

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
3 morning everybody. Beautiful morning out there. I trust
4 everybody had a pleasant respite from the constancy of
5 this hearing, no disrespect to anybody out there. I
6 certainly did, thank you very much. There are some, I
7 think, some new faces this morning. Perhaps before we get
8 started I could ask the counsels to introduce the people at
9 the table with them. I don't see any at the Hydro table or
10 the Newfoundland Power table. The industrial customers,
11 please.

12 MR. HUTCHINGS: Yes, thank you, Mr. Chairman, good
13 morning. My pleasure to introduce to the Board, Mr. Cam
14 Osler, whose evidence has been pre-filed. He is the
15 principal with Inter-Group and we'll be hearing from him
16 later in the week, joining us from Winnipeg.

17 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.
18 Osler. The Consumer Advocate, please.

19 MR. BROWNE, Q.C.: Yes. We have Mr. Doug Bowman
20 with us. He's testified before this Board before. Mr.
21 Bowman got a wake-up call because this time last week he
22 was in the Dutch Antilles. *(laughter)*

23 MR. NOSEWORTHY, CHAIRMAN: That would be a wake-
24 up call. Good morning, Mr. Bowman. Counsel, if you wish
25 to introduce, I think ...

26 MR. KENNEDY: Sitting in the back, Chair, is Dr. Wilson,
27 who is the expert hired by the Board to provide assistance
28 during the hearing on the cost of service.

29 MR. NOSEWORTHY, CHAIRMAN: Good morning, Dr.
30 Wilson, and welcome. I'd like to welcome you all here
31 today. Certainly we have a beautiful day and we trust over
32 the next two weeks, it looks like, you may be sharing it with
33 us. We trust we'll have, we'll avoid the snow in any event,
34 hopefully. Welcome. Are there any preliminary matters,
35 counsel, before we get started this morning?

36 MR. KENNEDY: No, Chair. There is one document but I
37 understand Hydro will be introducing that through the
38 witness on their redirect.

39 MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you
40 very much, and with that I'll ask Ms. Greene ... I think where
41 we left off on Wednesday, you had concluded counsel
42 with your cross-examination, I understand.

43 MR. KENNEDY: Yes, I have. Thank you, Chair.

44 MR. NOSEWORTHY, CHAIRMAN: Good morning, Ms.
45 Greene. I'll ask you to redirect. Good morning, Mr.
46 Osmond.

47 MR. OSMOND: Good morning.

48 MS. GREENE, Q.C.: Good morning. I wanted to mention
49 that the first number of questions that I have for Mr.
50 Osmond come from undertakings that were provided to Mr.
51 Hearn on last Wednesday. Unfortunately Mr. Hearn is not
52 here today but I will ensure that he understands that the
53 answers were provided today and are found in the
54 transcript. Good morning, Mr. Osmond.

55 MR. OSMOND: Good morning, Ms. Greene.

56 MS. GREENE, Q.C.: As I just mentioned, the first number
57 of questions relate to questions from Mr. Hearn on
58 Wednesday. The first question is in response to an
59 undertaking where Mr. Hearn asked you to confirm the
60 gross investment in the Labrador interconnected system at
61 \$26.975 million. Have you had the opportunity to review
62 that number, Mr. Osmond?

63 MR. OSMOND: Yes, I have, and our staff have verified
64 that number. It is \$26.9 million and that's the distribution
65 costs associated with the Labrador interconnected system.

66 MS. GREENE, Q.C.: The next question relates to the cost
67 of transmitting energy for Wabush and Labrador City from
68 Churchill Falls to the Wabush terminal station. Have you
69 had the opportunity to confirm the cost for that
70 transmission?

71 MR. OSMOND: Yes, I have. The cost of going to the
72 Wabush terminal station is approximately \$119,000, and
73 that works out to 0.46 cents a kilowatt hour.

74 MS. GREENE, Q.C.: And as we mentioned last week there's
75 no actual wheeling fee charge, is that correct?

76 MR. OSMOND: That's correct, there's no wheeling fee
77 charged.

78 MS. GREENE, Q.C.: The next question related to Mr.
79 Hearn's question to explain the increase in the depreciation
80 expense in 1996 for Wabush as shown in **LC-10, page two
81 of two**. I don't think we need to get that document up, but
82 can you explain the reason for the increase in depreciation
83 expense?

84 MR. OSMOND: Yes, and you'll start reviewing that ...
85 that's due to capital expenditures on distribution and
86 building improvements of approximately 250 to \$300,000
87 during that timeframe, which would have revised or
88 increased the depreciation over that period that Mr. Hearn
89 was referring to.

90 MS. GREENE, Q.C.: The next question from Mr. Hearn
91 related to the staffing levels in Wabush office in 1989.
92 Have you had time to confirm what the staffing level was in
93 1989 in Wabush?

94 MR. OSMOND: My understanding in talking to our staff,
95 the staffing levels in 1989 were six staff.

1 MS. GREENE, Q.C.: And what is the staff at the present
2 time in the Wabush office?

3 MR. OSMOND: The current staff in the Wabush office
4 now is ten, a complement of ten.

5 MS. GREENE, Q.C.: The next question also relates to
6 staffing, and the question is were there any staffing
7 changes in the Wabush office when Hydro acquired the
8 Labrador City distribution system in 1992?

9 MR. OSMOND: Yes, there were. There were an additional
10 six staff that came over from Labrador City, so at that time,
11 six for Wabush, six for Labrador City, and now we have a
12 complement of ten.

13 MS. GREENE, Q.C.: The next question again relates to
14 Wabush, and it relates to the net operating expenses that
15 are shown in **LC-10, page two of two**, which are the costs of
16 the Wabush distribution system, and the question Mr.
17 Hearn asked in regard to this was whether there were any
18 costs allocated to Wabush for over, corporate overheads,
19 and has there been, Mr. Osmond?

20 MR. OSMOND: Yes, there have been. The estimate we've
21 gone back and verified is approximately \$77,000 per year for
22 overheads, and that covers the finance and accounting
23 areas, HR, Materials Management, plus general corporate
24 overheads as well, so there's an allocation there for \$77,000
25 and a net operating cost figure that we saw, I think, in **LC-**
26 **10**.

27 MS. GREENE, Q.C.: Mr. Hearn asked whether Hydro could
28 provide a statement of revenue and expenses for Labrador
29 City as had been done for Wabush, as shown for Wabush
30 in **LC-10**. Have you determined whether Hydro can
31 provide the same breakdown for Labrador City as it did for
32 Wabush?

33 MR. OSMOND: Now in talking to our staff, we don't, as I
34 think Mr. Roberts explained the other day, segregate the
35 cost by community. It all goes into the overall system that
36 we use for cost of service. We did segregate Wabush
37 specifically by PUB order to identify the costs back in 1987
38 as it relates to that entity but there are no separate costs for
39 the Labrador City system.

40 MS. GREENE, Q.C.: The next question again concerning
41 the Labrador interconnected system is what is the rural
42 deficit allocated to the Labrador interconnected system
43 customer expressed on a kilowatt hour basis?

44 MR. OSMOND: That's shown in the cost of service and I
45 think the overall deficit allocation for Labrador
46 interconnected is approximately \$4,012,000, and that works
47 out to a mill rate of 0.00868 for kilowatt hour.

48 MS. GREENE, Q.C.: The last question arising from the
49 questions of Mr. Hearn relates to the ability of Hydro to

50 transmit energy from the Happy Valley-Goose Bay area,
51 from the gas turbine and the diesel units over to Labrador
52 west, and I believe you had some discussion with Mr.
53 Hearn concerning that. Have you had the opportunity to
54 review the transcript and in response to Mr. Hearn at that
55 time?

56 MR. OSMOND: Yes, I did, and I should have stopped
57 when I said I'm not an engineer. It's always a mistake to go
58 the next step. I think I might have left the impression that
59 by having the gas turbine in Happy Valley we could
60 generate the energy back through and serve Labrador City
61 and Wabush. That result can take place but it takes place
62 by the fact that we have a gas turbine in Happy Valley and
63 diesels that we can run at any point in time for generation,
64 so by doing that we have additional generation in Churchill
65 that we can supply Lab City and Wabush for. For instance,
66 the gas turbine is 25 megawatts. We can run that up in
67 Happy Valley and thereby be able to provide an additional
68 25 megawatts to Lab City or Wabush if they should need
69 it coming out of Churchill, but it would not be fed back
70 through the line, from Happy Valley back, but by having
71 that generation on we dropped the load from, or the
72 purchase power from CF(L)Co. to Happy Valley and
73 therefore provide more energy to Lab City and Wabush.
74 So the result is the same but it's a much clearer answer from
75 our engineering people.

76 MS. GREENE, Q.C.: So in effect it frees up energy from
77 Churchill Falls to be able to be used in the Labrador west
78 area because of the use of the additional generation in the
79 Goose Bay, is that correct?

80 MR. OSMOND: That's correct, and that's similar to what
81 we do on the island as well. We have backup generation.

82 MS. GREENE, Q.C.: That concludes the questions arising
83 from Mr. Hearn's cross-examination of last week. And
84 moving on to other areas, I'd like to refer to the **transcript**
85 **of November 21st at page 40**, and I wonder, Mr. O'Rielly, if
86 you could bring that up, please. It's November 21st at page
87 40 and it's at line, in the hard copy, 88 to 92, and it's actually
88 the same reference here on the screen. And at that time,
89 Mr. Osmond, you were responding to questions from
90 Board counsel, and in line 91 to 92 you stated that, "The
91 price of fuel was \$15 a barrel." And if you look back up to
92 line 88 you will see that the timeframe being discussed was
93 1986. Have you had the opportunity to review the
94 transcript and do you have any comments with respect to
95 the price stated in the transcript?

96 MR. OSMOND: Yes. When I looked at the price, the \$15
97 I think, when I mentioned that, I was thinking of '92 instead
98 of '86. Basically back in 1986 I think the price was around
99 \$30. \$15 is what we recommended back in 1992 for the rates
100 and it ended up being \$12.50 that was set, and in 1992 the

1 \$50 million cap was also confirmed by the Board, so ...

2 MS. GREENE, Q.C.: So the \$15 a barrel referred to in the
3 transcript was actually in the '92 timeframe and not the '86
4 timeframe, is that ...

5 MR. OSMOND: That's correct. It relates to 1992 and not
6 1986.

7 MS. GREENE, Q.C.: Mr. Osmond, in questions by the
8 Consumer Advocate, Mr. Browne asked whether Hydro
9 had retained a consultant to review its oil acquisition
10 practices, and you responded at that time that Hydro had
11 not done that, and I wanted to refer you now to the Quetta
12 Report, and I wonder, I'm afraid we're going to have to get
13 the hard copy for this. It's **NP-30**. Mr. Osmond, could you
14 advise the panel who Quetta Inc. and Associates were?

15 MR. OSMOND: Quetta Inc. were a firm that was hired by
16 the Public Utilities Board, I believe in 1999, to review
17 various activities at Hydro. One was the operation
18 efficiencies as well as our fuel purchases and practices.

19 MS. GREENE, Q.C.: And is it the report from Quetta Inc.
20 and Associates that's found as an attachment to **NP-30**?

21 MR. OSMOND: Yes, it is.

22 MS. GREENE, Q.C.: I wonder if you could turn to page
23 three, and that's three little "i's" in the Executive Summary,
24 please?

25 MR. OSMOND: Yes, I have that.

26 MS. GREENE, Q.C.: If you look at the previous page,
27 actually page three, you will see the Summary of Findings
28 from Quetta. On page three I wonder if you could read the
29 number 15, which was their summary in report on that
30 topic?

31 MR. OSMOND: Number 15 is Fuel Acquisition, and it
32 states, "The contract and the resulting prices are
33 reasonable."

34 *(9:45 a.m.)*

35 MS. GREENE, Q.C.: Also dealing with fuel, in response to
36 questions last week you indicated that the fuel storage
37 capacity at Holyrood is 800,000 barrels. Have you had the
38 opportunity to review that number since last week?

39 MR. OSMOND: Yes. I think last week I said it's
40 approximately 800. Checking with our production people,
41 the storage capacity is 840,000 barrels, and that hasn't
42 changed since 1980 when Unit No. 3 at Holyrood actually
43 went into service.

44 MS. GREENE, Q.C.: Going with the fuel at Holyrood, I
45 would like to ask you a question that we need to refer to a
46 transcript to answer, and I wonder, Mr. O'Rielly, if you
47 could bring up the **transcript of November 20th at page 37**?

48 And this is in discussions with Mr. Fitzgerald. In the hard
49 copy, and I believe it's the same here on the screen, the
50 discussions start at line two to nine and again on lines 30
51 to 32, and perhaps if we just looked at lines 30 to 32. And
52 without reading the whole transcript there, Mr. Fitzgerald
53 drew a conclusion that because Hydro was going to retain
54 their Bunker C fuel in 2002, that, and I'm reading from line
55 30, 32, that there's no imminent intention to implement any
56 kind of hedging program for the purchase of oil, and your
57 response at line 33 was, "Not immediately, no." And my
58 question with respect to that discussion is, is Hydro were
59 to enter into a new contract similar to the existing contract
60 for the purchase of Bunker C, how would this be, impact
61 any plan to hedge the acquisition of Bunker C fuel?

62 MR. OSMOND: Yes. The contract in and of itself would
63 not prevent the use of any hedging instruments. We'd still
64 have a contract with the supplier but we could still
65 entertain hedging instruments besides that. Any cost
66 associated with that of course will require PUB approval,
67 whether they should go into the Rate Stabilization Plan or
68 whatever as they relate to the hedge and any savings or
69 costs associated with it, so with regards to the contract,
70 that probably wouldn't be in place until at least the summer
71 or the fall of next year, and part of our application to the
72 Board in 2003 may address the oil price hedging as it relates
73 to that, so they're two separate issues. You can still
74 proceed with the contract, wouldn't be any problem with
75 that, and hedging as a separate financial instrument,
76 proceed alongside with it.

77 MS. GREENE, Q.C.: And in fact as you just mentioned,
78 hedging instruments are financial types of instruments.
79 And are they normally supplied by the same type of
80 supplier as a supplier who supplies the actual fuel product?

81 MR. OSMOND: Well, it'd be a separate contract with the
82 supplier for the purchase of fuel like Westport. The actual
83 hedging instruments would be with the financial
84 institutions, the banks and the other credit agencies as
85 well.

86 MS. GREENE, Q.C.: Moving now to the Rate Stabilization
87 Plan, there's been a lot of discussion over the last few days
88 with respect to the Rate Stabilization Plan, and you had
89 discussion with a number of the counsel relating to the
90 recovery of any balance that there might be in the RSP
91 associated with an industrial customer, if an industrial
92 customer ceased operation. And here again we will need to
93 refer to the transcript, and I wonder, Mr. O'Rielly, can you
94 bring up the **transcript of November 19th, please, at page**
95 **25**? And this appears to be one time when the line
96 numbers on the electronic version are not the same as what
97 I had in the hard copy. Can you just scroll down, please,
98 Mr. O'Rielly? And here it begins with line 37 and it relates
99 to the situation where an industrial customer may cease

1 operations, and I wonder, Mr. Osmond, could you please
2 read your answer beginning at line 37 there into the record?

3 MR. OSMOND: "We have not had it included as an item,
4 as an adjustment if an industrial customer actually ceases
5 operation. Certainly there's merit to having that to some
6 degree but we have not addressed that specifically as part
7 of the abandonment clause because the balance as it is
8 right now, whatever it is in the RSP, would be recovered
9 from all consumers in that class as opposed to the
10 individual, because it's virtually impossible to break it out
11 in sub-components. It's a class-based RSP, one for
12 Newfoundland Power and one for industry, so whenever it
13 falls out from one, if one left, would fall over to the
14 remainder as being recovered. It doesn't fall out as a loss
15 to Hydro."

16 MS. GREENE, Q.C.: And what I would like you to do is
17 explain your answer there, because, as I said, there was so
18 much discussion about it during last week, I'm not quite
19 sure if that thought was lost in the rest of the cross-
20 examination?

21 MR. OSMOND: Okay, I'll try and clarify it. Rates are
22 normally designed by rate class, and the rate classes would
23 be Newfoundland Power, the Utility, and also the industrial
24 class as opposed to specific by customer, and I guess one
25 of the issues was can you have a separate plan specific for
26 each customer I guess. In our review of that, to monitor,
27 have an RSP for each customer, would add immense
28 complexity to the plan. It would have to involve tracking all
29 the various components as it relates to load, as it relates to
30 energy, all the other factors, and trying to run that through
31 the cost of service for each individual customer and what
32 impact that would have on the cost of service allocation
33 process and the RSP. It would really be extremely complex,
34 if at all possible to do. So the normal process for rate
35 setting is design rates by class, which would be industrial,
36 and for Newfoundland Power, and, as I say, to subdivide
37 that by customer would be horrendous, to try and actually
38 track and monitor every single month and run it through a
39 cost of service.

40 MS. GREENE, Q.C.: Is it normal under rate design
41 principles to design rates by an individual customer?

42 MR. OSMOND: Normally not. It would be based on
43 customer class, as I mentioned, in this case, Newfoundland
44 Power and the industrial rate class.

45 MS. GREENE, Q.C.: Still with the RSP, there was some
46 discussion between yourself and Mr. Hutchings on
47 November 20th with respect to the impact on the Rate
48 Stabilization Plan if a hydraulic unit is down for
49 maintenance.

50 MR. OSMOND: Yes.

51 MS. GREENE, Q.C.: And I won't repeat that discussion but
52 my question to you is, what would have happened in the
53 same situation which is where a hydraulic unit is down for
54 maintenance, what would have happened in that same
55 situation prior to the Rate Stabilization Plan and with the
56 old fuel adjustment clause?

57 MR. OSMOND: Prior to the Rate Stabilization Plan, the
58 additional fuel because a unit was down that was burnt at
59 Holyrood would be recovered from customers through the
60 fuel adjustment charge, and that would be recovered in the
61 month after the fuel was actually burnt, so the recovery
62 mechanism would have been they're recovered from the
63 consumers, same as it would with the RSP except the RSP,
64 the amount would go into the Rate Stabilization Plan
65 recovered over three years. Prior to the RSP it would go
66 through the fuel adjustment and recovered in the month
67 following the time that the actual fuel was burnt.

68 MS. GREENE, Q.C.: So the mechanism is different but the
69 protection to Hydro is the same, is that the correct?

70 MR. OSMOND: Yes. The protection to Hydro is the same,
71 (inaudible) different.

72 MS. GREENE, Q.C.: The next question arises again from a
73 question from counsel for the industrial customers on
74 November 19th and it relates to the cost of P-2000, and I
75 wonder here, Mr. O'Rielly, if you could bring up **NP-94**?
76 The question that was asked to you was why the actual
77 amount allocated to CF(L)Co. arising from P-2000 was less
78 than the budget amount, and have you had time to review
79 that and to determine what the explanation is?

80 MR. OSMOND: Yes. The actual allocation to Churchill
81 Falls is lower than the budget and the main reason for that,
82 in the actual dollars spent on the P-2000 project, it also
83 included the Utility Customer Information System, which is
84 called the UCIS System, and that cost approximately, I
85 think, \$2 million to install. That system would not be of any
86 benefit to Churchill Falls. This relates to all of our rural
87 customers, our island interconnected customers, so the
88 allocation, you can see, it's lower because of that. We've
89 taken out the \$2 million, so essentially 25 percent of that
90 would have been allocated to CF(L)Co., and that's why it's
91 gone from \$2.5 million down to \$2 million.

92 MS. GREENE, Q.C.: The last topic for redirect with Mr.
93 Osmond relates to the documentation on oil hedging that
94 was circulated on Friday, and I guess for the purposes of
95 examination I wonder could we have this document
96 marked? It was filed in response to an undertaking given
97 to counsel for Newfoundland Power.

98 MR. KENNEDY: U-Hydro No. 31.

99 **EXHIBIT U-HYDRO NO. 31 ENTERED IN EVIDENCE**

1 MS. GREENE, Q.C.: Mr. Osmond, there's also been a lot of
2 discussion in the last few days about hedging and
3 particularly with respect to the acquisition of oil for the
4 Holyrood thermal plant. I wonder if you could first just
5 very simply explain what is hedging? What do you mean?
6 What do people mean when they say we're going to
7 hedge?

8 MR. OSMOND: Okay. Maybe I can just go back to the
9 report we filed. It might be easier if I can just take you
10 through various segments of that as I go through hopefully
11 one or two fairly easy examples, if I can. I guess a hedge is
12 a financial instrument that's designed to provide a degree
13 of price certainty and it's associated with a related business
14 transaction, and you can see in the first paragraph ... maybe
15 I can just go on and try to put it in ... I'll just read what I
16 have here and just explain the points, and this is attached
17 to Appendix A as well. For example, referring to Appendix
18 A, in September '99 we could have entered into a hedging
19 arrangement whereby the price for a shipment of, say,
20 40,000 barrels of fuel oil could have been capped at \$23.95.
21 In other words, as long as the actual price came in at less
22 than \$23.95, we would pay the actual price, but if it came in
23 at more than \$23.95, we would pay no more than \$23.95, so
24 that was the ceiling or the cap on it. We would pay a price
25 for that cap of 15 cents a barrel or \$6,000. In this particular
26 instance, as it turns out, the actual price came in at \$18.65,
27 so we didn't exercise a hedge, and so for instance it just
28 expired worthless, and we incurred an additional hedge
29 cost in connection with that particular shipment of \$6,000,
30 which is the premium that we paid, and that worked out to
31 be, I think, around 15 cents a barrel. So in that particular
32 case we paid \$18.65. If you add on the hedge cost of 15
33 cents, it was \$18.80. We had a cap of \$23.95 and we didn't
34 exercise that, so that ...

35 MS. GREENE, Q.C.: Mr. Osmond, that can be seen in
36 Appendix A in the first half of that table, is that correct?

37 MR. OSMOND: Yes, that's in Appendix A and you can see
38 that under, I guess it's one, two, six lines down, under the
39 heading, "September 1999." It says "Date set, applicable
40 period October '99, 40,000 barrels," and you can see moving
41 across, \$23.95. The actual price paid, \$18.65, and the \$6,000,
42 which is the premium cost at 15 cents a barrel. That's what
43 it cost us and we didn't exercise the hedge at \$23.95. We
44 paid \$18.65. And that was converted then to US dollars,
45 which works out to be, to Canadian dollars, I'm sorry, a cost
46 of \$8,864.

47 *(10:00 a.m.)*

48 MS. GREENE, Q.C.: Why would Hydro consider a hedge
49 program? What would the objective of such a program be?

50 MR. OSMOND: I guess the more balanced objectives of
51 such a program are, and these are identified on the page

52 here as well, first of all is to protect Hydro's customers from
53 adverse unexpected and random price fluctuations that are
54 short-term in nature and also to minimize any costs
55 associated with providing a degree of price certainty.

56 MS. GREENE, Q.C.: What are the principal factors that
57 should be considered in placing a hedge?

58 MR. OSMOND: I guess the principal factors, and they're
59 showing here on the screen as well, there are a number of
60 factors that can contribute to a mismatch (inaudible) a
61 hedge position and the actual cost of the shipment, and I'll
62 just go down through this briefly. It's a variation between
63 the expected and the actual timing of delivery of the actual
64 fuel. Variations between the expected and actual quantity
65 delivered, again of No. 6 fuel in this case, and variation
66 between the pricing convention used in connection with
67 the oil versus that used in the hedge. In other words, the
68 actual shipment is based on prices in a particular day
69 versus a hedge price may be based on a monthly average,
70 and variation, the type of oil on which the hedge is based
71 and the actual type of oil being purchased. We normally
72 buy 2.2 percent fuel oil. Sometimes it's not possible to get
73 a hedge for 2.2. It could be a lower one percent or three,
74 higher, three percent. So fuel oil as robust as a market, for
75 instance, are tied to crude, and we're at No. 6 fuel which is
76 the next level up, so it's not always possible to get that
77 hedge. Through trading the 2.2 percent fuel oil deliverable,
78 delivered as market become too thin, consideration would
79 have to be given to an alternate base that could be used for
80 hedging purposes, and the price movements of this
81 alternative base would have to be closely correlated with
82 movements in No. 2, No. 6, 2.2 percent sulfur fuel. So it's
83 really saying that sometimes you find we can't get the exact
84 hedge for No. 6 because (inaudible) crude, but there might
85 be another alternative you could use that you try and
86 match and trade off against that.

87 MS. GREENE, Q.C.: Why is it a party's view of future oil
88 prices important in hedging?

89 MR. OSMOND: I guess a hedge strategy contemplates the
90 provision of protection against unforeseen and/or random
91 price movements and the decision as to the appropriate
92 hedge instruments to use is influenced mainly by the
93 company's expectations as to the future price of oil. That
94 dictates the type of financial instruments you put in place,
95 whether it be a swap or a collar or an option, so your view
96 is very important based on the advice that you're given, so
97 the financial advice as to where you see or where they see
98 in a collective decision as to what fuel prices will be in the
99 future, in three months or six months. The farther out you
100 go, the more difficult it is to project those numbers, so
101 review is very important. Such an approach can be referred
102 to as a form of active hedging, and our view of future oil
103 price is based on regular world oil market, intelligent

1 updates, price forecasts received from independent
2 advisors, and our bankers, and review of historical
3 statistical positioning of current spot prices, so we try to
4 assemble the best information we have from our financial
5 people, our bankers, as well as historical information
6 statistically from our economic analysis group.

7 MS. GREENE, Q.C.: How has Hydro reviewed the issue of
8 hedging for its acquisition of No. 6 fuel for Holyrood?

9 MR. OSMOND: I guess we started the process initially
10 when we set up a small committee, late 1997, early 1998, to
11 review the issues associated with hedging as they relate
12 specifically to fuel, and that committee is chaired by our
13 Treasurer, Mr. Bradbury, and on that committee we have
14 Operations, and it would be Mr. Henderson who is directly
15 involved in the acquisition of fuel and in determining fuel
16 quantities, as well as people from Materials Management.
17 Mr. McPherson is involved in directly acquiring and
18 purchasing the fuel, as well as our Economic Analysis
19 people, Mr. Goudie, and from Customer Services and Rates
20 we have our rates person, which will be Paul Hamilton. So
21 we have the major players in there from Finance as well as
22 from Operations, as well as from Economic Analysis, and
23 they started that process in late 1997. They had
24 discussions and conversations with their financial
25 advisors, our bankers, and other entities, to review and
26 determine what would be appropriate for hedging and some
27 of the concepts associated with that and as to what our
28 policy may or may not be in the future, to decide how we
29 should go with hedging. They commenced a process of
30 what we call a phantom hedging, hedging, and that's really
31 saying, well, don't do it in the real world, but, look, if we did
32 do that, what would the impacts be and that's in Appendix
33 A here, if we actually put a hedge in place, and they started
34 that process back in 1998 saying, okay, if we put this
35 process in place, what might happen, so we ran different
36 scenarios and came up with a view and then identified what
37 those costs would have been, what those savings may
38 have been if we had to have a hedge program in place. We
39 did that through 1998, 1999 and into 2000, and some of
40 these are attached, which I'll take you through shortly. So
41 they're getting a better feeling as to how the process of
42 hedging is working, how to formulate a view and they're
43 getting some better background behind them and more
44 experience behind them to help us and decide to come back
45 or come back with a recommendation to the Board at our
46 next rate application, including 2001 and 2002.

