

- 1 (9:30 a.m.)
- 2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
3 morning. Before we get started, Mr. Kennedy, are there
4 any preliminary matters this morning?
- 5 MR. KENNEDY: I don't believe so, Chair, not this morning.
- 6 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.
7 Good morning, Mr. Brickhill.
- 8 MR. BRICKHILL: Good morning.
- 9 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.
10 Browne. May I ask you to begin your cross-examination,
11 please?
- 12 MR. BROWNE, Q.C.: Yes, Chairperson. We met during the
13 evening and we attempted to avoid any redundancies in
14 these questions, given what's been asked before, so I think
15 I'll only be able to question Mr. Brickhill for about an hour,
16 an hour and a half, and he'll be pleased to hear that.
- 17 MR. NOSEWORTHY, CHAIRMAN: That'd be fine.
- 18 MR. BROWNE, Q.C.: Mr. Brickhill, have you ever been
19 obtained, retained by consumer groups to act on their
20 behalf in the United States or in Canada?
- 21 MR. BRICKHILL: I have been retained by industrial
22 consumer groups.
- 23 MR. BROWNE, Q.C.: Who would they be, industrial
24 consumer groups?
- 25 MR. BRICKHILL: Large manufacturing companies.
- 26 MR. BROWNE, Q.C.: The companies or the consumers
27 companies sell to?
- 28 MR. BRICKHILL: The companies.
- 29 MR. BROWNE, Q.C.: The companies. So you deal mainly
30 with companies as opposed to consumer organizations.
- 31 MR. BRICKHILL: That's correct.
- 32 MR. BROWNE, Q.C.: And in this particular hearing your
33 firm, Foster Associate Inc., was retained by Hydro and it's
34 only yourself and Ms. McShane who have been retained
35 specifically to work on this file by Hydro?
- 36 MR. BRICKHILL: No. There have been several other
37 people working on these matters.
- 38 MR. BROWNE, Q.C.: From Foster and Associates?
- 39 MR. BRICKHILL: Yes.
- 40 MR. BROWNE, Q.C.: But for the most part was the file
41 coordinated by yourself and Ms. McShane?
- 42 MR. BRICKHILL: Yes.
- 43 MR. BROWNE, Q.C.: Are you familiar with the work of
44 James Bond Bright and his principles of public utilities?
- 45 MR. BRICKHILL: Yes, I am.
- 46 MR. BROWNE, Q.C.: And yesterday we went to the
47 **evidence of Mr. Paul Hamilton on page two** in which Mr.
48 Hamilton lists some of these principles. Maybe if we can
49 go there again, Mr. O'Rielly, please, to refresh our
50 memories. And in this particular excerpt Mr. Hamilton
51 quotes from what he refers to as, in his acclaimed book,
52 *The Principles of Public Utility Rates* by James Bond
53 Bright, and he makes references to some of the principles
54 there, one of which is stability. Can you go to Stability,
55 please, and can you read that into the record for us?
- 56 MR. BRICKHILL: "To the extent possible, rates should be
57 stable in two respects. Rates should generate the specific
58 amount of the revenue requirement in a stable manner from
59 year to year and from month to month. The rates should
60 also be relatively stable with a minimum of unexpected
61 changes to facilitate both customer and company planning
62 for the future."
- 63 MR. BROWNE, Q.C.: And do you agree with that
64 particular principle?
- 65 MR. BRICKHILL: Yes.
- 66 MR. BROWNE, Q.C.: Are you familiar with NARUC, the
67 National Association of Regulatory Utility Commissions, in
68 the United States?
- 69 MR. BRICKHILL: Yes, I am.
- 70 MR. BROWNE, Q.C.: And are you familiar with their
71 manual?
- 72 MR. BRICKHILL: Their manual on cost allocation?
- 73 MR. BROWNE, Q.C.: Yes.
- 74 MR. BRICKHILL: Yes.
- 75 MR. BROWNE, Q.C.: Did you read anything there
76 concerning a rate stabilization plan? Did you look for it?
- 77 MR. BRICKHILL: I didn't look for it but I don't think it's
78 covered.
- 79 MR. BROWNE, Q.C.: No, it's my understanding you won't
80 find it there. Do you find any reference to a rate
81 stabilization plan? Does that surprise you?
- 82 MR. BRICKHILL: No.
- 83 MR. BROWNE, Q.C.: Why not?
- 84 MR. BRICKHILL: Because certain components of Hydro's
85 Rate Stabilization Plan would be called something else by
86 NARUC. The plan in total, the Rate Stabilization Plan,
87 employed by Hydro would be relatively rare. I don't think
88 it would be something that NARUC would address.

1 MR. BROWNE, Q.C.: Did you say that the plan employed
2 by Hydro, you referred to it as rare, would you say it would
3 be an anomaly?

4 MR. BRICKHILL: No. I would say it would be rare.

5 MR. BROWNE, Q.C.: You prefer the word "rare." Can you
6 go to CA-204, please, and in CA-204 we posed a question
7 to you, "In Mr. Brickhill's experience, what utilities are
8 using or have used a rate stabilization plan similar to that of
9 Hydro?" Can you read your response for the record,
10 please?

11 MR. BRICKHILL: "Numerous utilities use fuel adjustment
12 charges and stabilization accounts for weather and
13 precipitation. However, Mr. Brickhill is not, is unaware of
14 any utility with a rate stabilization plan that closely
15 corresponds with Hydro's."

16 MR. BROWNE, Q.C.: Now when you use, you chose the
17 phrase "closely corresponds with Hydro's," what do you
18 mean by that?

19 MR. BRICKHILL: I mean a plan that adjusts for fuel,
20 hydrology, and revenues.

21 MR. BROWNE, Q.C.: And you haven't seen any plan out
22 there that deals with that as such?

23 MR. BRICKHILL: That's correct. To further explain why I
24 said "closely corresponds," Ms. McShane in fact had
25 prepared a rate stabilization plan for another utility and
26 they called it a rate stabilization plan, but it didn't have the
27 revenue stabilization aspect of it that's incorporated in
28 Hydro's plan.

29 MR. BROWNE, Q.C.: Did she prepare that plan for a
30 private utility?

31 MR. BRICKHILL: I don't recall.

32 MR. BROWNE, Q.C.: But you do recall her preparing a
33 plan.

34 MR. BRICKHILL: Yes.

35 MR. BROWNE, Q.C.: But not for whom.

36 MR. BRICKHILL: It was for a Canadian company but I
37 don't recall for whom.

38 MR. BROWNE, Q.C.: And the parts of the plan that are
39 applied here have deferred charges. Are you aware of that,
40 that there's \$100 million projected to be owing in the Rate
41 Stabilization Plan in December 2000? Are you aware of that
42 fact?

43 MR. BRICKHILL: I'm only aware of the request to go to a
44 cap of \$100 million. I didn't know it was forecast to be that.

45 MR. BROWNE, Q.C.: Does that concern you?

46 MR. BRICKHILL: No, if it, if the increased cap is approved,
47 it wouldn't concern me. If it's not, Hydro may encounter
48 financial difficulties.

49 MR. BROWNE, Q.C.: You're saying if it's approved it
50 wouldn't concern you, is that it?

51 MR. BRICKHILL: That's correct.

52 MR. BROWNE, Q.C.: In your work in the United States
53 before regulatory boards, have you ever encountered a
54 proposal by a utility to come forward to suggest deferred
55 charges of \$100 million to be paid for over time by
56 consumers?

57 MR. BRICKHILL: Yes. Essentially fuel adjustment clauses
58 don't even require a request. It's simply automatic.

59 MR. BROWNE, Q.C.: So they have fuel adjustment
60 charges, but for over what period of time would the norm
61 be in the United States for people or for a particular utility
62 with which you're familiar paying them out, the consumer
63 paying them?

64 MR. BRICKHILL: In some cases it's months, in some cases
65 one year.

66 MR. BROWNE, Q.C.: You ever seen it go beyond a year?

67 MR. BRICKHILL: Effectively I've seen it go beyond a year
68 but the mechanisms usually provide for it to be collected
69 over a year or less, but if it's not fully collected, for example,
70 if load was less than incorporated in the forecast, the cost
71 would be deferred until the next period.

72 MR. BROWNE, Q.C.: So you'd say six months or twelve
73 months but for the most part it's addressed during that
74 period. It's a form of averaging, I guess, isn't it, averaging
75 the fuel adjustment charges out over that period?

76 MR. BRICKHILL: I don't know if averaging is quite the
77 right term. You would take the dollars not collected from
78 the previous period, divide them by the proposed sales in
79 the, or the projected sales in the collection period and add
80 that to the base rate, so I don't know if that's really an
81 average.

82 MR. BROWNE, Q.C.: But it would be addressed, the fuel
83 adjustment charges, within a limited period of time.

84 MR. BRICKHILL: That's correct.

85 MR. BROWNE, Q.C.: And these companies have stability
86 in rates, do they, that allows them to have stability in rates,
87 the fact that there's a fuel adjustment charge that can be
88 dealt with in a reasonable period of time?

89 MR. BRICKHILL: Sometimes, yes; sometimes, no. I'd say
90 they have stable rates as long as fuel prices are stable, and
91 when there are unexpected large increases in either oil
92 prices or natural gas prices, the rates often jump in the

1 subsequent period, as a result of the undercollection in a
2 prior period plus the overall increase even for the current
3 period.

4 MR. BROWNE, Q.C.: And consumers deal with that by
5 paying ... they're aware of these fluctuations in rates and
6 aware of the reasons for the rates going up when they have
7 to pay.

8 MR. BRICKHILL: Sometimes I do a lot of explanations to
9 people at cocktail parties on how it works, so I'm not sure
10 they're always aware of it. They certainly don't like those
11 increases.

12 *(9:45 a.m.)*

13 MR. BROWNE, Q.C.: And you're telling us that you have
14 seen someone, a company in the United States, and of
15 course realize we're in a small jurisdiction here and the
16 United States is a larger jurisdiction, have a rate
17 stabilization plan in debt to the tune of \$100 million?

18 MR. BRICKHILL: Well, it would be a fuel adjustment plan
19 rather than a rate stabilization plan. For example, the few
20 companies who don't have fuel adjustment plans, like the
21 well-known California electric utilities which are bankrupt,
22 I believe they were under their fuel costs over \$1 billion. If
23 they had a fuel adjustment clause, there would have been
24 over \$1 billion in the account.

25 MR. BROWNE, Q.C.: Can you just expand upon that?
26 What is it you're saying? I'm not getting your words.

27 MR. BRICKHILL: I'm trying to put an order of magnitude
28 on it. The most recent and well-known example I'm referring
29 to is a company that used to have a fuel adjustment clause,
30 did not have it last year, their primary source of thermal
31 energy tripled in price and now they're bankrupt and their
32 undercollections of their energy costs exceeded \$1 billion,
33 so I'm saying that shows the potential for over \$1 billion in
34 a fuel adjustment account.

35 MR. BROWNE, Q.C.: And over what period of time would
36 that have been paid in your experience?

37 MR. BRICKHILL: A year.

38 MR. BROWNE, Q.C.: A year. So it's your evidence that
39 there are fuel adjustment plans in various jurisdictions in
40 the United States but most of them are dealt with within six
41 months to a year.

42 MR. BRICKHILL: That's correct.

43 MR. BROWNE, Q.C.: Do you know of any regulatory
44 precedent for deferring cost to a future period beyond a
45 year or beyond two years or three years rather than
46 recovering these costs as they occur?

47 MR. BRICKHILL: Yes. That was done for a number of

48 nuclear power plants. When they came on line, the costs
49 of those plants would have resulted in very large rate
50 increases so that the costs of these new power plants were
51 phased in over a period of years.

52 MR. BROWNE, Q.C.: So that's for a building purpose,
53 construction.

54 MR. BRICKHILL: Yes, that's correct, the construction
55 costs of nuclear power plants.

56 MR. BROWNE, Q.C.: Well that's not the same as what
57 we're dealing with here, is it?

58 MR. BRICKHILL: It is a little bit. It's the source ... the
59 source of the generation but it's nuclear and it's much more
60 capital intensive than oil-based generation.

61 MR. BROWNE, Q.C.: **In your supplementary evidence of**
62 **September 12th, 2001, page three at lines one to two,** can
63 you go to that for a moment, please? You have a sentence
64 there. Can you read the sentence, the first sentence out,
65 lines one to two?

66 MR. BRICKHILL: "As well, the Rate Stabilization Plan,
67 RSP, is antithetical to the transmission of proper price
68 signals."

69 MR. BROWNE, Q.C.: What do you mean by that, sir?

70 MR. BRICKHILL: It is the exact opposite of transmission
71 of proper price signals.

72 MR. BROWNE, Q.C.: Because it doesn't give proper price
73 signals, are you recommending that the RSP as we know it
74 be eliminated?

75 MR. BRICKHILL: No.

76 MR. BROWNE, Q.C.: Are you recommending that it be
77 revised?

78 MR. BRICKHILL: I think the revisions proposed to the
79 RSP by Hydro are appropriate and they simplify it.

80 MR. BROWNE, Q.C.: How can you say that, sir? They're
81 going from a \$50 million cap to \$100 million cap with no end
82 in sight. How could you say that would be appropriate?

83 MR. BRICKHILL: They are going to \$100 million cap
84 because they forecast oil prices to be substantially higher
85 and they want to phase the increase in over a longer period
86 of time, and I don't think that's unreasonable per se.

87 MR. BROWNE, Q.C.: But yet you stand by your statement
88 that the Rate Stabilization Plan is antithetical to the
89 transmission of proper price signals.

90 MR. BRICKHILL: That's correct.

91 MR. BROWNE, Q.C.: **On page nine, lines 28 to 30,** can
92 you go to that for a moment, sir, please?

1 MR. BRICKHILL: "For these reasons I have no issue with
2 the use of an energy-only rate in conjunction with the RSP
3 for billing Newfoundland Power for wholesale service."

4 MR. BROWNE, Q.C.: Can you continue?

5 MR. BRICKHILL: "Were the RSP eliminated, however, it
6 would be appropriate for Hydro to seek an alternative rate
7 form in order to maintain the stability of its revenues."

8 MR. BROWNE, Q.C.: If the Board were to order that the
9 RSP be eliminated, what alternative rate form would you
10 recommend?

11 MR. BRICKHILL: I would recommend a demand charge, at
12 least a two-part rate or a three-part rate for Newfoundland
13 Power.

14 MR. BROWNE, Q.C.: Why a demand charge?

15 MR. BRICKHILL: To stabilize a portion of the revenues.

16 MR. BROWNE, Q.C.: If the Rate Stabilization Plan was
17 dealt with by the Board and it was revised or revamped to
18 have some kind of a fuel adjustment plan, could you see
19 that as a possibility?

20 MR. BRICKHILL: I see that as a possibility as long as the
21 fuel adjustment contains a hydrology provision which it
22 could easily do. In other words, adjust not only for the
23 price of oil but the volume of oil during periods of low
24 hydrology.

25 MR. BROWNE, Q.C.: Did you read Mr. Osler's
26 supplementary evidence that was filed here yesterday?

27 MR. BRICKHILL: Yesterday, no.

28 MR. BROWNE, Q.C.: You haven't taken a look at that.

29 MR. BRICKHILL: No.

30 MR. BROWNE, Q.C.: I don't think I would be
31 mischaracterizing that evidence if I were to say Mr. Osler is
32 suggesting that there were miscalculations in the Rate
33 Stabilization Plan, that's what he is alleging, over time, and
34 that the industrials have been, as a result, owed money. If
35 there were confusion within the Rate Stabilization Plan as
36 to who is owed what, would that cause you concern about
37 the plan?

38 MR. BRICKHILL: Yes, and what I mean to say is the old
39 plan is not readily understandable in terms of impact. The
40 new plan as proposed by Hydro I think is much simpler and
41 much easier to understand.

42 MR. BROWNE, Q.C.: You're saying that the old plan was
43 not readily understandable but the new plan is readily
44 understandable. Is that your evidence now?

45 MR. BRICKHILL: Yes.

46 MR. BROWNE, Q.C.: And what's the difference ...

47 MR. BRICKHILL: And by plan, its methodology.

48 MR. BROWNE, Q.C.: If the industrial customers are having
49 problems with the plan and the way amounts are calculated,
50 how would you feel for the ordinary consumer out there?
51 Would it be understandable that they might have ...

52 MR. BRICKHILL: I don't think the ordinary consumer
53 would have very much grasp of what's going on even if it
54 were explained under the old methodology.

55 MR. BROWNE, Q.C.: But they would because the price
56 cap is being increased from \$50 million to \$100 million,
57 they'd understand it a lot better?

58 MR. BRICKHILL: I think the mechanics of the allocation
59 would be much more understandable in the future under
60 Hydro's proposal.

61 MR. BROWNE, Q.C.: How are these mechanics changing,
62 sir?

63 MR. BRICKHILL: Hydro proposes to allocate based on a
64 12-month moving average of energy consumption by the
65 customers rather than re-running the cost of service under
66 the average and excess demand method.

67 MR. BROWNE, Q.C.: So you think that that would be more
68 readily understandable by consumers generally?

69 MR. BRICKHILL: For sure it'll be more understandable for
70 the industrials. For the ordinary consumer, I think it could
71 be explained. They might not be able to understand it on
72 their own but it could be explained to them.

73 MR. BROWNE, Q.C.: Do you think it's fair and gives a
74 correct price signal to consumers to, for this Board, if this
75 Board were to grant Newfoundland Hydro an extension of
76 the plan to \$100 million? Is that really fair to consumers,
77 knowing that ultimately consumers are on the hook for that
78 amount?

