Mr. O'Rielly could, at page 5, lines 10
68 to 13 is where you specifically address that. There you go,
69 and if you could just read that in?

70 MR. OSMOND: Line 10?

71 MS. BUTLER, Q.C.: Ten to 13, yeah.

72 MR. OSMOND: "Until this EPR is completed and policy
73 direction received I believe it would be premature for Hydro
74 to recommend or commence a process to implement long-
75 term financial targets with respect to debt equity ratio of
76 60/40."

77 MS. BUTLER, Q.C.: Okay. Now, on the same page, line 31,
78 you indicate that Hydro's current recommendation, and
79 maybe you could just read that paragraph as we get into
80 page 6 in terms of Hydro's current objective?

81 MR. OSMOND: "Hydro's recommendation is to use a debt
82 to capital ratio of 83 percent and temporarily include a three
83 percent ROE for 2002. Hydro's current objective would be
84 to move toward an 80/20 debt equity ratio, which was
85 established at previous hearings" ...

86 MS. BUTLER, Q.C.: I think that's fine.

87 MR. OSMOND: Okay.

88 MS. BUTLER, Q.C.: I don't think you need to read the
89 balance. What I wanted to ask you about in that statement,
90 and perhaps it's an assumption that I'm making having read
91 your evidence, but you are unsure when Hydro might
92 actually move to a 60/40 debt equity ratio, would that be a
93 fair statement?

1 MR. OSMOND: I think at this point in time I think Ms.
2 McShane probably, and Mr. Hall, I think they would look
3 at ... I guess I was looking at it in the short-term. They were
4 looking at the medium term, probably five to seven years
5 going to 75/25. I think she indicated from seven to twelve
6 years moving to 60/40.

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

8 MR. OSMOND: And I think that's a fair timeframe, but I
9 think we need to know what the province is thinking of and
10 what's coming out of the EPR before we start cementing
11 those objectives in that timeframe, and then once we have
12 that, that will form part of our application that we're back
13 with in 2003 and outline a plan of action to attaining that.

14 MS. BUTLER, Q.C.: So at this point Hydro has not made
15 any plans on how you might achieve a 60/40 debt equity
16 ratio?

17 MR. OSMOND: Not at this point in time.

18 MS. BUTLER, Q.C.: And clearly, you're suggesting that
19 the decision on whether to go there and how quickly to go
20 there may be influenced by the EPR review?

21 MR. OSMOND: Yeah, it could be, yes.

22 MS. BUTLER, Q.C.: I'm sorry, the EP review.

23 MR. OSMOND: EPR, yeah.

24 MS. BUTLER, Q.C.: Okay. Is the outcome of the energy
25 policy review also a factor in determining the return on
26 equity which Hydro should aim to achieve?

27 MR. OSMOND: The current or proposed? I'd be surprised
28 if it addressed the ...

29 MS. BUTLER, Q.C.: Well, the aim to achieve would be the
30 proposed, wouldn't it?

31 MR. OSMOND: Yes, compared to investor owned utility.
32 It may, it may reflect on that. I don't think it would reflect
33 on the three percent that we're proposing for 2002.

34 MS. BUTLER, Q.C.: Alright. Now, I know the position of
35 Hydro's experts, but currently Hydro is choosing not to
36 follow the advice of your experts, specifically with regard
37 to the 60/40 debt equity ratio, because you've chosen to
38 postpone establishing a plan to move towards it until the
39 results of the EPR?

40 MR. OSMOND: That's correct.

41 MS. BUTLER, Q.C.: Okay, and I suppose, similarly, you're
42 not really following the advice of your experts when you
43 seek a three percent return on equity either, because they're
44 recommending 11 to 11.5?

45 MR. OSMOND: No. They were in a state of shock, I think,
46 when we explained we'd go for three percent, and I guess

47 we all were, but I think we did that in light of the rate shock
48 that the consumers would see if we tried to implement the
49 changes we're recommending with regards to the price of
50 fuel, the phase out of rates, plus the impact of a higher
51 ROE. I think it would be a significant rate shock, so what
52 we suggest is a temporary reduction in the ROE to three
53 percent, and I stress the word "temporary," until we come
54 back with our more appropriate plan for 2003 to move back
55 to a more appropriate ROE, and this is the form of
56 discussions we've had with our financial people as well as
57 with the credit rating agencies. And this is a very
58 temporary measure, and they raised that with me and others
59 when we reviewed with them, especially the credit rating
60 agencies. They were glad we're moving away from the
61 \$12.50 to a more appropriate price of fuel. The ROE is very
62 low, but they need to see some direction as to where we're
63 going in the future as it relates to more appropriate return
64 on equity.

65 MS. BUTLER, Q.C.: The debt equity ratio of 83/17 is also
66 temporary though?

67 MR. OSMOND: Yes, it is.

68 MS. BUTLER, Q.C.: Okay, and the debt equity ratio of
69 83/17 is acceptable because of the debt guarantee by the
70 government?

71 MR. OSMOND: Yes, at this time, yes.

72 MS. BUTLER, Q.C.: So moving towards 60/40 debt equity
73 ratio similar to an investor owned utility may not
74 necessarily benefit customers if you can borrow currently
75 at investment grade rates, anyway?

76 MR. OSMOND: I think you need to look at where we ...
77 where the utility will be going and its availability to attract
78 capital. And I think when you looked at the investors and
79 the credit rating agency, it's not so much the current period
80 they're looking at, it's the trends and where we're going in
81 the future, and while 83/17 is reasonable at the present time,
82 there's a lot of competition out there for funds. And what
83 they will say to you is that we need to be moving to a more
84 appropriate level over time, consistent with other IOUs and
85 comparable other investors, because there is a capital
86 attraction and there are other investors out there, so I think
87 from that perspective, I think we need to be moving to a
88 more reasonable number.

89 MS. BUTLER, Q.C.: But the debt guarantee by the
90 Province of Newfoundland does allow Hydro to operate
91 with an 83/17 debt equity ratio?

92 MR. OSMOND: Yes, it does.

93 MS. BUTLER, Q.C.: And that debt equity ratio did not
94 stand in the way of you achieving an investment grade
95 rating from the DBRS?

1 MR. OSMOND: No.

2 MS. BUTLER, Q.C.: Right, so I guess what I'm asking is
3 how will customers benefit if you move to 60/40 or have
4 you studied it?

5 MR. OSMOND: Well, you mean study, we haven't done
6 any detailed analysis of it except for discussions with our
7 financial advisors and with the credit rating agencies and
8 to where we expect to go and where we are vis-a-vis other
9 Crown owned utilities, and also where we are with regards
10 to other investment IOUs, and where the appropriate place
11 should be that we're all competing for the same dollars and
12 same money.

13 MS. BUTLER, Q.C.: Okay. At a 60/40 debt equity ratio
14 though you wouldn't have a guarantee by the Province of
15 Newfoundland?

16 MR. OSMOND: I think what Ms. McShane and Mr. Hall
17 were saying, once you get to 60/40 you may not need a
18 guarantee fee at that point in time, but until you get there
19 you would need a guarantee fee.

20 MS. BUTLER, Q.C.: And I think at least one of them
21 indicated that in the interim transition period the debt
22 guarantee fee itself may fluctuate; it may not?

23 MR. OSMOND: I think Mr. Hall might have said that, yeah.

24 MS. BUTLER, Q.C.: May not be appropriate to keep it at
25 one percent. Okay. Can I just turn, briefly, to some
26 intercorporate charges. We heard from, at least, Mr. Wells,
27 and perhaps other witnesses, that Hydro has, in addition to
28 its own regulated and non-regulated operations, four
29 subsidiary companies?

30 MR. OSMOND: That's right.

31 MS. BUTLER, Q.C.: CF(L)Co., Twin Falls, Lower Churchill
32 and Gull Island?

33 MR. OSMOND: Yes.

34 MS. BUTLER, Q.C.: Okay, and of these four subsidiaries,
35 it appears that Hydro only charges one, and that is
36 CF(L)Co. for services that are provided by Hydro staff?

37 MR. OSMOND: The most significant portion that we
38 charge is to CF(L)Co., but also any work that we do with
39 Twin Falls Power Corporation, which is a subsidiary of
40 CF(L)Co., we allocate time to Churchill as it relates to that.
41 The other two entities, and I think Mr. Roberts explained
42 them very well on Friday, was Gull Island Power Company
43 Limited and the Lower Churchill Development, and it's very
44 little ... well, there's actually no activity in Gull Island Power
45 Company and no activity in Lower Churchill, so it's a matter
46 of filing an annual financial statement or a budget for those
47 two entities, but with regards to Churchill, certainly there is
48 a very concerted effort as to properly allocating our time to
49 that entity and the Twin Falls.

50 MS. BUTLER, Q.C.: Okay. Now, there was an information
51 request that's relevant to this, it's 11-A.

52 MR. OSMOND: Just bear with me.

53 MS. BUTLER, Q.C.: Sure. No problem.

54 MR. OSMOND: Okay. I have to go ahead.

55 MS. BUTLER, Q.C.: Okay. It may not require any backup
56 notes anyway. It's on the screen. The question was to
57 provide details of intercorporate transactions for each year
58 from '92 to 2000, and forecasts for 2001 and 2, and the
59 answer is in the form of a schedule?

60 MR. OSMOND: Uh hum.

61 MS. BUTLER, Q.C.: Okay, and can you enlarge it just
62 slightly? Okay. Hydro receives approximately \$2 million a
63 year from charges to CF(L)Co.?

64 MR. OSMOND: That's correct.

65 MS. BUTLER, Q.C.: Okay, and in 11-B you were asked for
66 details on how you allocate costs to subsidiaries, and the
67 answer there is also a cash, as you say, in a report, but it's
68 a review of operating costs recovered from Churchill Falls
69 Labrador Corporation only.

70 MR. OSMOND: Yes.

71 MS. BUTLER, Q.C.: My question to you on the issue of
72 intercorporate charges is whether you accept that Hydro
73 should file an official policy on intercorporate transactions
74 for the Board to consider so that the accounting for all
75 intercorporate charges are fully transparent?

76 MR. OSMOND: I guess, as Mr. Roberts explained the
77 other day, this report ... and I wish I could find the darned
78 thing attached, I got it here somewhere. That really
79 explained that process that we actually follow as it relates
80 to the allocation of costs to Churchill Falls Labrador
81 Corporation and the Twin, and there was another RFI
82 explaining Gull Island Power Company and Lower Churchill
83 and the recall, and that explains in detail the mechanism for
84 allocating our time on a weekly basis, made notes every
85 day, and every week we put through a time sheet allocating
86 our time to Churchill Falls, where it is appropriate. There
87 are other instances where it isn't appropriate to us a time
88 sheet, but it may be done on the use of PCs and things of
89 that nature. So I think that's pretty well spelled out in great
90 detail in **NP-11** as to what the process would be, and
91 there's another RFI, as I mentioned, as it relates to the recall
92 on Gull Island Power and LC where there's minimal amount
93 of work on that, so I think that information is before the
94 Board at the present time.

95 (11:30 a.m.)

1 MS. BUTLER, Q.C.: Well, I guess my point is, do you
2 accept the basis for allocating costs should not just simply
3 be on the strength of a review of operating costs from
4 Churchill Falls Labrador Corporation, but rather a policy
5 that applies to all subsidiaries?

6 MR. OSMOND: Yeah, and I guess what we're basically
7 doing, we are allocating time now in light of the process for
8 filing for Churchill, whether it relates to a capital project or
9 it relates to Churchill Falls, and I think, as Mr. Roberts
10 mentioned, we will be carving out, in the future, costs as
11 they relate to the recall, not necessarily in a separate
12 corporation but as a separate sub-group as to what those
13 costs would be, but the method of doing that would be the
14 same as we're using for allocating time to Churchill Falls.

15 MS. BUTLER, Q.C.: But is there actually a policy that has
16 been put to the Public Utilities Board for approval in
17 relation to the allocation of costs by Hydro to its
18 subsidiaries?

19 MR. OSMOND: There hasn't been a formal policy put to
20 the Board, but it certainly has been explained as outlined
21 here in **NP-11**, and that outlines exactly the mechanics as
22 to how it would work and how it has been working over
23 time, and it's become more accurate in the last two years
24 where we have the JD Edwards system where we can all ...
25 like, I know in my case, I make note every day what time I'm
26 spending on Churchill Falls or PUB work or Twin Falls or
27 capital, and every week we just input that into the system,
28 the number of hours per day, and it's charged into a work
29 order. At the end of the year it forms part of the overall
30 costs that we're allocating to Churchill Falls or to Twin Falls
31 or whatever, so it's a more accurate allocation rather than I
32 think it was this amount or I think it was that amount. It's
33 based on our actual time and assignment of costs to that
34 particular entity.

35 MS. BUTLER, Q.C.: Okay. Well, can the Board assume
36 then that what's contained in the report that's attached to
37 **NP-11(d)** sets forth the policy by which Hydro wishes to
38 have its allocation of costs to non-regulated operations or
39 subsidiaries approved?

40 MR. OSMOND: I think the general process outline there,
41 yes, that is the approach that we're following. That would
42 be consistent with other entities.

43 MS. BUTLER, Q.C.: And relative to Mr. Roberts evidence
44 from last week, do you also accept that Hydro should move
45 to a separate set of regulated and non-regulated books of
46 account?

47 MR. OSMOND: Yeah, I wouldn't say books. I think we
48 should segregate what costs are related to the different
49 entities, and we can do that internally within the Hydro
50 Group, and that's just the mechanics as to how we do that

51 as to what relates to non-regulated functions, whether it's
52 the recall power, or Churchill, or Twin Falls, or Gull Island,
53 Lower Churchill, and I would agree with what Mr. Roberts
54 said last week on that issue.

55 MS. BUTLER, Q.C.: Okay. Relative to some of those
56 expenses can we look at advertising, NP's relevant order
57 actually is ... that's Newfoundland Power's relevant order is
58 **PU-7, '96, '97**, and the order applicable to Newfoundland
59 Power as a utility orders that only advertising directed to
60 conservation, safety and consumer information is
61 regulated, whereas advertising directed at image building
62 is not. Were you aware that that was the nature of the
63 order in relation to Newfoundland Power?

64 MR. OSMOND: Generally, yeah.

65 MS. BUTLER, Q.C.: Okay. Now, Mr. Brushett, in his 2000
66 report at page 35. Mr. O'Rielly, is that page 35?

67 MR. O'RIELLY: Yes.

68 MS. BUTLER, Q.C.: Oh, then I'm sorry, I've given you the
69 wrong one. It's 2001.

70 MR. OSMOND: Page 35?

71 MS. BUTLER, Q.C.: Thank you. Now, that's the correct
72 page now, and I need to see the bottom of the page there,
73 Mr. O'Rielly, if I can? Thanks. Now, of course, the
74 paragraph I'm ... and I have you referred to here at the
75 bottom of the page relates to the table which is above.
76 Okay, that's fine, and Grant Thornton is suggesting here,
77 relative to the a table, that the decrease in office supplies
78 was attributable to the account code restructuring, etcetera.
79 And then he says, in the last sentence, "These decreases
80 are slightly offset by an increase in advertising costs
81 associated with the new corporate communications plan."
82 So in terms of the advertising costs can you tell me, please,
83 does this confirm that you were treating, that Hydro was
84 treating the advertising costs as a regulate expense?

85 MR. OSMOND: I guess the one he's referring to is the cost
86 associated with the communication plan.

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

88 MR. OSMOND: And if my memory is correct, I think that's
89 around 70 or \$75,000 for next year.

90 MS. BUTLER, Q.C.: \$75,000.

91 MR. OSMOND: 75, and that came out of meetings and
92 discussions we had per our strategic planning with our
93 employees and with our directors, primarily directors at this
94 point in time, as to be able to communicate internally and
95 externally and also with our stakeholders, and this
96 communication plan was to form part of that, coming up
97 with a mechanism for effectively communicating with
98 internal customers, namely the employees, and external

1 stakeholders as well. That was the thrust around the
2 communication plan. It wasn't ads on TV and that type of
3 thing.

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

5 MR. OSMOND: It was providing communications
6 mechanisms and tools for our internal and external
7 stakeholders and government.

8 MS. BUTLER, Q.C.: So you feel justified in treating it as a
9 regulated expense?

10 MR. OSMOND: I do, yes.

11 MS. BUTLER, Q.C.: Did it relate to safety?

12 MR. OSMOND: I don't think specifically safety was there.
13 It would be part of the overall communications to our
14 employees, certainly, with regards to safety issues as part
15 of our internal communications package, so if there was
16 safety issues and safety and health then, yes, they'd be
17 referred to in our communication plan. It's all issues related
18 to employees, but internally to make them aware of them, as
19 well as our external stakeholders being shareholders and
20 government.

21 MS. BUTLER, Q.C.: And did it relate to conservation?

22 MR. OSMOND: I can't recall specifically related to that. I
23 know we had some dollars included in our own separate
24 customer services budget related to conservation, so I'm
25 guessing and saying no, there would not be dollars there
26 for that specifically.

27 MS. BUTLER, Q.C.: Okay, and I wonder if we can look at
28 charitable donations as a second area that's traditionally, in
29 some categories anyway, a non-regulated expense? And
30 here we might look at NP-13(a) where Newfoundland
31 Power asks some details of donations between '92 and
32 2000. Are you familiar with this RFI, Mr. Osmond?

33 MR. OSMOND: Yes.

34 MS. BUTLER, Q.C.: So the question, of course, was
35 specifically for details of charitable donations in sub A, and
36 your answer indicates that you do make a number, but
37 none are included in the cost of service?

38 MR. OSMOND: That's correct.

39 MS. BUTLER, Q.C.: Are you able to tell the Board that the
40 amount actually spent for charitable donations have been
41 apportioned properly between regulated and non-regulated
42 expense?