47 MS. GREENE, Q.C.: You just mentioned that some of the
48 simulation results are shown in Appendix A. Could we
49 look ... thank you, Mr. O'Rielly. Without taking us through
50 that whole Appendix A, Mr. Osmond, can you just explain
51 what the top half and the bottom half demonstrate and just
52 to give a brief summary of the overall results?

53 MR. OSMOND: I'll try to do it fairly briefly but I'll try to
54 keep it at a fairly high level if I can because it gets ... I find
55 even myself going through it and I'm just barely scratching
56 the surface. It's a very technical area. The top part we talk
57 about the use of ... thank you ... more liberal use of swaps
58 and collars, and that's defined in the paper and the top one
59 we talk about is use with hedges. It involves fixing the
60 price situation where either there's either a modest or a
61 strong view as to an upward trend in fuel prices as
62 opposed to the bottom one which is conservative, which
63 looks at use of such instruments where there's a strong
64 view as opposed to a modest view, to an approach where
65 you'll see trends of the likelihood of occurrence, so that's
66 the difference between the two. If I could maybe just take
67 you through one or two examples, not to tie you up in too
68 much detail, but just to go through the headings. I'll just
69 tell you what they are first. The date set is the timeframe
70 and maybe I can just take the second one down, for
71 instance. It's September 1998, so in September we looked
72 at the applicable period for a hedge, which in this case is
73 February 1999, and the quantity we used is 250,000 barrels
74 for that timeframe of February, and the column, "Market
75 View," that was based on the committee's view, its
76 consultations with our financial people, of a modest
77 upward trend in fuel prices, and based on that information
78 a formulation of a view and what they expected to happen,
79 the hedge instruments they selected at that point in time
80 was what they call a collar, and with a collar you'd have a
81 floor price and a ceiling price. In other words, the floor,
82 you pay no less than that, and with a ceiling price, you got
83 a ... sorry, floor price of, and a ceiling price, that you could
84 ... a ceiling and a floor, and the actual price is what we
85 actually paid. So we just take those three. I'll go slowly
86 through this. The actual price we paid was \$8.11. So in
87 that particular scenario you can see that the, we had a floor
88 price of \$12.35 and we had a ceiling of \$14.73, so we had,
89 we paid the supplier \$8.11 but we had to pay the financial
90 institution the floor, the difference between the \$8.11 and
91 the \$12.35. We were committed to a \$12.35 price in this
92 particular case, and that works out to be a difference of
93 \$4.24, being the \$12.35 and \$8.11. The \$4.24 times the
94 250,000 barrels shows a minimum \$60 US. In this case it
95 would have cost us money at that point in time if we had to
96 have that hedge in place. Converted to US dollars that
97 works, Canadian dollars, that works out to a million 587.

98 MS. GREENE, Q.C.: And that's because the actual price
99 came in much lower than what you had anticipated the
100 price to be, even with advice from your financial advisors,
101 is that correct?

102 MR. OSMOND: That's correct. And maybe I can just
103 show you another one. If you can go down one, two,
104 three, you see February 1999, and again this done for the
105 first quarter of 2000. The farther out you go, the more

1 difficult it becomes. Again in that case we estimated the
2 hedge quantity, or the quantity we had in barrels, 125,000.
3 The market view is still the same, a modest upward trend.
4 We set a floor price of \$10.50 and a ceiling price of \$12.90,
5 but you can see in this case the actual price came in at
6 \$20.65, so in that case we would have paid the supplier the
7 \$20.65 but because we had the hedge in place with a collar,
8 the maximum we should have paid was \$12.90, so the
9 difference between \$20.65 and \$12.90 was received back
10 from the financial institutions, \$7.75 times 125,000 barrels,
11 would have given us \$968,750. We actually saved that
12 much money. So when you look at that page you'll see one
13 was up and one was down with hedging. We actually
14 would have lost money on one, would have gained on the
15 other. If you look at all those combined for the legal
16 approach, you would have seen that overall there was an
17 overall cost if we had these hedges in place for that
18 particular period of \$72,600 US, which would have worked
19 out to be roughly \$205,000 (phonetic) Canadian. The next
20 one below, maybe I can just touch on this very quickly, if
21 you go down to the conservative approach, and again I'll
22 take September 1998, and we're looking at February 1999, so
23 that's going out roughly five months, and again we had a
24 market view of modest upward trend, so in that case we put
25 on a call option of a cap, so in that case the maximum price
26 is \$14.95, but with that cap there's a cost, a premium cost,
27 and that particular cost works out to be, in that particular
28 shipment, 55 cents. The longer out you go, the more
29 expensive it becomes. So that particular one was 55 cents
30 as a premium. You can see that the actual price came in at
31 \$8.11, so we didn't exercise the option because the option
32 would have cost us \$14.95, so what that cost us at that
33 point in time was 55 cents premium times 250,000 barrels or
34 \$137,500 US. Again, converted to Canadian is \$206,000. If
35 you go down two more, this will be the last one I'll go
36 through now, just to show another example of the other
37 way, in February '99 we looked at an applicable period for
38 the first quarter 2000. Went out a year, and again as I just
39 mentioned, the farther out you go, the more expensive it
40 becomes to put the hedge in place. The premium cost to do
41 that would have cost us \$1.04 a barrel for that particular
42 one. Again, it's 125,000 barrels, our market view was a
43 modest upward trend. Then you can see again that the
44 actual price, the ceiling price is \$13.23. We actually paid
45 \$20.65. So we paid a supplier \$20.65 but the financial
46 institution would have paid us the difference between
47 \$13.23 and \$20.65. That is a difference of \$7.42 times
48 125,000 barrels, which is \$928,000, minus the cost of putting
49 in the hedge, which would have cost us in that case \$1.04
50 per barrel which is \$132,000. So we would have had a net
51 savings of \$796,000 US in that case or \$1.1 million Canadian
52 in that particular one. So it's showing that you can have
53 some that could, you may win on, some you may lose on.
54 There's never 100 percent assurance whatever you do that

55 you're going to be able to go always and always ... but it
56 does put the proper mechanism in place to evaluate and
57 review.

58 MS. GREENE, Q.C.: Mr. Osmond, you've mentioned that
59 there are costs associated with the purchase of hedges.
60 How do you see the cost being handled if Hydro were to
61 enter into a hedging program?

62 MR. OSMOND: I guess where the fuel cost is such a major
63 item as it relates to the cost of fuel and the RSP and the
64 impact on Hydro, on consumers, we would see that any
65 costs associated with the hedging program, the premium
66 costs as well as any savings that are attained through a
67 hedging program or any costs associated with a hedging
68 program would form part of the Rate Stabilization Plan as
69 part of the cost of fuel.

70 MS. GREENE, Q.C.: Mr. Osmond, Hydro has been
71 studying this since 1998 and is not making a
72 recommendation to engage in a hedging program at this
73 time. Can you please explain why that is so?

74 MR. OSMOND: I guess, as I mentioned, we started in 1998
75 and we're in the process of the '99/2000 this year reviewing
76 a phantom hedge process, and we expect to be in a position
77 at the next rate referral to make a recommendation to the
78 Board as to whether we should proceed or not proceed and
79 the implications of that. I guess right now our customers
80 are already afforded some degree of assurance and
81 protection through the Rate Stabilization Plan, however, the
82 primary objective of any oil hedge program is to protect the
83 consumers from adverse or unexpected and random price
84 fluctuations that are short-term in nature, and the Company
85 believes there's some merit to continuing monitoring of an
86 active approach, oil hedging, and to assess whether
87 additional risks are worth the benefits to consumers in
88 terms of protection from market volatility, prices up or
89 down, and it's expected that a final determination as to the
90 appropriateness of such an action would be reached in
91 advance of Hydro's next rate application, which we'd expect
92 to be in early 2003.

93 MS. GREENE, Q.C.: Thank you, Mr. Osmond. That
94 concludes the questions I had for Mr. Osmond.

95 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
96 Greene. Thank you, Mr. Osmond. We'll move directly now
97 to Board questions. I'll ask Commissioner Powell to begin.

98 COMMISSIONER POWELL: Thank you, sir. Good
99 morning, Mr. Osmond.

100 MR. OSMOND: Good morning, Commissioner Powell.

101 COMMISSIONER POWELL: How are you this morning?

102 MR. OSMOND: Excellent. It's a beautiful day.

1 COMMISSIONER POWELL: Yes. It was a beautiful
2 weekend out west. I don't know what it was like here,
3 eastern part of the world.

4 MR. OSMOND: I think it was sunny but I can't attest fully
5 to that. *(laughter)* It's hard to see from the inside looking
6 out.

7 *(10:15 a.m.)*

8 COMMISSIONER POWELL: Yeah. You'll have to get a
9 new boss, I guess. I only have a couple of questions.
10 Actually I have more than a couple but not all that difficult.
11 One of the things I'd like to revisit with you, because you
12 left me ... I was ... spent an hour at 22,000 feet so I was able
13 to get the higher view of things, but you left me at the end
14 of Wednesday, you were talking with legal counsel about
15 the dividend and the, that's legal counsel to the Board, Mr.
16 Kennedy, and you were talking about the dividend and the
17 payment of the dividend, and there was an exchange on
18 **November 21st, page 48** maybe, on line 65 on the hard
19 transcript. Mr. Kennedy asked, said, "Other than Hydro's
20 regulated retained earnings there are no other retained
21 earnings," and you said, "No, as long as we pay that
22 dividend out on re-call every year." And that left me
23 dangling a bit because the financial statements of Hydro
24 show that there's \$568 million and change in retained
25 earnings of ... 267 is regulated and I guess the other 300
26 million is non regulated, so I'm just wondering did you
27 actually mean what you said there or what was said or is it
28 just a way of ...

29 MR. OSMOND: I re-read that again. It did come across a
30 little bit confusing.

31 COMMISSIONER POWELL: Yes.

32 MR. OSMOND: I tried to say there, I guess, line 63, we got
33 the investment in Churchill retained earnings, and, yes,
34 there's retained earnings of Hydro and there's retained
35 earnings ... I should say, within Hydro's overall retained
36 earnings, we have an element related to Churchill Falls
37 Labrador Corporation and then we have the other Hydro
38 retained earnings, which is derived from the normal utility
39 as well as the re-call power, okay. What I was referring to
40 here with regards to Churchill is that the dividends we
41 received from Churchill Falls, the entity, comes through, are
42 passed through Hydro and they are paid out of the retained
43 earnings that we have segregated for Churchill Falls based
44 on the Board's policy. That still leaves a retained earnings
45 related to Churchill on the book, because in general terms
46 what we do with regards to retained earnings in Hydro, Mr.
47 Roberts was saying the other day, if, for instance, Churchill
48 Falls made \$20,000 as a profit and our share of that was 70
49 percent, 67, but say 70, we'd set up in our books \$14,000 for
50 like 70 percent of that as a receivable and it goes into
51 retained earnings for Churchill. The dividend we receive

52 might only be \$5,000 paid out of Churchill, so that comes in
53 in Hydro and is paid out of the retained earnings of
54 CF(L)Co. minus the interest cost associated with carrying
55 the investment and paying off part of the principal, okay.
56 So we've got retained earnings still left there. You pay out
57 the board policy of what the pass through dividends are
58 and there still remains an element of retained earnings for
59 Hydro related to the Churchill retained earnings in our
60 books. So you're right, there's still a Churchill retained
61 earnings and Hydro retained earnings, part of the overall
62 big picture retained earnings in Hydro, made up of re-call
63 and utility.

64 COMMISSIONER POWELL: So you're saying the 100
65 percent pass through that goes to Government or to your
66 shareholder is the actual dividend you receive from your
67 non-regulated, not necessarily 100 percent of the earnings?

68 MR. OSMOND: As it relates to re-call, you mean?

69 COMMISSIONER POWELL: Yes.

70 MR. OSMOND: Okay. As it relates to the re-call, whatever
71 earnings we have for selling power from Hydro to Hydro-
72 Quebec, the re-call revenue minus the cost associated with
73 that are remitted to the Province 100 percent. The
74 dividends of Hydro regulated, 75 percent of those earnings
75 by Board policy will be paid to the Province, which will be
76 Newfoundland Power, Industry, as well as IOCC. In
77 addition to that we also have the dividend that comes from
78 Churchill Falls, which would be non-regulated. That flows
79 into Hydro and our Board's policy on that is that would be
80 paid out based on the dividends we received minus the
81 cost of carrying the investment, the purchase of Churchill
82 Falls, the interest, minus \$1 million per year paying on the
83 liability, and whatever that number is, that's the number
84 goes to the Province as well and form part of the \$104
85 million, and will come out of the retained earnings that we
86 have on Hydro's books for Churchill Falls.

87 COMMISSIONER POWELL: Okay. Let's go back to the
88 104. We got \$104 million that we're going to pay out in
89 dividend this year. 36 of it approximately is a flow through.
90 That left about \$68 million.

91 MR. OSMOND: The 104, say \$105 million, that's comprised
92 of the pass through through Hydro. I call it a Churchill
93 pass through, Churchill Falls, and based on what was filed
94 that's approximately \$8 million. This was revised, I think, in
95 October. And Hydro regular would be approximately \$4.3
96 million. The re-call revenue that we sold to Hydro-Quebec,
97 the net amount shown here as a dividend is approximately
98 \$29.8, say \$30 million, and the difference would be to Hydro
99 special, which would be \$63 million in that case, totalling
100 the \$104 million.

101 COMMISSIONER POWELL: When you say 63 special,

1 that's ...

2 MR. OSMOND: That's over and above the 75 percent ...

3 COMMISSIONER POWELL: ... over and above all the flow
4 throughs.

5 MR. OSMOND: That's correct, over and above the 75
6 percent pay-out that Hydro ...

7 COMMISSIONER POWELL: So who decides that that 63
8 is going to be allocated to the regulated retained earnings
9 versus the unregulated retained earnings?

10 MR. OSMOND: Well, I guess our Board of Directors'
11 policy is explaining what the policy is for the pay-out of the
12 dividend for Churchill as it is for the re-call, and any
13 difference then would come out of the special dividends
14 like the regulated part of the earnings, regulated retained
15 earnings ...

16 COMMISSIONER POWELL: Do they specifically say that,
17 that ... they specifically say that it has to come out of that?
18 I mean ...

19 MR. OSMOND: I guess by virtue of the fact they've
20 approved a pass through, that's the policy, what the re-call
21 would be, that's their policy, and the 75 percent, but
22 anything further special requires the Board approval to
23 have that come out of the regulated.

24 COMMISSIONER POWELL: When you say Board
25 approval, you talking about PUB?

26 MR. OSMOND: I'm sorry, Board of Directors.

27 COMMISSIONER POWELL: Board of Directors.

28 MR. OSMOND: Yeah.

29 COMMISSIONER POWELL: So this is sort of an
30 assumption that that has, in fact the silent, it has to come
31 out of the regulated as opposed to the unregulated.

32 MR. OSMOND: Normally all the, if there are any specials,
33 anything over and above will all come out of the retained
34 earnings of Hydro which would be the regulated portion.
35 I'm sorry ...

36 COMMISSIONER POWELL: Okay.

37 MR. OSMOND: There's two elements ...

38 COMMISSIONER POWELL: Yes.

39 MR. OSMOND: ... to the retained earnings, right.

40 COMMISSIONER POWELL: Okay. The thing that,
41 listening to over the last few weeks and the debate and the
42 confusion of payment of dividend, something that sort of,
43 it's a fairly simple process. I mean, there's nothing
44 complicated. If you have retained earnings and you declare
45 a dividend, there's shareholders and directors, and then

46 you go looking to see where you're going to pay it, which
47 bank account got the money in it to pay it, and the
48 payment, the dividend, separated from the actual
49 declaration. Has management of Hydro or the directors or
50 the shareholders looked, given any thought to reorganizing
51 Hydro to simplify some of these logistics in terms of taking
52 the regulated portion and put it in its own separate entity
53 and let Hydro, as it is now, be more of a holding, to, so
54 your non-regulated action or activity wouldn't have to flow
55 through the ...

56 MR. OSMOND: That's one of the things Mr. Roberts
57 mentioned the other day as far as segregating the regulated
58 activities versus the non-regulated, because I agree there's
59 some degree of confusion associated with that, to identify
60 ... now we do have some of that now. We can identify
61 what's regulated and unregulated but I think it could be
62 even more clearly defined and segregated. Whether that
63 requires a separate entity, I'm not sure if that requires that
64 or not, but I think we can certainly segregate with the
65 accounting structures that we have, but we certainly know
66 the elements as it relates to Churchill Falls and we
67 understand what the issues are associated with the re-call,
68 so that can be identified, versus the regulated.

69 COMMISSIONER POWELL: But right now even declaring
70 this dividend, there's an assumption being that everything
71 else falls to the regulated section as opposed to a decision
72 made separate from the regulated and non-regulated.

73 MR. OSMOND: Will still be made by the same Board of
74 Directors.

75 COMMISSIONER POWELL: Yes, but then it wouldn't be
76 any question about, by default that it would fall, would be
77 ...

78 MR. OSMOND: And maybe ... I guess their policy is very
79 explicit what it would be. It may be able to be more clearly
80 defined but the policy is very explicit as to what the
81 percentage would be for each and the flow through and
82 how it actually worked. Now maybe it could be tightened,
83 maybe even control, identified specifically, the policy, but
84 it has been a policy we have been following for many, many
85 years, back in the early '90s and identifies specifically what
86 those costs would be and how they've been passed on and
87 passed onto the Government.

88 COMMISSIONER POWELL: But the policy on the excess?

89 MR. OSMOND: I guess it's part of the Board's policy to
90 identify what the pay-out ratio should be, which they've
91 done. Anything over and above that is a separate Board
92 decision and will be paid out of the regulated.

93 COMMISSIONER POWELL: Okay. The other item there,
94 back when Mr. Wells was giving his evidence, he kept
95 talking about fuel prices and to the point that I was

1 thinking he's a little bit like brier rabbit and wanted to be
2 thrown in the brier patch. I had to ask him if he could
3 quantify what the difference in the effect on fuel prices
4 would be, and I think, and I ask ... let's assume that there
5 was no, nothing else changed except the price of fuel and
6 he had a schedule prepared for me, and I'm not sure if it
7 ever got marked as an undertaking. I don't have that, I
8 don't have mine identified, but there was an undertaking ...

9 MR. OSMOND: Is that the one ... yeah, okay.

10 COMMISSIONER POWELL: Probably one of the earlier
11 ones.

12 MR. OSMOND: I have it.

13 COMMISSIONER POWELL: Yeah. Basically showed the
14 price of fuel in 1992 and what would happen if the price of
15 fuel was just at \$20 and I think he did it at \$28, but \$20 is
16 the one that you have in your application.

17 MR. OSMOND: Yeah. I think this table here pretty well
18 kept all of 1992 costs exactly as they were with the
19 exception of the No. 6 fuel.

20 COMMISSIONER POWELL: Yeah. That's basically what
21 we were told, that everything else was pale in comparison
22 to the price of fuel. It showed that the revenue requirement
23 would be \$310 million, which is presently filed now, it's \$323
24 million, and it says that the effect on fuel would be \$22
25 million 9. In round figures, based on a \$20 price, that the
26 fuel would be about 26 percent of the increase and that
27 something else would make up to 40 percent. So do you
28 just ... there's a comment that why fuel is significant and
29 we've heard why. It ... still there are other issues that are
30 just as important.

31 MR. OSMOND: Yeah. I guess as Mr. Wells said, the fuel
32 component is the most significant portion of the rate
33 increase. There are other factors, are going up and down.

34 COMMISSIONER POWELL: Yeah.

35 MR. OSMOND: And this reflects here, just in 1992 cost,
36 not the 2002, but of the overall rate increase the most
37 significant portion no doubt is the fact that fuel prices are
38 going from \$12.50 up to \$20 in the rate application. There
39 are other pluses and minuses that may be going in different
40 directions, like interest and so on, over the last ten years,
41 and operating costs and assets going into service, so it's a
42 whole combination of things up and down.

43 COMMISSIONER POWELL: But it works out roughly to 60
44 percent, which is, you know, significant but not ...

45 MR. OSMOND: I'm not sure about 60 percent ...

46 COMMISSIONER POWELL: Well, I looked on there, the
47 increase in rate is, revenue requirement is 310 and the
48 application is 323, and so I did roughly the figures out that

49 price of fuel would account for about 60 percent of that.

50 MR. OSMOND: Yeah. Of the overall increase, we had
51 looked at 6.7 percent, certainly the major part of that, going
52 back to that, is the fuel price. There are other ups and
53 downs as I mentioned. Like power purchases have gone
54 up since 1992 with Rattling Brook and Star Lake coming on,
55 but interest has gone down because we have lower debt,
56 lower interest rates and so on, so you, there are pluses and
57 minuses ...

58 COMMISSIONER POWELL: Yeah. I just wanted you to
59 refer to the fact that he made so much ... couple of items on
60 the Rate Stabilization Plan. I was reading back the decision
61 in 1985 and implemented in 1986. One of the things that
62 was talked about in the decision and one of the
63 recommendations was the plan should be easily
64 understood, I think something to that effect. Do you think
65 it's failed in that extent and can it ever be ... or does that
66 really matter?

67 MR. OSMOND: Oh, I think it matters. I think we got a
68 better understanding here over the last seven or eight
69 weeks, I hope, and last week, as to how the plan works, but
70 it is, there's no doubt it's a fairly technical plan, but I think
71 to the average consumer, and people have asked me,
72 average consumers, they understand the fact there's an
73 RSP, they understand very general terms that they're not
74 hit for the price of fuel right away, it's averaged over a
75 period of time. The nuance as to how it's derived,
76 hydrology and fuel and all that, no, they don't understand
77 that, but they know there's a levelizing mechanism that
78 Hydro and Newfoundland Power whereby they haven't
79 seen the rate increases since 1985, but, believe me, they
80 don't understand the nuances we talked about in here for
81 the last two or three weeks, but they know a plan exists
82 whereby they don't see those severe spikes in the rates,
83 and, believe it or not, I've had a lot of people say that to me,
84 you know, you're going through a hearing, what about the
85 RSP, but they don't understand, no doubt about it, as to
86 what the components are, except that they do know it's a
87 levelling device that's somehow used by the utilities to be
88 able to show that the rates will not spike up or down and
89 it's an annual adjustment, and that annual adjustment, Light
90 and Power can speak better than I, pretty well goes through
91 with virtually little comment, I think when it goes through
92 in July, but people expect to see a change in the rate
93 structure, but to say they understand every nuance and
94 mechanic in it, no, they don't, no doubt about that.

95 COMMISSIONER POWELL: So they may view it as not as
96 important as it was sort of talked about in 1985.

97 MR. OSMOND: I think it's just as important ... oh, as far as
98 the consumer?

99 COMMISSIONER POWELL: Yeah.

1 MR. OSMOND: I think it'd be important if it was taken
2 away. I've heard people say that to me, we like what we
3 have presently. We have ...

4 COMMISSIONER POWELL: Again, the issue that they
5 really understand it ...

6 MR. OSMOND: They don't understand all the mechanics
7 on how it's derived. They understand the most crucial
8 thing to them at the end is an adjustment every year in July
9 whereby they don't pay the full cost right away of the
10 change in whatever and water and fuel, but the fact that
11 they get an annual adjustment and they don't see what
12 they saw back in 1985, that the rates are spiking up and
13 down, and the fact that in the '92 hearing and the '89
14 hearing there was very little comment, as I recall, regarding
15 the operation of the RSP from consumers. We didn't have
16 anybody in here that were there in '85 and '86 saying, gee
17 whiz, you know, we had a real concern back in 1985, it's still
18 a concern today. That did not take place in '89, '92 or 1993,
19 to my knowledge, or after that, so I think there's been
20 general acceptance of the mechanics of it.

21 COMMISSIONER POWELL: Have you ever done any
22 consumer studies and that to ask any questions about, the
23 consumer about the Rate Stabilization Plan?

24 MR. OSMOND: I don't think it's been in our Customer
25 Service but, Customer Service Study, but there's room in
26 that for any other issues they'd like to raise, and to my
27 knowledge, I stand to be corrected, I can't recall that
28 coming up as a major issue with that.

29 COMMISSIONER POWELL: Do you know if
30 Newfoundland Light and Power have done any, any
31 studies they've done, asked customers about their opinion
32 on Rate Stabilization Plan?

33 MR. OSMOND: I really can't speak to that. I don't know
34 what would be included in ...

35 COMMISSIONER POWELL: You haven't done anything
36 in conjunction with that?

37 MR. OSMOND: No. No, we have not, no.

38 COMMISSIONER POWELL: Okay. The other thing I
39 noticed when I read the summary, the 1985 Board decision,
40 talked about the price of fuel and that, there's no mention
41 there about hedging. Do you remember if anything was
42 brought up in 1985?

43 MR. OSMOND: Not to my knowledge, nothing came up.
44 I shouldn't say nothing. We did not raise the issue of
45 hedging at that point in time, not that it wasn't a new issue
46 but things have really developed in the last ten years in
47 hedging mechanisms and techniques and so on, but I can't
48 recall that being an issue at the time we brought in the RSP
49 back in '85 and '86.

50 COMMISSIONER POWELL: Nobody put it in as an option
51 that you should look at rather than go right into Rate
52 Stabilization Plan.

53 MR. OSMOND: I'm trying to think of the other four people
54 in this room but I don't think.

55 COMMISSIONER POWELL: I didn't see anything in the
56 transcript.

57 MR. OSMOND: No, I don't recall anything in the evidence
58 I re-read again and the testimony, PUB report, that related
59 specifically to hedging. It wasn't an issue at that time.

60 *(10:30 a.m.)*

61 COMMISSIONER POWELL: In regard to hedging, Nova
62 Scotia would be the closest province that seems to have all
63 their electricity generated by something other than hydro,
64 water. You have any discussions with them?

65 MR. OSMOND: I haven't personally but I know our
66 members of the Oil Hedging Committee have. I know our
67 Treasurer certainly has and I believe they have some form
68 of a hedge, not for everything but an element of the
69 quantities of fuel that they have and possibly ... I think it's
70 New Brunswick and Nova Scotia both have some sort of
71 hedging programs but not to cover all the oil but some
72 portion of it ...

73 COMMISSIONER POWELL: So you ...

74 MR. OSMOND: ... and I think they started that a year or so
75 ... I haven't personally talked to them but they have, I know
76 that.

77 COMMISSIONER POWELL: So you don't know if they
78 have an opinion on whether the pluses or minuses ...

79 MR. OSMOND: No, I don't. Just from reading their
80 financials.

81 COMMISSIONER POWELL: Okay. Issue, depreciation
82 study, I asked Mr. Roberts about it the other day and when
83 I was going through my notes I had, when I reviewed them
84 I realized I had misinterpreted one of the items about the
85 sinking fund method of salvage depreciation, of inflating
86 the rate you charge on your allowance to provide for the
87 future cost of disposing of an asset and I had missed that
88 in terms of inflation. I had mixed up the words but after
89 reading it I understood. Also going through some
90 Newfoundland Power's requests, it's indicated that there
91 was no effect on the, your allowances for the test year that
92 came out of the study, that one of the things indicated that
93 the Holyrood facility was going to be fully depreciated and
94 there is no allowance in the test year for depreciation for
95 Holyrood.

