

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
3 morning everybody. Good morning, Mr. Hearn. It's good
4 to see you here. I look forward to your participation over
5 the next day or so.

6 MR. HEARN, Q.C.: Thank you, Mr. Chairman.

7 MR. NOSEWORTHY, CHAIRMAN: You will be, I think
8 you've probably been advised by now through discussion
9 with counsel that we're in the process now of Mr. Browne,
10 Consumer Advocate, is cross-examining Mr. Osmond, and
11 you'd be slotted in directly after that. That's satisfactory I
12 ...

13 MR. HEARN, Q.C.: That's satisfactory. Thank you, Mr.
14 Chairman.

15 MR. NOSEWORTHY, CHAIRMAN: Thank you. Are there
16 any preliminary matters, good morning, Mr. Kennedy,
17 before we get ...

18 MR. KENNEDY: Chair, yes. I believe Newfoundland
19 Power has something that they want to speak to this
20 morning, Chair.

21 MR. ALTEEN: Mr. Chairman, in anticipation of Larry
22 Brockman's appearance as a witness perhaps late next week
23 or early in the week following, we've filed a second
24 supplemental piece of testimony for Mr. Brockman. It
25 addresses the issue of hydraulic generation and what his
26 investigation has shown that is used or how that is used in
27 rate making situations, and a couple of comments that are
28 generally directed to the evidence of Cam Osler, the expert
29 for the industrial customers, because his testimony was a
30 little late in being filed, so we've filed that and distributed
31 it to counsel and we will arrange transmittal to Mr. Peck
32 today by telecopy.

33 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
34 Alteen. If there's nothing further. Good morning, Mr.
35 Osmond.

36 MR. OSMOND: Good morning, Mr. Chair.

37 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.
38 Browne. I wonder could I ask you to proceed with your
39 cross-examination, please?

40 MR. BROWNE, Q.C.: Thank you, Chairperson. Good
41 morning, Mr. Osmond.

42 MR. OSMOND: Good morning, Mr. Browne.

43 MR. BROWNE, Q.C.: Yesterday in a response to a
44 question from Mr. Hutchings you stated that oil is paid at
45 the price of delivery at Holyrood, is that correct, at the time
46 of delivery?

47 MR. OSMOND: The price is determined at the time of

48 delivery at Holyrood but the price that's actually paid is the
49 average for that month depending on the number of
50 shipments that we actually had. We used to pay based on
51 the direct shipment during that month at the time the
52 delivery came in, but there was a change, I believe, last
53 year, where you actually pay on the average for the whole
54 month based on the shipments that came through.

55 MR. BROWNE, Q.C.: Now is that a practice in the trade
56 that the price will be paid when it's delivered, when the oil
57 is delivered?

58 MR. OSMOND: It has been the practice to my knowledge,
59 it's normally paid that the price, when the ship arrives,
60 based on the posted rate in New York, and one of the
61 reasons we changed, just in case there is changes during
62 the month in the prices of fuel going up or down. We
63 negotiated with our supplier, Westport, to have it tied into
64 the average for the month as opposed to the peg price for
65 that particular shipment.

66 MR. BROWNE, Q.C.: Have you discussed with other
67 companies here on the island who deal in oil if they use
68 that particular practice, pay at the time of delivery or pay
69 according to what you're saying is averaging over the
70 month? Have you had any discussions with anyone like
71 that?

72 MR. OSMOND: Personally I have not. That would have
73 been, I would think, when we went through, the Materials
74 Management Group, that would have been an issue they
75 probably would have looked at, and that's one of the
76 reasons for coming back to an average to take the
77 anomalies out, if there were any, because of the changing
78 in prices during the month, to come up with a more
79 meaningful number and not being hit with a high number
80 based on any particular shipment.

81 MR. BROWNE, Q.C.: You would think, is that what you're
82 telling us, the Management, Material Managements (*sic*)
83 Group looks at that?

84 MR. OSMOND: Yeah. I think the Operations Group,
85 Materials ... I personally was not involved in discussions
86 but I think that was one of the reasons that ... that was
87 when the items came to light as part of our oil review with
88 our Hedging Group in conjunction with our Materials
89 Management Group, there's a more equitable way to do it,
90 provide protection to customers so they wouldn't see the
91 changes during the month if prices should change, to use
92 an average as opposed to the individual shipment date.

93 MR. BROWNE, Q.C.: And is there anyone from that group
94 on your Management Committee at Hydro?

95 MR. OSMOND: The oil group, you mean, the Hedging
96 Group?

- 1 MR. BROWNE, Q.C.: Yes.
- 2 MR. OSMOND: Not from the Management Group, no, but
3 I certainly have input. I receive information from that
4 group, but there's nobody on the group, the Management
5 Committee. It's headed up by ...
- 6 MR. BROWNE, Q.C.: Can you speak up a little, please?
- 7 MR. OSMOND: I'm sorry. It's headed up by some of our
8 senior directors. There's nobody there from the
9 Management Group on the Oil Hedging Group. Mr.
10 Henderson will be there and Mister ... our Treasurer will be
11 there.
- 12 MR. BROWNE, Q.C.: You haven't undertaken any
13 discussions with our friends in Stephenville at the Abitibi
14 Mill there who also order Bunker C into the province?
- 15 MR. OSMOND: I haven't, no.
- 16 MR. BROWNE, Q.C.: Have they?
- 17 MR. OSMOND: I don't know.
- 18 MR. BROWNE, Q.C.: Have you ... are you aware that
19 there's some Bunker C available from, on the island itself
20 from changes of oil that people have in their cars and so
21 on, that sludge? Are you aware that that is available for
22 purchase on the island?
- 23 MR. OSMOND: I'm generally aware that type of product is
24 being recovered. I'm not sure how it actually is used or
25 sold.
- 26 MR. BROWNE, Q.C.: So you don't ... so you're not aware
27 that Abitibi purchases some of that to fulfil its Bunker C
28 component in Stephenville? You're not aware of that?
- 29 MR. OSMOND: I'm not personally aware of that, no.
- 30 MR. BROWNE, Q.C.: Are you aware that some of that oil,
31 that sludge, is being shipped out of the province for use
32 elsewhere? Are you aware of that?
- 33 MR. OSMOND: No.
- 34 MR. BROWNE, Q.C.: You purchase some of your oil in
35 Labrador from Woodward's, is that correct?
- 36 MR. OSMOND: I believe it is Woodward's. I can double
37 check.
- 38 MR. BROWNE, Q.C.: I don't think there's a great choice up
39 there.
- 40 MR. OSMOND: No, I don't think so either. That's correct.
41 In Labrador, yes, Woodward. On the island we buy some
42 from Ultramar, Irving and William Normore Limited, but in
43 Labrador you're right, it's the Woodward Oil Limited.
- 44 MR. BROWNE, Q.C.: Have you had any discussions with
45 Woodward's in reference to the purchasing arrangements
- 46 they have to bring their oil into the province?
- 47 MR. OSMOND: Their arrangements to bring it in? I have
48 not personally, no.
- 49 MR. BROWNE, Q.C.: When we visited the mill in
50 Stephenville I met there with Mr. George LeMoines, who
51 does a lot of their ordering of Bunker C oil, and he is the
52 point man to deal with that. He showed me how he deals
53 with plats (phonetic) and how he places an order, how he
54 watches pricing and so on. Who is your point man? If you
55 had to put one person, point to one person concerning
56 doing that type work, who would it be?
- 57 MR. OSMOND: As far as the prices of fuel?
- 58 MR. BROWNE, Q.C.: As far as the pricing and ordering of
59 fuel and the monitoring of it, who would it be?
- 60 MR. OSMOND: I guess the pricing is our Economic
61 Analysis Group.
- 62 MR. BROWNE, Q.C.: Now you talk in terms of groups. I
63 am looking for a person this time.
- 64 MR. OSMOND: Yeah. I know ...
- 65 MR. BROWNE, Q.C.: Can you point to a person in your
66 organization?
- 67 MR. OSMOND: I know. I'm not trying to give you ...
- 68 MR. BROWNE, Q.C.: No, and I know that.
- 69 MR. OSMOND: Right. It really comes ... I guess, Mr.
70 Henderson and through to Materials Management as to the
71 ordering of the product and the price for the product, and
72 they go out to tender and we have a contract with
73 Woodward's and we have a contract with Westport
74 (phonetic) Petroleum.
- 75 MR. BROWNE, Q.C.: Have you ever engaged consultants
76 to determine if the methods you use to acquire oil for
77 Holyrood are according to industry standards or if they
78 could be done in a better fashion, a more economic
79 fashion?
- 80 MR. OSMOND: Not to my knowledge, we haven't hired
81 any consultants. We do go to tender for the fuel and there
82 are tenders received and evaluated, so it's a public tender
83 process.
- 84 MR. BROWNE, Q.C.: Those are my questions on the fuel.
85 I want to go to the Rate Stabilization Plan. Can you go to
86 **CA-216**, please? At CA-216 we asked you to provide a
87 summary table on a single page showing the deficit or
88 surplus, as the case may be, in the Rate Stabilization Plan
89 account year over year, from 1985 to the present, and the
90 summary since 1986 shows the deficit or surplus. In what
91 years over that period of time was there a surplus in the
92 Rate Stabilization Plan?

1 MR. OSMOND: There was a surplus when it started off in
2 1986, there was a surplus in 1988, there was a surplus in
3 1989, there was a small surplus in 1990, there was a surplus
4 in 1991, and there was a surplus in 1994.

5 MR. BROWNE, Q.C.: And we do see some fluctuations
6 there moving from surplus to surplus, surplus to deficit.
7 But would you agree with me that since 1985 there's been
8 no surplus in the plan?

9 MR. OSMOND: You mean overall surplus to date?

10 MR. BROWNE, Q.C.: Yes. In 1985, just look. You gave me
11 the years in which there was a deficit. There's been no
12 surplus since 1985 in the plan.

13 MR. OSMOND: The numbers I just gave you were the
14 surpluses. The brackets are surpluses.

15 MR. BROWNE, Q.C.: Yes, okay.

16 MR. OSMOND: And the non ...

17 MR. BROWNE, Q.C.: That's what I'm saying. There's been
18 no surplus since ... you're in a deficit position since 1985, is
19 that correct, '95, sorry?

20 MR. OSMOND: Okay.

21 MR. BROWNE, Q.C.: Sorry. Mr. Fitzgerald just helped me
22 out.

23 MR. OSMOND: Okay. (*laughter*) He a tag team with him.
24 Sorry about that. Since 1995, you're correct, Mr. Browne.
25 There's no surplus since 1995.

26 MR. BROWNE, Q.C.: And since 1995 there's no surplus
27 and there's no surplus projected into the foreseeable future,
28 is that correct?

29 MR. OSMOND: There's no surplus projected through
30 2001, that's correct.

31 MR. BROWNE, Q.C.: And is there any surplus projected
32 after that according to what we know, 2002, 2003, 2004?

33 MR. OSMOND: No, there's no surplus projected. We just
34 assumed an average water year and if there was more
35 rainfall or the price of fuel was lower, that could change
36 that, but we haven't projected that. As we indicated for the
37 last two days, we project our hydrology based on normal
38 rainfall and snowfall and run-off, so we just use average
39 generation. If we had a wetter year or a drier year, those
40 numbers would change accordingly, but these numbers do
41 not reflect that, just reflects a normal water year as Mr.
42 Henderson ...

43 MR. BROWNE, Q.C.: And there's no surplus anticipated in
44 the foreseeable future.

45 MR. OSMOND: Not based on a normal water year, no.

46 MR. BROWNE, Q.C.: And if you go to **217** for a moment,
47 we asked you to provide a summary table on a single page
48 showing what interest has been paid by consumers year
49 over year in the Rate Stabilization Account and the total
50 amount of interest paid by consumers in the Rate
51 Stabilization Account since 1985. I gather there's a separate
52 account set up to monitor the rate stabilization issue, is that
53 correct?

54 MR. OSMOND: Well, the Rate Stabilization Plan itself is
55 broken into two components, so on that basis, yes, there's
56 a separate account which you can call for Newfoundland
57 Power and a separate account for industry and interest is
58 added on and deducted from that accordingly monthly.

59 MR. BROWNE, Q.C.: And you will agree with me that the
60 only surpluses that we've seen in that are in what years?
61 Can you point out the years there from the thing?

62 MR. OSMOND: Okay. The years where interest was added
63 on and paid back to customers were in 1989, 1990, 1991,
64 1992, and there's an adjustment to retail in 1994. That's four
65 years.

66 MR. BROWNE, Q.C.: And you will agree with me that
67 since 1993, I guess, well, I guess if you really look at it,
68 since 1989 there's been really no surplus, if you look at the
69 industrial interest there in the account, is there?

70 MR. OSMOND: There was in '89 and since that, no, there
71 wasn't. There was nothing.

72 MR. BROWNE, Q.C.: So we see interest accumulating in
73 that account since 1989, don't we, Mr. Osmond?

74 MR. OSMOND: That's correct.

75 MR. BROWNE, Q.C.: And we see interest accumulating at
76 a fairly steady rate there. Now who's responsible for
77 paying that interest?

78 MR. OSMOND: The consumer.

79 MR. BROWNE, Q.C.: The consumer is responsible, that's
80 correct. And you only go till September 2001, but it
81 appears that we're still in a deficit situation from what
82 you've told me previously. We're going to be in a deficit
83 situation in the foreseeable future. Can you also undertake
84 to provide a chart for us showing what interest you
85 anticipate accumulating in that account over the next four
86 or five-year period, what interest is going to continue to
87 grow there?

88 MR. OSMOND: Can certainly go out for 2002. I'm a little
89 apprehensive beyond 2003 and 4.

90 MR. BROWNE, Q.C.: Okay. Well do ...

91 MR. OSMOND: We have ... certainly can get 2002 for you.

92 MR. BROWNE, Q.C.: Sure. Whatever your best efforts are

1 there, Mr. Osmond.

2 MR. OSMOND: That's no problem. It should be readily
3 available.

4 (9:45 a.m.)

5 MR. BROWNE, Q.C.: And if something were to happen to
6 the industrial interest, we see that their interest has
7 accumulated \$9,006,000, if something were to happen to the
8 industrial interests, who would ultimately be responsible
9 for paying their portion of the interest?

10 MR. OSMOND: I presume you don't mean all industry
11 leaving.

12 MR. BROWNE, Q.C.: Yes, say if something happened. Say
13 if something happened to the paper mills.

14 MR. OSMOND: And they all ... all industry went?

15 MR. BROWNE, Q.C.: Yeah. Well, we're only dealing with
16 three industries now, aren't we?

17 MR. OSMOND: Okay.

18 MR. BROWNE, Q.C.: We're dealing with ...

19 MR. OSMOND: Hopefully it'll never happen.

20 MR. BROWNE, Q.C.: Hopefully it never will, we agree.

21 MR. OSMOND: And the oil refinery too, you mean,
22 everything goes. If all ...

23 MR. BROWNE, Q.C.: Yeah. But just indulge me. Who is
24 ultimately responsible?

25 MR. OSMOND: You just frightened me with the thought.
26 I hope that never happens.

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

28 MR. OSMOND: But in that hypothetical case, if all of
29 those customers did leave the province and folded up and
30 packed their tents and went away, then we'd have an item
31 on the books that Hydro would have to absorb. We
32 wouldn't be able to collect that from the rest of the
33 customers.

34 MR. BROWNE, Q.C.: You'd have to absorb it.

35 MR. OSMOND: We'd have to absorb it.

36 MR. BROWNE, Q.C.: So you're telling this Board now, and
37 it's a matter of public record, if something happens to the
38 industrial interest, you're not coming to look for that
39 amount of money from the consumers of the province. Is
40 that what you're telling us?

41 MR. OSMOND: I think at this point in time we're saying
42 we'd have to take it to ...

43 MR. BROWNE, Q.C.: At this point in time, is that what
44 you're telling us?

45 MR. OSMOND: I think it's an industrial plan. I don't think
46 we'd be able to charge retail customers for an industrial
47 Rate Stabilization Plan. We'd have to absorb that cost,
48 absorb in the sense, take it to our bottom line, but I hope
49 that hypothetical case never materializes.

50 MR. BROWNE, Q.C.: Now are the consumers of the
51 province, the people whom I represent, aware that they are
52 paying interest to the tune of a couple of million dollars a
53 year now on your purchases of fuel?

54 MR. OSMOND: I don't know if they're aware of the
55 intricacies of the adjustment. They're certainly aware that
56 there's an adjustment every year in July and it's related to
57 the fuel they would have burned in the prior years pretty
58 well and they will have to pay an adjustment. We've
59 explained that interest is on ... but if you got everybody on
60 the street and said do you realize interest is on ... I don't
61 know if you'd get the answer, yes, I understand that. They
62 understand that an adjustment takes place and it's because
63 of fuel that was burned in prior periods and they have to
64 pay for that.

65 MR. BROWNE, Q.C.: But yet Dominion Securities are fully
66 aware of what is owing on the Rate Stabilization Plan, aren't
67 they? They're aware that there's \$100 million about to be
68 accumulated in it, aren't they?

69 MR. OSMOND: DBRS, you mean?

70 MR. BROWNE, Q.C.: Yes.

71 MR. OSMOND: Oh, yes.

72 MR. BROWNE, Q.C.: So you tell your financial people but
73 why wouldn't you tell the consumers that in their bill on a
74 quarterly basis, for instance, or maybe even every month
75 now you have JD Edwards, that a part of, that the bill isn't
76 complete, that they may indeed still be on the hook for their
77 portion of the \$100 million that's accumulating? Why
78 wouldn't you tell that to consumers?

79 MR. OSMOND: It's not an issue of not telling them. That's
80 not a big issue for us. When we send out ...

81 MR. BROWNE, Q.C.: So you'll agree it's not an issue? So
82 you're agreed that they should ...

83 MR. OSMOND: It's not ...

84 MR. BROWNE, Q.C.: ... that you're willing to tell them?

85 MR. OSMOND: It could be something we can put on the
86 bill and comes to Newfoundland Power as well, that there
87 is an RSP adjustment of "X" and that inherently assumes
88 interest added onto the balance. I mean, I don't think that's
89 a major issue of concern for us.

90 MR. BROWNE, Q.C.: Because wouldn't ...

1 MR. OSMOND: If it's of interest to the public.

2 MR. BROWNE, Q.C.: Sure. Wouldn't basic fairness
3 demand and wouldn't transparency demand, that's the big
4 word we hear when we appear in front of utility boards,
5 wouldn't transparency demand that the consumers know
6 that they are on the hook for \$100 million?

7 MR. OSMOND: That they could be on the hook for \$100
8 million.

9 MR. BROWNE, Q.C.: Yes, that they could be on the hook.

10 MR. OSMOND: Yeah. I think they ...

11 MR. BROWNE, Q.C.: Well they are on the hook, aren't
12 they, unless ...

13 MR. OSMOND: Yeah, they're on the hook now for
14 whatever the balance is in the plan based on the current
15 approved balance, and I think most customers understand
16 that they will be charged for that. The nuances and
17 mechanics behind it, they may not have full understanding
18 but certainly people even raise it with me, they understand
19 that they're going to be charged but they certainly wouldn't
20 be able to say, well, it includes this, this and this, but they
21 understand they're going to be charged for the cost
22 associated with fuel burned in prior years.

23 MR. BROWNE, Q.C.: But there will be nothing stopping
24 you or preventing you from printing on the back of your
25 bill, and indeed I guess there'd be nothing stopping
26 Newfoundland Power from printing on the back of theirs,
27 information pertaining to this plan and providing
28 consumers with an update.

29 MR. OSMOND: No ...

30 MR. BROWNE, Q.C.: Wouldn't you agree with me, in
31 fairness ...

32 MR. OSMOND: I would agree, yes.

33 MR. BROWNE, Q.C.: Out of fairness, that should be there?

34 MR. OSMOND: That would not be a major issue for us and
35 I presume for Light and Power as well.

36 MR. BROWNE, Q.C.: Now in reference to rate stabilization
37 plans generally, we asked you in CA-218 to provide a
38 survey of utilities across Canada who have a rate
39 stabilization plan and provide a description of the plan for
40 that particular utility. Were you already familiar prior to us
41 asking that with what utilities have a rate stabilization plan
42 in place?

43 MR. OSMOND: I had a very general understanding but
44 not in the detail that we presently have here. Some had
45 changed over the years, some had plans and had abolished
46 them. I was familiar with the BC Hydro one but only from
47 going through their financial statements for the last couple

48 of years, and I knew there was one in the Territories, the
49 Northwest Territories, they had some semblance of a plan,
50 but not the intricacies until I actually saw this analysis.

51 MR. BROWNE, Q.C.: Okay, can you find any plan there,
52 have you reviewed CA-218, the utilities that do have some
53 form of rate stabilization plan there, and they're few in
54 number. I believe there are three provinces, Maritime
55 Electric in PEI, BC Hydro, and the Northwest Territories.
56 Have you reviewed those, the way their plans work?

57 MR. OSMOND: I reviewed it from the point of view, I've
58 read the responses that they've provided to our people and
59 the mechanisms they have in place.

60 MR. BROWNE, Q.C.: Is there any place else in the country
61 that has a plan similar to this province's, that allows a
62 deficit to accumulate of \$100 million in a rate stabilization
63 plan? Is there anywhere else you can find that that
64 happens?

65 MR. OSMOND: There's none there on this table that
66 shows that they have an RSP that would accumulate to
67 \$100 million, but there's none there on the table that's
68 structured exactly the same as our RSP. I think most of
69 these have a fuel component in the plan. The one in BC is
70 completely different. BC Hydro, that really is a plan where
71 they take their excess earnings over an approved ROE, I
72 think around 16 percent, so if they make 18 percent, the
73 difference between 16 and 18 goes in the rate stabilization
74 plan, it's an income stabilization fund, and they started that
75 in 2000, so so far they've put in \$232 million into the plan,
76 but it's geared to excess earnings over their approved ROE
77 by the regulatory board of 16, I think it's 16.6 percent.
78 Anything over that goes into the plan.

79 MR. BROWNE, Q.C.: Is there a deficit allowed to
80 accumulate in that plan?

81 MR. OSMOND: I was just going to say, and if they, if the
82 ROE happens to be below that, they can transfer out of the
83 RSP to their income statement, but the plan can never go
84 negative.

85 MR. BROWNE, Q.C.: The plan can never go negative, isn't
86 that correct.

87 MR. OSMOND: And they don't charge interest on the plan
88 either.

89 MR. BROWNE, Q.C.: In reference to the Northwest
90 Territories, they have a trigger mechanism for their plan of
91 \$2 million, isn't that correct?

92 MR. OSMOND: Yes, they do.

93 MR. BROWNE, Q.C.: And do you ever meet together as
94 utilities, do you have a national organization that you have
95 an annual meeting to discuss various utility matters?

1 MR. OSMOND: We do. We have an association called
2 CEA, called the Canadian Electrical Association.

3 MR. BROWNE, Q.C.: Have rate stabilization plans ever
4 been a topic at any of the discussions you've had at these
5 meetings?

6 MR. OSMOND: Actually I did one but I'm ashamed to say
7 how far back it was. It was probably back in '87 or '88, a
8 presentation to CEA on the rate stabilization plan, but that
9 was the late eighties.

10 MR. BROWNE, Q.C.: And during that period, of course,
11 the rate stabilization plan wouldn't have been in hock that
12 much in 1987, would it?

13 MR. OSMOND: There were several utilities that had RSP's
14 in place. I can't remember the exact ones at that time. Some
15 have changed and some have been added, but there were
16 some utilities at that point in time that actually had RSP's.
17 Not exactly the same because you find some have more
18 hydrology and more or less ... but there was none with
19 exactly the same features that we have, but the principles I
20 think they were applying was pretty close to what we have.

21 MR. BROWNE, Q.C.: So it's fair comment to say our plan
22 is unique to the country?

23 MR. OSMOND: It's unique to the components, but I guess
24 a lot of utilities are unique. Like we're not exactly
25 comparable to, say, Saskatchewan, but we are fairly
26 comparable to some of the maritime provinces. We're
27 heavily based on oil and that's the major factor in our rates.
28 Some of the other utilities are heavily geared to hydraulics,
29 so they wouldn't have the same variation. They're
30 susceptible to major changes in water which affects fuel,
31 and a major change in fuel prices, which affects fuel.

32 MR. BROWNE, Q.C.: I'm just going to ask you here ... we'll
33 move away from the Rate Stabilization Plan. Yesterday, in
34 a question from one of the examiners, you indicated it may
35 be prudent to wait for the government's policy review
36 before dealing with issues of marginal costs. Do you recall
37 that?

38 MR. OSMOND: I remember generally saying something
39 like that, yeah.

40 MR. BROWNE, Q.C.: Do you really believe that the
41 government's energy policy is going to be so refined that
42 they're going to get down to marginal cost issues?

43 MR. OSMOND: That's quite a question, Mr. Browne. I
44 haven't seen the report. I really don't know. They did talk
45 about issues associated with energy and pricing, and
46 marginal cost is one of the issues, I would assume they
47 would have talked about in the report, and but I don't know
48 if it's in there, if it's going to be in there, but I would have
49 assumed they would have covered those types of rates and

50 pricing issues in that, including marginal cost, but I haven't
51 seen it as I mentioned yesterday, the actual EPR, or
52 reviewed it. I'm looking forward to some point in time
53 seeing it, but, no, I have ... I would expect something to be
54 in there related to that, because I think the original
55 intention was to cover the pricing issues, and marginal cost
56 is a pricing issue.

57 MR. BROWNE, Q.C.: Could you go to **PUB-68**, sir, and
58 first I should ask you to go, to look at your own evidence,
59 page 9, lines 27 to 31 in your own evidence. I'll ask you
60 that first. Do you have page 9.

61 MR. OSMOND: Yes, I do.

62 MR. BROWNE, Q.C.: Lines 27 to 31.

63 MR. OSMOND: Yes.

64 MR. BROWNE, Q.C.: And can you just read that into the
65 record. You were asked, what's the question you posed
66 there?

67 MR. OSMOND: Would you please describe how the
68 proposed 2002 rates for Newfoundland Power were
69 established. Do you wish me to go on?

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

71 MR. OSMOND: The applicable rates for 2002 for
72 Newfoundland Power are derived from the cost of service
73 study as outlined in Mr. Brickhill's evidence. In 1992 the
74 Board recommended that Hydro and Newfoundland Power
75 review the implementation of a demand and energy charge
76 pricing structure. Hydro and Newfoundland Power have
77 reviewed this issue and both companies concur that an
78 energy only rate to Newfoundland Power is still
79 appropriate.

80 MR. BROWNE, Q.C.: Now why do both companies believe
81 that? Can you go to **PUB-68** please? **PUB-68** makes
82 reference to your (inaudible), it's a question put to you by
83 the Public Utilities Board, and it says Newfoundland Power
84 sent a letter dated May 11, 2001, attached, outlining their
85 current position on this matter. Hydro has concluded there
86 is now no reason to pursue this matter any further at this
87 time. It's sort of an interesting scenario, I guess,
88 Newfoundland Power sends you a letter and the case is
89 closed, but can you read the contents of that letter into the
90 record please?

91 MR. OSMOND: It's a letter to Hydro, attention Mr. Young.
92 "Dear Sir, this follows on our recent discussions regarding
93 the structure of the purchased power rate charged by
94 Hydro to Newfoundland Power, and the outstanding matter
95 of the development of an appropriate demand energy rate
96 structure. Following our most recent meeting we undertook
97 to put the company's views on the matter in writing. As
98 you know, this issue first arose at Hydro's general rate

1 proceeding in 1990 and was considered again in the 1991 to
2 1992 Hydro hearing. At that time the Public Utilities Board
3 ordered that the two utilities were to develop an acceptable
4 rate form for the Board's review at the pending hearing into
5 Hydro's cost of service methodology. The issue was raised
6 again at Newfoundland Power's 1996 general rate
7 proceeding. Following that hearing, the Board ... in Order
8 No. PU-7, 1996/1997, directed Newfoundland Power to
9 consult with Hydro on the development of an acceptable
10 rate form containing an appropriate division of demand and
11 energy costs. On a number of occasions since the issue
12 first arose, our two organizations have attempted without
13 success to craft a rate that was acceptable to both
14 companies. In anticipation of the upcoming Hydro general
15 rate hearing you ask whether it's now possible for the two
16 companies to agree on a demand energy rate that could be
17 presented to the Board for approval".

18 MR. BROWNE, Q.C.: Just in that paragraph you say on a
19 number of occasions since the issue first arose our two
20 organizations have attempted without success to craft a
21 rate that was acceptable to both companies. Can you, do
22 you have any knowledge of when those occasions may
23 have been or what the process was?