43 MR. OSMOND: A portion of donations?

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

45 MR. OSMOND: They're not in the cost of service.

46 MS. BUTLER, Q.C.: I know there's none in the cost of
47 service, but, I mean, how do you know how this is handled,
48 or can you tell me how it's handled internally?

49 MR. OSMOND: Well, we've just taken the amount of
50 donations. It's not included in the overall revenue
51 requirement for cost of service purposes, it's just ignored.
52 I shouldn't say ignored, it's just not part of the overall
53 calculations in determining the cost of service at all.

54 MS. BUTLER, Q.C.: Okay. Let's just scroll up to the
55 question again, A. Alright, so in terms of the question,
56 which was details of the expenses, you said that you make
57 them but none are included in the cost of service, so the
58 nature of the expenses for charitable donations would be
59 what, cheques to actual charities?

60 MR. OSMOND: Yeah. We review, I guess the
61 management committee reviews every month. We get a
62 whole raft of organizations asking for charity, charitable
63 donations. I'm sure Newfoundland Power gets the same
64 thing, and we review those. Most of those are related to
65 the ones like the General Hospital, to Canadian Cancer and
66 Alzheimers, those types of charities.

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

68 MR. OSMOND: And some there, some support for the
69 university, as well, and based on those, if those are
70 approved then a cheque is issued to the relevant charity,
71 but they're reviewed every month by the management
72 committee and we have a budget for that.

73 MS. BUTLER, Q.C.: And in all cases they are not charged
74 as a regulated expense?

75 MR. OSMOND: That's correct.

76 MS. BUTLER, Q.C.: Okay, so is there an actual established
77 policy for that within Hydro?

78 MR. OSMOND: As to who we pay, who we actually
79 contribute to, you mean?

80 MS. BUTLER, Q.C.: No. That all cheques written to
81 charities, all tables of 10 at these dinners that everybody
82 gets invited to, are actually charged to a non-regulated
83 expense?

84 MR. OSMOND: I wouldn't leave it as just tables attended
85 that we're giving donations to. It's primarily the
86 organizations I mentioned before, and we have not
87 included that in our cost of service, I think, going back to
88 the late '80s.

89 MS. BUTLER, Q.C.: But my question was whether there
90 was an established policy on that?

91 MR. OSMOND: To not include the cost of service?

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

- 1 MR. OSMOND: Yes.
- 2 MS. BUTLER, Q.C.: Okay. Written or just understood?
- 3 MR. OSMOND: Well, it's understood.
- 4 MS. BUTLER, Q.C.: Okay. Mr. Osmond, a small item, Bay
5 d'Espoir's street lighting was deferred to you probably a
6 month or so ago now by Mr. Reeves. You were probably
7 here for that?
- 8 MR. OSMOND: I was here.
- 9 MS. BUTLER, Q.C.: You have it? Okay.
- 10 MR. OSMOND: Yeah, I got that one.
- 11 MS. BUTLER, Q.C.: We can see it on **NP-188**, page 1 of 2.
12 There you go, and it's C. Now, as I understand ... question
13 C, line 7 there, Mr. O'Rielly. Thank you. As I understand
14 it, the budget includes a \$60,000 grant provided to the
15 Town of Bay d'Espoir?
- 16 MR. OSMOND: That's correct.
- 17 MS. BUTLER, Q.C.: Okay, and I know the answer is given
18 here in terms of ... yeah, there you go, subparagraph C.
19 Perhaps you could read it in and just explain the history
20 and purpose of the grant for us?
- 21 MR. OSMOND: In the January, 1978 report to the Board,
22 H.R. Donan (phonetic) Company, the Board's auditors,
23 reviewed Hydro's expenses and found that the grants to
24 the Town of Bay d'Espoir to cover street lighting where
25 acceptable. Subsequently, the conclusion on page 54 of
26 the Public Utilities Board PUB, report containing the
27 recommendations on the rates proposed by Newfoundland
28 and Labrador Hydro in its March 6th, '89 referral states the
29 following. The contribution towards street lighting in the
30 Bay d'Espoir town was accepted as an expense years ago,
31 partly because of the employees of Hydro living in the area.
32 It has been in place for a number of years and the Board
33 will not recommend it be disturbed. Further, on page 55 of
34 the same report the PUB goes on to state that all charitable
35 and other donations, with the exception of the street
36 lighting grant now in place in the Bay d'Espoir area, be
37 removed from the cost of service. Historically, as outlined,
38 the Bay d'Espoir street lighting contribution has been
39 accepted as a legitimate cost of business.
- 40 MS. BUTLER, Q.C.: Okay, so there are no other subsidies
41 or grants paid to any other towns for similar reasons?
- 42 MR. OSMOND: Not to my knowledge, just the Bay
43 d'Espoir street lighting.
- 44 MS. BUTLER, Q.C.: And the justification for treating Bay
45 d'Espoir differently, historically stems back to the fact that
46 there were employees living there?
- 47 MR. OSMOND: That's correct.
- 48 MS. BUTLER, Q.C.: Is that still the case?
- 49 MR. OSMOND: Oh, yes.
- 50 MS. BUTLER, Q.C.: The grant is, as this screen shows,
51 included in the test year as part of Hydro's revenue
52 requirement?
- 53 MR. OSMOND: Yes, it is.
- 54 MS. BUTLER, Q.C.: And the justification for that?
- 55 MR. OSMOND: Is as stated in this here, going back to '65,
56 I guess, when the plant actually went into production. We
57 still have employees there and that was part of, as we
58 thought, it's a reasonable expense contribution to the
59 towns and confirmed by the Board back in 1978.
- 60 MS. BUTLER, Q.C.: Another short item I want to address
61 with you, Mr. Osmond, is the issue of the frequency of
62 depreciation studies.
- 63 MR. OSMOND: Uh hum.
- 64 MS. BUTLER, Q.C.: According to Mr. Roberts' evidence
65 last week and his pre-filed, your depreciation rates are
66 based on a depreciation study from 1998?
- 67 MR. OSMOND: That's my understanding.
- 68 MS. BUTLER, Q.C.: And prior to that study Hydro was
69 using a study completed in 1986?
- 70 MR. OSMOND: Yes.
- 71 MS. BUTLER, Q.C.: So there was a 12 year span between
72 your depreciation studies?
- 73 MR. OSMOND: Yes.
- 74 MS. BUTLER, Q.C.: Are you aware that Newfoundland
75 Power is required by the Board to submit depreciation
76 studies every five years?
- 77 MR. OSMOND: I knew they were required to submit them,
78 I wasn't sure of the timeframe.
- 79 MS. BUTLER, Q.C.: And do you know (inaudible) finance
80 when Hydro proposes to submit its next depreciation study
81 to the Board for approval?
- 82 MR. OSMOND: I guess the last one we did was 1998. We
83 really hadn't seen any significant changes at that point in
84 time, nor have we engaged anybody to review it, so we
85 really haven't addressed that particular issue as to whether
86 there is a requirement to bring it back at this point in time or
87 what the significance may be of it.
- 88 (11:45 a.m.)
- 89 MS. BUTLER, Q.C.: Okay. I want to speak to you briefly
90 about the abandonment clause for the industrial customers.
91 Are you familiar with that area, as well?

- 1 MR. OSMOND: Very high level, generally.
- 2 MS. BUTLER, Q.C.: Okay. Hydro currently has an
3 abandonment clause in each of the contracts of the
4 industrial customers?
- 5 MR. OSMOND: That's my understanding.
- 6 MS. BUTLER, Q.C.: And is the purposes of the clauses to
7 allow recovery of system costs as an industrial customer
8 leaves the system?
- 9 MR. OSMOND: Yes.
- 10 MS. BUTLER, Q.C.: The current clause does allow for
11 recovery by Hydro of remaining net book value on plant?
- 12 MR. OSMOND: Sounds right.
- 13 MS. BUTLER, Q.C.: Okay, and the current abandonment
14 clauses, however, do not provide for the recovery of any
15 RSP balances attributable to an industrial customer
16 departing?
- 17 MR. OSMOND: That's my understanding.
- 18 MS. BUTLER, Q.C.: Okay. Now, I gather a new proposed
19 abandonment clause is before the Board?
- 20 MR. OSMOND: In the existing contracts?
- 21 MS. BUTLER, Q.C.: Yes, in terms of what Hydro proposes
22 as an appropriate abandonment clause?
- 23 MR. OSMOND: Yes.
- 24 MS. BUTLER, Q.C.: And still, there's no indication or
25 request to include in the recovery of an RST balance
26 attributable to a customer departing?
- 27 MR. OSMOND: No, it has not been.
- 28 MS. BUTLER, Q.C.: Okay. Now, Mr. Brockman, on behalf
29 of Newfoundland Power, has said that the Board should
30 consider having Hydro amend the proposed abandonment
31 clause to provide for recovery of an appropriate portion of
32 the RSP balance if an industrial customer leaves the
33 system, and I'm interested in your view on Mr. Brockman's
34 recommendation?
- 35 MR. OSMOND: As it relates to the RSP?
- 36 MS. BUTLER, Q.C.: Yes.
- 37 MR. OSMOND: We have not had it included as an item, as
38 an adjustment if an industrial customer actually ceases
39 operation. Certainly, there's merit to having that to some
40 degree, but we had not addressed that specifically as part
41 of the abandonment clause, because the balance, as it is
42 right now, whatever is in the RSP would be recovered from
43 all consumers in that class as opposed to the individual,
44 because it's virtually impossible to break it out in sub-
45 components. It's a class based RSP, one for Newfoundland
46 Power and one for industry, so whatever falls out from one,
47 if one left, would fall over to the remainder as being
48 recovered. It doesn't fall out as a loss to Hydro.
- 49 MS. BUTLER, Q.C.: Okay. I want to turn now, Mr.
50 Osmond, if I can, to Hydro's dividend policy or policies,
51 and these are presented in **IC-276**. That's the question,
52 and you can see the answer there. Scroll down a bit, Mr.
53 O'Rielly, for us. Okay, and Mr. Osmond, you'd be fully
54 familiar with the dividend policy or policies?
- 55 MR. OSMOND: Yes, I would.
- 56 MS. BUTLER, Q.C.: One dated November, '95 and the
57 other dated May of 2000?
- 58 MR. OSMOND: That's correct.
- 59 MS. BUTLER, Q.C.: Okay, and several witnesses have
60 spoken about the proviso in the policy that the dividends
61 not cause, basically, deterioration in the debt equity ratio
62 beyond certain acceptable limits?
- 63 MR. OSMOND: Yes.
- 64 MS. BUTLER, Q.C.: Okay, and Hydro's dividend history is
65 apparent in **NP-72**, page 2 of 2?
- 66 MR. OSMOND: Yes.
- 67 MS. BUTLER, Q.C.: Okay. You would agree that the
68 dividend payout history does not support Hydro's long-
69 term objective of improving the debt equity ratio?
- 70 MR. OSMOND: The existing debt equity ratio of 83/17,
71 you mean?
- 72 MS. BUTLER, Q.C.: Yeah, the dividend history and the
73 proposed dividend for 2002 does not take you in the same
74 direction that you wish to go in terms of improving your
75 debt equity ratio, it's a backwards step?
- 76 MR. OSMOND: I guess as far as the percentage you're
77 looking at for 2002 but I guess there are several things you
78 have to look at as the rates of this. I noticed we've had a
79 lot of discussion on dividends over the last eight weeks.
80 These dividends are reflective when you look at from '95 to
81 2002.
- 82 MS. BUTLER, Q.C.: Uh hum.
- 83 MR. OSMOND: I guess, really, the province were entitled
84 to, or could have taken dividends going all the way back to
85 when Hydro was incorporated, and if we even went back to
86 '75 to 2002, the average payout ratio would be about 40
87 percent, and even from '95 to 2001 the payout ratio would
88 be about 53 percent. If we just took that five year period,
89 and from '95 to 2002, we're about 99 or 100 percent, so the
90 number 730, while it looks very, very large, if you look back
91 in perspective as it relates to the last 25 years the payout
92 ratio would be significantly lower than that and would not

1 be ... I mean, I would not expect to see, I hope not, 730
2 percent in each and every year from here on end, because
3 there wouldn't be much equity left, there wouldn't be
4 anything left in the next two or three years. I don't think
5 that's the intention.

6 MS. BUTLER, Q.C.: Okay. I accept your numbers. The
7 point I was making, and perhaps it's already made through
8 the evidence of others, was that simply by paying out the
9 dividend that's proposed in the test year, Hydro goes in a
10 direction very different from what it aims to achieve in
11 terms of its debt equity ratio?

12 MR. OSMOND: Yes.

13 MS. BUTLER, Q.C.: Okay, and Ms. McShane had
14 indicated, when she testified on October 29th, that this
15 type of dividend payout, 730 percent, is not typical of what
16 you'd see from an investor owned utility?

17 MR. OSMOND: I think it would not normally be typical,
18 but I think there are instances you would see payouts like
19 that, and I can't remember the exact table that she filed.
20 There was some there that showed 230 and 250 percent
21 payouts in particular times, and they were for very specific
22 reasons, as this one would be for this one that we presently
23 have in for Hydro. So there are exceptions, I guess, to
24 every rule, and you will find some utilities, ROUs that do
25 have exceptions, but basically keeping, trying to keep the
26 same dividend policy that they have in place, much as we're
27 trying to do. I think this is an anomaly this year where it's
28 so high in relationship to the earnings.

29 MS. BUTLER, Q.C.: Well, what comfort can be provided to
30 the Board that the dividend payout won't continue to erode
31 Hydro's debt equity ratio?

32 MR. OSMOND: Well, I guess the dividends that are to be
33 paid are to be approved by our Board of Directors.

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

35 MR. OSMOND: And I think ... I don't have it there now,
36 maybe the previous page, talks about the dividend policy,
37 and the Board reviews that in light of the impact on Hydro's
38 financial position.

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

40 MR. OSMOND: And they have to do that next March
41 when they pay out the proportion that's left, the \$104
42 million or whatever, to see the impact on our financial
43 position, so the Board is cognizant of that and they would
44 have to make that decision every year if we're going in the
45 wrong direction and significantly deteriorating the financial
46 position of the Company.

47 MS. BUTLER, Q.C.: Okay. Now, if we could just go to
48 page 2 of 2 again? Thank you. The dividend that's shown

49 here for 2002 is \$70.147 million?

50 MR. OSMOND: That's correct.

51 MS. BUTLER, Q.C.: But, we know, of course, the actual
52 dividend proposed to be paid by Hydro is \$100 million?

53 MR. OSMOND: Yeah. Actually, it's \$104 million.

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

55 MR. OSMOND: I think there's some confusion. Maybe I
56 can just take a minute and explain that?

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

58 MR. OSMOND: I don't have a particular sheet. The \$104
59 million relates to, I guess, several components of dividends
60 we had to pay to the province. One is, I think Mr. Roberts
61 explained that on Friday, comprising that. There's a pass
62 through with dividends from Churchill Falls to Hydro that
63 we pass on to the province, and that's part of the 104 and
64 I think that's around \$8 million. Then there's also the recall
65 power that we sell to Hydro Quebec, and that net recall is
66 given to the province in a dividend, basically 100 percent
67 of the net recall revenue, and then the next two that are left
68 is the share of Hydro's normal retained earnings, and in that
69 \$70 million, I think in this particular **NP-72**, there's
70 approximately \$7 million, 75 percent of that we paid out to
71 the province and the rest will be considered special, so it's
72 three or four elements making up the 104.9. It isn't just out
73 of Hydro, specifically. There are elements from Churchill
74 Falls that are passed in to Hydro and paid out to the
75 province, plus all the recall would be paid out as well and
76 the difference would be the 70.1 that we have here.

77 MS. BUTLER, Q.C.: So is it by virtue of that calculation
78 that Hydro determines what portion of the \$100 million is
79 charged to regulated, which is the \$70 million?

80 MR. OSMOND: Well, we have the ... the 100 percent of the
81 recall, that's a given, that's got to be paid out.

82 MS. BUTLER, Q.C.: Of?

83 MR. OSMOND: Of recall revenue.

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

85 MR. OSMOND: That's 100 percent, that's the Board policy
86 and that's what the province requires, and then the
87 dividends from Churchill that flows through as well, that's
88 a component, and then what's required then is 75 percent
89 of our remaining earnings that we have for Hydro
90 specifically, which would be regulated.

91 MS. BUTLER, Q.C.: Maximum?

92 MR. OSMOND: Yeah.

93 MS. BUTLER, Q.C.: Okay. Now, I wonder can we just look
94 at **NP-72**, page 1 of 2? And this was where you provided

1 a calculation for us. No, sorry. Let me scroll up a bit?
2 Thank you. Question C. "Provide the estimated impact on
3 revenue for 2002 of financing the \$70 million dividend
4 shown in the projected statement of cash flows?" And the
5 answer to C, can you find that for me, Mr. O'Rielly, please?
6 Okay, so the result, in terms of revenue requirement, is \$1.7
7 million if the \$70 million dividend were eliminated?

8 MR. OSMOND: That is correct.

9 MS. BUTLER, Q.C.: And what I want to ask you is if the
10 Board accepts a three percent return on equity, as you have
11 filed in your application, but they deem a capital structure
12 with only a \$7.2 million dividend in the test year, which
13 would be 75 percent, what is the effect on rates to
14 consumers then?

15 MR. OSMOND: If we were deemed a capital structure,
16 sorry?

17 MS. BUTLER, Q.C.: With only a \$7.2 million dividend paid
18 instead of a \$70 million dividend paid?

19 MR. OSMOND: Well, if that were to be the case then the
20 bottom ... the revenue requirement would go down by \$1.7
21 million.