79 MR. BRICKHILL: Yes, I think that's fair, particularly in light
80 of the low weighted average cost of capital of the Company
81 at the present time. Certainly the industrial customers
82 would expect a higher return on their investments than
83 Hydro's current weighted average cost of capital, and by,
84 through this deferral and applying weighted average cost
85 of capital, you're essentially loaning the consumers money
86 by not charging them now and deferring these costs, but
87 you're loaning them money at a low rate, so ...

88 MR. BROWNE, Q.C.: Are you aware, sir, that there'll be \$23
89 million of interest charges in the Rate Stabilization Plan in
90 a fairly short period of time, according to the evidence of
91 Mr. Osmond?

92 MR. BRICKHILL: I'm aware that there's a substantial

- 1 amount for interest, but you have to look at that in a
2 context of other people's expected returns on investment
3 and that interest is calculated basically at a low rate, and in
4 ...
- 5 MR. BROWNE, Q.C.: I put it to you, sir ...
- 6 MR. BRICKHILL: ... the future some of it's going to be at
7 three percent.
- 8 MR. BROWNE, Q.C.: I put it to you, sir, you'd be hard-
9 pressed to find a company in any jurisdiction in the United
10 States or indeed the rest of Canada that would have a plan
11 comparable to what is being proposed here by
12 Newfoundland Hydro.
- 13 MR. BRICKHILL: Yes, I would agree with that.
- 14 MR. BROWNE, Q.C.: Have you looked at plans
15 throughout Canadian jurisdictions, have you looked at, to
16 see if there's anything comparable there to the Rate
17 Stabilization Plan?
- 18 MR. BRICKHILL: I believe Hydro answered a question
19 related to that.
- 20 MR. BROWNE, Q.C.: It's question 218, **CA-218**.
- 21 MR. BRICKHILL: And I believe the answer is no.
22 *(10:00 a.m.)*
- 23 MR. BROWNE, Q.C.: Yeah, and the answer is no. We'll
24 move from the Rate Stabilization Plan for the time being, sir.
25 Can you go to **page two, lines 13 to 14 of your evidence,**
26 **your supplementary evidence of September 12th,** please?
27 And beginning at line 11, can you read that into the record
28 for a moment?
- 29 MR. BRICKHILL: "Further, the Board stated the cost of
30 service methodology recommended herein be adopted by
31 Hydro for the purpose of its next rate referral. Nowhere in
32 its recommendation did the Board mention marginal cost
33 base rates or time of use rates or seasonal rates."
- 34 MR. BROWNE, Q.C.: Now, you're referring to a 1993 Board
35 report. The report is on Hydro's cost of service
36 methodology, is that correct?
- 37 MR. BRICKHILL: That's correct.
- 38 MR. BROWNE, Q.C.: And it's not a study of rate design,
39 is it?
- 40 MR. BRICKHILL: No, it's not a study of rate design.
- 41 MR. BROWNE, Q.C.: So therefore would it really surprise
42 you, given the fact that it's not a study of rate design, that
43 there is no mention of time of use rates or seasonal rates?
- 44 MR. BRICKHILL: No, but the Board specifically discussed
45 marginal cost base rates and ...
- 46 MR. BROWNE, Q.C.: But your answer is, no ...
- 47 MR. BRICKHILL: ... in its report.
- 48 MR. BROWNE, Q.C.: ... it doesn't surprise you. If the
49 Board had ordered a study of rate design and not
50 mentioned time of use rates or seasonal rates, maybe that
51 would surprise you.
- 52 MR. BRICKHILL: Yes.
- 53 MR. BROWNE, Q.C.: That's fair. On **page two, lines 19 to**
54 **30 of your evidence,** and the question you pose there,
55 "Why do you say marginal cost based rates for regulated
56 customers have no meaningful relevance to Hydro
57 generally unless there are significant changes in
58 Government and Board policy?" Can you just read your
59 response there, please?
- 60 MR. BRICKHILL: "The emphasis on sending the right
61 price signals to consumers appears inconsistent with the
62 environment in which Hydro operates. By Government
63 policy, Hydro's rural customers are heavily subsidized by
64 other retail customers and until recently Hydro's industrial
65 customers, thus to begin with price signals are distorted.
66 One class of customers is subsidized by Government
67 policy, two other customers, two other categories of
68 customers pay the subsidy, and one class of customers is
69 neither subsidized nor subject to paying a subsidy."
- 70 MR. BROWNE, Q.C.: Now, are you suggesting here that
71 rate design issues are really a waste of time in this
72 environment? Is that what you're telling us all, we're
73 wasting our time discussing any rate design because of
74 what you've referred to in that response?
- 75 MR. BRICKHILL: No, I'm not saying rate design in general
76 but marginal cost base rates or rates designed to transmit
77 the right price signals are putting a round peg in a square
78 hole.
- 79 MR. BROWNE, Q.C.: So therefore you're saying we are
80 wasting our time.
- 81 MR. BRICKHILL: Not on rate design in general of the
82 embedded cost type and nor are discussions of these
83 issues a waste of our time.
- 84 MR. BROWNE, Q.C.: Because I put it to you, sir, couldn't
85 rates have seasonal differences reflecting the different
86 supply costs in the seasons that would better reflect cost
87 causation? Couldn't they ... couldn't we have seasonal
88 differences here?
- 89 MR. BRICKHILL: We could.
- 90 MR. BROWNE, Q.C.: And couldn't fairness principles still
91 be applied in designing rates?
- 92 MR. BRICKHILL: Yes.

1 MR. BROWNE, Q.C.: And would that be more consistent
2 with Hydro moving to more, to act more like an investor-
3 owned utility if they got out there in the market a bit more
4 and marketed these different designs?

5 MR. BRICKHILL: I don't know if, that Hydro's marketing is
6 not consistent with investor-owned utilities in like
7 circumstances.

8 MR. BROWNE, Q.C.: You wouldn't want to comment on
9 that.

10 MR. BRICKHILL: Pardon?

11 MR. BROWNE, Q.C.: You wouldn't want to comment on
12 that.

13 MR. BRICKHILL: No, I would ... well, what I'm saying is
14 Hydro has one great big wholesale customer and some
15 fairly big industrial customers, and I think their marketing
16 to those customers appears rather normal or consistent
17 with those of investor-owned utilities. I don't think Hydro
18 wants to market to the subsidized customers and that
19 would be different than other utilities who make money on
20 retail customers when Hydro doesn't make money on these
21 retail customers.

22 MR. BROWNE, Q.C.: You mentioned Newfoundland
23 Power. Can you go to **page five of your evidence, lines 8 to**
24 **30**? And the question posed, "Do you think it very
25 important for Hydro to transmit correct price signals to
26 Newfoundland Power?" And your first sentence catches
27 me, "No, not under the rather unique circumstances that
28 exist between the two." What unique circumstances are
29 you ... to what unique circumstances are you referring?

30 MR. BRICKHILL: The first circumstance is that unlike the
31 hypothetical circumstances you would expect on an island,
32 you'd have probably one electric utility, on this island.

33 MR. BROWNE, Q.C.: You'd have vertical integration.

34 MR. BRICKHILL: Yes.

35 MR. BROWNE, Q.C.: Generally on an island such as this.

36 MR. BRICKHILL: That's what you would expect in most
37 circumstances. Instead, there are two companies here, one
38 that does most of the retail business and the other does
39 most of the wholesale business.

40 MR. BROWNE, Q.C.: And is that the uniqueness that you
41 find here?

42 MR. BRICKHILL: Yes, coupled with the operational
43 coordination between the two companies.

44 MR. BROWNE, Q.C.: Is it fair to say it's not the typical
45 business relationship that you would see where a generator
46 sells to a distributor?

47 MR. BRICKHILL: In total, no, it's not the typical business
48 arrangement between a generator and a wires (phonetic)
49 company.

50 MR. BROWNE, Q.C.: Has it ever crossed your mind as to
51 why we don't collapse the distributing company and have
52 one vertical-integrated company here? Have you ever
53 thought of that?

54 MR. BRICKHILL: I have thought of it. I haven't raised the
55 issue. I didn't want to offend anybody. (*laughter*)

56 MR. BROWNE, Q.C.: You haven't approached it with
57 Hydro as a possibility?

58 MR. BRICKHILL: No.

59 MR. BROWNE, Q.C.: Can you go to **page 10, lines 24 to**
60 **25 of your evidence**? The first supplemental evidence, page
61 10, lines 24 to 25, you state, "2 CP or 1 CP link investment
62 cost with what drives the investment cost far better than 4
63 CP." I guess Mr. Budgell testified that Hydro designs
64 generation capacity on the basis of system peak plus 18.5
65 percent reserve margin. Do you recall seeing that in Mr.
66 Budgell's evidence?

67 MR. BRICKHILL: Yes.

68 MR. BROWNE, Q.C.: And does that imply 1 CP as the
69 better link?

70 MR. BRICKHILL: Yes.

71 MR. BROWNE, Q.C.: On **page 13, lines 22 to 24 of the**
72 **first supplemental evidence**, you have a sentence there at
73 the end. "There are no distinct local loads 'within the
74 typical rural community' that determine distribution plant
75 requirements." What do you mean by that, sir?

76 MR. BRICKHILL: What I mean by that is within the typical
77 small rural community served by Hydro there are no sub-
78 parts of the distribution systems for certain customers that
79 are different than the rest.

80 MR. BROWNE, Q.C.: Well on what basis does Hydro size
81 distribution system in these instances, on what basis?

82 MR. BRICKHILL: For anticipated peak.

83 MR. BROWNE, Q.C.: Wouldn't there be distinct local loads
84 that would require a particular transformer in a particular
85 locality?

86 MR. BRICKHILL: They would require a particular
87 transformer, yes, but that's not a local, a bunch of local
88 loads. The loads in these rural communities are mostly
89 houses, house-size facilities.

90 MR. BROWNE, Q.C.: When you say local peak, do you
91 mean non-coincident peak?

92 MR. BRICKHILL: I mean coincident peak which is

1 generally the same as non-coincident peak in these
2 circumstances.

3 MR. BROWNE, Q.C.: On **page 14, lines 28 to 30**, you make
4 a statement and then you say, "For that reason the non-
5 coincident peak demand will only be suitable if separate
6 distribution substations are installed to serve each rate
7 class." Has it been your experience that utilities install
8 separate distribution substations to serve each rate class?

9 MR. BRICKHILL: It's my experience in the more usual
10 circumstances of large cities that there are substations but
11 in, but Hydro's rural communities are generally only served
12 by one, the whole community is served by one substation
13 so that there isn't the diversity that, for example, you'd have
14 in St. John's with large commercial areas that might be
15 downtown St. John's, might be served by a substation.

16 MR. BROWNE, Q.C.: But not to serve each particular rate
17 class.

18 MR. BRICKHILL: There'd be a low of commercial load
19 within that area and the facilities would be different than
20 you'd have in a little residential neighbourhood so that
21 there would be local load and those would be
22 circumstances that I think NCP would be appropriate for,
23 but for Hydro's rural communities you don't have that
24 diversity of load.

25 MR. BROWNE, Q.C.: Can you go to **page 15, lines 15 to**
26 **16**? Can you read that sentence, "The single coincident
27 peak," sir?

28 MR. BRICKHILL: "The single coincident peak demand
29 applicable to the individual distribution functions I have
30 enumerated and used for allocation purposes is not the
31 coincident peak of the total system."

32 MR. BROWNE, Q.C.: Can you clarify exactly what you
33 mean by that?

34 MR. BRICKHILL: For purposes of allocation of the rural
35 load, it is the peak of the rural systems that has been used,
36 not the system peak of Hydro, which would include
37 Newfoundland Power and the industrials.

38 *(10:15 a.m.)*

39 MR. BROWNE, Q.C.: Mr. Brickhill, I reviewed your resume
40 as filed in **Schedule 1, page one of two**. You're currently
41 President of the Company.

42 MR. BRICKHILL: That's correct.

43 MR. BROWNE, Q.C.: And you've testified in other
44 proceedings of a regulatory nature.

45 MR. BRICKHILL: Yes.

46 MR. BROWNE, Q.C.: And as I review your resume, the
47 words "gas, propane, oil," show up a lot more than the

48 word "electricity." Are you more comfortable dealing with
49 gas, oil, propane, in a regulatory environment than you are
50 in dealing with electricity?

51 MR. BRICKHILL: No.

52 MR. BROWNE, Q.C.: Is it fair to say that your experience
53 for the most part in the regulatory environment deals with
54 gas, propane, oil, as opposed to electricity?

55 MR. BRICKHILL: Yes.

56 MR. BROWNE, Q.C.: Thank you very much, Mr. Brickhill.

57 MR. BRICKHILL: Thank you.

58 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
59 Browne. Thank you, Mr. Brickhill. We move now to cross
60 by Mr. Kennedy, please.

61 MR. KENNEDY: Thank you, Chair. Mr. Brickhill, I just
62 wanted to bring you first to your supplementary, **your first**
63 **supplementary pre-filed evidence, and specifically page one**
64 of that evidence at, picking it up at line 12, I guess, and line
65 9. Just generally the set-up question, if you will, is that,
66 asking what recommendations relative to marginal costs are
67 you addressing, and you cover the position as you see it
68 of Dr. Wilson and Mr. Bowman in that regard and then at
69 line 23 you're asked to comment on these
70 recommendations, and you state at line 25, "I agree that
71 marginal cost rates generally convey better price signals
72 and achieve greater allocative efficiencies than embedded
73 cost rates." You then continue on, "However, marginal
74 cost base rates for regulated customers and the likely
75 controversy related thereto have no meaningful relevance
76 to Hydro generally unless there are significant changes in
77 Government and Board policy pertaining to Hydro." Now
78 the Consumer Advocate was just asking you a question
79 regarding that and I just wanted to get my sense of it, if
80 you could, and is it my understanding then that if there was
81 a clean slate here and we were dealing with virgin territory
82 insofar as what methodology to employ in setting rates that
83 you would be predisposed to set rates based on a marginal
84 cost basis rather than the embedded cost basis that's
85 currently being proposed by Hydro?

86 MR. BRICKHILL: Certainly heavy weight or consideration
87 would be given to marginal costs. The total rate couldn't
88 be marginal cost based without exceeding the revenue
89 requirement but if this were a clean slate we'd be looking at
90 where do we want to put the emphasis, demand or energy.

91 MR. KENNEDY: Just back up one sentence from your last
92 one. You indicated that, as I understand it, it's your
93 position then if you set the rates based entirely on marginal
94 costs that the amount of revenue received would exceed
95 the requirement, is that right?

96 MR. BRICKHILL: Yes.

1 MR. KENNEDY: You could nonetheless though, if in fact
2 that was the case, and I guess I should ask first on what do
3 you base that statement. Have you done a mirror
4 calculation of what revenue would be received under a
5 marginal cost based rate?

6 MR. BRICKHILL: It is generally the case that long-run
7 marginal costs exceed embedded costs.

8 MR. KENNEDY: What about short-run marginal costs?

9 MR. BRICKHILL: In this case we have looked at, and other
10 people have looked at the short-run marginal cost as being
11 Holyrood production which is higher than the average cost
12 of energy production.

13 MR. KENNEDY: You could in effect though once you've,
14 if you use the Holyrood marginal rate for the production of
15 energy as the basis for your marginal cost design, and it
16 had the effect of generating more revenue than the actual
17 revenue requirement, you could nonetheless make an
18 adjustment to that rate design so that the revenue received
19 then met the revenue requirement, couldn't you?

20 MR. BRICKHILL: That's correct.

21 MR. KENNEDY: So it's not fatal that the, that using just a
22 marginal cost for, of Holyrood to design your rates, that
23 that's not in itself fatal that it actually on first blush may
24 appear to achieve more than your actual revenue
25 requirement.

26 MR. BRICKHILL: That's correct, it's not fatal.

27 MR. KENNEDY: And is it fair to say that in your statement
28 there that marginal cost rates achieve greater allocative
29 efficiency, that is that the same as saying that they provide
30 fairer rates, if you will, that that's a fairness element?

31 MR. BRICKHILL: No. It's my belief that embedded cost
32 rates are probably considered fairer than marginal cost
33 rates, although there's not universal agreement on that.

34 MR. KENNEDY: Why would you make that statement? In
35 what manner, what way, are embedded cost rates fairer than
36 marginal cost rates?

37 MR. BRICKHILL: I have found my, in my experience, that
38 most customers, be they wholesale or retail, find embedded
39 cost rates based on original cost less depreciation to be
40 fairer, and in my experience these customers are all often
41 fearful of any marginal cost concepts because of concerns
42 over their being applied in a discriminatory manner,
43 marginal cost rates for some and not for others.

44 MR. KENNEDY: In embedded cost system that we've
45 heard you testify on there's been a significant amount of
46 pre-filed evidence filed. There is nonetheless, in a similar
47 fashion to what you just described, a process internal to
48 the determination of what rates should be in an embedded

49 cost system that affects the allocation of costs between the
50 different parties as well, is there not?

51 MR. BRICKHILL: Yes.

52 MR. KENNEDY: We've seen a series of questions from the
53 industrial customers and from Newfoundland Power, for
54 instance, concerning whether the allocation of costs
55 should be determined on the basis of 1 CP or 2 CP or 3 CP
56 or even more multiple CPs, and that has everything to do
57 with the apportionment of cost between the respective
58 parties, doesn't it?

59 MR. BRICKHILL: Yes.

60 MR. KENNEDY: And that at its simplest measure, the
61 industrial customers from a cost perspective would prefer
62 to see a single coincident peak being employed as opposed
63 to multiple coincident peaks, is that correct?

64 MR. BRICKHILL: That's my interpretation of their position.

65 MR. KENNEDY: And conversely Newfoundland Power
66 would prefer to see multiple coincident peaks as opposed
67 to a single coincident peak being used to allocate costs,
68 correct?