24 MR. OSMOND: Yeah, generally, I think it was after the
25 1991/1992 rate hearing. We had meetings with
26 Newfoundland Power to discuss the issue of how we could
27 proceed with the demand energy charge and the
28 appropriateness of it for both entities, and we probably
29 met, I'm guessing now, probably over a three or four month
30 period at least to decide and review what the options were,
31 and what the mechanics of it were, and I think I alluded to
32 them yesterday, at the end of the day, without going
33 through all the details, we got into the issues of earnings
34 volatility and changes and the impact for consumers, as
35 well as the fact that the rate presently for Newfoundland
36 Power does have a demand component in the energy rate,
37 by the very nature that we assigned demand cost to them.
38 They also have their own general service customers, and
39 they have a demand and energy charge in that as well, so
40 after we went through that review and so on, we felt that
41 that was an appropriate way to go, because what we found
42 when we got into the earnings volatility, it ended up going
43 to the RSP and then it defeated the whole purpose of the
44 demand and energy charge. The demand charge should
45 give you a signal right away. If you end up putting to the
46 RSP you're going to average over a period of time and that
47 signal is gone.

48 MR. BROWNE, Q.C.: And what kind of signal are the
49 consumers getting?

50 MR. OSMOND: I guess with the rates that Newfoundland
51 Power have now with the general service rates, they're
52 getting a signal with regards to their demand, and the

53 demand on their system, but the fact that the energy rate
54 that we're charging to Newfoundland Power is reflected in
55 the cost to domestic customers, demand costs are included
56 in their rates, so there is a pricing signal that customers
57 would get.

58 MR. BROWNE, Q.C.: I put it to you they're getting a
59 phoney signal because the correct price of fuel is not
60 reflected in that cost.

61 MR. OSMOND: Well, I guess the 100 percent of fuel is not
62 reflected, but certainly the component of the base rate plus
63 the RSP adjustment is reflected, you have to grant me that.

64 MR. BROWNE, Q.C.: And you'll grant me, sir, as well, that
65 the price effectively is disguised or masked from consumers
66 the way it's stated in your ...

67 MR. OSMOND: Yeah, I would agree that it doesn't include
68 100 percent, it includes the one third, yeah.

69 MR. BROWNE, Q.C.: Can you continue on reading the
70 letter please. I think you begin with, "It is Newfoundland
71 Power's view".

72 MR. OSMOND: Okay, "It is Newfoundland Power's view
73 that while the demand energy rate may be theoretically
74 desirable in many circumstances, introducing such a rate
75 structure into the power purchase arrangement between
76 Newfoundland Hydro and Newfoundland Power is not a
77 necessary, nor desirable in the current environment".

78 MR. BROWNE, Q.C.: Now what is the current
79 environment, what does that mean? Any idea there what
80 they might be referring to?

81 MR. OSMOND: I think as I just alluded to, the current
82 environment with regard to the existing pricing structures
83 that we have right now, with regards to the rates that they
84 have in the general service, and also in the environment, I
85 presume, and I wasn't involved with this, the status of
86 where we are with the EPR and what's going to come out of
87 that and whether there are any changes that the province
88 is going to be recommending. And there may very well be
89 something coming out of that.

90 MR. BROWNE, Q.C.: So we're all waiting on that, delay,
91 delay ...

92 MR. OSMOND: I don't want to ... we're waiting three years,
93 I hope something comes out soon.

94 MR. BROWNE, Q.C.: Anyway, just continue please?

95 MR. OSMOND: "As our two organizations have
96 concluded during previous attempts to address the issue,
97 a demand energy rate would have a tendency to create
98 volatility in the earnings of both Hydro and Newfoundland
99 Power from year to year. Because this increased business
100 risk ultimately would be reflected in the utility's cost of

1 capital, and tend to put upward pressure on consumer rates
2 ..."

3 MR. O'RIELLY: The next page is missing ... *(laughter)*

4 MR. BROWNE, Q.C.: We should have it memorized ... do
5 you want to go to the hard copy.

6 MR. OSMOND: Actually, I have it somewhere if you bear
7 with me.

8 MR. BROWNE, Q.C.: **PUB-68**, if you have to go to the
9 hard copy, Commissioners and other counsel.

10 MR. OSMOND: Okay. Okay, just the bottom of the page,
11 I'll read the last sentence. "Because this increased
12 business risk ultimately will reflect in the utility's cost of
13 capital and tend to put upward pressure on consumer
14 rates", the next page, "measures would be required to
15 moderate this effect on the utilities. While this could be
16 accomplished by making further modifications to the
17 existing rate stabilization mechanisms, such an approach
18 seems to run counter to the desired impact of the new rate
19 structure. The other alternative would be to expose
20 electricity consumers to greater variability in their rates.
21 The current rate structure, including the various rate
22 stabilization mechanisms implemented over the last number
23 of years has provided Newfoundland electricity consumers
24 with unprecedented rate stability in recent years. These
25 mechanisms were implemented largely as a response to
26 public pressure and we would anticipate the public reaction
27 to an increase in the variability of electricity rates would be
28 overwhelmingly negative".

29 MR. BROWNE, Q.C.: Now why would that necessarily be
30 so if there was variability in rates, why if we had certain
31 rates for certain times a day, if we had demand charges as
32 opposed to an energy only charge, why do you think there
33 would be such a public reaction and outcry against that, if
34 consumers were able to control their electricity bills a little
35 themselves?

36 MR. OSMOND: I'm just trying to read what they had
37 actually, or Newfoundland Power had actually said. I think
38 they're referring to the RSP and the existing mechanisms
39 that (inaudible), and what the new pricing mechanisms may
40 be. There may be changes upward or downward, and I
41 think they're referring to here, if there's a change it would
42 be going upward, then that certainly would have a negative
43 reaction from consumers.

44 MR. BROWNE, Q.C.: Yeah, I guess if it went downwards
45 and it gave consumers some control, the corollary of that
46 would be true too, wouldn't it, that consumers might like
47 that.

48 MR. OSMOND: Yeah, that's true.

49 MR. BROWNE, Q.C.: Okay, can you continue please?

50 MR. OSMOND: "Further, the company does not believe a
51 demand energy rate is necessary to provide appropriate
52 price signals to customers."

53 MR. BROWNE, Q.C.: Now why ... would you concur with
54 that?

55 MR. OSMOND: Well, I think going back to what I just said
56 earlier with the existing rates that the customers have in
57 general service, and the fact that the energy charge from
58 Hydro to Newfoundland Power includes a demand
59 component, there is a signal to customers, including the
60 RSP adjustment. It's an energy rate, it's a rate that
61 fluctuates and goes up and down, so customers see the
62 actual charge that they're getting every month in addition
63 to their basic customer charge.

64 MR. BROWNE, Q.C.: But yet you can have various rates
65 for the industrials who are here next to me. Why should
66 they be given some advantage and consumers are not?

67 MR. OSMOND: Well I guess the only rates for industrials,
68 we have the firm power rate, and then we've got another
69 one called generation outage demand, that's a separate
70 issue altogether for industrial customers that have their
71 own generation.

72 MR. BROWNE, Q.C.: And they have an interruptible rate
73 too, don't they?

74 MR. OSMOND: They have an interruptible rate that they
75 can use from time to time which is part of that, yeah.

76 MR. BROWNE, Q.C.: So it's not beyond your capacity to
77 design various rates to meet particular needs?

78 MR. OSMOND: No, it isn't, but I think as I go back to
79 before, I think we need to know where the province is
80 coming from, hopefully soon, as to whether they're going
81 with regards to the whole pricing mechanism in the
82 province.

83 MR. BROWNE, Q.C.: So if we get that review, I guess,
84 what you're telling us, if we get that review and marginal
85 rates are mentioned and the pricing mechanisms are
86 mentioned, we could be into a delay mechanism ourselves
87 until that's dealt with, is that what you're saying?

88 MR. OSMOND: For this hearing? I don't think for this
89 hearing it would be.

90 MR. BROWNE, Q.C.: No, but generally, before we get into
91 the whole issue of rate design.

92 MR. OSMOND: Yeah, I think if that report came out in the
93 new year, in the spring, or whatever, any changes coming
94 out of that may necessitate a referral or certainly will be part
95 of any referral that we will come back with for the 2003 year,
96 with recommendations associated with that.

1 MR. BROWNE, Q.C.: And I guess if the report comes out
2 and there's no mention of marginal cost or rate design or
3 anything, you can start working from there, is that what
4 you're telling us, so no need to delay any further?

5 MR. OSMOND: Well that's something we'd have to assess
6 and see.

7 MR. BROWNE, Q.C.: I put it to you that neither yourselves
8 or Newfoundland Power are interested in any type of
9 change, that you like business as usual. You get the fuel,
10 you pump up the generation at Holyrood, paying as you go
11 upon delivery. Newfoundland Power can give you its load
12 forecast and go out and sell as much electricity as they
13 want, getting into baseboard radiation, and we have
14 business as usual, that's the approach you people like.
15 You don't want to see any particular change which may
16 offer a benefit to consumers.

17 MS. BUTLER, Q.C.: Mr. Chairman, if I might, with the
18 greatest of respect, I don't think a witness for
19 Newfoundland Hydro can speak to what Newfoundland
20 Power wants in this proceeding.

21 MR. BROWNE, Q.C.: Well, all we have is the letter there
22 from Newfoundland Power telling us what they want,
23 business as usual, and I'm just referring to that letter, so I'll
24 probably take my comments based on that, if counsel will
25 grant me that much. It's part of the record.

26 MS. BUTLER, Q.C.: I'm sorry, Mr. Chairman, counsel
27 cannot grant him that much because the statement put by
28 the Consumer Advocate to the witness goes much further
29 than the letter, which is exhibit **PUB-68**, so if Mr. Browne
30 wishes to confine his questions to this witness on the
31 exhibit, we are content. If he wishes to go further than that
32 he does not have the right to put that to a Hydro witness.

33 MR. BROWNE, Q.C.: Okay, I'll make it easy then. Why
34 does Newfoundland Power and Newfoundland Hydro want
35 to do business as usual? Why do they like the business as
36 usual approach?

37 MR. OSMOND: What do you mean by ...

38 MS. BUTLER, Q.C.: Mr. Chairman, again, business as
39 usual is not a term referred to in the letter. The letter
40 addresses a demand energy rate and speaks for itself. If
41 Mr. Browne wishes to confine his questions on this exhibit
42 to the demand energy rate, he's got the right to do so. He
43 does not have the right to put to this witness that
44 Newfoundland Power's position is business as usual.

45 MR. BROWNE, Q.C.: Okay, I'll make it easier again. The
46 letter states, the second paragraph, "For the above reasons,
47 Newfoundland Power does not believe it is either
48 necessary or desirable to introduce a demand energy rate
49 structure for wholesale power purchase at this time. We

50 trust this clarifies Newfoundland Power's position on the
51 matter. If you have further questions, please call the
52 undersigned at the direct number below". So we see
53 Newfoundland Power doesn't want to introduce a demand
54 energy rate structure for wholesale power. We saw in the
55 response that you gave the Public Utilities Board, this
56 appears to be Newfoundland Hydro's position. Why do
57 you like that particular approach? Why do both companies
58 enjoy that particular approach as opposed to going out
59 there and seeing what customers want?

60 MR. OSMOND: I think, as I repeated before, I think it ties
61 back into two things. We do have a pricing mechanism
62 which we feel is showing a signal to the customers from our
63 charge to Newfoundland and theirs to their customers. The
64 same thing with our interconnected customers. Also, until
65 we see where the province is going with the EPR, that may
66 have some impact on future pricing mechanisms for both
67 entities.

68 MR. BROWNE, Q.C.: But yet you will grant me that the
69 two companies have been looking at these issues for, since
70 1992 at least, the possibility of dealing with that issue?

71 MR. OSMOND: We've had discussions, but the EPR, I
72 mean that was referred in 1998, that's three years ago, and
73 we were anticipating a faster response than what we've
74 seen so far, but that doesn't always happen in government.
75 But we're hoping that there will be a report coming out in
76 the new year, and I'm only guessing, I don't know it's the
77 new year, a final report, but hopefully the report will be
78 coming out for input, identifying what the province's views
79 are as it relates to electricity and pricing and various issues.

80 MR. BROWNE, Q.C.: Moving off that topic and moving to
81 ... can you go to **NP-27** please, and NP-27 makes reference
82 to a customer survey that you had conducted. What's
83 your ... okay, I'll just wait for a few moments. In **NP-27**,
84 Power put a question to yourselves ... provide reports and
85 the information gathered from all customer surveys
86 conducted from 1997 to 2000, and your response, find
87 attached the customer surveys for the years 1999 and 2000.
88 There were no surveys for 1997 or 1998. What's the
89 company's practice in employing these customer
90 satisfaction research surveys? What's your policy?

91 MR. OSMOND: We didn't have any prior to '97 or '98, as I
92 mentioned the other day, that in late 1997 we actually
93 formed the customer services group which combined all the
94 various entities associated with rates, billing, collections
95 and so on, so starting in 1998 we had that group set up,
96 and then we started going out in the fall of each year, I
97 believe it's the fall and not the spring, to our customers
98 requesting, a customer service survey and we had various
99 questions outlined for them, and based on their comments
100 coming back, we used that as a guide to try and come back

1 with what issues we should be specifically identifying, so
2 it's probably 15 or 16 questions. Based on the feedback we
3 got, they had those prioritized as number one, number two,
4 number three, number four, and then we tried to focus on
5 those as part of our objectives for the following year to ...

6 MR. BROWNE, Q.C.: Well in whose department, who is
7 responsible for these surveys, and for getting these
8 surveys done?

9 MR. OSMOND: Well, at the end of the day the buck stops
10 here, but it's the customer services department which is part
11 of my group that send these surveys out and get the
12 reports coming back.

13 MR. BROWNE, Q.C.: And do the surveys reach the
14 management team, are the surveys taken and studied by a
15 management team?

16 MR. OSMOND: Yes, they are. I bring them forth and go
17 through and review those with Mr. Banfield as to what the
18 major issues are of our customers.

19 MR. BROWNE, Q.C.: And the most recent survey is the
20 one we have here, December 2000, in **NP-27(b)**, is that
21 correct?

22 MR. OSMOND: That's my understanding. I think we're
23 probably either started or about to start another survey this
24 fall as well as part of the annual update to benchmark and
25 compare to the last one we did and see where we're weak or
26 areas we need to try and improve on. And that's one of the
27 areas that came up. You mentioned the other day about the
28 equal billing system. That was an issue that came up
29 through the customer service survey that was of concern
30 to our customers, so we're starting to address that as well.

31 MR. BROWNE, Q.C.: So that showed up in one of your
32 surveys that customers were concerned with an equal
33 billing system?

34 MR. OSMOND: Well, no, well the customers came back
35 and asked for other modes of payments and one of which
36 was the ... it wasn't our number one issue, but the
37 opportunity to have an equal billing system as well, the
38 same as Newfoundland Power.

39 MR. BROWNE, Q.C.: And that came up in one of your
40 surveys, I think it's referenced there in 1999.

41 MR. OSMOND: That's correct.

42 MR. BROWNE, Q.C.: Is that fair enough?

43 MR. OSMOND: I think it was '99.

44 MR. BROWNE, Q.C.: So before that you didn't realize that
45 customers might want an equal billing program, is that what
46 you're telling us?

47 MR. OSMOND: We didn't have a customer service system.

48 We didn't have a customer services group. We had four
49 separate areas and we didn't centralize that until 1998, and
50 that's where it brought it all together, so we had a central
51 group to be able to review the activities associated with all
52 of our customers, and before that it was in different areas
53 altogether. It wasn't coherent, it wasn't tied together, so
54 once that's been brought together, we started to get better
55 feedback from our customers.

56 MR. BROWNE, Q.C.: But there's evidence before the Board
57 in 1985 brought on by Newfoundland Power concerning an
58 equal billing system in place for consumers, if you look at,
59 if you look at the Board's report for 1985, reference is made
60 to that at the same time the Rate Stabilization Plan was
61 brought in, are you aware of that?

62 MR. OSMOND: I take your word for it, but I guess at that
63 point in time there was two systems running.
64 Newfoundland Power had their own system and they also
65 ran a system for us, for Hydro, and they were always very
66 close but there was changes took place over time so ours
67 diverged from theirs, and there came a point where
68 Newfoundland Power couldn't support it. It was costing
69 them more to support it than they were receiving from
70 Hydro, and that's one of the reasons we went to our new
71 customer service system, but yes, they've had an equal
72 billing system in for some time.

73 MR. BROWNE, Q.C.: So they've had one in since, I'm
74 going to use the year 1985 because I think I can point to
75 evidence there of a reference to it in the 1985 Board report.
76 Now is it that it's taken you guys, what's this, 15 or 16 years
77 to come to offer your customers an equal billing system?

78 MR. OSMOND: I guess we've taken steps now to
79 implement that, starting 1997, right. The system just wasn't
80 there before.

81 MR. BROWNE, Q.C.: And at what point will we have the
82 system in place, Mr. Osmond?

83 MR. OSMOND: 2002.

84 MR. BROWNE, Q.C.: 2002. I want you to go to some of
85 the key findings in the customer survey report as found on
86 page six of the report of December 2000.

87 MR. OSMOND: Summary of key findings?

88 MR. BROWNE, Q.C.: Yes.

89 MR. OSMOND: Yes.

90 MR. BROWNE, Q.C.: In the bold print there, I think a lot of
91 the findings are there. We see as in 1999, customers
92 continued to be less than extremely satisfied with service
93 reliability. What's your view on that, Mr. Osmond?

94 MR. OSMOND: This is related to Labrador, I think,
95 Labrador and the northern region. I believe that's what

1 they're referring to.

2 MR. BROWNE, Q.C.: It says down below, second to cost,
3 the reliability of service continues to fall short of meeting
4 its related importance. One in three customers continues to
5 be less than very satisfied with the reliability and
6 responsiveness of service.

7 MR. OSMOND: Yeah, no, I see that, but I think it's related
8 to the Labrador and the northern region which would cover
9 the Great Northern Peninsula right up to St. Anthony, as
10 well as the whole Labrador region, and I mean that's an
11 issue Mr. Reeves would have to address with regards to
12 reliability and providing of the service.

13 MR. BROWNE, Q.C.: And it gives the same figures for
14 1999 as 2000 effectively. 1999, 33 percent. 2000, 32 percent.

15 MR. OSMOND: Uh hum.

16 MR. BROWNE, Q.C.: What did you do in between those
17 years? Is there anything you could have done to try to
18 address that issue?

19 MR. OSMOND: Well I know Mr. Reeves is addressing
20 those areas in TRO especially and especially in remote
21 areas where we have diesel installations and so on, and
22 replacing of those and putting in new distribution systems.
23 That we explained through the capital budget process just
24 recently, but they are very remote areas, and the provision
25 of service in remote areas is much more difficult than it
26 would be in an interconnected system because of the very
27 geographic nature, and I know measures have been taking
28 place. I can't go through those with you because that's Mr.
29 Reeves' area, but there is action taking place, he's aware of
30 this, and I know they were working on action within the
31 TRO division.

32 MR. BROWNE, Q.C.: What is the number one customer
33 concern that you've found out in reference to these
34 surveys? What are customers mostly concerned with? Do
35 you recall that?

36 MR. OSMOND: Yeah, I was just trying to find the
37 summary of the four key factors, if you can just bear with
38 me for a second. If you go to page 14, item 4.1.

39 MR. BROWNE, Q.C.: Yes.

40 MR. OSMOND: Important factors, 2000 versus 1999, if you
41 just go down from the extreme left, you see the rank in 1999
42 and the ranking in 2000. These are order of priority as to
43 what the customers have come back to us with. The first
44 one is a reliable uninterrupted supply of electricity, and you
45 can see that 96.2 percent of the customers felt that was very
46 important to them, up from 1999 of 91.5 percent. The next
47 one was concern for public safety, and that was a new one
48 we added this year. That was the second one that they felt
49 was important, and again, 95 percent of the customers

50 thought that was very important.

51 MR. BROWNE, Q.C.: Why did you add concern for public
52 safety this particular year?

53 MR. OSMOND: Well that was one that the CEA had also
54 included and we wanted to be compared to them on a
55 comparable basis to see how our CSI index compared to
56 theirs, to use as a benchmark to see if we're improving or
57 getting worse or getting better ... hopefully getting better,
58 so we added that one this year that wasn't in '99, and you
59 can see 95 percent of the customers thought that was very
60 important. Electricity ...

61 MR. BROWNE, Q.C.: That would have nothing to do with
62 your incentive plan, would it, and whether that's found in
63 U-Hydro No. 12, one of the factors that you have there for
64 measuring performance is safety, the performance standard
65 for this corporate objective.

66 MR. OSMOND: No, overall safety is a concern. We didn't
67 put that here specifically for that reason.

68 MR. BROWNE, Q.C.: It wasn't there as a measurement.

69 MR. OSMOND: No, it was there to be comparable to CEA
70 and the standards they have associated with their
71 performance indices and we wanted to be compared with
72 them to be comparable to see if we're improving versus
73 other utilities across Canada. The third one is electricity at
74 reasonable cost, and that's understandable.

75 MR. BROWNE, Q.C.: And that was a fourth consideration
76 in 1999, but it's down to three now.

77 MR. OSMOND: That's right, you'll see the rankings have
78 changed somewhat, and the next one, number four, would
79 be electricity quickly restored when there is a power
80 outage. That's important to customers. Now last year that
81 was number one. This year it was switched to number four,
82 and then you can go through the whole ... I can take you
83 down through the rest, if you wish, right down to number
84 16. Do you wish me to go through this?

85 MR. BROWNE, Q.C.: No, that's okay. Can you go to page
86 15 for a moment, the last bullet there.

87 MR. OSMOND: Electricity at reasonable cost?

88 MR. BROWNE, Q.C.: Yes.

89 MR. OSMOND: Okay.

90 MR. BROWNE, Q.C.: And read that into the record for me.

91 MR. OSMOND: Electricity at reasonable cost continues to
92 be high, continues to rate high on the customers' list of
93 important service attributes. This year, 98 percent of
94 customers consider this to be at least somewhat important
95 with a relative third ranking out of the 16 attributes. 1999,
96 97 percent rated it important and it ranked fourth.

- 1 MR. BROWNE, Q.C.: Now I see all the questions, and
2 there's a questionnaire that you ask, back attached to this
3 survey, isn't there, if you want to go to page ... I'll call it
4 page 50. Can you go to that for a minute, the survey itself.
- 5 MR. OSMOND: There's no page number on mine. Is that
6 the one headed up "Customer ...
- 7 MR. BROWNE, Q.C.: It's right after page 49, and that's why
8 I called it page 50.
- 9 MR. OSMOND: Okay, Customer Satisfaction Survey,
10 MQR-9051, okay.
- 11 MR. BROWNE, Q.C.: And this is the survey that is
12 conducted. Did you review this survey with the surveyor
13 before they undertook their work?
- 14 MR. OSMOND: I saw the draft.
- 15 MR. BROWNE, Q.C.: You saw the draft? Why is it we
16 don't find in the draft any reference to time of use rates?
- 17 MR. OSMOND: : I guess the same reason I gave you
18 earlier with regards to we didn't put that into that particular
19 issue pending how things are going to evolve in the future
20 and at that point in time we'll be able to solicit input from
21 our customers as to what their views would be. It hasn't
22 come up so far from our customers, not to my ... it may have
23 come up in some issues, but it hasn't come up as a major
24 issue for our consumers in the surveys that I've seen.
- 25 MR. BROWNE, Q.C.: Well, I guess if you don't ask the
26 question, you won't know what the answer will be.
- 27 MR. OSMOND: Sometimes you get an answer or a
28 question from customers that's not on the list too.
- 29 MR. BROWNE, Q.C.: A survey like this, what would the
30 cost of that be, can you just ball park it for us? If you don't
31 know you can ...
- 32 MR. OSMOND: No, no, no.
- 33 MR. BROWNE, Q.C.: ... undertake it, but you might be able
34 to ...
- 35 MR. OSMOND: \$11,000.
- 36 MR. BROWNE, Q.C.: \$11,000, and do you know does
37 Newfoundland Power do similar surveys?
- 38 MR. OSMOND: It's my understanding they do. I think
39 they do them annually.
- 40 MR. BROWNE, Q.C.: I want to ask you some questions on
41 ... we can put away the survey ... I want to ask you some
42 questions on the rural rate deficit just for a moment. You
43 were asked some questions on that previously, I think we
44 saw an exhibit yesterday, I forget what the information
45 request number is ... where the rural rate deficit is
46 increasing from \$30 million to \$36 million.
- 47 MR. OSMOND: Yes, I remember seeing that.
- 48 MR. BROWNE, Q.C.: Yeah, okay, what basically is the
49 reason for that?
- 50 MR. OSMOND: I think one of the reasons I think Mr.
51 Hutchings showed yesterday is the change in the
52 allocation of the Great Northern Peninsula as well from rural
53 to common, plus next ...
- 54 MR. BROWNE, Q.C.: A change in demographics?
- 55 MR. OSMOND: Yeah, and I think also you're finding it's
56 going up because of the price of fuel. The biggest part is
57 the price of fuel going up from \$12.50 a barrel to \$30.00 a
58 barrel which will impact our island interconnected
59 customers, so that would drive up the fuel component
60 which affects the isolated, which affects the deficit.
- 61 MR. BROWNE, Q.C.: And when you do your budgeting,
62 how much did you anticipate the rural rate deficit to be for
63 this particular year?
- 64 MR. OSMOND: Well in our original filing I think we had
65 \$26 million for the deficit.
- 66 MR. BROWNE, Q.C.: \$26 million and now it's gone to \$36
67 million.
- 68 MR. OSMOND: Yes.
- 69 MR. BROWNE, Q.C.: How will that affect rates for
70 consumers?
- 71 MR. OSMOND: I think that's reflected in the revised
72 evidence from Newfoundland Power, and if I can just go to,
73 I think it was Supplementary 2. If you go to Schedule A,
74 page 1 of 2 of my last evidence, and I guess you can call it
75 Supplementary 2. No, it's Schedule A, Terry.
- 76 MR. BROWNE, Q.C.: Okay, and what is it in ...
- 77 MR. OSMOND: No, I just wanted to highlight ...
- 78 MR. BROWNE, Q.C.: ... in your own language, exactly how
79 will it affect the rates?
- 80 MR. OSMOND: Maybe I can just address item number
81 one, Newfoundland Power base rate increase. I think it will
82 be reflected in there. Originally it was 6.7 percent that we
83 filed, and the revision September 6.6, now 6.4, that reflects
84 a myriad of changes, one of which is the deficit change you
85 just referred going from \$30 million to \$36 million. That also
86 had changed because of other costs in fuel as well as
87 interest changes, so at the end of the day the rate has gone
88 down to 6.4 but it's a combination of three or four things
89 that's caused that.
- 90 MR. BROWNE, Q.C.: So it's nothing we need to be
91 concerned about in terms of the direction in which it's
92 going. Do you have any forecasting as to what you see,

1 where you see the direction headed?

2 MR. OSMOND: Not beyond 2002. We're always
3 concerned where it's going and that's why we mentioned
4 the other day, as far as the overall budget review and
5 especially in TRO where they service the rural customers
6 both in Labrador and the island, and we're very conscious
7 of the impact of costs in those areas as it relates to
8 maintenance, fuel, replacement of physical assets,
9 especially the diesel units and the costs associated with
10 those because they're very expensive, so I mean that is
11 something we try to focus on, as Mr. Reeves explained,
12 they've had some organizational changes in TRO and
13 downsizing over the last four or five years to try and
14 reduce the deficit. We've also started, as you can see in my
15 evidence, reducing the preferential rates, or recommending
16 the reduction of preferential rates. That also has an impact
17 on the deficit to bring it down, so there are measures that
18 are being taken internally to try and do that.

19 MR. BROWNE, Q.C.: You have, you're in the process of
20 introducing the JD Edwards system, can we go to **NP-94**
21 please, it's a question put to you by Power, and it provides
22 the overall budget for the purchase of the JD Edwards suite
23 of products, which is a fairly expensive item, and I think
24 there's a report attached to that, is there not?

25 MR. OSMOND: Yes, there is.

26 MR. BROWNE, Q.C.: Okay, I don't know if the report is,
27 that's not available, Mr. O'Rielly, so the purpose of bringing
28 in JD Edwards, is it to redefine or combine or eliminate
29 jobs? Is that one of the purposes of JD Edwards?