22 MS. BUTLER, Q.C.: Okay. Not quite the full \$1.7 million if
23 you're paying ...

24 MR. OSMOND: Well, I'm sorry, the equity portion of it.

25 MS. BUTLER, Q.C.: Is the math on it \$70 million minus \$7.2
26 million, which is 62.8 over 70 times the 1.7 that's on the
27 screen?

28 MR. OSMOND: I think, roughly, that should be it.

29 MS. BUTLER, Q.C.: So by my calculations, it's about \$1.5
30 million?

31 MR. OSMOND: I don't have a calculator.

32 MS. BUTLER, Q.C.: Okay. I wonder why.

33 MR. OSMOND: I think Mr. Budgett explained that. Don't
34 ask who told him.

35 MS. BUTLER, Q.C.: Okay. Thank you, I'm finished with
36 that, Mr. O'Rielly. I want to look at the EPCA for a moment,
37 a couple of sections of the Act. Now, the power policy of
38 the province is set out in the piece of legislation, and I
39 think it's alluded to in your evidence. It includes a number
40 of objects which have to be balanced, and the first I want
41 to look at is 3-A(3). Okay. Could you read that in when
42 you find it there on the screen, Mr. Osmond, please?
43 Thank you, stop. No, that's the wrong section. "It is
44 declared," there you go, "to be the policy of the province
45 that rates to be charged generally are understood with the
46 contract for the supply of power." And then could you
47 just read in (3), please?

48 MR. OSMOND: "Should provide sufficient revenue to the
49 producer or retailer of the power to enable it to earn a just
50 and reasonable return, as construed under the Public
51 Utilities Act, so that it is able to achieve and maintain a
52 sound credit rating in the financial markets of the world."

53 MS. BUTLER, Q.C.: Okay, and you have addressed that
54 particular subsection, in a general way, in your evidence,
55 by saying that you agree with Hydro's financial advisors
56 that Hydro should achieve a return on equity
57 commensurate with investor owned utilities?

58 MR. OSMOND: That's right.

59 MS. BUTLER, Q.C.: Okay. Now, Hydro's financial
60 advisors, of course, have suggested a return on equity of
61 11 to 11.5?

62 MR. OSMOND: That's right.

63 MS. BUTLER, Q.C.: And you concurred that that's an
64 appropriate target for Hydro to achieve, because you're not
65 proposing it for this year?

66 MR. OSMOND: That's right.

67 MS. BUTLER, Q.C.: What return does Hydro actually use
68 in the test years at three percent?

69 MR. OSMOND: We are recommending three percent for
70 the test year for the reasons we've outlined in my evidence.
71 That's temporary for this year. We see moving back to a
72 more appropriate return on equity during the next hearing.
73 It may not be 11 percent. That's the number we had filed in
74 our application. It would be whatever an appropriate return
75 would be in 2003 for the 2004 test year.

76 MS. BUTLER, Q.C.: Okay, and I think this is the point I
77 want to make, that although Ms. McShane and Mr. Hall
78 might have been recommending 11 to 11.5 as a return on
79 equity it was specifically for the test year and they were not
80 able to say that that would be the appropriate rate of return
81 for 2004 or whatever future year you're back?

82 MR. OSMOND: That's correct. There might have been
83 some confusion on that, and they didn't intend to say that
84 either, that that is the number we'll be coming back with.
85 The number will be whatever is appropriate at that point in
86 time, whatever they recommend at that point in time, and
87 interest rates could be down to five percent, they could be
88 up to 12 or 13 percent. It's based on current day
89 conditions, and that was 11, 11 and a half percent, so it's
90 not intended to say that is the number that we're coming
91 back with in 2004.

92 MS. BUTLER, Q.C.: But it is fair to say, Mr. Osmond, that
93 by giving those figures to the Board Hydro is saying we do
94 want to transition ourselves towards that kind of a target
95 and to be treated as an investor owned utility?

- 1 MR. OSMOND: That's correct.
- 2 MS. BUTLER, Q.C.: Okay.
- 3 MR. OSMOND: Whatever those rates are at that point in
4 time.
- 5 MS. BUTLER, Q.C.: And again, that's consistent with or
6 stems from that particular section that we're looking at?
- 7 MR. OSMOND: I think it does.
- 8 MS. BUTLER, Q.C.: A reasonable rate of return?
- 9 MR. OSMOND: I think it does.
- 10 *(12:00 noon)*
- 11 MS. BUTLER, Q.C.: Okay. Now, there's also in the same
12 section 3, Roman numerals 1, if we can just scroll up there,
13 Mr. O'Rielly, please, also the policy of the province that
14 rates to be charged should be reasonable and not unjustly
15 discriminatory. I want to ask you about that, for a moment.
16 The rural deficit which Hydro incurs?
- 17 MR. OSMOND: Yes.
- 18 MS. BUTLER, Q.C.: Yeah. Is in part due to preferential
19 rates to government and others?
- 20 MR. OSMOND: Part of it is due to preferential rates for
21 governments and others, and we started the first step, I
22 guess, to phasing those out, if the Board approves, in 2002,
23 and I think for those two items alone the preferential
24 amounts are about \$2 million for those two.
- 25 MS. BUTLER, Q.C.: Okay, and we know that the Board has
26 accepted these government and other preferential rates as
27 being discriminatory in the past order or report?
- 28 MR. OSMOND: That's my understanding.
- 29 MS. BUTLER, Q.C.: Do you agree that Hydro has a duty to
30 reduce the deficit as low as possible?
- 31 MR. OSMOND: We do and we are. I mean, what we're
32 proposing ... what we're constantly, and Mr. Reeves
33 explained this too, and Mr. Roberts, we're constantly
34 reviewing the costs associated with operating the rural
35 systems, primarily the diesel areas, as well as the island
36 interconnected rural, and we've taken the first steps this
37 time to phase out the ... start the phase out of government
38 accounts over a five year period, and we've indicated that
39 at the next (inaudible) we'll be coming back with a five year
40 plan looking at other activities as they relate to the rural
41 deficit to try and phase those out as well over a reasonable
42 period of time to get back to more cost recovery.
- 43 MS. BUTLER, Q.C.: But the view is, certainly, to eliminate
44 the government and other preferential rates?
- 45 MR. OSMOND: Well, we're starting that this year if it's
46 approved, and I think it's 20 percent that we have in, 20
47 percent increase for the government accounts, both federal
48 and provincial, starting in 2002.
- 49 MS. BUTLER, Q.C.: Okay, and the elimination of those
50 preferential rates, of course, is Hydro's duty because that
51 stems from an order of the Board?
- 52 MR. OSMOND: Are you thinking of the 1996 report?
- 53 MS. BUTLER, Q.C.: Yes.
- 54 MR. OSMOND: Well, I mean, we recommended in 1992,
55 that the rates would be ... we actually put forth a plan to the
56 Board in 1992 and the Board confirmed that as to a
57 mechanism to phase out the ... or go to more cost recovery
58 for isolated customers, as well as preferential rates. The
59 province didn't agree to that and we went ... they
60 suggested going for rural hearings. They did that, and the
61 Board, in their report in 1996, recommended certain actions
62 to be taken as it relates to the rural deficit, and we're in the
63 process of commencing those this year, and as I
64 mentioned, coming forth at the next (inaudible) in 2003, the
65 lower year away, with a plan to implement all those
66 recommendations. We felt, at this point in time, to come
67 forth now until direction was given on the other issues by
68 the Board, as they related to the provincial governments
69 and so on, that it was premature to try and bring that in at
70 this point in time. Plus, the added level of increase to
71 consumers with the rates we're proposing, plus, to try and
72 phase out all the other issues associated with rural
73 customers, that the magnitude of increase would be very,
74 very significant, and that's why we're suggesting the five
75 year program to come back in 2003.
- 76 MS. BUTLER, Q.C.: Okay, but looking at the legislative
77 requirement, because it's the policy of the province that the
78 rates to be charged should not be unjustly discriminatory
79 and because we know the Board has found that the
80 preferential rate to government and others are
81 discriminatory, what I'm putting to you is that, of course, it
82 is Hydro's duty to reduce the deficit as much as possible
83 because the deficit does result in discriminatory rates to
84 other customers?
- 85 MR. OSMOND: Yeah. I'm not sure if the Board phrased
86 that. I'd have to check the reports if they were
87 discriminatory rates, but certainly the burden is on Hydro,
88 as with any cost, is to try and reduce ... try and incur that
89 cost that's appropriate for providing a service to the
90 customer, and that would apply whether it's generation
91 transmission or to our rural customers, what's the cheapest
92 way of providing that service, and in all these rural areas
93 how can we do that cheaper? One of the issues is the
94 phase out of the preferential rates, we're addressing those,
95 and the other issue is how shall we go to a higher cost
96 recovery starting, which we're suggesting, starting in 2004

1 on the next rate application, so it's two things, you can
2 reduce costs or increase revenues. We started the cost
3 side. Mr. Reeves went through a lot of details on that.
4 We're looking at the revenue side now, and of course, part
5 of that is the phase out related to the provincial
6 governments and the federal governments.

7 MS. BUTLER, Q.C.: Well, I think what you're telling me is
8 also stated in the Act in Section 3-B, just below there where
9 it says ... thank you. "All sources and facilities for the
10 production, transmission and distribution of power should
11 be managed and operated in a manner." And scroll down
12 to number 3. "That would result in power being delivered
13 to consumers at the lowest possible cost consistent with
14 reliable service." Okay. Now, you are the Chief Financial
15 Officer of Hydro as Vice-President of Finance?

16 MR. OSMOND: That's right.

17 MS. BUTLER, Q.C.: So how do you satisfy yourself that
18 Hydro delivers power to consumers at the lowest possible
19 cost consistent with reliable service?

20 MR. OSMOND: We go through an annual budget review
21 every year where all costs are reviewed and have to be
22 defended, not only at the vice-president level, but also
23 defended across divisional lines that are management
24 committee review. We also have then to take those forward
25 to our Board of Directors and defend them to our Board of
26 Directors, and then certainly we come back to a process like
27 this with the PUB, but I mean, there is scrutiny done at the
28 various director level, manager level and down below in
29 reviewing all costs associated with the generation
30 transmission of power, and they receive a very detailed
31 review and scrutiny which spans a period, I think Mr.
32 Roberts mentioned, over nine months, by the time we start
33 the process, get all the inputs, review them, revise them,
34 bring them up to the director and then the VP level, and
35 then up to the management committee for review and
36 approval before finally submitting those to our board of
37 directors.

38 MS. BUTLER, Q.C.: So you would point to Mr. Roberts'
39 evidence on the budget process as a demonstration of
40 Hydro's compliance with this specific objective?

41 MR. OSMOND: I think that's certainly part of it, but it's
42 incumbent on all of us, I say "us" I mean all the vice-
43 presidents, the management committee, as well as the
44 directors, and they're aware of that, to review all costs and
45 the guidelines we've given them as it relates to the budgets
46 to minimize the costs to be incurred and to review those in
47 light of the previous costs that have been expended so that
48 we can provide the lowest cost possible of providing
49 service to our customers. And that also applies to what
50 Mr. Budgett said the other day too, as it relates to systems
51 planning, and especially where there are interconnections

52 or other options for providing service to the diesel areas.
53 That's all geared to providing lowest possible costs
54 consistent with reliable service, and that's constantly being
55 reviewed in those areas.

56 MS. BUTLER, Q.C.: Mr. Osmond, the three requirements
57 that I've just focused on that rates not be unjustly
58 discriminatory, that the utility earn a just and reasonable
59 return and that the system be operated in a manner that
60 provides least cost but reliable power to customers are
61 three objectives that you would agree need to be balanced?

62 MR. OSMOND: Yes.

63 MS. BUTLER, Q.C.: And in the transition period, do I
64 gather that Hydro sees itself with some difficulty in
65 balancing those objectives, at least until you reach the
66 stage where you are comfortable with a fully regulated
67 status?

68 MR. OSMOND: Are you thinking of the temporary three
69 percent ROE?

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

71 MR. OSMOND: Yeah. That was a very deliberate action
72 by Hydro to not come forward with the recommended ROE,
73 because that recommended ROE, I think, off the top of my
74 head, would have added probably six percent additional
75 increase to consumers, and that, considering where we're
76 going with the other cost increases associated with fuel, we
77 felt that was too significant at this point in time, and after
78 considering that, we felt that three percent may be a more
79 appropriate temporary measure for this year, moving back
80 at our next application in late ... or early 2003 to moving
81 back to more appropriate levels, so it was a temporary
82 measure in light of the significant rate shock that we saw to
83 customers of trying to go to the full fuel price and also
84 going to the full ROE. We didn't think it would be
85 appropriate at this time, so we agreed to minimize or temper
86 that somewhat in the short term.

87 MS. BUTLER, Q.C.: Okay. Will that decision and the
88 decision on ... that Hydro has made in relation to
89 preferential rates to government and others, as well as other
90 decisions that Hydro has made in presenting this
91 application represent your ... how will I phrase this?
92 Represent your effort to achieve some balance with the
93 three components of the EPCA that I've put to you, but
94 now, of course, it's the difficult job of the Board to
95 determine, in the transition period, how these three
96 elements get balanced with respect to your application as
97 a whole?

98 MR. OSMOND: I think that's probably a fair statement.
99 Where we had to trade off ... not trade off, but try to come
100 to some balance as to the magnitude of the increases and
101 what we felt consumers could bear at this point in time,

1 considering the fuel prices, where they were going, the
2 ROE, and also to try and phase out all the preferential rates
3 right now and go to more cost recovery. That would have
4 been a significant increase to customers, and we need to
5 get some direction from the Board as to how they saw it
6 unfolding as well, as it related to the preferential rates or
7 other issues. So before we come back with the final plan
8 we need to have that input, and then in 2003 we'll be back
9 with that plan to say here's how we want to go to the next
10 step with government's as well as all the other customers
11 that we have to get back to a more equitable cost recovery.

12 MS. BUTLER, Q.C.: Okay, and perhaps, as another
13 component of this difficult balancing act is the decision
14 which Hydro has made in terms of relative rates, and I'd like
15 to look now to **IC-206**, if I can? This was a graph that
16 we've seen at least once before during this hearing that was
17 provided in response to a question from Industrial
18 Customers. Page 4 of 6. Thank you. There you go. Now,
19 this graph, as you say at the top of the page, has been
20 extended to 2005 based on data from Hydro's five year plan.
21 That was the five year plan I addressed with Mr. Bill Wells
22 when he testified?

23 MR. OSMOND: Yes.

24 MS. BUTLER, Q.C.: Okay. What this graph tells me is that
25 rate increases to Newfoundland Power since '91 have been
26 somewhat less than the consumer price index. However, in
27 2002 Newfoundland Power's rates will cross on the graph
28 and will become higher than the consumer price index, is
29 that correct?

30 MR. OSMOND: That's what it appears to be showing.

31 MS. BUTLER, Q.C.: And, of course, the industrial
32 customers' situation is different. It's traditionally been less
33 than the consumer price index and will remain so forecast
34 for 2001 to 2005, as well?

35 MR. OSMOND: Yeah, and I guess the big reason for that,
36 as you're aware, is the fact that the rural deficit paid by
37 industry is no longer applicable.

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

39 MR. OSMOND: And that will be absorbed by
40 Newfoundland Power, which is why the line, you're going
41 above the line 2 in the CPI, that you're now absorbing a
42 cost of about \$5 million that was previously absorbed by
43 the industrial customers for the rural portion of the deficit.

44 MS. BUTLER, Q.C.: Okay. Thank you. Other key
45 components that might cause that blue line to cross the red
46 would be 11.25 percent return on equity which is forecast
47 into that period?

48 MR. OSMOND: That certainly would have an impact on it,
49 yes.

50 MS. BUTLER, Q.C.: And perhaps more capital projects,
51 such as Granite Canal?

52 MR. OSMOND: Granite coming in 2003, I'm not sure
53 what impact ... it will certainly have an impact, but I think
54 you just hit the major ones, the fuel, and as well the ROE
55 coming on, or the new ROE in 2004. Granite would also
56 have some impact, more so in 2004, because Granite will
57 come on, I believe, in August of 2003.

58 MS. BUTLER, Q.C.: Okay, thank you. I'd like to look, if I
59 can, to J.C. Roberts, Schedule 10-A, which would be in his
60 revised filing? Thank you. Column 3. Mr. Osmond, in
61 terms of the Column 3 year of issue, I see there are two
62 long-term debt issues forecasted for 2002, which is the test
63 year?

64 MR. OSMOND: That's correct, one for 100 million and one
65 for 150.

66 MS. BUTLER, Q.C.: Okay, and, Hydro's revised
67 borrowings in 2002 have decreased by 50 million? You see
68 the last line of the various bond issues right before the first
69 subtotal?

70 MR. OSMOND: The overall long-term debt bond issues
71 have reduced from 300 to 250, but as Mr. Roberts explained
72 the other day, our promissory notes will go up, and one of
73 the reasons for that is that we try ... with the change in the
74 interest rates that we foresee, or being projected, I should
75 say, for 2002 long-term and short-term, and where we try to
76 balance our portfolio between what we call a fixed
77 employee ratio a certain percent of short-term versus long-
78 term.

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

80 MR. OSMOND: It was more appropriate, we felt, to stay
81 within our guidelines to put another \$50 million into
82 promissory notes at a lower rate rather than go with
83 another \$50 million long-term at a higher rate, so it's
84 balancing off a portfolio for 2002, which is consistent with
85 what we've done previously.

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

87 MR. OSMOND: And also trying to not put all our eggs in
88 one basket as it relates to a weighted average term
89 (inaudible) of our debt, so we've reduced it by 50 but kept
90 running up our short-term notes at a lower interest rate, and
91 I think, as Mr. Roberts explained the other day, that
92 constituted, I think, probably \$1 million reduction in our
93 interest and our revised run because we're using short-term
94 promissory notes as opposed to going to long-term.