69 MR. BRICKHILL: That's correct.

70 MR. KENNEDY: And that's because there are cost
71 advantages obtained by those parties in which of those
72 coincident peaks to use, that there's a cost advantage
73 obtained by Newfoundland Power if a multiple coincident
74 peak is employed rather than a single coincident peak.

75 MR. BRICKHILL: That's correct.

76 MR. KENNEDY: And that within that paradigm of
77 embedded cost and then the allocation of cost using a
78 coincident peak method there seems to be a fair amount of
79 judgement then as to whether to use a single coincident
80 peak or a multiple coincident peak, correct? For instance,
81 your evidence is that Hydro is proposing a two coincident
82 peak but a one coincident peak is not so far away from a
83 two coincident peak that it also isn't reasonable.

84 MR. BRICKHILL: That's correct.

85 MR. KENNEDY: I believe that's what your evidence was.

86 MR. BRICKHILL: That's what I'm saying.

87 MR. KENNEDY: And I guess it could also be argued,
88 couldn't it, that since, for instance, the peak that does occur
89 in a given year can't be really determined whether it's going
90 to happen in December or January or February or March in
91 any given year, but that could at least give credence to the
92 theory that, well, we should use a 4 CP or a four coincident
93 peak method.

94 MR. BRICKHILL: Well, I don't agree with that.

1 MR. KENNEDY: Yes, I know you don't agree with that and
2 I believe if I'm capturing you correctly, you don't believe
3 that because the coincident peak usually happens in at
4 least one of two months in a given year, is that right?

5 MR. BRICKHILL: No. The same costs are incurred for the
6 peak regardless of when it occurs so it's simply there will be
7 a peak, the costs are related to that peak, and therefore peak
8 should be the factor.

9 MR. KENNEDY: Okay. So nonetheless though, that there
10 is at least some credible, if you will, opinion put forward by,
11 I believe it was the expert for Newfoundland Power, that
12 there should be 4 CP used as opposed to a 2 CP for the
13 purposes of cost allocation.

14 MR. BRICKHILL: Correct.

15 MR. KENNEDY: And so being respectful of other experts
16 that testify in the same area, you'd agree with me that at
17 least there's some credible argument in evidence regarding
18 the use of a 4 CP.

19 MR. BRICKHILL: Yes.

20 MR. KENNEDY: So we've got Hydro proposing a 2 CP and
21 the industrial customers leaning towards a 1 CP and
22 Newfoundland Power leaning towards a 4 CP, and I guess
23 there's a sense that there is some movement within that
24 range of CPs that could be chosen, and whatever is chosen
25 is going to have an impact on the cost allocation between
26 the parties.

27 MR. BRICKHILL: That's correct.

28 MR. KENNEDY: And I guess that in turn then is a function
29 of the whole process of using embedded cost to derive
30 your rates, correct?

31 MR. BRICKHILL: Correct.

32 MR. KENNEDY: If we used a short-run marginal cost
33 determination to derive our rates, it would be a much
34 simpler process than that, wouldn't it?

35 MR. BRICKHILL: We still would have the issue in design
36 of demand rates or the demand component. Again, I can't
37 agree with you that it's going to be easier and less
38 controversial to do marginal cost rates but I'll concede you
39 it's probably no more difficult.

40 *(10:30 a.m.)*

41 MR. KENNEDY: So it's an issue of which paradigm do you
42 use and it's your respectful opinion that there's nothing
43 tremendous to be gained in the form of at least simplicity to
44 move towards a marginal cost base rate making process as
45 opposed to the embedded cost base rate making.

46 MR. BRICKHILL: That's correct.

47 MR. KENNEDY: Okay. I'm just wondering if we could just
48 quickly, if I could, from a layperson's perspective, capture
49 the basis of marginal cost theory? If I go horribly wrong on
50 this, please correct me, but is it fair to say that at its
51 essence, marginal cost theory is an attempt to say that a
52 consumer will consume as long as what they give up in
53 order to acquire a good or service is less than the perceived
54 value of what they actually acquire?

55 MR. BRICKHILL: That's correct.

56 MR. KENNEDY: And that conversely marginal cost theory
57 dictates that a producer of that good or service must secure
58 in return for giving up that good or service acquire more
59 than the cost to produce the good or service.

60 MR. BRICKHILL: That's correct.

61 MR. KENNEDY: And so there's always an attempt to, from
62 a producer's perspective, gain more than the actual cost of
63 production of the good or service, correct?

64 MR. BRICKHILL: Correct.

65 MR. KENNEDY: And that marginal cost theory attempts to
66 match the cost of production with the selling price, if you
67 will, provides a rational basis for the connection between
68 the two.

69 MR. BRICKHILL: That's correct.

70 MR. KENNEDY: Now, in really simplistic terms, and you
71 already alluded to it here, Hydro produces over the run of
72 a year some 85 percent of its total generation, as I
73 understand it, and you can correct me here if I'm wrong, but
74 85 percent of its generation from hydraulic production, and
75 the remaining portion of it is produced from thermal
76 production.

77 MR. BRICKHILL: That's correct.

78 MR. KENNEDY: And the vast majority of that thermal
79 production is generated by Holyrood.

80 MR. BRICKHILL: Right.

81 MR. KENNEDY: There's some small amount of thermal
82 generation potentially that needs to be produced by some
83 gas turbines and the like to handle the peaking days. Is
84 that correct?

85 MR. BRICKHILL: That's correct.

86 MR. KENNEDY: Okay. Leaving that aside for a moment,
87 those peaking units, and just dealing with the supply of
88 energy from the hydrology and from hydrological
89 production and the thermal production, it's clear as well
90 that there's a fairly significant difference in the cost of
91 production of those two sources of energy, correct?

92 MR. BRICKHILL: That's correct.

1 MR. KENNEDY: And that, as you alluded to, Holyrood is
2 the marginal, considered to be the marginal cost of energy
3 that Holyrood, that Hydro produces because it's clearly
4 more expensive to produce energy from Holyrood than it is
5 for it to be produced from hydrological sources.

6 MR. BRICKHILL: Yes.

7 MR. KENNEDY: And I'm wondering if I could just use an
8 example, just for simplicity sake, and we'll just assume that
9 the marginal cost of production of energy from Holyrood is
10 three cents a kilowatt hour and the marginal rate of
11 production of energy from Hydro's hydrological plants, in
12 total just say, is a cent a kilowatt hour. Using that
13 assumption, as I understand it, and if we say it's 85/15, or
14 let's make it easy, let's say it's 50/50, that the embedded cost
15 would determine that, well, everyone should be charged
16 two cents a kilowatt hour. Is that fair to say?

17 MR. BRICKHILL: That's the result, yes.

18 MR. KENNEDY: Okay. So it takes an average of the total
19 production of energy and that's what it apportions it out in
20 the cost for the rate making, that's the rate making process,
21 following an embedded cost methodology.

22 MR. BRICKHILL: That's correct.

23 MR. KENNEDY: Now, if I was a person who only used
24 energy during the summer months and didn't use energy
25 during the winter months, I would still pay two cents a
26 kilowatt hour for my energy even though it's being
27 produced at that time of the year predominantly by
28 hydrological sources and therefore is only costing
29 Holyrood a cent a kilowatt hour to produce, correct?

30 MR. BRICKHILL: I'll accept that hypothetically.

31 MR. KENNEDY: Okay, yeah. These are all very broad
32 brush strokes I'm dealing with, so if you want to haul out a
33 fine brush let me know and I'll attempt to follow along, but
34 just from a pure simplistic basis. Conversely if I'm an
35 operator of some business or what have you that
36 consumes significant amount of energy in the winter
37 months and under the embedded cost methodology I'm
38 being charged two cents a kilowatt hour, I'm actually
39 buying my energy for less than what it costs for Hydro to
40 produce it, correct?

41 MR. BRICKHILL: On a marginal basis, yes.

42 MR. KENNEDY: Okay. And so that's where the embedded
43 ... is that the main difference between the embedded cost
44 and marginal cost system in the sense that the embedded
45 cost sort of blurs over the differences, if you will, in
46 seasonal variations and time of use variations in energy
47 production and just takes an average of the cost of energy
48 and then coughs that back out through the different
49 customer classes in the rate making process?

50 MR. BRICKHILL: That's correct.

51 MR. KENNEDY: So from that perspective, using an
52 average cost as determined by an embedded cost
53 methodology for rate making, is not necessarily the most
54 equitable or fair or efficient manner for rate making
55 purposes, is it?

56 MR. BRICKHILL: It's certainly not the most efficient.

57 MR. KENNEDY: And it makes more sense from an efficient
58 allocation of resources to charge rates based on how much
59 it cost to actually produce the energy that's being sold at
60 any given point in time.

61 MR. BRICKHILL: At the margin, yes.

62 MR. KENNEDY: And one of the easiest ways, if you will,
63 to achieve that would be to set some sort of seasonal
64 variation in the rates that are charged to a customer based
65 on Holyrood's make-up of their production of electrical
66 energy?

67 MR. BRICKHILL: That could be done.

68 MR. KENNEDY: And if I understand your evidence
69 correctly, you were indicating that the most appropriate
70 mechanism to achieve that of course is by Newfoundland
71 Power selling its energy at some time of use rate because
72 Hydro sells its energy to Newfoundland Power and the
73 industrial customers but that it's really the best, if you're
74 going to send that price signal, the best place to send the
75 price signal to is to Newfoundland Power's customers, is
76 that a fair assessment?

77 MR. BRICKHILL: I believe that, yes.

78 MR. KENNEDY: So time of use rates or seasonal rates are
79 most appropriate for the rate making process employed
80 when Newfoundland Power sets its rates.

81 MR. BRICKHILL: In my opinion, yes.

82 MR. KENNEDY: Now, in order for Newfoundland Power to
83 set those rates based on seasonal variations, they would in
84 turn, would they not, need to know what those seasonal
85 variations are from a cost perspective from Hydro, the
86 person that they're buying the energy from, wouldn't they?

87 MR. BRICKHILL: Yes.

88 MR. KENNEDY: That if you're going to give the right price
89 signal all the way down through the system, it doesn't make
90 any sense for Newfoundland Power to just make up
91 seasonal rates. They need to reflect the actual seasonal
92 variation in the production of energy at the Hydro end of
93 the business.

94 MR. BRICKHILL: That's correct.

95 MR. KENNEDY: And so if you're going to have a rational

1 time of use or seasonal rate making rate process or rate
2 design for Newfoundland Power, doesn't it make sense
3 then that you would also want to have a seasonal or at
4 least time of use rate design from Hydro given to
5 Newfoundland Power, that if you're going to have a rational
6 customer end, you also need a rational wholesale end?

7 MR. BRICKHILL: One doesn't necessarily follow the other,
8 that is Newfoundland Power knows the marginal source of
9 production at different times of the year so that the rate to
10 them wouldn't necessarily have to reflect that, but
11 depending on the mechanics of it, I could see some
12 advantages to that concept being applicable to both. It
13 would depend on how Newfoundland Power implemented
14 it on their side.

15 MR. KENNEDY: Sure. So if, for instance, if Newfoundland
16 Power were to set or were to employ seasonal rates in its
17 rate design, unless that was achieved or unless that was
18 implemented in a manner that achieved revenue neutrality
19 for Newfoundland Power, there would be without anything
20 more being done the potential that Newfoundland Power
21 could sustain revenue shortfalls or, conversely, increases
22 in the revenue earned by the Company, correct?

23 MR. BRICKHILL: Yes.

24 MR. KENNEDY: And that that's why you need some sort
25 of rational wholesale rate employed by Hydro to
26 Newfoundland Power so that Newfoundland Power can
27 send back to Hydro the effects of those price signals that
28 it's sending to its customers.

29 MR. BRICKHILL: Not to overly complicate it but it would
30 depend on their fuel adjustment mechanism and how this
31 seasonal rate was implemented by them. If they wanted to
32 implement it based upon the rate provided to them by
33 Hydro, then Hydro would need seasonal rates. If they
34 chose a different mechanism, then perhaps it wouldn't
35 matter whether Hydro itself had seasonal rates or not. I
36 haven't thought this entirely through but I know there'd
37 have to be changes in the way they collect their energy
38 costs from their customers. I think they'd have to change
39 the mechanism if they went to seasonal rates, so then we
40 have to look at how best can Hydro facilitate what Power
41 is doing.

42 MR. KENNEDY: Sure. So looking ahead, looking ahead to
43 the fact that there will at some point in the future, and
44 potentially next year, be a requirement for the Board to set
45 new rates for Newfoundland Power and that if at that point
46 in time the Board was to determine that they would like to
47 see Newfoundland Power move towards seasonal rates and
48 time of use rates, they, that that process at that point in
49 time would be aided and abetted by implementing at this
50 point in time a change in the wholesale by Hydro to
51 Newfoundland Power, would it not?

52 MR. BRICKHILL: No. I think it would be best to have both
53 companies involved at the same time so that what one does
54 doesn't forestall the other. I think the Board would, to ease
55 the pain for everybody, have them simultaneously
56 implement plans that didn't produce freakish results
57 because one was on a different schedule than the other.

58 MR. KENNEDY: And so that would be a joint participation
59 by Hydro and Newfoundland Power in a time of use study,
60 correct, or a marginal cost study, sorry?

61 MR. BRICKHILL: That's correct.

62 MR. KENNEDY: Mr. Brickhill, could you tell me what your
63 view is on the difference between an energy cost and a
64 demand cost?

65 *(10:45 a.m.)*

66 MR. BRICKHILL: A demand cost is a cost for capacity, if
67 you will, and energy cost would be for annual usage.

68 MR. KENNEDY: As I understand it, one of the positions
69 taken by the industrial customers in this hearing was that
70 since they have an interruptible power contract with Hydro
71 that they should, from that perspective, avoid, be able to
72 avoid some of the demand-related costs and that in that
73 respect benefit from the running costs or the running time
74 costs of the system. Is that a fair assessment from your
75 understanding as well?

76 MR. BRICKHILL: I'm not sure what position the industrials
77 take on the interruptible rates which are not regulated. I
78 don't think they're subject to this hearing.

79 MR. KENNEDY: I wonder if I could use an example with
80 you? This is an example that was given to me, so it's
81 double hearsay. We'll go back to the 1980s and we'll go
82 back to the United States of America, an arena that you're
83 probably more comfortable in, and we're all familiar with
84 what took place back in the '80s insofar as the price of oil
85 had spiked, back in the early '80s.

86 MR. BRICKHILL: That's correct.

87 MR. KENNEDY: And I understand that one of the
88 responses to this dramatic increase in oil by electrical
89 generators in the United States was to make capital
90 investments, to switch over their plans to burn more coal
91 and less fossil fuel. Is that your understanding as well, that
92 was at least one of the responses?

93 MR. BRICKHILL: That was one of the responses.

94 MR. KENNEDY: And that, as I understand it, from an
95 operating perspective, from just a running perspective, that
96 that decreased the cost of the energy being produced, that
97 the energy being produced by these coal-generated now
98 electrical-generating stations was less than it would have
99 been if they had to stick with fossil fuel.

- 1 MR. BRICKHILL: Stick with oil.
- 2 MR. KENNEDY: Stick with oil.
- 3 MR. BRICKHILL: Coal is ...
- 4 MR. KENNEDY: I think they're both fossil fuels, yes ...
- 5 MR. BRICKHILL: ... fossil fuel.
- 6 MR. KENNEDY: ... but stick with oil as a fossil fuel.
- 7 MR. BRICKHILL: That's correct.
- 8 MR. KENNEDY: Okay. So that there was a high capital
9 investment made by some of these electrical generators in
10 response to the increase in oil which had the effect of
11 lowering the operating costs on a day-by-day basis for the
12 generation of electricity.
- 13 MR. BRICKHILL: That's correct.
- 14 MR. KENNEDY: Okay. Now, if I was a customer of that
15 electrical generator and I was a high load factor customer,
16 should I only be able to benefit from the lower running time
17 cost of that plant or should I also have to contribute at
18 least to some of the capital investment that was made in
19 that plant that allowed the plant to run at that lower
20 operating cost?
- 21 MR. BRICKHILL: Consistent with a no free ride principle,
22 it's believed that those customers should pay something
23 towards those costs.
- 24 MR. KENNEDY: And that's because some of the
25 investment made by those electrical generators was not
26 cost related to capacity, if you will, but it was cost related
27 to just the generation of energy. Is that correct?
- 28 MR. BRICKHILL: No, it's again the no free ride principle
29 that they may not have caused those costs but it is
30 generally accepted that they should make a contribution to
31 those costs.
- 32 MR. KENNEDY: Because they're benefiting from them.
- 33 MR. BRICKHILL: Yes.
- 34 MR. KENNEDY: Right, okay. Chair, that's a good place to
35 break.
- 36 MR. NOSEWORTHY, CHAIRMAN: Yes, thank you, Mr.
37 Kennedy. We'll break till ten after.
- 38 (break)
- 39 (11:15 a.m.)
- 40 MR. NOSEWORTHY, CHAIRMAN: Mr. Young?
- 41 MR. YOUNG: Yes, I am, thanks, Mr. Chair. I'd ask Mr.
42 O'Rielly if he could bring up Schedule 8, revised to Mr.
43 Budgett's evidence, please? Mr. Brickhill, yesterday, in a
44 question asked by Ms. Henley Andrews, I think the point
45 might have been made, and I think this was in a question as
46 opposed to your answer, that there was a 20 percent
47 increase in load going forward in ten years. I wonder if you
48 could respond to that in light of the table that's on the
49 screen?
- 50 MR. BRICKHILL: Well, if you will recall, I was asked was
51 I aware of a 20 percent forecast increase in load over the
52 next ten years and I said no, and I was a little bit surprised.
53 In looking at it, I see where she derived her 20 percent, but
54 it's not a true reflection of Hydro's load forecast. She
55 compared the 20 actual MW with the 2010 MW and that's
56 about a 20 percent increase, but that's not normalized for
57 weather. At the peak it was warmer in the year 2000, and to
58 make a proper comparison you would have to normalize for
59 weather so that the proper comparison would be the
60 forecast which has the same weather in 2001 as 2010, and if
61 you compare 2010 with 2001 the load growth over the nine
62 year period is ten percent or half of the 20 percent to which
63 she referred yesterday.
- 64 MR. YOUNG: Thank you. The next question also deals, at
65 least indirectly, with load forecasts, and this related to
66 questions that arose concerning the '92 report that we went
67 into in some depth yesterday. Were you aware that the
68 load forecasts in '92 were tending upwards or downwards
69 or what was your understanding?
- 70 MR. BRICKHILL: The load forecast would have been
71 relied upon in '92 would have been from 1990 and 1991, and
72 at that time very substantial growth in load was projected.
73 In actuality that hasn't occurred.
- 74 MR. YOUNG: Given that that was the load forecast at the
75 time, could that have been an influence in Dr. Surekai's
76 proposal or his response to the demand in energy rate
77 proposal and the option he gave?
- 78 MR. BRICKHILL: I'm sure it was.
- 79 MR. YOUNG: One matter arose this morning as a matter of
80 clarification. You were asked a question as to the
81 interruptible rate for industrials, and I believe your
82 response was you said it was unregulated. I just wanted to
83 make sure that the record is clear on this. The proposed
84 interruptible rate for industrials, do you understand that to
85 be a regulated or a non-regulated rate?
- 86 MR. BRICKHILL: The proposed is a regulated rate. I was
87 sort of speaking to the current rate.
- 88 MR. YOUNG: Okay. Thank you. Those are all my
89 questions. Thank you, Mr. Brickhill.
- 90 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
91 Young. We move now to Board questions. Could I ask
92 Commissioner Powell to begin, please?
- 93 COMMISSIONER POWELL: Thank you, Chair. Mr.