96 MR. OSMOND: In 2002?

1 COMMISSIONER POWELL: Yes.

2 MR. OSMOND: It's my understanding, and I have to check
3 with Mr. Roberts, that the Holyrood unit would be fully
4 depreciated in 2002 and that would have been reflected by
5 ... I'd have to confirm that with him.

6 COMMISSIONER POWELL: Okay. I was under the
7 impression it was and it was fully depreciated.

8 MR. OSMOND: I can check that ...

9 COMMISSIONER POWELL: Okay.

10 MR. OSMOND: ... and let you know over the break, if
11 that's okay, because that's really his detailed area.

12 COMMISSIONER POWELL: Because one of the other
13 questions I was wondering after reading that, when I was
14 talking to Mr. Budgell, and this may not, you may not know
15 this but maybe you can find out for me, because when we
16 talked, I was talking to Mr. Budgell, there was some
17 question about a couple of co-energy projects that, with
18 Abitibi and Corner Brook Pulp and Paper, that originally the
19 Planning Division had indicated that they weren't viable
20 (inaudible) cost recovery because of Holyrood, they were
21 only getting their short-term marginal costs, and I was just
22 wondering after reading that whether when they did factor
23 in the, were they aware or did they factor in the fact that
24 there was, Holyrood had been fully depreciated and going
25 forward, there wouldn't be \$2 million approximately to be
26 factored in as a cost recovery?

27 MR. OSMOND: I remember that discussion. I can't
28 remember exactly what was said. I thought Mr. Budgell
29 was referring to the marginal cost associated with operating
30 Holyrood, which would be your fuel costs and your
31 lubricants and so on as opposed saying there's some cost
32 of capital cost and ...

33 COMMISSIONER POWELL: Yes, but my understanding
34 was that why on a marginal basis it might have been, or
35 you sunk costs, it wouldn't recover and ... my
36 understanding, that's why the, initially when they looked at
37 the project they didn't think it was, or my words, viable,
38 and, but at direction of Government they went ahead with
39 it. Just be interesting if they did factor in the, the fact there
40 was no depreciation left, therefore, the sunk costs already
41 (phonetic) recovered, they wouldn't have to factor that in,
42 I wouldn't think.

43 MR. OSMOND: I have to see what Mr. Budgell said in ...

44 COMMISSIONER POWELL: Yeah. Just after seeing it ...
45 if I'd known, I would have asked him about it. If you could
46 find out for me.

47 MR. OSMOND: Yeah. Well, I would have thought that he
48 would have referred just to the ... normally we look for the

49 marginal costs of running facility, because Holyrood still
50 has a life beyond ... it's not going to stop next year. It'll still
51 continue on for a period of time, and they'd normally look
52 at the variable cost or the cost of fuel versus other options,
53 and I thought he was saying that was still more, still cost-
54 effective for Holyrood versus the other ones at that point
55 in time but I'd have to see that, exactly what he did say, but
56 is there a specific thing you wanted to look for there?

57 COMMISSIONER POWELL: I'm just wondering whether
58 he was aware of the fact that the depreciation, that
59 Holyrood was fully depreciated and that there wouldn't be
60 any more cost ...

61 MR. OSMOND: He would have been aware of that and he
62 would have looked, he certainly would have looked at the
63 life expectancy of Holyrood. That would have been part of
64 his consideration. How he factored it in, I can't answer that
65 for you, but he would have factored in the fact that
66 Holyrood would be there beyond 2002 and going on for the
67 next 10, 15, 20 years or whatever.

68 COMMISSIONER POWELL: But there wouldn't be any
69 more costs associated with the amortization of the asset.

70 MR. OSMOND: Depreciation would not be there but the
71 other costs of running that particular facility. Was there a
72 specific thing you ...

73 COMMISSIONER POWELL: I'm just wondering when he
74 did his calculation, the fact that he had, was he aware that
75 it fully depreciated, and he wasn't taking the, a cost over \$2
76 million, had been eliminated.

77 MR. OSMOND: I'd have to go back and ask him that
78 question.

79 COMMISSIONER POWELL: Yeah. Would appreciate it if
80 you would. The other thing is with your JD Edwards
81 system, Mr. Roberts, we talked about it, and from reading
82 the proposal presented at the ... it seemed to be a fairly
83 sophisticated financial costing system that you have there,
84 with the ... appreciate that it probably can give you a fairly
85 detailed analysis of any subject you'd really want to go at
86 from a cost point of view. When we were talking about the
87 depreciation study and there was some question of
88 recommendation to having some engineering studies done
89 and they were done in-house by Hydro rather than going
90 externally, it was questioned that probably going to cost
91 maybe \$100,000 and you would have saved money
92 internally, but when I asked if we had any records, any
93 costs to justify that or show it, it was, indicated we didn't,
94 but after listening to the description of the JD Edwards, I'm
95 just wondering why these are not the type of costing are
96 not done internally to find out when you do an internal
97 project to see what it would cost so you can get some idea,
98 comparison about what it would be in the, if you went to

1 tender in the private sector type thing. Is this ...

2 MR. OSMOND: I'm not sure what the question is. We
3 have the facility within JD Edwards, starting in '98 and '99,
4 to set up some job costing, specific costs associated with,
5 you know, individual projects. You might start with an
6 operating or a capital point of view. So that mechanism is
7 there to be able to track costs and ... like that rate hearing,
8 for instance, we got to have a separate work order set up
9 for that, what are the costs associated with it, time, labour,
10 consultants and so on. So the features are there in JDE to
11 be able to do that but I'm not sure which one you're
12 referring to.

13 COMMISSIONER POWELL: Well ...

14 MR. OSMOND: You mentioned the depreciation ...

15 COMMISSIONER POWELL: Well, we did the, one of the,
16 the, talking about depreciation study, there was a ...
17 (inaudible), I think, had did some work for KMPG or KG ...

18 MR. OSMOND: KPMG, yeah.

19 COMMISSIONER POWELL: Yeah. They recommended
20 that there'd be some engineering studies done about
21 assets. I forget what the exact words were but it's
22 something, do an evaluation, and I asked whether, why you
23 did it in-house as opposed to going externally, and it was
24 suggested that it would cost, if you went externally,
25 \$100,000, then there was savings to be done in-house.

26 MR. OSMOND: Yeah. It sounds right.

27 COMMISSIONER POWELL: So I asked if, you know, if he
28 quantify them and basically said there was no records to
29 show what it cost to do.

30 MR. OSMOND: To do that actual study?

31 COMMISSIONER POWELL: Yeah.

32 MR. OSMOND: I guess Mr. Roberts explained that. It was
33 done internally by one of our engineers and he had the
34 expertise, he's a mechanical engineer, and others to be able
35 to review it, so, I mean, his time wasn't 100 percent for the
36 year so we didn't track, I don't think he tracked in that
37 particular instance exactly what the costs were specific to
38 the depreciation study. It could have been done but it
39 certainly would have been less than \$100,000 to go outside.

40 COMMISSIONER POWELL: Wouldn't this be the sort of
41 thing you would do automatically with the system just to
42 keep track of ...

43 MR. OSMOND: One of the things with the system, I mean,
44 this was probably in 1999, the system was just come in. It's
45 a matter of educating our employees too, and they're
46 getting there, as to identifying the opportunities within the
47 system, the opportunities to be able to track costs, the

48 opportunities to be able to use the work order system to
49 accumulate time by a different facility, by different function,
50 different activity, so that's more and more that system is
51 used now than it was previously as a mode of tracking
52 costs by activity, so as they get more used to that system,
53 the features of it, they're using more and more of those
54 activities to be able to track those types of costs. The
55 system's only been in ... it's just, well, just a little over two
56 years.

57 COMMISSIONER POWELL: So you say this is something
58 ...

59 MR. OSMOND: It's a learning process for all of us and
60 we've got a lot more features to move forward on to bring
61 it right out to all the areas and what those are and how
62 people can fully utilize and ... once you (inaudible) day one,
63 it's almost like a house. I mean, you got a house but there's
64 things in it you may not get to for four or five years. This
65 is a process of making sure people are aware of all those
66 facilities, so you got the architecture and the structure, now
67 what are those opportunities and advantages people can
68 use and track their costs accordingly in the future, so it's a
69 learning process for everybody.

70 COMMISSIONER POWELL: Thank you. That's all my
71 questions, Mr. Chair.

72 MR. NOSEWORTHY, CHAIRMAN: Thank you,
73 Commissioner Powell. Commissioner Saunders, please.

74 COMMISSIONER SAUNDERS: Thank you, Mr. Chair.
75 Good morning, Mr. Osmond.

76 MR. OSMOND: Good morning, Commissioner Powell (*sic*),
77 Saunders.

78 COMMISSIONER SAUNDERS: Commissioner Powell
79 asked you a question there. I'm not sure I got the answer.
80 Just for clarification, you were talking about the customer
81 survey, I think, Hydro commenced doing sometime a
82 couple of years ago, three or four years ago.

83 MR. OSMOND: Yeah. We started ... I guess that's
84 probably the third one we did now. We did one in '99 and
85 we did one in 2000 and I think we either done or are in the
86 process of doing another one now.

87 COMMISSIONER SAUNDERS: Yeah. And I think his
88 question related to whether or not you had put the
89 question of the RSP to the customers through the survey.

90 MR. OSMOND: Yeah.

91 COMMISSIONER SAUNDERS: And I'm not sure I got
92 your answer.

93 MR. OSMOND: I'd have to check. I don't think we put that
94 question specifically to the customers but there is, at the
95 end there's room for are there any other issues the customer

1 would like to raise and I don't think that came up as an item
2 for concern, not that I can recall in reviewing the 16 or 17
3 points that we had in that. Now, I think Commissioner
4 Powell also asked Newfoundland Power did but I really
5 don't know what their survey showed, but, no, I don't think
6 it was specific to ours.

7 COMMISSIONER SAUNDERS: Okay. Thank you, Mr.
8 Osmond. You might be interested in knowing that's the
9 only question I have on the RSP.

10 MR. OSMOND: Thank you.

11 COMMISSIONER SAUNDERS: On the energy policy
12 review, and we've spent some time talking about it and the
13 impact it has had on this application, and I'm in a little
14 quandary here in determining how indeed I should as a
15 commissioner deal with this in making a decision on the
16 various elements of your application. Some of the evidence
17 that has been given leads me to believe that some of the
18 proposals that you had in mind have been delayed because
19 of the energy policy review of the province not being
20 announced, if that's the right word.

21 MR. OSMOND: I think there may be some that we referred
22 to.

23 COMMISSIONER SAUNDERS: Yeah.

24 MR. OSMOND: I think one I referred to was the issue of
25 marginal cost pricing last week and the whole issue of
26 pricing structures as it relates to marginal costs as well as
27 demand and energy.

28 COMMISSIONER SAUNDERS: Yes.

29 MR. OSMOND: I don't have the actual EPR announcement
30 two years ago, and they said they were going to identify,
31 but they did talk about pricing mechanism, pricing issues,
32 so we presume that would be under that big umbrella,
33 whatever that is, when it comes out, that will address
34 pricing or they identified it with pricing issues so that's, we
35 were assuming it would be in there.

36 COMMISSIONER SAUNDERS: Just go back, I think, Mr.
37 O'Rielly, if we could pull up **page five of Mr. Osmond's**
38 **evidence**, and it's starting at line seven, talking about the
39 Government policy, which is approximately three years ago
40 that they announced the study, if you like.

41 MR. OSMOND: I think it was March '98. That's right, three
42 years ago.

43 COMMISSIONER SAUNDERS: My recollection was
44 August 31st of '98.

45 MR. OSMOND: Okay.

46 COMMISSIONER SAUNDERS: There's a reason why I
47 recall that day but I won't get into that.

48 MR. OSMOND: Okay.

49 COMMISSIONER SAUNDERS: And in this ...

50 MR. OSMOND: Your memory is better than mine.

51 COMMISSIONER SAUNDERS: ... paragraph here we're
52 talking about, or you're talking about the energy policy
53 review that was going to be undertaken by the department
54 or by the Government, and until it was completed and
55 policy direction received, you say, "I believe it would be
56 premature for Hydro to recommend or commence a process
57 to implement long-term financial targets with respect to a
58 debt-equity ratio of 60/40," and I guess everything that
59 flows from that. I guess my question to you is, in the
60 absence of there being such a policy stated or announced
61 by the Board, what do you see as being our role here? You
62 know, are you saying that the Board should hold off a
63 decision on anything we do with respect to your proposals
64 as a result of there not being a policy review announced?

65 MR. OSMOND: No, I don't think we're saying that.

66 COMMISSIONER SAUNDERS: Okay.

67 *(10:45 a.m.)*

68 MR. OSMOND: I think there are many issues the Board
69 needs ... all I was referring to here before we actually submit
70 the numbers, I think in my mind 60/40 is where we should
71 be going down the road, as Ms. McShane and (inaudible)
72 said as well, but before we actually put a plan in place, say,
73 here's the plan to get there, the next four or five years, we
74 need to have some indication by the province that's going
75 with the EPR. That's what I was trying to refer to here as
76 opposed to have it ...

77 COMMISSIONER SAUNDERS: You're saying you need
78 some indication.

79 MR. OSMOND: We need some indication as to exactly
80 where we're going so when we come back with our five-
81 year plan we can indicate, or come back the next rate
82 application, where we're going for the short-term, the
83 medium-term, the long-term, to attain those goals.

84 COMMISSIONER SAUNDERS: Are you saying that the
85 Board should have the same attitude towards the EPR as
86 Hydro has?

87 MR. OSMOND: It's a difficult one.

88 COMMISSIONER SAUNDERS: It is a difficult one.

89 MR. OSMOND: It is a difficult one. I think the long-term
90 objectives as to where we should be going, I think the
91 Board can consider that as to where we're looking long-
92 term, certainly where we are presently is not where we
93 should be, and I think that's very well identified by our
94 financial witnesses and some others, and it's a matter of a

1 target of trying to get there over a reasonable period of
2 time. That may vary by the EPR. I can't answer for the
3 Board ...

4 COMMISSIONER SAUNDERS: No. I understand that but
5 I'm trying to, I guess, get some opinion from you as a
6 senior officer of Hydro where we come into the mix. A lot
7 of your evidence has dealt with, talked about the EPR, and
8 some of the decisions you've made in preparing this
9 application have been made with a view to the EPR and the
10 fact that it has not been declared. I keep searching for a
11 word for that. The Board of course is governed by its
12 legislative or *The Public Utilities Act, the EPCA* and all
13 that that empowers the Board to do, and I'm sure that the
14 lawyers in the room would argue on that in terms of what
15 the Board is empowered to do in respect of (a) the Act or
16 the Acts that govern it as well as the undeclared policy, I'll
17 call it, of the province in respect of the energy policy
18 review that seems to have occupied a fair amount of time in
19 this hearing and is a document that nobody has seen and
20 certainly the Board hasn't, certainly I haven't. I can say
21 that for sure. And I gather that except for some draft that
22 was circulated a little while ago that you made reference to
23 after talking to your Chief Executive Officer, there's no one
24 in Hydro that is very familiar with the energy policy review.

25 MR. OSMOND: That's correct.

26 COMMISSIONER SAUNDERS: And I get very concerned
27 about a document that we're supposed to take notice of
28 that we don't know even if it exists, and so I guess that's
29 the root of my question to you as how do you think the
30 Board should respond.

31 MR. OSMOND: I guess the Board has to look at what the
32 arrangements are presently with regards to their authority
33 and so on. The point I was making here was just saying
34 with regards before we, Hydro, actually came back with the
35 lineation of where we should go with regards to that, we
36 need to have some general direction, and that's not
37 necessarily for deciding at this application.

38 COMMISSIONER SAUNDERS: I gather you're caught in
39 the middle.

40 MR. OSMOND: I'm caught in the middle, yeah, to a certain
41 degree.

42 COMMISSIONER SAUNDERS: Well, I'm not sure there's
43 any point in reviewing it or pursuing it. It does place the
44 Board in a bit of an awkward situation, to say the least, and
45 we don't even know if and when there's going to be an
46 announcement. Can we move on to the rate for the
47 Government departments and agencies?

48 MR. OSMOND: Certainly.

49 COMMISSIONER SAUNDERS: And I think you talked

50 about that at ... I'll find it momentarily ... **page nine of your**
51 **evidence**, and you've talked about it during the course of
52 the hearing in cross-examination and direct evidence, and
53 if I might just summarize where we are with this, is that
54 you're proposing over five years at the rate of 20 percent
55 per year to eliminate the subsidy to Government
56 departments and agencies.

57 MR. OSMOND: Yeah. We're saying at this particular
58 hearing the rates will go up by 20 percent if approved by
59 the Board and then we come back for the next application,
60 I think we're referring to the part of our five-year plan to
61 eliminate that over that period of time.

62 COMMISSIONER SAUNDERS: Yes. And in the meantime
63 who pays that deficit that you have in place with the
64 Government departments and agencies?

65 MR. OSMOND: The shortfall that comes out forms part of
66 the overall rural deficit ...

67 COMMISSIONER SAUNDERS: Yes.

68 MR. OSMOND: ... which is paid by Newfoundland Power
69 and part allocated to Labrador interconnected.

70 COMMISSIONER SAUNDERS: And what reason have
71 you given, I'd like to hear you repeat the reason for the
72 Board allowing you to recoup this deficit, if you like, over
73 five years as opposed to doing it immediately, say?

74 MR. OSMOND: That's an option for the Board, 100
75 percent. I guess what we were looking at with regards to
76 the impact on overall rates, albeit they are not only the
77 Government accounts but to phase in over a reasonable
78 period of time, and we picked five years. It could be three,
79 it could be longer, it could be 100 percent. That's up to the
80 Board's discretion. We've recommended a five-year phase-
81 out starting this year, 20 percent, but that's subject to the
82 Board. The Board may want a faster phase-out, but our
83 process was to do it over a five-year period, which would
84 be consistent with what we'd be looking at in our next
85 application for other rates as well, the other preferential
86 customers including the fish plants and so on.

87 COMMISSIONER SAUNDERS: And you put the
88 Government departments and agencies in the same
89 classification as consumers and other classes?

90 MR. OSMOND: The other ... all the preferential rates, I
91 mean, what makes up preferential rates are the Government
92 accounts as well as the lifeline rate for general service, plus
93 some of the churches and schools, as well as the fish
94 plants, are paying the interconnected rate on the isolated
95 systems. That forms part of that category of the \$2.6
96 million, our preferential customers.

97 COMMISSIONER SAUNDERS: You mentioned, I think, in
98 answer to some questions that were put to you by, I think

1 Mr. Hutchings, I'm not sure if it was Mr. Hutchings, but I
2 seem to recall it, and without looking up my notes it's not
3 important, I guess, who asked it, that the Government
4 agencies and departments that you're talking about in large
5 part are hospitals and schools, I think you said.

6 MR. OSMOND: Yes, that's correct, hospitals, school
7 boards, some, I think there may be some churches, and
8 there's also Works, Services and Transportation, all the
9 Government departments, those type of agencies, but a
10 fairly significant number are the Government hospitals, the
11 Welfare boards, hospital boards, as well as school districts
12 and schools, a fairly significant number made up of those
13 Government accounts, as is for Federal Government
14 (inaudible) like the RCMP and people like that, but
15 provincially those are very significant, the school boards
16 and the hospitals and so on.

17 COMMISSIONER SAUNDERS: So by asking the Board to
18 consider a five-year delay, if you like, in total recovery or in
19 total elimination, if you like, of the subsidy to the
20 Government departments, you're really asking the Board to
21 continue the subsidy being paid by the other customers of
22 Hydro to these hospitals and schools and Government
23 offices and so on in your franchise area.

24 MR. OSMOND: In the current application we're asking for
25 20 percent leave and the other 80 percent of the fall-out to
26 the remaining customers.

27 COMMISSIONER SAUNDERS: Yes.

28 MR. OSMOND: And starting that process at our next
29 application, 2003.

30 COMMISSIONER SAUNDERS: Okay, I understand what
31 you're asking. One more area and that is the Wabush
32 surplus.

33 MR. OSMOND: Yeah.

34 COMMISSIONER SAUNDERS: And that's dealt with, I
35 think it's **page 16**, there's a reference, page ... it goes on to
36 page 17. And this surplus, as I understand it, Mr. Osmond,
37 has been accumulating, if you like, since 1992.

38 MR. OSMOND: I guess it actually ... I think it might even
39 be prior to that.

40 COMMISSIONER SAUNDERS: It might be.

41 MR. OSMOND: Yeah.

42 COMMISSIONER SAUNDERS: Okay.

43 MR. OSMOND: Yeah, that's right. It started back,
44 Commissioner Powell (*sic*), back in 1989.

45 COMMISSIONER SAUNDERS: '89.

46 MR. OSMOND: Yeah. Our first ...

47 COMMISSIONER SAUNDERS: To 2001. It's 2.9 million,
48 yes. I have it here now.

49 MR. OSMOND: That's right, on Schedule 1.

50 COMMISSIONER SAUNDERS: Yes.

51 MR. OSMOND: Yeah.

52 COMMISSIONER SAUNDERS: Now, your proposal is to
53 pay that back to the customers of Wabush.

54 MR. OSMOND: That's correct.

55 COMMISSIONER SAUNDERS: To the existing customers
56 of Wabush.

57 MR. OSMOND: Yeah, to the existing ...

58 COMMISSIONER SAUNDERS: Yeah, and I guess you've
59 anticipated my question.

60 MR. OSMOND: We've been agonized over how we can do
61 it fairly. The ideal way, if we knew every person was there
62 in 1987 right up to 2002, be able to track, to be able to say,
63 well, you deserve this much and you deserve that much,
64 but that would be a horrendous exercise to go through.

65 COMMISSIONER SAUNDERS: To do today.

66 MR. OSMOND: To do today.

67 COMMISSIONER SAUNDERS: But in 1989 you knew that
68 the surplus was going to be accumulating for a certain
69 period of time, and I'm wondering and my question is why
70 didn't you do it then?

71 MR. OSMOND: By customer?

72 COMMISSIONER SAUNDERS: Yeah. I don't mean the
73 rebate. I mean why didn't you keep track of the customers
74 that were there?

75 MR. OSMOND: Well, that's one of the reasons we thought
76 we'd be giving it back within those, that particular year, in
77 19, I think it '89 and '90 also, and 1992. From that point on,
78 and the Board had indicated, well, that's fine, we should do
79 that in our next application, 1992, did not form part of that.
80 After 1992 it was agreed to bring it back through our next
81 application, so the customers, we didn't have the detailed
82 information to be able to track at that point in time year by
83 year where it actually went and who it actually applied to.
84 Now what we're looking at is the overall customers we have
85 as at the end, I think, of 2001, and apply it back to them.

86 COMMISSIONER SAUNDERS: And then in 1995, I think
87 it was, there was a decision made by the Board to do
88 nothing actually but to wait for the next rate application ...

89 MR. OSMOND: That's correct.

90 COMMISSIONER SAUNDERS: ... before it was dealt with.

1 MR. OSMOND: That's correct.

2 COMMISSIONER SAUNDERS: Now at the time in 1995 it
3 wasn't known when that rate application was coming forth
4 and here we are six years later. So my question part two is,
5 why didn't you then start to keep track of the customers
6 that were going to be at some future time eligible for a
7 portion of the surplus.

8 MR. OSMOND: I think it'd be horrendous to even try and
9 track it by year because you got the surplus moving every
10 year, right. You'd almost have to have every single year to
11 track all the customers by year and try and identify who
12 moved in and who moved out. I think it'd be a very ...

13 COMMISSIONER SAUNDERS: Okay. Let me ask the
14 question another way. Knowing what you know today and
15 knowing the dilemma that you're faced with in trying to
16 recover or trying to refund the surplus, what would you
17 have done differently in 1989 or 1995?

18 MR. OSMOND: We'd still have to go through the same
19 process, getting a review of the Board and identifying
20 which way they wanted to go, whether we should give it
21 back immediately in the year or giving it back ...

22 COMMISSIONER SAUNDERS: But you knew that you
23 weren't going to give it back immediately.

24 MR. OSMOND: If we knew that we weren't going to ...

25 COMMISSIONER SAUNDERS: You knew. I say but you
26 knew that you weren't ...

27 MR. OSMOND: We knew. We knew ...

28 COMMISSIONER SAUNDERS: What would you have
29 done knowing that then, that you were going to be sitting
30 there in 2001 trying to decide how to give back that surplus
31 or putting ...

32 MR. OSMOND: I guess the ideal way would have been to
33 give it back annually if we had approval to do that and we
34 didn't have approval to do that.

35 COMMISSIONER SAUNDERS: Right. You didn't ask for
36 that approval.

37 MR. OSMOND: Well, we came back to the Board and
38 identified the options and the Board said, indicated at that
39 point in time, don't give it back this point in time, see how
40 much it would be, and then eventually come back at your
41 next application, but in hindsight if that was approved it
42 could have been done on an annual basis, but that required
43 approval.

44 COMMISSIONER SAUNDERS: Okay. So the proposal
45 you have before the Board in this application is to refund
46 the \$2.9 million to the customers that are registered, if you
47 like, as Hydro customers today, who are paying their light
48 bills in Wabush.

49 MR. OSMOND: Yes. I think it was to the end of 2001.

50 COMMISSIONER SAUNDERS: End of 2001. And you've
51 already, in the schedule you referred to, indicated how
52 much of the money comes from previous years by year.

53 MR. OSMOND: That's correct.

54 COMMISSIONER SAUNDERS: And do you anticipate
55 there are going to be people from earlier years coming
56 forward looking for a portion of that surplus?

57 MR. OSMOND: I really don't know. I don't think we've had
58 any representation so far, not that I've heard of. That's not
59 to say that we have not, but I haven't heard anything so far
60 with regards to I was there and I left type of thing. I think
61 ...

62 COMMISSIONER SAUNDERS: Have you thought about
63 what you're going to say to them?

64 MR. OSMOND: We have thought about it.

65 COMMISSIONER SAUNDERS: And what are you going
66 to say to them?

67 MR. OSMOND: Well, I think we try to be ... well, as I just
68 said, some of the issues is trying to track all the way back
69 to try being fair and we just don't have that level of detail.
70 We try to be as fair as we can by looking at who's there at
71 the end of this year.

72 COMMISSIONER SAUNDERS: But if someone comes in
73 from Wabush with their bills that they accumulated over
74 the course of the two years they spent there, let's say, and
75 can verify that they paid certain numbers of dollars to you,
76 don't you think they would be entitled to a portion of the
77 refund?

78 MR. OSMOND: I think they certainly have an issue but it
79 depends on how the Board approves us, sort of chicken
80 and the egg, how we actually go back and what's approved
81 and the mechanism for doing that. I don't think you'd be
82 able to say do everything for 2001, have 100 people come
83 in and say I was here in 1990, '91, '92, '93, can you change
84 that for me, because that affects what you're going to give
85 back to the other people in 2001.

86 COMMISSIONER SAUNDERS: Yeah. It is a dilemma.

87 MR. OSMOND: It's a juggling act.

88 COMMISSIONER SAUNDERS: Yeah. You haven't ...
89 you're not putting forward any proposal to us in respect of
90 how we should deal with it except in respect of the existing
91 customers, is that correct?