95 MS. BUTLER, Q.C.: Okay. Is it unusual to trade long-term
96 debt for short-term debt?

97 MR. OSMOND: Is it unusual?

- 1 MS. BUTLER, Q.C.: Uh hum.
- 2 MR. OSMOND: No. I mean, in all of our benchmarking we
3 normally look at what is appropriate to have in fixed and
4 floating, and also what a reasonable weighted average turn
5 on maturity should be, so we're within the bands as to
6 where other utilities in the Maritimes are as to you don't
7 want to have everything on a long-term debt locked in, you
8 need to have some flexibility with short-term and long-term.
9 I think that's a prudent financial decision to make, and
10 certainly our advisors would say that, and I know our
11 treasurer would certainly say that, and I would say that.
- 12 *(12:15 p.m.)*
- 13 MS. BUTLER, Q.C.: Okay. Thank you. I want to turn, if I
14 can, to some professional fees which we're given some
15 detail on in **NP-5**. I'm sorry. We can look at **NP-5**, but the
16 details are not in there, for the moment, it's just some
17 history. **NP-5**, and some flow charts, okay. Now, are you
18 apparent here, Mr. Osmond?
- 19 MR. OSMOND: I hope so.
- 20 MS. BUTLER, Q.C.: There you go.
- 21 MR. OSMOND: If not, you've got another witness. Yeah,
22 I'm right there.
- 23 MS. BUTLER, Q.C.: Thank you. We can see that Mr.
24 Banfield reports up the line to you, as well?
- 25 MR. OSMOND: Oh, he definitely does, yeah.
- 26 MS. BUTLER, Q.C.: As director of customer services?
- 27 MR. OSMOND: And rates and everything else, yeah.
- 28 MS. BUTLER, Q.C.: Okay, but it's in the area of customer
29 service that I want to ask you now, and in **NP-255** Hydro
30 was asked to provide some further details on a number of
31 operating expenditures, one of which was consulting fees.
32 Yeah, there you go, line D. \$2,510,000, and these are
33 detailed on page 5, I think, of **NP-255**. There you go, so
34 Hydro is forecast to pay two and a half million dollars in
35 consultant's fees in the test year. There's a couple of these
36 that I wanted to ask you about. One is called equal billing
37 and the other payment study, and I don't ... because
38 they're, I think, allocated here by department, aren't they?
- 39 MR. OSMOND: Yes.
- 40 MS. BUTLER, Q.C.: Alright. We have to look specifically
41 at one that was addressed in **NP-266**. Okay. In reference
42 to page ... there you go. Page 33 in the report of Grant
43 Thornton reference was made to two expenditure items in
44 2002, and the first of these is the equal billing and other pay
45 method study. Are you familiar with this?
- 46 MR. OSMOND: Generally.
- 47 MS. BUTLER, Q.C.: And what is the nature of the study?
- 48 MR. OSMOND: This is looking at a method of equal billing
49 that our customers have raised with us that they'd like to
50 have the option of an equal payment plan over a period of
51 12 months, and with the new customer service system that
52 we just brought in, I think in the spring of 1998, early 1999,
53 might have been 1999, that feature wasn't there, and we're
54 looking at the feasibility of implementing that billing plan,
55 as Newfoundland Power, I think, also has, in 2002, to give
56 the customers some flexibility as it relates to budget billing,
57 budget payment.
- 58 MS. BUTLER, Q.C.: Okay, so a couple of things about this.
59 This \$250,000 is to be paid to, it's an external part source?
60 It's not internal costs of Hydro?
- 61 MR. OSMOND: No. If it's shown there as consultants'
62 professional fees that would be external costs, it would not
63 be internal.
- 64 MS. BUTLER, Q.C.: And the internal costs, of course,
65 there would be some. Have you quantified those?
- 66 MR. OSMOND: They would be but they'd be pretty well
67 (inaudible) costs, they wouldn't be additional, the existing
68 staff.
- 69 MS. BUTLER, Q.C.: And at the end of the study, for which
70 you paid \$250,000 you won't actually, as I understand it,
71 have the ability to accommodate the alternate payment
72 method, it would simply be a study assessing the feasibility
73 of the alternate pay methods?
- 74 MR. OSMOND: My understanding was we'd have a
75 system in place by that time.
- 76 MS. BUTLER, Q.C.: Okay. Perhaps you could clarify that
77 for me if you ...
- 78 MR. OSMOND: I'll check that over the break.
- 79 MS. BUTLER, Q.C.: If you could, yeah.
- 80 MR. OSMOND: I'm getting nods that is right, we are ... we
81 will have a place.
- 82 MS. BUTLER, Q.C.: If you could give me the reference that
83 would be acceptable to me.
- 84 MR. OSMOND: Okay, yeah.
- 85 MS. BUTLER, Q.C.: Okay. I'm just going to touch one
86 other area before we break, Mr. Osmond, if I might, and it's
87 the price of diesel.
- 88 MR. OSMOND: Yeah.
- 89 MS. BUTLER, Q.C.: Your pre-filed testimony touches on a
90 number of items, doesn't it?
- 91 MR. OSMOND: I think it's a shotgun approach.

1 MS. BUTLER, Q.C.: Yeah. Okay. The test year 2002 diesel
2 fuel cost is approximately 6.8 million, and I think we can see
3 this in Brickhill's cost of service, page 1 of 94, revision 2,
4 actually. There you go. Revision 2. Line 3 is diesel. Okay.
5 6.8 million of the total revenue requirement of 320 million?

6 MR. OSMOND: Yes.

7 MS. BUTLER, Q.C.: Okay, and the cost per litre forecast for
8 the test year was 42 cents? Would you like to see that on
9 the RFI or do you accept that?

10 MR. OSMOND: I'll accept your word for that if Mr. Reeves
11 and Mr. Henderson mentioned it.

12 MS. BUTLER, Q.C.: Okay. Perhaps we can ... I'm going to
13 be coming back to this screen, Mr. O'Rielly, but I will just
14 glance at **NP-219** so that we can be clear. In **NP-219** we've
15 got the figures for the last ten years for diesel. Here you
16 go, so the 2002 price that you're carrying at 42 cents would
17 be the highest it's been in the last ten years with the
18 exception of ... can we scroll down there a bit, Mr. O'Rielly?
19 There you go. With the exception of 2001 where it was 44
20 cents, and it was, in fact, 42 cents in 2000?

21 MR. OSMOND: Yes.

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

23 MR. OSMOND: And I guess that really would track where
24 we're going with the fuel prices for Holyrood as well, you
25 see the same type of thing happening.

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

27 MR. OSMOND: With regards to the price of fuel rising in
28 '99, 2000 and going up for the next several years, so I
29 would expect that to be a linkage there with diesel fuel as
30 you would have a No. 6 fuel and crude oil.

31 MS. BUTLER, Q.C.: Okay, so we know that the cost of
32 service revenue requirement as filed includes, or is based
33 on 42 cents and that it's \$6.8 million ... I'm sorry. \$6.8 million
34 was revision 2, okay. Now, the most recent evidence of the
35 price of diesel, do you have anything more current than
36 what was presented by Mr. Budgell, which was based on
37 August 30th prices?

38 MR. OSMOND: I don't have any more revised numbers for
39 diesel.

40 MS. BUTLER, Q.C.: Okay, but the price of diesel, of
41 course, is not one of the components for which Hydro and
42 the consumer have a benefit as a result of the Rate
43 Stabilization Plan?

44 MR. OSMOND: No. Any change, if the price of fuel goes
45 up for diesel that's a direct hit to Hydro's bottom line as an
46 expense.

47 MS. BUTLER, Q.C.: Likewise if it drops?

48 MR. OSMOND: If it dropped correspondingly.

49 MS. BUTLER, Q.C.: And there was an RFI on this that
50 suggested, Mr. Osmond, that if the price of diesel dropped
51 by ten percent then the impact in the test year is Hydro's
52 earnings would grow by approximately ten percent of the
53 \$6.8 million that's shown there?

54 MR. OSMOND: \$680,000.

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

56 MR. OSMOND: Or conversely if it went the other way.

57 MS. BUTLER, Q.C.: Okay. Is it Hydro's intention to file
58 updated information on the price of diesel?

59 MR. OSMOND: I guess it's ...

60 MS. BUTLER, Q.C.: Or to review the cost of service based
61 on the price of diesel?

62 MR. OSMOND: I guess as the hearing proceeds I guess
63 before we finalize the cost of service, depending what the
64 Board recommends, we'd have to look at the most current
65 fuel prices for Holyrood ... forecast, I'm sorry, for Holyrood
66 at that point in time and were there any significant changes
67 for diesel.

68 MS. BUTLER, Q.C.: Mr. Chairman, if I might, that would be
69 a good place to break for lunch.

70 MR. NOSEWORTHY, CHAIRMAN: Fine. Thank you, Ms.
71 Butler. Thank you, Mr. Osmond. We'll break now until 2:00.

72 *(break)*

73 *(2:00 p.m.)*

74 MR. NOSEWORTHY, CHAIRMAN: Good afternoon,
75 before we get started, Counsel, are there any preliminary
76 matters?

77 MR. KENNEDY: I believe Hydro may be reporting on the
78 undertakings, Chair.

79 MR. NOSEWORTHY, CHAIRMAN: Good afternoon, Ms.
80 Greene.

81 MS. GREENE, Q.C.: Good afternoon, Mr. Chair. Yes, I am
82 reporting on undertakings. There have been three
83 documents circulated over the break. The first is the list of
84 undertakings for November 16th, and you will see that
85 there were two undertakings provided on Friday, both were
86 to Counsel for the Board. One was a request to file a
87 revised NP-81 with a revised interest rate forecast, and the
88 other was to file a revised NP-87 with the new interest
89 expense, and you will see both of those documents have
90 also been circulated. NP-81 (Revised) and NP-87 (Revised),
91 have also just be circulated, and that completes the
92 undertakings from Friday.

1 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
2 Greene, very much. Good afternoon, Ms. Butler, can I ask
3 you to continue with your cross-examination please?

4 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Mr.
5 Osmond, I need to go back, if you don't mind, to readdress
6 one issue I skipped over on the price of diesel in the test
7 year. I wonder, Mr. O'Rielly, can we see **NP-219** please?
8 Mr. Osmond, when Hydro's application was originally filed,
9 the cost of service from Mr. Brickhill's study had come in at
10 \$6.3 million, and I understand that the cost that you were
11 building into that for diesel was the amount shown on the
12 screen, 42 cents.

13 MR. OSMOND: That's my understanding.

14 MS. BUTLER, Q.C.: Now when the cost of service was
15 revised, and I wonder if we might have a look at **JAB-1,**
16 **revision two.** Okay, that is revision two, and these are ...
17 can we enlarge that just slightly, Mr. O'Rielly please?
18 Thank you. Diesel now has come in at \$6.8 million.

19 MR. OSMOND: Yes.

20 MS. BUTLER, Q.C.: From the \$6.3 million that was
21 originally stated, can you tell me what unit price for diesel
22 is built into the revised, the second revision on the cost of
23 service?

24 MR. OSMOND: I don't have that information.

25 MS. BUTLER, Q.C.: I wonder could you undertake to
26 gather that information please?

27 MR. OSMOND: Yeah.

28 MS. BUTLER, Q.C.: And I wonder, Mr. Osmond, would
29 you also be able to undertake to tell us the current price for
30 diesel as well?

31 MR. OSMOND: Okay.

32 MS. BUTLER, Q.C.: Okay, and finally in this area, can I ask
33 you, do you accept that the cost of service revenue
34 requirement should reflect the most current information on
35 the price of diesel?

36 MR. OSMOND: Should it reflect the most current?

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

38 MR. OSMOND: I guess all the costs should reflect the
39 most current information. Just on your question before,
40 you say the most current price, today's price or the
41 projected price for 2002?

42 MS. BUTLER, Q.C.: Well, ultimately, before we leave this
43 hearing, do you agree that the Board should have a
44 revenue requirement which properly reflects the most
45 current price for diesel?

46 MR. OSMOND: Yes.

47 MS. BUTLER, Q.C.: Okay, and maybe I misunderstood you
48 just before we broke then, is it your understanding that
49 Hydro will be filing a revised cost of service with the most
50 current rate for diesel and No. 6 fuel reflected?

51 MR. OSMOND: No, that's conditional on the Board. There
52 might be a whole myriad of things the Board may want us
53 to modify, such as price of fuel, our interest, or whatever
54 aspects, and diesel is one of them. We'd reflect all that in
55 the final cost of service, but we don't plan to file one prior
56 to the ...

57 MS. BUTLER, Q.C.: So you don't plan to file a revised cost
58 of service with the most current rates of No. 6 fuel or diesel
59 prior to the conclusion of the hearing, but you have
60 undertaken for me to provide the most current information
61 on diesel?

62 MR. OSMOND: Yes.

63 MS. BUTLER, Q.C.: Before the hearing ends, and likewise,
64 the same for No. 6, I think.

65 MR. OSMOND: On No. 6?

66 MS. BUTLER, Q.C.: No. 6, you've already given, but to be
67 honest with you, I really thought that there was an earlier
68 undertaking to provide the most up-to-date information on
69 No. 6 even in the future.

70 MR. OSMOND: From a previous witness you mean?

71 MS. BUTLER, Q.C.: Yeah, and that may be a matter of legal
72 argument in the sense that certainly Newfoundland Power's
73 position is that throughout the course of the proceeding,
74 before we all leave the room, we should have the most
75 current information on No. 6 as well as diesel fuel, but
76 you've given me today's figure on No. 6, so I'm going to
77 leave that undertaking to you this morning, just on the
78 issue of the diesel.

79 MR. OSMOND: Okay.

80 MS. GREENE, Q.C.: I don't know if it would be helpful if I
81 interjected at this time. I think some of the confusion is
82 Ms. Butler is asking for the most current or today's price,
83 and what Hydro would be looking at would be an updated
84 forecast of what the prices for No. 6 fuel and diesel fuel will
85 be in the future. It may not be the price on the day the
86 hearing closes. We will be looking at a forecast as
87 opposed to a price at one point in time, and that might be
88 the reason for some of this confusion.

89 MR. ALTEEN: Our only concern, Mr. Chairman, is that
90 we're now dealing with fuel forecasts that are pre-
91 September 11th. There has been something of a drop in
92 fuel prices since that point in time. We anticipate that that
93 would normally affect your view of the future, your view of
94 the test year, and we would like Hydro's revised position in

1 light of current circumstances to be put before the Board
2 prior to everyone packing up and going home and leaving
3 the Board to make a decision. That's our sole point and
4 how it gets before the Board is obviously a matter of some
5 flexibility. We don't intend to do anything more than to
6 raise the issue, that it is a very, very big component of the
7 cost of service that's being filed.

8 MS. GREENE, Q.C.: And I understand the point. My point
9 is that there's a difference between what the price is today,
10 and what the forecast is for 2002, and we are continuing to
11 monitor both and we will be advising the Board of Hydro's
12 forecast of both of those for 2002 depending on where we
13 are with the hearing when we conclude.

14 MR. NOSEWORTHY, CHAIRMAN: Assuming your
15 forecast would take into account the current price post
16 September the 11th.

17 MS. GREENE, Q.C.: And these people who are
18 knowledgeable will be able to advise whether that's an
19 anomaly or whether that's something that would also affect
20 the future.

21 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. I want to
22 turn now to the fuel conversion factor, if I can Mr. Osmond,
23 and this relates, of course, to the conversion factor for No.
24 6 fuel, which is a topic that I spent some time with Mr.
25 Henderson discussing it?

26 MR. OSMOND: Yes.

27 MS. BUTLER, Q.C.: Now I wonder, Mr. O'Rielly, can we
28 look at Mr. Henderson's testimony from October 9th at this
29 point, and it would be page 33. On the hard copy I
30 reviewed, Mr. Osmond, it fell at lines 52 to 68. There you
31 go. You'll see I asked Mr. Henderson there, and I think I
32 put a statement to him that I thought the fuel conversion
33 factor Hydro was proposing in the proceeding was 610
34 kilowatt hours per barrel?

35 MR. OSMOND: Yes.

36 MS. BUTLER, Q.C.: Okay, and he confirmed that 957 to 60,
37 that 610 kilowatt hours per barrel was based on the average
38 fuel conversion rate in the period '96 to '99.

39 MR. OSMOND: Yes.

40 *(2:15 p.m.)*

41 MS. BUTLER, Q.C.: Okay, and then at line 69 you'll see, I
42 said, if the year 2000 had been included, the fuel
43 conversion would have been higher. Yeah, there you go,
44 and at line 71 he says, at 2000 it moved to 611.5.

45 MR. OSMOND: Yes.

46 MS. BUTLER, Q.C.: Okay, can we look now to **NP-259**. I
47 will be coming back to Mr. Henderson's testimony, Mr.

48 O'Rielly, if it makes it easier for you. Page two of two. Now
49 here we see monthly fuel efficiency factors for 2001 year to
50 date, totalling or averaging 622.6. Do you have an up-to-
51 date fuel efficiency factor for the year 2001 given that we're
52 now through October?

53 MR. OSMOND: I don't have one.

54 MS. BUTLER, Q.C.: Can you undertake to provide the
55 updated information for us?

56 MR. OSMOND: I can undertake to see if we have that.

57 MS. BUTLER, Q.C.: Okay, now can I glance at **NP-45**, and
58 the attached table, page 4 of 4. Okay, in the lines of thermal
59 generation we see that in 2000 the actual thermal generation
60 was 968.3.

61 MR. OSMOND: Yes.

62 MS. BUTLER, Q.C.: But in 2002 the forecast is 2,162.43,
63 which is a growth of certainly more than 1,000, closer to
64 1,200 gigawatt hours.