1 Brickhill, how are you, sir?

2 MR. BRICKHILL: I'm fine, thank you.

3 COMMISSIONER POWELL: That's good. I found your
4 testimony quite interesting. It clarified some items, but one
5 of the things that I'm not 100 percent clear on is how you fit
6 into the scheme of things when it comes to the actual
7 allocation in the cost of service. Could you sort of give me
8 an over review where you enter the picture and all this
9 lovely data and figures we got and where you fit in?

10 MR. BRICKHILL: Where my firm fits in and where I fit in
11 need to be described, but perhaps generally this was a
12 coordinated effort between myself, people that work with
13 me, and Hydro's personnel. We work very closely on much
14 of this. Most of the inputs, the actual dollar values that we
15 started with, in fact, all of those inputs came from Hydro.
16 My people did the programming for the cost of service
17 model. Then when the application was being prepared
18 Hydro's people actually ran the model to produce the
19 exhibits that you've seen. My role was supervision and
20 advisory for both the people I work with and the Hydro
21 people. My personal main responsibility was in the area of
22 the allocation factors, the techniques being employed
23 rather than hands on production of the documents that
24 appear as my exhibits.

25 COMMISSIONER POWELL: The program that runs the
26 cost of service that you see, your ... Foster and Associates
27 actually prepared that?

28 MR. BRICKHILL: That's correct.

29 COMMISSIONER POWELL: So that was a different
30 program than what they had when they did the 1992?

31 MR. BRICKHILL: That's correct. There have been many
32 advances and changes in software. They couldn't have
33 used what we had from 1992 today.

34 COMMISSIONER POWELL: Is this common to all
35 regulated utilities, that the software to do the modelling for
36 the cost of service is separate from the financial model
37 which is where they accumulate their costs?

38 MR. BRICKHILL: It is common, yes.

39 COMMISSIONER POWELL: Okay. Because financial data
40 means that that is your cost and your cost of services is
41 just reassigning them in the different sort of methodology
42 than what they do for normal financial reporting?

43 MR. BRICKHILL: On that subject, Hydro uses business
44 unit accounting, so there was a considerable amount of
45 work separating out for these business units into the
46 regulatory accounts that we use for the cost of service
47 model.

48 COMMISSIONER POWELL: So these business units, is

49 that something unique to Hydro or would that be a method
50 that's used in other utilities?

51 MR. BRICKHILL: I would say it's more ... it's less common
52 to have business unit accounting but it's not unique to
53 Hydro.

54 COMMISSIONER POWELL: Would you make any
55 recommendation to them how to simplify the process to
56 make things come together better and make it less ... more
57 efficient or more cost efficient, or should Foster be
58 encouraging more cost efficient measures in terms of ...

59 MR. BRICKHILL: While it would be much easier for us if
60 they didn't have business unit accounting, I don't think
61 what is convenient for Foster Associates drives Hydro's
62 accounting system decisions.

63 COMMISSIONER POWELL: Okay, but there has ...

64 MR. BRICKHILL: They'd consider it, but I don't think
65 they'd give it much weight.

66 COMMISSIONER POWELL: Yeah, so you have no
67 discussions in terms of just sort of bringing two of it
68 together and satisfying their objective, managing their
69 system from a financial point of view and also facilitating
70 and expediting the preparation of cost of service?

71 MR. BRICKHILL: I complain to them but very softly. It's
72 just we were actually, at the same time we were working
73 with another utility for a rate case where they also departed
74 from the uniform system of accounts, and it was just a pain
75 doing a cost of service for two such entities at the same
76 time.

77 COMMISSIONER POWELL: So how do you map this out
78 in terms of the system now? I mean, because from what I
79 gather the evidence is allocation of different plants and
80 different stations in terms of a things being specific and
81 things being common. When you're doing your computer
82 model do they actually give you a map, a design of the
83 whole system and then you start putting that in or how
84 does this ... how do you get the actual program to mirror
85 the system that Hydro has?

86 MR. BRICKHILL: There is a plan. In some cases it's
87 iterative (*phonetic*). We followed the Board's order in
88 terms of the separate systems and separate cost allocation
89 for different systems, so we had that starting point. There
90 were times, I'm sure, when we didn't grasp that we had
91 costs in the wrong system, but I think we caught every
92 error that was made, so fortunately we had the Board's
93 decision to pattern our model after, and then we made
94 decisions in areas that the Board didn't cover in their 1993
95 report. I would make recommendations, then my people
96 would actually implement the recommendations in the
97 model. Then, as we got closer to the filing, Hydro finalized

1 its forecasts and then we put the forecasts in the model and
2 then the Hydro personnel produced the product that you
3 have before you.

4 (11:30 a.m.)

5 COMMISSIONER POWELL: So who does the sort of the
6 audit to make sure that all the various components is in the
7 system to properly assign the costs?

8 MR. BRICKHILL: Hydro took that responsibility.

9 COMMISSIONER POWELL: So they take the
10 responsibility to see that you put the proper model
11 together. There was a question the industrial ... the lawyer
12 from Industrial Customers asked you about assigning a
13 cost like the converters and there's apparently been a
14 change from what was there before, and you had
15 mentioned that you didn't have any knowledge about that.
16 I mean, it seems to be a fairly significant item, we've heard
17 it mentioned before. I mean, based on what you tell me that
18 you must have had something when you we changing
19 computer models, say, okay, this is not going to be
20 common, it's going to be specific. I mean, how deep down
21 is that with Foster, be the Hydro people saying, okay, that's
22 covered off, we're just going to change a tick and therefore
23 it goes this way as opposed to that way?

24 MR. BRICKHILL: The specifically assigned plan or
25 common plant decision was made by Hydro. Yesterday I
26 (inaudible) on the frequency converter issue because, while
27 I was briefed on it, it's in the model, I wasn't sure who had
28 what done to whom and where, and I just didn't want to get
29 into it and I would have confused the record on locations
30 and names of customers.

31 COMMISSIONER POWELL: Okay, but, I'm sort of trying
32 to figure out who keeps the bell on the cat in terms of you
33 got the model, it's all done up and data is put into it, and so
34 Hydro is sitting down and they run things out and they
35 say, well, gosh, you know, this is not fair. We want to go
36 change, we're going to assign this to this and that to that.
37 Do you ... they go out and do that and it's done or do they
38 come back to you and say, no, look, we want to do this,
39 justify that for us?

40 MR. BRICKHILL: In some instances they ask me. In other
41 instances, such as the frequency converters, I was simply
42 briefed as to what they were doing and why and then the
43 appropriate adjustments were made to the model.

44 COMMISSIONER POWELL: So they went and did it, and
45 so it really didn't matter whether you agreed with it or not?

46 MR. BRICKHILL: I think if I had raised objections we
47 would have talked about it. The frequency converter issue
48 didn't seem all that important to me when I was briefed. I
49 may not have paid as close attention to that as some other

50 things.

51 COMMISSIONER POWELL: So you don't follow the whole
52 exercise down to the completion in saying, they say here's
53 the rates and this is the increase and look at that and say,
54 gee, you know, one class is going to have a substantial
55 increase and you say, gee, that's not fair, we should go
56 back and change the model to make it one of the principles
57 of fairness?

58 MR. BRICKHILL: No. I think we all evaluated the
59 outcomes, but, there are man years invested in this cost of
60 service filing in terms of preparation by Hydro people and
61 by my people with more of the time being the Hydro
62 people, but there is enormous expertise from different
63 places in Hydro that has to be relied upon. No outsider
64 could duplicate Rob Henderson's or Hubert Budgell's
65 intimate first-hand knowledge of certain aspects of this
66 system.

67 COMMISSIONER POWELL: But they also ... does Foster,
68 the numbers here now, does anybody do the check to see
69 that these numbers in this cost of service actually balance
70 out and agree with the numbers in the financial accounting
71 records? It's just they're taken out of the financial records
72 and transported, so there's always the element of the
73 human error and things.

74 MR. BRICKHILL: No, we did not do that.

75 COMMISSIONER POWELL: So basically this is Hydro and
76 there's somebody else in the system. You don't certify that
77 these numbers are the same numbers that are in their
78 financial system? You have no reason to think they're not,
79 but you don't check them to make sure?

80 MR. BRICKHILL: No, we did not.

81 COMMISSIONER POWELL: Okay. One of the comments
82 that the Consumer Advocate was talking to you about, the
83 Rate Stabilization Plan, and you talked about that they're
84 plans that closely resemble Hydro, and I never really got
85 clear understanding of what plans around that would
86 closely resemble Hydro's Rate Stabilization Plan. Can you
87 give me an example of what would be a plan that would
88 closely ...

89 MR. BRICKHILL: There are plans that closely resemble
90 parts of Hydro's Rate Stabilization Plan. First and foremost,
91 most utilities have a fuel adjustment clause where they
92 capture increases in price of oil that were not ... or energy
93 that were not in the base rates, and a lot of the RSP dollars
94 are related to the price of oil. Secondly, companies in
95 Hydro's circumstances who have substantial hydro electric
96 production but use oil on the margin normally have a
97 hydrology adjustment or can be called a water adjustment
98 to reflect dry or wet years when they used more or less oil
99 because of the availability or unavailability of hydraulic.

1 Thirdly, it's not uncommon for utilities to have weather
2 normalization provisions where they get a chance to
3 recover from their customers revenues they didn't get
4 because of warm weather. Normally it's cold weather driven
5 utility, you would have a weather normalization provision,
6 so the combination of those three, I don't think would be
7 much different than Hydro's, except as I agreed with the
8 consumer counsel that most other utilities recover those
9 costs over a faster period of time, six months to a year,
10 rather than three years.

11 COMMISSIONER POWELL: So the timing is probably the
12 bigger difference with Hydro and some of these other
13 timing and recovery?

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

15 COMMISSIONER POWELL: Any of these other utilities,
16 when it comes to fuel prices involved in hedging?

17 MR. BRICKHILL: Yes.

18 COMMISSIONER POWELL: They do. Has this been a
19 fairly established practice with these utilities of hedging
20 their price of oil?

21 MR. BRICKHILL: No. It's still developing. Opportunities
22 for hedging probably first arose in the mid 1980s, and most
23 utilities and their regulators are very sceptical of the use of
24 hedging. With the benefit over time of experience and also
25 a development of some improved devices, greater liquidity
26 in the market, I think people, in looking at it now, some do
27 have hedging programs, albeit limited hedging. It might
28 only be for a portion of their fuel requirements, and it's
29 done as an insurance policy, partial protection against
30 unforeseen events, but as with an insurance policy, on
31 average people who buy insurance don't make money out
32 of it. It's the people who sell the insurance who make the
33 money out of it, so that hedging, hedging has a cost, and
34 another factor, I think very important from the standpoint
35 of Hydro, which Mr. Osmond commented on also
36 yesterday, is they use 2.2 percent sulphur residual fuel oil,
37 and they pay in US dollars, so that the hedging, hedging is
38 more complicated by the fact that you might also have to
39 hedge the dollars, plus, the market for 2.2 percent residual
40 fuel oil is not as liquid as some other products. 2.2 percent
41 residual fuel oil is not that common, so if you hedge, you
42 may have to hedge something else and hope it moves in
43 the same direction, so you're getting kind of ... you have all
44 sorts of dangers here and problems in the hedging. As I
45 understand it, Hydro is doing it on a theoretical basis now
46 in order to decide whether to implement it in the future, and
47 many others are doing the same thing now.

48 COMMISSIONER POWELL: This 2.5 percent (sic) fuel
49 sulphur content, is that efficient, is the fact that Hydro is
50 using that, is that a plus, minus or, I mean, is that efficient

51 fuel or you say it's not ...

52 MR. BRICKHILL: It's cheaper than lower sulphur fuel.

53 COMMISSIONER POWELL: Cheaper to buy or cheaper to
54 use?

55 MR. BRICKHILL: It's cheaper to buy.

56 COMMISSIONER POWELL: Cheaper to use though? I
57 mean, sometimes the cheaper item is not the less expensive
58 item or vice versa.

59 MR. BRICKHILL: I think it's generally consistent in terms
60 of cheaper to ... as cheap to use as any other heavy fuel oil.
61 In the U.S. lower sulphur fuel oil is common because of air
62 pollution problems, one percent, and in some cases less, so
63 the market for one percent residual fuel oil is more liquid
64 than 2.2 percent sulphur fuel oil, but it's also more
65 expensive to begin with.

66 COMMISSIONER POWELL: Uh hum. This is probably
67 outside your expertise, but that brings up another question
68 that came up. In the capital budget there's a requirement
69 for some emission controls at Holyrood with the use of the
70 different fuel oils having an effect on the emissions?

71 MR. BRICKHILL: Yes.

72 COMMISSIONER POWELL: 2.5 would be more emissions?

73 MR. BRICKHILL: Yes.

74 COMMISSIONER POWELL: Okay, so you got to factor
75 into your cost of service whether it's more efficient to be
76 using that in terms of true costs, which is not within ... is
77 that something you considered when you were doing your
78 cost of service study in terms of what you were asked to
79 comment on?

80 MR. BRICKHILL: No.

81 COMMISSIONER POWELL: Okay. Have Fosters and
82 Associates been retained to give any advice or
83 consultation on the hedging, on a hedging program?

84 MR. BRICKHILL: I have discussed it with Hydro stressing
85 the insurance aspect of it and they said, well, that's what
86 we think too, we're glad to hear you say that.

87 COMMISSIONER POWELL: Okay. I wasn't expecting to
88 be talking until this afternoon so I wasn't as prepared as I
89 normally try to be. In your pre-filed evidence you were
90 talking about ... you talked about the study, and you talked
91 about, on page 4, in answer to a question at line 10, you
92 said the data currently available are inadequate to form a
93 reliable minimum system study. Why would the ... why is
94 the data not available? I mean, we have a fairly
95 sophisticated expensive financial capital asset management
96 system.

1 MR. BRICKHILL: The sum data were unavailable because
2 Hydro has taken over the acquired systems where the
3 assets were not independently valued, so we have no cost
4 data for the individual components of the system, we just
5 know what they paid in total, if anything, for the system.
6 The significance from that arises from the fact that a
7 minimum system study looks at the cost of certain things
8 without any demand element in them, and, as a practical
9 matter, Hydro doesn't buy such, so we looked at the plant
10 records and we were unable to obtain everything we
11 thought we would need to do a minimum system study. I
12 bet if you order Hydro to provide that data it can be done.

13 *(11:45 a.m.)*

14 COMMISSIONER POWELL: Thank you, very much, sir.
15 That's all.

16 MR. NOSEWORTHY, CHAIRMAN: Thank you,
17 Commissioner Powell. Commissioner Saunders, please?

18 COMMISSIONER SAUNDERS: No, no questions, Mr.
19 Chair.

20 MR. NOSEWORTHY, CHAIRMAN: Thank you.
21 Commissioner Whalen?

22 COMMISSIONER WHALEN: Good morning, Mr. Brickhill.

23 MR. BRICKHILL: Good morning.

24 COMMISSIONER WHALEN: Still good morning. I only
25 have one question. I think it follows up from your
26 discussion with counsel for Newfoundland Power, and I
27 think also counsel for industrial customers concerning the
28 energy only rate for Newfoundland Power versus a demand
29 only or a sum energy and demand blended rate. I'm just
30 wondering, in your experience with other utilities in the U.S.
31 or in Canada, and I guess also keeping in mind that you've
32 already said that there is a unique relationship between
33 Newfoundland Hydro and Newfoundland Power, what
34 would be the practice with other similar arrangements
35 between a wholesaler of power to a company like
36 Newfoundland Power, are they normally energy only rates?

37 MR. BRICKHILL: No. Normally they would be a two or a
38 three part rate.

39 COMMISSIONER WHALEN: So the fact that
40 Newfoundland Power has an energy only rate is a unique
41 situation in your view?