30 MR. OSMOND: No, the purpose of bringing in JD
31 Edwards, as I mentioned the other day, is to replace the
32 existing financial systems that we had that weren't Y2K
33 compliant, and that was a system called Cullinet (*phonetic*)
34 that we had in, that we brought in, and I was involved in
35 back in 1985, and they were in service from 1985 up to 1997.
36 These systems were not also integrated. In other words,
37 they wouldn't talk to each other. You couldn't have the
38 functionality we need to have, to try to enhance things and
39 try to do things quicker and better. They weren't Y2K
40 compliant. The JD Edwards system gave us a system that
41 was Y2K compliant, it gave us the architecture on which to
42 grow in the future, it gave us full integration of all of our
43 financial systems, and it also gave us the facility for a UCIS
44 system to move forward on as well.

45 MR. BROWNE, Q.C.: Will there be one job eliminated as
46 the result of spending this amount of money on the
47 introduction of the JD Edwards suite of products?

48 MR. OSMOND: As I mentioned to Ms. Butler, I think,
49 anyway, I certainly raised it the other day that today I think
50 there'd be nine positions that have already been eliminated

51 through a process review in various areas in the various
52 divisions, and that's already been reflected in our costs, so
53 that's taken place since the implementation of JDE.

54 MR. BROWNE, Q.C.: And was it a direct result of the
55 implementation of JD Edwards?

56 MR. OSMOND: Definitely.

57 MR. BROWNE, Q.C.: Besides those nine jobs, will we be
58 seeing any other jobs, or any other cost cutting measures
59 because consumers are paying this much for this particular
60 system, can we anticipate any further downsizing at
61 Hydro?

62 MR. OSMOND: That's difficult to say. I think as we move
63 forward with JDE and the various features that we have,
64 we'll be looking at the functionality of each one, and the
65 process changes, and where there are opportunities, we'll
66 take advantage of those.

67 MR. BROWNE, Q.C.: So what's the answer, is it yes or is
68 it no?

69 MR. OSMOND: I think it's in between. It's a matter of as
70 opportunities arise we find that there are opportunities with
71 the systems where we can save and reduce as there
72 (inaudible) changes required, then we would do that, but I
73 can't tell you a number today. We don't know as we go
74 through and see how all the systems are fully integrated
75 and what the opportunities are, but we have so far
76 eliminated nine complement positions.

77 MR. BROWNE, Q.C.: And is the organization being
78 streamlined as a result of the introduction of the JD
79 Edwards system?

80 MR. OSMOND: I think it is and Mr. Reeves explained that
81 as well when we got into the business unit aspect of the
82 organization, so I think we have a system now which we
83 can grow. We've got a system that's fully integrated, and
84 we hope this system will last us for at least the next ten or
85 twelve years.

86 MR. BROWNE, Q.C.: There's a note on page two of the
87 executive summary of that report, if you can read that into
88 the record, the top of page two of the JD Edwards report,
89 you might need that, that's **NP-94(a)**.

90 MR. OSMOND: In the actual report. I have it, Mr. Browne.

91 MR. BROWNE, Q.C.: Newfoundland and Labrador Hydro
92 Business Case for Project 2000 Integrated Application,
93 prepared by the project team. By the way, who are the
94 project team?

95 MR. OSMOND: Oh, golly. The project team, we had a
96 project team set up. There were seven systems, well I can't
97 give you all the names. There's probably ...

- 1 MR. BROWNE, Q.C.: Who headed them?
- 2 MR. OSMOND: Well, it was headed up, the project team
3 leader, if I can call it that way, was Mr. Banfield. He was
4 our project leader. Then we also had two management
5 committee sponsors besides that to whom Mr. Banfield and
6 his team would report to every single week, and the two, if
7 you want to tag the names are me and Ms. Greene, so we
8 would review the costs with them as to where the budget
9 was going, the timing for the systems and the issues or
10 problems, and resolve those weekly if there are any issues
11 to be done, but behind that there was a leader for each
12 team. Like there's financial reporting, there's general ledger,
13 there's UCIS, there is accounts payable, you know, all
14 those, and there's a team associated with each one. They
15 reported through to Mr. Banfield, and he in turn reported to
16 us directly every week.
- 17 MR. BROWNE, Q.C.: And ...
- 18 MR. OSMOND: And we reported to our management
19 committee and to our board of directors and to the ...
- 20 MR. BROWNE, Q.C.: And how did you tender for it
21 generally? You went out and got competing bids, you were
22 ...
- 23 MR. OSMOND: We did up a spec or an RFP outlining the
24 requirements that we needed that we saw in a system, and
25 I think we had four or five bids come in. They were
26 evaluated by the teams as to the requirements that we
27 expected and we narrowed it down to three, and then it was
28 subsequently narrowed down by the team down to one.
- 29 MR. BROWNE, Q.C.: Yeah, the three were HTE Inc., and
30 People Soft, and JD Edwards.
- 31 MR. OSMOND: I believe that's correct, yeah.
- 32 MR. BROWNE, Q.C.: And I see you have the pros and the
33 cons there for each particular bid. Now are all these
34 companies American companies, or are they Canadian?
- 35 MR. OSMOND: I think, I'm guessing now. I think most of
36 them are probably US firms but they have affiliations in
37 Canada. They have staff in Canada. We dealt mostly with
38 the Canadian staff at JDE.
- 39 MR. BROWNE, Q.C.: So all the quotes you get in reference
40 to the purchase of products are in Canadian dollars and not
41 in American dollars?
- 42 MR. OSMOND: They would have been in US but we
43 would have converted to Canadian, yeah.
- 44 MR. BROWNE, Q.C.: You're paying in US dollars?
- 45 MR. OSMOND: That's my understanding, yeah, but they
46 do, as I say, have people in Canada. We deal with the
47 Canadian subsidiary, if you like, of JDE.
- 48 MR. BROWNE, Q.C.: Any byproducts you have to
49 purchase in reference to the JDE suite of products therefore
50 will be in US dollars as well. Is that fair to state?
- 51 MR. OSMOND: I would presume so.
- 52 MR. BROWNE, Q.C.: And on page two reference is made
53 to certain processes there. Can you read that into the
54 record? There are many issues and concerns ...
- 55 MR. OSMOND: Pardon me.
- 56 MR. BROWNE, Q.C.: It's page two of the executive
57 summary.
- 58 MR. OSMOND: Page two, starting where?
- 59 MR. BROWNE, Q.C.: At page two, the top of the page,
60 there are many issues.
- 61 MR. OSMOND: There are many issues?
- 62 MR. BROWNE, Q.C.: Yes.
- 63 MR. OSMOND: There are many issues and concerns
64 which management must remain aware of throughout the
65 life of this project. Of primary concern is the impact the
66 new suite of applications will have on all levels of the
67 organization. Business processes will change and work
68 flows will be streamlined. This will mean jobs will be
69 redefined, combined, or eliminated.
- 70 MR. BROWNE, Q.C.: And who is seeing to that, the
71 redefinition of jobs, the combination of jobs and the
72 elimination of jobs? Who at Hydro is responsible for that?
- 73 MR. OSMOND: That's the responsibility of each VP, me
74 and the others.
- 75 MR. BROWNE, Q.C.: And that is ongoing now with the
76 introduction of the system?
- 77 MR. OSMOND: Yes, it is, and as I've mentioned, we've had
78 nine already, but that wasn't the prime purpose of bringing
79 in JDE now. That was a fallout of that, but we are taking
80 advantage of the systems to review, and where there are
81 opportunities, then each VP is reviewing that to see if
82 there's an opportunity to reduce staff, i.e., permanent staff
83 or temporary staff, and that's being reflected, and it's an
84 ongoing process for us as we move out with JDE and get
85 more used to it and seeing what the advantages of it are.
- 86 MR. BROWNE, Q.C.: So as it becomes implemented, can
87 we anticipate fewer in your workforce?
- 88 MR. OSMOND: It could, as we start to see the processes
89 unfold in all the areas. The more you get to one online
90 system as opposed to doing things twice, that has a
91 cascading effect and could have impact on staffing.
- 92 MR. BROWNE, Q.C.: What's your policy, okay, we'll just
93 move away from that, what's your policy in reference to

1 disconnection of consumers during the winter months. Do
2 you have a policy in place because you're dealing in the
3 northern climate?

4 MR. OSMOND: I'm going to get all my binders up here yet.

5 MR. BROWNE, Q.C.: Can you just give us this generally,
6 that's fine.

7 MR. OSMOND: I just want to be safe, I don't want to say
8 something that could be a little bit off. I think generally I
9 can say that our policy is that we don't disconnect in the
10 wintertime. The wintertime in Labrador, that's a six month
11 period.

12 MR. BROWNE, Q.C.: Yes.

13 MR. OSMOND: I think that's generally the statement, we
14 don't disconnect in the wintertime.

15 MR. BROWNE, Q.C.: The statement is?

16 MR. OSMOND: We don't disconnect, primarily we don't
17 disconnect in the winter.

18 MR. BROWNE, Q.C.: You will not disconnect anyone
19 during the winter?

20 MR. OSMOND: Normally not.

21 MR. BROWNE, Q.C.: During that six month period. That's
22 your policy and practice.

23 MR. OSMOND: Normally, yeah.

24 MR. BROWNE, Q.C.: During the early part of this hearing
25 I made reference to various committee meetings between
26 Newfoundland Power and Newfoundland Hydro to
27 determine if there are cost savings. Did you monitor any of
28 those meetings, as the Chief Financial Officer of the
29 company and what the possibilities might be?

30 MR. OSMOND: I didn't directly monitor or participate in
31 the meetings with Newfoundland Power. Any of those
32 discussions that came forth that we had to review at
33 management committee, I would have participated in those,
34 if there were any opportunities there at that point in time.

35 MR. BROWNE, Q.C.: Was there any discussion of that at
36 the management committee at what the opportunities might
37 be?

38 MR. OSMOND: It was just a briefing as to how the
39 meetings were going and if there were any issues they
40 would be flagged as more of an update as to where we're
41 going with the discussions with Newfoundland Power.

42 MR. BROWNE, Q.C.: Can you be a bit more specific than
43 that? Did the management committee discuss, for instance,
44 that savings could be acquired by the joint use of a
45 metering shop between the two utilities? Do you recall that
46 being discussed at the management level?

47 MR. OSMOND: I think there were issues, I think there were
48 items identified coming out of the meetings ... Mr. Reeves,
49 that, and other ones were generally discussed as to where
50 we were in the process and the ongoing discussions with
51 Newfoundland Power as it related to each one.

52 MR. BROWNE, Q.C.: And could you see it, as Chief
53 Financial Officer, of putting some pressure on those people
54 who are on the committees to try to get agreement, to try to
55 reduce overall costs which consumers are paying?

56 MR. OSMOND: I think Mr. Reeves would obviously know
57 that. I mean I don't think I need to put any pressure on Mr.
58 Reeves in discussions. He is there to try and get the
59 lowest possible cost for the customers so he certainly
60 would be aware of that.

61 MR. BROWNE, Q.C.: Does it surprise you that precious
62 little came out of these meetings of three years in terms of
63 possibilities of cost savings? What's your opinion on that?

64 MR. OSMOND: I guess it's hard for me to express an
65 opinion. I wasn't directly sitting there day in and day out
66 ... not day in and day out, but during the meeting process.
67 Some things did come out of it. Whether more, I expected
68 more, it's difficult for me to say. Some things did come out
69 that we did agree to.

70 MR. BROWNE, Q.C.: Yes, we saw the emergency
71 agreement that you put in place.

72 MR. OSMOND: Which is positive, yeah.

73 MR. BROWNE, Q.C.: Yeah, which is a positive thing.

74 MR. OSMOND: Yeah.

75 MR. BROWNE, Q.C.: But in terms of a cost savings, you'd
76 have to concede to me there's very little that came out of
77 those meetings.

78 MR. OSMOND: There's very little that came out in totality,
79 I would agree with you on that.

80 MR. BROWNE, Q.C.: Did you have discussions with your
81 counterpart at Newfoundland Power during that period to
82 see if there was anything that could be done to try to
83 coordinate and reduce costs for both utilities so that
84 consumers might benefit?

85 MR. OSMOND: I did not, no.

86 MR. BROWNE, Q.C.: There was evidence here concerning
87 the VHF mobile radio system and an attempt to come to an
88 understanding with Newfoundland Power in reference to
89 that, and I think Mr. Budgell said at one point that
90 Newfoundland Power is free to come onboard your
91 purchase of the VHF mobile radio system, and have you
92 had any discussions with your counterpart at
93 Newfoundland Power in reference to that item?

- 1 MR. OSMOND: I have not.
- 2 MR. BROWNE, Q.C.: Have you looked at it the other way?
3 Is there any possibility for Newfoundland Hydro to come
4 on to Newfoundland Power's system by just expanding
5 upon what they have?
- 6 MR. OSMOND: I'm not really close enough to that issue.
7 I hardly know what a VHF radio is, so I mean ...
- 8 MR. BROWNE, Q.C.: But yet it's an \$8 million issue,
9 \$8,600,000.
- 10 MR. OSMOND: It is, but it's an operational issue that Mr.
11 Budgell went through and explained what it would be. I
12 have not had any discussions with my counterpart as it
13 relates to VHF radios.
- 14 MR. BROWNE, Q.C.: When was the last time Hydro had
15 efficiency experts brought into play to determine what
16 efficiencies there may be for cost savings and indeed for
17 coordination of activities with Newfoundland Power, have
18 you ever engaged in that process, got an external force to
19 come in and take a look?
- 20 MR. OSMOND: I'm just thinking, the PUB did do, did have
21 Quetta, I think it was Quetta, that were engaged three or
22 four years ago by the Board to come in and review Hydro's
23 operational activities. I might be wrong on the date, but
24 Quetta certainly came in and reviewed Hydro's operational
25 areas and there's a report on that, and it's my
26 understanding they viewed it favourably the way things
27 were proceeding, and I think that report has been filed.
- 28 MR. BROWNE, Q.C.: Would you agree with me that
29 because of the failure of Newfoundland Power and
30 Newfoundland Hydro in reference to these committee
31 meetings to come up with any appreciable cost savings
32 that it might be appropriate for the Board to send in an
33 external reviewer to determine what cost savings there may
34 be for consumers?
- 35 MR. OSMOND: I can't comment on that. That's really an
36 opinion for the Board and what the Board would like to
37 proceed with, and how to proceed.
- 38 MR. BROWNE, Q.C.: Do you think it would be a useful
39 exercise?
- 40 MR. OSMOND: I don't think personally it would be, but I
41 leave it to the judgement of the Board.
- 42 MR. BROWNE, Q.C.: Why would you not think it would
43 be useful?
- 44 MR. OSMOND: Well, I think we review our own
45 operations every year as to efficiencies and areas that we
46 can see where there can be cost reductions and savings,
47 and it's an ongoing process for us.
- 48 MR. BROWNE, Q.C.: Thank you, Mr. Osmond, these are
49 my questions.
- 50 MR. OSMOND: Thank you, Mr. Browne.
- 51 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
52 Browne. Thank you, Mr. Osmond. I'll move now to Mr.
53 Hearn. Generally speaking, Mr. Hearn, we break at 11:00, so
54 we could do it now if you wish, or we can go on for ten or
55 twelve minutes if you ...
- 56 MR. HEARN, Q.C.: Perhaps, Mr. Chairman, if you were to
57 take the break now and then we can continue on.
- 58 MR. NOSEWORTHY, CHAIRMAN: Sure, we'll break until
59 five after.
- 60 *(break)*
- 61 *(11:05 a.m.)*
- 62 MR. NOSEWORTHY, CHAIRMAN: Mr. Hearn, could I ask
63 you to begin your cross-examination, please?
- 64 MR. HEARN, Q.C.: Thank you, Mr. Chairman. Mr.
65 Osmond, nice to see you again.
- 66 MR. OSMOND: Nice to see you, Mr. Hearn.
- 67 MR. HEARN, Q.C.: On October 17th of this year the PUB
68 hearing held in Labrador west, Mr. Young, of Hydro, made
69 some comments with respect to Hydro's wishes with
70 respect to rates for the Labrador interconnected customers,
71 and I'd like to read you a couple of comments that were
72 made at that time and get your reaction to them. I'm reading
73 from the transcript of October 17th, 2001, comments from
74 Mr. Young. "We want to make sure that everyone
75 understands that Hydro is not coming into Labrador west
76 looking for an overall rate increase from its customers, that
77 it's not going to be taking more revenue out of Labrador
78 west than it was before, and that our application, in fact, is
79 to adjust the customer classes and the amounts that certain
80 groups pay amongst each other but that overall there is no
81 rate increase." That's at page 3 of that transcript, and at
82 page 4 there's a further reference ...
- 83 MR. YOUNG: Mr. Chair, if I may, excuse me, Mr. Hearn, for
84 a moment.
- 85 MR. HEARN, Q.C.: Yes.
- 86 MR. YOUNG: Mr. Osmond is being asked to respond to
87 some statements I made in the opening presentation in
88 Wabush the second day, I think, of the rural areas trip we
89 made a few weeks ago, and I did make, I believe, which is
90 now alleged in the transcript and Mr. Hearn and I have
91 discussed this, some statements which are not accurate,
92 and Mr. Osmond has probably not read the transcript here
93 and I don't know to what extent he can respond. What I
94 had intended to do on this point, and I had not spoken to

1 this at length with Mr. Hearn, although I did mention it to
2 him a few weeks ago when we spoke about this, is to deal
3 with this when I cross-examine Mr. Drayson (phonetic)
4 because his evidence on this point, I think, is correct, Mr.
5 Drayson's, and some of the statements I made is not
6 precisely correct, and, in fact, in one place I used the word
7 "Labrador west" and I clearly should have said Labrador
8 interconnected, and I mentioned that to Mr. Hearn after I
9 had had a chance to read the transcript, and I was going to
10 clarify this point. I don't know if that addresses the issue,
11 Mr. Hearn?

12 MR. HEARN, Q.C.: It certainly was ... thank you, Mr.
13 Young, I appreciate that. I just wanted to make certain that
14 when we're setting the context and the parameters ... and I
15 certainly cast no aspersions on any comments made by Mr.
16 Young, and certainly I realize that in a long hearing there
17 can be inadvertent comments that may have some
18 inaccuracies in it, but I just wanted to make certain we set
19 the context and maybe Mr. Osmond, you can clarify to the
20 extent of saying that it would not be accurate to say that
21 Hydro is not looking for an overall rate increase from
22 Labrador west in gross terms, in fact, it is, is it not?

23 MR. OSMOND: It is. I think when you go through my
24 evidence identifies what the potential increases would be
25 for Labrador west and the decreases in Happy Valley-
26 Goose Bay, so I think it's very explicit there in my evidence.

27 MR. HEARN, Q.C.: Yes, it is, and that's why I wanted to,
28 not to criticize Mr. Young or anything, but just to make
29 certain, because there appeared to be on the record an
30 inconsistency between your evidence and the statement of
31 Mr. Young.

32 MR. YOUNG: Just further, Mr. Hearn, if I could. Mr. Hearn
33 is quite correct on this point, and we have discussed it, and
34 it is a point I did wish to bring out to make sure the record
35 was clear. The only concern I have now, of course, and
36 there's not anything I can do about it, is I'd have no inkling
37 exactly to what extent the transcript read as it did until we'd
38 got it, which was a week or so after because it was back
39 when we got to St. John's, and the unfortunate thing is that
40 the people for whom that presentation was made wasn't
41 (inaudible) in a context of then with the 51 binders full of
42 information, it was the people in the room, and the first
43 inkling I really had of anything might have been amiss was
44 when Mr. Randy Collins, the MHA for the area, seemed to
45 be more pleased than I thought he would be after I made
46 my presentation, and then Mr. Hearn then addressed the
47 point that some people made that comment to him, so I did
48 intend very definitely to straighten that out and I thought
49 Mr. Hearn, if it's satisfactory, my cross-examination with
50 Mr. Drayson might be the most convenient time, although
51 I think the point has been made now.

52 MR. HEARN, Q.C.: We can perhaps discuss that at
53 another time, Mr. Young, and Mr. Chairman, just in terms of
54 whether or not there ought to be something ... some further
55 follow-up to ensure, you know, that the people that were in
56 the room at the time have their misunderstandings clarified.
57 I don't wish to belabour that issue at this time, and I just
58 would like to say, on the record, that prior to engaging in
59 these type of questions I had spoken to Mr. Young about
60 it, and I would repeat that this is not in any way meant to
61 be critical of Mr. Young. I realize that it was an inadvertent
62 misstatement.

63 MR. NOSEWORTHY, CHAIRMAN: Three things. I guess
64 one, it's on the record now, and you'll be addressing it, Mr.
65 Young, I understand, with Mr. Drayson, and you and Mr.
66 Hearn will be discussing the matter if there's any further
67 response that might be required as a result of that?

68 MR. YOUNG: Absolutely, yes. If he (inaudible) certainly
69 open to that.

70 MR. NOSEWORTHY, CHAIRMAN: Okay.

71 MR. YOUNG: Thank you, Chair.

72 MR. HEARN, Q.C.: Mr. Osmond, if we move to **LC No. 8**,
73 the reaction to some questions that we had submitted and
74 the responses then relate, I believe, to your evidence. Am
75 I correct in understanding that there are three separate
76 areas composed in the present Labrador interconnected
77 system with three different rate structures?

78 MR. OSMOND: That's correct. There's the Labrador City,
79 there's Wabush and Happy Valley-Goose Bay.

80 MR. HEARN, Q.C.: And what would have been the cost of
81 the acquisition of distribution of assets, distribution of
82 assets for each of Labrador City and Wabush and when
83 was each acquired?

84 MR. OSMOND: When we acquired them from Labrador
85 City and Wabush?

86 MR. HEARN, Q.C.: Yes.

87 MR. OSMOND: We acquired all the assets for \$1 from
88 Wabush and Labrador City, and there was a contribution
89 in aid given by Wabush Mines, \$3 million, and I believe
90 that was paid over a six year period to be a contribution in
91 aid to us at some of the capital expenditures over the next
92 five years, and with regards to IOCC, I believe they gave us
93 a contribution of about \$2.5 million contribution in aid, and
94 that was a ... I think we received that over a five year period
95 to offset any capital additions in that ... not to offset all of
96 them, I shouldn't say, but to partially offset some of the
97 additions in that five year period, and when you go to page
98 2 of 2 of **LC-8** I think it shows that. You can see that for
99 Wabush we actually put in \$6 million into our plant, plant
100 investment. That could be poles, distribution, whatever,

1 and the contribution received was \$3 million and 60 for a
2 net planned investment of \$3.1 million. In Labrador City we
3 invested \$7.9 million and the amount we received was \$2.5
4 million over that timeframe for a net plant investment of 5.4.

5 MR. HEARN, Q.C.: Would you be able to put that in
6 context by telling us the gross investment in the entire
7 Labrador interconnected system? Am I correct in
8 understanding it would be approximately \$26.975 million?

9 MR. OSMOND: I saw that in Mr. Drayson's report, and I
10 presume it's correct, but I haven't verified that, but I
11 presume ... I take Mr. Drayson at his word that it's correct,
12 but we can verify it over the break.

13 MR. HEARN, Q.C.: Certainly if just if you have an
14 opportunity to clarify that, perhaps if you remind me
15 shortly after the break so that we don't inadvertently say
16 anything, but from your understanding now it might be
17 something in that range?

18 MR. OSMOND: That's my understanding. That number is
19 probably valid, I'm sure it is.

20 MR. HEARN, Q.C.: On page 2 of 2 of **LC No. 8** you show
21 the Wabush plant investment of \$6.1 million and a net
22 Wabush plant investment of \$3.1 million, would that be
23 accurate?

24 MR. OSMOND: That's correct.

25 MR. HEARN, Q.C.: Can you give me some idea of the time
26 line in which these investments were made?

27 MR. OSMOND: We took over Wabush, I think, in 1985,
28 and I think those expenditures were made ... I don't have
29 the exact dates. I think they were made over a three or four
30 year period, four or five year period at the most.

31 MR. HEARN, Q.C.: The entire \$6.1 million over that period?

32 MR. OSMOND: That's my understanding.

33 MR. HEARN, Q.C.: And with respect to Labrador City, the
34 \$8 million plant investment, gross investment ...

35 MR. OSMOND: Yeah. Lab City, we took that over in 1992,
36 and it's my understanding that the investment of \$7.9
37 million was spread over the next four or five years, as well.

38 MR. HEARN, Q.C.: And would that have been all
39 expended within that four or five year period?

40 MR. OSMOND: That's my understanding, and the
41 contribution came in as well over a five year period and that
42 offset the capital ... that offset the capital addition during
43 that timeframe, partially offset it.

44 MR. HEARN, Q.C.: When you took over the Wabush
45 system do I understand that rates were approved by this
46 Board at that time?

47 MR. OSMOND: Yes. We had a hearing where rates were
48 approved by the Board.

49 MR. HEARN, Q.C.: And those rates remain in effect to this
50 present time?

51 MR. OSMOND: We had a hearing in 1987 for rates in 1998
52 and those rates are in effect from that point in time.

53 MR. HEARN, Q.C.: You said 1998, did you mean 1988?

54 MR. OSMOND: I'm sorry. I've been here a long while.
55 1988, yes, that's right, 1988, yeah.

56 MR. HEARN, Q.C.: And that is ...

57 MR. OSMOND: There was a hearing in '87 for '88 rates.

58 MR. HEARN, Q.C.: Yes. When Hydro took over the
59 operation and maintenance of the Wabush system how
60 was that system operated and maintained at that time in
61 terms of, I'm thinking of employment structure, how you
62 actually ran the system at that time in Wabush?

63 MR. OSMOND: When we took it over?

64 MR. HEARN, Q.C.: Yes.

65 MR. OSMOND: It was structured by our Wabush office
66 and the staff that we had there. They would have been
67 responsible then for the refurbishment of the system, plus
68 the capital going into the system and ...

69 *(11:15 a.m.)*

70 MR. HEARN, Q.C.: I'm sorry. What I was thinking of what
71 staffing that you would have required in that time?

72 MR. OSMOND: In numbers?

73 MR. HEARN, Q.C.: Yes.

74 MR. OSMOND: Oh, I don't have the numbers.

75 MR. HEARN, Q.C.: In the ... I'm looking at some evidence
76 from the 1987 hearing that indicated approximately seven.
77 It said ... just reading evidence that was filed at the time
78 from Mr. Collett, I believe, that said that "PDD has
79 established Wabush as a separate operating area with an
80 area supervisor located in Wabush reporting to the
81 superintendent of PDD operations in St. John's. The area
82 supervisor has, at present, a line foreman and three
83 linesmen who are responsible for the day-to-day operation
84 and maintenance of the electrical system. In addition,
85 they'll be supported by administrative and accounting staff
86 including a meter reader/collector and a cashier/clerk."
87 And, "This compliment will provide a level of service
88 consistent with the PDD standards," etcetera, and I read
89 that as being with meter reader/collector clerk being
90 approximately seven people at that time.

91 MR. OSMOND: Okay. Oh, I take that if that's what you

1 read, that sounds reasonable.

2 MR. HEARN, Q.C.: And has that office operated since you
3 took over the Wabush system?

4 MR. OSMOND: Yes, it has.

5 MR. HEARN, Q.C.: The energy for the Wabush system
6 would come from Churchill Falls?

7 MR. OSMOND: That's correct.

8 MR. HEARN, Q.C.: And how ... there was, I believe, some
9 evidence also given or something in the Board's
10 discussions at the time that would be attached to **LC No. 8**
11 indicating a pricing for the energy that came from Churchill
12 Falls.

13 MR. OSMOND: Was that attached to **LC-8**? I didn't have
14 that.

15 MR. HEARN, Q.C.: It's **LC-8(d)**, it's the 1985 report of the
16 Commissioners of Public Utilities, etcetera, and it was at
17 page 11 of that report.

18 MR. OSMOND: Okay.

19 MR. HEARN, Q.C.: There's a reference to the power and
20 energy purchased from Hydro at the Wabush terminal
21 station.

22 MR. OSMOND: Do you want me to go to that report?

23 MR. HEARN, Q.C.: Yes. It might be helpful just to ... and
24 I'm not certain if that can be scrolled up on the screen. I'm
25 looking at page 11 of that report.

26 MR. OSMOND: No.

27 MR. HEARN, Q.C.: Well, the ...

28 MR. OSMOND: Just bear with me for a second.

29 MR. HEARN, Q.C.: Let me know when you have it, Mr.
30 Osmond.

31 MR. OSMOND: Okay, Mr. Hearn. What page?

32 MR. HEARN, Q.C.: Page 11. The top of the page, the
33 second indented paragraph there's a reference to "All
34 power and energy will be purchased from Hydro at the
35 Wabush terminal station at the Labrador interconnected
36 area energy rate of 3.7 mills per kilowatt hour."