65 MR. OSMOND: Yes.

66 MS. BUTLER, Q.C.: Okay, wouldn't the increased
67 production forecast at Holyrood result in a higher fuel
68 conversion factor than the 610, based on the five year
69 history from the earlier exhibit?

70 MR. OSMOND: Not being one of the, not being an
71 engineer, but it's my understanding that from the 2000 to
72 2002, the reason the number is so much higher is that in
73 2002 we're back to an average water year. I think in 2000 it's
74 a wet year, and if you have a wet year your generation at
75 Holyrood, you may not be able to operate it as efficiently
76 as you normally would. If the load is higher, and you're
77 generating the units every day, a load above, say 80
78 megawatts.

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

80 MR. OSMOND: The units are more efficient.

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

82 MR. OSMOND: If you go below that your efficiency drops
83 off, and that's why you would see the average for the last
84 five years, and when you have a very dry year, then you're
85 using the units more, so your efficiency would be higher.

86 MS. BUTLER, Q.C.: Back to my question, if the forecast for
87 2002 is 1,000 gigawatt hours, almost double the thermal
88 production for 2000, shouldn't the fuel efficiency factor be
89 higher?

90 MR. OSMOND: But that's just for one year. I think you
91 really need to look at the last five years as to what the
92 average might be, because they could be up or down. It
93 depends on how the units are operated at that time.

1 MS. BUTLER, Q.C.: Alright, just scroll back to page 3 of 4,
2 the thermal generation figures are there. Does that help
3 you? Is it possible to get them both on the screen at the
4 same time, Mr. O'Rielly? Probably not. Thank you.

5 MR. OSMOND: Yeah, I see them both, and your question
6 is, sorry?

7 MS. BUTLER, Q.C.: You had said it was unfair to compare
8 just one year, 2000 to 2002, because the fuel efficiency
9 factor being used in 2000 was based on '96 to '99. Now it's
10 showing you '96 to '99, thermal generation in '96, '97, '98,
11 and '99 was still not as high as what the forecast for 2002 is.

12 MR. OSMOND: No, and I think we looked at that. You had
13 a previous table there too, the previous NP, and that
14 showed the last five years and what the average would be
15 over that timeframe. Some were lower and some were
16 higher, and I think they averaged out to about 611.

17 MS. BUTLER, Q.C.: Alright.

18 MR. OSMOND: And that's how we derived the 610. The
19 next year we're assuming an average water year, right.

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

21 MR. OSMOND: If that materializes, and that's where you
22 see the 620 to, but that's for one year only.

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

24 MR. OSMOND: Usually the efficiency at Holyrood is
25 geared to history over a period of time. One year does not
26 necessarily ... by using one year, you don't necessarily get
27 the efficiency for a regular period of time. You have to use
28 the record over a four or five year timeframe, because it
29 could vary up or down.

30 MS. BUTLER, Q.C.: Alright, now Mr. Henderson did
31 address this with me when he testified on October 9th, and
32 I'll go back to his transcript now if I can, Mr. O'Rielly, this
33 time page 35, and just so that you can see it there, lines 2 to
34 6, okay, and actually it's lines 4 to 8 on the electronic
35 version. Mr. Henderson says, the reason we go with the
36 610 is to come up with an average conversion factor, as
37 you pointed out, not a forecast conversion factor for the
38 test year. It's an average conversion factor, right?

39 MR. OSMOND: Yes.

40 MS. BUTLER, Q.C.: Now, if we can scroll down to lines,
41 around 80 to 93. That's where it was on the hard copy,
42 okay, just go up to 75 where I asked the question. I asked
43 if there was room for movement, excuse me, in the fuel
44 conversion factor given the information that he had for
45 January to July and the fact that they were forecasting
46 higher thermal production in 2001, and he did suggest that
47 there's room to move. In fact, he goes on, I think, to
48 indicate that they may, that is Hydro may be providing

49 updating data. If you look at line 84, he says, "I'd say at
50 the end of this year, assuming that we're not finished by
51 the end of the year, we would have that data available to
52 you to apply a new average, but I think it's best to include
53 a full year rather than just a partial year."

54 MR. OSMOND: Yes, I think he's referring to the year 2001.

55 MS. BUTLER, Q.C.: Well, okay, but I'm talking about, I'm
56 asking you whether you can give us the up-to-date
57 information for the balance of the year 2001 and I'm asking
58 for 2002, wouldn't it be fair to apply a higher fuel
59 conversion factor than the 610, which was based on the
60 years '96 to '99.

61 MR. OSMOND: I think we'd have to see what the average
62 would be once you put in 2001, to see what impact that
63 would have, if any, on the average for the last six years.

64 MS. BUTLER, Q.C.: Okay, well clearly in what you've filed
65 to date, with all the various revisions from different
66 people's testimony, there's been no change in the fuel
67 conversion factor from the 610 which was in the original
68 application.

69 MR. OSMOND: That's correct.

70 MS. BUTLER, Q.C.: And you would agree that the test
71 year conversion factor should be on the basis of the most
72 current information and your best possible forecast?

73 MR. OSMOND: Well I guess we'd have to rely on what
74 Mr. Henderson said, and we've always used a four or five
75 year period. What he's saying here, if I read his transcript,
76 is that we'd update it for 2001 and see what impact, if any,
77 that would have on the 610 that we had projected. I don't
78 think you'd do it just on one year, you'd have to have some
79 sort of history to go back and see the operation efficiency
80 of those units.

81 MS. BUTLER, Q.C.: Well when we receive from you the
82 information for 2001 to date, we can perhaps have a sense
83 of how the year's going to look.

84 MR. OSMOND: That should give us a sense of whether
85 there's a change in the efficiency for this year.

86 MS. BUTLER, Q.C.: Thank you, and Mr. Osmond, still
87 related to the price of fuels, I want to talk about, or talk to
88 you about the oil hedging program that you'd mentioned in
89 your testimony, and this is at your **pre-filed testimony**,
90 page 17, that's the original testimony. Mr. Osmond, what
91 exactly is an oil hedging program, or an oil price hedging
92 program?

93 MR. OSMOND: I guess an oil hedging program is trying to
94 look at what derivatives and financial instruments are out
95 there to try and, to a certain degree, not speculate, but to
96 be able to mitigate any exposure you might have in

1 acquiring fuel, and there's any different derivatives that
2 you can put on, like collar and things of that nature, to
3 determine whether it's effective to provide a mechanism to
4 acquire fuel at a cheaper cost, but it becomes a method of
5 speculating to a certain degree, and there's a cost
6 associated with doing that, and we had looked at it, I
7 guess, starting probably two years ago, just to sort of do
8 a simulation as to what derivatives are out there that we
9 could actually use, and we had a smaller group involved in
10 that to go through the process to determine what if we had
11 an oil hedging program, would it provide a cheaper price to
12 consumers, and I think at the end of the day it becomes a
13 matter of speculating to a certain degree, and at the end of
14 the day there's also an added cost that would be included
15 that the consumer may have to pick up.

16 MS. BUTLER, Q.C.: What exactly is a collar as you use the
17 term there at line 21, swaps, options, and collars.

18 MR. OSMOND: This is where you get into a different
19 league altogether now when you get into these financial
20 instruments. These are financial derivatives that are used
21 to try and protect against the price of fuel and how they
22 may arise, and you put a limit, or you buy forward or buy
23 futures, and you put a collar at a certain level, and if you go
24 above or below that you pay a price, and you end up
25 paying lower than that, you could end up having exposure,
26 so it could go up or down, so you're trying to minimize your
27 exposure by putting a collar on it, but you pay a price for
28 that, you pay a cost for that.

29 MS. BUTLER, Q.C.: Okay, and although you stated the
30 goal of any oil hedging program there at line 23, is
31 protecting Hydro's customers from price fluctuations, as I
32 understand it, the purpose of the oil hedging program
33 would be to keep, as you've just told me in answer to my
34 question, the overall cost of fuel down as low as possible.

35 MR. OSMOND: That's what the intention of a program
36 would be, to try and minimize your exposure and keep the
37 lowest possible cost, but it's almost like an insurance to a
38 certain degree, and what you find, you have to pay a
39 premium for insurance so you pay a premium and there's a
40 cost.

41 MS. BUTLER, Q.C.: Alright, let's look at page **18 of your**
42 **pre-filed**, line 12 to 14, and could you just read in there
43 what you've indicated.

44 MR. OSMOND: Lines 12 to 18?

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

46 MR. OSMOND: Hydro is not proposing implementation of
47 an oil price hedging program due to the existing operation
48 of the RSP and the potential additional net cost of any oil
49 hedging program over time. Hydro will continue to identify
50 and assess the programs and measures to minimize fuel

51 costs and will update the Board at future hearings if it's
52 recommending implementation of any new programs.

53 MS. BUTLER, Q.C.: Okay, so I understand your position
54 that you're not proposing implementation of an oil price
55 hedging program but you seem to tie your answer to the
56 existing operation of the RSP, having reviewed the RSP
57 with you this morning, I didn't see any element of the RSP
58 which actually is stemmed towards keeping the price of fuel
59 down. Instead, it's a means by which Hydro recovers the
60 full cost of its fuel, whatever that cost may be.

61 MR. OSMOND: What we also do in charging on every
62 purchase of fuel that we have in US dollars, we also buy
63 forwards, and we've been doing that for some period of
64 time, as opposed to a hedging program to try and minimize
65 the ... we pay everything in US dollars, I should say, so
66 we've been buying forward, and over the last twelve
67 months, in the shipments that we've had, I think we have a
68 positive saving of about \$250,000 just in doing that. In
69 other words, the exchange rate today is so much, we've
70 gone out and bought them for payment in 15 days time, and
71 so in that regard, that is a savings to the RSP that we're
72 getting it at a lower cost than it would be if you just let it
73 ride at the current day's cost.

74 MS. BUTLER, Q.C.: Okay, it may be a savings (inaudible)
75 savings to the RSP but it's really got nothing to do with the
76 RSP.

77 MR. OSMOND: Well, I guess it's savings in the sense that
78 it would have been, a larger number would have gone into
79 the RSP. We've minimized our fuel cost so anything over
80 the \$12.50 would have gone into the RSP, but for the fact
81 that we're after going out and have favourable exchange
82 rates by going forward, we save that much money would
83 reduce the amount that would have gone into the RSP.

84 MS. BUTLER, Q.C.: I can see how an oil price hedging
85 program, or steps, whatever they may be, to keep the price
86 of fuel down, can be related to the RSP, but I also see that
87 they are very different in terms of their operation. To me
88 the oil price hedging program you've described is the effort
89 to keep the price of the fuel down and the RSP is the means
90 to recover it, do you agree?

91 MR. OSMOND: It is, but the, I guess, with the oil price
92 hedging, it's trying to minimize, it's trying to come up with
93 the most, the lowest fuel price you can come up with. In
94 other words, if you've got these hedging mechanisms in
95 place in the collars, that minimizes the amount that
96 eventually will end up in the RSP, because anything over
97 \$12.50 would automatically go there, so that's what we're
98 trying to link here, is that with the RSP and with the
99 program, that even if we did have collars or swaps or
100 options in place, that would still be geared to trying to get
101 the lowest fuel price that would minimize any other dollars

1 which would be transferred to the RSP.

2 MS. BUTLER, Q.C.: Okay, well do you agree that a
3 successful oil price hedging program would ultimately
4 benefit consumers?

5 MR. OSMOND: It could go either way. If it was successful
6 and you were right on the money every time, that would
7 have a benefit, but it could go the other way, and things
8 could turn against you, and there's a cost that's being
9 added to the customers, and that's what we found in our
10 analysis and discussions with the financial people, and
11 that's why I go back to the insurance, it's almost like an
12 insurance program, there's a cost to be incurred of doing
13 that, and you could win or you could lose.

14 MS. BUTLER, Q.C.: You've referred a couple of times to
15 the analysis that you did, that Hydro did, can you refer me
16 to any RFI in which this analysis is actually disclosed
17 before the Board, or is this analysis that we can receive
18 from you in terms of costing the approach?

19 MR. OSMOND: There was no RFI, I don't think, related to
20 the hedging program, other than this particular one here it's
21 referring me to. There's no analysis that has been filed.
22 We had a committee that was set up to review generally, in
23 very general terms, and discuss with our financial advisors
24 what the mechanics would be, and what the inherent risks
25 may be in pursuing such a program.

26 MS. BUTLER, Q.C.: And at what level was that committee
27 set up?

28 MR. OSMOND: In the organization?

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

30 MR. OSMOND: It was set up at the director level in
31 treasury, plus some senior people in operations, and
32 discussions with ourselves.

33 MS. BUTLER, Q.C.: And do you recall, Mr. Osmond, the
34 costs that your committee assessed would be associated
35 with such an oil price hedging program?

36 MR. OSMOND: Costs in what way?

37 MS. BUTLER, Q.C.: Well, you had indicated a moment ago
38 that there was a cost associated with an oil price hedging
39 program similar to insurance.

40 MR. OSMOND: Yes.

41 MS. BUTLER, Q.C.: So what kind of costs were we talking
42 about?

43 MR. OSMOND: I think in general terms, I'm thinking off the
44 top of my head, I think we're looking at, there could be a
45 cost of up to 50 cents a barrel with an oil price hedging
46 program, without getting into the details of it.

47 MS. BUTLER, Q.C.: Okay, and is there a report that you
48 can provide us with that would summarize the analysis that
49 Hydro had done on the oil price hedging program?

50 MR. OSMOND: I don't have a formal report, but I do just
51 have a summary of events that we went through type of
52 thing as to the process, but I don't have a final or a formal
53 report, other than the events that we walked through.

54 MS. BUTLER, Q.C.: Well, can you provide us with what
55 you do have?

56 MR. OSMOND: The summary of events and how it took
57 place? Yeah.

58 MS. BUTLER, Q.C.: And will it reflect the costs that you
59 just referred to of 50 cents a barrel?

60 MR. OSMOND: You can refer in that as to what the
61 information that was provided to us from our financial
62 people.

63 MS. BUTLER, Q.C.: Okay, now within Hydro then, who is
64 ultimately responsible for the purchase of fuel and
65 minimizing the cost associated with the purchase of fuel?

66 MR. OSMOND: I guess, as Mr. Henderson said the other
67 day, he's directly involved in the purchase requirements of
68 No. 6 fuel based on the operation of Holyrood, and where
69 he sees things going for the next twelve months based on
70 the load forecast.

71 MS. BUTLER, Q.C.: And is he then the person to, where,
72 I guess, the buck ultimately stops in terms of minimizing the
73 cost of fuel?

74 MR. OSMOND: I guess it's done in conjunction with the
75 operations people and the financial people. He determines
76 the requirements and what they would be from our supplier,
77 and the other things we've tied in with the financial side of
78 that, are there other options that may be more cost
79 effective, so he would have been involved in this process
80 as well.

81 MS. BUTLER, Q.C.: Yes, I appreciate that he would have
82 been involved, but I'm wondering who ultimately is
83 responsible for minimizing the cost. I can see that he would
84 be involved in forecasting the volume, but in terms of
85 keeping the costs down, is that really his responsibility?

86 MR. OSMOND: I guess as far as the options it would be
87 Mr. Henderson and the Vice-President of Production and
88 ourselves, really back to the management committee, but I
89 guess in my area and Mr. Haynes, to see what options we
90 could pursue to try and minimize those costs, and that's
91 what we have been doing.

92 (2:30 p.m.)

93 MS. BUTLER, Q.C.: Okay, I'm going to turn now to the

1 rural deficit if I can. Mr. Osmond, your position, of course,
2 historically over time would have seen you involved in the
3 rural rate inquiry and the reports that were given in '95 and
4 '96, and you would accept then that the '96 report included
5 recommendations for reducing the rural deficit.

6 MR. OSMOND: That's correct.

7 MS. BUTLER, Q.C.: Which specifically included a
8 provision for elimination of preferential and subsidized
9 government rates over time.

10 MR. OSMOND: Yes, it did.

11 MS. BUTLER, Q.C.: And I wonder could we go to the
12 **rural rates report**, '96, July 29th, '96, page 32. Okay, just
13 scroll down slightly please, Mr. O'Rielly, there you go, the
14 Board ... under government rates and preferential rates. For
15 preferential rates the Board recommended a phase-out
16 period of five years and for government rates the Board
17 recommended a new rate be designed and rates phased in
18 over five years to recovery of full costs.

19 MR. OSMOND: Yes.

20 MS. BUTLER, Q.C.: Okay, now we know that hasn't been
21 done and that in this hearing Hydro proposes only a 20
22 percent increase in the 2002 government rates.

23 MR. OSMOND: That's correct.

24 MS. BUTLER, Q.C.: So not the full cost of service.

25 MR. OSMOND: No, it's a five year period to recover the
26 full cost from government, both federal and provincial.

27 MS. BUTLER, Q.C.: On the policy level, what is the basis
28 for non-government, residential and general service
29 customers such as ourselves subsidizing government
30 customers?

31 MR. OSMOND: I guess these rates go back, I guess
32 probably 20 or 30 years ago when the government
33 accounts and the fish plants and the schools and things of
34 that nature all tracked the interconnected rates on the
35 system, and those have evolved let's say over a period of
36 time, and they were recognized at that time, and recognizing
37 1992 when we suggested revising those, and so from that
38 point of view they've gone back to government orders in
39 council, back in the sixties and seventies, and I guess even
40 to confirm, the 1979 rate hearing, I think it was 1979, as it
41 relates to the rates that should be charged to rural
42 customers including the government customers as well. It
43 really only came to light as far as revising those in our
44 application in 1992, as to what the appropriate cost
45 recovery period should be, not only for the provincial
46 governments and federal governments, but for other
47 preferential customers as well, and then it came to light, as
48 you say, in 1996, as to a five year plan to do that.