92 MR. OSMOND: Yeah, and we did ... believe me, we
93 considered what you just said ...

1 COMMISSIONER SAUNDERS: But you haven't put
2 anything forward.

3 MR. OSMOND: No, we haven't, no, because of those
4 concerns. We're putting forth the proposal that's in my
5 evidence.

6 COMMISSIONER SAUNDERS: But you haven't dealt with
7 the other questions that I've asked in terms of what
8 happens when the customer from 1994 shows up looking
9 for a portion of that surplus that he believes is his?

10 MR. OSMOND: Yeah. We haven't put that into my ... we
11 did consider that and ...

12 COMMISSIONER SAUNDERS: And when you're asking
13 the Board to consider, all you're asking us to consider is
14 the one question, and if we deal with it outside of that
15 particular question, we have to come up with some kind of
16 a formula ourselves.

17 MR. OSMOND: Yeah, and the only thing when we talked
18 about that, we think it'd be horrendous to try and go back,
19 all the way back by ...

20 COMMISSIONER SAUNDERS: You keep saying that.

21 MR. OSMOND: Oh, I have people in the back of the room
22 I'm afraid to look at, say that this is a horrendous task, to
23 identify ten years back who was there, who moved in, who
24 moved out, who bought what house, who bought what
25 summer home. It is a horrendous task. I wouldn't want to
26 face them.

27 COMMISSIONER SAUNDERS: Thank you, Mr. Osmond.
28 That's all I have, Mr. Chair.

29 MR. OSMOND: Thank you.

30 MR. NOSEWORTHY, CHAIRMAN: Thank you,
31 Commissioner Saunders. It's five after eleven now. I think
32 we've concluded that neither Commissioner Whalen nor I
33 will be very long. I think it's appropriate perhaps now to
34 take a 15-minute break.

35 *(break)*

36 *(11:20 a.m.)*

37 MR. NOSEWORTHY, CHAIRMAN: I'll ask Commissioner
38 Whalen to commence her questioning of Mr. Osmond,
39 please?

40 COMMISSIONER WHALEN: Thank you, Chair. Good
41 morning, Mr. Osmond.

42 MR. OSMOND: Good morning.

43 COMMISSIONER WHALEN: You'll be pleased to hear I
44 had lots of questions for you nine weeks ago and they've
45 been whittled down to one.

46 MR. OSMOND: Oh, very good.

47 COMMISSIONER WHALEN: And it's really just
48 concerning the Rate Stabilization Plan, and I was looking at
49 Schedule 14-A of Mr. Roberts direct evidence, his revised
50 schedule, October 31st. 14-A. Yes, and just looking at the
51 Rate Stabilization Plan balance and the increases in the
52 balance, particularly over the last couple of years, and if I
53 just look at ... I know '99 and 2000 the balances went down,
54 but I understand that's not a fuel price reflection, that's a
55 reflection of the wet years, is that my understanding?

56 MR. OSMOND: That's my understanding, as well, yeah.

57 COMMISSIONER WHALEN: So taking out the wet years
58 the balance has essentially been increasing, some years
59 quicker than others, but we'll be looking at what looks to be
60 a \$56 million increase in the balance between 2000 and 2001
61 forecast and another 12 million, I think, between 2001
62 forecast and 2002 forecast in the total balance?

63 MR. OSMOND: Yes, that's correct.

64 COMMISSIONER WHALEN: Does the 2002 forecast ... I
65 assume that does include the impact of the application if it
66 was approved, the impact of the increases that you've
67 proposed?

68 MR. OSMOND: Yes. It includes the adjustments in the
69 RSP as it relates to the small hydros going in, as well, plus
70 the price of fuel that's been recommended, as well, so it
71 reflects all those, yeah.

72 COMMISSIONER WHALEN: Okay, so I guess my
73 question, really then is looking at the increase in the
74 balance and the fact that we're still looking at \$104 million
75 balance in 2002, even if the proposals that Hydro has
76 proposed are accepted and put in place for January, 2002.
77 I'm really just wondering what would have to happen or
78 what can we do to bring that balance the other way and
79 other options, perhaps, that we could look at short of ... I
80 know that Hydro is also proposing increasing the cap to
81 \$100 million, which I don't think addresses the balance, it
82 just addresses where the balance can go. Short of praying
83 for rain, I guess, or hoping for the fuel prices to go down,
84 is there anything that can happen to turn that balance back
85 heading in the other direction so that we actually get back
86 to a plan that fluctuates around, you know, a certain band
87 around the zero balance mark?

88 MR. OSMOND: Yes, the biggest factors, and you
89 mentioned that, is the impact of climatic conditions,
90 whether we have a dry year or a wet year or whatever, and
91 the change in the price of oil. If we stayed with just the
92 normal generation that we expect and the price of fuel we
93 have, the only way to really get that down is in the
94 recovery period. We're writing it off now over a three year
95 period.

1 COMMISSIONER WHALEN: Okay.

2 MR. OSMOND: Right. A shorter period or whatever
3 would bring it down, but if the factors stayed as they are
4 presently then we have no control over water and we have
5 no control, really over the price of fuel, other than the fact
6 in our hedging issues we talked about earlier, but as far as
7 the climatic conditions and the load, it's virtually out of our
8 control, because they're determined by somebody beyond
9 us, obviously, as well as the forecast for industrial
10 customers, so the write off period would modify that.

11 COMMISSIONER WHALEN: Could we look at, for
12 example, re-basing the plan instead of re-basing the plan at
13 \$20 a barrel, re-basing it at \$25 a barrel and spreading out
14 the recovery over a number of years? But at least I'm
15 thinking if we're at a \$17, \$18 per barrel price that would
16 mean, assuming a normal water year, that would mean that
17 there'd be some positives going into the plan's credits?

18 MR. OSMOND: If you re-base at 25 then the balance
19 would be lower because you're putting more into your base
20 rate.

21 COMMISSIONER WHALEN: Uh hum.

22 MR. OSMOND: So that would be \$5 a barrel that would
23 end up in rates as opposed to the RSP, so that would
24 certainly have an impact on the overall plan balance, both
25 retail and industrial, yeah.

26 COMMISSIONER WHALEN: So from your perspective, is
27 that something that the Board can look at?

28 MR. OSMOND: Well, that's open for the Board. We've
29 recommended \$28 a barrel and what the impact would be ...
30 I'm sorry.

31 COMMISSIONER WHALEN: Twenty.

32 MR. OSMOND: Twenty-eight was the price of fuel. 20
33 going to the base rate and the impact on rates associated
34 with it, but, I mean, that's subject to review by the Board.
35 The Board has the right to make revisions to it.

36 COMMISSIONER WHALEN: And what about the
37 recovery period itself? I understand from, I think it was
38 Board counsel's questioning of, I'm not sure if it was
39 Roberts or yourself, that there is a declining balance
40 recovery, that recovery is actually a three year period ...

41 MR. OSMOND: That's right.

42 COMMISSIONER WHALEN: ... but you don't actually
43 split the balance. I always thought that was the case until
44 that question was ...

45 MR. OSMOND: That's a good point. A lot of people did
46 think that.

47 COMMISSIONER WHALEN: Yeah.

48 MR. OSMOND: Yeah. It's not a discrete ... and I think Mr.
49 Kennedy raised it, as well, I believe. It's not a discrete three
50 years. In other words, we have, say, \$90 million. It isn't 30,
51 30, 30. That adds up, I hope. It's one third and the 30
52 million comes off the 90 to bring me back to 60, and it's one
53 30 again, so it may take four or five years before you
54 actually get it back. It's not a discrete one third. That
55 would also have some impact on the overall plan balance if
56 it was a discrete amount.

57 COMMISSIONER WHALEN: And that's an option, as
58 well?

59 MR. OSMOND: That's an option, I guess, the Board ...

60 COMMISSIONER WHALEN: There's nothing set about
61 that declining balance, that's just the way it was chosen to
62 ...

63 MR. OSMOND: No. It was the way the principles were
64 established back in 1985 and just take one third per year,
65 not discrete elements.

66 COMMISSIONER WHALEN: Okay. That's all my
67 questions. Thank you, Mr. Osmond.

68 MR. OSMOND: Thank you.

69 *(11:30 a.m.)*

70 MR. NOSEWORTHY, CHAIRMAN: Thank you,
71 Commissioner Whalen. Once again, Mr. Osmond, good
72 morning.

73 MR. OSMOND: Good morning.

74 MR. NOSEWORTHY, CHAIRMAN: Thank you. I
75 appreciate your testimony. You're clearly knowledgeable
76 about many areas of Hydro. If engineers can qualify for
77 executive business degrees, you would be able to qualify
78 to an executive engineering degree after, or a certificate, in
79 any event ...

80 MR. OSMOND: I may qualify for other places after this.

81 MR. NOSEWORTHY, CHAIRMAN: ... after some of the
82 questions you ... I just have a couple of areas that I want to
83 touch upon. One is, I understand you're responsible for
84 the strategic planning exercise that Hydro is going to be
85 going through, is that correct?

86 MR. OSMOND: Me personally?

87 MR. NOSEWORTHY, CHAIRMAN: Yes.

88 MR. OSMOND: I'm part of the team but I'm not the real
89 driver. The strategic planning process evolved with our
90 management committee, which is driven by our CEO, Bill
91 Wells. Now, there's a difference in the strategic plan and
92 the five-year plan. We're not getting ... I'm responsible for
93 the five-year financial plan, but there's also a strategic

1 planning process that's ongoing, as Mr. Wells mentioned
2 when he was on the stand.

3 MR. NOSEWORTHY, CHAIRMAN: My understanding is
4 there's a strategic plan that's where, I guess, the
5 methodology is of strategic plan in terms of visioning and
6 mandate and strengths and weaknesses ...

7 MR. OSMOND: Vision and mandate, goals, objectives,
8 exactly.

9 MR. NOSEWORTHY, CHAIRMAN: ... opportunities.
10 That's what I'm talking about, essentially, so you're just ...
11 you're not directly responsible for that?

12 MR. OSMOND: No. I'm ...

13 MR. NOSEWORTHY, CHAIRMAN: You're part of the team
14 that's directing that exercise?

15 MR. OSMOND: I'm part of the team, and as well the
16 directors are small "d" directors, if you like, in the
17 corporation as opposed to the corporate directors.

18 MR. NOSEWORTHY, CHAIRMAN: Okay.

19 MR. OSMOND: And rolling that out to our staff, which we
20 started this year and continues to 2002, explaining what our
21 objectives are and what our mission and our mandate, our
22 vision is and how our division objectives tie into that and
23 how we want to proceed in the new year with that, so I'm
24 part of the team, in addition to the CEO, in addition to the
25 directors, as well, in any of the sessions we've had over the
26 last 12 to 24 months, I guess, really.

27 MR. NOSEWORTHY, CHAIRMAN: We're heretofore, I
28 guess, I was of the understanding that you were directly
29 responsible for this, so perhaps you could take a crack at
30 a couple of questions that I would have on it, in any event.

31 MR. OSMOND: Seeing there's nobody else here I'll give it
32 a shot.

33 MR. NOSEWORTHY, CHAIRMAN: Who ... you have an
34 outside consultant, I presume, do you, in this, for you,
35 have you?

36 MR. OSMOND: I guess we've had a facilitator, if that's the
37 best way to say it.

38 MR. NOSEWORTHY, CHAIRMAN: Who is that?

39 MR. OSMOND: E & Y, and they've helped facilitate some
40 of the sessions.

41 MR. NOSEWORTHY, CHAIRMAN: You'll have to help me
42 with E & Y. Is that Ernst & Young?

43 MR. OSMOND: I beg your pardon? Ernst, I'm sorry, I use
44 the acronym sometimes. Ernst & Young, they helped
45 facilitate the sessions that we had where we met with our
46 management committee, CEO, as well as the directors and

47 so on to go through and try to establish what we felt were
48 the goals, the objectives, the mission, the mandate, so they
49 helped facilitate that, put up what they call (inaudible)
50 people, I should say, as to what they may be and try to
51 beat those down, which way should we go, what are the
52 options, the pros and cons, so they helped facilitate the
53 actual development ...

54 MR. NOSEWORTHY, CHAIRMAN: So did you have any
55 staff input into that, sort of from the bottom up? I mean,
56 was there comparable sort of facilitation that occurred in
57 various divisions and departments in terms of staff input
58 and did you have any consultations with other outside
59 stakeholders, be it Newfoundland Power or customers or
60 what have you?

61 MR. OSMOND: No, it hasn't gone outside the corporation
62 at this point in time. We have received, made presentations
63 to our staff. Mr. Wells, I think, did all of those, certainly in
64 St. John's and right across the system, every single one of
65 them for all 850 employees, whatever, and explained what
66 our strategic plan was all about and then be followed up
67 with further presentation by the vice-presidents and
68 directors. So there was input received from some of the
69 staff that raised their concerns, issues, where are you
70 going, what's the purpose of it, what were you trying to
71 accomplish, what's the meaning of mission and vision
72 goals, that type of thing, so there was grass roots input
73 initially, and we're going through that aspect now, taking it
74 through the phases of one, two and three, explaining to
75 them where we are, where we're going, how we see it
76 unfolding. The next step, I presume, would be discussion
77 with government and so on, and with other stakeholders as
78 to where we see the corporation going in the longer term,
79 and that's the next phase of it, but that hasn't started at this
80 point in time. This is internal, how we see our mission
81 statement, our visions, goals and objectives.

82 MR. NOSEWORTHY, CHAIRMAN: So you're at the
83 preliminary stages, you haven't really engaged in
84 discussion with stakeholders. How long do you see this
85 exercise taking?

86 MR. OSMOND: I'd say rolling it out ... well, one of our
87 targets is to have it rolled out to all of our employees this
88 year.

89 MR. NOSEWORTHY, CHAIRMAN: This year?

90 MR. OSMOND: Yeah. Well, it's got to be, that's one of our
91 targets and objectives for 2001. I had to think about the
92 year, and then moving forward in the new year with the
93 next step with our board of directors and through to our
94 government and so on as to how we see the vision, the
95 mandate and so on, because sitting down with our Minister
96 to go through that and then deciding on the next steps
97 beyond ...

1 MR. NOSEWORTHY, CHAIRMAN: How do you see it, I
2 guess, being used internally and ultimately? I mean, my
3 experience with this has been either organizations view it as
4 a one of exercise where it ends up to be, you know, another
5 binder on a shelf somewhere or ultimately, you know, it is
6 used in the setting of annual business plans, in the setting
7 of corporate objectives, in defining and flowing from that,
8 flowing from that, I guess, you know, divisional,
9 department objectives, certain specific outcomes and
10 indeed, having compensation and performance
11 management and other incentives tied to that. I mean, how
12 do you view this process as unfolding as far as Hydro is
13 concerned?

14 MR. OSMOND: You pretty well summed up the way we
15 see it going. It will not be a document prepared and just
16 filed. It will be a document, a living document we see
17 employees being aware of and tied into your divisional
18 goals and objectives and corporate objectives as to where
19 we're moving in the future and moving towards that, and it
20 may be a document that will have to be reviewed every two
21 or three years to make sure we're on that right track with the
22 directors and managers and having the input from the staff,
23 so it's a living document as to where we see things going
24 and tying it in, certainly, to your corporate goals and
25 objectives, your divisional goals and objectives and all the
26 way down to the departmental goals and objectives, and
27 it's a living linkage, if you like, as to where we see things
28 unfolding and going and getting employees involved in
29 how we see things unfolding and getting that buy in.

30 MR. NOSEWORTHY, CHAIRMAN: Uh hum.

31 MR. OSMOND: To make sure they're tied right into that
32 processes as to how we see things unfolding, because
33 without the employees you go nowhere. I mean, these are
34 the people that help us move forward and how we want the
35 corporation to grow and how we want to see things unfold.

36 MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you for
37 that. I may have another comment on it in a moment.
38 Moving on to ... and I think Commissioner Saunders
39 covered most of this whole area, and it relates to the energy
40 policy review of government, and my understanding is from
41 what you've basically indicated, is that certainly you're
42 awaiting that review and things like, I believe you
43 commented on one occasion, it's in the transcript
44 somewhere, that certainly your debt equity ratio is a point
45 of reference and the whole setting of your capital structure,
46 based on an investor owned utility is to some degree
47 conditional or contingent on what government may
48 enunciate in that energy policy review, and certainly I have
49 no difficulty in understanding and perhaps to some degree
50 agreeing possibly with that, but again, one of the
51 outcomes, I guess, here is that government may not deal
52 with that on a timely basis. They may not be providing that

53 direction in which Hydro can plan. Indeed, the Board is
54 impacted, or at least the decisions of the Board or the
55 considerations of the Board, if you will, I'm sure, will be
56 impacted in terms of an energy policy review, so ... and if,
57 indeed, that role is out, I can understand where Hydro ties
58 into that, has some discussions with government on that
59 basis, etcetera, etcetera, but I suppose looking down the
60 road to your next application, and certainly I'm sure you
61 won't be coming in with three percent the next time around.
62 You will be looking at moving toward, perhaps, a 60/40 debt
63 equity structures. What ... I mean, what is it that Hydro
64 would propose to do, what is it that you would propose to
65 do, as the Chief Financial Officer of Hydro to move toward
66 that if indeed government doesn't enunciate even a
67 satisfactory energy review policy which would have a
68 direct impact on Hydro? I mean, yeah, I mean, it seems, as
69 Commissioner Saunders pointed out, you know, the Board
70 is, to some degree, in a quandary. We can deal with this
71 application on the basis of its merits, to a degree, but
72 certainly there's a big question mark in relation to the
73 energy policy review, and you know, we have no more
74 control over government than you do. Certainly, they'll
75 make their own decisions in their own good time, but
76 nevertheless, you're left with the result of that, I suppose,
77 to a degree, and if, indeed, that doesn't go ahead, I guess
78 that's my question, what does Hydro then do? And it may
79 very well be that starting after this, in any event, there are
80 certain options that you'll have to look at. One is that if
81 there is an energy policy review with clear direction that
82 comes down you'll engage in a discussion, I guess, with
83 your owner then, but if it doesn't, what happens then?

84 MR. OSMOND: Okay. Let me try and answer some of that
85 anyway. I don't think there's anything in the application
86 that would really be hung up on the EPR right now as it
87 relates to the year 2002. I think the Board has the
88 mechanisms to approve the various things we've identified
89 in 2002. One of the things I referred to is where we see
90 things going, you just alluded to it as well, Chair, beyond
91 2002, the next application with regards to 60/40 and how we
92 should attain that in the timeframe, and that's why I had
93 mentioned that in my evidence, until we saw where the EPR
94 was going that would be a consideration for us, but if we
95 didn't get anything out of the EPR we'd be back at our next
96 application proposing a plan of direction to attain a more
97 reasonable return on equity on the three percent as you
98 alluded to, where we should be going with regards to that
99 as it relates to other investor owned utilities, and also some
100 direction as to where we should be going for, in the short-
101 term and the medium-term and the long-term debt to equity
102 ratio 60/40 and the timeframe to accomplish that. And I
103 think some of the things we've look at, first you need to go
104 with an 80/20 and then you need to move beyond that to
105 get to the 75/25 and eventually attain a 60/40, so we'd move

1 along on that process, certainly reviewing that with our
2 government, or owner, so I mean, if it did materialize that's
3 the way I would see it in the next 2003 hearing, putting
4 forth a plan saying here's the way we should proceed with
5 regards to ROE and also the short, medium and long-term
6 plan to attaining the 60/40 debt equity ratio.

7 MR. NOSEWORTHY, CHAIRMAN: So you would see if,
8 indeed, that didn't come down, that energy policy review,
9 that you'd take the initiative, that you'd be proactive in that
10 regard and the onus would be on Hydro to really begin
11 some discussions with your owner to address some of
12 these issues?

13 MR. OSMOND: Yeah. I think we'd have to, to be
14 financially responsible we'd have to do that, to say here's
15 what's being recommended to us by our financial advisors.
16 We came with a temporary measure this year, just
17 temporary, and we need to put forth a plan as to where we
18 see things going in the longer term, so I think we would
19 have to do that for a 2003 application, and map that out,
20 and certainly have to review it with the province, but
21 certainly, in lieu of the EPR coming down it would be
22 incumbent on us to do that.

23 MR. NOSEWORTHY, CHAIRMAN: Do you see issues like
24 that as being part of your, you know, your overall business
25 plan and strategic plan for, you know, on an annual basis
26 or ...

27 MR. OSMOND: They very much ... yeah, they do tie in ...

28 MR. NOSEWORTHY, CHAIRMAN: Because you
29 commented on your five year ... I guess when you started
30 out you commented on your five year plan as being distinct
31 from your strategic plan, but ultimately your five year
32 financial plan, I mean, gets rolled in, does it not, and some
33 of these issues are addressed on that basis?

34 MR. OSMOND: There is a direct ... you're right. There's a
35 direct linkage between your strategic plan and attaining
36 that in our financial plan. Financial plan is a goal as to
37 where we expect to go. It's almost like a highway. You can
38 vary getting there. It may take you a day to get there or
39 two years or three years, but they had to be linked,
40 strategic plan and your five year plan, because your
41 mission and your goals tie back into your financial
42 structure.

43 MR. NOSEWORTHY, CHAIRMAN: Yeah, so you would
44 see Hydro addressing that issue on a proactive basis and
45 certainly it would be linked and tied in to other issues and
46 other items that you would be moving forward with on a ...

47 MR. OSMOND: Definitely.

48 MR. NOSEWORTHY, CHAIRMAN: Okay.

49 MR. OSMOND: If we didn't have the EPR we'd have ...

50 well, we would come back with that to identify how we
51 should proceed in the future.

52 MR. NOSEWORTHY, CHAIRMAN: Okay. Just one other
53 item, I guess. The nature of the banter in terms of grey hair,
54 no hair, etcetera, refers to the need for a succession plan,
55 and I think I asked ... noted one of the expenditures in
56 relation to, I believe, professional services for \$65,000 for,
57 I don't recall now, but certainly succession was in the
58 name, in any event, and I think I indicated at the time that
59 I was going to ask a question on that. Could you give me
60 some inkling of what that's about, why you're doing it, and
61 where you plan to go with it, please?

62 MR. OSMOND: I guess over the next period of time, 2001
63 to 2006, we have a potential of roughly 265 employees that
64 can retire, and one of the things we're looking at in the HR
65 division ...

66 MR. NOSEWORTHY, CHAIRMAN: So you're suggesting
67 you won't be back before 2002/3?

68 MR. OSMOND: I didn't say that, but I guess we all have
69 options, but I didn't say that. You may see a balder person
70 or a greyer person, so we do have 265 people that can retire
71 over that timeframe, right through the whole organization,
72 and what we looked at might be the software you're
73 referring to, it's called Criterion. I think it might be the one.

74 MR. NOSEWORTHY, CHAIRMAN: Yes, I believe that's it.

75 MR. OSMOND: And Criterion, I mean, that gives us the
76 functionality to identify ... and a piece of software to
77 identify the skills of employees that we have as to what
78 they have academically, to identify performance
79 management, succession planning, career development, to
80 identify where the people are that may be leaving and the
81 people we have in the organization, what their
82 qualifications are and where there might be possibilities to
83 move people, and not necessarily with the right
84 qualifications, but you have the ability to train people to
85 move along, so it's a succession planning software that
86 would have to be able to identify where the resources
87 would be that could move up or lateral as to how they
88 move forward in the future, so it gives us those tools in HR
89 to be able to flag that and say here's what we have, here are
90 the resources, in order to move this slot you need this
91 amount of training or that amount of training or whatever,
92 and this is a candidate that could move along in the
93 succession planning, all the way through the organization,
94 so that's generally what it's trying to do.

95 MR. NOSEWORTHY, CHAIRMAN: Is it just ... because I
96 know the demographics, for example, in many, many areas
97 would point to the need for succession planning and that.
98 Is that a fairly significant issue, in your judgment, in Hydro,
99 as it relates to management per se, over the next five years

1 or so, five, seven years?

2 MR. OSMOND: Replacement of management?

3 MR. NOSEWORTHY, CHAIRMAN: Yeah. The whole
4 issue of succession.

5 MR. OSMOND: You mean small and ...

6 MR. NOSEWORTHY, CHAIRMAN: The whole issue of
7 succession.

8 MR. OSMOND: I think succession planning, yeah, it's an
9 issue. When we look at 265 employees, that's pretty
10 significant out of a complement of, I think it's 850.

11 MR. NOSEWORTHY, CHAIRMAN: Yes.

12 MR. OSMOND: So it's a little over 30 percent, so I think it's
13 important that we have a system in place to identify where
14 we have the right people that have the qualifications, that
15 we have the opportunity maybe to move these people
16 along or move up. It may not cover all of it. You might
17 have to go outside regardless, but we're trying to identify
18 the resources that we have, the training that may be
19 required to give us that flexibility when the opportunities
20 arise to give these people the opportunity to move, that's
21 what we're trying to do, and this is the most significant ...
22 I think, in the last few years the retirees, they haven't been
23 that significant. It's up to, like I say, 265 people in a five
24 year period, which is almost 50 per year right through the
25 corporation, so it's an issue we need to look at, and we are,
26 to identify the potential of those employees and how we
27 can better utilize them.

28 *(11:45 a.m.)*

29 MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you, Mr.
30 Osmond. That's all the questions I have. We move now to
31 questions on matters arising, and I'll ask ... good morning,
32 Ms. Butler, if you could begin, please?

33 MS. BUTLER, Q.C.: Okay. Thank you, Commissioner. We
34 have no questions arising. Thank you.

35 MR. NOSEWORTHY, CHAIRMAN: The industrial
36 customers, please?

37 MR. HUTCHINGS: Yes, thank you, Mr. Chair. I just had
38 one question arising from a question from Commissioner
39 Whalen. You were discussing, Mr. Osmond, with
40 Commissioner Whalen the possibility of re-basing the fuel
41 in the RSP to \$25 a barrel. I know we have some
42 information on the record about what the result of that
43 would be. Would you agree with me that under the
44 scenario that's proposed that would add about \$15 million
45 of revenue requirement in the test year?

46 MR. OSMOND: Well, \$5 a barrel, and we're burning about
47 3 million, 3 million 5, so yeah, 15, \$16 million more would go
48 into the revenue requirement.

49 MR. HUTCHINGS: And that would be an additional five to
50 six percent increase in the base rates?

51 MR. OSMOND: Probably so. I'm just thinking that if we
52 went to \$28 a barrel I think it would be 16 percent and at 20
53 it's six, so it's somewhere in between doing 25, probably
54 eight or nine, but I'm really guessing. It would impact the
55 overall base rate, certainly.

56 MR. HUTCHINGS: Yes, okay.

57 MR. OSMOND: The base rates would go up and the RSP
58 would go down.

59 MR. HUTCHINGS: Yeah, and those numbers are in your
60 evidence, I don't think we need to turn to it, but at pages 2
61 to 3 it would mean ... \$28 a barrel would mean a 16 percent
62 increase for Newfoundland Power and 23 percent for the
63 industrial customers on base rates?

64 MR. OSMOND: That's correct.

65 MR. HUTCHINGS: Okay. Thank you.

66 MR. OSMOND: Thank you.

67 MR. HUTCHINGS: That's all I have, Mr. Chair.

68 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
69 Hutchings. Either Mr. Browne or Mr. Fitzgerald?