37 MR. OSMOND: Uh hum.

38 MR. HEARN, Q.C.: And then further down the page, just
39 so that we'll be clear, before you get to the numbered
40 sequence at the bottom there's a reference that there was
41 additional information supplied after the hearing that the
42 cost to Hydro for the supply of energy was approximately
43 4.16 mills per kilowatt hour, and what I was asking was
44 what costs does Hydro have for the supply of energy to

45 the Wabush system?

46 MR. OSMOND: The most significant cost is the cost of the
47 energy from Churchill Falls Labrador Corporation and I
48 don't have the exact price now. I know what the price is
49 from Churchill but there's an add on. The actual rate now
50 changed down to 2.7 cents, and I think in ... 2.7 mills, I
51 should say, and in September of this year it reduces down
52 to 2.5, so whatever changes were in the power contract that
53 we had with Churchill for the purchase of CF(L)Co. power,
54 those rates ... and we sell to Hydro Quebec. Those same
55 rates applied to Hydro, so they would have reduced
56 accordingly over that same timeframe.

57 MR. HEARN, Q.C.: So it would be fair to understand that
58 your costs of energy for the Wabush system would, in fact,
59 be less than was stated at the 1985 report?

60 MR. OSMOND: Yes.

61 MR. HEARN, Q.C.: In terms of ... that's in terms of the
62 direct cost from CF(L)Co.?

63 MR. OSMOND: Yes.

64 MR. HEARN, Q.C.: What other costs would there be in
65 additional to the costs from CF(L)Co.?

66 MR. OSMOND: Of operating the Wabush system overall,
67 what other types of costs?

68 MR. HEARN, Q.C.: No. I'm thinking before you get into
69 the distribution costs I'm thinking of the purchase costs.
70 When you mentioned the 2.7 or 2.5 were you considering
71 the costs at Churchill or the costs at ...

72 MR. OSMOND: That's the power purchase cost, but
73 there's also a cost of the Wabush terminal station and so
74 on that we have to add on, a proportion of that, so we buy
75 the energy from Churchill and then we have the Wabush
76 terminal station that we charge a proportion of the cost in
77 our rate, as well as to Twin Co. and IOCC ... I'm sorry,
78 Wabush Mines and IOCC, so there's an add on for that
79 because it goes through that Wabush terminal station.

80 MR. HEARN, Q.C.: So the add on would reflect the
81 transmission costs from Churchill to Wabush?

82 MR. OSMOND: And whatever costs are incurred in going
83 to that terminal station.

84 MR. HEARN, Q.C.: And the operation of the terminal
85 station?

86 MR. OSMOND: Right.

87 MR. HEARN, Q.C.: What would ... would you be able to
88 tell us what the approximate add on would be for the
89 transmission of the energy from Churchill Falls?

90 MR. OSMOND: I don't have that, I don't have that

1 breakdown.

2 MR. HEARN, Q.C.: Okay. Is that something that Hydro
3 could provide if given time? I don't mean to surprise you
4 by asking you the numbers.

5 MR. OSMOND: I can check over lunch and see how big an
6 effort it would be to get that and just see if it's readily
7 available.

8 MR. HEARN, Q.C.: And maybe my next question would be
9 ... we'll get a similar answer. What would the costs related
10 to the operation of the terminal station itself be on a per
11 kilowatt hour basis?

12 MR. OSMOND: Okay.

13 MR. HEARN, Q.C.: So if you can check on that?

14 MR. OSMOND: We'll see if that's available.

15 MR. HEARN, Q.C.: But, generally speaking, would it be fair
16 to say that the energy costs you would expect would not
17 have increased from the ones referred to at page 11 of this
18 report and may, in fact, have decreased?

19 MR. OSMOND: I would expect that they probably
20 wouldn't have increased, certainly not significantly,
21 because the power purchase price from Churchill would
22 have declined. I'm just referring back to a summary I had
23 here going back from 1989 to 2001 of the operating costs.

24 MR. HEARN, Q.C.: That's after **LC No. 10**, the schedule
25 here?

26 MR. OSMOND: Yeah, page 2 of 2.

27 MR. HEARN, Q.C.: Yes. Okay, maybe that's a convenient
28 time to go to there.

29 MS. GREENE, Q.C.: What was that reference, please, **LC**?

30 MR. OSMOND: I'm sorry. I got a ...

31 MR. HEARN, Q.C.: **LC-10**.

32 MR. OSMOND: I think it's **LC-8**. It's **LC-10**?

33 MR. HEARN, Q.C.: **LC-10** is your ...

34 MR. OSMOND: I got a hole through mine. **LC-10**, page 2
35 of 2.

36 MR. HEARN, Q.C.: Yes.

37 MR. OSMOND: And there you can see how the power
38 purchase costs have changed. 1989 there's 237,000. The
39 load has changed, too, obviously, so you have a factor
40 with the load going up so power purchase would go up. In
41 1989 it's 237,400. If you go to 2000 it's 259,000, but that
42 would reflect load increases, as well, net of any reduction
43 in power purchase costs. Okay, so the energy sales would
44 have increased, partially offset by the decrease in the mill

45 rate.

46 MR. ALTEEN: If it might be some assistance, **MP-40** has
47 the contract between CF(L)Co. and Hydro there, and that
48 may be the contract which has the prices.

49 MR. OSMOND: No. I think that would be the actual price
50 from Churchill but there are other things that are added
51 onto the rate that we'll get from Mr. Hearn. Thank you, Mr.
52 Alteen.

53 MR. HEARN, Q.C.: Maybe if we can stay on **LC No. 10**,
54 because that was my intention was to go to that next and
55 just review that, and thank you, Mr. Osmond, for taking me
56 there. The energy sales from 1989 to 2000 have increased,
57 when we look at that, by a factor of somewhere in the range
58 of 15 to 20 percent, would that be right?

59 MR. OSMOND: Yeah, and that's a good point, because
60 you see as the energy sales go up, if sales go up power
61 purchase would have to go up.

62 MR. HEARN, Q.C.: Yes.

63 MR. OSMOND: So it's a direct linkage in the two numbers.
64 When you go down to power purchase you can see that
65 increase over time because load has gone up, but it also
66 reflects, as I say, the change in the purchase power price to
67 Churchill Falls which come down, so the sales have gone
68 up from 885,000 in 1989, increased in 1994 to 916 and now
69 it's up to \$1,090,000 in 2000.

70 MR. HEARN, Q.C.: Am I correct in understanding that
71 actually the total of power purchases, it appears, has not
72 directly tracked sales increases, that the actual unit price
73 appears to have declined slightly?

74 MR. OSMOND: Yeah, there would be a decline because
75 the change in the mill rate to Churchill has gone down from
76 2.7 ... we'll it's changed twice, I think. It went to 3.7, then it
77 was down to 2.7. It changed in September, 2001 to 2.5, so
78 there are automatic adjustments, mill rate adjustments in the
79 power contract with Churchill which I think we're all aware
80 of that are adjusted and will reduce the mill rate.

81 MR. HEARN, Q.C.: So we would expect another reduction
82 in 2001 is what you're saying?

83 MR. OSMOND: Well, September the rate changes in the
84 Churchill contract, the mill rate we buy power from
85 Churchill Falls, that goes down from 2.7 to 2.5 and that will
86 be reflected in the power purchase rate.

87 MR. HEARN, Q.C.: So would it be fair to say 2001 we
88 would expect a further per unit decrease?

89 MR. OSMOND: I think that is reflected in our numbers.

90 MR. HEARN, Q.C.: Well, you only go to 2000 here.

91 MR. OSMOND: No, I know, I know here, but in the

1 numbers that we projected out for the rate change and ...
2 not on this sheet.

3 MR. HEARN, Q.C.: Yes.

4 MR. OSMOND: But in any estimates we do we reflect the
5 most current contractual price from Churchill Falls, which
6 at that point in time would have reduced in September,
7 2001.

8 MR. HEARN, Q.C.: I'll take you to another schedule just to
9 clarify that point at a little later time, and if I don't remember
10 maybe you can ... you do do another schedule, the
11 Schedule 1 of your originally pre-filed evidence where you
12 actually go to 2001, but we'll come back to that. There's no
13 need to ... I'd like to stay on this schedule for a moment. In
14 the Wabush operations as you show from 1989 to 2000
15 there's an amount set out for depreciation?

16 MR. OSMOND: Yes.

17 MR. HEARN, Q.C.: And I just wondered how that is
18 calculated?

19 MR. OSMOND: That's based on the assets we put in
20 service, the numbers I mentioned in **LC-8**, minus the capital
21 contribution of \$2.5 million, and that's writing off those
22 assets over their estimated service lives, the distribution
23 lines, poles, whatever plant was put in terminal stations and
24 so on.

25 MR. HEARN, Q.C.: When you say contribution of 2.5,
26 we're thinking of Wabush here now, are you thinking of
27 after the contribution of three ...

28 MR. OSMOND: I'm sorry. Yeah, I got mixed in the two,
29 sorry. It's the \$3 million from Wabush.

30 MR. HEARN, Q.C.: Do you recall the life over which these
31 assets would be depreciated?

32 MR. OSMOND: I don't recall the specifics without going
33 to the annual reports, but I think the terminal station was
34 probably written off for 20 or 30 years and the transmission
35 lines probably the same, but I'd have to go back to the
36 annual report to see the exact timeframes, Mr. Hearn.

37 MR. HEARN, Q.C.: I notice ... that's certainly fair enough,
38 and that's ... I notice that the depreciation increases
39 substantially in 1995 to 1996. Is there some reason for that,
40 because that wasn't my understanding of when the
41 investments were actually made?

42 MR. OSMOND: Well, the investments were made ... we
43 took over the facility in 1992.

44 MR. HEARN, Q.C.: No, this would have been 19 ...

45 MR. OSMOND: I'm sorry.

46 MR. HEARN, Q.C.: Wabush again, I'm sorry.

47 MR. OSMOND: I keep going back to that.

48 MR. HEARN, Q.C.: Yes.

49 MR. OSMOND: Sorry about that.

50 MR. HEARN, Q.C.: No problem.

51 MR. OSMOND: Okay. Yeah, the assets came in the service
52 in '87 to through 1992, and there other assets, I presume,
53 after that, and what the depreciation is reflecting is the
54 amortization of those costs over their useful lives. I'm not
55 sure what the big jump was from '95 to '96 specifically,
56 which assets went in service in that timeframe.

57 MR. HEARN, Q.C.: Well, perhaps I might just ... that might
58 be another point to note to clarify, because that didn't
59 appear to accord with the time of the capital improvements
60 being made.

61 MR. OSMOND: Okay.

62 MR. HEARN, Q.C.: And the depreciation appears to be
63 somewhat consistent past that period of time, would that
64 be fair to say?

65 MR. OSMOND: That's correct.

66 MR. HEARN, Q.C.: The interest on the operating assets, I
67 wonder the base of calculating that interest?

68 MR. OSMOND: That would be the same base as we have
69 for other assets. My understanding that would be the
70 imbedded cost of debt that we're using and you can see it
71 was higher initially starting from '89 through 1995 and
72 that's because the rates were much higher. At that point in
73 time I think they were up in the double digit range and they
74 dropped off in the last couple of years. Our embedded of
75 cost for debt now, I think, was around 8.3, .4 percent.

76 MR. HEARN, Q.C.: Would this interest relate to the
77 Wabush system only?

78 MR. OSMOND: This interest here relates specifically to the
79 Wabush. These are costs associated to Wabush alone.

80 MR. HEARN, Q.C.: As I understood you, you acquired the
81 assets of Wabush for \$1?

82 MR. OSMOND: Yeah.

83 MR. HEARN, Q.C.: And then your depreciation doesn't
84 show as being a huge expenditure at that period of time
85 from my assumption, yet the interest appeared to be a
86 higher number?

87 MR. OSMOND: Yeah, but we had the amount would
88 depreciate in the net assets. The capital would be put in
89 minus the contribution.

90 MR. HEARN, Q.C.: Yes.

91 MR. OSMOND: So we had \$3 million of net assets that

1 would attract interest.

2 MR. HEARN, Q.C.: And that's the ... so you're saying by
3 1989 you would expect that 3 million figure to have been
4 expended?

5 MR. OSMOND: Well, I think this reflects the timing of the
6 assets going in in the service, so by the time they actually
7 went in, which probably would have been 1991, '92, some
8 assets ... as they went into service the interest would be an
9 operating cost as opposed to a capital cost, so this reflects
10 the interest on those assets that went in service and which
11 we still have on our books, so it's an interest cost
12 associated with financing those facilities.

13 MR. HEARN, Q.C.: And that interest appears to be
14 virtually consistent from the years 1990 up to 2000, does it
15 not?

16 MR. OSMOND: Well, it drops off to ... for 1990 to '92 it
17 drops off.

18 MR. HEARN, Q.C.: There's a drop from 1989 to 1990, and
19 then apart from 1992 it sort of ...

20 MR. OSMOND: Drops down.

21 MR. HEARN, Q.C.: ... it stays around the same level, does
22 it not, for most of that decade?

23 MR. OSMOND: For the next four years it stays around 107,
24 \$108 million, except for '95 which it dropped off, and then
25 it goes back-up to 112 and now it's down to 98, because the
26 interest rates have dropped.

27 MR. HEARN, Q.C.: Yeah. That represents virtually only
28 the fluctuations in the interest rates, I take it?

29 MR. OSMOND: Yeah. It's based on our embedded costs
30 of debt each year, and that changes.

31 *(11:30 a.m.)*

32 MR. HEARN, Q.C.: The debt guarantee fee, can you
33 explain the application of the debt guarantee fee to the
34 Wabush system?

35 MR. OSMOND: Well, this applies to the debt we had to
36 arrange and finance. As you know, we had to pay a one
37 percent debt guarantee fee on all of our debt.

38 MR. HEARN, Q.C.: Yes.

39 MR. OSMOND: So this is the proportion of the guarantee
40 fee related to the debt we would have had, our overall debt
41 to finance the capital additions for Wabush, and that's a fee
42 that we pay to the province, part of which is allocated to
43 Wabush.

44 MR. HEARN, Q.C.: There's no debt guarantee fee for 1989.
45 Do I take it it wasn't applicable at that time?

46 MR. OSMOND: That's when the guarantee fee actually
47 came in.

48 MR. HEARN, Q.C.: Yes.

49 MR. OSMOND: And it's effective for 1990.

50 MR. HEARN, Q.C.: You show net operating expenses,
51 starting at 449 in 1989 and decreasing now to 352,872 in the
52 year 2000. What would be included in that category?

53 MR. OSMOND: Well, that category recovers such things
54 as salaries, maintenance of the system, part supplies, office
55 expenses of the facility up there in Wabush and general
56 overheads, but the biggest part of that would be the
57 administrative ... the staff there, plus the maintenance
58 required with the facilities, plus the overhead associated
59 with the office there.

60 MR. HEARN, Q.C.: Dealing with staff, and I was referring
61 you to your earlier evidence where you expected the facility
62 to be staffed by approximately seven people, what I
63 extrapolated from the evidence. Do you have any idea of
64 what the staffing levels would have been in 1989 in
65 Wabush?

66 MR. OSMOND: I don't have that level of detail with me,
67 no.

68 MR. HEARN, Q.C.: But that's something that we could
69 obtain?

70 MR. OSMOND: If you desire that.

71 MR. HEARN, Q.C.: Yes.

72 MR. OSMOND: Well, we'd try to go back and get it. It's 12
73 years ago.

74 MR. HEARN, Q.C.: Yes, it does certainly and I understand
75 that some of these things may not be readily available. Can
76 you give us some idea of the staffing levels at Wabush at
77 the present time?

78 MR. OSMOND: I don't have that readily with me, either.

79 MR. HEARN, Q.C.: No, but I would take it that figure ...

80 MR. OSMOND: But that I can get for you.

81 MR. HEARN, Q.C.: That can be gotten. Perhaps can you
82 tell me ... there's been a dramatic reduction it seems from
83 1997 to 1998 with respect to the net operating expenses.
84 Why would that be?

85 MR. OSMOND: Again, I haven't got the detailed breakout.
86 I presume it may be lower maintenance costs at that point
87 in time. As I say, the major costs in there were salaries,
88 maintenance and maintenance can fluctuate from year-to-
89 year, so I think the significant cost that may be varying
90 there, other than the staff, would be our maintenance costs.

- 1 MR. HEARN, Q.C.: It's nothing that comes to mind in terms
2 of ...
- 3 MR. OSMOND: Nothing comes to my mind right now.
- 4 MR. HEARN, Q.C.: The overheads that would be included
5 as well and then operating expenses, can you give me some
6 idea of what those overheads would be as categories?
- 7 MR. OSMOND: Well, the overhead ... well the costs
8 associated with, as I just mentioned for Wabush, would be
9 the actual cost of running that particular facility which
10 would be your office staff, would be the maintenance staff
11 and so on. That's the specific overheads.
- 12 MR. HEARN, Q.C.: Would there not be some overheads
13 that relate to the operation of Hydro as well that would be
14 attributed to this particular office or the Happy Valley-
15 Goose Bay, for example?
- 16 MR. OSMOND: I don't think there's anything there
17 specific, specifically allocated to Wabush for overheads.
18 I'd have to check on that. I don't think there is.
- 19 MR. HEARN, Q.C.: Again, don't ... some of these things we
20 can perhaps clarify but nothing either to your
21 understanding with respect to Happy Valley-Goose Bay?
- 22 MR. OSMOND: As part of an allocation of their cost?
- 23 MR. HEARN, Q.C.: Yes.
- 24 MR. OSMOND: Only if there is staff working on a
25 particular facility. If they're working on maintenance those
26 costs would have been allocated to Wabush but other than
27 that I don't think there's anything allocated from Happy
28 Valley-Goose Bay.
- 29 MR. HEARN, Q.C.: I'm thinking if you're operating a
30 headquarters that you might allocate some other costs
31 whether for either in here or for Happy Valley-Goose Bay as
32 attributed to that system as part of the overall
33 organizational costs?
- 34 MR. OSMOND: I'd have to check. I don't know, Mr.
35 Hearn.
- 36 MR. HEARN, Q.C.: That's certainly fair. In '92 you then
37 took over the operations of the Labrador City system?
- 38 MR. OSMOND: That's correct.
- 39 MR. HEARN, Q.C.: Am I correct in understanding that this
40 would then be run as from the same office with effectively
41 one system?
- 42 MR. OSMOND: That's my understanding.
- 43 MR. HEARN, Q.C.: There is some cost reduction in '92
44 from '91. Is that a reflection of that?
- 45 MR. OSMOND: I don't know. It's ten years back. I don't
46 know what that reduction would be.
- 47 MR. HEARN, Q.C.: From your understanding would there
48 have been some synergies from operating the two towns as
49 one system?
- 50 MR. OSMOND: As being more effective?
- 51 MR. HEARN, Q.C.: Yes. I'm thinking you wouldn't have to
52 duplicate your staff. If you had a supervisor you wouldn't
53 need another supervisor, if you had a line foreman you
54 wouldn't need another line foreman.
- 55 MR. OSMOND: Yeah. The operation of Lab City and
56 Wabush was administered through specifically Wabush,
57 so it was done effectively through that operation, and there
58 would be some synergies.
- 59 MR. HEARN, Q.C.: So where you had a certain compliment
60 of people, from your understanding, would that
61 complement have changed once you took over Labrador
62 City and if so, by what number?
- 63 MR. OSMOND: I don't have the compliment now. I'd have
64 to go back on that.
- 65 MR. HEARN, Q.C.: Yeah. Well, maybe ...
- 66 MR. OSMOND: If I knew you needed that I would have
67 had that with me but unfortunately I didn't.
- 68 MR. HEARN, Q.C.: I'm sorry, and perhaps I should have ...
- 69 MR. OSMOND: That's fair enough, I should have had it.
- 70 MR. HEARN, Q.C.: I don't mean to surprise you with any
71 of these sort of things. Maybe that's something that we
72 can even ... we can discuss at a break and talk about filing
73 by way of some supplementary questions.
- 74 MR. OSMOND: Yeah. I certainly don't mind getting it for
75 you.
- 76 MR. HEARN, Q.C.: Yeah, so certainly ... because I would
77 like to know just how the compliment had changed from
78 taking over the two systems and what it has been over the
79 years. Which, I guess, gets me into my next question, is
80 that you've done these calculations for the Wabush
81 operations showing their costs, the revenue and expenses
82 and the net figure at the bottom. Why were these
83 calculations made?
- 84 MR. OSMOND: These were done because they tie in to
85 the surplus that applies to Wabush that would have to be
86 refunded subject to the Board's review in this hearing
87 based on the rates that were set in 1987, so we needed to
88 determined what the costs were, what the revenues were
89 and what any overall surplus was that was applicable to
90 each of those years that we'd have to accumulate and
91 refund to the customers in due course.

1 MR. HEARN, Q.C.: I'm looking at these figures. There's
2 not a lot of categories to be mentioned, so I take it it's not
3 a terribly taxing thing to provide these figures?

4 MR. OSMOND: This particular sheet here?

5 MR. HEARN, Q.C.: Yes.

6 MR. OSMOND: No. It's basically sort of an income
7 statement, the costs and the revenues associated with
8 Wabush and the difference obviously being the surplus.

9 MR. HEARN, Q.C.: Has a similar calculation been made for
10 Labrador City?

11 MR. OSMOND: No, it has not.

12 MR. HEARN, Q.C.: How difficult would that be to do?

13 MR. OSMOND: We don't have a cost of service for
14 Labrador City for the last ten years.

15 MR. HEARN, Q.C.: Would you not have ... you know, the
16 categories that are here, the energy sales for Labrador City
17 wouldn't be very difficult to assess, would they?

18 MR. OSMOND: Well, without saying whether we have
19 that I'd have to check with our staff and see if we got that
20 level of detail. I'm not sure if we have that level. I'd be
21 surprised if we did. This is broken down specifically for
22 Wabush because there was a requirement back in ... I guess
23 it was actually a court order to identify and segregate the
24 surplus associated with Wabush and have that refunded
25 back to consumers at a point in time to reduce the ... to
26 refund directly to consumers, either through rates or
27 through a refund specifically.

28 MR. HEARN, Q.C.: Are you telling me that all of the
29 energy is coming from Churchill Falls, is it not?

30 MR. OSMOND: Yes, it is.

31 MR. HEARN, Q.C.: It's all been supplied to Labrador west?

32 MR. OSMOND: Yes.

33 MR. HEARN, Q.C.: And I'm assuming that if you break
34 down one portion of the sale that you'll have the figure
35 from CF(L)Co. then it can't be that difficult to then provide
36 the other component of the (inaudible).

37 MR. OSMOND: That's the part I'm not sure of. The sales
38 side we probably would have. I'm not sure about all the
39 other details, Mr. Hearn.

40 MR. HEARN, Q.C.: And the power ... well, the power
41 purchases, again, that would be from CF(L)Co., so that
42 wouldn't be ... I'm assuming it wouldn't be terribly difficult.
43 I don't know if that's an accurate assumption or not.

44 MR. OSMOND: Well, I don't know until I ask.

45 MR. HEARN, Q.C.: Yes, certainly. Fair enough. Maybe

46 we'll come back to that, as well.

47 MS. GREENE, Q.C.: I think I should point out for the
48 benefit of the Board, we don't track any area in terms of
49 operating expenses for Bay d'Espoir or for Ramea by each
50 individual area. This was done for Wabush because it was
51 a special requirement. While we may have energy sales
52 and power purchases, again, I doubt that we would have
53 specific costs for each area. I know we don't have them for
54 each area in which we operate, but we will discuss it with
55 our staff over the break in terms of the operating expenses,
56 etcetera.

57 MR. HEARN, Q.C.: But this particular area is different from
58 most of your other areas in that you have two towns
59 together run from one office, isn't that right?

60 MS. GREENE, Q.C.: No, we have other situations, for
61 example, on the Great Northern Peninsula. It's how we have
62 historically recorded our expenses and we have not broken
63 them down by each town or community in which we
64 operate, but we will discuss that with the staff over the
65 break.

66 MR. HEARN, Q.C.: Not to unduly belabour it, but in this
67 situation you are running Labrador City and Wabush from
68 the Wabush office?

69 MR. OSMOND: Yes, we are.

70 MR. HEARN, Q.C.: And you are tracking the Wabush
71 costs because of a requirement to track it as a result of the
72 directions that were given by this Board in the 1980s?

73 MR. OSMOND: That's correct.

74 MR. HEARN, Q.C.: So therefore, you were tracking the
75 costs of the Wabush office and the costs that would be
76 attributable to the Wabush system, would that be fair to
77 say?

78 MR. OSMOND: That's what we have here, yes.

79 MR. HEARN, Q.C.: Yes, so I'm assuming that if you're
80 allocating a portion of costs, that means you've got to keep
81 a record of your entire costs and the allocation?

82 MR. OSMOND: Yeah. I'm not sure how that's done, that's
83 why I'd like ...

84 MR. HEARN, Q.C.: Well, that's certainly fair enough, but
85 that's ...

86 MR. OSMOND: Because we need to look at ... but we
87 don't, as Ms. Greene said, we don't normally allocate by
88 community or town.

89 MR. HEARN, Q.C.: I can ...

90 MR. OSMOND: We'll look at it over the break and see
91 what we do actually have.

1 MR. HEARN, Q.C.: I understand that that might not be the
2 case in some other parts of the province, but I wondered if
3 this situation were significantly different where you might
4 have those sort of records and it might be possible to do it
5 without ... do you recall the basis on which the rates were
6 set for Wabush, were they set on assuming that you were
7 going to get a rate of return and break even basis when that
8 order was obtained from the Board in the late 1980s?

9 MR. OSMOND: There's a whole story about Wabush. I'm
10 not sure how long we have. Maybe I can just go through
11 because I had to go back and refresh my memory too, and
12 you were probably ... some of us were there, sorry, Mr.
13 Hutchings, I don't mean to do this.

14 MS. GREENE, Q.C.: Many of us were there.

15 MR. OSMOND: Many of us were there, many of us were
16 there getting older, right.

17 MS. GREENE, Q.C.: Including the Board and its staff.

18 MR. OSMOND: As we said, we acquired Wabush in 1985,
19 and in 1987 we had a public hearing in Wabush for rates for
20 1988 to 1990, and those recommendations were approved
21 by the government and by the PUB, but they were referred
22 to the Supreme Court. The PUB recommended that the
23 rates for 1988 to 1990 would recover prior years' losses. If
24 you go back to one of the schedules you'll see losses from
25 1985 to 1988, and they also recommended that the
26 contribution in aid of 3 million should be a capital
27 contribution as opposed to an operating contribution. It
28 went to Court and the Court confirmed that the 3 million
29 contribution should be capital, confirmed the PUB, but they
30 disallowed ... or they allowed ... I have to phrase this. They
31 allowed the Town of Wabush's appeal, which means they
32 overturned the ruling as it related to the rates to be charged
33 in Happy Valley-Goose Bay, so we couldn't recover the
34 prior years' losses, and they also indicated that losses
35 related to future years should not be recovered in rates as
36 well. In other words, we should operate on a break even
37 basis, and that's what we filed the application for and then
38 it was confirmed, so we've basically been presenting just
39 basic cost recovery, no margin, no profit, and hence, that's
40 how this schedule was derived, that anything that fell out
41 of that was then to be refunded to consumers, either at the
42 next rate hearing or the time it came back or as reduction in
43 their rates, and we came back, I guess, twice to the Board
44 and wrote them in 1992 indicating that we had surpluses
45 that were materializing and the Board indicated, well let's
46 look at that for our next referral. In 1992 it was in the
47 application and it was taken out. So we wrote the Board
48 again saying here's how much we have, and the Board
49 indicated then bring it forth in your next rate application to
50 reduce any potential increases for Wabush specifically and
51 that's what we have in the application right now, that

52 refund, so I guess the answer to the first question is that
53 rates are based on cost only, with no margin of profit.

54 MR. HEARN, Q.C.: And cost, assuming that they would
55 only be set as a break even basis?

56 MR. OSMOND: That's correct.

57 MR. HEARN, Q.C.: So happily, the experience has been a
58 bit better than that, has it not?

59 MR. OSMOND: Happy in the sense that it's a higher
60 surplus, is that what you mean?

61 MR. HEARN, Q.C.: Yes.

62 MR. OSMOND: Yes. I guess Wabush will be happy.

63 MR. HEARN, Q.C.: Is there ... this goes back, I guess, to
64 the earlier question of expenses, but the surplus appears to
65 dramatically change from '91 to '92 and then again in '98
66 and subsequent years. Is there any particular reason that
67 that ...