49 MS. BUTLER, Q.C.: But as a long-term employee with this
50 utility, you'd be aware that it would be more common and
51 reasonable with other utilities to have government
52 customers pay either 100 percent cost of service, or more
53 than the cost of service, rather than subsidized service.

54 MR. OSMOND: Yes, in theory it would be more
55 appropriate to have them all pay 100 percent of their costs,
56 all isolated customers, not only the provincial government's
57 and the federal government's but all the people in Nain or
58 Makkovik, or on the interconnected system, no subsidy
59 whatsoever. So ideally, yes, that's the way to go, or it
60 should be, but I mean in the real world this is what's
61 evolved, since PDD (*phonetic*) was evolved back in the
62 seventies and eighties with regards to the supply of
63 electricity, and now in the process of getting direction and
64 starting a phase-out program tied into the 1996 rural rate
65 report.

66 MS. BUTLER, Q.C.: And I was specifically, of course,
67 talking about it being more common for governments to
68 subsidize consumers rather than consumers to subsidize
69 government.

70 MR. OSMOND: Yes.

71 MS. BUTLER, Q.C.: Okay, and we know that this Board
72 addressed that issue five years ago and suggested that
73 governments elsewhere paid all or greater than the cost of
74 service, are you aware of that?

75 MR. OSMOND: Yes.

76 MS. BUTLER, Q.C.: Okay, I wonder if we might just get
77 that on the screen if we can. I believe it's **CA-2**, okay, and
78 if it's attached, I was looking for pages 121 and 122.

79 MR. O'RIELLY: That's not attached.

80 MS. BUTLER, Q.C.: Okay, do you have that. I'll accept
81 your ... oh, it is? Okay. It's the '96 one, of course. The '95
82 one, I'm sorry, Mr. O'Rielly, yeah, page 121 and 122. Wait
83 now. Try the bottom of page 121. No. Sorry, Mr. Osmond,
84 just bear with me a moment, I'll make sure I've got the
85 correct reference there. Mr. Osmond, is it possible for you
86 to pull out the hard copy because the way that this got
87 entered electronically, the pagination changed.

88 MR. OSMOND: What was the number again?

89 MS. BUTLER, Q.C.: CA-2, page 121 and 122. I think he's
90 got the hard copy there now.

91 MR. OSMOND: Okay.

92 MS. BUTLER, Q.C.: Okay, at the bottom of page 121 then,
93 Mr. Osmond, maybe you could just read the few sentences
94 there, and we'll see what the Board found about five years
95 ago?

1 MR. OSMOND: Starting with "governments"?

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

3 MR. OSMOND: Governments in other jurisdictions either
4 pay full cost or a premium above cost. For example, in the
5 case of Manitoba, governmental customers in diesel areas
6 pay considerably more than full cost through an energy
7 surcharge in addition to the base energy charge. Effective
8 April 1994, the surcharge above general service rates, diesel
9 rates were set at 44.8 cents per kilowatt hour. Five of the
10 nine utilities across Canada with diesel areas charged
11 governmental customers in diesel areas higher rates than
12 other similar general service accounts. Utilities in
13 Manitoba, Ontario, and the Yukon charged governmental
14 customers a premium above their full cost of service.

15 MS. BUTLER, Q.C.: Thank you very much. Now the effect
16 of the preferential rates on other customers currently is
17 explained, I think, on page 8 of your original evidence, lines
18 22 to 27.

19 MR. OSMOND: That's correct.

20 MS. BUTLER, Q.C.: Okay, thank you, and you've indicated
21 here, starting at line 25, that the rate alterations when fully
22 implemented would reduce the deficit by approximately \$2.6
23 million.

24 MR. OSMOND: That's right.

25 MS. BUTLER, Q.C.: So do I take from that, Mr. Osmond,
26 that currently the preferential rates to government and
27 others, cost other customers \$2.6 million in costs?

28 MR. OSMOND: Yes, the \$2.6 million, I guess the biggest
29 part of that is the federal and provincial governments,
30 approximately \$2 million of that. The other small ones, the
31 other aspect of it is the general service, first block, the first
32 700 kilowatt hours, and that accounts for approximately
33 \$230,000 of that, and in addition to that there are special
34 rates for fish plants on the diesel systems that are charged
35 the interconnected rates, and that's approximately \$275,000,
36 and the rest are some (inaudible) to churches in Burgeo and
37 so on, making up the difference, but the bulk of it certainly
38 is the \$2 million associated with the federal and provincial
39 governments.

40 MS. BUTLER, Q.C.: Okay, and Newfoundland Power's
41 expert, Mr. Brockman, is suggesting at this hearing that
42 Hydro should propose a five year plan for the complete
43 elimination of these rates. Do you accept that as
44 reasonable?

45 MR. OSMOND: Well, I guess what I said in my evidence,
46 that for the provincial government, that should start this
47 year, or 2002, at 20 percent, and when we come back with
48 our five year plan in 2003, they should be completely
49 written off, or completely have rates go back to 100 percent

50 over that next five year period, and the same thing for the
51 other categories that I just referred to, to eliminate that.

52 MS. BUTLER, Q.C.: I think what I see as being the only
53 difference there, is that Mr. Brockman is suggesting that
54 you should, that the Board should find that it would be
55 reasonable for you to file that formal plan for the
56 elimination of those rates over five years.

57 MR. OSMOND: Yes, I guess maybe it's just the way we
58 worded it. We're saying we would do that at our next
59 application.

60 MS. BUTLER, Q.C.: At the next application.

61 MR. OSMOND: Yeah, we'll come back in 2003, and that
62 would be part of the rate application with a plan to eliminate
63 the preferential rates for \$2.6 million.

64 MS. BUTLER, Q.C.: Okay, now the preferential rates
65 consume a portion of what ultimately ends up as the rural
66 deficit, and I wonder if we might look at **Mr. Wells'**
67 **testimony**, that's pre-filed testimony, at lines ... I'm sorry,
68 page 11, lines 25 to 26, and the President of Hydro has
69 indicated here that as a matter of policy, Hydro's objective
70 is to minimize to the extent possible the rural deficit and I
71 think you've agreed with that already today. Now changes
72 in the different methodologies for the cost of service have
73 made it difficult for me when I look at different exhibits to
74 follow through the rural deficit from one year to the next, or
75 from one cost of service study to the next, but I wonder if
76 I could get you to look at **NP-34** where Hydro did compare
77 the rural deficit for a few years. If we compare '93 to the
78 forecast 2002, are we comparing apples with apples when
79 we look at the rural deficit totals of 31.8 and 36.0?

80 MR. OSMOND: I guess as far as determination of the
81 overall deficit ... in total?

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

83 MR. OSMOND: These are the deficit numbers. There has
84 been a change in the methodology as you mentioned for
85 2002, but as far as identifying the actual deficiency, they
86 are comparable, realizing the methodology has changed for
87 2002.

88 MS. BUTLER, Q.C.: Okay, thank you. So what we can see
89 then is clearly, despite Mr. Wells' indication of Hydro's
90 policy, the rural deficit has not decreased. If anything, it
91 has increased by \$5 million from '93 to forecast 2002.

92 MR. OSMOND: In total, yes, that's correct.

93 MS. BUTLER, Q.C.: So I'm just interested in your view of
94 how this exhibit, which to me looks inconsistent with the
95 philosophy of reducing the rural deficit, and assist the
96 Board with respect to what you told us this morning, and
97 that is that you take steps to reduce the rural deficit as far

1 as possible.

2 MR. OSMOND: Are those tables inconsistent?

3 MS. BUTLER, Q.C.: I see the table as inconsistent because
4 the rural deficit is increasing, but I'll give you a moment to
5 justify it. I guess what I'm interested in, Mr. Osmond, is
6 how is it that Hydro manages the rural deficit with a view to
7 keeping it, or minimizing it.

8 (3:45 p.m.)

9 MR. OSMOND: I guess, as Mr. Reeves, and I'm just
10 thinking back to this one, as Mr. Reeves explained, and he's
11 responsible for all the rural operations, the operations of
12 the diesel plants, as well as the, some of the island
13 interconnected, the most significant cost that they have in
14 the operational area is the cost of diesel fuel and the cost
15 of running and operating the systems, which they're very
16 conscious of and they've made significant changes in TRO
17 with regards to staffing and realignments, and DSR's, diesel
18 service representatives. On the revenue side, as I
19 mentioned, we've taken the first steps to reduce the, or to
20 revise the collection of preferred rates from our customers
21 commencing this year, and from provincial and federal
22 governments, I should say, commencing this year, and then
23 to come back with a formal plan to phase out preferential
24 rates altogether. I'm just trying to relate to these numbers
25 that you have here and why they have gone up. I'm just
26 wondering if some of those have been classified differently
27 or not. Part of it, in 2002, is due to the change in the
28 allocation going from 2-CP as we had, we had for 2002
29 coincident peak as opposed to what we had prior to that
30 with the average in excess of demand. That would allocate
31 more of a cost to the rural customers, isolated, and
32 Labrador interconnected and island, so it's the
33 methodological change, and Mr. Brickhill can certainly
34 explain taking us into 2002, so that has changed. Prior to
35 that it was the same methodology from 1992 right up to
36 2001.

37 MS. BUTLER, Q.C.: Before I leave the table, Mr. Osmond,
38 just a couple of things. While, as you say, part of the
39 increase may be associated with the new methodology, I
40 am interested in what numbers you work with in managing
41 the deficit, and is this being managed at the management
42 committee level?

43 MR. OSMOND: Well it flows, as I mentioned before, the
44 TRO division is run by Mr. Reeves and his people are
45 responsible for the operation of the diesel systems, and
46 they review all the operating costs associated with each
47 one of those facilities and they have some, I think, 35 or 40
48 diesel facilities as well as the interconnected system on the
49 island for rural customers, so they look at all of those costs
50 in relation to prior years with a view to minimizing those
51 where possible. That flows then up to the, and also up to

52 the management committee level, and we look at that
53 versus what the subsidy has been to see what measures
54 have been taken, and what needs to be revised, including
55 capital additions, and capital additions will also guide this
56 as well, if they have to replace diesel plants and things of
57 that nature, so it does come up for ultimate review by the
58 management committee of Hydro, and then further going to
59 our board of directors, and as it relates to capital, to the
60 PUB.

61 MS. BUTLER, Q.C.: Do you recall when Mr. Reeves
62 testified though, we asked him about Harbour Deep and
63 Hydro's proposal to spend some \$800,000 in that
64 community.

65 MR. OSMOND: Yes, I do.

66 MS. BUTLER, Q.C.: And as an example, because that
67 particular project has received a great deal of attention in
68 this proceeding, I'm just wondering how an expense of that
69 nature can be justified when you're attempting to reduce
70 the rural deficit and we see the numbers on the screen
71 actually increasing.

72 MR. OSMOND: I think as Mr. Reeves said on that
73 particular issue for Harbour Deep, those dollars will not be
74 spent until we formally determine whether that community
75 is going to remain or not remain, and I think that's pending
76 an undertaking we have now with regards to the exact
77 status of Harbour Deep, whether they're going to move out
78 or not move out, so those dollars would not have been
79 expended, will not be expended until that determination is
80 made.

81 MS. BUTLER, Q.C.: Mr. Osmond, I guess the only
82 confusion I've got is that I had understood from previous
83 evidence, that at the management committee level, the
84 numbers that you were reviewing were not the cost of
85 service numbers. The cost of service numbers were for
86 regulatory purposes only.

87 MR. OSMOND: We review, I guess maybe I could step
88 back, we review all the budgets and operating costs of the
89 company and they're normally done in May and June of
90 each year, so you have all the operating costs associated
91 with rural, we have all the capital costs associated with
92 rural, as well as Hydro, we review every line item there to
93 see which costs had to be incurred and which ones could
94 be minimized ... do the same thing on capital. For this rate
95 application we would have also looked at, after all that
96 information was taken, added up and accumulated, and
97 assigned to the cost of service, we would have also had a
98 look at the overall deficit to see the magnitude of that and
99 what issues were associated with it, but we'll go through
100 the budgeting phase first to get that accumulation of
101 information, and then we would have seen the final results
102 at the end of the day.

1 MS. BUTLER, Q.C.: So your evidence is that the
2 management committee does indeed look at the cost of
3 service numbers including the rural deficit?

4 MR. OSMOND: Well in this particular case, for this rate
5 application, we did see the final cost of service study
6 before it was finalized as to what the magnitude would be
7 for the rural deficit, but it's normally part of the budget
8 review. We go through all the operating budgets for each
9 entity, we go through the operating costs by division.
10 They'd all have to be justified and we do the exact same
11 thing for capital, whether it's Hydro or whether it's rural, or
12 whatever, and we'd make changes to that. After that's all
13 finalized, then the cost of service study would be
14 completed, and that would give us the deficit allocation but
15 it doesn't, we would not normally review that every single
16 year to go through with the management committee. We
17 certainly did for this case as it relates to the rate
18 application.

19 MS. BUTLER, Q.C.: The cost of service study is not a
20 management tool, is it?

21 MR. OSMOND: No, but it gives an indication as to what
22 the deficit is as it relates to how it should be allocated and
23 how much will go to Newfoundland Power, so we're very
24 conscious of the dollar amount and what's involved, and
25 we know that by approving certain dollars in TRO or
26 whatever, that eventually is going to flow out of the cost of
27 service study, because that's how it's assigned to the rural
28 customers, and in turn to Newfoundland Power.

29 MS. BUTLER, Q.C.: Okay, I'm going to turn now if I can to
30 JD Edwards.

31 MR. OSMOND: Okay.

32 MS. BUTLER, Q.C.: The approximate cost of the JD
33 Edwards system that was provided in answer to **NP-94** was
34 \$10.8 million, does that sound familiar?

35 MR. OSMOND: JD Edwards, we originally estimated \$13.5
36 million and recovery of \$2.5 million from Churchill Falls, as
37 Mr. Roberts explained on Friday.

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

39 MR. OSMOND: So the net cost as budgeted was about
40 \$11 million. The actual cost came in, instead of \$13.5
41 million, it came in at \$12.8 million and the amount to
42 Churchill Falls was \$2 million for a net cost of \$10.8 million,
43 so it was under budget by approximately \$185,000.

44 MS. BUTLER, Q.C.: Okay, so \$10.8 million for this suite of
45 products, and can you tell me in a broad way what benefits
46 your customers are realizing from the \$10.8 million
47 investment in JD Edwards?

48 MR. OSMOND: I guess from our perspective, why we

49 even started JD Edwards, and I think Mr. Roberts explained
50 on Friday that the existing systems that we had in place for
51 (inaudible) systems, and those were systems, I guess, that
52 I was involved in acquiring, and others, back in 1985, and
53 they were in service right up to, I guess, 1997. There was
54 an issue with maintaining those systems. They were not
55 Y2K compliant, they didn't speak to each other, they
56 weren't integrated. We needed to upgrade our mainframe,
57 so it was a matter ... not a matter of just keeping what we
58 had. They had to be replaced, so when we looked at
59 various options, we went out, and I think there was five
60 overall systems that we looked at, we narrowed it down to
61 three. JD Edwards was the one that we selected for the
62 architecture and how it could be expanded on in the future
63 to provide the integrity, to provide the linkages with other
64 systems, as well as to give us the flexibility that we required
65 in the future. (inaudible) could not give us that. They were
66 just very pigeon-holed financial modules for general ledger
67 and financial reporting, human resources, and so on. This
68 replaces that system, and also gave us much more flexibility
69 for the future, and also gave us a maintenance module,
70 something we didn't have before, for being able to manage
71 our maintenance projects and also determine the timing and
72 costs associated with each one of those projects to give us
73 a better handle on how we should do those in the future.

74 MS. BUTLER, Q.C.: But specifically, Mr. Osmond, if you
75 might direct your mind to it, the benefits to the customers.
76 I mean I hear you describe how this assists perhaps
77 internally, not Y2K compliant, and how this new system is,
78 flexibility, etcetera, but what are the customer benefits for
79 \$10.8 million?

80 MR. OSMOND: Well first of all it replaces ... systems had
81 to be replaced. It also gave us some operating efficiencies.
82 It also gives us the flexibility to look at process changes
83 down the road, and that's something we've embarked upon
84 this year and we'll be doing more of next year as to ... you
85 don't have to do things twice. For instance, in accounts
86 payable we've got a system called evaluated receipts. We
87 pay bills now on a pilot basis, based on the P.O., and the
88 materials received report. You don't need them matched up
89 with an invoice. There are efficiencies inherent in doing
90 that. There are also some staffing changes as well that we
91 saw and I think overall we saw a reduction, I think, of eight
92 or nine people at some point in time as you went through
93 the various modules, but it gives us process improvements
94 that we can also look at in the future to see is there a better
95 way of doing this, and that's part of the process we'll be
96 starting next year as well, so it gives us that added
97 advantage as well, that the modules talk to each other, and
98 because they do that there's a streamlining of the
99 processes.

100 MS. BUTLER, Q.C.: Is it fair to say that customer service

1 is strengthened as a result of the investment?