42 MR. BRICKHILL: Yes.

43 COMMISSIONER WHALEN: Okay. Just following up on
44 that in terms of your experience as well, did I also
45 understand you to say, I think yesterday, that in terms of
46 the allocation that the use of a 1-CP allocator was also the
47 most common practice with most utilities?

48 MR. BRICKHILL: The use of 1-CP for transmission, I think,
49 is the most common practices very widely with respect to
50 generation.

51 COMMISSIONER WHALEN: And I guess, also in terms of
52 using an embedded cost of service versus a marginal ...
53 embedded cost rates versus marginal cost rates, do you
54 have any comment on whether one method is preferred
55 over another or used more than another in utilities in
56 Canada or the U.S.?

57 MR. BRICKHILL: The vast majority of existing rates are
58 embedded cost rates.

59 COMMISSIONER WHALEN: And also in terms of
60 seasonal or time of use rates at the end user, do most
61 utilities have those kinds of rate structures in place?

62 MR. BRICKHILL: Seasonal rates would not be common.
63 Time of use rates are commonly, not universally, but
64 commonly offered, very few people ever take advantage of
65 them. For example, a number of utilities offer time of use
66 rates for residential, but you have to pay for a demand
67 meter so that you can determine when the use is, and it's,
68 let's say \$150, \$200 charge, and most people don't want to
69 lay out that kind of money just for the option of washing
70 and drying their clothes at 3:00 in the morning.

71 COMMISSIONER WHALEN: Yeah, I think I can appreciate
72 that aspect of it. That's all I had, Chair. Thank you, Mr.
73 Brickhill.

74 MR. NOSEWORTHY, CHAIRMAN: Thank you,
75 Commissioner Whalen. Good morning, once again, Mr.
76 Brickhill. Thank you for your testimony. I guess, unlike
77 the cost of capital, being my first time through this, the cost
78 of capital has principles which are contained in many
79 business aspects and entities, regardless of where they are
80 derived, but I think the cost of service, being my first
81 exposure, has some unique characteristics. I haven't heard
82 1- or 2- or 3-CPs before, and certainly I look forward to the
83 next few days, I guess, in terms of other expert witnesses
84 coming forward on the cost of service. I certainly
85 appreciate ... it seems to be a fairly specialized area. I don't
86 have a lot of questions. Indeed, I probably have 1000 but
87 I'm going to limit them until I think I get a little bit more up
88 on the learning curve throughout the week. Just a couple
89 though that I do have, and these are fairly general, actually.
90 When Mr. Kennedy was talking and asking you on cross
91 this morning, and I think his comment was that the whole
92 notion of embedded costs, I think he used the words blurs
93 time of use and seasonal rates and uses average, and I
94 think he then went on to ask you the question that
95 embedded costs would certainly not appear to be the most
96 efficient and fair, and I believe your response was that it is
97 certainly not the most efficient, and you avoided
98 commenting on the fairness aspect of it. Could you just,

1 perhaps, comment pro or con on that for me?

2 MR. BRICKHILL: In my experience and in my opinion,
3 embedded cost rates are viewed as more fair by the
4 customers. They're paying the actual cost, the original cost
5 less depreciation, and I think this pertains to sophisticated
6 and unsophisticated customers alike.

7 MR. NOSEWORTHY, CHAIRMAN: Whereas you would
8 think, from what you said, or I would understand that you
9 would view the marginal cost approach as being more
10 efficient?

11 MR. BRICKHILL: That's correct.

12 MR. NOSEWORTHY, CHAIRMAN: Is that correct? Okay.
13 In terms of utilities throughout the U.S. and Canada, what
14 would be the most common practice in embedded versus
15 marginal costs, for example?

16 MR. BRICKHILL: Embedded would be far more common.

17 MR. NOSEWORTHY, CHAIRMAN: Embedded would be,
18 I see. I think, as well, Mr. Kennedy lead you to the point
19 where I believe my note, and the transcript is certainly not
20 available, you had indicated ... he was talking about
21 marginal costs and the Board would be best advised, in
22 viewing any consideration of marginal cost, to look at
23 implementation simultaneously between Newfoundland
24 Power and Hydro and that should only be done through a
25 joint time of use study. Is that a fair comment to begin
26 with?

27 MR. BRICKHILL: I don't recall the time of use aspect of it,
28 but in terms of ...

29 MR. NOSEWORTHY, CHAIRMAN: I think it was
30 seasonal, actually.

31 MR. BRICKHILL: But in terms of the mechanics, I think
32 you'd have to have both Hydro and Newfoundland Power
33 in the same hearing, under the same schedule, to ensure
34 consistency between the parties.

35 MR. NOSEWORTHY, CHAIRMAN: If that were to be done
36 what are the pros and cons of one versus ... of doing that
37 versus leaving the embedded cost approach in place, from
38 your perspective?

39 MR. BRICKHILL: From my perspective, it would make
40 more sense to leave the embedded costs in place.

41 MR. NOSEWORTHY, CHAIRMAN: I see. That's your
42 evidence?

43 MR. BRICKHILL: Yes.

44 MR. NOSEWORTHY, CHAIRMAN: Just one other item.
45 Again, Mr. Kennedy talked about the demand cost as
46 being ... or maybe this was yourself in defining it, a cost of
47 capacity? Did I interpret that correctly, that the demand ...

48 I have energy costs here as the annual usage, demand
49 costs as the cost of capacity?

50 MR. BRICKHILL: Yes, that's what I said.

51 MR. NOSEWORTHY, CHAIRMAN: Is that correct? How
52 do you ... in terms of calculating the demand costs, how do
53 you then calculate that cost of capacity, on what basis do
54 you do that?

55 MR. BRICKHILL: The demand cost elements fall out from
56 what we call the classification step. In the case of
57 generation costs, which include dams, Holyrood and the
58 like, we followed the recommendations of the Board. With
59 respect to hydraulic, we used the system load factor,
60 roughly 60 percent, and we used the system load factor
61 method. The system load factor, the average usage by the
62 peak usage is around 60 percent, so we said 60 percent of
63 these hydraulic plant costs should be classified as energy,
64 the remaining 40 percent should be classified as demand,
65 so we would apply 40 percent to the total plant costs of
66 hydraulic and that gives us a number, many millions of
67 dollars. Then for transmission, the second largest single
68 item, the Board and conventional practice would be to treat
69 it entirely as demand related, so all those transmission
70 costs get added to 40 percent of the ...

71 MR. NOSEWORTHY, CHAIRMAN: Simply, is capacity
72 more associated with capital costs of generation, primarily?

73 MR. BRICKHILL: For hydraulic, no. For thermal, generally,
74 yes. That's why we did this 60/40 split of the hydraulic,
75 rightfully so, and I don't think any party in this proceeding
76 has objected to it. In 1993 the Board said use the system
77 load factor method, and they heard a lot of other methods.

78 MR. NOSEWORTHY, CHAIRMAN: Uh hum.

79 MR. BRICKHILL: And there's a great deal of intuitive
80 appeal to the system load factor method for generation, so
81 that ... and it applies ... and the reason for differences
82 between thermal and hydraulic treatment often is you built
83 the hydraulic and your costs were expended for both
84 energy and demand. If you wouldn't have built hydraulic
85 usually for peaking, you would build hydraulic for base
86 load, so an allocation method that gives a lot of recognition
87 to the energy component is appropriate.

88 MR. NOSEWORTHY, CHAIRMAN: Okay. I think I have
89 most of that but I will have to read the transcript quite likely
90 again as well. That's all the questions I have, Mr. Brickhill.
91 Thank you, very much. We'll move now to questions on
92 matters arising. Newfoundland Power, please?

93 MS. BUTLER, Q.C.: We have no questions arising. Thank
94 you, Mr. Chair.

95 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
96 Butler. The Industrial Customers?

1 (12:00 noon)

2 MR. HUTCHINGS: Yes, I have a number of questions.
3 Thank you, Mr. Chair. Just going back initially, Mr.
4 Brickhill, to questions from Commissioner Powell that
5 related to the accounting side. Did I understand it correctly
6 that your organization was required to do quite a bit of
7 additional work in order to change the accounts from the
8 business unit accounts that Hydro maintains normally to
9 the so called utility accounts that were required for the cost
10 of service study?

11 MR. BRICKHILL: If I said that I mis-spoke. The Hydro
12 personnel did extra work in that regard.

13 MR. HUTCHINGS: Okay, but there was a great deal of
14 additional work to be done on that account?

15 MR. BRICKHILL: Yes.

16 MR. HUTCHINGS: Okay. If I understood your answers to
17 Commissioner Powell correctly, there are utilities, and
18 perhaps the majority of utilities that simply would maintain
19 the utility accounts and thereby eliminate this step?

20 MR. BRICKHILL: That's correct.

21 MR. HUTCHINGS: Okay. Are there any advantages that
22 you're aware of, of maintaining the two systems of
23 accounts that Hydro is now forced to maintain?

24 MR. BRICKHILL: They don't maintain two systems of
25 accounts, they just maintain one.

26 MR. HUTCHINGS: But the ...

27 MR. BRICKHILL: It's just in the event of a rate case there's
28 more work.

29 MR. HUTCHINGS: So they have to create a new set of
30 accounts for each cost of service, is that correct?

31 MR. BRICKHILL: In essence, yes.

32 MR. HUTCHINGS: And is there an advantage to doing it
33 that way? I mean, on the face of it it seems simpler to
34 maintain a single set of accounts which would be
35 consistent with the cost of service study.

36 MR. BRICKHILL: In my experience companies look at a
37 system of accounts as to what is best for them on a day-to-
38 day basis rather than what's best for them on an infrequent
39 rate case basis. If Hydro has one rate case every five or ten
40 years and they find their existing accounting system
41 otherwise adequate, I think it would be alright to do that
42 extra work when the rate case requires it and otherwise stay
43 with their accounting system.

44 MR. HUTCHINGS: Do you know if your group was
45 consulted at the time Hydro decided to move to the
46 business unit method of accounting?

47 MR. BRICKHILL: I don't believe so.

48 MR. HUTCHINGS: Okay. When you were speaking with
49 Commissioner Powell you described the system in terms of
50 his question about who is auditing this and trying to keep
51 it in line, you described the system as an iterative plan?

52 MR. BRICKHILL: Iterative process.

53 MR. HUTCHINGS: Iterative process. What exactly did
54 you mean by that?

55 MR. BRICKHILL: We're going back and forth, making a
56 preliminary run, examining the results, finding possible
57 errors, rerunning it again.

58 MR. HUTCHINGS: Okay, and you said, I believe, that you
59 thought that you had caught every error, is that what your
60 evidence was?

61 MR. BRICKHILL: Yes.

62 MR. HUTCHINGS: Okay. I guess ... and this may be the
63 substance of Mr. Powell's question as well, is how can we
64 be sure that the errors have been caught, is there a way?

65 MR. BRICKHILL: I don't think we can ever be sure to the
66 last penny.

67 MR. HUTCHINGS: Is it, in fact, the case that some of these
68 errors can actually arise at a very low level in the
69 accounting system, if you will, in terms of how individual
70 business units may report specific information for the
71 purpose of the cost of service study?

72 MR. BRICKHILL: That's correct.

73 MR. HUTCHINGS: And you were aware, obviously, of the
74 error that was corrected after the beginning of this hearing
75 which resulted in a quite considerable reallocation of costs
76 among the customers. Were you aware of the source of
77 that particular error?

78 MR. BRICKHILL: Yes.

79 MR. HUTCHINGS: Okay, and that was of the nature which
80 I've described, it happened, essentially, at a rather low level
81 and worked its way up through the system?

82 MR. BRICKHILL: That's correct.

83 MR. HUTCHINGS: Okay, so effectively, one needs to have
84 a quite intimate knowledge of the actual, on the ground
85 operations of Hydro and know what specific assets are
86 used for in order to be able to bring accurate information
87 into the cost of service, is that fair?

88 MR. BRICKHILL: Yes.

89 MR. HUTCHINGS: Okay, and I take it that from the point
90 of view of an organization such as Foster and Associates,
91 you would not be in a position to audit that, as Mr. Powell

- 1 would say?
- 2 MR. BRICKHILL: That would normally not be our
3 function, that's right.
- 4 MR. HUTCHINGS: Okay. Typically, in your experience,
5 does anyone other than the utility itself get involved in that
6 level of detail?
- 7 MR. BRICKHILL: No.
- 8 MR. HUTCHINGS: Okay. Commissioner Whalen was
9 asking you some questions about marginal and embedded
10 costs and the Chair followed up on some of those points as
11 well. Were you familiar with the proceeding in the late
12 1970s before the Ontario Energy Board, which was known
13 as ECAPS (phonetic), are you familiar with that?
- 14 MR. BRICKHILL: No.
- 15 MR. HUTCHINGS: No, okay. Are you familiar with any
16 major regulatory proceeding in Canada that dealt with the
17 issue of marginal cost pricing?
- 18 MR. BRICKHILL: Not offhand, no.
- 19 MR. HUTCHINGS: Okay. Alright. I wasn't clear on your
20 answer. I understood the Chair to be asking you a
21 question as to the pros and cons of the embedded versus
22 marginal cost approach and it was arising out of a
23 discussion relative to the integrated hearing, so called, and
24 I was neither entirely clear on the question or the answer,
25 but I wanted you to address, from your point of view, the
26 relative advantages to the utilities of pursuing either an
27 embedded or a marginal cost pricing system?
- 28 MR. BRICKHILL: At the present time I don't think there is
29 any advantage for the utilities to modify their pricing
30 systems. It's been my experience that when utilities
31 advocate, let's say marginal principles, it's usually because
32 there's a problem out there they're trying to fix. I don't
33 think the utilities here have a problem they need to fix with
34 marginal cost rates, and I think the same is true when the
35 government pushes for such things. Marginal cost rates
36 got a lot of attention during the energy crisis when we were
37 concerned about the price of oil going to \$100 a barrel and
38 we were trying to implement conservation. They still didn't
39 actually get implemented in most cases, but they got a lot
40 of attention and there were a lot of hearings, a lot of debate,
41 but, normally those are the circumstances under which
42 marginal cost rates may have perceived advantages to
43 utilities when they're trying to stop people from using
44 energy so that they don't have to lay out lots of money to
45 serve these needs.
- 46 MR. HUTCHINGS: And, I take it, that relates back to the
47 ability of the marginal cost rate to send some sort of price
48 signal?
- 49 MR. BRICKHILL: That's correct.
- 50 MR. HUTCHINGS: Okay. Those questions, I guess, arose
51 out of your discussions with Mr. Kennedy relative to the
52 marginal rates and the seasonal rates and so on. Is the
53 utility of the seasonal rate affected by the manner in which
54 a utility which has both hydraulic and thermal generation
55 manages its mix of hydraulic and thermal production?
- 56 MR. BRICKHILL: It certainly could be, yes.
- 57 MR. HUTCHINGS: And how would that come about?
- 58 MR. BRICKHILL: It could come about, for example, by a
59 utility conserving hydraulic resources and using oil when
60 it could have, theoretically, in the short-term, used the
61 hydraulic instead.
- 62 MR. HUTCHINGS: Uh hum. In Mr. Kennedy's simple
63 example from this morning, presumably one could, in the
64 wintertime, use entirely hydraulic production, if your
65 system allows you to do that, and then burn oil in the
66 summertime and thereby change the marginal costing
67 characteristics, if you will, of the system?
- 68 MR. BRICKHILL: That's correct.
- 69 MR. HUTCHINGS: Yeah, okay, but from your
70 understanding, Hydro's system is simply not managed in
71 that way, it's simply managed to maximize the hydraulic
72 production?
- 73 MR. BRICKHILL: That's my understanding.
- 74 MR. HUTCHINGS: Okay. I think the Chair was able to
75 follow some of your final answers there as they related to
76 capacity costs and capital costs, but I'm not sure I was
77 completely behind him in his following of that. You
78 indicated, as it appears from the cost of service study, that
79 system load factor was used to assign the hydraulic costs
80 and the transmission was entirely assigned to demand.
81 There was a discussion then about how capacity costs
82 related to capital costs, and could I ask you to just take me
83 through that again? And I think the discussion went one
84 way with respect to hydraulic costs and another way with
85 respect to thermal generation costs.
- 86 MR. BRICKHILL: Hydraulic plant is normally built for both
87 energy and capacity use or peak use so that normally the
88 capital cost of hydraulic, which is pretty much all the cost
89 of hydraulic, are assigned by a method between energy and
90 demand. If the base load were oil, typically the plant costs
91 would be assigned entirely to demand, and of course, the
92 fuel costs assigned to energy. I think that's what I was
93 driving at this morning.
- 94 MR. HUTCHINGS: Okay, so in your cost of service study,
95 I think as you've told us already, the system load factor is
96 used to assign the hydraulic costs between energy and

1 capacity. How are the thermal costs dealt with in your cost
2 of service study?

3 MR. BRICKHILL: The cost of Holyrood is classified
4 between energy and demand based on the capacity factor
5 for Holyrood and the costs of gas turbines are assigned
6 entirely to demand.

7 MR. HUTCHINGS: Those are the capital costs?

8 MR. BRICKHILL: Yes.

9 MR. HUTCHINGS: Yes, and the fuel costs are assigned
10 entirely to energy?

11 MR. BRICKHILL: No. The fuel costs for the turbines is
12 assigned demand too.

13 MR. HUTCHINGS: Yes, yes, okay, but for Holyrood ...

14 MR. BRICKHILL: Oh, Holyrood, the ...

15 MR. HUTCHINGS: ... the fuel is entirely assigned to
16 energy, okay, and what's the rationale then for assigning
17 the fuel costs for the turbines to demand?