68 MR. OSMOND: Well, I think if you need to go down
69 through the numbers, some of that is due to load energy
70 sales. In '91 and '92 revenue went up by \$30,000, 35,000
71 and the interest costs went down so you got two items that
72 are favourable which would increase your profit for 1992
73 over 1991, and as you go through each one you can see
74 that, there's load is increasing. I mean in 1992 sales were
75 \$945,000 and then you see in 1997 it went to 960 and it's up
76 to \$1 million, almost \$1.1 million now so that obviously will
77 flow out to your bottom line. I mean look at the power
78 purchases, the power purchases in 2000 are not
79 significantly higher than our costs in 1989, and actually the
80 overall costs in 1989 were 883,000 and in 2000 they were
81 820, but the revenues were up by \$200,000. Hence, that's
82 why we have a larger surplus for that year.

83 MR. HEARN, Q.C.: So you're getting close to 30 percent as
84 an overall surplus after meeting all expenses there on an
85 annual basis right now?

86 MR. OSMOND: Well, for the last couple of years that's
87 where it's been, but certainly prior to that it's been lower
88 than that. It's been jumping back and forth.

89 *(11:45 a.m.)*

90 MR. HEARN, Q.C.: Yeah. I'm saying for the last couple of
91 years, and your projections for 2001, are they ...

92 MR. OSMOND: We projected the same numbers for 2000,
93 pretty well. I think it's 315 we projected rather than 312.

94 MR. HEARN, Q.C.: Yes, and does that 315 take into
95 account the decrease in pricing that you'd mentioned?

96 MR. OSMOND: Yes. That's my understanding, we're
97 given the number.

1 MR. HEARN, Q.C.: You revised some numbers, for
2 example, on the rural deficit. Has there been any reason to
3 revise the 2001 numbers with respect to Wabush or is that
4 something ...

5 MR. OSMOND: Not to my knowledge, not that I'm aware
6 of now.

7 MR. HEARN, Q.C.: What are Hydro's plans for the surplus
8 in Wabush?

9 MR. OSMOND: Well, that's spelled out very much so in
10 my evidence.

11 MR. HEARN, Q.C.: Yes.

12 MR. OSMOND: As to we're recommending to the PUB and
13 we abide by their decision obviously, that should be ...
14 we're suggesting that would be refunded to the customers
15 in Wabush. Maybe I can just go to that specifically, I just
16 want to be clear on it. That's on page 16 of my evidence.
17 I guess on line 1 I say, "Are there any other issues you
18 wish to discuss related to the Labrador interconnected
19 system?" And I go on to say, "There's a matter with
20 regards to the rates for Wabush customers. An (inaudible)
21 report dated November 10th the Board approved rates for
22 Wabush. The Board's report also stated that in future
23 years PUD achieves a surplus on Wabush the surplus shall
24 be refunded to customers. Since that time Hydro has been
25 recording annually in its financial statement an estimate of
26 the surplus based on the costing methodology used in
27 setting Wabush rates." Then I go on to explain. Did you
28 wish me to go through this just to explain?

29 MR. HEARN, Q.C.: Yes, please?

30 MR. OSMOND: Okay. I'll just read through. I say, "As
31 outlined in the Schedule 1 of my evidence, there was a total
32 amount of \$2.9 million including interest for the years 1989
33 to 2001 using the costing methodology originally used to
34 establish rates." And that's the ones we just went through
35 a few minutes ago showing what those costs and revenues
36 would be. "In a letter to the Board dated February 26th,
37 1993, a copy of which is attached to my evidence in
38 Schedule 2, Hydro outlined two options with respect to
39 dealing with the surplus that had accumulated for the years
40 1989 to 1992 inclusive. The first option was to refund this
41 amount to customers based on each customer's
42 proportionate share of the 1992 Wabush revenues. The
43 second option was to defer the matter until the next rate
44 referral. This option pointed out that the cost of service
45 methodology recommended by the Board in its report dated
46 February, 1993, allocates more costs to the Labrador
47 interconnected customers than before and the existing
48 surplus could be used to offset increases in rates for these
49 customers at the next rate hearing. In a reply dated March
50 19th, 1993, a copy of which is attached to my evidence as

51 Schedule 3, the Board deferred the matter and stated that
52 at that time the existing surplus would be used to offset
53 increases in rates for the customers in Wabush. Due to the
54 uncertainty surrounding the exact treatment of the issue,
55 Hydro has tentatively recorded the surplus using
56 methodology originally used to set Wabush rates until the
57 issue can be formally addressed before the Board. At this
58 time Hydro is proposing to refund the surplus accumulated
59 for the years 1989 to 2001 of 2.9 million to Wabush
60 customers in 2002, based on each customer's proportionate
61 share of the 2001 revenues, unless Hydro is otherwise
62 directed by the Board."

63 MR. HEARN, Q.C.: And that's still your position at the
64 present time?

65 MR. OSMOND: Yes, it is.

66 MR. HEARN, Q.C.: Looking at the Wabush rates, would it
67 be fair to say that I calculate this surplus in 2000 as being
68 roughly 27 1/2 to 28 percent, that the Wabush rates on a
69 cost recovery basis are approximately not much higher than
70 they need to be in order to recover costs, to look at the
71 surplus in another fashion for Wabush only?

72 MR. OSMOND: You're looking at the schedule with the
73 surplus versus the revenues?

74 MR. HEARN, Q.C.: Yes. I'm just saying that if you look at
75 your Wabush operations **LC-10**, page 2 of 2, looking at the
76 year 2000 with the \$312,000 surplus on \$1.1 million revenue,
77 approximately 27 1/2, 28 percent?

78 MR. OSMOND: Yeah. That's on the methodology that
79 was employed for Wabush for that period of time until we
80 came back to the Board. What we have now, as you can
81 see in our evidence, is concurring with the Board's
82 recommendation in 1992 in which we recommended, is to
83 have one Labrador interconnected rate, and that would be
84 for Labrador City-Wabush and Happy Valley-Goose Bay.
85 The table you see there in **LC-10** was done specifically
86 based on the Court order and based on the PUB decision
87 back in 1987 to identify any cost or surpluses and to refund
88 those back pending any rate referral.

89 MR. HEARN, Q.C.: And this Board order was to calculate
90 the costs in relation to Wabush?

91 MR. OSMOND: On the basis that we had applied back in
92 1987,

93 MR. HEARN, Q.C.: Yes.

94 MR. OSMOND: Subject to the next rate application, and
95 here we are.

96 MR. HEARN, Q.C.: And on that basis, your 2000 revenue
97 recovery was approximately 28 percent higher than you
98 needed to cover your costs as set out at that time and in

1 that order?

2 MR. OSMOND: Based on those costs, but I think we've
3 identified in our letter all the costs aren't there, obviously.
4 It was a true allocation through a cost of service study.
5 This is just based on ...

6 MR. HEARN, Q.C.: Well, I realize ...

7 MR. OSMOND: This is just based on the costing that we
8 had used in 1987, which is basically just sort of an income
9 statement. It doesn't come up with true cost assignments
10 and so on.

11 MR. HEARN, Q.C.: Well, I realize that you're proposing a
12 different cost allocation now, so you're proposing to add
13 other costs to that system, but based on your calculation
14 of the costs that were set out here at the time you're
15 recovering 28 percent more than you needed to cover the
16 costs as were allocated then?

17 MR. OSMOND: For that particular year, if that's how you
18 derive the 28 percent.

19 MR. HEARN, Q.C.: And that's been relatively consistent
20 for the past three years, including this year?

21 MR. OSMOND: Yes, and any difference, I mean that
22 difference, as I explained in my evidence, has gone into an
23 account on which we pay interest and that amount is
24 accumulated from 1989 to 2000 or up to 2001 to \$2.9 million,
25 including interest and will be refunded to customers.

26 MR. HEARN, Q.C.: Yes, yes. The transmission from
27 Churchill to the Wabush terminal station, who owns that
28 transmission line?

29 MR. OSMOND: I'm sorry, from where?

30 MR. HEARN, Q.C.: The transmission line from Churchill
31 Falls to Wabush.

32 MR. OSMOND: Churchill?

33 MR. HEARN, Q.C.: Is that owned by Hydro or is that
34 owned by Twin Co.?

35 MR. OSMOND: It's my understanding it's owned by Twin
36 Co.

37 MR. HEARN, Q.C.: That was my understanding as well,
38 and I believe it's covered in one of the other witnesses'
39 evidence, but I wanted to be clear on that.

40 MR. OSMOND: Yeah, I'm pretty sure, Mr. Hearn, it is Twin
41 Co.

42 MR. HEARN, Q.C.: Yes.

43 MR. OSMOND: I should know, I'm on the Board, but I'm
44 pretty sure it is Twin Co.

45 MR. HEARN, Q.C.: And that was my clear understanding

46 and if that's wrong I'm sure somebody from Hydro ...

47 MR. OSMOND: Don't accuse me of perjury, but no.

48 MS. GREENE, Q.C.: For the record, I'll confirm the lines are
49 owned by Twin Falls Power Corporation Limited from
50 Churchill to the Wabush terminal station and Twin Wheels,
51 at no charge, owe those lines to supply energy to Hydro at
52 the terminal station.

53 MR. HEARN, Q.C.: Thank you, Ms. Greene, you've
54 clarified one of the things I wasn't clear about, as to
55 whether or not there was a wheeling charge, and that would
56 be the same line over which the energy for Labrador City
57 would be supplied?

58 MR. OSMOND: Yes.

59 MR. HEARN, Q.C.: And do I understand then it would be
60 the same wheeling arrangements with respect to Labrador
61 City, as well?

62 MR. OSMOND: That's correct.

63 MR. HEARN, Q.C.: Is there any other generation facilities
64 in the Labrador City-Wabush area, other than the energy
65 supplied from Churchill Falls, any back-up generation
66 facilities of any sort?

67 MR. OSMOND: Back-up, not specifically in Labrador City
68 or Wabush. It's back-up generation in Happy Valley-Goose
69 Bay, and we have a 25 megawatt, I think it's 25 megawatt
70 gas turbine plus diesel facilities there as well in Happy
71 Valley-Goose Bay.

72 MR. HEARN, Q.C.: Yeah. I'll come to those, but for
73 Labrador west there's no back-up generation facilities?

74 MR. OSMOND: No. It's primarily from Churchill.

75 MR. HEARN, Q.C.: Is that any cause of concern?

76 MR. OSMOND: To Hydro?

77 MR. HEARN, Q.C.: Yes.

78 MR. OSMOND: No. I think the reliability on those lines
79 have been pretty good.

80 MR. HEARN, Q.C.: And, in fact, there's a line that's ...

81 MR. OSMOND: Now, there have been some outages, I
82 know, with lightning and so on in the summer. That's one
83 of the reasons we've had a gas turbine and so on as back-
84 up Happy Valley-Goose Bay. That can also supply energy
85 going the other way, back to Churchill and Labrador City
86 and Wabush.

87 MR. HEARN, Q.C.: There's also a line to Fairmont. Is that
88 capable of supplying energy, as well?

89 MR. OSMOND: It does, but a very small amount, very,
90 very low, very, very small quantities, a very small 12 kV line

1 or something like that, or even lower.

2 MR. HEARN, Q.C.: Okay. This is a little bit of an aside and
3 if it's an unfair question to you, then certainly ... I notice
4 that there's been an increase in line losses from Churchill.
5 Is there any particular reason for that or is that ... there
6 seemed to be a dramatic increase in line losses from
7 Churchill. If that's something I should refer to another
8 witness, then by all means.

9 MS. GREENE, Q.C.: There is an RFI on that, the
10 explanation of the increase in the line losses from ... that
11 particular question was asked in an RFI and there is an
12 answer provided in an RFI if Mr. Hearn would like to take
13 Mr. Osmond to it.

14 MR. HEARN, Q.C.: I'm sorry, which?

15 MS. GREENE, Q.C.: It's **LC-14**, I believe.

16 MR. HEARN, Q.C.: Oh. Perhaps you can go to **LC-14**. Is
17 that an area you're comfortable in discussing, Mr. Osmond,
18 or is that something that I shouldn't ...

19 MR. OSMOND: I'm not an engineer. I mean I can see what
20 we're saying here but it's not an area I'm really comfortable
21 with.

22 MR. HEARN, Q.C.: Okay, that's fine. Does it have any
23 statistical significance with respect to revenues?

24 MR. OSMOND: I guess the losses impact the amount we
25 actually had to pay for with regards to Churchill, this
26 impacts the energy.

27 MR. HEARN, Q.C.: So is this ... are these losses, given the
28 energy amounts that we're talking about for Labrador City-
29 Wabush, does it result in any significant difference in the
30 revenue?

31 MR. OSMOND: It would have some change. I don't know
32 if it would be classified as significant. There'd be some
33 impact on the power purchased.

34 MR. HEARN, Q.C.: The energy that's purchased from
35 CF(L)Co., and perhaps you can refer to **LC-11** for this, I
36 just wondered about the costing for the energy for the
37 Labrador interconnected system, and I understand, from
38 **LC-11**, that CF(L)Co. doesn't invoice Hydro specifically for
39 services to the Labrador interconnected system customers,
40 but invoices for the total recapture of 300 megawatts and 90
41 percent load factor at the contract price. Is that how it's
42 done at the present time?

43 MR. OSMOND: That's what it's saying here and I would
44 agree with that, yes.

45 MR. HEARN, Q.C.: Is that 300 megawatts recapture used
46 in Labrador?

47 MR. OSMOND: All of it isn't. We recapture ... I forget the

48 exact split, but the remainder is sold through the Hydro
49 Quebec as recall power, and this is an issue we discussed
50 over the last several days and prior to that, so we do recall
51 300 megawatts, and I think, I could be wrong, it's about 175,
52 176 for Labrador and 120 odd, whatever is left, would be
53 sold to Hydro Quebec under the three year arrangement we
54 have with Hydro Quebec as recall power.

55 MR. HEARN, Q.C.: So how is that revenue accounted for
56 within the Labrador interconnected system?

57 MR. OSMOND: The recall revenue, the load associated
58 with that is separated. We know what our sales are, we
59 know what our power purchase costs are and any costs
60 associated with that and they are separated, and you can
61 see in some of the tables Mr. Roberts and others have filed
62 and other RFIs what the revenue streams would be and the
63 net costs associated with providing that energy and selling
64 it to Hydro Quebec, so we do take the cost, power
65 purchase cost and the revenue costs associated with it.

66 MR. HEARN, Q.C.: So this indicated that the entire system
67 was invoiced for the total recapture. You're saying that we
68 only pay for the proportionate share that we use, is that my
69 correct understanding?

70 MR. OSMOND: We, meaning the Labrador system?

71 MR. HEARN, Q.C.: Yes.

72 MR. OSMOND: That's correct.

73 MR. HEARN, Q.C.: Yes, sorry. It's reflecting where I live.

74 MR. OSMOND: We pay the whole shot.

75 MR. HEARN, Q.C.: Yes, but in terms of reflecting our
76 costs, it's not for the entire 300 megawatts going to the
77 Labrador interconnected system?

78 MR. OSMOND: That's right. It's the portion that's the
79 amount that you don't use in Labrador for Labrador City-
80 Wabush and Happy Valley-Goose Bay. Whatever is left
81 over we sell out west to Hydro Quebec under a three year
82 agreement and the mill rate that we have presently in place,
83 and I think over a three year period there's a cap of \$98.5
84 million in those sales, so it is segregated and the cost
85 associated with that recall are segregated, so you don't ...
86 those costs are not allocated to Lab City and Wabush and
87 Happy Valley-Goose Bay.

88 MR. HEARN, Q.C.: Are any of the revenues from that
89 recall sale allocated to the Labrador interconnected system?

90 MR. OSMOND: No.

91 (12:00 noon)

92 MR. HEARN, Q.C.: Am I correct in understanding that
93 there is a substantial profit from the sale of the recall
94 energy?

1 MR. OSMOND: Yes, there is. The order of magnitude, I
2 think, the last couple of years and for next years, it's
3 probably in the order of \$25 million, somewhere around
4 there. Maybe a little bit more, a little bit less, but 25, \$26
5 million is net profit.

6 MR. HEARN, Q.C.: And this may have been discussed
7 when other people were cross-examining you, but how is
8 that profit treated by Hydro?

9 MR. OSMOND: That's a non-regulated sale, and we
10 separate the revenues and the costs associated with that.
11 It does not form any part of the cost of service study, the
12 cost or the revenues, and whatever that profit is we pay to
13 the province in their dividend, and right now that's to be
14 paid out at 100 percent.

15 MR. HEARN, Q.C.: The rates in the Happy Valley-Goose
16 Bay area, how have they been set up to now?

17 MR. OSMOND: They were set ... this is going to be going
18 back prior to my time, which is a long way back. They were
19 set based on the island rates, which were Newfoundland
20 Power's rates, and they were frozen in 1981 by the Minister
21 and by the province, so those rates are still ... well, they're
22 not the island rates any more, but they were at that time.
23 They were frozen since '81 and there has been no change
24 whatsoever in that rate structure, but prior to '81 they were
25 the same as the island interconnected rates, even including
26 any adjustments we have for fuel or whatever.

27 MR. HEARN, Q.C.: Was that based on any cost of service
28 study?

29 MR. OSMOND: The freezing of the rates?

30 MR. HEARN, Q.C.: Yes.

31 MR. OSMOND: No. That was based on, I believe, a
32 government directive and the Board, confirmed by the
33 Board.

34 MR. HEARN, Q.C.: But where there any studies done to
35 assess costs for the Happy Valley-Goose Bay area from
36 1980 to the present?

37 MR. OSMOND: No.

38 MR. HEARN, Q.C.: So there was no calculation as to
39 whether or not they were over earning or under earning
40 based on the cost of supply?

41 MR. OSMOND: After 1981?

42 MR. HEARN, Q.C.: Yes.

43 MR. OSMOND: No.

44 MR. HEARN, Q.C.: The energy for Happy Valley-Goose
45 Bay, what are the sources?

46 MR. OSMOND: Same as for Labrador City and Wabush, it

47 comes from Churchill Falls.

48 MR. HEARN, Q.C.: You've mentioned, as well, that there's
49 additional besides the energy generated at Churchill Falls.
50 What are the other sources besides Churchill Falls?

51 MR. OSMOND: We have back-up generation. We have,
52 I think it's a 25 kV ... 25 megawatt, 25 megawatt gas turbine
53 in Happy Valley and I think that's been there for probably
54 at least 20 years, maybe even more than that, and we have
55 some diesel generation there, as well. I'm not sure what the
56 diesel generation installed, it's probably in the 10 megawatt
57 range.

58 MR. HEARN, Q.C.: The 25 megawatt gas turbine was
59 installed approximately when?

60 MR. OSMOND: I'm guessing, I think it's probably 20 ...
61 early '90s.

62 MR. HEARN, Q.C.: What was the purpose of the
63 installation of the gas turbine?

64 MR. OSMOND: Well, I guess to provide back-up and any
65 peaking that were required, but primarily back-up for the
66 Labrador system and Happy Valley in case the line went
67 out. It's a long line from Churchill to Happy Valley-Goose
68 Bay. It's over 130 kilometres, I think, if not more than that.

69 MR. HEARN, Q.C.: Would it be fair to say the gas turbine
70 was required for back-up for Happy Valley-Goose Bay?

71 MR. OSMOND: But also because the lines are
72 interconnected it also provides back-up to the whole
73 system, all the way. They can provide power over that line
74 all the way back to Labrador City and back to Wabush as
75 well.

76 MR. HEARN, Q.C.: So you're suggesting that the gas
77 turbine was related to back-up, as well, for ...

78 MR. OSMOND: Well, I think initially when it was installed
79 it was installed for as a back-up or a peaking unit, but it has
80 the capability to provide back-up energy for that
81 interconnected system.

82 MR. HEARN, Q.C.: I recognize whenever you have an
83 additional source of supply that that's a comfort to
84 everybody, but, I'd suggest to you the rationale was for
85 peaking and back-up for Happy Valley-Goose Bay at the
86 time?

87 MR. OSMOND: I'm not sure it was specific just to Happy
88 Valley and Goose Bay. It would also have the potential to
89 go farther than that, as would the diesel generation.

90 MR. HEARN, Q.C.: Was it required for peaking for Happy
91 Valley-Goose Bay?

92 MR. OSMOND: I don't know specifically if it was peaking
93 directly. I could check that for you.

- 1 MR. HEARN, Q.C.: Please do. The diesel generation,
2 where is that located?
- 3 MR. OSMOND: It's in Happy Valley-Goose Bay.
- 4 MR. HEARN, Q.C.: When would that have been
5 constructed?
- 6 MR. OSMOND: That goes back, way, way back, I think, to
7 the base days, and that, I have no idea how long that's
8 been there. Eons.
- 9 MR. HEARN, Q.C.: Certainly long before we ...
- 10 MR. OSMOND: Back with the cavemen, way, way back.
11 They're very old diesel units.
- 12 MR. HEARN, Q.C.: So these diesel units would not have
13 any correlation then to your supply of energy to Labrador
14 west?
- 15 MR. OSMOND: But the fact that they generate, even
16 though they might be old, they still generate energy, even
17 though they can squeak out a kilowatt that's still of benefit
18 to anybody on the system as Labrador City-Wabush or
19 Happy Valley-Goose Bay.
- 20 MR. HEARN, Q.C.: But they didn't have, as their original
21 purpose, anything related to Labrador City or Wabush?
- 22 MR. OSMOND: I think the original purpose was to supply
23 power to Happy Valley-Goose Bay when they were
24 installed whenever, years ago, prior to the interconnection,
25 but they're still there and useful for us, and we have used
26 them quite often.
- 27 MR. HEARN, Q.C.: Certainly. I'm just suggesting that their
28 original purpose ... and presume that they go back so long
29 ago that the cost associated with them, apart from the
30 operating costs when you do use them, are probably
31 negligible in any case?
- 32 MR. OSMOND: I'd be surprised if they're fully depreciated.
- 33 MR. HEARN, Q.C.: Yes. That's ... the transmission line
34 from Happy Valley-Goose Bay to Churchill Falls, that's
35 owned by Hydro, am I correct?
- 36 MR. OSMOND: From Churchill to Happy Valley, yes.
- 37 MR. HEARN, Q.C.: Yes. Is that the same compatible line
38 with the line from Labrador City Wabush to Churchill Falls?
39 I noticed that they appear to have a different ...
- 40 MR. OSMOND: I think the line from Churchill to Happy
41 Valley is a 138 kV line and I think the line from Churchill to
42 Wabush and Lab City is a 230 kV line.
- 43 MR. HEARN, Q.C.: The difference between the two, does
44 that represent any compatibility problems in terms of
45 transmission of energy?
- 46 MR. OSMOND: Well, I think that compatibility ... I don't
47 think so. I mean, you can still put power over 230 kV lines
48 as you can over 138.
- 49 MR. HEARN, Q.C.: So if, for example, you have to use the
50 capacity of the gas turbine you could still interconnect with
51 the lines. That fact that one is 230 and the other ...
- 52 MR. OSMOND: That's my understanding.
- 53 MR. HEARN, Q.C.: Yes, so there's no problem with that.
54 I just wanted to be clear on that. I assumed there wasn't
55 but not having technical training, I thought I should just ...
- 56 MR. OSMOND: And I don't, either.
- 57 MR. HEARN, Q.C.: I should inquire. You probably have
58 more experience though, Mr. Osmond, to be fair.
- 59 MR. OSMOND: I hope so, yeah.
- 60 MR. HEARN, Q.C.: But you don't see any problems with
61 transmitting energy, if you had to, from Happy Valley-
62 Goose Bay to Labrador west?
- 63 MR. OSMOND: No.
- 64 MR. HEARN, Q.C.: Okay. In 1992, '93 ... actually, attached
65 to **LC No. 1** there's the Board's 1993 report on cost of
66 service, and I'm looking at page 10 of that report. Do you
67 have that?
- 68 MR. OSMOND: Page 10 of the report?
- 69 MR. HEARN, Q.C.: Yes.
- 70 MR. OSMOND: It starts off "In rebuttal"?
- 71 MR. HEARN, Q.C.: Yes.
- 72 MR. OSMOND: I have it.
- 73 MR. HEARN, Q.C.: I'm looking at the last paragraph of this.
74 There's the comment from the Board, the last part of the
75 penultimate sentence. "Moreover, considers that all
76 customers serviced within the Labrador interconnected
77 system share common costs of generation transmission and
78 a variety of overheads." What are the common costs of
79 generation? That would be Churchill Falls, would it, with
80 respect to the Labrador interconnected system, the fact that
81 they're all supplied primarily from Churchill Falls with the
82 exception of the gas turbine and the back-up diesel?
83 Would that be your understanding of that?
- 84 MR. OSMOND: I just have to read and see what the Board
85 is saying here because this is back in 1993.
- 86 MR. HEARN, Q.C.: Sure, take your time.
- 87 MR. OSMOND: They say all customers served within the
88 Labrador should share common costs of generation
89 transmission and a variety of overheads. I would almost
90 take that as being all generation that's available on the

1 Labrador interconnected system, everything, which would
2 be whatever power is received plus back-up, whatever that
3 we have.

4 MR. HEARN, Q.C.: I understood that to say that they
5 share common costs of generation, meaning that they're all
6 supplied from the same place. Would that be a reasonable
7 interpretation?

8 MR. OSMOND: I guess I took it the other way, as being all
9 cost of generation share common costs of generation, the
10 bigger term, the line, plus gas turbines, plus diesel.

11 MR. HEARN, Q.C.: So certainly it would include Churchill
12 Falls, and your interpretation is that it would go beyond
13 that, as well, to include ...

14 MR. OSMOND: Yes, and I'm interpreting for the Board,
15 which I shouldn't do, but that's my understanding.

16 MR. HEARN, Q.C.: Yes. Well, I'm just ... and I don't mean
17 to be unfair to you.

18 MR. OSMOND: I don't want to go down thin ice.

19 MR. HEARN, Q.C.: The generation one I didn't have as
20 much problem with as transmission. I read this as saying
21 all customers share common costs of transmission, and I'd
22 suggest to you that the transmission costs are different for
23 the customers in Happy Valley-Goose Bay than they are for
24 the customers in Labrador west?

25 MR. OSMOND: I guess I took that as being share common
26 costs of all of those, generation, transmission and a variety
27 of overheads.

28 MR. HEARN, Q.C.: But if this is a finding that, you know,
29 an order that they will share, but if one is looking at it on a
30 historical basis as to whether or not these are sort of
31 common things and therefore should be shared, I suggest
32 to you that the customers in Labrador west have no
33 common transmission costs with the customers in Happy
34 Valley-Goose Bay. They're served by different lines.

35 MR. OSMOND: But they can, as we mentioned earlier, the
36 load can be used, the generation can go over both lines to
37 provide back-up to either one.

38 MR. HEARN, Q.C.: There's a small amount of back-up that
39 probably wasn't designed for that purpose but can be
40 utilized?

41 MR. OSMOND: Well, it's 25 megs ... it's 35 megawatts,
42 that's fairly significant. The line, I think, only takes around
43 65, 70 megawatts.

44 MR. HEARN, Q.C.: You have a transmission costs from
45 Churchill Falls, as we've been told by Ms. Greene, the
46 energy is wheeled by Twin Co. at no cost?

47 MR. OSMOND: Yes.

48 MR. HEARN, Q.C.: So you have the basic energy from
49 Churchill Falls goes to Happy Valley-Goose Bay, goes on
50 a line with a different capacity but compatible to Happy
51 Valley-Goose Bay, so it's served by an entirely different
52 line?

53 MR. OSMOND: Yes.

54 MR. HEARN, Q.C.: Would that not be correct? What
55 would you understand by a variety of overheads that
56 would be in common for customers in Labrador west and
57 Happy Valley-Goose Bay?

58 MR. OSMOND: I guess the overheads associated with
59 operating the system, which would be maintenance and so
60 on and (inaudible) overhead.

61 MR. HEARN, Q.C.: Well, we've seen from **LC No. 10**, I
62 believe, the table that you took us through about the cost
63 for Wabush, that Labrador City and Wabush were operated
64 from a different office than Happy Valley-Goose Bay
65 traditionally?

66 MR. OSMOND: Yeah, but I think what the Board is talking
67 about here is the Labrador interconnected system.

68 MR. HEARN, Q.C.: Yes.

69 MR. OSMOND: Right, and ...

70 MR. HEARN, Q.C.: If we accept it as a finding and the
71 Board saying that they should ...

72 MR. OSMOND: Yeah, and costs associated with that, what
73 costs should be allocated to that line including overheads
74 through the cost of service. I think that's what the Board
75 is saying here, there should be a Labrador interconnected
76 system, which is Labrador City-Wabush and Happy Valley-
77 Goose Bay, and the overheads associated with that would
78 be allocated.