70 MR. FITZGERALD: Commissioner, yes, we have a couple,
71 and for myself, I have one question, it's not so much arising
72 but it's just relating to a document that was entered this
73 morning, the Schedule A. If I may, I would like just to ask
74 the witness one question regarding that. It's just, I don't
75 know if it's my error or an error on the document, if I could.

76 MR. NOSEWORTHY, CHAIRMAN: I guess so.

77 MS. GREENE, Q.C.: It was circulated on Friday. It is new
78 information. It's actually Appendix A to **U-Hydro-31**, I
79 believe.

80 MR. FITZGERALD: That's correct. Thank you, Mr.
81 Commissioner. My only question, Mr. Osmond, is when I
82 was looking at this, at the Appendix A at the top set of
83 numbers, if I can put it that way, we have the total phantom
84 hedges savings cost at \$72,000 U.S. and then we have the
85 other figure of Canadian. Is that the correct conversion
86 there?

87 MR. OSMOND: I had the same concern when I looked at
88 that. It looks like a 300 percent conversion rate.

89 MR. FITZGERALD: Yeah.

90 MR. OSMOND: It looks odd. Maybe I can just explain to
91 you what it is.

92 MR. FITZGERALD: Okay.

1 MR. OSMOND: It's math.

2 MR. FITZGERALD: Oh, well, that explains it.

3 MR. OSMOND: No, no, no, no, no, I'll explain it to you. I
4 didn't mean it that way, I didn't mean it that way. Let me try
5 and explain it. If you go back to maybe the first set of
6 numbers or the first three you'll see the head savings in
7 brackets, \$960,000?

8 MR. FITZGERALD: Yes.

9 MR. OSMOND: Okay, and you convert that. The
10 exchange rate, I think, was around 45 or 50 percent, that's
11 \$1.4 million. The next discrete items is the million and 15
12 you see below.

13 MR. FITZGERALD: Yes.

14 MR. OSMOND: That becomes, with the exchange rate, 1
15 million, 477, okay. That's a separate item, and then when
16 you go down to the next hedge for September, '99 it was a
17 cost of 127. Again, that was converted, that gives you 186,
18 but for some reason the math, when you take the difference
19 in the conversion rate, one was at 145, one was at 155
20 conversion, when you add them all up they're going in
21 different directions. You can't take the 72 six and say at a
22 conversion rate to give you the 204, that's the sum of those
23 three changes in different directions, and I got you
24 thoroughly confused, I think.

25 MR. FITZGERALD: Yeah. I think I'll just leave that.

26 MR. OSMOND: Because I was too when I went through it.
27 It's the math of it. You just can't take the over (phonetic)
28 absolute number times an exchange rate because you've
29 got some going one way and some going the other, some
30 are up and some are down.

31 MR. FITZGERALD: Okay, so when I read that, the 72, that
32 obviously is not a conversion into Canadian dollars?

33 MR. OSMOND: No. It's the sum of those three.

34 MR. FITZGERALD: Okay. Thank you, Mr. Chairman,
35 that's my question.

36 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
37 Fitzgerald. Counsel, did you have anything?

38 MR. KENNEDY: Yes, Chair, I have ...

39 MR. BROWNE, Q.C.: Just hang on now, I don't think we're
40 finished.

41 MR. NOSEWORTHY, CHAIRMAN: Oh.

42 MR. BROWNE, Q.C.: I have a few questions.

43 MR. NOSEWORTHY, CHAIRMAN: Oh, I'm sorry, Mr.
44 Browne, I thought you were.

45 MR. BROWNE, Q.C.: No. You got to jump in quickly, I
46 find. Mr. Osmond, Commissioner Whalen asked you
47 concerning the RSP and the movement to \$100 million,
48 which is what ... you're the proponent for that in this
49 application, that's what you're suggesting the Board should
50 do?

51 MR. OSMOND: For the retail section, yeah.

52 MR. BROWNE, Q.C.: Yes. Now, what if the Board decided
53 against doing that and told you to come up with alternative
54 proposals, has your management team considered what the
55 alternatives might be in that scenario?

56 MR. OSMOND: Alternatives for?

57 MR. BROWNE, Q.C.: For instead of moving the Rate
58 Stabilization Plan to \$100 million, have you discussed
59 together any other alternative?

60 MR. OSMOND: No. We discussed it initially as to what
61 our proposal would be with regards to trying to minimize
62 rates and using ... because of the magnitude, as Mr.
63 Hutchings just alluded to, of the rate increase going up to
64 16 percent at \$28 to use a \$20 a barrel and then to use \$100
65 million, so we did review various options at that point in
66 time to try and come up with a reasonable rate increase as
67 opposed to a significant hike. We didn't look at other
68 options as far as write off periods and things of that nature.

69 MR. BROWNE, Q.C.: But if the Board were to direct you to
70 come up with alternative proposals that's something within
71 your ...

72 MR. OSMOND: If the Board directed us that way we'd
73 have to look at what those options were and the magnitude
74 and the impact on rates and the impact on the RSP.

75 MR. BROWNE, Q.C.: One of the commissioners asked you
76 concerning the government's policy review, and I think
77 there was evidence from you that the President of Hydro
78 has been given a copy of the energy policy review in draft
79 form. Is that your evidence?

80 MR. OSMOND: That's my ... well, as much as evidence, it's
81 my understanding he has a draft copy of that report for
82 internal review only, and comments. I have not seen that
83 or reviewed it.

84 MR. BROWNE, Q.C.: Well, that was my next question. Is
85 the management committee at Hydro going to review that
86 or is Mr. Wells going to review it on his own, what's the
87 plan?

88 MR. OSMOND: I haven't spoken to Mr. Wells regarding
89 that issue. He has the EPR. I'm not sure what his plan and
90 direction will be.

91 MR. BROWNE, Q.C.: And do you know if other
92 stakeholders have been given a copy of the draft, such as
93 Newfoundland Power or the industrial customers?

1 MR. OSMOND: I, personally, don't know. I just know that
2 he has a copy. I think that was pretty well kept under what
3 we call cabinet information as being a member of Hydro, a
4 member of the Board, so I really don't know who has it or
5 where it is, other than the fact he has one draft for internal
6 comment.

7 MR. BROWNE, Q.C.: You were asked by one of the
8 commissioners, Commissioner Saunders, concerning the
9 Wabush area refund, and it's my understanding that the
10 refund could be considerable for some customers, we're
11 talking about several hundred dollars, is that the average?

12 MR. OSMOND: Yes. I think that's ... I don't have the
13 demographics and the break out by bill, but yeah, there
14 certainly would be at least several hundred dollars per
15 customer. I'm guessing, Mr. Browne. I think it's probably
16 1000 customers up there at least, so you're looking at \$3
17 million over time.

18 MR. BROWNE, Q.C.: Yeah, and I think there's evidence
19 here by way of an information request, there's some figures
20 I've seen somewhere.

21 MR. OSMOND: Yes, I think you're right, yeah.

22 MR. BROWNE, Q.C.: Given the amount of money that
23 we're talking about here, isn't it more important to ensure
24 that the amount is refunded to the customer who paid that
25 amount?

26 MR. OSMOND: That's the ideal way to go and that's what
27 we'd like to be able to do, but it is really very difficult to go
28 back and find out exactly who and how you track and how
29 they actually receive the amount they were due going back
30 to 1987. We agonized over this and said, well, how can we
31 do it to be fair, and it's a horrendous job to go back and try
32 and find out who left, who came in, when they were there,
33 which year did it apply to, how many years were they there,
34 was it the first ... all of the ten or just one of the ten, and
35 ideally I'd love to be able to say I know every single person
36 that's there, when you left and what proportion you get,
37 but it's a horrendous effort to go and try and do that, and
38 that's why we've come forth with the recommendation that
39 we'd use the data as of the end of 2001.

40 MR. BROWNE, Q.C.: Well, I guess, is there ... how far back
41 do your records go in reference to what is a small
42 community?

43 MR. OSMOND: I guess we have some of the billing
44 records going right back in the early '90s, but I don't think
45 we know the movement of people back and forth, and to try
46 and take 1000 customers every single year, try and track
47 them down, when they left and what the consumptions
48 were and when they came in, it would just be astronomical
49 to try and track that.

50 MR. BROWNE, Q.C.: But wouldn't their names be on a bill?
51 It's not that it couldn't be tracked, it's that it would be too
52 much difficulty in tracking?

53 MR. OSMOND: It would take a lot of time. It would be ...
54 I don't know if we could even do it. I mean, it'd be ... I
55 guess nothing is impossible. You can put a man on the
56 moon, I guess we could do this, but, I mean, to go back and
57 try and track it'd take an immense amount of time to try and
58 do that, if at all we could accomplish it.

59 MR. BROWNE, Q.C.: Commissioner Saunders also asked
60 you concerning surveying you're doing, and I think you've
61 said that the survey for December is either done or it's in
62 the process of being done?

63 MR. OSMOND: I'm not sure if it's done. We normally do
64 them in November, and this obviously is November. I'm
65 not sure if we have the results back. I haven't seen them
66 yet, the results back from our group that would have done
67 that. It's normally a November timeframe, and we get the
68 report in December. I haven't seen any drafts at this point
69 in time.

70 MR. BROWNE, Q.C.: Can you undertake through your
71 counsel to file that when it is complete?

72 MR. OSMOND: We can undertake to do that.

73 MR. BROWNE, Q.C.: You mentioned that you attended
74 hearings after 1985 and there was no difficulty from
75 consumers, according to your memory, in reference to the
76 Rate Stabilization Plan. I think you mentioned hearings in
77 1989, 1992, I think there was something in 1990, you said?

78 MR. OSMOND: I believe so.

79 MR. BROWNE, Q.C.: Have you reviewed the transcripts of
80 those hearings?

81 MR. OSMOND: No, I haven't gone back to the details.

82 MR. BROWNE, Q.C.: So you're just going by your
83 memory?

84 MR. OSMOND: Just going by my memory.

85 MR. BROWNE, Q.C.: Okay.

86 MR. OSMOND: I haven't got ...

87 MR. BROWNE, Q.C.: Thank you. No further questions.

88 MR. OSMOND: You're welcome.

89 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
90 Browne. Mr. Kennedy, please?

91 MR. KENNEDY: Thank you, Chair. Mr. Osmond, I just had
92 one topic I wanted to cover with you. It arises from the
93 questions of Commissioner Powell regarding the dividend
94 again. I just want to make sure I understand your

1 testimony in this regard because, at least in my mind,
2 there's been some confusion on the payment of that
3 dividend, and I thought that a good place to start would be
4 **NP-165**. I'm not sure, Mr. O'Rielly, whether that's in
5 electronic form. There's financial statements attached.

6 MR. O'RIELLY: Is there a particular year?

7 MR. KENNEDY: 2000. I'm not sure if that's the ... with the
8 counsel for Hydro might be able to assist. The filing under
9 **NP-165** is the non-consolidated financial statements. That
10 annual report would be the consolidated. Is that correct?

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

12 MR. KENNEDY: Yeah, so it wouldn't be the same thing, so
13 I think we need to turn to the hard copy, **NP-165**. It's the
14 last financials under **NP-165**, towards the back. It's the
15 non-consolidated financial statements as of December 31,
16 2000, and on the balance sheet, the second page of the
17 balance sheet. I just want to make sure I understand this
18 correctly. Again, being the non-consolidated, it indicates
19 the retained earnings to be a total of \$528 million, is that
20 correct?

21 MR. OSMOND: That's correct.

22 MR. KENNEDY: And, if I understand correctly, that would
23 include the retained earnings of the regulated portions of
24 Hydro and the retained earnings attributable to CF(L)Co.,
25 is that correct?

26 MR. OSMOND: Our share of those, that's correct.

27 MR. KENNEDY: Okay. I wonder if we could just turn to
28 page 4 of the notes? And on number 5, investments, on
29 the table that's there, as I understand it, if I'm reading this
30 correctly, the total investment, if you will, in CF(L)Co. is
31 \$277.8 million, is that correct, as of the end of December 31,
32 2000?

33 MR. OSMOND: Yes, that's ... yeah, taking into account
34 what we actually bought the facility for, plus the share of
35 earnings and so on it's \$277.8 million.

36 MR. KENNEDY: That's your total investment in CF(L)Co.?

37 MR. OSMOND: As an asset, yeah.

38 MR. KENNEDY: Now, I understand that the retained
39 earnings of CF(L)Co. as of 2002, I think, is ... and that's per
40 **PUB-57**, is \$244 million? Does that sound about right?

41 MR. OSMOND: Without checking that sounds to be
42 within the range.

43 MR. KENNEDY: And according to Schedule 8 of **JCR**
44 Schedule 8, the CF(L)Co. share purchase debt stands at
45 about \$25 million?

46 MR. OSMOND: That sounds about right.

47 MR. KENNEDY: Correct? Okay, and that totals up to
48 about \$270 million, so the difference would just be the
49 timing issue between the fact that these statements are
50 December 31 and the data provided under **JCR** and the like
51 is for 2002?

52 MR. OSMOND: As it relates to the retained earnings, you
53 mean?

54 MR. KENNEDY: Yes, that's correct.

55 MR. OSMOND: Yes.

56 MR. KENNEDY: Okay, and first can you confirm to me that
57 all the dividends that have been received from CF(L)Co.
58 have, in fact, been passed over to government?

59 *(12:00 noon)*

60 MR. OSMOND: That's my understanding. We do a
61 calculation, and it's not shown here, where we take both
62 types of dividends from CF(L)Co. We get a preferred
63 dividend and we get a common dividend, and we take
64 those, minus the cost associated with carrying the debt,
65 minus the million dollars, and as far as I know, subject to
66 correction, a lightning bolt, that amount has been paid
67 over to the province or will be paid out by the spring.

68 MR. KENNEDY: So this figure, if we use just December 31,
69 2000, just because it's in front of us, of \$277.8 million?

70 MR. OSMOND: Yeah.

71 MR. KENNEDY: That would be just the retained earnings,
72 nothing in there including dividends received but not
73 flowed actually through?

74 MR. OSMOND: See, this is showing the investment, the
75 asset, and on the other side ... now, I don't want to get into
76 the accounting side. You got the retained earnings for
77 Churchill, and you can see the item above, you can see the
78 equity in net income 11.8.

79 MR. KENNEDY: Uh hum.

80 MR. OSMOND: That's literally the 67 percent or 66 and
81 two thirds percent of their net income minus the dividends
82 that we've actually received, okay. What we try to do is
83 take ... and this does link back fairly well to the retained
84 earnings. We take the retained earnings that we have for
85 Churchill, we take whatever we received by way of
86 preferred and common, okay, and as I say, we take off the
87 costs associated with those, minus the principle, and that's
88 the amount available to pay out to the province, so we
89 clean the slate, if you like, if that's the right way to phrase
90 it. There will still be retained earnings left of Churchill, but
91 to meet the policy of paying out just what we receive and
92 pay out, that would have gone to the province leaving
93 something left in retained earnings.

1 MR. KENNEDY: And that's, as I understood it, the policy
2 of the Board of Directors of Hydro, to handle those monies
3 in that manner?

4 MR. OSMOND: That's correct.

5 MR. KENNEDY: And could you tell me, the special or
6 extraordinary dividend that's being proposed to be paid out
7 in 2002 of some \$68 million, there's no actual cash to pay
8 this out, I think is what we established, that this money is
9 not sitting in a bank account. Hydro actually has to borrow
10 funds in order to pay that dividend out, is that correct?

11 MR. OSMOND: Yeah. There's no money just sitting
12 around for anything like that. It's just forms part of our
13 overall financial requirements. As we mentioned the other
14 day, it could be through promissory notes or whatever, so
15 it's part of the overall use of funds we received internally,
16 plus the promissory notes that we would use.

17 MR. KENNEDY: And so in effect, you're borrowing
18 against the regulated assets in order to be able to pay out
19 that extraordinary dividend, is that correct?

20 MR. OSMOND: That's correct.

21 MR. KENNEDY: And the paying out of the dividend is
22 over and above or beyond the actual stated policy of the
23 Board of Directors as to how much dividend is supposed
24 to be paid out in a given year?

25 MR. OSMOND: It's above the 75 percent.

26 MR. KENNEDY: Could you tell me why then Hydro
27 wouldn't borrow against the non-regulated assets of Hydro
28 in order to pay out a portion of that \$68 million dividend,
29 why would it only borrow against the regulated assets?

30 MR. OSMOND: I guess I mentioned this morning, it's a
31 fall-out. You take the Board policies that relates to
32 Churchill, the payout of those dividends that you receive
33 and payout that we actually received, take into account the
34 recall revenue that we sell to Hydro Quebec ...

35 MR. KENNEDY: Well, wait a minute, wait a minute. You
36 keep throwing the recall energy revenue into the mix, and
37 I'm wondering what the linkage is between that and
38 whether you would pay out dividends from CF(L)Co's
39 retained earnings?

40 MR. OSMOND: Okay. The only reason I'm saying that, I
41 was trying to link back to how much we actually pay the
42 overall dividend of 104 million nine.

43 MR. KENNEDY: Yes, but I'm not interested in that.

44 MR. OSMOND: Okay.

45 MR. KENNEDY: The question I asked you, Mr. Osmond,
46 was why wouldn't Hydro borrow on the non-regulated
47 retained earnings, in other words, the retained earnings in

48 CF(L)Co., in order to pay out a portion or all of that \$68
49 million dividend as opposed to borrowing entirely on the
50 regulated retained earnings of Hydro?

51 MR. OSMOND: When the request came from the province
52 they specified the regular dividend that's required and
53 especially as it related to the Hydro retroactive, if you like,
54 dividend, going back to prior periods, retained earnings
55 before they actually took dividend, so that would have
56 gone back to ... I think the dividends actually started in
57 1995, but the province had the right to take dividends prior
58 to that, right back to 1975, so this really ... when they
59 identified that they wanted it as a special dividend as it
60 related to the dividends and retained earnings we have left
61 in the corporation as a special dividend, so it was referred
62 to as a Hydro regular dividend.

63 MR. KENNEDY: So this was a direction that you received
64 from government about not only the amount of the
65 dividend to be paid but the source of the retained earnings,
66 in other words, that the dividend was to be paid from?

67 MR. OSMOND: It's referred to as a special dividend out of
68 Hydro as it related to operations.

69 MR. KENNEDY: Does that answer my question?

70 MR. OSMOND: I hope so.

71 MR. KENNEDY: Is it the direction that you've received
72 from government that this dividend was to come from
73 retained earnings as opposed to ... the regulated retained
74 earnings as opposed to the non-regulated retained
75 earnings?

76 MR. OSMOND: Yeah. I guess the way it was phrased is
77 that here are the dividends required, here's what we require
78 from your regular dividends and we want this special
79 dividend from Hydro's earnings as well, which would be the
80 special dividend, and actually, they've looked at that for the
81 last four years. It was \$15 million, I think, going back to
82 1996 and they never took it, so it's 15, 15s, so it's a matter of
83 a catch up as to what they required to get to the 60 or \$65
84 million.

85 MR. KENNEDY: The \$800,000 figure that we talked about
86 previously on the interest adjustment for the net recall
87 revenue decreasing the amount of interest that Hydro
88 would otherwise pay.

89 MR. OSMOND: Yes.

90 MR. KENNEDY: That's a notional adjustment that Hydro
91 makes to its regulated revenue requirement?

92 MR. OSMOND: It's an adjustment to reflect what our
93 promissory notes regulated would have been if didn't have
94 this recall.

95 MR. KENNEDY: And it's notional in the sense that there's

1 no actual interest that's being foregone, it's a calculated
2 foregone interest?

3 MR. OSMOND: It's a ... I guess we're saying the same term.
4 It's avoided interest that we would have had, yes.

5 MR. KENNEDY: And is there anything, in your view, that
6 would prevent the Board from deeming a similar notional
7 adjustment so that some of this \$68 million dividend was
8 deemed to have come from the non-regulated retained
9 earnings of Hydro?

10 MR. OSMOND: I don't know if that's within the Board's
11 mandate to do that, but I'm really at a ... it's a legal question.
12 I don't think it would be.

13 MR. KENNEDY: That's all the questions I have. Thank
14 you, Mr. Osmond.

15 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
16 Kennedy. We'll move now to redirect by Hydro, please?

17 MS. GREENE, Q.C.: Thank you, Mr. Chair. I have two
18 questions arising from the questions put to you by
19 Commissioner Powell. The first related to the depreciation
20 expense associated with the Holyrood thermal plant, and I
21 believe Commissioner Powell stated there was no
22 depreciation left associated with the Holyrood thermal
23 plant, and I just wondered if you could clarify that, please,
24 for the record?

25 MR. OSMOND: Okay. It's my understanding units one
26 and two are fully depreciated, but 2003 is not, so there still
27 is depreciation on ...

28 MS. GREENE, Q.C.: Unit three, you mean?

29 MR. OSMOND: I'm sorry. What did I say?

30 MS. GREENE, Q.C.: I thought you said 2003.

31 MR. OSMOND: I'm sorry. Getting tired. Units one and
32 two have been fully depreciated, I think in 2001. Unit
33 number three is not fully depreciated and it's probably
34 seven to ten years left to go on that. Any additions that
35 we have with regards to units one or two or three,
36 specifically one and two, they'd be written off based on the
37 piece of equipment that's put in place over a reasonable
38 period of time in accordance with our policy.

39 MS. GREENE, Q.C.: My second question also related
40 somewhat to the same issue of the depreciation expense for
41 Holyrood, and it related to the studies that were done by
42 the planning department and whether they took into
43 account any fixed costs when they were reviewing the
44 incremental costs for Holyrood in assessing co-generation
45 projects. Have you had the opportunity to review that, as
46 well, Mr. Osmond?

47 MR. OSMOND: Yes. It's my understanding what they

48 referred to is the incremental costs which is really the cost
49 of oil at Holyrood, which would be the fuel costs only, so
50 it's \$25 a barrel, that would be roughly 40 mils. You don't
51 take into account any sunk costs of depreciation or
52 interest. It's the incremental cost of fuel, lubricants and so
53 on.

54 MS. GREENE, Q.C.: Thank you. That concludes the
55 questions I had for Mr. Osmond.

56 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
57 Greene. Thank you, very much, Mr. Osmond, for your
58 extensive testimony and your efforts, I think, which were
59 very specific and direct in attempting to answer the
60 questions. Thanks very much.

61 MR. OSMOND: Thank you, Mr. Chair.

62 MR. NOSEWORTHY, CHAIRMAN: I guess, Ms. Greene,
63 next would be Mr. Brickhill, your cost of service expert?
64 Would you wish to do that at 2:00 or proceed now?

65 MS. GREENE, Q.C.: Really, I'll leave that to the (inaudible)
66 of the Board. It might be an opportunity for Mr. Osmond
67 to ...

68 MR. NOSEWORTHY, CHAIRMAN: I think we allow five
69 minutes in terms of the transition and that'll bring us to 20
70 after, so I think we'll break and we'll reconvene at 2:00.

71 *(break)*

72 *(2:00 p.m.)*

73 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
74 afternoon. Just before we get started, Mr. Kennedy, are
75 there any preliminary matters?

76 MR. KENNEDY: Chair, I imagine Hydro is reporting on the
77 status of the undertakings.

78 MR. NOSEWORTHY, CHAIRMAN: Okay, Ms. Greene?

79 MS. GREENE, Q.C.: Yes, very briefly, the undertakings for
80 last Wednesday, November 21st, have been circulated.
81 The first one, the interest in the ...

82 MR. NOSEWORTHY, CHAIRMAN: Mr. Brickhill, there's
83 quite a list there, perhaps you can have a seat and I'll, we'll
84 begin the cost of service once Ms. Greene has concluded
85 with this.

86 MS. GREENE, Q.C.: The first one related to the interest in
87 the RSP to 2002, and you will recall that we actually filed
88 that last Wednesday. The other undertakings are all
89 questions from Mr. Hearn, which we believe we answered
90 in the redirect of Mr. Osmond this morning, so our position
91 would be that all of the undertakings listed here for
92 November 21st have now been answered or responded to,
93 thank you.

1 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
2 Greene. Before we get started, I guess, just a comment,
3 we're going until 4:30 this evening, and we will continue
4 that throughout the cost of service evidence, and we'll
5 probably try and break, I would think, rather than 3:00
6 around 3:15, I guess, if that's okay with everybody. Okay,
7 thank you very much, and I'd ask Ms. Greene to introduce
8 her next witness.

9 MS. GREENE, Q.C.: Mr. Chair, Mr. Young will be
10 conducting the examination of Mr. Brickhill.

11 MR. NOSEWORTHY, CHAIRMAN: That's fine, thank you
12 very much. Mr. Young, good afternoon.

13 MR. YOUNG: Good afternoon and thank you, Chair. As
14 brief as this examination will be because of course it's only
15 just to straighten away the pre-filed and the supplementary
16 evidence. Good afternoon, Mr. Brickhill.

17 MR. BRICKHILL: Good afternoon.

18 MR. YOUNG: Supplementary evidence has been filed, and
19 I'll go through that in a moment ...

20 MR. NOSEWORTHY, CHAIRMAN: Mr. Young, I'm going
21 to have to swear him in and ...

22 MR. YOUNG: Oh, I'm sorry. I'm new in this, I'm new at this
23 in this round.

24 MR. NOSEWORTHY, CHAIRMAN: Okay, good afternoon,
25 Mr. Brickhill, how are you?

26 MR. BRICKHILL: Good afternoon.

27 MR. NOSEWORTHY, CHAIRMAN: You have the Bible.
28 Do you swear on this Bible that the evidence to be given
29 by your shall be the truth, the whole truth, and nothing but
30 the truth, so help you God?

31 MR. BRICKHILL: I do.

32 MR. NOSEWORTHY, CHAIRMAN: Thank you, sir, very
33 much, please be seated. Now Mr. Young, if you could ...

34 MR. YOUNG: Sorry about the error in process order, Mr.
35 Chair.

36 MR. NOSEWORTHY, CHAIRMAN: I know what it feels
37 like. Please proceed.

38 MR. YOUNG: I'll start again. Good afternoon, Mr. Brickhill.
39 Evidence has been filed in your name with the application
40 that Hydro filed back in May. Do you adopt that evidence
41 as your own?

42 MR. BRICKHILL: Yes.

43 MR. YOUNG: Also there has been three pieces of
44 supplemental evidence filed in your name. The first was
45 filed, I believe, on September the 12th, relating to testimony
46 of the other expert witnesses. Do you adopt that as your
47 testimony?

48 MR. BRICKHILL: Yes.

49 MR. YOUNG: There was further supplementary evidence
50 filed on or about October the 1st relating to several other
51 matters. Do you accept that as, and undertake that that's
52 your own testimony here?

53 MR. BRICKHILL: Yes.

54 MR. YOUNG: And finally, third supplementary evidence
55 was filed regarding cost of service on October the 31st. Do
56 you adopt that as your own testimony?

57 MR. BRICKHILL: Yes.

58 MR. YOUNG: Thank you, Mr. Brickhill.

59 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
60 Young. We move now to cross-examination by
61 Newfoundland Power. Good afternoon, Ms. Butler.

62 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Hello, Mr.
63 Brickhill. Mr. Brickhill, the Board's 1993 generic report on
64 the cost of service basically set the ground rules for the
65 cost of service methodology in this hearing, do you agree
66 with that?