2 MR. OSMOND: Customer services?

3 MS. BUTLER, Q.C.: Yes, customer service, is customer
4 service enhanced as a result?

5 MR. OSMOND: Customer services is a module that ... we
6 didn't have a customer service system prior ... a customer
7 services department, I should say, prior to 1997. The
8 customer services was basically in three or four areas. One
9 was in the accounting area where the billings were done.
10 We had rates we done in the rates and financial planning,
11 and we had TRO which were handling the actual servicing
12 of customers, hook-ups and so on, so in 1997 we formally
13 brought all these groups together into a customer services
14 group. We were using Newfoundland Power's system at
15 that point in time, which was the old system. Newfoundland
16 Power had a brand new system, and we maintained ... they
17 maintained the old one for us, but the farther they went
18 down the road, the more divergent they became, and the
19 consensus with Newfoundland Power at that point in time,
20 that they couldn't support the second system for Hydro,
21 so in discussions with them, we looked at options of
22 pursuing the system they had. We also looked at options
23 for assuming ... to pursue with JD Edwards and put in a
24 system, and we compared the numbers. It was cheaper for
25 us to go on our own and develop with JD Edwards to put
26 in a UCIS system, which we did, and that gave us features
27 that we didn't have previously. We have a billing system
28 now that can out, provide information to our customers.
29 They also can call in if they have questions, we've got
30 a call centre set up, something we didn't have before,
31 and be able to respond to customers in a proactive
32 manner. So that was an add-on, or part of the JD
33 Edwards if you like.

34 MS. BUTLER, Q.C.: Well, with an investment of \$10.8
35 million, would it be fair to assume that costs have to
36 reduce in some areas?

37 MR. OSMOND: That's correct.

38 MS. BUTLER, Q.C.: And we should see these reflected
39 somehow in the documents that have been filed on this
40 application.

41 MR. OSMOND: I'm not sure it's in the documents, but as
42 I mentioned before, we did have staffing reductions, I
43 think in various areas, and I haven't got it right here
44 now. There were about nine complement positions that
45 were reduced with the implementation with JD Edwards,
46 in accounts payable and financial reporting, as well as
47 in the UCIS area, so they are already reflected in the
48 numbers that we have.

48 MS. BUTLER, Q.C.: I'll get to the numbers now in a
49 moment, but Mr. Reeves had indicated that around the
50 same time as the advent of the JD Edwards system, they

51 started the 150 business unit system, so were these ...
52 did these basically come together?

53 MR. OSMOND: I'm sorry, did which come together ...
54 JD Edwards and the business units?

55 MS. BUTLER, Q.C.: The commencement of, or the
56 development of 150 business units, was that part of
57 the JD Edwards system?

58 MR. OSMOND: It was ... yes, it was part of the setting
59 up of the system into labour unit managers and asset
60 unit managers.

61 MS. BUTLER, Q.C.: And what did you have before 150
62 business units, before the JD Edwards system?

63 MR. OSMOND: Well, it's hard to compare when you say
64 what did we have. We had this broken down by
65 department. Now we have it broken down by labour
66 business unit, and we have asset managers. Before we
67 had different departments that were responsible for
68 their own departments. Now it's bringing it together,
69 and we have a labour manager responsible for all the
70 staffing, and also a business unit manager responsible
71 for the asset management of it, so it's a different
72 concept.

72 MS. BUTLER, Q.C.: Well how has the new concept of
73 150 business units assisted Hydro in managing its
74 business better?

75 MR. OSMOND: I think Mr. Reeves would say it has
76 enhanced the operational areas in both TRO and in
77 production, where they have control of the labour
78 managers and asset management, tying back into the
79 JD Edwards system where we have a maintenance system,
80 so they can track the costs associated with the piece
81 of equipment, also the labour associated with that and
82 all the dollars that are spent on it from a maintenance
83 point of view, so I think he would say, and Mr. Hayes
84 would say that, yes, it has enhanced the operation
85 efficiencies in both divisions.

86 MS. BUTLER, Q.C.: Well let's look, if we could, to
87 **NP-94**, which is where the business case for Project
88 2000, that's JD Edwards, right?

89 MR. OSMOND: Yes, it is.

90 MS. BUTLER, Q.C.: Okay, is actually set out, and
91 perhaps, Mr. O'Rielly, you could tell us whether that's
92 available electronically.

93 MR. O'RIELLY: No, it's not.

94 MS. BUTLER, Q.C.: Okay, so we need to see the hard
95 copy. I'll just wait for the others to get their copy,
96 pages 9 and 10, I think. Okay, starting on page 9,
97 of course, the author outlines the benefits of Project
98 2000, and 4.1 is immediate, and 4.2 is opportunities
99 for improvement, and

1 while we're on that page, one of the immediate benefits that
2 you have referred to, just above 4.2, opportunities for
3 improvement, is improved service to rural customers.

4 MR. OSMOND: Under 4.2?

5 MS. BUTLER, Q.C.: No, just above 4.2.

6 MR. OSMOND: Okay, yes.

7 MS. BUTLER, Q.C.: Is indicated as an immediate benefit.

8 MR. OSMOND: Uh hum.

9 MS. BUTLER, Q.C.: Can you advise whether or not this
10 benefit of improved service to the rural customers was
11 realized, and if so, give me a couple of examples?

12 MR. OSMOND: Okay, the ones I have noted, certainly as
13 it relates to the additional customer service ... immediate
14 response to the customer ... immediate response to
15 customer inquiries with direct access to customer
16 information, accounts receivable and accounts payable,
17 improved response time, cost control of problems and
18 changes with integration to the work order system, and
19 reduced time in responding to requests from the Public
20 Utilities Board and other regulated agencies.

21 MS. BUTLER, Q.C.: Okay, and that's what was indicated as
22 what you expected to be the immediate benefits. I'm asking
23 you whether they were actually achieved?

24 MR. OSMOND: Yes, they were completed, sorry.

25 MS. BUTLER, Q.C.: Okay, and beyond the way that this is
26 stated, which is sort of generic, are you able to give me
27 specific examples, because we have not yet seen the JD
28 Edwards process in operation. I understand we're all going
29 to take a view of it, but would it be possible for you to sort
30 of state that in terms of an example for me that may make
31 the point?

32 MR. OSMOND: I guess other than we have here, I mean
33 when I've gone through it with our staff they basically said
34 as far as access, with regards to the, I guess, the call centre
35 and so on, we have systems in place now where customers
36 can call in and we can respond to them directly online. We
37 can call up their accounts to the screen, we can tell them
38 whether payments have been received, if there's an issue
39 outstanding, and literally answer the question on the
40 phone. That's something we didn't have previously, so
41 that in particular. A work order can be made up if there's a
42 problem, and that is automatically circulated and sent out
43 to the field. If someone comes in from Nain, my line is
44 down, it comes in here, and it's directly sent out to the Nain
45 people in operations, so they go in and correct it, so those
46 are features that certainly are, that come to the top of my
47 head at this point in time.

48 MS. BUTLER, Q.C.: Okay, the other immediate benefits

49 that were shown on the page before it, and back onto page
50 10 as well, looking at the first bullet, elimination of
51 interfaces between modules, reducing demands on staff.
52 And the second one was elimination of duplicate entry
53 transactions. And onto the next ...

54 MR. OSMOND: Page 10?

55 MS. BUTLER, Q.C.: Page 9, under immediate benefits.

56 MR. OSMOND: Yes.

57 MS. BUTLER, Q.C.: Okay, so we had elimination of
58 interfaces, reducing demands on staff, elimination of
59 duplicate entry transactions, automatic matching of
60 purchase orders, etcetera, eliminating manual paper
61 matching and interfacing performed by clerical staff, and
62 improved efficiency in system performance, etcetera, all of
63 which tell me that we should see costs reducing
64 somewhere.

65 MR. OSMOND: Yes, and I guess the note I had is that
66 these applications are part of JDE, and the interface
67 between old systems have been eliminated, and the
68 integrated package, by its very design, tie all aspects of the
69 business together, so they are tied in together now. There
70 are efficiencies associated with those.

71 *(3:00 p.m.)*

72 MS. BUTLER, Q.C.: Okay, well what I'm interested in
73 seeing before we leave this area is where the savings are
74 actually reflected, and if we look at **NP-3**, page 2 of 3,
75 you've got your revenue requirement for '92 to '97, and 1997
76 is pre-JD Edwards, right?

77 MR. OSMOND: I'm sorry, pre-1997?

78 MS. BUTLER, Q.C.: I'm sorry, 1997 would be pre-JD
79 Edwards?

80 MR. OSMOND: That's right.

81 MS. BUTLER, Q.C.: Okay, so the 1997, line 29, shows that
82 your total, or subtotal of expenses there, \$83.421 million.

83 MR. OSMOND: Yes.

84 MS. BUTLER, Q.C.: Now in order to look at the most
85 current figures for revised test year costs, we've got to go
86 to John Roberts' Schedule 1(a), line 30, it's \$99.275 million
87 for the revised test year figure.

88 MR. OSMOND: Yes.

89 MS. BUTLER, Q.C.: Okay, now we are comparing apples
90 with apples here, right?

91 MR. OSMOND: I think that was a gross ... I have to see the
92 other sheet, I think you're comparing gross costs to gross
93 costs, yeah.

1 MS. BUTLER, Q.C.: So we have over that five year period
2 an increase of \$15.9 million in costs.

3 MR. OSMOND: Yes.

4 MS. BUTLER, Q.C.: Or approximately a 19 percent increase
5 over the five year period. That's a lot of money.

6 MR. OSMOND: It is a lot of money, but you need to
7 compare line by line with the expenditures where the
8 expenditures were incurred.

9 MS. BUTLER, Q.C.: Well, I think we did that with several
10 other witnesses, at least in part with some of the other
11 witnesses. My point though is that the \$15.9 million
12 increase here from pre-JD Edwards to post-JD Edwards, the
13 2002 forecast of almost \$16 million, is pretty much all of the
14 increase that's being sought on this application, which is
15 another \$18 million in revenue requirement, right?

16 MR. OSMOND: That's the increase over 1997.

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

18 MR. OSMOND: Yeah.

19 MS. BUTLER, Q.C.: Now in an earlier section this morning,
20 I had asked you as CFO, what steps you have taken to be
21 as efficient as possible, and you answered me in several
22 components, but starting with the budgeting process,
23 etcetera, and I guess with this exhibit on the screen, I want
24 to ask you how do these results reflect your most efficient
25 operation of the system?

26 MR. OSMOND: As it relates to Edwards as well?

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

28 MR. OSMOND: I mean Edwards wasn't brought in
29 specifically to reduce costs. It was brought in specifically,
30 I guess two aspects, one is reducing costs. The first one
31 was to replace obsolete systems that we had, so that had to
32 be a key criteria. The other ones that we required, capacity
33 requirements, a new AS-400, that was a necessity. Also the
34 old mainframe that we had was not Y2K compliant. Coming
35 out of that were other benefits, some of which would be
36 efficiency improvements, some of which we've attained and
37 I'll mention those now in minute, others of which we can
38 expound (*sic*) on in the future and move forward with other
39 efficiencies because we have the flexibility of a JD Edwards
40 system, and it provides for more integration, easier way of
41 doing things, one step processing type of thing, so those
42 would be expanded on in the future, but we have realized
43 some efficiencies, and I'll just touch on a few. On the
44 complement, the workforce complement, the UCIS alone,
45 we've ... well there's one Accounting Clerk II position, or
46 one position that was made redundant, a temporary
47 Accounting Clerk in the UCIS. Within the accounts
48 payable area, the general ledger and one other area, there's

49 four positions that were eliminated. In the human
50 resources and payroll area there were three people that
51 were eliminated, so this is just in the first stage. The
52 system has only come in 1999, so it's nine positions that
53 have been eliminated during process review, and this is just
54 the start of it. We're going to be going through more
55 process review as we go forward, but it wasn't all done in
56 the last three years. The systems basically all came in in
57 late 1998 and 1999, so we're just literally into it now. That's
58 one of the activities we will be pursuing over the next year
59 or so, what other operation efficiencies are there, right.

60 MS. BUTLER, Q.C.: Okay, thank you, I'm almost finished,
61 Mr. Chairman, but I realize I've gone over time, so if we
62 could break now that would be fine.

63 MR. NOSEWORTHY, CHAIRMAN: Sure, we'll break until
64 25 after, thank you.

65 (break)

66 (3:30 p.m.)

67 MR. NOSEWORTHY, CHAIRMAN: Thank you, when
68 you're ready, Ms. Butler.

69 MS. BUTLER, Q.C.: Thanks, Mr. Chairman. Thank you,
70 Mr. Osmond. We did review the issue of interest on recall
71 sales with Mr. Roberts, but I just wanted to readdress the
72 issue with you very briefly, and I wonder, Mr. O'Rielly,
73 could we see **PUB-56.1**, please, page 2 of 4. You have to
74 scroll further down, Mr. O'Rielly, please, to get the interest
75 adjustment there at line 32. Okay, there is an adjustment,
76 which in this case is an addition from Hydro's expenses to,
77 I'm sorry, Hydro's regulated expenses by \$800,000 to
78 increase the expense for interest to \$93.584 million?

79 MR. OSMOND: Yes.

80 MS. BUTLER, Q.C.: And obviously this has the effect of
81 increasing the revenue requirement for the regulated
82 operations, we learned that from Mr. Roberts. Can you tell
83 us whether the \$800,000 was actually explicitly paid to any
84 financial institution?

85 MR. OSMOND: The two columns you have there, the first
86 one is the ...

87 MS. BUTLER, Q.C.: Can you scroll up there Mr. O'Rielly,
88 to help the witness out there.

89 MR. OSMOND: Okay. The \$800,000, my understanding
90 from going through that, relates to the recall revenue that
91 we received and the monies, as Mr. Roberts explained, we
92 bill Hydro Quebec monthly for the recall energy sales and
93 by doing that there's interest earned on that sale and the
94 monies are repaid to the Province at the end of the year as
95 a net recall, so that represents interest earned on the recall
96 sales to Hydro Quebec.

1 MS. BUTLER, Q.C.: Yes, thank you. I recognize what it
2 represented, my question was whether in fact that \$800,000
3 increase was actually explicitly paid to a financial
4 institution?

5 MR. OSMOND: Where it's related to the recall, it's actually
6 earnings as opposed to interest paid. It's interest revenue.

7 MS. BUTLER, Q.C.: Alright. It has the effect, Mr. Osmond,
8 of increasing revenue requirement in the test year.

9 MR. OSMOND: What I was trying to do is determine the
10 revenue requirement for interest specifically for non-
11 regulated enterprises and take away completely the aspect
12 of the non-regulated, I'm sorry the non-regulated side,
13 separating the recall, the costs associated with that and any
14 earnings associated with it. So what this is showing is the
15 interest cost associated with the non-regulated.

16 MS. BUTLER, Q.C.: Okay, and again I accept that, so we
17 have, we would have had, without the adjustment, \$92.784
18 million from your financial statements representing the
19 actual interest expense.

20 MR. OSMOND: Yes. Well as to the ... I guess the answer
21 in the 93 (inaudible) that would have been paid, the
22 \$800,000 would have been netted out against that to get
23 back to our financial statement figure of \$92.7 million,
24 because that's an interest revenue. One is a cost and one
25 is a revenue, so I think the first one, the financial
26 statements had it netted out, the \$800,000 in revenue. The
27 (inaudible) would actually would have been paid on a
28 regulated basis, the \$800,000 does not apply on a regulated
29 basis. It's interest earned.

30 MS. BUTLER, Q.C.: Mr. Osmond, in fairness, I had
31 understood from Mr. Roberts that this was not actually
32 paid out to a financial institution as would other interest on
33 other debt be paid out to a financial institution.

34 MR. OSMOND: Your thinking of the \$800,000?

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

36 MR. OSMOND: The \$800,000, in trying to go back again,
37 the \$800,000 represents the billings from Hydro to Hydro
38 Quebec, the energy sales.

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

40 MR. OSMOND: Okay, the monies that come back in, we
41 invest those monies and we earn interest on it, and that
42 \$800,000 is the interest that we earned on it. At the end of
43 the year, we are to provide to the Province the net
44 revenues, but this represents interest earned on a non-
45 regulated sale that is sitting in Hydro's accounts. So
46 there's nobody to pay the interest out to as it relates to
47 that.

48 MS. BUTLER, Q.C.: Okay. Let's look at page 4 of 4 of this

49 particular RFI. Thank you. Here the same figure appears as
50 interest avoided.

51 MR. OSMOND: Yes.

52 MS. BUTLER, Q.C.: \$800,000, so it's not interest that was
53 actually paid to a third party?

54 MR. OSMOND: That's right. It's interest earned, revenue.

55 MS. BUTLER, Q.C.: We'll just go back if we can to page 2
56 of 4, Mr. O'Rielly, thank you. Has this Board, the Public
57 Utilities Board, ever actually approved this adjustment from
58 your financial statements to revenue requirements by
59 \$800,000, or of \$800,000?

60 MR. OSMOND: The first time we went back, I know that
61 Grant Thornton had reviewed the calculations that we've
62 gone through, and the methodology and it is my
63 understanding that they agree with the approach that we
64 have taken with regards to the avoided interest as it relates
65 to the recall revenue, but we haven't filed specific
66 application to the Board, other than this application,
67 outlining the impacts, but it was in the Grant Thornton, I
68 think, 2001 report that they had agreed to the process we
69 followed from an accounting point of view.

70 MS. BUTLER, Q.C.: Okay. Can you tell me whether there
71 are similar interest adjustments in other jurisdictions where
72 you utilities have significant export sales, like for example,
73 BC Hydro?

74 MR. OSMOND: And they make adjustments, I'm sorry.

75 MS. BUTLER, Q.C.: Well I'm asking you whether you know
76 whether similar adjustments are made by other utilities in
77 similar circumstances?

78 MR. OSMOND: I haven't reviewed other jurisdictions. No.

79 MS. BUTLER, Q.C.: So you're not able to tell me whether,
80 in fact, this is established practice where a utility has export
81 sales?