79 MR. HEARN, Q.C.: Certainly, but on a historical basis, in
80 terms of the way the systems operated was there anything
81 that ... you mentioned in the table that we've just gone
82 through that the Wabush office ran the Wabush system,
83 and there was a table of costs which produced the surplus
84 for virtually all of the years since 1989. Now, in that table
85 of costs is there anything that ... any correlation to any
86 costs in Happy Valley-Goose Bay?

87 MR. OSMOND: From Wabush?

88 MR. HEARN, Q.C.: Yes. There wouldn't be, would there?

89 MR. OSMOND: Some of the resources could be used on
90 that transmission line, as far as maintenance and so on.

91 MR. HEARN, Q.C.: Is there some breakdown in the
92 Wabush system, have you allocated some costs for that in
93 the table that we've already looked at?

- 1 MR. OSMOND: In this one here?
- 2 MR. HEARN, Q.C.: Yes.
- 3 MR. OSMOND: No. That was done ... no, we have not,
4 not to my knowledge.
- 5 MR. HEARN, Q.C.: So historically, the Wabush system
6 was run with its own set of costs and you tracked those
7 costs pursuant to the Board order?
- 8 MR. OSMOND: For that particular reason, yes.
- 9 MR. HEARN, Q.C.: Yes.
- 10 MR. OSMOND: Based on what we had filed in '87, that's
11 the way it had to be reported.
- 12 MR. HEARN, Q.C.: Yes, and certainly, that's the way the
13 system was operated, as well it was operated by the
14 Wabush office and run by the Wabush office?
- 15 MR. OSMOND: Yes.
- 16 MR. HEARN, Q.C.: So it had no tie ins with Happy Valley-
17 Goose Bay, other than the normal corporate tie ins that
18 you're operated by the same company?
- 19 MR. OSMOND: It did have a tie in to Happy Valley-Goose
20 Bay, some of the staff were involved in that process as
21 well, I'm sure, as far as maintenance.
- 22 MR. HEARN, Q.C.: In which case you would allocate ... if
23 there is some breakdown of costs, you could have
24 allocated that as well? These were discrete systems, were
25 they not?
- 26 MR. OSMOND: They were discrete systems, yes.
- 27 MR. HEARN, Q.C.: I would suggest to you, and correct me
28 if I'm wrong, that there was probably more of a synergy
29 between Labrador City-Wabush as being a common
30 system, if you wish, than there would have been between
31 the Labrador west system and the Happy Valley-Goose Bay
32 system?
- 33 MR. OSMOND: Just based on geography we'd see that,
34 Labrador City and Wabush being so close.
- 35 *(12:15 p.m.)*
- 36 MR. HEARN, Q.C.: Yes. Not to belabour the point, but
37 that's my point, is that there were in effect two discrete
38 systems here at that time, one being the system that was
39 operated in Labrador west which served two adjacent
40 towns and for all practical purposes could be looked on as
41 one system, and then a separate system that operated with
42 entirely different circumstances, some several hundred
43 kilometres away?
- 44 MR. OSMOND: Yeah, but I think there are also synergies
45 when you have one Labrador interconnected rate. By
- 46 having one Labrador interconnected system between the
47 three, there's economies of scale with that as well.
- 48 MR. HEARN, Q.C.: What economies of scale are brought
49 to Labrador west?
- 50 MR. OSMOND: I mean, you got resources in Happy
51 Valley-Goose Bay and Labrador City and Wabush that you,
52 in effect, utilize as far as maintaining the system,
53 maintaining the lines. You got the resources that we
54 centralized in Happy Valley-Goose Bay. It's one system,
55 the same as you have for the GNP or the same for the main
56 line we have across the island.
- 57 MR. HEARN, Q.C.: You can allocate ... if there were costs
58 associated with maintaining the line you can allocate those
59 costs to the two discrete systems?
- 60 MR. OSMOND: You can still allocate, you can still
61 allocate.
- 62 MR. HEARN, Q.C.: Yes.
- 63 MR. OSMOND: It's a matter of, you know, all customers in
64 the same class normally, a Labrador interconnected ... any
65 system, the normal policy if you've got customers served
66 from the same system, the same grid, they should pay the
67 same rates. That's the theory and philosophy that was
68 identified with the Board and they concurred with back in
69 1992, so they're all served from the same system, they're all
70 in the same class, and if that policy is true and correct, we
71 think it is, then they should all bear the same proportion of
72 costs and be charged the same rates, that's the whole
73 theory.
- 74 MR. HEARN, Q.C.: You usually apply this to you have a
75 large island interconnected system where you have a
76 variety of towns and you average out the costs about the
77 system and I understand that, but you don't usually apply
78 this, do you not, to a system where you have two
79 completely discrete areas and the result is is that a
80 substantial subsidy from one potentially to the other?
- 81 MR. OSMOND: I think the principle still applies. You have
82 one interconnected system, connects three locations and
83 you got the same customer classes served from the same
84 source of power, then the policy for rate setting normally
85 would be that they would pay the same rates, and that's not
86 inconsistent.
- 87 MR. HEARN, Q.C.: Is there any common economy
88 between Happy Valley-Goose Bay and Labrador west,
89 would they have to operate in the same industrial field or
90 area, are they both paper areas or mining areas or anything
91 of that sort?
- 92 MR. OSMOND: I think you know better than I do, now.
93 That's a leading question. There's no paper mills there, but
94 they certain have more mining operations in Labrador west.

1 We don't have those yet in Happy Valley-Goose Bay, but
2 you might.

3 MR. HEARN, Q.C.: Certainly there are ... if we're talking
4 potential versus actual at the present time, at the present
5 time it's fair to say that these areas operate with completely
6 different economies, do they not? One is a mining area and
7 the other is ...

8 MR. OSMOND: Oh, yes, definitely. One is a mining
9 operation and the other one is a base training operation.

10 MR. HEARN, Q.C.: Yes. I was going to move into the area
11 of the rural deficit, and really, those were largely my
12 questions. I'm not sure what time we break for lunch, Mr.
13 Chairman. I don't intend to spend a lot of time at this so I
14 won't take a lot of the afternoon with it so I don't know if
15 this might not be a convenient time to ...

16 MR. NOSEWORTHY, CHAIRMAN: Okay. Well, we
17 normally break at 12:30, and I think there is a meeting of
18 counsel today, plus I have a conference ... we have a
19 conference call in relation to a Board meeting as well over
20 lunch so if you don't mind, I'd ... and there are a number, I
21 think, of questions that Hydro will be following up on,
22 undertakings that would have been identified over the past
23 hour or so so if it's okay with everybody we'll break now
24 until 2:00.

25 *(break)*

26 *(2:00 p.m.)*

27 MR. NOSEWORTHY, CHAIRMAN: Before we get started,
28 counsel, any preliminary matters?

29 MR. KENNEDY: Yes, Chair. I'd like to report on the
30 meeting of counsel that was just conducted this lunch
31 hour, the main purpose of which was to discuss scheduling
32 issues relating to the remaining portion of the hearing, and
33 in a typical display of unanimity among counsel, I think
34 that we've achieved a consensus on what the schedule
35 should be, and clearly we're putting this forth to the panel
36 for its consideration and seeking confirmation that it finds
37 it appropriate in that regard. I understand from Mr. Hearn
38 that he doesn't expect to be too much longer with Mr.
39 Osmond on cross-examination. In light of that fact, I
40 should be able, as Board counsel, be able to commence my
41 cross-examination of Mr. Osmond this afternoon. I too
42 don't think I'll be that long with Mr. Osmond, in which case
43 it's being recommended that instead of bringing Mr.
44 Osmond back after the cost of service experts, which would
45 be at the earliest the 10th of December, that we continue
46 through with Mr. Osmond this Monday morning, the 26th,
47 for the purposes of the panel questions, if in fact I'm
48 finished my cross-examination, and then any re-direct that
49 Hydro would have of the witness, it being contemplated
50 that that shouldn't take any more than an hour or an hour

51 and a half and then Mr. Osmond would be free to go and
52 wouldn't have the spectre of continued cross-examination
53 hanging over his head for the two-week period. So, and
54 then as per the schedule, we would continue through with
55 the cost of service witnesses commencing on the 26th, after
56 Mr. Osmond, and we've, as you know per PU-18, booked in
57 the two weeks of, for cost of service, ending on Friday,
58 December the 7th. It's contemplated that even with
59 elongated sitting hours, and that's something I'll speak to
60 in a minute, that there is the potential that the cost of
61 service witnesses may spill into the third week, which
62 would be the week commencing on December the 10th, and
63 for that reason we have tentatively proposed that the
64 December the 10th and December the 11th be kept
65 somewhat open in that regard to take up any spillage, to
66 use a Hydro term, of the cost of service experts. The
67 proposed order of witnesses for the cost of service experts
68 would be Mr. Osmond, I'm sorry, after Mr. Osmond, would
69 be Mr. Brickhill, Mr. Hamilton, Mr. Osler, Mr. Brockman,
70 Mr. Bowman, and then Dr. Wilson.

71 Continuing on, it has been requested by the
72 Consumer Advocate of some sort of view of the JD
73 Edwards software platform that Hydro utilizes, and in that
74 regard I think Hydro is proposing to put a presentation
75 together which we suspect would be no more than an hour.
76 It would be a scripted presentation using screen shots that
77 could be presented on our flat monitors that we're utilizing
78 in the hearing, and that presentation can float obviously
79 when we have a spare moment. It's contemplated that the
80 most appropriate time to do that would be after the
81 afternoon break, so, say, three o'clock in an afternoon, and
82 we've tentatively suggested the December the 11th for that
83 purpose.

84 Moving through the calendar, on December the
85 12th we're proposing that Mr. Drayson would testify now
86 on December the 12th, and he was previously tentatively
87 scheduled for the 18th, but we've bumped him up to the
88 12th on the understanding that Mr. Osmond would be
89 finished his testimony.

90 We are also proposing that on the 12th that the
91 last hour of the day be reserved for the purposes of
92 submissions on Hydro's capital budget application. As is
93 currently envisaged, those submissions would be brief in
94 light of the format, if you will, of the Hydro application
95 itself, that it would appear that there would be a consensus
96 of counsel as to that application and therefore submissions
97 should be quite brief, and so we are suggesting again that
98 that would take place after the break on December the 12th.

99 I've advised counsel that the date of December the
100 13th is reserved for a Board matters day, and we are
101 suggesting to the panel as well that the date of December
102 the 14th be reserved for the purposes of the panel

1 considering the Hydro application and its deliberations the
2 same, and contemplating the issuance of any decisions or
3 orders that would arise from that application, and so an
4 attempt to provide some room to the ...

5 MR. NOSEWORTHY, CHAIRMAN: The capital budget
6 you're referring to.

7 MR. KENNEDY: Capital budget. I'm sorry if I said
8 something else. It was in error. Capital budget application,
9 sorry. That the purpose of that would be to give an
10 opportunity to the panel to at least have a, two days to
11 consider the application, being the 13th and the 14th.

12 Continuing through again, the next date of hearing
13 would be December the 17th, and the intention would be to
14 have the Abitibi witnesses testify on that day. It would be
15 Mr. Mel Dean (phonetic) and Mr. Denny (phonetic) Jean,
16 and that, those individuals would testify again on the 17th
17 of December, and we would suspect that they should not
18 take any more than that one day and therefore on the next
19 day, the 18th, we would commence Mr. Brushett, and it's
20 contemplated that Mr. Brushett's testimony should not take
21 any more than two days, so that would be December the
22 18th and December the 19th.

23 I understand, and Hydro may want to speak to this
24 further after I'm finished reporting, that it's Hydro's
25 intention to file some updated information concerning such
26 things as the latest forecast of No. 6 fuel and I can advise
27 the panel as well that there's some further discussions that
28 need to take place between Mr. Brushett, who I haven't had
29 an opportunity to speak to yet, and Hydro concerning the
30 format of some of that information, but that that would be
31 filed by Hydro on or near the 20th of December.

32 Before I move into the month of January, one
33 further comment regarding the schedule. There was
34 mentioned previously the fact that there may be a request
35 to have Mr. Henderson recalled to provide further
36 evidence. Following a discussion of counsel it was
37 determined that there was no burning desire to have Mr.
38 Henderson testify anymore and in that regard it's counsels'
39 view that certainly if one of the panel members wishes to
40 have Mr. Henderson testify, that he would certainly be
41 called back in that regard but that it would be from the
42 direction of the panel and that certainly we can slot Mr.
43 Henderson into a moment in time in the month of December
44 in order to take care of that, and in keeping with that, be
45 finished by the 21st of December.

46 Mr. Hearn is going to report on the availability of
47 Mr. Drayson to confirm his availability on the 12th, and the
48 industrial customers are to confirm the availability of their
49 witnesses on December the 17th.

50 Moving into 2002 ...

51 MR. NOSEWORTHY, CHAIRMAN: So the last scheduled
52 sitting day would be December the 21st, am I
53 understanding that correctly, in December?

54 MR. KENNEDY: That ...

55 MR. NOSEWORTHY, CHAIRMAN: Proposed.

56 MR. KENNEDY: As it's proposed now, we would suspect
57 Mr. Brushett to finish on the 19th, which would be the last
58 day of a scheduled witness, and that the, potentially either
59 on the 19th or the 20th, if Hydro is able, that they would file
60 their supplementary evidence and they may need to call a
61 witness in order to be, actually tender that evidence into
62 the record. I don't know if Hydro wants to speak to that
63 directly now.

64 MS. GREENE, Q.C.: Our intent at this time is only to file the
65 most recent forecast for No. 6 fuel and diesel fuel, which
66 there has been discussion during the hearing. As you
67 know, the one that has been filed was as of August 31st.
68 So our intent was to file simply the most current forecast.
69 If we do it in mid-December, the most current forecast we
70 would have available in consultation with our experts,
71 PEERA (phonetic), would be for the end of November, so
72 I don't anticipate that that would take very long, and that is
73 what we're planning to do.

74 MR. KENNEDY: So with luck, Chair, we may not actually
75 have to sit on the 21st. We may be completed on the 20th
76 of December. In discussions with counsel concerning the
77 final submissions, it's certainly been, I think, agreed to that
78 written submissions are appropriate, and in order to
79 provide sufficient amount of time to develop those in
80 keeping with the holidays, it's suggested that the date for
81 final submission, final written submissions to be filed with
82 the Board would be 4 p.m. on Thursday, January the 10th.
83 Again, in order to provide some time for counsel to digest
84 the written arguments and then be prepared to make their
85 oral submissions on those written submissions, we're
86 suggesting that the Board convene for the purposes of oral
87 submissions at 9:30 on the 17th of January and that we are
88 providing two days for the oral arguments, and so that
89 would be the 17th and the 18th, the Thursday and Friday of
90 that week. It's also been consented to by counsel that
91 there will be a time limit placed on counsel concerning their
92 oral argument, and the suggested time limit being one and
93 a half hours per party, with the exception of Hydro. Hydro
94 would be granted one and a half hours to provide their
95 submission at the commencement of the submissions but
96 would be given a further opportunity to provide rebuttal
97 after the other parties have completed their oral
98 submissions and that that would be time limited to a half
99 hour.

100 COMMISSIONER POWELL: What's your definition of a
101 party?

1 MR. KENNEDY: Well, it would be Newfoundland Power or
2 the industrial customers or the Consumer Advocate or
3 Hydro, would be a party, each of them, and so each party
4 would have an hour and a half and they could determine
5 among themselves how they split that time, Commissioner,
6 to their co-counsel. I think that subject to any comments
7 by the other counsel, I believe that was the consensus
8 achieved on all the points that we addressed during the
9 meeting itself.

10 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
11 Kennedy. Are there any other comments?

12 MR. FITZGERALD: Just one, Mr. Chair. There was
13 comment regarding perhaps extending the sitting time when
14 the cost of service experts commence. I believe that's just
15 (inaudible) with your comment from several days ago ...

16 MR. NOSEWORTHY, CHAIRMAN: Right.

17 MR. FITZGERALD: ... couple of weeks ago.

18 MR. NOSEWORTHY, CHAIRMAN: Yes.

19 MR. FITZGERALD: I think the parties have agreed on that
20 as well, to be flexible there.

21 MR. KENNEDY: Yes. Sorry, Chair. That is correct, Mr.
22 Fitzgerald. In keeping with some earlier comments on the
23 sitting times, it's being requested that we have elongated
24 hours during the cost of service portion of the hearing, and
25 that we would sit from 9:30 to 4:30, with some discretion
26 given to counsel to continue beyond 4:30 in the event that
27 they're close to finishing their cross-examination, but I
28 guess that in no event would we go beyond five o'clock.
29 That was the intent.

30 (2:15 p.m.)

31 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
32 Kennedy, and that's already been agreed to, I think. I
33 would have commented on that earlier, that we would have
34 scheduled and set that for the couple of weeks in any event
35 that the cost of service will be scheduled for. The only
36 other item, and I don't think it, it's just a matter of note at
37 this point in time, I do recall when we were in Goose Bay, I
38 think the base commander there indicated that there might
39 be a time when they would wish to make a submission to us
40 and he would be providing something in writing on that in
41 the normal course of events. I haven't certainly seen
42 anything. I don't know if we will. It's just a comment, I
43 guess, an additional item for consideration if and when it
44 occurs.

45 It sounds like you had a very, very good meeting
46 over lunch. I congratulate you. It looks like there's some
47 good agreement reached in terms of a schedule,
48 notwithstanding that, I guess, the 20th or the 21st, five
49 days prior to Christmas is not a great time, I'm sure, for

50 anyone, but the reality is that we have to deal with this, and
51 in fairness with a view to, I'm sure, expediting it for all
52 parties, we find that necessary. These aren't matters that I
53 could comment on at this point in time without consultation
54 with the other members of the panel and I'll attempt to do
55 that over the break to the extent possible. It might be a
56 matter of just us deciding on some of the near term
57 schedule with a view to some of the other items being
58 considered later on, given that we have a hiatus of two
59 days, would certainly be in a position to comment Monday
60 on the entire set of proposals that's before us. So I thank
61 you very much and ...

62 MR. HUTCHINGS: Mr. Chairman, if I might just briefly, to
63 indicate that as regards the availability of the witnesses
64 being called by, on behalf of the industrial customers, Mr.
65 Dean will definitely be available on the 17th of December
66 and we are checking on the availability of Monsieur Jean.
67 Mr. Dean could also be slotted in a little earlier if the time
68 became available and we'll try to keep that underway. Just
69 for your note, the order of the cost of service witnesses
70 that Mr. Kennedy outlined varies slightly from the order as
71 specified in the Board's order in that counsel have all
72 agreed, and we thank them for this, to accommodate Mr.
73 Osler by allowing him to testify before Mr. Brockman, and
74 that's just to make sure that we don't run into any
75 scheduling problems later on, and we appreciate that
76 cooperation that we're getting from counsel in that regard.

77 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
78 Hutchings. If there's nothing further, we'll ...

79 MR. KENNEDY: I believe Hydro is reporting on its
80 undertakings, Chair, for the regular business ...

81 MR. NOSEWORTHY, CHAIRMAN: Ms. Greene, I
82 apologize for that.

83 MS. GREENE, Q.C.: Thank you. Good afternoon. There
84 have been some documents distributed over the lunch
85 break. The first that I would like to refer to is the list of
86 undertakings from yesterday, November 20th, and you'll
87 see there was one undertaking that was given to counsel
88 for the Consumer Advocate and it related to
89 communications with a third party or analysis or studies
90 done with respect to the RSP and its impact on the
91 consumption of electricity. We have checked with other
92 staff overnight and I can confirm the answer that was given
93 yesterday, that to the best of our knowledge there is no
94 such report or analysis or correspondence that I would be
95 able to produce to file.

96 I also have distributed two other pieces of paper
97 that I would like to refer to as well. The first is the heading,
98 is 2001 efficiency factor for Holyrood with a date of
99 November 20th on it, and you will recall that this was an
100 undertaking given to counsel for Newfoundland Power on

1 the 19th of November where we were asked to provide the
2 additional efficiency factors for each month from 2001 up
3 to, here we have provided it in this document, is up to the
4 end of October, and this should be marked. So this
5 response to an undertaking is U-Hydro No. ...

6 MR. KENNEDY: 29.

7 **U-HYDRO NO. 29 ENTERED**

8 MS. GREENE, Q.C.: 29. A second matter that I would like
9 to refer to with respect to the undertakings of November
10 19th, you will recall there was an undertaking given that
11 day to counsel for Newfoundland Power with respect to the
12 equal billing project. This is found in the transcript at page
13 31 and we believe that Mr. Osmond provided that answer
14 to that undertaking in his cross-examination by the
15 Consumer Advocate, and that will be found on **page 48 of**
16 **the transcript of November 20th**, where Mr. Osmond
17 confirmed that at the end of the period we will have a
18 program in place that will allow equal billing to be done for
19 customers. It's not just a study. We will actually have the
20 system in place to allow that to occur.

21 So we have one undertaking outstanding for
22 November 19th, and that relates to information on oil
23 hedging review, which I plan to file in my re-direct and to
24 take Mr. Osmond through it at that time.

25 The third piece of paper you have that was
26 circulated at the break, the heading is "Newfoundland and
27 Labrador Hydro Rate Stabilization Plan," and this is filed in
28 response to an undertaking that was given this morning to
29 the Consumer Advocate who asked us to provide
30 information on the interest component of the RSP. This,
31 you will see, in the last two lines on the table, we have
32 2001, the forecast for the interest for the RSP component
33 and as well we have provided 2002, so we believe that that
34 is a response to the undertaking that was given this
35 morning to the Consumer Advocate.

36 Thank you. That concludes my comments.

37 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
38 Greene.

39 MS. GREENE, Q.C.: This should be marked as well.

40 MR. KENNEDY: U-Hydro No. 30.

41 **U-HYDRO NO. 30 ENTERED**

42 MR. NOSEWORTHY, CHAIRMAN: Thank you. We'll
43 continue now, Mr. Hearn. Good afternoon, Mr. Osmond.
44 If I could ask you to continue with your cross-examination,
45 please.

46 MR. HEARN, Q.C.: Certainly. Mr. Osmond, there were
47 some things that we were discussing this morning that
48 you'd mentioned you might have an opportunity to check

49 over lunch. I don't know if perhaps we started just to see
50 if there were any things that, any items that can be clarified
51 now. We can always address them afterwards by exchange
52 of interrogatories or questions if necessary, but ...

53 MR. OSMOND: The staff are in ... there's nothing I can
54 report right now. The staff are reviewing those and they're
55 assembling information, as we talked about earlier this
56 morning, and we should be in a position hopefully to file
57 those in the next day or so, but there's nothing that's come
58 back right now because they got to go ...

59 MR. HEARN, Q.C.: That's fine then.

60 MR. OSMOND: ... and dig out some of the information.

61 MR. HEARN, Q.C.: That's certainly ... I didn't necessarily
62 expect ... I just thought in the off chance that there was
63 anything that, so we'd see where we were on that. I wonder
64 now if you might move to the rural deficit, which I
65 understand from the original evidence that was filed, that
66 was originally estimated at approximately \$26 million but
67 that estimate has now changed. What's the present
68 estimate of the total amount of the rural deficit?

69 MR. OSMOND: Present deficit is filed, I think, in our most
70 recent application, Mr. Brickhill's evidence, around \$31.6
71 million.

72 MR. HEARN, Q.C.: \$31.6. And the ... what would be the
73 allocation of that deficit to the rural Labrador
74 interconnected system? Would you have some idea of
75 that?

76 MR. OSMOND: Just in round numbers, approximately \$4
77 million.

78 MR. HEARN, Q.C.: Is it possible to convert that in a per
79 kilowatt hour basis per customer?

80 MR. OSMOND: I guess it is. I don't have the kilowatt
81 hours with me.

82 MR. HEARN, Q.C.: Okay. Well maybe, and I hate to
83 surprise anybody by asking the calculations as a question,
84 but I wonder if that might be something that, when you
85 have a free moment afterwards, if that could be ...

86 MR. OSMOND: Don't phrase it that way. *(laughter)* We'll
87 undertake to get the answer for you.

88 MR. HEARN, Q.C.: Thank you. It's ... my client will
89 certainly want to know, so I thought I should ...

90 MR. OSMOND: Okay. I don't think that's a big effort.
91 We'll get that number for you.

92 MR. HEARN, Q.C.: Good. If I didn't ask the question I'd be
93 remiss. Am I correct in understanding that Hydro still
94 proposes to allocate the rural deficit on the basis of
95 revenue requirement, that's the same revenue to cost ratio

1 for all of Hydro's customers that contribute to (inaudible)?

2 MR. OSMOND: It's based on a cost of service study,
3 which will assign cost consistently and appropriately to
4 our class of customers, namely Newfoundland Power and
5 to rural Labrador interconnected, and that's based on the
6 cost of service methodology that was approved back in
7 1993.

8 MR. HEARN, Q.C.: And is that the proposal with all
9 customers paying the same percentage of revenue towards
10 the subsidy?

11 MR. OSMOND: It's not so much based on a percentage of
12 revenue. It's based on the allocators within the cost of
13 service study and how we allocate cost to each component
14 based on the different factors that are in that cost of service
15 study. I think Mr. Brickhill, when you go through his
16 evidence, I know it's a lot of detail, but it's 94 pages on how
17 we allocate cost and part of that will apply to the allocation
18 of the rural deficit as well, but the principles are applied
19 consistently to both Newfoundland Power and to the rural
20 Labrador interconnected.

21 MR. HEARN, Q.C.: Okay. You're familiar with some people
22 such as the Consumer Advocate's witness, Mr. Bowman,
23 having referred to the rural rate subsidy as in effect a tax to
24 the regulatory system. Are you familiar with that ...

25 MR. OSMOND: I've heard that comment.

26 MR. HEARN, Q.C.: What's your reaction to that comment?

27 MR. OSMOND: That it is a tax?

28 MR. HEARN, Q.C.: Yes.

29 MR. OSMOND: I guess we debated that back in '89 as to
30 what the subsidy is, and I guess it was debated at that
31 point in time that's an allocation of a cost related to the
32 supply of electricity to all our rural customers, that would
33 be at that time allocated to Newfoundland Power and to
34 industry, and that was subsequently revised, I guess, in
35 1996 with the legislation where industry would no longer
36 pay that share of the rural deficit.

37 MR. HEARN, Q.C.: So Hydro is in effect acting as a vehicle
38 for Government policy in passing along this cost to certain
39 classes of ratepayers or ...

40 MR. OSMOND: Well that was in legislation, '89, that we
41 were to recover these costs which were previously
42 provided by the province, that these would be allocated to
43 a class of customers in our cost of service study, namely
44 the two I just mentioned.

45 MR. HEARN, Q.C.: So but in doing this you're acting, and
46 I'm not suggesting there's anything improper with this, but
47 you're acting as a conduit for Government policy in this
48 regard, that it's not strictly a cost related to that particular

49 cost of, that particular service customer.

50 MR. OSMOND: We're following the legislation ...

51 MR. HEARN, Q.C.: Yes.

52 MR. OSMOND: ... which is approved by the Board.

53 MR. HEARN, Q.C.: In arriving at that policy and in
54 following the legislation, can you give me some idea of how
55 Hydro interacts with Government in ... does Hydro simply
56 act as a conduit for the dictates of the legislation or is there
57 some consultation process to arrive at the legislation? Do
58 you participate in arriving at the consensus that this is the
59 way to do it or are you simply responding to a directive?

60 MR. OSMOND: Certainly anything that we do is in
61 consultation with the Province, but I'm not sure exactly
62 what your question is, Mr. Hearn. Is there a specific
63 reference?

64 MR. HEARN, Q.C.: Well, I'm thinking in terms of arriving
65 at this policy. Any discussion I have with, in relation to
66 allocations of a social cost like the rural deficit always gets
67 me into a discussion of why we aren't widening the rate
68 base by including Churchill Falls in it and doing it as a
69 proper tax, and that's where the question is going.