67 MR. BRICKHILL: Yes.

68 MS. BUTLER, Q.C.: And the, or one of the primary
69 purposes of the cost of service study is to attribute costs
70 to different categories of customers based on how those
71 customers cause costs to be incurred, would you agree
72 with that principle?

73 MR. BRICKHILL: Yes.

74 MS. BUTLER, Q.C.: The cost of service methodology
75 approved by this Board for cost recovery was the
76 embedded method?

77 MR. BRICKHILL: That's correct.

78 MS. BUTLER, Q.C.: And I wonder if we might look
79 specifically at the 1993 Board report on cost of service
80 which is, I believe, in the system. No, I have it available to
81 be handed out. This is, Mr. Chairman, page 74 of the
82 generic, of the 1993 generic cost of service report, and Mr.
83 Brickhill, when you get a copy I'm just going to ask if you
84 can read into the record, recommendation number one?

85 MR. BRICKHILL: Recommendation number one states that
86 Hydro's cost of service study be of the embedded type and
87 that the methodological objective be to allocate costs to
88 rate classes in a fair and equitable manner based on causal
89 responsibility for cost incurrence.

90 MS. BUTLER, Q.C.: Thank you very much. I wonder, Mr.
91 Kennedy, does that have to be marked?

1 MR. KENNEDY: No, not if it's just an excerpt from the
2 previous report, thank you.

3 MS. BUTLER, Q.C.: Thank you, so as alluded to by the
4 Board recommendation, Mr. Brickhill, the use of an
5 embedded cost of service is focused mainly on the fair
6 allocation of costs that have been incurred to provide the
7 service.

8 MR. BRICKHILL: That's correct.

9 MS. BUTLER, Q.C.: Now I understand that total costs are
10 effectively the starting point for your cost of service study,
11 but having reviewed your evidence, I gather that prior to
12 the three steps that you've outlined in the embedded cost
13 of service methodology, you first systemized Hydro's cost
14 into the five system areas.

15 MR. BRICKHILL: That's correct.

16 MS. BUTLER, Q.C.: And I wonder if we might look at your
17 **original evidence at page 6**. Okay, starting at line 11 there,
18 the question that was put, of course, was to explain how
19 Hydro applied the cost of service methodology and you've
20 answered that by saying prior to functionalization, which
21 is the first of the three steps in the cost of service method,
22 you systemize the cost into the five geographic areas. Is it
23 fair to say then, Mr. Brickhill, that you actually prepared
24 five separate cost of service studies?

25 MR. BRICKHILL: Yes.

26 MS. BUTLER, Q.C.: Now is it also fair to say that there
27 would be some costs which would be common to all
28 systems? For example, administration costs?

29 MR. BRICKHILL: That's correct.

30 MS. BUTLER, Q.C.: And they have to be segregated out
31 into these five systems that we see on the screen?

32 MR. BRICKHILL: That's correct.

33 MS. BUTLER, Q.C.: Can we look at your schedule **JAB-1**,
34 page 1 of 94, which is the cost of service? So as an example
35 of one of these common costs, looking at line 1, operating,
36 maintenance, and administration expenses, the total amount
37 was \$88.9 million, and you have then segregated that, or
38 systemized that between column three, island
39 interconnected; four, island isolated; five, Labrador
40 isolated; six, L'anse au Loup; and seven, Labrador
41 interconnected, correct?

42 MR. BRICKHILL: That's correct.

43 MS. BUTLER, Q.C.: Alright, and the details of how you
44 actually did that I don't need to see on the screen, Mr.
45 O'Rielly, but we do have an information request that set
46 that out, referred to as **NP-132**. Do you recall providing all
47 the details of how you actually did that?

48 MR. BRICKHILL: Vaguely, yes.

49 MS. BUTLER, Q.C.: Is it fair to say that judgement does
50 play a role, Mr. Brickhill, in that systemization step, before
51 you get into the functionalization, classification, and
52 allocation steps of the cost of service?

53 MR. BRICKHILL: Yes.

54 MS. BUTLER, Q.C.: Thank you. Now I'd like to look first
55 then to the functionalization step which you and other
56 experts in this hearing have described as step one, and at
57 page 19 of **Mr. Brockman's pre-filed evidence** actually, we
58 have a narrative description of the step. Thank you. Lines
59 6 to 13. I wonder, Mr. Brickhill, maybe if you could just
60 read that into the record and tell me whether you agree that
61 that is a fair description of the functionalization step.

62 MR. BRICKHILL: Functionalization is a process of
63 deciding what purpose or utility function a utility
64 investment or expenditure serves. Common examples of
65 utility functions are production, transmission, and
66 distribution. As an example of functionalization, consider
67 the cost of fuel burned in a power plant and the cost of
68 carrying the investment in that plant. These costs would
69 be functionalized as production. Functionalization helps
70 identify how the costs of providing service to various
71 customers change when the load characteristics of those
72 customers change. The functionalization of Hydro's costs
73 can be seen in exhibit JAB-1, page 28, for example.

74 MS. BUTLER, Q.C.: Okay, you don't need to actually look
75 at the exhibit, but do you agree with Mr. Brockman's
76 general description of the functionalization step?

77 MR. BRICKHILL: Yes.

78 MS. BUTLER, Q.C.: Would you also agree, Mr. Brickhill,
79 that the functionalization step, that is the step that causes
80 you to divide costs between generation, production,
81 transmission, and distribution, is generally
82 noncontroversial?

83 MR. BRICKHILL: Yes.

84 MS. BUTLER, Q.C.: As a subset perhaps of the
85 functionalization step, am I also accurate in suggesting to
86 you that the issue of common assignment versus specific
87 assignment is an element of functionalization?

88 MR. BRICKHILL: Yes.

89 MS. BUTLER, Q.C.: And in this particular hearing, an
90 example of that at play would be Hydro's proposal on the
91 transmission line to the Great Northern Peninsula, and to
92 treat that as common?

93 MR. BRICKHILL: That's correct.

94 MS. BUTLER, Q.C.: Alright, so that is an example of the

1 first step, the functionalization step. Now you've reviewed
2 Hydro's criteria for functionalization for use in this hearing.

3 MR. BRICKHILL: Yes.

4 MS. BUTLER, Q.C.: And do you agree that Hydro's
5 approach to the first step, the functionalization step is
6 reasonable?

7 MR. BRICKHILL: As corrected. There have been some
8 corrections made, and I think as corrected they are
9 reasonable.

10 MS. BUTLER, Q.C.: Thank you, can I move now to step
11 two, and have you look at Mr. Brockman's page 20, in
12 which he has a narrative description of the classification
13 step, and perhaps you could just read lines 2 to 5, and we
14 don't need to get into the table, but just the definition, or
15 his definition of the step for me?

16 MR. BRICKHILL: Classification is a process of deciding
17 what customer characteristics cause each functionalized
18 cost to increase or decrease as customer load
19 characteristics change. Costs are usually classified as
20 increasing or decreasing because of changes in customer
21 demand, energy, or number of customers on the system.
22 The table below shows some commonly accepted ways of
23 classifying the major functional categories.

24 MS. BUTLER, Q.C.: Okay, so in the table below we see the
25 functional category which was derived from your step one,
26 the division of costs into production, transmission, and
27 distribution, and then to the right of the table we see those
28 costs being subdivided between demand, energy, and
29 customer, which is your step two, classification, is that
30 right?

31 MR. BRICKHILL: That's correct.

32 MS. BUTLER, Q.C.: Now, at the bottom of that page, lines
33 19 to 21, Mr. Brockman says, even a simple table such as
34 this one can be controversial when we discuss
35 classification because there is no universally agreed upon
36 method for classifying production, transmission, or
37 distribution related costs amongst demand energy and
38 customer. Do you generally agree with his statement
39 there?

40 MR. BRICKHILL: Yes, it's not, there's no universally
41 agreed upon method but there are some more common than
42 others, more commonly accepted than others.

43 MS. BUTLER, Q.C.: Does the classification step involve
44 some subjectivity?

45 MR. BRICKHILL: It can, yes.

46 MS. BUTLER, Q.C.: Okay, now relative to step two,
47 classification, there are a few classification issues before
48 this Board at this hearing because the Board recommended

49 methods of classification from the 1993 report on the cost
50 of service have been complied with by Hydro in their filing,
51 is that fair to say?

52 MR. BRICKHILL: That's my belief, and that's been my
53 testimony, yes.

54 MS. BUTLER, Q.C.: But there is one classification issue to
55 be determined and that is the difference in choice between
56 perhaps the zero intercept method and the minimum system
57 approach for distribution?

58 MR. BRICKHILL: That's really a legal matter. It's not for
59 me to say what is to be decided.

60 MS. BUTLER, Q.C.: No, but you are proposing one method
61 over another?

62 MR. BRICKHILL: Yes, that's correct.

63 MS. BUTLER, Q.C.: Okay, so that is an issue before the
64 Board?

65 MR. BRICKHILL: Yes.

66 MS. BUTLER, Q.C.: In the classification step, and again,
67 that will require some exercise of judgement on behalf of
68 the Board as to whether they choose the zero intercept
69 method or the minimum system approach method.

70 MR. BRICKHILL: That's correct.

71 MS. BUTLER, Q.C.: Okay, now in terms of the appropriate
72 method of classification in the classification step, I wonder
73 if we might just look at your schedule **JAB-1**, this time,
74 page 16 of 94. Okay, now here we have in the classification
75 step, it's \$277,969 million which is for the island
76 interconnected systems now being classified between
77 demand which is column three; energy, column four; and
78 customer, column five, correct?

79 MR. BRICKHILL: Correct.

80 MS. BUTLER, Q.C.: So this is the example of the
81 classification step at work for the total island
82 interconnected system?

83 MR. BRICKHILL: That's correct.

84 MS. BUTLER, Q.C.: Alright, now we'll keep that on the
85 screen for the moment. The next step you describe, Mr.
86 Brickhill, is the allocation step, and I gather that once this
87 classification is complete and the costs are split between
88 demand energy and customer, you then move to allocate or
89 assign these costs to each of the customer classes, is that
90 right?

91 MR. BRICKHILL: Yes.

92 MS. BUTLER, Q.C.: And again, is it fair to say, Mr.
93 Brickhill, that there are a number of different methods that
94 can be used to allocate those, for example, the demand

1 costs there, of \$124 million, among different customer
2 classes?

3 MR. BRICKHILL: Yes.

4 MS. BUTLER, Q.C.: Okay, and focusing on that for the
5 moment, again, one of the issues before the Board in this
6 case, in this hearing, is the CP allocators which should be
7 used to allocate those demand costs amongst the customer
8 classes, am I right?

9 MR. BRICKHILL: That's my belief, yes.

10 MS. BUTLER, Q.C.: Okay, and on that particular issue,
11 we'll come to the details of that later today or maybe early
12 tomorrow, but you are recommending the use of the 2-CP
13 allocator?

14 MR. BRICKHILL: Either a 2-CP allocator or a 1-CP
15 allocator.

16 MS. BUTLER, Q.C.: Thank you, and you don't need to go
17 to it, but that is apparent in your evidence at page 8. Mr.
18 Brockman, on behalf of Newfoundland Power is
19 recommending the use of a 4-CP allocator?

20 MR. BRICKHILL: Yes.

21 MS. BUTLER, Q.C.: Mr. Osler sees benefit to retaining one,
22 that is the existing 1-CP allocator?

23 MR. BRICKHILL: That's correct.

24 MS. BUTLER, Q.C.: And Mr. Bowman believes the 1-CP
25 allocator better represents cost causality but that the 4-CP
26 allocator minimizes volatility.

27 MR. BRICKHILL: I don't recall that specifically. I'm not
28 disagreeing with that, but I don't recall that.

29 *(2:15 p.m.)*

30 MS. BUTLER, Q.C.: Okay, I will just get you to look
31 though at Mr. Bowman's, page 3 of his pre-filed, so that we
32 can be clear on that. Okay, line 11 please? Is this Mr.
33 Bowman? Okay, alright, there you go, line 11, "I favour a
34 1-CP allocator because it is consistent with what Hydro has
35 proposed for its other systems and reflects cost causation",
36 and then, "However, a 1-CP allocator tends to be more
37 volatile". "If the Board decides to incorporate a multiple CP
38 allocator in other to reduce volatility I favour 4-CP over 2-
39 CP."

40 MR. BRICKHILL: Okay, I agree.

41 MS. BUTLER, Q.C.: Okay, so have I fairly summarized the
42 position of the various experts on the issue of the CP
43 allocator, to your memory or recollection, Mr. Brickhill?

44 MR. BRICKHILL: Yes.

45 MS. BUTLER, Q.C.: And the Board again will review the

46 evidence and use its judgement to determine which CP
47 allocator is the most appropriate, fair?

48 MR. BRICKHILL: Fair.

49 MS. BUTLER, Q.C.: Okay, similarly, Mr. Brickhill, the rural
50 deficit is also allocated in your cost of service study
51 between the island interconnected system and the Labrador
52 interconnected system, am I right?

53 MR. BRICKHILL: That's correct.

54 MS. BUTLER, Q.C.: And again, there is no universally
55 accepted method of allocating rural deficits or this rural
56 deficit?

57 MR. BRICKHILL: Clearly.

58 MS. BUTLER, Q.C.: Are you aware that a number of
59 methods were offered to the Board at the generic cost of
60 service hearing and that the Board made its determination
61 of what it felt to be the fairest approach?

62 MR. BRICKHILL: Yes.

63 MS. BUTLER, Q.C.: And have you reflected this in your
64 schedule **JAB-1**, that's the cost of service again, pages 9
65 and 10?

66 MR. BRICKHILL: Yes.

67 MS. BUTLER, Q.C.: Mr. O'Rielly, can you just show me
68 whether that's 9 or 10 please, page 9 or 10? Page 9, thank
69 you. So Mr. Brickhill, while on the surface the embedded
70 cost of service study starts with a precise set of
71 mathematical calculations, do you agree with me that there
72 appears to have been the exercise of judgement at the
73 various different steps behind the scenes, with the overall
74 intention of producing a fair result?

75 MR. BRICKHILL: Yes.

76 MS. BUTLER, Q.C.: Okay, now a marginal cost of service
77 study, I understand to be different, and it's performed
78 primarily to assist in designing rates that are economically
79 efficient without the same focus on fairness.

80 MR. BRICKHILL: I would agree with that.

81 MS. BUTLER, Q.C.: Thank you. Do you agree that in order
82 to design marginal cost based rates you would need to
83 assess what the long-term marginal costs are going to be?

84 MR. BRICKHILL: Yes, in the case of a long-run marginal
85 cost study, one (inaudible) the short-run marginal cost
86 studies.

87 MS. BUTLER, Q.C.: And long-run or long-term marginal
88 generation costs would be related to the next source of
89 generation available on the system.

90 MR. BRICKHILL: That's correct.

1 MS. BUTLER, Q.C.: But you, I understand, Mr. Brickhill,
2 did not do a marginal cost study because this Board
3 supports an embedded cost of service study.

4 MR. BRICKHILL: That's correct.

5 MS. BUTLER, Q.C.: Okay, with that understanding of the
6 issue of costs, I wonder if we can turn now to certain
7 pricing evidence and have an understanding of how your
8 cost of service study actually translates into the price for
9 the customer? There's been some attention paid to the
10 structure of the wholesale rate charged by Hydro to
11 Newfoundland Power, and am I correct in suggesting that
12 the basis for calculating the monthly bill to Newfoundland
13 Power is energy only, so an energy usage rate?

14 MR. BRICKHILL: That's correct.

15 MS. BUTLER, Q.C.: But the wholesale energy rate which
16 is paid by Newfoundland Power flows directly from your
17 cost of service study?

18 MR. BRICKHILL: That's correct.

19 MS. BUTLER, Q.C.: And Newfoundland Power's fully
20 allocated costs are reflected in the cost of service study,
21 including its demand costs?

22 MR. BRICKHILL: That's correct.

23 MS. BUTLER, Q.C.: Okay, now beyond the actual bill that's
24 received from Hydro to Newfoundland Power, we have
25 operating behind the scenes a Rate Stabilization Plan which
26 was described for us by the Vice-President of Finance ...

27 MR. BRICKHILL: Mr. Osmond.

28 MS. BUTLER, Q.C.: ... Mr. Osmond recently, with three
29 primary components at play for the fuel, the hydraulic, and
30 the load variation component, so do you agree that there is
31 a component in the plan to ensure that Hydro's earnings
32 are not adversely affected by either increases or decreases
33 in annual energy sales to Newfoundland Power?

34 MR. BRICKHILL: That's correct.

35 MS. BUTLER, Q.C.: So is the combined effect of the bill,
36 that's the rate to Newfoundland Power from Hydro, and the
37 workings of the Rate Stabilization Plan, such that
38 Newfoundland Power always in the end pays its own way?

39 MR. BRICKHILL: That's correct.

40 MS. BUTLER, Q.C.: I wonder if we might look now to your
41 **first supplemental evidence** at page 4? Thank you, line 17
42 to 21. The question that was posed here, Mr. Brickhill, was
43 will the proposed energy rate to Newfoundland Power and
44 the industrial customers cover marginal costs in a test year.
45 Now we're going to deal with Newfoundland Power first.
46 When they talk about the proposed energy rate they mean
47 the proposed energy rates for the test year?

48 MR. BRICKHILL: That's correct.

49 MS. BUTLER, Q.C.: Okay, and I wonder if you might just
50 read the paragraph there from line 17 to 21 for the case of
51 Newfoundland Power?

52 MR. BRICKHILL: In the case of Newfoundland Power, yes,
53 and in the case of the industrial customers, no.
54 Newfoundland Power's energy rate includes its allocated
55 demand costs, the rural deficit, and the RSP. This results
56 in the marginal revenues received from Newfoundland
57 Power exceeding the marginal energy cost of supplying
58 Newfoundland Power by Hydro.

59 MS. BUTLER, Q.C.: Okay, now when I first read that,
60 having satisfied myself that we were now using an
61 embedded cost of service study, and that a marginal cost
62 of service study wasn't something that you supported or
63 the Board supported, I was confused by the reference to
64 marginal energy costs as you used the term in lines 20 to
65 21. Are you speaking there of the short-term marginal
66 energy costs?

67 MR. BRICKHILL: Yes, I'm speaking of the short-term
68 marginal energy cost, Holyrood's thermal plant.

69 MS. BUTLER, Q.C.: And to calculate those short-term
70 marginal energy costs at Holyrood, would I simply take the
71 fuel conversion factor and divide it into the price per
72 barrel?

73 MR. BRICKHILL: I believe that's what I did, yes.

74 MS. BUTLER, Q.C.: If I suggested to you it was around
75 three cents per kilowatt hour, would that sound familiar or
76 fair?

77 MR. BRICKHILL: Yes.

78 MS. BUTLER, Q.C.: Okay, and Newfoundland Power's end
79 block rate to Hydro exceeds three cents per hour?

80 MR. BRICKHILL: That's correct.

81 MS. BUTLER, Q.C.: So that's the point you're making here
82 in this paragraph?

83 MR. BRICKHILL: Yes.

84 MS. BUTLER, Q.C.: Now in comparison, the same question
85 and answer addresses the industrials, so I'm going to deal
86 with that next. Okay, lines 27 to 31 please, can you just
87 read what you've said there about the industrial customers'
88 rates?

89 MR. BRICKHILL: No, no costs are shifted to Hydro's other
90 customers as a consequence of the industrial customers
91 not covering marginal costs in their energy rates.

92 MS. BUTLER, Q.C.: I'm sorry, Mr. Brickhill, I've perhaps
93 gone a step too quickly. The point you made ... and if you

1 can just scroll up for me, Mr. O'Rielly please? The point
2 you made above was that the proposed energy rates of the
3 industrial customers would not cover marginal costs in the
4 test year, right?

5 MR. BRICKHILL: That's correct.

6 MS. BUTLER, Q.C.: Okay, and notwithstanding that then,
7 your explanation is given below, starting with line 27, so
8 perhaps you could just start again?

9 MR. BRICKHILL: At line 27?

10 MS. BUTLER, Q.C.: Perhaps we'll read the question in
11 above it. Okay, there you go.

12 MR. BRICKHILL: Does the fact that Hydro's industrial
13 customers are not or will not be covering marginal costs
14 through their energy charges disadvantage Hydro's other
15 customers. No, no costs are shifted to Hydro's other
16 customers as a consequence of the industrial customers
17 not covering the marginal costs in their energy rates.
18 Hydro ultimately recovers its marginal cost from the
19 industrials through the RSP, which simply defers for a later
20 recovery from the firm industrials what the firm industrials
21 do not pay now.

22 MS. BUTLER, Q.C.: Okay, so in the case of Newfoundland
23 Power, we're clear. Their marginal rate exceeds marginal
24 costs in any event, and in the case of the industrials,
25 although their marginal rate does not cover marginal costs,
26 it's ultimately recovered through the RSP so you're not
27 concerned?

28 MR. BRICKHILL: That's correct.

29 MS. BUTLER, Q.C.: Now you also stated in your **first**
30 **supplementary evidence** at page 5, line 8, and this
31 discussion goes on for quite some time, you're addressing
32 the question whether it is important for Hydro to transmit
33 correct price signals to Newfoundland Power, and your
34 answer very simply at line 11 is, no, not under the rather
35 unique circumstances that exist between the two. The
36 discussion that follows actually, Mr. Brickhill, goes on for
37 several pages, and I'm sorry, it stops on the next page, page
38 6 at line 11, so perhaps to get into the nuts and bolts of it,
39 rather than have you read the entire thing in, can we just go
40 back to page 5, lines 8 to 11, there you go, and you're
41 talking underneath that about the split between generation,
42 transmission, and distribution between the utilities, and at
43 line 20, the operational coordination between the two
44 companies. At page 6, line 10, can you just read in your
45 conclusion there please about the level of charges?

46 MR. BRICKHILL: I might further note that the level of
47 charges is important in the above circumstances, but not
48 the mode in which the charges are being made.

49 MS. BUTLER, Q.C.: Okay, so if we can just focus on that

50 for the moment. We saw earlier, and you acknowledged
51 that the rate, or the price to Newfoundland Power
52 represents a complete cost recovery.

53 MR. BRICKHILL: That's correct.

54 MS. BUTLER, Q.C.: And the RSP in the case of
55 Newfoundland Power and with the industrials is merely an
56 adjustment to the mode of paying.

57 MR. BRICKHILL: Yes.

58 MS. BUTLER, Q.C.: But the point you're making through
59 this part of your testimony is that it is important for the
60 ultimate user of electricity to get the correct price signal.

61 MR. BRICKHILL: That's one point, yes.

62 MS. BUTLER, Q.C.: And the distinction you've drawn here
63 is that Newfoundland Power is not the ultimate end user.

64 MR. BRICKHILL: That's correct.

65 MS. BUTLER, Q.C.: Okay, so Newfoundland Power is not
66 in and of itself able to respond to Hydro's price signals
67 since Power's demands are derived from the demands of it's
68 215,000 customers?

69 MR. BRICKHILL: That's correct.

70 MS. BUTLER, Q.C.: But in the case of the industrial
71 customers, they are end users and can properly respond to
72 a demand energy charge?

73 MR. BRICKHILL: That's correct.

74 MS. BUTLER, Q.C.: Okay, were you aware, Mr. Brickhill,
75 that Newfoundland Power has demand energy rates on all
76 general service customers with demands of 10 kilowatts or
77 greater?

78 MR. BRICKHILL: That's my understanding, yes.

79 MS. BUTLER, Q.C.: So those customers who receive bills
80 from Newfoundland Power, are in a position to modify their
81 behaviour in response to the price?

82 MR. BRICKHILL: That's correct.

83 (2:30 p.m.)

84 MS. BUTLER, Q.C.: Now on the same page 6, line 26, if I
85 might, okay. I'm sorry, just scroll up slightly, Mr. O'Rielly.
86 There you go, thank you. Actually, starting at line 13 you
87 talked about the sending of price signals, which we've
88 addressed, and then down at line 26 you address the
89 specific question of why is it reasonable for Hydro to
90 charge Newfoundland Power entirely through an energy
91 charge, and I think that discussion goes on until page 9, it's
92 a fairly long discussion. If you might look at page 9, lines
93 28 to 29, and could I just get you to read that in please. It
94 will scroll onto slightly page 10, starting with "for these

- 1 reasons".
- 2 MR. BRICKHILL: For these reasons I have no issue with
3 the use of an energy only rate in conjunction with the RSP
4 for billing Newfoundland Power for wholesale service.
5 Were the RSP eliminated, however, it would be appropriate
6 for Hydro to seek an alternative rate form in order to
7 maintain the stability of its revenues.
- 8 MS. BUTLER, Q.C.: Okay, so whatever Hydro charges
9 Newfoundland Power, Newfoundland Power will recover as
10 they currently do, would you agree with that?
- 11 MR. BRICKHILL: Yes.
- 12 MS. BUTLER, Q.C.: Okay, and whether the charge from
13 Newfoundland Hydro to Newfoundland Power is energy
14 only or demand energy, is immaterial?
- 15 MR. BRICKHILL: That is my belief, yes.
- 16 MS. BUTLER, Q.C.: Okay, now **Mr. Brockman** actually
17 had a table in **his evidence at page 12, page 12 of the**
18 **supplemental**, Mr. O'Rielly please. This is the first
19 supplemental. Page 12, there we go. This table, as I
20 understand it, is meant to address the point of the
21 wholesale rate from Newfoundland Hydro to
22 Newfoundland Power, and whether in fact there's been any
23 change in the demands, or growth in the demand
24 requirements of Newfoundland Power in this period. When
25 you look at the table, Mr. Brickhill, can you tell me whether
26 you see any obvious growth in the demand requirements
27 of Newfoundland Power in that ten year period?
- 28 MR. BRICKHILL: No, for example, the year 2000 is lower
29 than 1990 or 1991, or 1993, 1995, and 1999 is, there's a little
30 growth between 1999 and the year 2000, but you would
31 characterize this as stable over a ten year period.
- 32 MS. BUTLER, Q.C.: So do you agree that this table shows
33 that there's no significant demand growth simply as a result
34 of an energy only rate to Newfoundland Power?
- 35 MR. BRICKHILL: That's correct.
- 36 MS. BUTLER, Q.C.: Now are you aware, Mr. Brickhill, that
37 two other experts have recommended a more complex rate
38 structure between the two utilities, specifically, Mr.
39 Bowman and Mr. Wilson?
- 40 MR. BRICKHILL: That's correct.
- 41 MS. BUTLER, Q.C.: And do you agree that a complex
42 demand energy rate would create volatility in Hydro's
43 earning streams?
- 44 MR. BROWNE, Q.C.: I'm going to object to that question.
45 The question, or the examiner is stating what Mr. Bowman
46 said, and I'd ask her to make a specific reference to where
47 Mr. Bowman made that recommendation?
- 48 MS. BUTLER, Q.C.: Recommending of a more complex rate
49 structure?
- 50 MR. BROWNE, Q.C.: Yes, can you fine the line and refer
51 us to that please?
- 52 MS. BUTLER, Q.C.: Okay, as I understand it, Mr. Bowman
53 is recommending a demand energy rate structure.
- 54 MR. BRICKHILL: That's my understanding.
- 55 MS. BUTLER, Q.C.: Do you agree, Mr. Brickhill, that a
56 demand energy rate structure would create volatility in
57 Hydro's earning stream?
- 58 MR. BRICKHILL: No.
- 59 MS. BUTLER, Q.C.: Okay, can I have you look at **Mr.**
60 **Brockman's** explanation of this issue, which is his
61 **supplementary evidence**, page 8, please. Now this is Mr.
62 Brockman's response to a statement made by Mr. Bowman.
63 Perhaps for the benefit of the question and answer in the
64 transcript, Mr. Brickhill, you could just read in the question
65 for us, and then the answer?
- 66 MR. BRICKHILL: At page 13 of his evidence, Mr. Bowman
67 states that the notion that Hydro and Newfoundland Power
68 should forego a demand energy rate because it would tend
69 to create earnings volatility from year to year is difficult to
70 accept. Do you agree? Answer, no.
- 71 MS. BUTLER, Q.C.: Okay, now I have to say that the
72 answer which Mr. Brockman gives goes on for several
73 pages. I'm sure you've had a chance to read it. Can you tell
74 me why you disagree with Mr. Brockman's position?
- 75 MR. BRICKHILL: I agree that it could create earnings
76 volatility for Newfoundland Power, but it wouldn't cause
77 nearly the same earnings volatility for Hydro.
- 78 MS. BUTLER, Q.C.: Okay, what about if the RSP were not
79 in existence?
- 80 MR. BRICKHILL: The elimination of the RSP would
81 materially change that answer. They would be subject to
82 extreme earnings volatility.
- 83 MS. BUTLER, Q.C.: Okay, thank you, Mr. Brickhill. Now,
84 I'll turn now if I can to an issue of generation credit, and in
85 your first supplemental you do discuss, and we saw this a
86 moment ago, the operational coordination between
87 Newfoundland Power and Hydro.
- 88 MR. BRICKHILL: That's correct.
- 89 MS. BUTLER, Q.C.: Okay, page 5, lines 20 to 30. Can you
90 scroll up just a little bit there, yeah, the other way, sorry, so
91 we can get 20 to 30 on the screen, thanks. Could you read
92 that paragraph into the record for us, Mr. Brickhill, please?
- 93 MR. BRICKHILL: Moreover, although separate entities,

1 there is operational coordination between the two
2 companies to ensure the hydraulic generation is optimized
3 and to avoid spillage, thus minimizing thermal production.
4 When required, Hydro directs the operation of
5 Newfoundland Power's generating plants during system
6 peaks in order to optimize the generation that is online.
7 Normally, Newfoundland Power does not use its thermal
8 generation for peaking purposes unless requested to do so
9 by Hydro. As another example of coordination, Hydro
10 sometimes calls upon Newfoundland Power to increase
11 hydraulic production during daily peak periods to assist in
12 meeting load during outages to system equipment and, if
13 available, Newfoundland Power provides the service.