18 *(12:15 p.m.)*

19 MR. BRICKHILL: The fuel costs which occur in the peak
20 are assigned on the basis of peak. There is also some
21 additional fuel costs for testing over the course of the year,
22 but the purpose of the testing is to make sure it works on
23 the peak so that's why the gas turbine fuel costs are
24 allocated, assigned to demand.

25 MR. HUTCHINGS: Just to return very briefly to questions
26 from the panel in respect of marginal and embedded costs,
27 would you agree with me that it is possible to design time
28 of use or time of day rates from either the basis of a
29 marginal or an embedded cost scenario?

30 MR. BRICKHILL: Yes.

31 MR. HUTCHINGS: Okay, and if I understand your answer
32 to Commissioner Whalen correctly, time of use rates are
33 commonly offered but not often utilized?

34 MR. BRICKHILL: That's correct.

35 MR. HUTCHINGS: Okay. I presume that the reference you
36 made to the demand meter for residential customers would
37 not be a deterrent in respect of larger customers who have
38 a demand charge, in any event?

39 MR. BRICKHILL: That's correct.

40 MR. HUTCHINGS: Okay. Is there a distinction, generally,
41 in the use of time of ... or seasonal as opposed to time of
42 day rates offered by utilities generally?

43 MR. BRICKHILL: Could you repeat the question?

44 MR. HUTCHINGS: I'm trying to determine whether or not

45 your experience shows that there is greater or lesser use of
46 time of day as opposed to season rates or greater offerings
47 of one or the other?

48 MR. BRICKHILL: I don't think I can really answer that. I'd
49 have to do a survey.

50 MR. HUTCHINGS: Okay, so you have no basis of
51 knowledge for time of use rates in Canada, at all, do you?

52 MR. BRICKHILL: Well, not the relative implementation of
53 time of use versus seasonal.

54 MR. HUTCHINGS: Okay, sorry, I'm taking a little longer,
55 Mr. Brickhill, because as you're aware, of course, it would
56 do with your initial examination.

57 MR. YOUNG: It's only on matters arising, Mr. Hutchings.

58 MR. HUTCHINGS: I understand that. You have a better
59 grasp of evidence of witnesses for whom you've prepared.
60 I think that's all I have at this point, Chair.

61 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
62 Hutchings. Mr. Browne, please?

63 MR. BROWNE, Q.C.: Just three areas. In questioning you
64 said that time of day rates are available but not used.
65 Would that be because time of day rates are not promoted
66 by utilities generally?

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

68 MR. BROWNE, Q.C.: Are they advertised, to your
69 knowledge, on a regular basis within American
70 jurisdictions?

71 MR. BRICKHILL: No.

72 MR. BROWNE, Q.C.: You were asked some questions
73 about the fuel adjustment charges. Is it true that
74 companies that have had fuel adjustment charge plans in
75 the United States in the 1980s when fuel was expensive,
76 abandoned those plans when fuel got cheaper in the early
77 '90s and down to where we are around 1996, do you have
78 any knowledge of that?

79 MR. BRICKHILL: I would say no. Wouldn't they remain,
80 the fuel adjustment plans remain?

81 MR. BROWNE, Q.C.: You have no knowledge of any
82 companies abandoning these plans?

83 MR. BRICKHILL: No, I don't have any knowledge of any
84 companies abandoning these plans except in restructuring
85 cases where they got other things they wanted, like
86 stranded cost recovery in exchange for elimination of the
87 fuel adjustment plans.

88 MR. BROWNE, Q.C.: So some companies that had them in
89 the 1980s don't have them now?

- 1 MR. BRICKHILL: That's correct. The bankrupt California
2 companies and (inaudible) Power and Light.
- 3 MR. BROWNE, Q.C.: California is a case onto itself, isn't
4 it?
- 5 MR. BRICKHILL: Yes.
- 6 MR. BROWNE, Q.C.: Yes. Commissioner Powell asked
7 you questions re oil hedging, and you stated that there is
8 an insurance cost to oil hedging, right?
- 9 MR. BRICKHILL: Yes.
- 10 MR. BROWNE, Q.C.: Yes, and did you state that people
11 don't buy insurance to make money, rather the people who
12 make money are the people that sell the insurance, I think
13 that's what you said?
- 14 MR. BRICKHILL: That's good.
- 15 MR. BROWNE, Q.C.: But isn't it true that insurance is not
16 purchased to make money, but to avoid losing money?
- 17 MR. BRICKHILL: That's correct.
- 18 MR. BROWNE, Q.C.: So wouldn't it be prudent for Hydro
19 to consider oil hedging or insurance to avoid the chance of
20 consumers losing money as a result of a dramatic increase
21 in oil prices?
- 22 MR. BRICKHILL: Yes.
- 23 MR. BROWNE, Q.C.: Thank you, very much.
- 24 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
25 Browne. Mr. Kennedy?
- 26 MR. KENNEDY: Nothing arising, Chair.
- 27 MR. NOSEWORTHY, CHAIRMAN: Thank you. Mr.
28 Young, redirect?
- 29 MR. YOUNG: No, thank you, Chair.
- 30 MR. NOSEWORTHY, CHAIRMAN: Okay. That's it, that
31 concludes Mr. Brickhill's testimony. Thank you, sir, once
32 again, very much, and we will break now, and I understand,
33 Mr. Young, will you be introducing Mr. Hamilton when we
34 come back and reconvene at 2:00?
- 35 MR. YOUNG: That's correct.
- 36 MR. NOSEWORTHY, CHAIRMAN: Thank you, very
37 much.
- 38 (break)
- 39 (2:00 p.m.)
- 40 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
41 afternoon. Good afternoon, Mr. Hamilton. Before I swear
42 you in I'll just check with Mr. Kennedy to see if there are
43 any preliminary matters from counsel?
- 44 MR. KENNEDY: I believe Hydro has an announcement to
45 make.
- 46 MR. BROWNE, Q.C.: A Christmas party?
- 47 MS. GREENE, Q.C.: The announcement is that there were
48 no undertakings provided yesterday so I have no list to
49 circulate.
- 50 MR. KENNEDY: Chair, there is one letter that's been filed
51 with the Board from the Town of Conception Bay South,
52 from Mr. Ron Smith, the Mayor of the Town of Conception
53 Bay South, would be entered as the appropriate form of
54 letters of comment pursuant to the previous orders.
- 55 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
56 Kennedy. Can I ask you to take the Bible in your right
57 hand, Mr. Hamilton, please? Do you swear on this Bible
58 that the evidence to be given by you shall be the truth, the
59 whole truth, and nothing but the truth, so help you God?
- 60 MR. HAMILTON: I do.
- 61 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.
62 Will you begin your direct evidence then, Mr. Young,
63 please?
- 64 MR. YOUNG: Thank you, Chair. Good afternoon, Mr.
65 Hamilton.
- 66 MR. HAMILTON: Good afternoon.
- 67 MR. YOUNG: Mr. Hamilton, evidence, pre-filed evidence
68 was filed in your name. Do you adopt that evidence as
69 being your testimony for the purposes of this application?
- 70 MR. HAMILTON: Yes, I do.
- 71 MR. YOUNG: And also there was supplementary evidence,
72 the first filed on October 1st, and the second on October
73 the 31st, in relation to changes flowing from changes in Mr.
74 Brickhill's evidence also. Do you adopt the first and the
75 second supplementary evidence to be your testimony for
76 this application?
- 77 MR. HAMILTON: Yes, I do.
- 78 MR. YOUNG: Those are all my questions on direct, thank
79 you.
- 80 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
81 Mr. Young. We'll move now to Newfoundland Power's
82 cross-examination. Ms. Butler, please?
- 83 MS. BUTLER, Q.C.: Thank you, Mr. Noseworthy, and hi,
84 Mr. Hamilton. Can I start first with some rate design
85 guideline questions, and perhaps we could get on the
86 screen page 5 of your **pre-filed testimony**. What's being
87 addressed here are the long-term cost recovery levels for
88 the isolated rural systems at line 4 to 10 and similarly for the
89 Labrador interconnected system at lines 12 to 18, so for the

1 first section, lines 4 to 11 first. In terms of the cost
2 recovery level for domestic customers in the isolated rural
3 systems, can you provide us with the justification for the
4 level of only 20 percent?

5 MR. HAMILTON: The 20 percent target was identified on
6 the grounds that given the constraints such as the lifeline
7 block, it would be difficult, if not impossible, to get above
8 20 percent, so it's sort of there to put it in the context of ...
9 right now the existing rate is approximately 16 percent cost
10 recovery in isolated areas from domestic customers, and
11 that even moving to greater cost recovery and the run out
12 rates, that it's unlikely that you'd ever get above 20 percent,
13 even in the longer term.

14 MS. BUTLER, Q.C.: Newfoundland Power, of course, is
15 interested in this because the shortfall is covered
16 principally by Newfoundland Power's customers, correct?

17 MR. HAMILTON: That's correct.

18 MS. BUTLER, Q.C.: And 20 percent does seem low, would
19 you agree with that?

20 MR. HAMILTON: It's low, yes.

21 MS. BUTLER, Q.C.: Now general service is 45 percent.
22 Can you give us the justification for that level chosen for
23 cost recovery?

24 MR. HAMILTON: Again, given the, I guess, policies of
25 the lifeline block rate there, it would be difficult to ever
26 achieve anything approaching 100 percent, and even
27 without the lifeline block, the costs would make it very
28 uneconomic to run businesses at that level, so we felt that
29 45 percent is a target. At such time in the future if we get
30 the 45 percent, then that can be re-evaluated, of course. It's
31 a long-term target right now, but diesel rates for general
32 service are recovering approximately 28 percent, so that will
33 require substantial movement to get 45 percent.

34 MS. BUTLER, Q.C.: These cost recovery objectives that
35 are on the screen for the isolated systems do assume that
36 the lifeline block will continue to exist over the same period.

37 MR. HAMILTON: Certainly for domestic. For general
38 service, not necessarily. It's, those numbers are there
39 mainly to provide an indication of some possible levels,
40 and if those levels are indeed adopted, then when we come
41 out with the five year plan in the 2003 application, then the
42 five year plan would attempt to move it in the direction of
43 those targets.

44 MS. BUTLER, Q.C.: Okay, so when you use the term long-
45 term then in line 5, are you suggesting five years?

46 MR. HAMILTON: For the foreseeable term until, I guess,
47 to see the impact of, can you get there at all, what the
48 impact on customers would be as we move closer to those

49 targets, to then see if it's feasible to accomplish more.

50 MS. BUTLER, Q.C.: Okay, in an earlier section of this
51 hearing, and in fact while Mr. Wells was on the stand, and
52 perhaps we might look at the transcript but I will be
53 returning back to that page, Mr. O'Rielly, September 27th,
54 please? There's an indication given on the record that ...
55 the page is 5, lines 26 to 28 on the hard copy ... indication
56 was given by your counsel of Hydro's position on the
57 record with respect to whether or not it was bound by
58 previous Orders in Council that applied to the rural rates,
59 and just to perhaps go back and look at what was said here
60 ... can we scroll, let's see ... if we could just go up a little bit
61 to give some history here so that we can see what we're
62 talking about. Okay, look at line 9. Mr. Kennedy was
63 asking Mr. Wells, "When I see that Hydro concurs with
64 this recommendation", and that was the recommendation to
65 eliminate the preferential rate, and that sort of puts it in
66 context for us, and then at line 26 you'll see, Mr. Kennedy
67 says, "To actually eliminate that special rate would require
68 another Order in Council", and this is where Ms. Greene
69 appropriately intervened to state Hydro's position at lines
70 30 to 48. Perhaps for the benefit of refreshing our memories
71 on this, you could read that section into the record, Mr.
72 Hamilton, please?

73 MR. HAMILTON: Beginning at line 30?

74 MS. BUTLER, Q.C.: Yeah, thanks.

75 MR. HAMILTON: I don't know if it would be helpful
76 because really the line of questioning seems to suggest
77 that Hydro has taken a position that government may, by
78 Order in Council, direct Hydro to do a certain rate design.
79 That is not the legal position of Hydro. Our position is that
80 Hydro is a fully regulated utility under the *Public Utilities*
81 *Act*. If direction is to be given by government on such
82 issues, it will be given to the Board under Section 5.1 of the
83 *Electric Power Control Act*. Part of the historical problem
84 is that in approaching this hearing, we had historic rates
85 which may have been based on previous Orders in Council,
86 and the issue for the Board is how to deal with our
87 historical context. Originally it was set by Order in Council,
88 which would be viewed by this Board and accepted by this
89 Board as a means of how rates were designed for rural
90 customers, but on a go-forward basis, if government were
91 to issue direction it would have to be to the Board under
92 Section 5.1 of the *Electric Power Control Act*, and that's
93 Hydro's position for this hearing.

94 MS. BUTLER, Q.C.: Okay, then Mr. Kennedy suggests at
95 lines 49 to 55 actually, "So if I can gather Counsel's
96 position correctly, that Hydro is indicating that the Board
97 is not by that Order in Council", I'm sorry, "Bound by that
98 Order in Council, but if the Board chose it could eliminate
99 the 700 kilowatt hour lifeline block rate". And perhaps you

1 could just read in your counsel's response at 56 to 64?

2 MR. HAMILTON: That's correct, and similarly with respect
3 to the preferential rates or primarily for customers in
4 isolated areas such as the fish plants, it is not Hydro's
5 position that the Board is bound by those previous Orders
6 in Council which were passed before Hydro became fully
7 regulated. It is Hydro's position it is fully within the
8 authority of the Board to make recommendations with
9 respect to the preferential rates and with respect to the
10 lifeline block.

11 MS. BUTLER, Q.C.: Okay, so with that little bit of history
12 then, Mr. Hamilton, do you accept, that is does Hydro
13 accept, that this Board can, if it chooses, eliminate the link
14 which currently exists between the rates charged by Hydro
15 on the isolated rural, in the isolated rural area, and the rates
16 charged by Newfoundland Power to its customers?

17 MR. HAMILTON: Yes.

18 MS. BUTLER, Q.C.: Okay, and back to page 5 of your
19 testimony then, your long-term goal for cost recovery for
20 the domestic customers on the isolated rural system is 20
21 percent. Are we to assume that it is the long-term goal of
22 Hydro, subject to the Board's order, to continue to charge
23 that same rate to its isolated rural customers as the rate that
24 Newfoundland Power charges to its customers?

25 MR. HAMILTON: That's what we're proposing right now.

26 MS. BUTLER, Q.C.: And does Hydro currently have any
27 other long-term rate design plans for domestic energy
28 usage on the isolated systems, that is other than beyond
29 the 700 kilowatt hour lifeline block rate?

30 MR. HAMILTON: In the short-term we're just going with
31 the average increase as in the past. In the longer term,
32 unless something to the contrary comes up, we expect to
33 increase the subsequent blocks to more appropriately
34 reflect the cost of fuel at the diesel plants, and that would
35 increase the cost recovery from those places.

36 MS. BUTLER, Q.C.: Now Hydro has indicated through Mr.
37 Osmond primarily that a plan outlining the schedule for
38 elimination of preferential rates will basically be made at the
39 next hearing.

40 MR. HAMILTON: Yes.

41 MS. BUTLER, Q.C.: But your long-term goal for cost
42 recovery for street and area lighting in isolated rural areas
43 here is 50 percent.

44 MR. HAMILTON: Yes.

45 MS. BUTLER, Q.C.: Okay, I'm sorry, I skipped a question,
46 Mr. Hamilton, can I just go back. In relation to what Mr.
47 Osmond had told us about the elimination, or coming in
48 with the long-term plan at the next rate hearing, will that

49 rate plan also outline Hydro's long-term plan with respect
50 to the current linkage between Hydro rural isolated rates to
51 the rates of Newfoundland Power? Is it the intention to do
52 that on the next application?

53 MR. HAMILTON: To link any portions that seem
54 appropriate to link, that will be identified as part of that plan
55 and parts that seem appropriate to, or don't need to be
56 linked, those will be addressed at that time, yes.

57 (2:15 p.m.)

58 MS. BUTLER, Q.C.: Now looking at the street lighting cost
59 recovery level here on the screen, 50 percent, which we can
60 compare to line 18 which is street lighting, 100 percent cost
61 recovery for the Labrador interconnected system. Can you
62 tell us Hydro's justification for only a 50 percent cost
63 recovery level for street lighting on the isolated rural
64 system?

65 MR. HAMILTON: The problem with street lighting is the
66 high cost of the energy there. The fixture (*phonetic*) cost
67 would be probably fully recovered. The trade off on the
68 street lighting is, it might be known by the social aspects,
69 but if the street light rates get priced at full cost recovery in
70 all likelihood no one will afford the street lighting and that
71 will raise other potential problems but right now the cost
72 recovery for street lighting in the latest cost of service is at
73 36 percent so again, that would ... the 50 percent is about a
74 50 percent increase.

75 MS. BUTLER, Q.C.: And that is the complete rationale for
76 why street and area lighting in isolated rural systems is
77 subsidized?

78 MR. HAMILTON: Right now it's the same rates as
79 Newfoundland Power charges.

80 MS. BUTLER, Q.C.: Okay, now looking at lines 12 to 18 we
81 have the long-term cost recovery targets for the Labrador
82 interconnected system, domestic 95 percent, general
83 service 105 to 115 percent, and street lighting 100 percent,
84 right?

85 MR. HAMILTON: Yes.

86 MS. BUTLER, Q.C.: There was an information request
87 about this in terms of the general service percentages in
88 any event, because it extends past 110 percent. I wonder if
89 we might look at **NP-211**, line 5 first. In relation to the
90 question that was asked, Hydro's response, I'm sorry ... in
91 relation to the question that was asked, we quote in the
92 question the Public Utilities Board Order 7, 1996/97, which
93 is an order that applies, of course, to Newfoundland Power.
94 Could you just read in lines 5 to 8 please?