70 MR. OSMOND: I thought it might.

71 MR. HEARN, Q.C.: I knew it wouldn't come as a surprise.

72 MR. OSMOND: I think we got the wrong guy this time.
73 *(laughter)*

74 MS. GREENE, Q.C.: Not Section 92(a).

75 MR. HEARN, Q.C.: Exactly, Ms. Greene.

76 MR. OSMOND: We'll cut you off at the pass. I don't know
77 92(a).

78 MR. HEARN, Q.C.: I couldn't possibly ask questions
79 without bringing it into the discussion in some way.

80 MS. GREENE, Q.C.: Mr. Hearn and I have had ...

81 MR. OSMOND: I'll have to take the Fifth.

82 MS. GREENE, Q.C.: ... those discussions for a number of
83 years.

84 MR. OSMOND: I'll have to take the Fifth on that one.

85 MR. HEARN, Q.C.: Well, does Hydro have a position on
86 the legislative competence of the Province to enact a tax on
87 a wider base?

88 MR. OSMOND: I can't respond to that. I'm not a lawyer.

89 MR. HEARN, Q.C.: Fine. That's ... well, does Hydro see
90 this Board having a role in considering, you know, if there's
91 a request for an allocation of the rural deficit as a subsidy,
92 whether the Board ought to consider whether there might

1 be a more feasible alternative that included a wider base
2 and would end up therefore impacting on the domestic
3 ratepayer to a lesser effect?

4 MR. OSMOND: The whole issue of the rural deficit, that
5 was discussed in great detail. I think (inaudible) at that
6 time, back in 1996 when the Board assessed those options
7 and the process we're following now is in accordance with
8 the Board's decision as to how we allocate that rural deficit
9 to our customers.

10 MR. HEARN, Q.C.: But there was no discussion at that
11 time of a consideration of utilizing the authority in 92(a), in
12 that discussion before the Board, I believe. I don't mean to
13 be unfair to you.

14 MR. OSMOND: Okay. I know ...

15 MR. HEARN, Q.C.: I know this ...

16 MR. OSMOND: I know you had raised it before. I wasn't
17 sure if it was in that rural hearing, but anyway ...

18 MR. HEARN, Q.C.: No. It wasn't in terms of ... but ...

19 MR. OSMOND: I don't mean to be unfair to you either.

20 MR. HEARN, Q.C.: I realize that I'm getting a little far afield
21 but it always, whenever I have the opportunity to raise this
22 issue, it always seems to me that we're taxing, that we're
23 discriminating against the ratepayers by not taking another
24 option and I wondered if you were in a position to comment
25 on that, but I understand if you're not. Those are my
26 questions, Mr. Chairman. Thank you, Mr. Osmond.

27 (2:30 p.m.)

28 MR. OSMOND: Thank you, Mr. Hearn.

29 MR. HEARN, Q.C.: A pleasure as usual.

30 MR. OSMOND: Nice to see you again.

31 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
32 Hearn. Thank you, Mr. Osmond. Could I ask Board
33 counsel to begin his cross-examination, please.

34 MR. KENNEDY: Thank you, Chair. Mr. Osmond, I just
35 wanted to ask a quick question, if I could, about the
36 interest expense, the treatment of the interest expense on
37 the recall net revenue issue. It's been addressed a number
38 of times with you already. That's the \$800,000 figure, if you
39 recall.

40 MR. OSMOND: Yes.

41 MR. KENNEDY: And it also appears in the Grant Thornton
42 Report. I think that's also been referenced to you, just to
43 comment on it, that this was an appropriate mechanism for
44 Hydro to employ.

45 MR. OSMOND: Is an appropriate, yes.

46 MR. KENNEDY: And I believe you're the one that pointed
47 that out during a cross-examination by one of the counsel.
48 Could you tell me what the, what interest rate Hydro uses
49 in calculating the amount to book back in for the foregone
50 interest?

51 MR. OSMOND: I guess it all goes into our pot. When we
52 talk about the avoided (phonetic) interest, which is
53 \$800,000, that's interest we would not have ... first of all, we
54 finance, first of all, promissory notes, and once we get
55 close to our \$300 million level, then we go for a bond issue,
56 as we've indicated before. So what this has basically done
57 is to minimize the financing required as it relates to the
58 promissory notes and then would lead into our long-term
59 issues, and the interest on that I think would be the
60 average of the embedded cost of debt associated with that,
61 those items.

62 MR. KENNEDY: Is it the embedded cost of your entire
63 debt or is it just the embedded cost of your short-term
64 debt?

65 MR. OSMOND: I would have thought, and before I say
66 100 percent, I would have thought it was our embedded
67 cost of debt. I can check that.

68 MR. KENNEDY: Alright. I was under the understanding
69 that it was your embedded cost of your short-term
70 borrowings.

71 MR. OSMOND: Okay. Well, if it's the re-call power that
72 reduces our promissory notes, then it would be short-term,
73 sorry. Let me just re-think that.

74 MR. KENNEDY: I'm not sure if ...

75 MR. OSMOND: It would be ...

76 MR. KENNEDY: ... Grant Thornton ...

77 MR. OSMOND: It would be because we reduce our
78 promissory notes first and then whatever the requirement
79 is to get the \$300 million would be long-term, so it'd be a
80 short-term investment.

81 MR. KENNEDY: It's tied to your short-term ...

82 MR. OSMOND: Short-term investments, yeah.

83 MR. KENNEDY: **It's page ten of the 2001 Grant Thornton**
84 **Report** and it's the last paragraph on that page, "The
85 second category of adjustments to equity and debt, short-
86 term promissory notes, relates to the net retained earnings
87 attributable to the sale of re-call power to Hydro-Quebec.
88 This notional adjustment to decrease retained earnings and
89 increase debt is based on the flow through of the profit on
90 re-call power by way of dividends. The additional cash
91 flow available to Hydro enables the Company to pay down
92 its short-term debt, effectively reducing borrowings below
93 what they would otherwise be based on regulated

- 1 operations."
- 2 MR. OSMOND: That's correct.
- 3 MR. KENNEDY: Okay.
- 4 MR. OSMOND: That's the first thing it would reduce is
5 your promissory until you get close to the \$300 million
6 level. That will flow into a long-term issue, so.
- 7 MR. KENNEDY: Sure. So if I understand it correctly then,
8 the rationale, if you will, is that the re-call, the money from
9 the re-call energy, the net revenue received, which is
10 ultimately going to just be passed over to the Government,
11 100 percent as I understand it of that.
- 12 MR. OSMOND: Net re-call revenue, the dividend policy is
13 a payment of 100 percent of that.
- 14 MR. KENNEDY: And that that's seen by Hydro as a
15 temporary measure, it goes in, it goes out in a short time
16 span, and therefore the re-calculation of the interest that
17 would otherwise be incurred by the regulated portions of
18 Hydro is done or computed based on the short, lower
19 short-term borrowings.
- 20 MR. OSMOND: Yes.
- 21 MR. KENNEDY: And that that would be, as opposed to
22 using a weighted average cost of capital, for instance, of
23 Hydro.
- 24 MR. OSMOND: That's correct. I guess in a sense a
25 temporary use of working capital, if you like.
- 26 MR. KENNEDY: I just had a question about your short-
27 term borrowings for just a minute. I asked, I believe it was
28 Mr. Roberts, about, some questions about the \$300 million
29 cap that's on Hydro's short-term borrowings pursuant to an
30 Order in Council.
- 31 MR. OSMOND: Yes.
- 32 MR. KENNEDY: And I asked Mr. Roberts what the date of
33 that Order in Council was. He wasn't sure about the date
34 but he knew it went back quite some time because he
35 couldn't remember when it got passed. Are you aware of
36 the date of the Order in Council by the way?
- 37 MR. OSMOND: (inaudible) I was given that note. I think
38 it was back in the late '80s.
- 39 MR. KENNEDY: Late '80s.
- 40 MR. OSMOND: I think so. I say late '80s. '83 to '87. It was
41 in the '80s. It wasn't in the '90s. That's one of my notes
42 that I've lost unfortunately.
- 43 MR. KENNEDY: I'm wondering was it, do you know if it
44 was always a \$300 million cap? Was there originally a
45 smaller cap that was placed on the short-term borrowings
46 of Hydro and then it got bumped up in the late '80s?
- 47 MR. OSMOND: That's my understanding. It's before my
48 time as VP of Finance. I think there was a lower level, then
49 it got bumped up to the \$300 million level.
- 50 MR. KENNEDY: Okay. It strikes me that that's still a fairly
51 ... like, if we're talking about the range, if we just take the
52 mid-80s. You said '83 to '87, so if we just took '85 or '86, that
53 that would be some 14 or 16 years ago, that that's a
54 considerable amount of time to have elapsed in which
55 Hydro still operates with a \$300 million cap on its short-
56 term borrowings. Then I wondered if you could give me
57 your comments about whether it would be more appropriate
58 for Hydro in light of it increasing its overall loan portfolio
59 and its rate base to have a larger cap placed on its short-
60 term borrowings to provide more financing flexibility?
- 61 MR. OSMOND: No, I don't think we need to. I think \$300
62 million is an appropriate number for short-term, and what
63 we try to do is balance off, and I guess the Board has seen
64 this several years ago in our bond issues, we try to
65 maintain our portfolio tied into what we call a fixed floating
66 ratio and also weighted average term (phonetic) to maturity
67 for our debt, and we try to maintain a fixed floating ratio, a
68 fixed debt, short-term debt in the range of, say, 85/15 type
69 of thing, or 87/13 I think the actual numbers work out to be.
- 70 MR. KENNEDY: And what would be the rationale for that?
- 71 MR. OSMOND: Well, we've done some benchmarking with
72 other utilities. You don't have all your eggs in one basket
73 type of thing. You want to take advantage of the short-
74 term markets as well as the long-term markets, so you want
75 to balance off some of the risk, and as you can see in one
76 of the revisions we just filed the other day was the revision
77 to the interest, and one of the reasons for that is that we
78 reduced our long-term borrowing for \$50 million, take
79 advantage of an anticipated, short-term rates next year are
80 dropping to three percent, so rather than go for five or six
81 percent it ties into our portfolio to go with a lower
82 promissory note position.
- 83 MR. KENNEDY: There was ... I'm not sure if you were here
84 when Dr. Kalymon testified, but there was some
85 commentary provided by Dr. Kalymon about the significant
86 changes in the financial conditions of the market in the last
87 short while and that the short-term money certainly has
88 seen a more dramatic change than the long term money.
- 89 MR. OSMOND: Yeah.
- 90 MR. KENNEDY: And I think anecdotally it's recognized
91 that there was a recent shift in the policy of the United
92 States Treasury to move away from long money entirely
93 and to stop actually issuing 30-year bonds and move to
94 short money.
- 95 MR. OSMOND: I heard that, but I don't think that's flowed
96 over to Canada so far. There still is ...

1 MR. KENNEDY: I'm sorry, that's not what, sorry?

2 MR. OSMOND: I'm not sure if that's the same situation in
3 Canada. Certainly in the States we've heard that and we've
4 seen that from our financial people, but it's our
5 understanding 30 year money is still available in Canada.

6 MR. KENNEDY: Sure. But would you recognize that that
7 is somewhat of a recognition in itself that the movement is
8 more towards short-term borrowings rather than long-term
9 borrowings, or at least insofar as those parties are
10 concerned?

11 MR. OSMOND: Yeah, and then it may be a short-term
12 measure. I guess, as I say, one of the things we try to
13 balance off is not trying to have all of our debt coming due
14 at the same point in time, and that's where we get into the
15 benchmarking with other utilities and we try to tie into what
16 we call weighted average term (phonetic) maturity, and that
17 averages out over time to about 15 years, which means you
18 got some debt coming due at different times, not to get in
19 a scenario where rates are very, very high in that timeframe,
20 so if you spread it out over a longer timeframe, your risk is
21 lower. If it comes in a short timeframe like it did in the early
22 '80s and '90s, then you're paying 10, 11, 12, 13 percent
23 interest, so that's where the weighted average term
24 (phonetic) maturity philosophy comes into play.

25 MR. KENNEDY: Sure. Would you also follow the sort of,
26 and this is Finance 101, of the recognized principle that
27 there's usually an attempt to match the long-term money
28 with the long-term assets and the short-term money with
29 the short-term borrowing requirements like working capital
30 and the like?

31 MR. OSMOND: There's some of that but I think what you
32 find now, you try to balance off your overall portfolio, the
33 monies you have available and what your long-term
34 projects are and your short-term. Then (inaudible) and you
35 try to balance off what that portfolio should be to tie into,
36 as I just said, the weighted average term maturity, and also
37 have your fixed floating ratio so it doesn't get out of sync,
38 to take advantage of the short-term and the long-term
39 changes in interest rates.

40 MR. KENNEDY: I'm just wondering whether the 85/15 ratio
41 that you just spoke of is not at least implicitly recognizing
42 that there's some mechanism of that balance between the
43 loan portfolio between long and short-term money and the
44 overall asset structure of the entity, in this case Hydro,
45 between its long assets and its short assets.

46 MR. OSMOND: I think the 85/15 is trying to balance off
47 the exposure and the risk and that's what we found with the
48 utilities we benchmarked against, not to have the risk
49 exposure, take advantage of the short-term, and also being
50 able to take advantage of the long-term when it requires, so

51 trying to have that diversity in your portfolio.

52 MR. KENNEDY: So it's your evidence then that insofar as
53 your capacity as CFO of Hydro that you're comfortable
54 with the \$300 million cap that was placed some 156
55 (inaudible) ago?

56 MR. OSMOND: From the information I've had and
57 discussion with our Treasurer, I don't see changing that at
58 this point in time. That's sufficient for us.

59 MR. KENNEDY: The RSP, clearly the evidence is that
60 Hydro is proposing to move to \$100 cap on the RSP. I say
61 moving, requesting a cap of \$100 million.

62 MR. OSMOND: That's correct.

63 MR. KENNEDY: And I'm just wondering first generally
64 why Hydro feels \$100 million cap is appropriate now when
65 a \$50 million cap was what was considered to be
66 appropriate when the RSP was initially set in '86.

67 MR. OSMOND: I guess several reasons, the price of fuel
68 ... well, right now we're almost at, I think we're pretty close
69 to 50 or just over that now.

70 MR. KENNEDY: Now, I'll stop you there because I think
71 maybe you might have misinterpreted the question. Not
72 the reason why you may need to move to \$100 million cap,
73 but why you feel that within the Hydro structure itself
74 financially, \$100 million cap is an appropriate figure to have,
75 in light of the fact that, for instance, it's one-third of your
76 overall revenue requirement.

77 MR. OSMOND: I think we felt we certainly needed to have
78 a cap. 50 wasn't appropriate, whether 100 is the magic
79 number or not ... but we needed to have a number so that
80 there would need to be a requirement to come back to the
81 Board, for one thing. Just wouldn't be carte blanche, just
82 let it go on to 150 or \$200 million. We need to have some
83 outside level as to what it should be. \$100 million selected
84 on that basis, to be able to come back to the Board, but still
85 be, operate within normal guidelines considering where we
86 expect the price of fuel to go over the next two or three
87 years as well.

88 MR. KENNEDY: The \$50 million cap that was set in '86,
89 that was deemed to be appropriate by Hydro at the time or
90 ...

91 MR. OSMOND: It was at the time and at that point in time
92 the price of fuel, I think, was down around \$15 a barrel.

93 MR. KENNEDY: But just leaving aside the price of fuel and
94 the impact that has on the actual building up of the deficit
95 in the RSP, just the fact that it was the potential of moving
96 to a \$50 million figure, because that's what your cap was,
97 that that was deemed at the time by Hydro to be an
98 appropriate number in light of its revenue requirements and

1 its overall financial structure as it stood in 1986?

2 MR. OSMOND: That, plus also some concerns I think the
3 Board had too that it just couldn't ride up endlessly, and I
4 think Light and Power had that same concern, so they
5 needed to have a mechanism that there would be a cap that
6 would force Hydro to come back and make an application
7 to the Board to address the balance in the plan, so it's
8 twofold.

9 MR. KENNEDY: Sure. And the \$50 million number was a
10 number that was selected as a number appropriate for
11 Hydro in light of all its financial conditions ...

12 MR. OSMOND: That's correct.

13 MR. KENNEDY: ... as they stood in 1986.

14 MR. OSMOND: That's correct.

15 MR. KENNEDY: Okay. And \$100 million is now
16 considered to be an appropriate number for Hydro in light
17 of all the financial conditions as it stands in 2002?

18 MR. OSMOND: That's correct.

19 MR. KENNEDY: And I guess that sort of brings me back
20 to the \$300 million cap, that if the \$300 million Order in
21 Council was imposed in and around 1986, how is it that
22 that's still appropriate today in 2002 but all these other
23 conditions are changing like the fact that you want to move
24 to \$100 million cap?

25 MR. OSMOND: Well the fact that we're asking for \$100
26 million cap doesn't mean that you're there right away, okay,
27 so it's a moving target. So, I mean, even with our current
28 financings of \$300 million, we're still, we still operate within
29 probably 200 to \$250 million level, so we haven't gotten
30 right up to the \$300 million as required. The \$100 million
31 cap that, the \$100 million plan would still be recovered on
32 an annual basis, so you're getting a re-generation of monies
33 coming back in on a one-third basis.

34 MR. KENNEDY: Sure. So it's a deferral. It's ...

35 MR. OSMOND: It's a deferral. Yeah, it's a receivable, if
36 you like. It's a deferral to be recovered over time. It's a
37 revenue stream to come back in.

38 MR. KENNEDY: And during that deferral period, it drives
39 up Hydro's borrowing requirement, does it not?

40 MR. OSMOND: It increases the short-term ...

41 MR. KENNEDY: Borrowing requirement.

42 MR. OSMOND: ... borrowing requirement. Yes, it does,
43 yeah.

44 MR. KENNEDY: And so we're potentially moving to a
45 point where Hydro may need an extra \$50 million in its
46 short-term borrowings over and above what was

47 contemplated in '86.

48 MR. OSMOND: Theoretically, yes.

49 MR. KENNEDY: And, but there's no corresponding
50 provision being built in Hydro's short-term borrowing
51 mechanisms to take that into account. You're still living
52 with the \$300 million cap.

53 MR. OSMOND: We still have flexibility with the \$300
54 million cap.

55 MR. KENNEDY: But you said you usually go 200 to \$250
56 million on your short-term money.

57 MR. OSMOND: It depends on the marketplace. I mean, we
58 could go into the bond market, we might have \$150 million
59 in promissory notes, but if the market is right and the
60 interest rates are low, we'll go in right away, but if it's not
61 and the rates are going to change in the fall and become
62 lower, we would let it ride up to 250 or 225 and then go in.
63 You pick the opportune time. It gives you that flexibility.
64 You don't wait till it gets to 300 to go in. If you do that,
65 then we're crucified, because then you go in at the very
66 highest rate, so you try to use that as a flexibility, so you
67 may run it at 150 or even lower. You pick the right time to
68 get into the marketplace. You never want to pre-borrow.
69 You want to borrow at the right time to get the right rate.

70 MR. KENNEDY: And a larger short-term cap would give
71 you even more flexibility in that regard, would it not?

72 MR. OSMOND: It could but you're looking ... you have to
73 be careful that we don't get outside our fixed floating ratio
74 which is important. You want to stay within a fixed floating
75 ratio, not to increase our exposure.

76 MR. KENNEDY: Just so I'm clear, there's been many
77 references to the fact that the RSP recovers the deferred
78 revenue on a one-third a year basis, but because it operates
79 on a declining balance, it doesn't actually recover the full
80 deferral in three years, does it?

81 MR. OSMOND: You're right. It's not an absolute recovery
82 over three months, over three years. You recover one-third
83 of the balance this year, another one-third next year. It
84 probably would take, if everything stayed stable, probably
85 five or six years to get it all back.

86 MR. KENNEDY: Yeah. So let me just do an example. If we
87 had a balance in a given year of \$90 million in the RSP
88 account as a deficit ...

89 MR. OSMOND: Yeah.

90 MR. KENNEDY: ... and then the price of oil magically
91 matched your benchmark price of oil thereafter so that we
92 neither accumulate further deficits nor surpluses in the
93 RSP, in year one you would collect back \$30 million of that
94 deferred \$90 million, correct?

- 1 MR. OSMOND: So we're down to 60.
- 2 MR. KENNEDY: So you're down to 60. In year two you
3 would claw back a third of that 60, or \$20 million, correct?
- 4 MR. OSMOND: You got it. The next year is a third of 40
5 and so on and so on.
- 6 MR. KENNEDY: So by the end of year three you've
7 actually only collected back \$63.3 million of the \$90 million
8 that you've deferred.
- 9 MR. OSMOND: I think that's probably the number, yeah.
- 10 MR. KENNEDY: And so that would, at the end of the third
11 year, leave a balance of \$26.7 million, still roughly one-third
12 of what you deferred at the beginning of that period.
- 13 MR. OSMOND: That's correct.
- 14 MR. KENNEDY: Alright.
- 15 MR. OSMOND: And that's what was approved. We realize
16 that, we realize at the time it's one-third of the balance at
17 that point in time.
- 18 MR. KENNEDY: Sure. Has Hydro explored internally, in
19 your own discussions in your Department of Finance, other
20 methods that could be employed to collect back the
21 deferred amount in the RSP? For instance, has it ever
22 explored the option of using a straight-line balance for the
23 first \$50 million but then using some sort of sped-up
24 recovery process for the remaining portion of the RSP
25 deficit over and above the \$50 million?
- 26 MR. OSMOND: No. We haven't made any revisions since
27 1985. The one-third seems to be working. The key to it is
28 that you have one-third of the balance and it will be a
29 recovery over a period of time. The key is it will be
30 recovered and there are other options certainly. You can
31 recover it over a shorter period of time or a longer period of
32 time, but the one-third of the balance at any point in time
33 has not been an issue of concern.
- 34 MR. KENNEDY: My understanding of the RSP is that the
35 original objective, among other things, the original
36 overriding objective of the RSP was to dampen short-term
37 fluctuations in the price of oil. There's been a significant
38 amount of evidence here about the out, public outcry pre-
39 RSP days and what drove Hydro to recommend an RSP at
40 the time, correct?
- 41 MR. OSMOND: Yeah. Attempting to stabilize rates to
42 consumers, take volatility out of the rate structure for them.
- 43 MR. KENNEDY: And that was meant to be a short-term
44 mechanism, was it not?
- 45 MR. OSMOND: I wouldn't say it's short-term. We felt this
46 would continue, so with the RSP it took all those
47 fluctuations out of the consumers' rates due to change in
48 climatic conditions and change in the world price of oil, so
49 it would be an ongoing thing. It wasn't just short-term.
- 50 MR. KENNEDY: No. The program itself would run over a
51 long period of time but that the internal mechanism of the
52 RSP was to try to prevent short-term fluctuations in the
53 price of oil so that if for a certain period of time during a
54 year the price of oil spiked, as has been the case in the
55 early '80s, that the RSP would help smooth that out so that
56 people wouldn't see a corresponding dramatic increase in
57 their bill in a given month, that the additional cost incurred
58 by Hydro, which was unanticipated, would get spread out
59 over a couple of years or two or three years.
- 60 MR. OSMOND: It was to spread out those fuel price
61 shocks if you like ...
- 62 MR. KENNEDY: Yes.
- 63 MR. OSMOND: ... that were being incurred in a month or
64 two and spread them over a reasonable period of time, and
65 the reasonable period of time that was approved by the
66 Board was 36 months.
- 67 MR. KENNEDY: So while the RSP itself as a program was
68 meant to run forever and a day, the purpose of it was more
69 short-term in nature, to address issues that were more
70 short-term in nature.
- 71 MR. OSMOND: Yeah. It was trying to address the
72 immediate rate shock to consumers if you didn't have a
73 plan, which meant you would have been back to the fuel
74 adjustment charge, and you saw those severe rate shocks
75 which we talked about earlier, so it's trying to temper that
76 and level it out over a period of time.
- 77 MR. KENNEDY: So there's two things there. One, with
78 balances in the order of just, say, 20 or \$30 million in your
79 RSP, you collect in absolute dollar terms a substantial
80 portion of them in a three-year period so that the residual
81 money left in the RSP that has yet to be collected back in
82 the example that I provided to you would be fairly
83 insignificant, agreed?
- 84 MR. OSMOND: That's right.
- 85 MR. KENNEDY: But would you agree that in the case of
86 an RSP with a balance of \$90 million that the amount of
87 money left over at the end of the three-year period is pretty
88 significant. It's \$26 million.
- 89 MR. OSMOND: Yeah, certainly be larger than what would
90 have been, had 50, yes.
- 91 MR. KENNEDY: And would you agree that that kind of
92 runs counter to the original objective of the RSP to address
93 those short-term fluctuations in the price of oil?
- 94 MR. OSMOND: That's the original ... the original intention
95 was to try and spread out those rate increases to

1 consumers, to take away those rate shocks, and that will
2 still be done even if you have a \$50 million balance, a \$70
3 million balance or a \$90 million balance. You're still taking
4 away the immediate rate shock to consumer and spreading
5 it out over a period of time.

6 MR. KENNEDY: But if oil keeps going up, for instance,
7 and your base price of oil remains consistently below that,
8 then you're not exactly smoothing it out, are you? You're
9 just sort of deferring it on forever.

10 MR. OSMOND: Well, until you hit the cap, and when you
11 hit the cap, then I think we have to come back and it has to
12 go into the base rate, as we are now.

13 MR. KENNEDY: I was curious then, just look for your
14 comments, as I understand it, the interest that gets
15 accumulated into the RSP account on the deficit that's there
16 at any given moment is based on your weighted average
17 cost of capital, is that correct?

18 MR. OSMOND: That's correct.

19 MR. KENNEDY: And I think you'll agree with me that the
20 purpose of the RSP, while it's a program that's to last
21 forever and a day, is in itself meant to address short-term
22 fluctuations in the price of oil and that this is money that
23 Hydro will get paid back in a year or two hopefully, from
24 the deferral of that revenue, and so I'm wondering why the
25 RSP wouldn't also attract interest at the short-term
26 borrowing rate of Hydro as does the foregone interest
27 expense on the revenue on the net, or the re-call net
28 revenue.

29 MR. OSMOND: I guess the net re-call is for a very short
30 period of time. It's a 12-month period. With regards to the
31 RSP, that's over a longer period of time, spanning two or
32 three or four years, which got back to my point earlier when
33 you talk about the promissory notes. Eventually that
34 forces you into a long-term bond issue.

35 MR. KENNEDY: Unless you had a larger cap on your
36 borrowings, in which case you would not be forced to go
37 to your long-term borrowing.

38 MR. OSMOND: And then you get back, you just change
39 my FFR, my fixed floating ratio, (inaudible), puts them all
40 out sync, so, you know, that's the concern we would have.

41 MR. KENNEDY: Just before we break actually I have a
42 special request.

43 MR. OSMOND: I don't sing. *(laughter)*

44 MR. KENNEDY: That's good. This is sort of an, an
45 unexplained to me at least, and I guess what we need to
46 look at is **PUB-78**. I'm not sure if it's entirely in electronic
47 form, Mr. O'Rielly. Page 4 of 13 is what I'm looking for. No.
48 Page 4 of 13, it's the Rate Stabilization Plan, fuel variation,

49 PUB-78, 2002. You got a different page there. That's 4 of
50 13. Might be a second attachment to that, Mr. O'Rielly. I
51 think that's it there. Yeah. Mr. Osmond, your testimony
52 and that of Hydro indicates that for the purposes of the
53 cost of service and the operation of the RSP then, the cost
54 per barrel of fuel for 2002 is to be set at \$20 a barrel.

55 MR. OSMOND: Yes.

56 MR. KENNEDY: And, but the RSP forecast for 2002
57 included in this response to PUB-78 shows the price of fuel
58 varying through the year 2002 with an average, and I don't
59 know if that's an arithmetic average or a weighted average
60 of \$21.39 per barrel, and I'm just wondering if you could
61 provide an explanation as to why this shows \$21.39 if in
62 fact Hydro is using 20.

63 MR. OSMOND: I think part of that would be the fact that
64 you're taking the inventory costs at the end of 2001, the
65 inventory valuation of fuel. That would affect the flow-
66 through, I think I went through the other day when I went
67 through **IC-73** with Ms. Butler. You take the inventory
68 cost plus the purchase for the year as we talked about, \$28
69 per barrel, and that would flow down every month as an
70 adjust ... because if your inventory is higher starting off the
71 year than what you'll be buying the following year, then
72 your inventory costs will take a while to consume that and
73 you have a higher monthly balance.

74 MR. KENNEDY: Okay. Well I'm missing something
75 entirely then. I can see that the rounded PUB fuel dollars
76 would be the actual cost of the fuel that you expend. Is
77 that correct? That's the actual cost of fuel that Hydro
78 expects to incur during 2002?

79 MR. OSMOND: Yeah. I think that's the actual fuel price.

80 MR. KENNEDY: And that would be, the first month of that
81 of January would be a reflection of the inventory carried
82 forward into 2002?