14 MS. BUTLER, Q.C.: Okay, so to abbreviate what's said
15 here, Mr. Brickhill, do you agree that Hydro has control of
16 the dispatch of the generators of Newfoundland Power?

17 MR. BRICKHILL: I agree, I'm not sure if Hydro would
18 agree but I've discussed this with Hydro and they do know
19 if they really control that or it's effective (*phonetic*).

20 MS. BUTLER, Q.C.: Okay, but however we classify that,
21 for that Newfoundland Power receives a generation credit
22 through your cost of service study.

23 MR. BRICKHILL: That's correct.

24 MS. BUTLER, Q.C.: Okay, now if Newfoundland Power did
25 not receive a generation credit through your cost of service
26 study, Newfoundland Power would likely run its generators
27 to reduce its peak demand on the system and minimize
28 costs to its customers through the cost of service study,
29 right?

30 MR. BRICKHILL: That's correct.

31 MS. BUTLER, Q.C.: So at the end of the day the demand
32 that's assigned to Newfoundland Power, and the load
33 factor in the cost of service study, would be approximately
34 the same, even if the generation credit did not exist?

35 MR. BRICKHILL: I think that's highly likely. It could go
36 one way or the other, but at the end of the day I think it
37 would be pretty much the same.

38 MS. BUTLER, Q.C.: Okay, because 54 megawatts is the
39 generation of Newfoundland Power's diesels and gas
40 turbines, you can see that if we look at, if we might Mr.
41 O'Rielly, NP-126. If we add the gas turbines of 46.9 and the
42 diesels of 7, we get about 54 megawatts.

43 MR. BRICKHILL: That's correct.

44 MS. BUTLER, Q.C.: The point we're making here is that it
45 wouldn't be economically efficient from a system
46 perspective for Newfoundland Power to be frequently
47 running these generators to minimize their demand
48 requirements.

49 MR. BRICKHILL: It would result in less optimal utilization
50 of I think both companies' facilities.

51 MS. BUTLER, Q.C.: Right, when Holyrood can be served
52 at a lower cost, okay. Now for efficiency purposes then,
53 rather than have Newfoundland Power running the, what
54 we sometimes call peakers, the gas turbine and the diesel
55 plants, we sometimes call them peakers?

56 MR. BRICKHILL: Yes.

57 MS. BUTLER, Q.C.: Okay, Hydro tells Newfoundland
58 Power when the gas turbines and diesels are needed to be
59 operated.

60 MR. BRICKHILL: That's correct.

61 MS. BUTLER, Q.C.: Okay, and that's in turn why Hydro
62 receives the generation credit.

63 MR. BRICKHILL: Newfoundland Power, it's the generation
64 credit, yes.

65 MS. BUTLER, Q.C.: Alright, now I couldn't actually see
66 that as a one liner perhaps in your cost of service, but I
67 wonder if we might look at NP-251 (*sic*). I'm sorry, I said
68 NP, it's IC-251, page 2 of 3. There you go. Okay, so at line
69 7, Mr. Brickhill, you're showing the Newfoundland Power
70 generation credit there.

71 MR. BRICKHILL: Yes.

72 MS. BUTLER, Q.C.: Okay, and the figure, if you could just
73 read it into the record for me?

74 MR. BRICKHILL: 120.5 MW.

75 MS. BUTLER, Q.C.: Megawatts, okay, now in terms of how
76 that translates into dollars for the cost of service, and I
77 know you've got a footnote there to be corrected in the
78 final cost of service, which I accept, I wonder if we could
79 just go to your schedule, cost of service again, page 3 of
80 94. It's not perfectly clear on the screen there, but I gather
81 column two, revenues, Newfoundland Power, is
82 \$213,830,000.

83 MR. BRICKHILL: That's correct.

84 MS. BUTLER, Q.C.: That's what the figure is supposed to
85 be, and the revenue requirement after deficit and revenue
86 credit allocation, column six, is \$213,815,000?

87 MR. BRICKHILL: That's correct.

88 MS. BUTLER, Q.C.: Okay, so on this particular schedule
89 it's the credit, the generation credit, would be built into the
90 difference between the two numbers?

91 MR. BRICKHILL: I don't think so.

92 MS. BUTLER, Q.C.: Oh, I'm sorry, Mr. Brickhill, that's my
93 mistake. Just look at IC-251, it's actually attached there as

- 1 3 of 94, 251(c), they're lettered (a), (b), and (c), I believe.
2 There you go ... (c), page 3 of 94 was attached.
- 3 MR. O'RIELLY: That's not available electronically.
- 4 MS. BUTLER, Q.C.: Okay, well we'll have to dig out the
5 hard copy. Mr. Brickhill, while you're reviewing that,
6 unfortunately we don't have the benefit of it on the screen,
7 but I gather the generation credit would be reflected in the
8 difference between, and we're looking at line 1 now, the
9 revenue figure in column two, and the revenue requirement
10 after deficit and revenue credit allocation in column six?
- 11 MR. BRICKHILL: What page are we ...
- 12 MS. BUTLER, Q.C.: Okay, **IC-251(c)**, page 3 of 94.
13 (2:45 p.m.)
- 14 MS. HENLEY ANDREWS: Could Ms. Butler repeat the
15 question?
- 16 MS. BUTLER, Q.C.: Yes, I'm asking the witness whether
17 the generation credit which he described in terms of
18 megawatts is reflected in terms of dollars in the difference
19 between the two columns, two and six, at line one.
- 20 MR. BRICKHILL: I believe so, yes.
- 21 MS. BUTLER, Q.C.: Okay, now Mr. Brickhill, in comparison
22 to the way this issue is treated with Newfoundland Power,
23 the Abitibi mill in Stephenville receives a credit for making
24 its facility available to be interrupted as well?
- 25 MR. BRICKHILL: Very broadly speaking, yes.
- 26 MS. BUTLER, Q.C.: Okay, and that credit was based in
27 terms of its calculation of its value on the cost associated
28 with the deferral of the gas turbine?
- 29 MR. BRICKHILL: I believe that's what Mr. Budgell said,
30 but that's outside of my area.
- 31 MS. BUTLER, Q.C.: Okay, I think we can see that in **NP-**
32 **133**.
- 33 MR. BRICKHILL: That's correct.
- 34 MS. BUTLER, Q.C.: Mr. O'Rielly, could you just scroll up
35 so we can see lines down towards the bottom. Thank you,
36 stop, thanks. So the answer that was given to the question
37 was that Hydro had entered into an agreement with Abitibi
38 for the supply of 46 megawatts of interruptible demand with
39 a rate determined, and the calculation follows, but clearly
40 it's based on the capital cost estimates for a gas turbine in
41 1993.
- 42 MR. BRICKHILL: That's correct.
- 43 MS. BUTLER, Q.C.: Okay, now back in your schedule, cost
44 of service, page 94 of 94, the amount of that interruptible
45 credit is included as a generation demand cost in the cost
46 of service study, I think?
- 47 MR. BRICKHILL: That's correct.
- 48 MS. BUTLER, Q.C.: Okay, can you just get that on the
49 screen, and maybe you can identify the line there for me.
50 I think it's line 4.
- 51 MR. BRICKHILL: The right schedule isn't on the screen.
52 I have the Labrador interconnected.
- 53 MS. BUTLER, Q.C.: Mr. O'Rielly, let's try **revision one of**
54 **JAB-1**, please? Page 94, yeah, okay, and it's line 4.
- 55 MR. BRICKHILL: That's correct.
- 56 MS. BUTLER, Q.C.: Can I just expand that slightly, Mr.
57 O'Rielly. Okay, so at line 4 we have the interruptible
58 demand and the amount that's actually paid to the Abitibi
59 group for this is \$1.326 million?
- 60 MR. BRICKHILL: That's correct.
- 61 MS. BUTLER, Q.C.: Okay, alright, and I gather, Mr.
62 Brickhill, from your evidence that you accept that the
63 proposed method of allocation of the interruptible costs
64 through the cost of service study is appropriate?
- 65 MR. BRICKHILL: Yes.
- 66 MS. BUTLER, Q.C.: And in both cases it's fair?
- 67 MR. BRICKHILL: Yes.
- 68 MS. BUTLER, Q.C.: Now are you aware that at least one
69 other expert disagrees with your position in relation to the
70 treatment of the generation credit to Newfoundland Power
71 and the industrial customers.
- 72 MR. BRICKHILL: Yes.
- 73 MS. BUTLER, Q.C.: And I wonder if we might look then to
74 **Mr. Osler's testimony**, his original testimony at page 18.
75 I'm sorry, Mr. O'Rielly, I've done that again, it's his
76 **supplemental evidence** at page 18. Okay, thank you. In the
77 paragraph below the numbered paragraph one, so you see
78 that at lines 11 to 20, Mr. Osler is discussing the method
79 used to determine the allocation of generation and demand
80 related costs, and he concludes, can you just read in there,
81 please, lines 22 and 23?
- 82 MR. BRICKHILL: The above difference in treatment of NP
83 and IC interruptible demand loads is not appropriate for the
84 purposes of COS, cost of service, allocation of generation
85 demand related costs.
- 86 MS. BUTLER, Q.C.: Okay, now I didn't see any reference
87 in any supplementary evidence that you would have filed
88 subject to, or following this evidence of Mr. Osler, in which
89 you address that point, so could I ask you whether you
90 continue to support your view that the method in treatment
91 of Newfoundland Power and the industrial customers

1 interruptible demand load is appropriate?

2 MR. BRICKHILL: I do.

3 MS. BUTLER, Q.C.: Do you care to take the opportunity
4 now, Mr. Brickhill, to elaborate on why you maintain your
5 position, notwithstanding the position expressed by Mr.
6 Osler?

7 MR. BRICKHILL: I'm not sure that I understand Mr. Osler's
8 position. I don't know if he's really asking for a credit or a
9 credit just for Stephenville, or for the entire industrial class,
10 but we have two similar but not the same things going on.
11 We have a generation credit that's provided to
12 Newfoundland Power in the cost of service. That credit
13 lowers Newfoundland Power's costs and costs to its
14 customers. Hydro pays \$1,300,000 plus for the
15 interruptible, the rights so they compensate the party. It
16 may not be the exact same form of compensation, but after
17 all, the Interruptible B contract was entered into when it
18 wasn't regulated, it was just negotiated between the parties,
19 and I don't think you'd expect that to be exactly the same
20 dollar impact that a credit in the cost of service would
21 provide, but I can't imagine paying money and giving them
22 a credit. That would simply be unfair to Hydro and Hydro's
23 other customers.

24 MS. BUTLER, Q.C.: Okay, thank you, Mr. Brickhill. I'm
25 going to turn now, if I might, to the deficit. You've
26 addressed this, I think, at page 9 of 94 of your cost of
27 service schedule. Okay, so we have on the screen now the
28 rural deficit allocation and at the point that this was drafted,
29 the amount being classified at line 5 was \$26.158 million.

30 MR. BRICKHILL: That's correct.

31 MS. BUTLER, Q.C.: Okay, classified then between demand
32 energy and customer. Do you agree that Hydro's objective
33 is to minimize the deficit to the extent that it's possible?

34 MR. BRICKHILL: Yes.

35 MS. BUTLER, Q.C.: And Newfoundland Power, while it
36 has to cover part of the deficit with another system, has no
37 control over the amount of deficit?

38 MR. BRICKHILL: Well, that's a very limited control. They
39 could theoretically raise their rates to such a level that the
40 rural rates covered their costs, but I don't think that's very
41 likely, but outside of that possibly they would have no
42 control.

43 MS. BUTLER, Q.C.: Okay, when Mr. Osmond was on the
44 stand he was presented with a response to a particular RFI,
45 **NP-34**, which shows some growth in the rural deficit
46 between 1993 and 2002, which is at the bottom line there.
47 Mr. Brickhill, would you agree that changes in the cost of
48 service allocations would make tracking the rural deficit
49 from one year to another difficult?

50 MR. BRICKHILL: Yes.

51 MS. BUTLER, Q.C.: But in this particular table, when we
52 compare '93 to 2002, we are comparing the same cost of
53 service methodology, are we not?

54 MR. BRICKHILL: 1999 with 2002?

55 MS. BUTLER, Q.C.: No, sorry, 1993.

56 MR. BRICKHILL: 1993 with?

57 MS. BUTLER, Q.C.: 2002.

58 MR. BRICKHILL: No, I don't think it would be the same
59 cost of service methodology.

60 MS. BUTLER, Q.C.: Can you refer me to something that
61 would suggest that it wasn't?

62 MR. BRICKHILL: Well, in looking at this, we have
63 changed the cost of service methodology for 2002 but this
64 table is labeled rural deficit 1993 methodology, so the
65 answer is, yes, 2002 is apparently the 1993 methodology for
66 the purposes of this calculation.

67 MS. BUTLER, Q.C.: Okay, thank you, so what we're
68 comparing here at the time that the numbers were valid, is
69 the growth in the rural deficit between 1993 and proposed
70 2002 using the same cost of service methodology.

71 MR. BRICKHILL: That's correct.

72 MS. BUTLER, Q.C.: Okay, thanks, now the Board's
73 consultant, Mr. Wilson, has recommended that the Board
74 should consider developing an evidentiary record
75 regarding the extent to which the deficit should be reduced,
76 are you aware of that?

77 MR. BRICKHILL: Yes.

78 MS. BUTLER, Q.C.: Now if we assume that Hydro filed
79 reports annually with the Board identifying the amount of
80 the deficit and its progress on the management of the
81 deficit, do you agree that such an approach would help the
82 Board monitor progress on reducing the rural deficit?

83 MR. BRICKHILL: Yes.

84 MS. BUTLER, Q.C.: A part of what we have on the screen
85 as the rural deficit is related to preferential and government
86 rates.

87 MR. BRICKHILL: Correct.

88 MS. BUTLER, Q.C.: And are you aware that Hydro's
89 proposal in that regard for the rural non-government
90 customers is an increase of 3.5 percent as a result of this
91 application?

92 MR. BRICKHILL: Yes.

93 MS. BUTLER, Q.C.: In your view, Mr. Brickhill, is the 3.5

1 percent increase significant enough to defer any movement
2 towards the phase out of the preferential rates to those
3 customers?

4 MR. BRICKHILL: 3.5 percent is not a big number in the
5 scheme of things.

6 (3:00 p.m.)

7 MS. BUTLER, Q.C.: I wonder if we might just look at CA-
8 155. Okay, the question that was asked here was to
9 provide the dollar figure as to the cost of the preferential
10 rates to what we call the rural non-government customers,
11 and the answer, perhaps you could just read in the full
12 answer for me from lines 5 to 11.

13 MR. BRICKHILL: The full cost of serving these customers
14 is \$2,530,183 based on the 2002 cost of service. Based on
15 actual 2000 data, these customers paid \$315,000. If there
16 were no preferential rates these customers would pay the
17 applicable diesel rate estimated at \$620,000 based on the
18 2002 rates in Hydro's current submission to the Board.

19 MS. BUTLER, Q.C.: Is it fair to say, Mr. Brickhill, based on
20 this RFI which is on the screen, that the price to customers
21 on preferential rates would be expected to approximately
22 double once the rates were completely phased out?

23 MR. BRICKHILL: That's correct.

24 MS. BUTLER, Q.C.: And do you agree that that's going to
25 be difficult to phase out over a five year period without
26 giving significant price increases to customers?

27 MR. BRICKHILL: I would.

28 MS. BUTLER, Q.C.: And regardless of whether in fact that
29 process starts now or starts at some later date, that remains
30 true?

31 MR. BRICKHILL: That's correct.

32 MS. BUTLER, Q.C.: Okay, I'll just address one other quick
33 section, Mr. Brickhill, if I might, before we break, and that
34 relates to the CFB Goose Bay revenue credit. Are you
35 familiar with that topic?

36 MR. BRICKHILL: Yes.

37 MS. BUTLER, Q.C.: Okay, can you explain the difference
38 for me between secondary energy and firm energy as it
39 relates to serving the Canadian Forces Base, Goose Bay?

40 MR. BRICKHILL: The secondary energy is subject to
41 interruption, firm energy is not.

42 MS. BUTLER, Q.C.: Okay, now the latest cost of service
43 study which was filed as your exhibit JAB-1, that's revision
44 two, page 3 of 94.

45 MR. BRICKHILL: This is page one on the screen.

46 MS. BUTLER, Q.C.: Page 3 of 94 though, there you go.
47 Okay, now can we look at line 4 please for CFB Goose Bay,
48 secondary, and you have your revenue there in column
49 two, and the cost of service before deficit and revenue
50 credit allocation, column three, and revenue credits, column
51 four, and then in column five you've got the deficit. Now
52 if we add column three and column five there you'll get
53 \$229,260, and you're adding the \$164,858 and the \$64,408.

54 MR. BRICKHILL: Yes.

55 MS. BUTLER, Q.C.: Okay, and am I fair, or is it fair to
56 suggest to you that those are the costs of serving CFB
57 Goose Bay or serving secondary energy to CFB Goose
58 Bay?

59 MR. BRICKHILL: Yes.

60 MS. BUTLER, Q.C.: Okay, so on the one hand you've got
61 the revenue of \$3.9 million, and costs of \$229,000, and I
62 note if you go to page 9 of 94, what we're viewing here now
63 is the rural deficit allocation amongst the total system and
64 for CFB Goose Bay, line 2, you don't assign any demand
65 charges, right?

66 MR. BRICKHILL: That's correct.

67 MS. BUTLER, Q.C.: Can you explain why that is so?

68 MR. BRICKHILL: We assigned no demand charges,
69 demand costs to secondary or interruptible service because
70 no demand costs are incurred for providing service to these
71 customers. They simply benefit from what might be excess
72 to the system at the time but Hydro would not put a penny
73 into generation or transmission plant to serve these
74 customers, and that's how they're treated in the cost
75 (inaudible). However, the price received for energy
76 purchased by these customers is substantial so that a very
77 substantial credit in this case, I think over \$3 million, is
78 received by the other customers in their allocated cost of
79 service.

80 MS. BUTLER, Q.C.: Well, I think my point was that it's
81 only allocated to some of those customers, so let's go back
82 to page 3 of 94, and you're correct. The difference between
83 the revenue and the costs that we saw a moment ago,
84 column three and five added together, is actually \$3.8
85 million approximately.

86 MR. BRICKHILL: That's correct.

87 MS. BUTLER, Q.C.: And in your cost of service study, that
88 margin, that \$3.8 million difference between revenues and
89 costs for CFB Goose Bay is applied to reduce the revenue
90 required from the Labrador interconnected customers.

91 MR. BRICKHILL: That's correct.

92 MS. BUTLER, Q.C.: I think we can see that, if you don't
93 mind, Mr. Brickhill, we'll look at your revision two, JAB-1,

1 **revision two**, page 8 of 94, column four. Okay, and we see
2 at line 13 that the \$3.750 million has been applied as a credit
3 and you'll see at the top of the screen there, that is to the
4 Labrador interconnected system, right?

5 MR. BRICKHILL: That's correct.

6 MS. BUTLER, Q.C.: Okay, can you tell us why you took
7 the approach of applying that margin to the Labrador
8 interconnected system as opposed applying it to reduce
9 the rural deficit?

10 MR. BRICKHILL: It's because I'm an economist and I'm real
11 good at subsidies, so it's simply a matter of judgement. I
12 couldn't defend this method or another method in terms of
13 subsidies and how to allocate subsidies.

14 MS. BUTLER, Q.C.: And you're aware that in this
15 proceeding there are two cost of service experts who do
16 recommend that that gain be applied to reduce to rural
17 deficit?

18 MR. BRICKHILL: Yes.

19 MS. BUTLER, Q.C.: Okay, specifically Dr. Wilson and Mr.
20 Osler.

21 MR. BRICKHILL: Yes, I'm aware of that.

22 MS. BUTLER, Q.C.: Okay, thank you very much, Mr.
23 Brickhill. Mr. Chairman, I wonder if I might before I get into
24 my section which is fairly long, if we might take a break
25 there this afternoon?

26 MR. NOSEWORTHY, CHAIRMAN: Sure, that's fine.
27 Thank you very much, we'll reconvene at 25 after.

28 *(break)*

29 *(3:30 p.m.)*

30 MR. NOSEWORTHY, CHAIRMAN: Thank you. Can I ask
31 you to continue, Ms. Butler, please.

32 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Okay,
33 thanks, Mr. Brickhill. I wanted to discuss with you, if I
34 could, the multiple CP, coincident peak methodology, and
35 your recommendations which is different from some of the
36 other cost of service experts. After the 1983 hearing, Hydro
37 was ordered to complete a study to determine a
38 recommendation regarding the number of peaks on which
39 the CP for generation costs should be determined, is that
40 correct?

41 MR. BRICKHILL: That's correct.

42 MS. BUTLER, Q.C.: And based on the study which you
43 provided and in response to an information request which
44 was **NP-135**, and while we're waiting for that to come on
45 the screen, Mr. Brickhill, it was on the basis of this study
46 which is referred to here in the answer that you ultimately

47 recommended a 2-CP factor?

48 MR. BRICKHILL: That's correct.

49 MS. BUTLER, Q.C.: Now is page 8 of the attached report
50 available? Yeah, okay. Okay, I'm sorry. We'll go back, first
51 of all, to your pre-filed testimony in which you refer to this
52 study, we will be returning to that though, Mr. O'Rielly.
53 Okay, the actual narrative of Mr. Brickhill's pre-filed
54 testimony, page 8, okay, lines 19 to 22. Can you read those
55 into the record for us, Mr. Brickhill, please?

56 MR. BRICKHILL: Generation demand costs have been ...

57 MS. BUTLER, Q.C.: Sorry, no, no, 19 to 22.

58 MR. BRICKHILL: Hydro has prepared a loss of load hours,
59 LOLH, study which indicates a greater risk of loss of load
60 hours largely in two winter months. The probabilities for
61 those months increase as load factor increases, thus the
62 study supports the use of a 2-CP allocator.

63 MS. BUTLER, Q.C.: Okay, first of all, when you say Hydro
64 has prepared an LOLH study, can you tell me who
65 specifically prepared the LOLH study?

66 MR. BRICKHILL: Hubert Budgell.

67 MS. BUTLER, Q.C.: And did you have a role in that study,
68 Mr. Brickhill?

69 MR. BRICKHILL: No.

70 MS. BUTLER, Q.C.: Now we know from Mr. Budgell's
71 evidence what LOLH is, and he very ably described the
72 difference between that and LOLE, but in terms of how that
73 kind of a study translates into the support of a particular
74 CP allocator, can you just explain to me how the two get to
75 come to a conclusion of a CP allocator?

76 MR. BRICKHILL: The loss of load hours study is a guide
77 to the use of CP allocators, it indicates those times when
78 you might be at risk of losing load, not being able to
79 provide sufficient power for firm customers. For example,
80 for a dual peaking utility, more typical in the United States,
81 where it could peak both summer and winter with air
82 conditioning and heating load respectively, the loss of load
83 study would say well maybe you better have a July peak
84 and a January peak for purposes of selection of CP
85 allocator.

86 MS. BUTLER, Q.C.: Can I suggest that the month with the
87 greatest peak is more likely to be the month when you
88 experience loss of load hours because you got more plants
89 on the system?

90 MR. BRICKHILL: That's correct.

91 MS. BUTLER, Q.C.: Okay. Now back to the study, in **NP-**
92 **135**, the recommendation on page 7, the paragraph there
93 that starts with "the analysis also indicates". Could you

1 read that for us please, Mr. Brickhill?

2 MR. BRICKHILL: The analysis also indicates that the
3 greatest LOLH contributions are made in the peak month of
4 February, paren, 65 percent contribution at 60 percent
5 annual load factor, closed paren, and followed by January,
6 21 percent contribution at 60 percent annual load factor.
7 As the annual load factor increases the portion of the
8 LOLH contributions for January and February combined
9 increases from 71 percent at a 50 percent annual load factor,
10 to 96 percent at a 70 percent annual load factor. The
11 contribution from the remaining months is a relatively minor
12 portion of the annual LOLH. It is therefore recommended
13 that the allocation of generation demand cost should be
14 based on the CP's of the two peak months, i.e., a 2-CP cost
15 allocator.

16 MS. BUTLER, Q.C.: And the two peak months, based on
17 your study, were January and February, for the reasons
18 that are indicated, 65 and 21 percent contribution?