82 MR. OSMOND: I guess this is an accounting practice that
83 we're doing here with regards to what costs are applicable
84 to the regulated operations and what costs are applicable
85 to non-regulated, and what this is doing is trying to
86 segregate those specific to the regulated operations and
87 the non-regulated and this \$800,000 was interest earned on
88 the sales to Hydro Quebec. It is a revenue item and has
89 been separated from the cost of service, and from the
90 regulated operations, but no, I haven't reviewed every
91 other utility. We just based it on approved account ... well
92 what you would normally do from an accounting practice
93 point of view, and I guess Grant Thornton has confirmed
94 that with us in their normal review.

95 MS. BUTLER, Q.C.: Right, well, I think we're going to leave
96 that to Mr. Brushett to ask some further questions on.

1 However, relevant to interest in another category, I recall
2 on Friday, I think it was, that Mr. Roberts indicated in
3 answer to a question from Mr. Hutchings that Hydro does
4 not charge interest on its rural customers' accounts?

5 MR. OSMOND: We don't, up to date. We will be starting
6 that on January 1st. We have a brochure that is either
7 gone out, or in the process of going out and that is
8 primarily because we couldn't facilitate into our system
9 prior to January the 1st. Those, that mechanism is now in
10 place and customers will be charged interest on overdue
11 accounts. I think it's virtually the same policy that
12 Newfoundland Power would have too. It's over \$50 and I
13 think it's prime plus 5 percent. So that would take place as
14 of January the 1st, 2002.

15 MS. BUTLER, Q.C.: This is the JD Edwards system that
16 has allowed you to do that?

17 MR. OSMOND: Yes, which UCIS is part of that, of the JD
18 Edwards system.

19 MS. BUTLER, Q.C.: But in the meantime, so that we're clear
20 on the effect of this, your island interconnected customers
21 who pay the same rate as Newfoundland Power's
22 customers, and who, Newfoundland Power's customers
23 that is, have been charged interest on overdue accounts,
24 your island interconnected customers are getting a better
25 deal, even though they're supposed to be treated equally?

26 MR. OSMOND: Well, when you say get a better deal, they
27 haven't been charged interest because we didn't have the
28 mechanism within our financial systems to do that.

29 MS. BUTLER, Q.C.: Well they have better terms and
30 conditions for their electrical service.

31 MR. OSMOND: For that particular item we didn't have the
32 mechanism to do that, so yes, you would be right. If we
33 had the mechanism we would have done that prior to this
34 year. The mechanisms will be in place starting January
35 2002.

36 MS. BUTLER, Q.C.: Right, now with the mechanism in
37 place in January 2002, I can appreciate that there may be a
38 change, but again, historically can I ask you, up until now,
39 how have you managed the collection of overdue accounts
40 if there's no downside to the customer in paying late?

41 MR. OSMOND: Well, the downside is disconnection. Our
42 policy for disconnection is pretty well the same, well it is
43 exactly the same as Newfoundland Power. Our rules and
44 regulations are the same and we follow up with those. I
45 don't think the interest would be the major factor. The fact
46 that your not paying your bill would be the factor in
47 whether you're going to be disconnected or not.

48 MS. BUTLER, Q.C.: A couple of questions flowing from
49 that. In terms of the disconnect rate, do you know what

50 Hydro's disconnect rates have been? Are they declining,
51 are they increasing?

52 MR. OSMOND: From January 2000 to December 30th, 2000,
53 we had 133 disconnections. I don't think they would have
54 significantly changed over the last few years, but I don't
55 have the records here. I'd be surprised if they did.

56 MS. BUTLER, Q.C.: Okay, and has Hydro assessed how
57 the lack of interest on rural customers' accounts to date has
58 affected your cash flow or do you have an estimate of how
59 the new system in place in 2002 will improve Hydro's cash
60 flow?

61 MR. OSMOND: It's difficult to do that, because we don't
62 have the history behind us. We'll certainly be able to
63 monitor that next year versus 2001.

64 MS. BUTLER, Q.C.: Okay, now for 2002, given that you
65 now have a practice or a policy that's going to become
66 effective January 1st on interest, can you tell me whether
67 there's been an adjustment to the revenue requirement for
68 the test year?

69 MR. OSMOND: I'd be surprised if they because it would
70 be very difficult to estimate that, to estimate what the
71 cashflow requirements would be to tack on interest over a
72 certain period of time.

73 MS. BUTLER, Q.C.: So there has been, to your knowledge,
74 no adjustment?

75 MR. OSMOND: To my knowledge I don't think we have
76 included an estimate for interest on overdue accounts. We
77 didn't have a system prior to this year, I'd be surprised if we
78 factor it in even 2002, because it's difficult to guess what,
79 it would be a guess as to what it might be. The number
80 would be the number that actually takes place, but I don't
81 have a guess as to what that would be for 2002. We didn't
82 have a system in place prior to compare it to.

83 (3:45 p.m.)

84 MS. BUTLER, Q.C.: So that we're clear, the cost of being
85 able to do it is built into the system because the JD
86 Edwards cost is built in, we've been through that, but the
87 corresponding benefit, in terms of interest, if any, is not
88 built in to the (inaudible) requirement?

89 MR. OSMOND: The feature UCIS has that capability and,
90 yes, by that very token, it's built in, if you like, you can call
91 it that, but as far as factoring what interest we might be able
92 to attain by overdue accounts, we don't have that
93 information on which to base in prior years to be able to
94 put an estimate in for 2002.

95 MS. BUTLER, Q.C.: It can't be estimated for the test year,
96 2002?

97 MR. OSMOND: I'm not sure what we would base it on.

1 MS. BUTLER, Q.C.: Okay, thank you, Mr. Osmond, very
2 much and those are my questions, Mr. Chairman.

3 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
4 Butler, and thank you, Mr. Osmond. We'll move now to the
5 Industrial Customers, Mr. Hutchings, are you leading this
6 cross examination?

7 MR. HUTCHINGS: Yes, thank you, Mr. Chair.

8 MR. NOSEWORTHY, CHAIRMAN: Would you be
9 prepared to have some short snappers or start now?

10 MR. HUTCHINGS: Just the thing, Mr. Chair, a few short
11 snappers.

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

13 MR. HUTCHINGS: Good afternoon, Mr. Osmond.

14 MR. OSMOND: Mr. Hutchings, how are you?

15 MR. HUTCHINGS: Good. Mr. Osmond, you had a brief
16 discussion with Ms. Butler earlier on about the EPR, the
17 Energy Policy Review, would it be fair to say that from the
18 point of view of the Provincial Government, Newfoundland
19 and Labrador Hydro should be a fairly major player in that
20 review?

21 MR. OSMOND: I would hope so.

22 MR. HUTCHINGS: Yes, and I think from what you told me
23 the last meeting that you had on the subject was sometime
24 in 1998?

25 MR. OSMOND: No, when I referred to 1998, that's when
26 the Energy Policy Review was announced, that the
27 Province was embarking upon an Energy Policy Review
28 and they'd be soliciting input into that and then at some
29 point in time coming forward with a policy as it relates to
30 the Energy Policy Review. That's what I was alluding to,
31 the August 1998 announcement.

32 MR. HUTCHINGS: Okay, alright, and what input has
33 Hydro had into that since that time?

34 MR. OSMOND: I haven't been involved in any meetings
35 with regards to the EPR. I'm not sure if there's been any
36 substantive input so far. I'm sure we'll get a report that we'll
37 have to review it, as will Newfoundland Power and others,
38 to see the status, but at this point in time I have not been
39 involved in the review of the EPR, or provided input into it.

40 MR. HUTCHINGS: Do you know if anyone in Hydro has?

41 MR. OSMOND: Not to my, well not to my knowledge. Not
42 at this point.

43 MR. HUTCHINGS: It certainly hasn't reached the
44 Management Committee level?

45 MR. OSMOND: No.

46 MR. HUTCHINGS: No. I'm just wondering from a point of
47 view of practicality here, how long do we wait for this, if it's
48 not, in fact, going anywhere? I mean there are a number of
49 things that you've said you should put on hold pending
50 the EPR, and at a certain point do we not have to say let's
51 carry on and the EPR has to look after itself.

52 MR. OSMOND: Certainly, my reference, I'm sorry, my
53 reference is as it relates the 60/40 debt equity ratio, and
54 certainly I would hope by the time Hydro comes back in
55 2003, the EPR will be identified, and resolved and input
56 provided and at that point in time then we can discuss what
57 the appropriate debt equity ratio for Hydro should be in the
58 longer term.

59 MR. HUTCHINGS: Okay, but from what your telling us
60 Hydro basically has had no additional information about
61 the EPR since 1998?

62 MR. OSMOND: I haven't been a party to it. As far as the
63 new, as far as the EPR and the other (inaudible) specifically
64 as it relates to that.

65 MR. HUTCHINGS: Okay. Well, I just question whether if
66 there's been nothing in three years, why should we expect
67 something in the next two?

68 MR. OSMOND: But I mean, I could be wrong, my
69 understanding is the Province is working on that and they
70 expect to have something out, just from what I understand
71 and read in the papers, by the end of this year with regards
72 to EPR, but I mean that's the policy of the Province.

73 MR. HUTCHINGS: Okay, but Hydro has had no apparent
74 input into that even though it's supposed to be out at the
75 end of this year?

76 MR. OSMOND: Well, I guess speaking for me personally,
77 I have certainly been more involved with this than anything
78 else, over the last seven or eight months, so I haven't seen
79 any, I haven't reviewed any documents as it relates to the
80 EPR.

81 MR. HUTCHINGS: Okay, perhaps you could overnight
82 make some inquiries and see if there has been any other
83 significant input by Newfoundland and Labrador Hydro
84 into the EPR that you're not aware of at this point. I would
85 just like to return for a moment to the discussion you were
86 having with Ms. Butler a few moments ago about the
87 impact of the recall sales on interest and if I'm
88 understanding this correctly, the fact that Hydro has this
89 monthly income from Hydro, from the recall sales in fact
90 reduces the amount of money that Hydro has to borrow
91 through the year and hence you have \$800,000 of avoided
92 interest come the end of the year?

93 MR. OSMOND: That's correct.

94 MR. HUTCHINGS: Okay, so it's not a question of actually

1 taking that money and investing it somewhere. It just goes
2 into your regular account and means that you don't have to
3 borrow as much as you would normally have had to
4 borrow?

5 MR. OSMOND: I guess it comes around to that. Yeah, the
6 promissory notes would be impacted by that which is a
7 savings because that's the interest associated with that
8 savings.

9 MR. HUTCHINGS: Okay, the question that I started to
10 explore with Mr. Roberts relating to that was calculation of
11 the guarantee fee, and my question was which of the two
12 numbers, was it the financial statement number or the
13 revenue requirement number that was used for the
14 calculation of the guarantee fee? What dollars are actually
15 paid to government for the guarantee fee?

16 MR. OSMOND: My understanding is the guarantee fee is
17 based on the long term debt and the promissory notes of
18 Hydro, excluding any sinking funds.

19 MR. HUTCHINGS: Okay, so the amount paid the
20 government is actually based upon the financial statement
21 numbers, as opposed to the revenue requirement numbers?

22 MR. OSMOND: That's my understanding of it, yes. I had
23 to hesitate that time, because there are so many ins and
24 outs. Yes, that's the way it would be.

25 MR. HUTCHINGS: Okay, but the revenue requirement, in
26 fact, includes the one percent calculated on the revenue
27 requirement number for interest, does it not?

28 MR. OSMOND: Sorry, could you repeat that again.

29 MR. HUTCHINGS: Okay, the revenue requirement itself is
30 based upon one percent of the revenue requirement
31 interest. The revenue requirement amount for the
32 guarantee fee is one percent of the revenue requirement
33 amount for interest?

34 MR. OSMOND: On a regulated basis?

35 MR. HUTCHINGS: Yes.

36 MR. OSMOND: Yes.

37 MR. HUTCHINGS: Okay, so in fact there is a charge to the
38 ratepayers for one percent of that part of the amount is not
39 actually paid to government at all?

40 MR. OSMOND: I guess that's similar to what I just talked
41 about, the avoided interest.

42 MR. HUTCHINGS: Okay, but ...

43 MR. OSMOND: I think that's an accounting (inaudible), I
44 think that's what would happen.

45 MR. HUTCHINGS: So the interest is not actually paid and,
46 but the guarantee is, the guarantee fee for regulated, on a

47 regulated basis is calculated as if that interest had been
48 paid?

49 MR. OSMOND: It's calculated as you said on a financial
50 statement basis. Yes.

51 MR. HUTCHINGS: So the guarantee fee that's in the
52 revenue requirement is in fact more than the actual
53 guarantee fee which is paid to government?

54 MR. OSMOND: I guess, in a sense it is in that it is carving
55 out the same principles for the avoided interest, it's carving
56 out what's appropriate, what's applicable to non-regulated
57 versus regulated, and the fact that we're taking the
58 guarantee fee and showing what it would be on a regulated
59 basis versus what you're doing on a financial, so there
60 would be that difference as it is there with the avoided cost
61 for interest.

62 MR. HUTCHINGS: Okay. If we could just put back up for
63 a moment **NP-94**. This is the answer that deals with the JD
64 Edwards system and there was, as you point out, a saving
65 in terms of actual over budget which is almost \$700,000
66 here. Do you know what the cause of that was, why was
67 the project under budget?

68 MR. OSMOND: Are you comparing the gross costs, 13.5?

69 MR. HUTCHINGS: Yes, 13.5 and the 12.8.

70 MR. OSMOND: Well one was the budget and the other
71 one was the actual amount we ended up paying Edwards
72 and the inhouse costs that we had to capitalize associated
73 with it. We had to set up a special team just to bring in the
74 system, so it's lower operating costs associated with the
75 project and lower capital costs as well.

76 MR. HUTCHINGS: Okay, was it connected with any
77 particular part of the project to your knowledge?

78 MR. OSMOND: I'm not sure to that level of details, just
79 bear with me. The part of it was the labour, as I mentioned
80 the cost assigned to the project, originally estimated the
81 labour associated with the team, the project management,
82 I think was \$6.8 million in the budget. These are rough
83 numbers. I think the actual labour that we incurred was
84 approximately \$5.7, but there's ups and downs, and that
85 was one of the components. There's another cost
86 increases, this one is on the software. That's the biggest
87 part was the allocation of labour to the project. So of the
88 \$700,000, we got a million dollars saved in the labour costs.
89 This did involve a team of approximately, I think, 25 or 30
90 people over a three year period, not full time but pretty well
91 full time over that period of time for the eight modules. We
92 had a project team established and we had leaders in place,
93 Mr. Banfield was leader of it and Ms. Greene and I were the
94 project sponsors for that, and so those costs were
95 monitored every single week as to where we were going,

1 what the actual costs are, how they compare to budget, so
2 the biggest part of it, as I say, is the labour associated with
3 the project. These were all capitalized as opposed to
4 operating costs.

5 MR. HUTCHINGS: Okay, and you say it was the labour
6 costs associated with the project, was there any particular
7 part of the project that had significant labour underruns or
8 was it just the whole project generally?

9 MR. OSMOND: The detail I've got is just the high level,
10 just primarily labour associated with the implementation. It
11 was over a three year period so it is very difficult to say
12 which group spent more time ... was it accounts payable,
13 financial reporting, general ledger, UCIS, so it's a whole
14 myriad of all those eight, Mr. Hutchings, (inaudible).

15 MR. HUTCHINGS: I mean my curiosity arises from the fact
16 that of the \$700,000 that was saved, \$500,000 of it was
17 saved by CF(L)Co. and less than \$200,000 was saved by the
18 regulated portion of the enterprise.

19 MR. OSMOND: Well the \$500,000 for Churchill is based on
20 the percentage of the system that would be applicable to
21 Churchill Falls. How much usage they'd actually have of it,
22 and ...

23 MR. HUTCHINGS: I mean was there a change in that
24 between budget and actual?

25 MR. OSMOND: There was a change in that based on the
26 systems we're putting in place and that was a percentage
27 we had used previously of \$2.5 million based on the actual
28 systems that went in place that would be applicable to them
29 is \$2,000,000 as opposed to \$2.5 million.

30 MR. HUTCHINGS: How does this relate to the \$1 million
31 less labour that apparently gave rise to the actual change
32 in the cost?

33 MR. OSMOND: Well there's two things that happened,
34 labour went down and on the other side Churchill Falls
35 went down. The net of those is \$200,000 overall saving.
36 The Churchill Falls is an allocation to Churchill, or a
37 recovery of \$2 million.

38 MR. HUTCHINGS: Yes.

39 MR. OSMOND: As opposed to \$2.5 million. The savings
40 on the labour relates to the overall capital project of \$12.8
41 million versus \$13.5 million, so you had lesser allocation to
42 Churchill based on their usage and we had lower labour
43 costs allocated to the project, and the net of those is
44 \$200,000.

45 MR. HUTCHINGS: How do you move from the budgeted
46 allocation to CF(L)Co. to the actual allocation to CF(L)Co.?

47 MR. OSMOND: \$2.5 million to \$2.0 million?

48 MR. HUTCHINGS: Yes.

49 MR. OSMOND: That was based on the systems that we
50 put in place, the estimated usage they would have of the
51 systems and that was lower than what we had originally
52 budgeted, so the \$2 million is an amount that we'll recover
53 from Churchill over a five year period ... roughly \$400,000
54 per year. When we did the original budget we expected a
55 recovery, I guess, as about 20 percent. When we put the
56 systems in and went back and fine tuned those, it was
57 determined that the percentage of the systems that they'd
58 actually have use of and access to was closer to 17 or 18
59 percent, and that's how the \$2 million was derived, to my
60 understanding.

61 MR. HUTCHINGS: Okay, Mr. Chair, that might be a
62 convenient time to break for the afternoon and start in the
63 morning.

64 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
65 Hutchings. Thank you, Mr. Osmond, we'll reconvene at
66 9:30 in the morning.

67 *(hearing adjourned to November 20, 2001)*