83 MR. OSMOND: Yeah. What I was referring to is the
84 rounded 2002 cost of fuel.

85 MR. KENNEDY: Yeah. Before we get that though I just
86 want to see if I understand the next column over, the
87 rounded PUB fuel number first, that that figure is the actual
88 money that Hydro expects to spend on a cost of No. 6 fuel
89 per barrel during 2002, month over month.

90 MR. OSMOND: Yeah. Can you just go back to the
91 previous part, just let me read that as well?

92 MR. KENNEDY: Sure. The previous page?

93 MR. OSMOND: Yeah. To the actual question. Okay.

94 MR. KENNEDY: So as I understand it, Mr. Osmond, and
95 this is why I think you may need to correct me, is that the
96 column under rounded PUB fuel numbers is the forecast

1 actual price to be paid by Hydro for fuel during 2002, and
2 that reflects the best forecast it had at the time of how much
3 No. 6 fuel was going to be as it purchased new shipments,
4 but then built into it was the carryover of inventory from
5 2001.

6 MR. OSMOND: Yes.

7 MR. KENNEDY: I guess the number, the column I'm
8 having difficulty with then is the rounded 2002 cost of
9 service fuel number, because I thought that that would just
10 be \$20 from January right through to December, but ...

11 MR. OSMOND: Yeah. No, and that's the point I was trying
12 to make.

13 MR. KENNEDY: Okay.

14 MR. OSMOND: That would also include the December
15 inventory because this is a consumption. The barrels are
16 what we're going to consume, so you take into account the
17 inventory you had at the end of December 2001, whatever
18 that valuation ... I don't have that with me ... and then you
19 take the purchases you're going to have, yes, you're right,
20 at \$20 a barrel, and that would have given you a
21 consumption price of \$25.42, okay, and as you see, as you
22 come all the way down through the year, as that inventory,
23 beginning inventory filters through, we're down to pretty
24 well \$20 a barrel by December or November of 2001, 2,
25 because we start buying at \$20, or we're putting the rates at
26 \$20.

27 MR. KENNEDY: So the \$20 benchmark also reflects actuals
28 from the previous year then.

29 MR. OSMOND: Because we do it month by month, so you
30 have to factor in the opening figure and it'll flow all the way
31 down, taking the opening plus the purchases and do a cost
32 ... what it is you do an allocation by month. It wouldn't be
33 a flat-line \$20.

34 MR. KENNEDY: That's an appropriate time to break, Chair.

35 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
36 Kennedy. Thank you, Mr. Osmond. We'll break till 3:15.

37 *(break)*

38 *(3:15 p.m.)*

39 MR. NOSEWORTHY, CHAIRMAN: Before we begin cross
40 examination again, the Panel has considered the schedule
41 that has been agreed upon by counsels during the
42 luncheon period and indeed we would concur with the
43 schedule as outlined by Mr. Kennedy, and I guess our
44 concurrence is a reflection of the agreement and the
45 excellent cooperation which was exhibited and
46 demonstrated among counsels and we certainly appreciate
47 that. So we would like, we will get this formalized in terms
48 of the schedule so that everybody is, and that may be

49 done, I don't know, but it would be a good idea I think to
50 circulate this for everybody's information on a formalized
51 basis and I trust we'll do that over the next little while.
52 Thank you and Mr. Kennedy if you could continue please.

53 MR. KENNEDY: Thank you Chair. Mr. Osmond
54 conveniently PUB-78 is still on our monitors and I have to
55 admit that I'm still a bit fogged over on the treatment by
56 Hydro of the cost of service fuel number in the cost of
57 service for 2002 and I guess I would have perhaps foolishly
58 thought that you would have started of at \$12.50 a barrel at
59 December, at 2001 being your base and then moved to
60 \$20.00 is clearly not the case and I know you've attempted
61 to try to explain where the 25.42 number comes from and I'm
62 just wondering if you could just explain that to me again if
63 you could.

64 MR. OSMOND: Okay, I'll give it another shot. The 25.42
65 takes into account the opening inventory. When you close
66 the inventory at the end of December, 2001, the value of the
67 inventory, and I did get a chance to check the actual
68 number, whatever that price was in our tanks, say for
69 instance \$29 or \$30 a barrel, then we take into account the
70 purchase we had during the month of January, okay, and
71 that might have been at 25 or 26, and then we come up with
72 a consumption, the average of those two and that's what
73 the 25.42 would be. And then we go on to the next month
74 and say okay we had the opening inventory and flow it
75 through whatever that new number would be and we're
76 buying at, flow it through and see \$20.00 going into the
77 rates and flows down through each number each month
78 until you get to the year-end where we're back to the 20
79 cents. It takes out the effect of the opening inventory. It
80 would right if we just did it for the current year and ignored
81 the opening, but you have to take account of the opening
82 inventory and how it flows through month by month,
83 which you probably saw in IC-73 went through the other
84 day, that the numbers changed every month. I think it was
85 12.50 we had, but most months are around 12.31 and then
86 went up 12.40 and finally got to 12.50 at year end. Same
87 principle.

88 MR. KENNEDY: Okay so the, when Hydro says it wants to
89 use \$20.00 as the base number of for the cost of No. 6 fuel,
90 in effect, because it takes into account actuals flowing out
91 of December 31, 2001, in calculating what the fuel cost will
92 be for 2002, that the figure used as your base for fuel will be
93 \$21.39 after 2002? In other words, lets say in 2003 you go
94 to do your adjustments in your RSP, you use 21.39 then at
95 that point?

96 MR. OSMOND: The adjustment in the RSP would be
97 based on, as you can see we were down to \$20.04 is \$20.00
98 a barrel. That's what you compare it to.

99 MR. KENNEDY: Okay, so for 2003, operation and the cost

1 of service and in your RSP calculation, you would use
2 \$20.00 in 2003?

3 MR. OSMOND: I think the number carried forward then
4 from the 20.04 if that's the average consumption at the end
5 of December would be opening number then for 2003.
6 Okay, and that's what we compare it to.

7 MR. KENNEDY: And then by the end of 2003 it would be
8 that much closer to \$20.00, would it also be adjusted down
9 to 2003?

10 MR. OSMOND: 2002, these are the monthly numbers right,
11 same as we had for 2002. You'd have to compare the actual
12 price with the numbers that you have listed there, the 12
13 months.

14 MR. KENNEDY: Right.

15 MR. OSMOND: Okay. They would stay there until revised
16 again 2003.

17 MR. KENNEDY: Right. But let's say Hydro doesn't come
18 back in 2003, just hypothetically.

19 MR. OSMOND: They would still stay the same. As you
20 saw, I'm sorry ...

21 MR. KENNEDY: For each month?

22 MR. OSMOND: Yes. As you saw with the IC-73, the
23 numbers didn't change. Like we had 12.31 for years. We
24 always had to compare back to the cost of service study
25 that was approved by the Board, so this one here, the
26 number, we always have to compare to month by month by
27 month till we came back the next time ...

28 MR. KENNEDY: So in 2003 when you're doing your RSP
29 calculation you would actually use \$22.09 as the base price
30 for oil for that month?

31 MR. OSMOND: That'd be the cost, that'd be the number
32 we compare to ... our actual price compared to 22.09.

33 MR. KENNEDY: 22.09? Okay. I think I understand now,
34 so ...

35 MR. OSMOND: It can get very complicated. I can
36 understand that.

37 MR. KENNEDY: Mr. Osmond, there were some questions
38 by some of the counsel concerning the treatment by Hydro
39 of the preferential rates, most recently by the Consumer
40 Advocate and there was a question that, despite all the
41 questions wasn't asked, and I was wondering if I could ask
42 it. First, I like to just preface it by indicating that my
43 understanding is that in 1995 the Board recommended to
44 Hydro that there be a phase out of the preferential rates
45 provided to Federal and Provincial Governments
46 specifically, and that that phase out would take place over
47 five years and, I think, implicit in that was that it would

48 begin in 1996, is that your understanding as well?

49 MR. OSMOND: It was to be phased over five years, I don't
50 think they explicitly said it would start in 1996. It was a five
51 year phase out period.

52 MR. KENNEDY: No, and that's why I said implicitly rather
53 than explicitly. So Hydro took it because it wasn't explicit
54 that it was to commence at particular point in time, that
55 there was no order as to the time, I take it.

56 MR. OSMOND: Well in order to phase it out it would
57 require a rate application, have rates approved and for
58 other things that had transpired as we talked about before,
59 we have not come back to the Board till this current year to
60 address all the issues in 1992 report, the 1996 rural rate
61 report for preferential rates, and the overall rebasing of the
62 fuel, so that's why it has not started and we started that
63 phase now with this application and we haven't gone to the
64 full effect of it till we receive direction from the Board as to
65 how they wish to proceed on other issues.

66 MR. KENNEDY: And, I think it was your testimony that of
67 the, I believe the total amount that's, that falls under this
68 preferential rate is \$2.6 million, I think was your testimony?

69 MR. OSMOND: Its \$2.6 million of which ...

70 MR. KENNEDY: The Federal and Provincial Governments
71 are responsible for \$2 million.

72 MR. OSMOND: Yeah, Provincial Governments are
73 approximately 1.5 and the other \$500,000 is Federal
74 Government departments.

75 MR. KENNEDY: Just curious, first of all, in the calculations
76 that Hydro makes of the rate of return earned by Hydro,
77 does it take into account the \$2 million that is afforded the
78 province in effect by the preferential rate that's granted the
79 province?

80 MR. OSMOND: In a rate of return calculation?

81 MR. KENNEDY: Yes. In other words, do you take the
82 amount of revenue that would otherwise be incurred by the
83 Provincial Government without the preferential rate and add
84 that to the amount of money that they in effect would earn
85 from Hydro as part of the rate of return?

86 MR. OSMOND: It's the overall net revenue received.

87 MR. KENNEDY: But it's not, it's the overall net revenue,
88 but you don't specifically add that \$2 million as an amount,
89 whatever portion of that is relating to the Provincial
90 Government specifically, as an amount that the Government
91 obtains indirectly from Hydro?

92 MR. OSMOND: No, no.

93 MR. KENNEDY: And I'm just wondering, in light of Ms.
94 McShane's testimony that you would include all transfers

1 to the Government in the calculating of what the ultimate
2 rate of return is to, to the shareholder, or why you wouldn't
3 include that \$2 million or whatever portion of it is relating
4 to the Provincial Government?

5 MR. OSMOND: I was here for Ms. McShane, but I don't
6 remember that comment.

7 MR. KENNEDY: I think it might have been in her pre-filed
8 testimony that she says that you should add all transfers
9 to the Provincial Government when calculating the rate of
10 return to the Government ... in other words, the debt
11 guarantee fee for instance.

12 MR. OSMOND: Oh, I'm sorry, I thought you were talking
13 about the return on equity.

14 MR. KENNEDY: The ultimate return to the shareholder, in
15 this case the Government of Newfoundland, would include
16 the rate of return earned as well as the guarantee provided
17 to the Government as well.

18 MR. OSMOND: It has not been included, nor is it needed
19 to.

20 MR. KENNEDY: Can I ask you why Hydro, and this is the
21 question that wasn't asked that I want to ask, why Hydro
22 would not just move directly to end that preferential rate
23 now in one fell swoop as part of this application and collect
24 the full amount from the Provincial Government and the
25 Federal Government?

26 MR. OSMOND: Do it in one timeframe?

27 MR. KENNEDY: Yes.

28 MR. OSMOND: That's an option, I guess, we looked at the
29 impact on certain Government departments that are there
30 and we felt a five year approach is reasonable, much the
31 same as we come back in the 2003 to phase out the other
32 preferential rates as well over five year period. It's the first
33 phase of a five year program be consistent what we are
34 going to be doing when we come back in 2003 to phase out
35 over five years.

36 MR. KENNEDY: I guess you'll agree with me that ...

37 MR. OSMOND: I mean this is subject to the Board, I mean
38 the Board if they wish or desire that can easily, we go by
39 the Board's direction if they want to go with 100 percent.
40 This has been a recommendation that we do it over a five
41 year period.

42 MR. KENNEDY: Apparently we're all subject to the
43 Board's recommendation. I guess what I'm wondering is
44 why Hydro wouldn't take the lead in just recommending the
45 abolition of the preferential rate to the Provincial and
46 Federal Government. What was the underlying rationale
47 for deciding to postpone that initially since 1996 and now
48 again to postpone into the future for 2003? Why not

49 address this issue from Hydro's perspective right now?

50 MR. OSMOND: Well initially from '96, let me explain why
51 we did not come back and the reasons for it but from here
52 on ...

53 MR. KENNEDY: But they were reasons, just so we're clear,
54 they were reasons within Hydro's control?

55 MR. OSMOND: Yes, we could have come back for a rate
56 application, but..

57 MR. KENNEDY: You chose not to?

58 MR. OSMOND: Because there was no requirement to have
59 a rate application to increase rates at that time. This would
60 have to be addressed during a normal rate application, and
61 ...

62 MR. KENNEDY: You, just, I hate to interrupt again, but
63 you don't always come forward for a rate application when
64 they're seeking an increase, though there is the potential of
65 coming back for a rate application when there might be a
66 decrease as well, correct?

67 MR. OSMOND: Well a rate change. Let's use the word
68 rate change.

69 MR. KENNEDY: A rate change. That's correct. So, and
70 we're talking about \$2 million?

71 MR. OSMOND: Yeah.

72 MR. KENNEDY: And if in fact that this preferential rate is
73 lowered that in effect lowers the rates for the other
74 consumers because it's in your overall revenue
75 requirement, correct?

76 MR. OSMOND: If it was recovered over a shorter
77 timeframe, I would agree with it.

78 MR. KENNEDY: And the Board indicated in '95 that it
79 wanted to see this phased out over a five year period and
80 Hydro hasn't moved on that at all in the last number of
81 years, the last six years in effect.

82 MR. OSMOND: Well it was in our application in 1992 and
83 we had the full phase out of preferential rates out of the
84 program to move back to more cost recovery for the
85 isolated rural customers and the Board approved that.
86 Government didn't approve it and that's how we ended with
87 the '95 and '96 referral that you're talking about. So there
88 was an application there by Hydro, it was all approved we
89 were going to go with it. The Government, in their wisdom,
90 decided to go with rural rate report. Out of that came the
91 same, pretty similar recommendations that we now started
92 to act on and the first one we're acting is the preferential
93 rates as it relates to Government accounts, Federal and
94 Provincial.

95 MR. KENNEDY: Okay, so I'll just ask the question again

1 then, why not just, you'll agree with me won't you that as
2 far as the preferential rate is concerned that you would
3 place the Provincial and Federal Governments in a different
4 category from churches and the like in their ability to pay.

5 MR. OSMOND: Maybe I should give you (inaudible) it
6 was in government accounts and you can make that.

7 MR. KENNEDY: Sure.

8 MR. OSMOND: Just to give you a flare for it. In
9 government accounts, Provincial Government accounts, we
10 have memorial hospitals, regional hospitals, Grenfell
11 Regional Health Services, we have probably a dozen school
12 districts, Department of Works, Transportation and
13 Services, James Paton Memorial Hospital, Western
14 Memorial Regional Hospital, Happy Valley, Health
15 Labrador Corporation, Grenfell Regional Hospital. It's not
16 just, if you look at government buildings, it's government
17 funded entities.

18 MR. KENNEDY: Absolutely.

19 MR. OSMOND: Okay, I just wanted to make that clear.

20 MR. KENNEDY: No, I understand.

21 MR. OSMOND: Sometimes it's a misnomer. People think
22 it's just government sitting on the Hill. It's actually
23 hospitals, schools, and things of that nature, okay.

24 MR. KENNEDY: Sure, all clearly though funded by the
25 Provincial Government.

26 MR. OSMOND: That's correct.

27 MR. KENNEDY: And so it's in effect then a preferential
28 rate that benefits the Government of the Province of
29 Newfoundland and Labrador.

30 MR. OSMOND: Indirectly, yes.

31 MR. KENNEDY: The budgets that this would impact on
32 are funded by the general revenues of the Province of
33 Newfoundland and Labrador?

34 MR. OSMOND: The majority, yes.

35 MR. KENNEDY: And so by abolishing the preferential rate
36 it would be the Province of Newfoundland and Labrador
37 that would end up paying the full shot?

38 MR. OSMOND: Could be, but based on the history of the
39 province, it normally goes back to these entities to try and
40 find the funding, to try and reduce their costs to be able to
41 pay these increased bills.

42 MR. KENNEDY: But should that be a concern of Hydro,
43 who gets caught up that tussle between health boards and
44 the Province of Newfoundland and Labrador?

45 MR. OSMOND: I wasn't saying it was. I just said that we

46 decided to go with the 20 percent to phase in over five
47 years, much the same as the Board had recommended for
48 five years, and the same thing we would be applying for in
49 our next rate application. We didn't look at how this
50 impacts on the church or a school, or whatever. I just want
51 to make sure you are aware of the type of accounts that we
52 actually have.

53 MR. KENNEDY: No, I understand, and I'm trying to
54 understand what the rationale was, so was it a rationale to
55 try to alleviate rate increases for the hospitals or for the
56 Province?

57 MR. OSMOND: There's a recommendation to try and
58 eliminate the preferential rate for Provincial and Federal
59 Governments over a five year period.

60 MR. KENNEDY: I had a question about the payment of the
61 dividend, Mr. Osmond, again there's been a number of
62 questions asked about it, but we're curious, curiosity
63 arising from it, just to recap, as I understand it for 2002 the
64 Provincial Government has called upon Hydro to pay out
65 a total of \$104 million.

66 MR. OSMOND: That's correct.

67 MR. KENNEDY: And that the net amount to be paid after
68 the unregulated portion of the income, which is received
69 from, I believe, IOC, and from the recall energy net revenue
70 is some \$68 million, correct?

71 MR. OSMOND: That sounds correct, yeah.

72 MR. KENNEDY: And I asked, I've asked a couple of
73 witnesses about the treatment of the dividend of \$68 million
74 and I think you were probably here for some of those
75 questions, and about why some or all of it even wouldn't be
76 paid from the retained earnings, from the non-regulated
77 retained earnings of Hydro, as opposed to all of it coming
78 from the regulated retained earnings of Hydro. I'm just
79 wondering if I could get your view on that.

80 MR. OSMOND: Let me try it again. The dividends come
81 from, I guess, four components. We have the earnings
82 from CF(L)Co., retained earnings in CF(L)Co., and that
83 shouldn't be considered as a cash pot as Mr. Roberts
84 explained the other day, that's an investment that we have
85 in Churchill Falls in retained earnings, not necessarily cash,
86 so the dividends we receive from Churchill Falls

87 MR. KENNEDY: Just to stop you there for a second. The
88 retained earnings that, the regulated retained earnings that
89 Hydro has, that's not a pot of cash either though, is it?

90 MR. OSMOND: No.

91 MR. KENNEDY: Okay.

92 MR. OSMOND: No, though sometimes people think that.

93

1 MR. KENNEDY: No, fair enough, but in those cases...

2 MR. OSMOND: I didn't mean that you did.

3 MR. KENNEDY: Sure.

4 MR. OSMOND: So right now we have, the class of
5 dividends that we pay out are made up, and I'll go through
6 the mechanics of it, the past dividends we receive ... Hydro,
7 from Churchill Falls Labrador Corporation, and that's made
8 up of preferred dividends and common dividends, okay,
9 and we pass those on to the Province after we take of the
10 cost of carrying those, the cost associated with carrying
11 investment in Churchill Falls, the interest, and also retire
12 the debt by a \$1 million per year, whatever the net number
13 is, that's what we pay to the Province.

14 MR. KENNEDY: And this is a policy of Hydro's board of
15 directors?

16 MR. OSMOND: Yes, it is.

17 MR. KENNEDY: Okay, go ahead.

18 MR. OSMOND: Then we pay a regular, we pay a dividend
19 on the recall power. We pay out 100 percent of the net
20 recall power that we sell to Hydro Quebec, so it's the
21 revenue minus the cost associated with that, then we pay
22 75 percent of the regulated Hydro earnings, okay, which
23 include IOCC, and then if there's a shortfall it came out as
24 a special dividend, which is the one which we've been
25 speaking about I guess over the last seven or eight weeks,
26 okay and that comprises the \$104 million.

27 MR. KENNEDY: And the special dividend portion, I guess,
28 is the portion that we're all concerned about and I guess
29 the question is why is that special dividend, the portion of
30 it over and above the stated policy of the Board of
31 Directors of only paying out 75 percent of the net income
32 as the dividend as a dividend from regulated retained
33 earnings. Why is all of that special dividend coming from
34 the regulated retained earnings of Hydro and none of it
35 coming from the unregulated retained earnings of Hydro?

36 MR. OSMOND: Well, as I just explained, we just paid the
37 regulated portion, which is the recall. That is the regulated
38 portion of Hydro.

39 MR. KENNEDY: What about the CF(L)Co. figures?

40 MR. OSMOND: And, that was the first thing I mentioned.
41 Let me explain it again. The non-regulated portion is the
42 investment we have in Churchill Falls, and they pay us a
43 dividend based on the Churchill Falls dividend policy, a
44 separate Churchill Board, okay. Those dividends come to
45 Hydro in preferred, and they come as common, okay.
46 Whatever we receive for those two minus the cost of
47 carrying that debt of acquiring the Company, minus the \$1
48 million principle payment, goes to the Province as dividend,

49 that's one item. Okay, one of the \$104,900,000, that's one
50 number. We also take the recall energy that's sold in Hydro
51 Quebec, that's non-regulated sale too, okay. Take off the
52 cost of power purchased, and so on and that's paid out to
53 the Province, that's the second item making up the 104.9,
54 that's all of the non-regulated hydro, other than the Iron
55 Ore Company of Canada.

56 MR. KENNEDY: But is there other non-regulated retained
57 earnings still left over after all that?

58 MR. OSMOND: No. The rest is hydro regulated.

59 MR. KENNEDY: Other than the hydro regulated retained
60 earnings, there are no other retained earnings?

61 MR. OSMOND: No, as long we pay out that dividend on
62 the recall every year. We have regulated retained earnings
63 and we've got the investment in Churchill Falls retained
64 earnings and that's paid out as I just said, but, yeah, you're
65 right in what you're saying. We pay out the two non-
66 regulated which are the CF(L)Co. and the recall and rest
67 then is all hydro only, which is regulated, including IOCC.
68 And those components add up to the \$104,900,000 that we
69 talked about.

70 MR. KENNEDY: So just so I'm clear, and I'm not over-
71 simplifying it, other than the regulated retained earnings,
72 there is no other source to pay out this special dividend,
73 other than once you've already paid out the net recall
74 revenue and the IOC revenue?

75 MR. OSMOND: That's correct. Once you pay out those
76 two, the Churchill and the recall, the only source left is the
77 regulated of Hydro.

78 MR. KENNEDY: I wonder if we could go to **PUB-76**, Mr.
79 O'Rielly. Would you read the question first, Mr. Osmond.

80 MR. OSMOND: Do you want me to read it out, or just read
81 it?

82 MR. KENNEDY: No, just let you read it to yourself.

83 MR. OSMOND: Okay.

84 MR. KENNEDY: Could we go to page 2, Mr. O'Rielly. Now
85 this provided some details of the calculated return of 3
86 percent. You've provided some supplementary evidence as
87 well concerning this and I wonder if we could just go to
88 that Mr. O'Rielly. I wanted to show this first, we'll probably
89 stick with this one actually, the return on equity overall of
90 3.4 percent, in the case of 2002, and then the return on
91 equity regulated of 2.71 percent, and I believe that that's
92 been adjusted in your October 31st filing.

93 MR. OSMOND: Yes, it has.

94 MR. KENNEDY: Schedule A, page 2 of 2.

95 MR. OSMOND: Yeah, I've got it.

1 MR. KENNEDY: Okay. Perhaps we should go to the most
2 recent one, Mr. O'Rielly now, Schedule A, page 2 of 2 of
3 Mr. Osmond's October 31st second supp, down and you've
4 got the return on the equity for the regulated business is 3
5 percent and then the overall basis is 3.4 percent? I'm
6 wondering if, and this is a special request, I'm wondering if
7 you could just explain what the difference is between those
8 two, what the reconciliation would be between the
9 regulated return on equity and the overall basis of 3.4
10 percent?

11 MR. OSMOND: And that really ties down to you see the
12 return going from \$5.6 million to \$8 million and the reason
13 those two numbers are different, the \$5.6 million is the
14 regulated return. The reason the overall is higher, that
15 includes the sales to Iron Ore Company of Canada, and it's
16 approximately \$1.6 million, and then the other is the equity
17 portion of the interest on the RSP and the construction
18 work in progress, the biggest part being the Iron Ore
19 Company of Canada.

20 MR. KENNEDY: Just in the last few minutes there this
21 afternoon, Mr. Osmond, I thought I would give you an
22 opportunity to provide any comment that you might have
23 regarding the process of these hearings, and what, if
24 anything, that, from your vantage point, as the CFO of
25 Hydro that you could provide to help the Board itself in
26 regulating Hydro, what would you see as obvious steps, in
27 your view, to streamlining the process or making it a more
28 efficient one at least?

29 MR. OSMOND: I think the overall process is a good one
30 and I guess I said that going back to when the process
31 actually started with the PUB, going way back in '77, '78
32 and '79. It gives all parties an opportunity to assess, under
33 a very careful eye, as to what the costs are associated with
34 the utility. I'd be a little bit concerned this time around with
35 the breadth and scope of the actual hearing. I've gone
36 through probably ten hearings since 1976, and the longest
37 hearing was two weeks, and in this hearing alone we'll
38 probably have used up as much time in this hearing as we
39 did for all the hearings I ever went to, from 1977 right
40 up to 2002. Part of that certainly is because we haven't
41 been here for ten years and there's a lot of detail to go back
42 through. There's been a lot of questions asked, a lot of
43 repetitive questions asked, might have been able to be
44 done in a different way, but I think as far as the process,
45 the overall process is a good process to go through. The
46 volume of questions and the detail, some of which have
47 been asked maybe some questions as to the number, RFI's
48 that we actually have to respond to and that not be the
49 same detail the next time that we come back. It's only a year
50 away. I presume that that process would be streamlined
51 and they'd be more efficient for the Board and for
52 ourselves, and for all parties involved. But I think overall

53 it's a good process, but the breadth and scope, I think, we
54 need to have a look at as to how we proceed and how we
55 move forward on each issue and the amount of detail that's
56 required, not to get tied into the quantum of the minutia
57 and if a question is asked, and it's asked, as opposed to
58 going through five, six, seven, eight, nine times.

59 MR. KENNEDY: So, if I'm gathering you correctly you
60 recognize that, at least, some of the reason why the process
61 is being perhaps longer than usual is because of the length
62 of time that Hydro, it's been since Hydro was previous...

63 MR. OSMOND: I think that's a fair statement. It's been ten
64 years, a lot of issues have unfolded since 1992 to 2002, and
65 I think some of those certainly should come out, and yeah,
66 that certainly would be part of the process. I wouldn't
67 anticipate another referral (inaudible). If in 2003 were this
68 long, then I think there's a flaw in the system, if it takes that
69 long to go through for one year, but over a ten year period
70 certainly more information will come out than you'd
71 necessarily see in a one year time horizon.

72 MR. KENNEDY: That's all the questions I have, Chair.
73 Thank you, Mr. Osmond.

74 MR. NOSEWORTHY, CHAIRMAN: You have concluded
75 your cross-examination?

76 MR. KENNEDY: I have, Chair.

77 MR. NOSEWORTHY, CHAIRMAN: It is ten to four now.
78 Rather than begin with the Board's questions, I think we'll
79 do that on Monday morning, if that is satisfactory?

80 MS. GREENE, Q.C.: Mr. Chair, I will also have redirect first.
81 I will have some questions ...

82 MR. NOSEWORTHY, CHAIRMAN: We'll start with
83 redirect and questions (*laughter*). Could you cover your
84 redirect in ten minutes.

85 MS. GREENE, Q.C.: No, I think actually it would be helpful
86 if we did leave that till Monday, it might go a little more
87 quickly when we go through some of the analyses that
88 we've done on the oil hedging.

89 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
90 Greene. We are having a four day break now which is our
91 longest time we've been apart in nine weeks (*laughter*). If
92 anybody feels compelled the room is available for the next
93 four days but it's not a bad break, I don't think, given in
94 anticipation of the cost of service will certainly run up until
95 Christmas so I think it is a strategically placed break and
96 thank you very much and I look forward to seeing you on
97 Monday, the 26th at 9:30.

98 (*hearing adjourned to November 26, 2001*)