95 MR. HAMILTON: The Board agrees with the philosophy
96 that it's not necessary to achieve a 100 percent revenue to
97 cost ratio for all classes and takes no exception to a

1 variance of up to 10 percent, i.e., to achieve between 90
2 percent to 100 (*sic*) percent the cost of service in revenue.

3 MS. BUTLER, Q.C.: To achieve between 90 percent to 110
4 percent of the cost of service in revenue, right?

5 MR. HAMILTON: Correct.

6 MS. BUTLER, Q.C.: Okay, now in terms of the answer that
7 was given to why you were proposing, and you'll see this
8 at line one, cost recovery targets for general service of 105
9 to 115 percent, can you just read in your answer please,
10 lines 15 to 19.

11 MR. HAMILTON: As stated in NP-137, the general service
12 classes will average approximately 108 percent cost
13 recovery based on 95 percent cost recovery for the
14 domestic class. Therefore, 105 percent to 115 percent
15 allowed more flexibility to achieve the 95 percent target for
16 domestic. If the domestic target is deemed inappropriate,
17 the general service range can be modified to the 100 percent
18 to the 110 percent range noted above.

19 MS. BUTLER, Q.C.: So Hydro's position is that if an order
20 by this Board is given similar to the order which currently
21 applies to Newfoundland Power on the same point, the
22 general service range can be modified.

23 MR. HAMILTON: Yes.

24 MS. BUTLER, Q.C.: Okay, I'm going to turn now if I can to
25 another topic. Clearly we know from several other
26 witnesses here that Hydro's proposing to move towards
27 full cost recovery on government rates in the diesel areas
28 by a 20 percent increase for 2002?

29 MR. HAMILTON: That's ... yes.

30 MS. BUTLER, Q.C.: But Hydro is not proposing any
31 additional increases until the next rate hearing.

32 MR. HAMILTON: That's correct.

33 MS. BUTLER, Q.C.: Now, **Mr. Osmond's pre-filed**, if we
34 might look at that at page 12, line 7, okay. Here Mr.
35 Osmond is addressing the recommendation in the 1996
36 report that a new rate be designed for federal and provincial
37 departments and agencies, of course, with recovery over
38 five years, and in the answer to the question starting at line
39 7, he says Hydro accepts this recommendation to move to
40 full cost recovery.

41 MR. HAMILTON: Uh hum.

42 MS. BUTLER, Q.C.: In the section that follows from lines
43 10 to 18 however, he suggests that on average rates for
44 government agencies and departments would increase by
45 approximately 280 percent in order to achieve that full cost
46 recovery, correct?

47 MR. HAMILTON: Yes.

48 MS. BUTLER, Q.C.: Now if we have to wait for a general
49 rate hearing in order to take the next step towards full cost
50 recovery, we might be waiting several years, right?

51 MR. HAMILTON: I believe it's been put on the record that
52 Hydro intends to be back in 2003 for rates for 2004.

53 MS. BUTLER, Q.C.: Right, so at the very least it will be a
54 two year span between the 20 percent you're going to seek
55 in 2002 and your next test year of 2004.

56 MR. HAMILTON: Approximately, yes.

57 MS. BUTLER, Q.C.: And that assumes that everything
58 goes as planned with the next application?

59 MR. HAMILTON: Yes.

60 MS. BUTLER, Q.C.: But do you agree, Mr. Hamilton, that
61 the other option available to the Board to expedite cost
62 recovery from those government agencies and departments
63 would be to approve an annual adjustment to the
64 government rates now?

65 MR. HAMILTON: They could do that, yes.

66 MS. BUTLER, Q.C.: Okay, and you also agree that if that
67 was done any cost savings or revenue increase could be
68 applied to reduce the rural deficit.

69 MR. HAMILTON: That could be done, yes. That could be
70 treated in the same way as the rural rate alteration is now.

71 MS. BUTLER, Q.C.: That's right. Thank you. I want to
72 turn now to general service customers in diesel areas
73 specifically. When we talk about the isolated systems
74 we're talking about the Labrador rural isolated as well as the
75 island rural isolated?

76 MR. HAMILTON: Yes.

77 MS. BUTLER, Q.C.: And without exception, all are served
78 by diesel?

79 MR. HAMILTON: Yes.

80 MS. BUTLER, Q.C.: Okay, because I must say, as a
81 newcomer, I found that the terms were sometimes being
82 used interchangeably without me understanding that they
83 were, in fact, the same systems they were talking about.

84 MR. HAMILTON: The only two, I guess, confusing ones
85 are L'anse au Loup which actually is being supplied, it's an
86 isolated system being fed secondary power from Hydro
87 Quebec, and Mary's Harbour has a mini-hydro plant up
88 there that we buy power from, but the predominant source
89 of energy there is also a diesel.

90 MS. BUTLER, Q.C.: Okay, when we say general service
91 customers, can you describe for us what's meant by that
92 term in relation to Hydro's customers in any event?

1 MR. HAMILTON: A general service customer would be a
2 non-residential customer.

3 MS. BUTLER, Q.C.: Okay, now in terms of your rate 2.5 for
4 general service diesel, I couldn't find actually a page of the
5 formal application that outlined the rate, so I took it from
6 your website. Perhaps we can just pass this out as an
7 exhibit? Mr. Hamilton, are you familiar enough with this to
8 be able to acknowledge that it is from your website and that
9 it does accurately set out the rate 2.5 as it currently exists?

10 MR. HAMILTON: Yes.

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

12 MR. KENNEDY: Counsel, that would be NP No. 9.

13 **EXHIBIT NP-9 ENTERED**

14 MS. BUTLER, Q.C.: Thank you, now let's see. The rate for,
15 rate 2.5 for general service diesel customers is the basic
16 customer charge of \$18.56 per month, plus as an energy
17 charge for the first 700 kilowatt hours per month, 8.676
18 cents per kilowatt hour, is that right?

19 MR. HAMILTON: Yes.

20 MS. BUTLER, Q.C.: And is that what they call the lifeline
21 block rate?

22 MR. HAMILTON: The first 700 kilowatt hours is.

23 MS. BUTLER, Q.C.: Right, now at the rural rate inquiry the
24 Board as it was comprised at that time, ordered that Hydro
25 evaluate implementing demand energy rates for these
26 customers, is that correct?

27 MR. HAMILTON: Yes.

28 MS. BUTLER, Q.C.: And can we look, Mr. O'Rielly please,
29 at **NP-184**. Okay, page 1 is fine, lines 10 to 13. Could you
30 just read in Roman numerals, paragraph two please?

31 MR. HAMILTON: That Hydro be directed to provide a
32 cost benefit analysis of a rate structure for general service
33 customers which provides for a demand charge. The
34 energy and demand charge in such a rate structure should
35 recover long-run marginal costs.

36 MS. BUTLER, Q.C.: Okay, now while that paragraph
37 doesn't specifically refer to the isolated systems, I presume
38 you accept that that whole section comes from the section
39 of the report dealing with the isolated systems.

40 MR. HAMILTON: Yes.

41 MS. BUTLER, Q.C.: Okay, alright, now this was actually
42 worded in the form of a question, so let's just look at the
43 answer. Sorry, first of all, page two, yeah, lines 5 to 7. This
44 question, which is sub-paragraph (b) asked, provide the
45 cost benefit analysis of a demand energy rate structure for
46 general service rates in isolated areas as recommended by

47 the Board. If the analysis was not completed, please
48 explain why not. And could you just read the answer that
49 was given to (b) please? Yeah, lines 24 to 26.

50 MR. HAMILTON: Please see attached report entitled
51 "Cost Benefit Analysis of Implementing Demand Charges
52 in the General Service Rate Structure in Isolated Areas".

53 MS. BUTLER, Q.C.: And I think that report is attached
54 electronically. No? It's only one page, or two pages.
55 There you go. Is this the report, Mr. Hamilton?

56 MR. HAMILTON: Yes, it is.

57 MS. BUTLER, Q.C.: And obviously this was prepared
58 inhouse, was it?

59 MR. HAMILTON: Yes, it was.

60 MS. BUTLER, Q.C.: Is this the complete report or just a
61 summary of it, because it's only a page and a half, I think?

62 MR. HAMILTON: No, that's the full report.

63 MS. BUTLER, Q.C.: Yeah, okay, can you read the
64 conclusion from the analysis which is on page two? It's the
65 last two paragraphs in full?

66 MR. HAMILTON: The cost of implementing demand
67 charges in general service rates in isolated areas is not
68 significant. Such a change in rate structure will have
69 varying effects on customers' individual bills. Generally
70 lower load factor customers tend to receive increases while
71 higher load factor customers will receive decreases,
72 assuming the rate is designed to recover the same revenue.
73 Customers that will receive higher bills are likely to
74 complain about such a change. Customers' bills will,
75 however, better reflect the respective costs and provide
76 them with an opportunity to reduce their bills through
77 managing the level of demand they place on the system.
78 Therefore, Hydro should implement demand charges in the
79 general service rates charged in isolated areas. The timing
80 of the implementation should reflect the other rates issues
81 to be addressed in the isolated areas. However, in
82 preparation for the eventual implementation, demand
83 meters should be installed on all appropriate customers in
84 the near future.

85 MS. BUTLER, Q.C.: Okay, thank you. Now the report
86 doesn't have a date, can you tell me of what date it speaks,
87 or from what date it speaks?

88 MR. HAMILTON: It was prepared in the spring of this
89 year, or the fall of last year. Probably safe to say the
90 winter. The difference between, probably between the first
91 draft and the last draft.

92 MS. BUTLER, Q.C.: Okay, so in draft to final form it
93 spanned the fall of 2000 to the spring of 2001?

- 1 MR. HAMILTON: Yes.
- 2 MS. BUTLER, Q.C.: Okay, and the last paragraph again, if
3 we can just look at that please, Mr. O'Rielly, thank you. It
4 said demand meters should be installed on all appropriate
5 customers in the near future.
- 6 MR. HAMILTON: Yes.
- 7 MS. BUTLER, Q.C.: Okay, so was that done?
- 8 MR. HAMILTON: I understand that checks have been
9 used to determine appropriate customers to have demand
10 meters installed on them. Some have been installed but I'm
11 not aware of whether all have been installed yet. Assuming
12 a ten kilowatt limit, I believe most of the customers with ten
13 kilowatts or higher demand have now got demand meters
14 on them.
- 15 *(2:30 p.m.)*
- 16 MS. BUTLER, Q.C.: Can you tell me what is the target date
17 for all installations to be complete?
- 18 MR. HAMILTON: I'm not sure if there is a target date to be
19 honest with you.
- 20 MS. BUTLER, Q.C.: Well, in light of the conclusion, the
21 inhouse conclusion that the timing of this implementation
22 should reflect the other rate issues to be addressed in
23 isolated areas which are, of course, a portion of this
24 application, I guess I'm curious why the meters have not
25 been installed and there has not been proposed by Hydro
26 the creation of a demand energy rate in this application for
27 the general service diesel customers.
- 28 MR. HAMILTON: In regards to the timing of getting the
29 demand meters installed, some installations might require
30 some modifications to the metering arrangement and you
31 have to send in special technicians and whatever to do
32 that, so it's felt to minimize the cost that (inaudible) that the
33 technicians would deal with it as they're there rather than
34 to make special trips, because again, you've got to fly a
35 person into these areas and incur additional costs, so
36 depending on when they've been to some communities,
37 they might not have them all done yet, and depending on
38 when a scheduled trip might be, sometime ... so ... and
39 given that there's no particular proposal at this point in time
40 to implement a demand energy rate, at this point in time
41 there's no sense of urgency to have it done this year.
- 42 MS. BUTLER, Q.C.: Okay, I accept that you're not able to
43 give me a target date for the installation of all meters, but
44 can you tell me whether Hydro proposes to address this
45 rate structure option, that is the demand energy rate
46 structure for the general service diesel customers at the
47 next rate hearing in 2003 for the test year 2004?
- 48 MR. HAMILTON: Yes, they will.
- 49 MS. BUTLER, Q.C.: Okay, thank you, Mr. Hamilton. Thank
50 you, Mr. O'Rielly, I'm finished with that screen. The only
51 other question I wanted to ask you about now relates to
52 Hydro's regulations which are attached to your application
53 at Schedule B. Can we scroll down until we find Section 10
54 please, or Regulation 10. It should be page 12, yeah, okay.
55 Mr. Hamilton, would you be kind enough to read in
56 Regulation 10(c) please?
- 57 MR. HAMILTON: Bills are due and payable when issued.
58 Payment shall be made at such places as Hydro may
59 designate from time to time. Where a bill is not paid in full
60 by a date that a subsequent bill is issued and the amount
61 outstanding is \$50 or more, Hydro may charge interest at a
62 rate equal to the prime rate charged by chartered banks on
63 the last day of the previous month, plus five percent.
- 64 MS. BUTLER, Q.C.: Okay, now I accept from earlier
65 evidence, and I think principally Mr. Osmond, that Hydro
66 is currently not charging interest.
- 67 MR. HAMILTON: That's correct.
- 68 MS. BUTLER, Q.C.: But if I understood his evidence
69 correctly the plan is that interest will be charged as of
70 January 1st, 2002?
- 71 MR. HAMILTON: Yes.
- 72 MS. BUTLER, Q.C.: So although you haven't specifically
73 asked for a change to this regulation, that is the firm plan
74 for Hydro?
- 75 MR. HAMILTON: Yes.
- 76 MS. BUTLER, Q.C.: Because Mr. Bowman, on behalf of the
77 Consumer Advocate, is actually, or has actually advocated
78 a change in the wording to this regulation 10(c) to change
79 the word "may", from "may" to "shall", so would that be
80 necessary if it is, in fact, Hydro's intention to collect
81 interest in any event?
- 82 MR. HAMILTON: I guess the use of the term "may" still
83 allows some flexibility for extenuating circumstances, but I
84 would think that the norm will be that interest will be
85 charged.
- 86 MS. BUTLER, Q.C.: Mr. Chairman, those are my questions
87 for Mr. Hamilton. Thank you very much, Mr. Hamilton.
- 88 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
89 Butler. Thank you, Mr. Hamilton. We'll move now to the
90 Industrial Customers, Mr. Hutchings please?
- 91 MR. HUTCHINGS: Thank you, Mr. Chair. Good afternoon,
92 Mr. Hamilton.
- 93 MR. HAMILTON: Mr. Hutchings.
- 94 MR. HUTCHINGS: I just want to get a little bit of
95 background with respect to yourself and your position in

- 1 Hydro. You've told us in your evidence that you've been,
2 you've got 18 years of experience in electric utility rates and
3 regulatory activity areas. How long have you actually been
4 with Hydro?
- 5 MR. HAMILTON: Since May 1998.
- 6 MR. HUTCHINGS: May 1998, and where were you
7 employed prior to that?
- 8 MR. HAMILTON: Newfoundland Power.
- 9 MR. HUTCHINGS: Okay, and how long were you with
10 Newfoundland Power?
- 11 MR. HAMILTON: Approximately 21 or 22 years.
- 12 MR. HUTCHINGS: Okay, and what was your position
13 when you left there?
- 14 MR. HAMILTON: When I left there I was the Manager of
15 Energy Supply.
- 16 MR. HUTCHINGS: Manager of Energy Supply?
- 17 MR. HAMILTON: Uh hum.
- 18 MR. HUTCHINGS: Okay, did you have any rate
19 responsibilities at Newfoundland Power?
- 20 MR. HAMILTON: When I left, no.
- 21 MR. HUTCHINGS: Okay, at an earlier time?
- 22 MR. HAMILTON: Yes.
- 23 MR. HUTCHINGS: Okay.
- 24 MR. HAMILTON: My immediately prior position to that
25 was Manager of Rates and Regulatory Affairs.
- 26 MR. HUTCHINGS: Okay, and through what time did you
27 hold that position?
- 28 MR. HAMILTON: I guess, through various restructurings
29 and subtle title changes, I was in that area from the fall of
30 '79, I was in the rates area from then until February '95.
- 31 MR. HUTCHINGS: Okay, and you now fall within the
32 Customer Services Department of Newfoundland and
33 Labrador Hydro?
- 34 MR. HAMILTON: Yes, I do.
- 35 MR. HUTCHINGS: And to whom do you report in that
36 department?
- 37 MR. HAMILTON: Sam Banfield.
- 38 MR. HUTCHINGS: Okay.
- 39 MR. HAMILTON: He's the Manager (*sic*), Director, sorry.
- 40 MR. HUTCHINGS: The Director, okay, and Mr. Banfield
41 would report then to whom?
- 42 MR. HAMILTON: Derek Osmond, Vice-President of
43 Finance.
- 44 MR. HUTCHINGS: Okay, alright, your evidence makes
45 numerous references as necessarily it must, I think, to the
46 cost of service study itself. Can you tell us what sort of
47 involvement you have with that study, what input you may
48 make or how do you actually use or manipulate the study
49 itself?
- 50 MR. HAMILTON: To rate design you mean?
- 51 MR. HUTCHINGS: Yes.
- 52 MR. HAMILTON: For rate design purposes, certain of
53 Hydro's rates flow directly from the cost of service,
54 particularly the wholesale rate to Newfoundland Power, and
55 the firm rate for the Industrial Customers. For rural areas, it
56 gives an indication of the level of cost recovery to the
57 extent that we have flexibility in the rate design for the rates
58 for those rural areas, it gives a guide as to how to apply
59 rate increases and to improve equity between rate classes.
- 60 MR. HUTCHINGS: So is the cost of service study itself a
61 tool that you use on a regular basis?
- 62 MR. HAMILTON: Yes.
- 63 MR. HUTCHINGS: Okay, so it's not just a rate hearing
64 event for you.
- 65 MR. HAMILTON: Well, to the extent that you only design
66 rates at rate hearings, it's primarily used at a rate hearing,
67 but to the extent that it gives you a flag for issues to
68 address down the road, you refer to it regularly, yes.
- 69 MR. HUTCHINGS: Okay, do you have any connection in
70 your position with the Rate Stabilization Plan?
- 71 MR. HAMILTON: Yes, I do.
- 72 MR. HUTCHINGS: And what involvement do you have
73 with that plan?
- 74 MR. HAMILTON: It's hard to say what my involvement is.
75 I don't have a direct involvement in the operation of it, but
76 yet I monitor the results of it and when we were revamping
77 the cost of service modelling and things, it was tied in with
78 that, so ...
- 79 MR. HUTCHINGS: When you say when you were
80 revamping the cost of service model, or the methodology,
81 you mean?
- 82 MR. HAMILTON: Yes, all the programming had to be
83 rerun as Mr. Brickhill referred to before, that (inaudible) the
84 old models had to be replaced, and ...
- 85 MR. HUTCHINGS: And that was done within your group?
- 86 MR. HAMILTON: It was done in the customer service
87 group with assistance through Foster.