19 MR. BRICKHILL: That's correct.

20 MS. BUTLER, Q.C.: I'd like to go through the math behind
21 the calculation of a 2-CP allocator and the cost of service
22 study, if we might go back to your exhibit, **JAB-1**, and this
23 is the original JAB-1, page 38 of 94. Okay, line 1 of column
24 3, production demand, and the heading on that is 2-CP?

25 MR. BRICKHILL: Yes, 2-CP KW.

26 MS. BUTLER, Q.C.: Thank you, and line 1 indicates
27 Newfoundland Power's production demand is \$1,978,568?

28 MR. BRICKHILL: Yes.

29 MS. BUTLER, Q.C.: And the support for that number was
30 provided in response to **NP-125**? So you'll see there in the
31 third column over the same number appears, the \$1.978
32 million and clearly that is the sum of January and
33 December, am I correct?

34 MR. BRICKHILL: That's correct.

35 MS. BUTLER, Q.C.: Okay, so my confusion at this point,
36 Mr. Brickhill, is why are you using January and December
37 here to come up with the demand for Newfoundland Power
38 when the loss of load hours study supported use of
39 January and February for peak allocation?

40 MR. BRICKHILL: It has been the practice for Hydro to use
41 customer forecasts in their rate filings, rather than their own
42 estimates of, or calculations of peak, so that's what's been
43 done here, simply as a starting point use what was
44 provided by Newfoundland Power.

45 MS. BUTLER, Q.C.: Okay. Is there an inconsistency with
46 your loss of load hours, that's Mr. Budgell's loss of load
47 hour study recommending that the two peak months be
48 January and February, and this reconciliation for

49 Newfoundland Power's demand forecast using January and
50 December?

51 MR. BRICKHILL: Yes, there's no need for reconciliation
52 because essentially, while Hubert's work would indicate the
53 peaks more likely in January and February, we know the
54 peaks can occur December through March. Therefore, it's
55 less when the peak occurs that's important, but there will be
56 a peak.

57 MS. BUTLER, Q.C.: Okay, I accept the reference to the four
58 winter months, that's certainly the evidence of Mr.
59 Brockman, and in fact, why he recommends 4-CP allocator,
60 and I also accept that it doesn't have to be January and
61 February, but you are supporting two months for your 2-CP
62 allocator.

63 MR. BRICKHILL: For the 2-CP allocator, we're supporting
64 two cold periods.

65 MS. BUTLER, Q.C.: Two peaks?

66 MR. BRICKHILL: Two peaks or near peaks.

67 MS. BUTLER, Q.C.: Okay, and the record does show that
68 those two peaks can occur in any of the months of
69 December, January, February or March?

70 MR. BRICKHILL: That's correct.

71 MS. BUTLER, Q.C.: And, in fact, this reconciliation is
72 evidence of that in particular in the sense that customer
73 forecasts are suggesting it's January/December, but Mr.
74 Budgell's internal work suggests it's going to be
75 January/February.

76 MR. BRICKHILL: Yes, he doesn't have a holiday effect in
77 what he's done, and I think that's the, that's probably the
78 difference. The peak does occur at Christmas time,
79 sometimes when it's cold, it doesn't have to be the coldest
80 day of the year, but sometimes if it's pretty cold and it's
81 Christmas time, the peak occurs at that time. I think Mr.
82 Budgell's work was premised more on pure weather data
83 than the so-called holiday effect.

84 MS. BUTLER, Q.C.: Okay, can we look at **NP-157** for the
85 actual figures, and these tables that are attached show the
86 actual system peaks. Alright, so the first line is the
87 calendar year 1986 and the Hydro system peak in
88 megawatts would be the first line of numbers under the
89 dates?

90 MR. BRICKHILL: Yes.

91 MS. BUTLER, Q.C.: In the year 1986 we can see that the
92 highest number falls in the month of March. Am I correct?

93 MR. BRICKHILL: You are correct.

94 MS. BUTLER, Q.C.: Now this gets, and perhaps we can
95 each record these numbers independently because we will

1 come back to them. For '87 then we should find that the
2 highest number is also in March.

3 MR. BRICKHILL: And that's correct.

4 MS. BUTLER, Q.C.: In 1988, it was December.

5 MR. BRICKHILL: That's correct.

6 MS. BUTLER, Q.C.: 1989, it's February.

7 MR. BRICKHILL: That is correct.

8 MS. BUTLER, Q.C.: 1990 is also February.

9 MR. BRICKHILL: That's correct.

10 MS. BUTLER, Q.C.: '91 is January.

11 MR. BRICKHILL: That's correct.

12 MS. BUTLER, Q.C.: And '92 is January.

13 MR. BRICKHILL: That's correct.

14 MS. BUTLER, Q.C.: Then we move on to page 3 for the
15 years '93 to 2000. '93 is February.

16 MR. BRICKHILL: Correct.

17 MS. BUTLER, Q.C.: '94 is also February.

18 MR. BRICKHILL: Correct.

19 MS. BUTLER, Q.C.: '95 was February.

20 MR. BRICKHILL: Correct.

21 MS. BUTLER, Q.C.: '96 is January.

22 MR. BRICKHILL: Correct.

23 MS. BUTLER, Q.C.: '97 is March.

24 MR. BRICKHILL: Correct.

25 MS. BUTLER, Q.C.: '98 is December.

26 MR. BRICKHILL: Correct.

27 MS. BUTLER, Q.C.: '99 is December.

28 MR. BRICKHILL: Correct.

29 MS. BUTLER, Q.C.: And 2000 is also December.

30 MR. BRICKHILL: Correct.

31 MS. BUTLER, Q.C.: Now if my math is correct we hit
32 December four times, January three times, February five
33 times and March three times.

34 MR. BRICKHILL: That sounds right.

35 MS. BUTLER, Q.C.: Okay. I want to discuss the report
36 which recommended the 2-CP and if we can just go back to
37 NP-135, and right to the actual question for NP-135, please
38 Mr. O'Rielly. Okay, now right up to the question. Thanks.
39 Reference is made to the report in the answer suggests that

40 the report is dated April of 2001.

41 MR. BRICKHILL: That's correct.

42 MS. BUTLER, Q.C.: And on page 4, if we can go to that, in
43 the paragraph on load shape, the author who you indicate
44 is Mr. Budgell suggests that the analysis used actual load
45 data from 1990 to 1994.

46 MR. BRICKHILL: That is correct.

47 MS. BUTLER, Q.C.: Okay, if the report on which you relied
48 was dated 2001, I'm just curious why there was no data
49 used for the years 1995 to 2000 at least.

50 MR. BRICKHILL: Mr. Budgell would have to answer that.

51 MS. BUTLER, Q.C.: But this is the report that you relied
52 upon in coming to the conclusion that a 2-CP allocator was
53 appropriate, right?

54 MR. BRICKHILL: Yes.

55 MS. BUTLER, Q.C.: And other data was certainly available
56 because if we might look to your own evidence, Schedule
57 2. You make reference there at the bottom of the table to
58 data from '94, '96, '97, '98, '99 and 2000.

59 MR. BRICKHILL: That's correct.

60 MS. BUTLER, Q.C.: Okay, so if, despite Mr. Budgell's
61 work, if you had data that was available for years post-
62 1994, again, I'm just curious why you would have based
63 your conclusion on a 2-CP allocator on a report that only
64 addressed data from '90 to '94?

65 MR. BRICKHILL: It was my belief that Hubert Budgell
66 used the best and most appropriate data available to him
67 and I would respect his judgement, not challenge his
68 assumptions.

69 MS. BUTLER, Q.C.: Okay, let's go back, if I can to NP-157,
70 Mr. O'Rielly, page 2 of 3. Now the period covered by the
71 study was '90 to '94, so we have to look first at 1990 which
72 we already established had a peak month in February, '91 a
73 peak month in January, '92 a peak month also in January,
74 and on to page 3, a peak month in February in '93, and also
75 in February of '94. So I appreciate that during the period
76 covered by the study prepared by Mr. Budgell on which
77 your own recommendation is based, that every peak either
78 occurred in January or February of each year, without any
79 question.

80 MR. BRICKHILL: That's correct.

81 MS. BUTLER, Q.C.: Can you look though at '95 to 2000, on
82 page 3 of 3, thank you, Mr. O'Rielly, and again we can take
83 these line by line. In '95 it was February, '96 January, '97 it
84 was March, and then for each of the next three years it was
85 December. So in the period not covered by the study the
86 peak month hit three times with December and January was

1 only hit once in the six years, and February was only hit
2 once in the six years, right?

3 MR. BRICKHILL: That's correct.

4 MS. BUTLER, Q.C.: Okay, can we look to, at what the
5 forecast for 2002 and that's at **NP-125**, and the specifics of
6 it suggests that the forecast is for either January or
7 December for 2002. Can we scroll up a bit there Mr.
8 O'Rielly.

9 MR. BRICKHILL: Yes, that's correct.

10 MS. BUTLER, Q.C.: Is it fair to say, Mr. Brickhill, that the
11 correlation or the conclusion you were able to reach from
12 the data in '90 to '94, is not accurate for the period '95 to
13 2000, in terms of the month in which the peak will occur?

14 MR. BRICKHILL: No, I couldn't say that because I believe
15 Mr. Budgell picked the period he thought most appropriate
16 to do the study.

17 MS. BUTLER, Q.C.: Okay, well we accept that but from
18 what I've just pointed out to you I think that from '95 to
19 2000, for whatever reason Mr. Budgell ignored it as a data
20 period, the peak month that was hit three of the six times
21 was December, which was not one of the two months that
22 you had suggested were the peak months from the study
23 that you relied upon in suggesting a 2-CP allocator. So that
24 much is true, isn't it?

25 MR. BRICKHILL: I don't know if one can derive that
26 conclusion because we're really looking at cold weather
27 peak conditions and not the timing so the timing could be
28 in December, it could be in March, could be in January, it
29 could be in February, but most of the time the peak is going
30 to be generated by cold weather, sometimes in combination
31 with the holiday effect, so that the timing when
32 Newfoundland Power thinks the peak might be and
33 Newfoundland Hydro thinks the peak might be, it doesn't
34 really matter if they think it might be at a different time, it's
35 premised on the same conditions and that is cold weather.

36 MS. BUTLER, Q.C.: Okay, not to belabour the point, but
37 clearly neither the month of January nor February were
38 peak months for the period '97, '98, '99, or 2000.

39 MR. BRICKHILL: That's correct.

40 MS. BUTLER, Q.C.: Okay, now, I wonder if I can turn to
41 **NP-210**, and you'll see there as you review the question
42 that what Newfoundland Power was putting here was the
43 statistics that we've basically just reviewed and then it
44 ends with the question at line 5, "With this information,
45 why has Hydro concluded that the allocation of generation
46 demand costs should be based on the CP's of the two peak
47 months being January and February?" and the answer that
48 is given, perhaps you could just read in full for us.

49 MR. BRICKHILL: The peaks referred to in response to NP-
50 157 are Hydro's system peaks rather than the total island
51 interconnected system peaks that are the basis for LOLH
52 calculations. The conclusion that the allocation of
53 generation demand costs should be based on the CP's of
54 the two peak months is based on the analysis presented in
55 the report, an analysis to determine the relationship
56 between load factor and system reserve requirement, April
57 2001 provided in response to NP-135. That analysis
58 concluded that the greatest LOLH contributions are made
59 in the two peak months. They do not necessarily have to
60 be January and February.

61 MS. BUTLER, Q.C.: Okay, I don't think we need you to
62 read in the balance, you can if you wish, if you think it
63 continues the point, but I'm satisfied with what you've said
64 so far.

65 MR. BRICKHILL: That's fine with me.

66 MS. BUTLER, Q.C.: Okay. The point being here at lines 19
67 to 21, that the analysis which we now know was completed
68 by Mr. Budgell, concluded that the greatest LOLH
69 contributions are made in the two peak months, and again
70 I accept they don't have to be January or February, despite
71 what the most recent figures show, but the point you're
72 making is that the greatest LOLH contribution is made in
73 peak months, whatever those months are.

74 MR. BRICKHILL: Yes.

75 MS. BUTLER, Q.C.: Okay. I wonder if we could just look
76 at **NP-157**, page 3 of 3, thank you, for the year 1997. Now
77 in that calendar year we've already established that March
78 was the peak month.

79 MR. BRICKHILL: Yes.

80 MS. BUTLER, Q.C.: Do you have the LOLH for March of
81 '97?

82 MR. BRICKHILL: No.

83 MS. BUTLER, Q.C.: What I'd like to do is look at the
84 historical data for the month of March, which is provided
85 from a number of different sources. Let's try **NP-135**, first.
86 This is table 1. The pages unfortunately are not numbered,
87 so I can't tell you where it falls, thank you very much.
88 Okay, so we were looking at March and March does have
89 a separate column here on this table. Now if we scroll
90 across the line of numbers in the first white block of lines,
91 under the months of January, February, March, etcetera,
92 let's look at the four winter months, if we might, January,
93 February, March and then December. Do you agree with
94 me that March is lower considerably, that is in terms of
95 LOLH, than January, February or December?

96 MR. BRICKHILL: Yes.

1 MS. BUTLER, Q.C.: And does the same hold true for each
2 line of the table, as you go down to the next white block of
3 lines, March again is lower than the other winter months.

4 MR. BRICKHILL: Yes.

5 MS. BUTLER, Q.C.: In each case.

6 MR. BRICKHILL: Yes.

7 MS. BUTLER, Q.C.: So although March was the peak
8 month in '97, the correlation that you were making between
9 peak month and LOLH doesn't hold true for the month of
10 March.

11 MR. BRICKHILL: What correlation was I making?

12 MS. BUTLER, Q.C.: The quote that I had had you read was
13 that the analysis concluded that the greatest LOLH
14 contributions are made in the two peak months, and then
15 you went on to say it didn't matter that the months were
16 January or February. So in the example I gave you, 1997,
17 the peak month was March and there is no correlation with
18 LOLH.

19 MR. BRICKHILL: I believe you're asking me to compare
20 apples with oranges. This is a study based on a certain
21 five years when January and February were the peaks, and
22 then I said that the peak could occur in March and it could
23 occur in December. What's important here is that it will
24 occur in the winter. There are two months where it's more
25 likely to occur, based on weather, but one can't predict with
26 any certainty that it's going to be January or February.

27 MS. BUTLER, Q.C.: I certainly don't want you to make a
28 comparison if you feel it's an unfair comparison, but I'm a
29 little stuck on the point. I thought the point that was being
30 made was that when, in the month where you have the
31 greatest peak, you should find you've got the greatest
32 LOLH.

33 MR. BRICKHILL: Generally, yes.

34 MS. BUTLER, Q.C.: And my point is simply that for the
35 month of March that doesn't appear to be true, unless
36 you've got some data in which, that you can refer me to
37 which would show that is incorrect.

38 MR. BRICKHILL: In the period of time underlying Hubert's
39 study, the peak was January and February. The fact that
40 March of 1997 is not incorporated in his study, I don't think
41 impugns his study of an earlier time period.

42 MS. BUTLER, Q.C.: My point though is that the month of
43 March has been the peak month three times since 1986, so
44 we should see if your correlation held true, a higher number
45 from March on this LOLH analysis, shouldn't we?

46 MR. BRICKHILL: No.

47 MS. BUTLER, Q.C.: Alright, would the number that
48 appears for the LOLH for month of March on this table
49 surprise you, given that March was the peak month for four
50 years since 1986?

51 MR. BRICKHILL: No.

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

53 MR. BRICKHILL: Because the cold weather can, and
54 combined with wind can occur December through March.

55 MS. BUTLER, Q.C.: Okay, and I think that's Mr.
56 Brockman's point, that it could one of the four months,
57 December, January, February, March.

58 MR. BRICKHILL: That is his point, but then he suggests
59 somehow that you should use 4-CP when that's incorrect,
60 you have two, very often, cold months, with extreme
61 conditions. Rarely, if ever will you have four months like
62 that.

63 MS. BUTLER, Q.C.: Let's look, if we can, to **CA-19**, page 2
64 of 3, where there is another table and this time it's seasonal
65 contribution to annual loss of load hours. Now again this
66 is for a forecast period, but am I also correct in suggesting,
67 Mr. Brickhill, that again the figures for March are
68 significantly lower than the other winter months?

69 MR. BRICKHILL: That is correct.

70 MS. BUTLER, Q.C.: Notwithstanding that March has been
71 a month in which the system has peaked several times
72 since 1986.

73 MR. BRICKHILL: That's correct.

74 MS. BUTLER, Q.C.: Can I look now please to **NP-210**, lines
75 25 to 27. Okay, and the conclusion that Hydro wrote here
76 is peak loads for the total island interconnected system
77 typically occur in any one of the months December through
78 March, with a greater likelihood of occurring in January and
79 February. Were you aware that this was Hydro's response
80 to this information request?

81 MR. BRICKHILL: I don't recall seeing it, but that doesn't
82 mean I haven't seen it.

83 MS. BUTLER, Q.C.: Okay, but do you agree that while that
84 might have been true for the data covered by the study
85 period, 1994, that it is not correct for the period '95 to 2000?

86 MR. BRICKHILL: In, I'm speaking in part for myself, but I
87 think that is based on a long-term analysis and not just a
88 few years. That is in my experience, the United States one
89 would make the same statement, except you'd substitute
90 November through February and with the greater likelihood
91 of it occurring in January, based on a long-term average,
92 but over a few years, a few years don't provide a very good
93 sample for making a prediction of weather, very often you
94 get a number of years that are warmer than normal, then we

1 predict global warming and it gets colder than normal, and
2 it's the new ice age, so I think typically you want to look at
3 very long periods of time in making these sorts of
4 statements.

5 MS. BUTLER, Q.C.: Okay, well a couple of points flowing
6 from that. First of all, you didn't assist in drafting this
7 answer so I presume you can't tell me what's really meant
8 by "greater likelihood of occurring in January and
9 February", you don't know what period the author is
10 talking about?

11 MR. BRICKHILL: Now you're trying to impeach me for
12 answering the question that you asked me?

13 e. MS. BUTLER, Q.C.: Oh no, not at all.

14 MR. BRICKHILL: I thought that was the question that you
15 asked me was to interpret this and I did, based my own
16 personal experience but I can't say with absolute certainty
17 what the author of this meant.

18 MS. BUTLER, Q.C.: Well, I guess all I'm asking, Mr.
19 Brickhill, is do you know for certain whether this reference
20 to greater likelihood is in reference to the period 1994
21 covered by the study that you relied upon or some greater
22 period?

23 MR. BRICKHILL: I can't say with absolute certainty.

24 MS. BUTLER, Q.C.: Can we turn now to **NP-156** where
25 Newfoundland Power asked your details of the calculation
26 of the monthly LOLH for 2000, and I think we need to look
27 at the table on page 3 of 3. The month that had the highest
28 LOLH for the year was December?

29 MR. BRICKHILL: That's correct.

30 MS. BUTLER, Q.C.: And February is the second highest,
31 with January behind that I think.

32 MR. BRICKHILL: That's correct.

33 MS. BUTLER, Q.C.: Now based on that year alone, would
34 you still recommend the use of a 2-CP?

35 MR. BRICKHILL: Yes.

36 MS. BUTLER, Q.C.: And can you tell me why?

37 MR. BRICKHILL: That consistent with the pattern, in other
38 years there were two periods of apparent extreme weather.

39 MS. BUTLER, Q.C.: I'm sorry, Mr. Brickhill, are you
40 finished your thought, because I didn't quite get it, I'm
41 sorry, could you repeat it for me please?

42 MR. BRICKHILL: Yes, because you have two periods that
43 are higher than any other periods fitting the pattern of two
44 cold times over the winter.

45 MS. BUTLER, Q.C.: And the two periods you're talking

46 about here are December and January?

47 MR. BRICKHILL: Yes.

48 MS. BUTLER, Q.C.: Okay, they're significantly different in
49 terms of LOLH, aren't they?

50 MR. BRICKHILL: Yes, in this case, December is not quite
51 twice as high, but we'll say 80 or 90 percent higher.

52 MS. BUTLER, Q.C.: Okay. Now Mr. Brockman who is the
53 expert being called by Newfoundland Power on this point,
54 if you might look at his original pre-filed testimony, Mr.
55 O'Rielly, page 23 to 24, line 11, thank you. He's addressing
56 specifically your conclusions on the use of the 2-CP and
57 I'm sure you've reviewed this in the past in terms of his
58 position in support of the 4-CP, and he'll speak for himself
59 when he comes, but I'd appreciate your comments on his
60 conclusions here which, after some discussion, he gives at
61 page 24, lines 5 to 12, if we can just go to the next page Mr.
62 O'Rielly please. He says calculating the demand allocated
63 using more months leads to more stability, not less, and he
64 suggests that your table, Schedule 2, seems to bear this out
65 since the variance on the allocator is highest with the 2-CP
66 and the lowest with 4-CP. Maybe we should go to that
67 Schedule. Is that Schedule 11? He referred to it in line 6 as
68 Schedule 2. Okay. Obviously, Mr. Brickhill, you don't
69 agree with Mr. Brockman's recommendation or conclusion
70 on the point. With the benefit of your Schedule 2, can you
71 just tell us why?

72 MR. BRICKHILL: What this Schedule shows, in addition
73 to what I pointed out in my testimony, that 2-CP was
74 relatively stable. All four methods would be relatively
75 stable. In other words we are talking immaterial differences
76 here in terms of variation over time, we're looking at a
77 standard deviation roughly of a one percent range not the
78 10 to 15 percent range that I would consider problematic or
79 significant. So I think there the fact that the 4-CP has a .14
80 percent lesser standard deviation than the 2-CP is much
81 ado about nothing. That's an insignificant difference as it
82 applies to selection of a method.

83 MS. BUTLER, Q.C.: Okay, on the Schedule 2 which is on
84 the screen, in the bottom lower set of numbers, we see
85 reference to Newfoundland Power, industrial, and rural
86 bulk, and you've got two sets of numbers for each, one is
87 average and the other is standard deviation.

88 MR. BRICKHILL: Yes.

89 MS. BUTLER, Q.C.: And when you use the term standard
90 deviation that is what I understand indicates the
91 variability?

92 MR. BRICKHILL: Yes.

93 MS. BUTLER, Q.C.: Okay. The standard deviation is
94 higher for Newfoundland Power and the industrial class

1 using 2-CP. I'm sorry it's higher for Newfoundland Power
2 using 2-CP than the standard deviation using 4-CP, is that
3 right?

4 MR. BRICKHILL: Yes, a small amount.

5 MS. BUTLER, Q.C.: So can you explain your conclusion
6 based on the data presented here. If the variance is higher
7 using 2-CP for Newfoundland Power, doesn't that support
8 using 4-CP?

9 MR. BRICKHILL: No, because as I said the difference is
10 not significant. The difference in the standard deviation of
11 .14 percent is not of any meaningful significance.

12 MS. BUTLER, Q.C.: And what about for the industrials, the
13 standard deviation difference between 1.07 and .73? Is that
14 standard deviation significant?

15 MR. BRICKHILL: I don't think it meets the threshold of
16 significance.

17 MS. BUTLER, Q.C.: Okay, can I look at Mr. Osler's
18 testimony on this point please, at page 16. I'm sorry this is
19 a **supplemental testimony of Mr. Osler**, page 16, lines 16 to
20 18. Third paragraph there, thank you. Mr. Osler seems to
21 suggest, and we'll just read that sentence in, the reference
22 as to stability concerns do not on balance appear to
23 provide a strong rationale to adopt any specific approach
24 for the purpose of allocating generation costs classified to
25 demand. Can you comment on his statement there please.
26 Do you agree or disagree?

27 MR. BRICKHILL: I don't disagree. I think he's
28 misinterpreted my test as rationale rather than simply being
29 a test.

30 MS. BUTLER, Q.C.: Okay, I'd like to discuss now the
31 demand data used in the cost of service study for demand
32 allocation and we need to look at **NP-125** again if we can.
33 You recall when we looked at this table a moment ago we
34 were able to reconcile the number on the 2-CP column back
35 to the cost of service, but in the second line you've got
36 demand as per forecast the same for January as for
37 December. Can you tell me why those numbers are
38 identical?

39 MR. BRICKHILL: No.

40 MS. BUTLER, Q.C.: You can't tell me? Okay. Could I
41 suggest, Mr. Brickhill, that by assuming the same demand
42 for each month, which is what's showing here on the
43 screen, both a 1-CP allocator and 2-CP allocator would give
44 you the same answer?

45 MR. BRICKHILL: I don't think I could say that.

46 MS. BUTLER, Q.C.: What is the effect of using the same
47 peak or assuming the same peak for both months, then?

48 MR. BRICKHILL: I think that's because it's what was
49 provided by Newfoundland Power.

50 MS. BUTLER, Q.C.: My point though is whether the
51 numbers, because the numbers are identical and again from
52 a layperson's perspective, it strikes me as being the
53 equivalent of using same as a 1-CP, instead of a 2-CP. Am
54 I incorrect?

55 MR. BRICKHILL: Without having the benefit of this in the
56 entirety I may be at risk here but the fact that
57 Newfoundland Power has the same peak twice, doesn't
58 necessarily mean everybody else has the same peak, and
59 after all we're picking percentages as allocation factors so
60 that the total might be different and therefore the
61 percentage and the percentage that was allocated to the
62 different customers would be also different.

63 MS. BUTLER, Q.C.: Could you scroll up to the top of the
64 page so I can see the heading on this table please, Mr.
65 O'Rielly, thanks. This is the forecast peak for 2002, of
66 course. Would a historical analysis of Newfoundland
67 Power peaks lead you to conclude that the demand
68 required would be the same, in each of January and
69 December for 2002, or did you conduct such an analysis of
70 Newfoundland Power peaks?

71 MR. BRICKHILL: I have not conducted such an analysis.

72 MS. BUTLER, Q.C.: Okay, Mr. Brockman at page 24 of his
73 original pre-filed, page 23, sorry, it's page 24, Mr. O'Rielly,
74 line 14, okay. His conclusion, of course, is that Hydro
75 should use a 4-CP allocator calculated on the basis of
76 historical data. Now, I accept that you haven't done an
77 analysis of Newfoundland Power's peak months, but do
78 you agree with Mr. Brockman's conclusion here, that the 4-
79 CP allocator should be calculated on the basis of historical
80 data?

81 MR. BRICKHILL: No.

82 MS. BUTLER, Q.C.: And why not?

83 MR. BRICKHILL: Because this filing is a test year and you
84 have to have consistent data in a test year filing. You can't
85 be using historical data that's premised, or occurred under
86 different weather conditions than everything else you have
87 in the test year, so it would be simply inappropriate to use
88 some test year peak data when a lot of the other things in
89 the test year filing are premised on something different.

90 MS. BUTLER, Q.C.: Something different, being what?

91 MR. BRICKHILL: Different weather.

92 MS. BUTLER, Q.C.: Okay. Mr. Chairman, if I might, I think
93 I'm through or virtually through with that section and will
94 likely mark the end of my cross examination, but I just want
95 to follow up on that last point, perhaps overnight, if I

1 might.

2 MR. NOSEWORTHY, CHAIRMAN: Sure.

3 MS. BUTLER, Q.C.: Thank you, Mr. Brickhill.

4 MR. NOSEWORTHY, CHAIRMAN: That'll be fine. Thank
5 you, Ms. Butler. Thank you, Mr. Brickhill. We'll reconvene
6 at 9:30 in the morning.

7 *(hearing adjourned to November 27, 2001)*