- 1 MR. HUTCHINGS: Okay, but in terms of the monthly
2 administration of the RSP, does your group have input in
3 that?
- 4 MR. HAMILTON: Yes.
- 5 MR. HUTCHINGS: And what input is that?
- 6 MR. HAMILTON: The monthly RSP runs are done by a
7 member of the department and in connection with the
8 accounting department.
- 9 MR. HUTCHINGS: Okay, I understood from Mr. Roberts
10 that the, I guess, purely financial side of things was
11 handled in his job, and then he would basically send some
12 inputs to your department to run them through the cost of
13 service and send them back, send him back a different set
14 of numbers. Is that a fair, if rough, description?
- 15 MR. HAMILTON: Yes, yeah, okay.
- 16 MR. HUTCHINGS: So essentially then, the cost of service
17 study is something that your group uses every month in
18 order to have input into the actual rate that the customers
19 are going to pay, correct?
- 20 MR. HAMILTON: The test year cost of service, yes.
- 21 MR. HUTCHINGS: Yes.
- 22 MR. HAMILTON: Because it was 1992 the last approved
23 one, yes.
- 24 MR. HUTCHINGS: Right, okay, and in the context of this
25 hearing and the manner in which Hydro has managed the
26 RSP, that's a significant part of the rate that the customers
27 pay, is it not?
- 28 MR. HAMILTON: Given the current balances, there's a
29 (inaudible) energy charged to the RSP, yes.
- 30 MR. HUTCHINGS: Yes, okay, so it's fair for us, I think, to
31 look at the RSP charge as a part of the rate and to evaluate
32 it against the principles that normally apply to rate design,
33 would you agree?
- 34 MR. HAMILTON: It's a mechanical calculation, yes, it is
35 part of the rates.
- 36 MR. HUTCHINGS: Yes.
- 37 MR. HAMILTON: I guess in rate design there are more
38 subjective items, but in the RSP it's purely a mechanical
39 application of a formula.
- 40 MR. HUTCHINGS: Uh hum, but the RSP itself obviously
41 should be designed since it is effectively a rate in a manner
42 that's consistent with the principles for rate design that
43 you've outlined in your evidence, would you agree with
44 that?
- 45 MR. HAMILTON: It should be consistent with rate design
46 concepts and principles, yes.
- 47 MR. HUTCHINGS: Yes, okay, yeah. In terms of the design
48 principles that are outlined on page two of your evidence,
49 looking at the issue of market efficiency, how would you
50 evaluate the RSP as it presently stands in terms of its
51 ability to give appropriate pricing signals?
- 52 MR. HAMILTON: The RSP was designed to remove
53 volatility in rates as impacted by fuel costs and so therefore
54 in that context it's somewhat contrary to a market efficiency
55 pricing at the cost currently incurred.
- 56 MR. HUTCHINGS: Okay, so on that particular measure it
57 doesn't in its current form at least tend to meet that
58 principle, is that fair?
- 59 MR. HAMILTON: It doesn't meet it as well as some other
60 elements might.
- 61 MR. HUTCHINGS: Uh hum, okay, in terms of the principle
62 of stability, how would you rate the performance of the
63 RSP?
- 64 MR. HAMILTON: Well, given that the RSP was set up to
65 reduce volatility in consumers' bills, inherently it therefore
66 increases stability of rates from month to month. There will
67 be, once a year, a change in the rate so (inaudible) a change
68 on an annual basis is not considered to be too disruptive,
69 then it's certainly an improvement over monthly changes,
70 so in that context it improves the stability of the rates.
- 71 MR. HUTCHINGS: Would you agree with me that the RSP
72 itself needs a certain degree of management by Hydro in
73 order to ensure that it is assisting in maintaining the
74 stability of rates?
- 75 MR. HAMILTON: I'm not sure of the question when you
76 said management.
- 77 MR. HUTCHINGS: Okay, I mean we all know at this point
78 that there have been very large balances that have been
79 allowed to accumulate in the RSP, correct?
- 80 MR. HAMILTON: They have accumulated, yes, in the
81 normal workings, yes.
- 82 (2:45 p.m.)
- 83 MR. HUTCHINGS: I mean just by way of example, what
84 was the RSP adjustment for the industrial customers in the
85 year 2000? I can suggest to you 2.8 mils, does that sound
86 about right?
- 87 MR. HAMILTON: That sounds about right.
- 88 MR. HUTCHINGS: Okay, or 2001 rather, sorry. And the
89 adjustment for the year 2002 is going to be 5.14 correct?
- 90 MR. HAMILTON: Correct.
- 91 MR. HUTCHINGS: I think Mr. Roberts gave us that

1 element, so that is a pretty huge increase in that element of
2 the rate, isn't it?

3 MR. HAMILTON: Yes.

4 MR. HUTCHINGS: Year over year.

5 MR. HAMILTON: Yes.

6 MR. HUTCHINGS: Yeah, and I simply suggest to you that
7 management of the RSP by Hydro in such a fashion as to
8 have had the fuel element re-based prior to this hearing,
9 would in fact have increased the stability that the RSP
10 could have provided to the rates, would you agree?

11 MR. HAMILTON: Given the relatively high levels of oil
12 prices in recent time, that certainly a large portion of the
13 balance in the RSP is due to the fuel price variance.

14 MR. HUTCHINGS: So ...

15 MR. HAMILTON: To the extent that a higher reference
16 point was used, the balance would be lower.

17 MR. HUTCHINGS: Yes, so the object of stability can be
18 attained by the RSP but at the same time it needs to be
19 managed in order to ensure that that element comes
20 through.

21 MR. HAMILTON: I guess the term management is a term
22 that's causing me some confusion there, but the issue of
23 how often does one base a fuel price can be an issue ... for
24 example, the price for fuel 24 months ago was below the
25 \$12.50 a barrel, so if someone had re-based it at \$30.00 a
26 barrel three years ago then it would have been exceedingly
27 high relative to the subsequent price, so again, it's what's
28 to be used for a trigger and how often, it's a subjective item,
29 I guess.

30 MR. HUTCHINGS: But I mean the balance in the RSP has
31 been growing since what, 1996?

32 MR. HAMILTON: Since 1996 it's been relatively, I'll use
33 the word stable, but at a plateau. Over the last couple of
34 years in the, in fact the industrial and Newfoundland
35 Power's came down in, during the 2000 and 2001 time
36 period.

37 MR. HUTCHINGS: Uh hum, yeah.

38 MR. HAMILTON: Right, the adjustment is lower this year
39 than it was last year.

40 MR. HUTCHINGS: Yeah, I mean the word that you used,
41 the plateau, I think, is probably instructive in the sense that
42 there's a certain base that has been built up there simply
43 because of the gap between real oil prices and the \$12.50,
44 isn't that correct?

45 MR. HAMILTON: That's the major driver, yes.

46 MR. HUTCHINGS: Yeah, and like I say, what you've done

47 is created a plateau and the RSP is now trying to stabilize
48 above the plateau.

49 MR. HAMILTON: Yes, all I was getting at was the, how
50 often ... you say manage it, how often do you change the
51 reference point might result in more instability than moving
52 to a plateau, that's all.

53 MR. HUTCHINGS: Yes, no, I understand what you're
54 saying, but I mean if we look at the history that we have in
55 this particular case, we have no application by Hydro for a
56 rate increase for a period of nine years, and then from the
57 industrial customers' point of view, with the initial filing
58 there's an application which overall increases rates by 17.8
59 percent, and I would suggest to you that that is not
60 consistent with the notion that rates should be stable.
61 That is an unexpected change of the type referred to in
62 your own testimony that is to be avoided if possible.

63 MR. HAMILTON: I guess in the relative time period there
64 have been several large changes in rates to the industrial
65 customers, some positive, some negative, to deal with
66 circumstances as they arise and they are (inaudible) in
67 certain, so to speak.

68 MR. HUTCHINGS: But the principle of stability that you've
69 espoused here has both elements in it, I think, and that's
70 clear in your principle as well, that not only should rates be
71 as stable as possible, but when they do change, change
72 should be incremental if possible as opposed to large.

73 MR. HAMILTON: Yes, and I guess that's a lot of the
74 philosophy behind why, as Mr. Wells pointed out, that two
75 elements are indeed being phased in, one being the return
76 on equity is three percent as opposed to a more market
77 based rate which is recommended, the 11 to 11 1/2 percent
78 range, and \$20.00 a barrel is being used for a reference
79 point for fuel instead of maybe \$28.00 a barrel ... I'm not
80 sure what the current forecast would be right now.

81 MR. HUTCHINGS: From your point of view as the person
82 who has to design rates, are you concerned that you're
83 getting to the point where you can't come up with a rate
84 that anyone will regard as reasonable that's really going to
85 recover all of the costs that have been allowed to build up
86 in the system?

87 MR. HAMILTON: You'll have to elaborate on that one, I'm
88 not sure.

89 MR. HUTCHINGS: Well, I mean essentially that's where
90 we've gotten to, is it not, that the price shock at this stage
91 would be so great, or the rate shock, that the rate that you
92 would have to produce in order to recover costs on a
93 current year basis at this stage is not a viable rate.

94 MR. HAMILTON: Certainly if all the costs are put in right
95 now in a base rate, that will be a sizable rate shock.

1 MR. HUTCHINGS: Yes, I mean has this been a subject of
2 debate within the management group of Hydro for any
3 number of years?

4 MR. HAMILTON: Certainly in the last 12 months, the
5 magnitude of the increase, given the large increase in fuel
6 prices, has been such a great concern. When I first came
7 with Hydro in '98 there was some discussion then that
8 given fuel prices we might have to have a rate hearing
9 soon, and then oil prices went down, and then that
10 subsided, and they came back up again, and so if, for
11 example, a hearing was held relatively recently, I'll say two
12 years ago, that the prices and circumstances at that time, a
13 hearing today would still probably result in what would be
14 classified as an element of rate shock, so it's not because
15 necessarily just ... all the change wasn't in the first eight
16 years, or most of the change was in recent history, it wasn't
17 sort of an incremental change over time, and therefore at
18 some point in time it would have been logical to have had
19 a smaller rate increase. It's sort of almost all in recent time.

20 MR. HUTCHINGS: Looking then at the final principle that
21 is shown on page two of your evidence, which is
22 administrative practicality, how would you evaluate the
23 performance of the RSP on its ability to be understood by
24 customers with a minimum of controversy?

25 MR. HAMILTON: I hope the laughter in that instance isn't
26 recorded on the ... I wouldn't want to take a poll on that. I
27 think the Rate Stabilization Plan, there are three
28 components, and they're outlined in the application, and
29 the hydraulic component, the fuel component, and the load
30 component. They've been fairly clear, and they are shown
31 in the monthly reports and I think people understood those
32 fairly well. And that's the guts of the RSP and that would
33 continue on, or proposed to continue on into the future.
34 The component that's probably not fully understood, or at
35 least, or maybe the implications of it, and that's the fact that
36 in the past the cost of service study was used as the
37 vehicle to allocate, I use the word "real", it would allocate
38 the change in the fuel related costs to the customer parties,
39 because the problem being, the fuel expense goes up and
40 down, but what causes it to go, and it was concluded back
41 in when the plan was first set up, that the easiest way to
42 track that cost was to rerun the cost of service and put the
43 actual energy results in there. The inherent confusion
44 probably arose that the, because of the nature of the cost
45 of service methodology in the past was an average on
46 excess demand methodology, that once you put in energy
47 into such an allocation methodology, demand costs get
48 reallocated, simply because the load factor changes as you
49 add the energy (*phonetic*), and because of that the
50 approach was to put actual demand in there also so that the
51 load factors hopefully wouldn't get as distorted. Typically
52 demand and energy bear a relationship, and so it was

53 determined that would be the more equitable way to keep
54 things in balance within the cost of service results. Once
55 again, once you put in actual results in there, even though
56 the rest of the costs aren't changed, other than fuel costs,
57 that costs get reallocated, and energy takes certain costs
58 with it, like interest and other things. So it's probably fair
59 to say that that was sort of done in a, almost a little black
60 box, that you jump from the second last page to the last
61 page of the report, and oh, that was not as transparent as
62 the other portions of the transaction, so in regards to is the
63 RSP clearly understood and is it simple, the concept is very
64 simple, the mechanic of, because you don't actually see the
65 two cost of service runs at year end, and this is only done
66 at year end once all the year's results are in, that you run
67 the annual cost of service too which will reallocate the
68 costs, then you see some other things happening that you
69 might think is not what you expected.

70 MR. HUTCHINGS: Okay, we won't discuss transparency
71 versus opacity here. Did I understand you to say that the
72 cost of service was only actually run annually as opposed
73 to monthly for the purpose of the RSP?

74 MR. HAMILTON: For the purposes of the customer splits,
75 to re-do those numbers, that's done based on the year end,
76 once you have all the numbers in for the year. There's a
77 monthly version of the RSP, a monthly version of the cost
78 of service that's run and that doesn't reallocate the demand
79 costs.

80 MR. HUTCHINGS: So the first (inaudible) report for the
81 year then are produced on, I'm sorry, a partial run of the
82 cost of service?

83 MR. HAMILTON: It's done on the cost of service, but it
84 doesn't have all of the, I guess ... what's the right word for
85 it ... because you don't have a full year-end there for the
86 load factor, that doesn't yield the full result until you get to
87 the end of the year. You need your twelve months of data
88 in to get a proper annual load factor in to make the final re-
89 calculation.

90 MR. HUTCHINGS: But do the monthly runs not just
91 assume that the remaining months of the year are going to
92 be in accordance with the original cost of service?

93 MR. HAMILTON: Yes.

94 MR. HUTCHINGS: Okay, so some of those changes are
95 built in month over month.

96 MR. HAMILTON: (inaudible).

97 MR. HUTCHINGS: But the final ... I mean you don't go
98 back and reallocate January to November after you do the
99 December one, do you?

100 MR. HAMILTON: Once you get to the end of the year
101 you're dealing with an annual cost study and, so you've

1 got the total cost in there for the year and you reallocate
2 the total year's costs.

3 MR. HUTCHINGS: So ...

4 MR. HAMILTON: So you might, in effect, reallocate
5 January's cost but it's because it's done ... the cost of
6 service is an annual product, so every month when you
7 rerun it, as you put data in, okay ... for example, when you
8 do March, okay, you're not doing March in isolation of the
9 other eleven months, okay, and so, in effect, there's a year
10 to date aspect to it, so that March will also reflect
11 January/February, okay, it's not just pure variance relative
12 to March.

13 MR. HUTCHINGS: Yes, okay.

14 MR. HAMILTON: Okay, so every run is an annual run, it's
15 just that you don't have a full twelve months of data in the
16 whole model until you get to the end of the year.

17 *(3:00 p.m.)*

18 MR. HUTCHINGS: Okay, now I'm intrigued only, or partly
19 because the adjustment for the industrial customers, of
20 course, is based on the September run.

21 MR. HAMILTON: That's right.

22 MR. HUTCHINGS: And is there, I take it there is no
23 retroactive adjustment after December to correct, if you will,
24 the September result in that instance?

25 MR. HAMILTON: Well you have the September, you have
26 the actuals up to September and then you have the test
27 year for the next three months.

28 MR. HUTCHINGS: Right.

29 MR. HAMILTON: Right.

30 MR. HUTCHINGS: And, but the rate, I mean what we're
31 talking about here is setting a rate.

32 MR. HAMILTON: Right.

33 MR. HUTCHINGS: We've agreed that the RSP adjust is a
34 rate.

35 MR. HAMILTON: Right.

36 MR. HUTCHINGS: So this rate is being set at the end of
37 September, but it's set on the basis of nine months of
38 actuals and three months of projections.

39 MR. HAMILTON: Right.

40 MR. HUTCHINGS: Whereas the Newfoundland Power rate,
41 or the utility RSP rate will be set on the actuals at the end
42 of December, is that correct?

43 MR. HAMILTON: That's correct.

44 MR. HUTCHINGS: Do you have any idea what the effect

45 of that is, up or down?

46 MR. HAMILTON: I would say that some years it goes one
47 way and some years the other. What might tend to happen
48 is you'll end up with a rate that might be a little higher or a
49 little lower for the subsequent period, so on the
50 subsequent period there might be an over-run on the
51 recovery for the actual prior year, but that, I guess, was a
52 trade-off that the industrials desired to ... it's a trade-off to
53 know what the rate was for budgeting purposes in October.
54 That's the reason that the September balance was used.
55 The industrials asked to have it done at that point in time,
56 right.

57 MR. HUTCHINGS: No, I understand that, and the
58 industrial customers obviously needed that for their own
59 budgeting purposes for next year. Was this effect
60 explained to the industrial customers at the time?

61 MR. HAMILTON: I can't say what was talked about. It
62 clears itself up over time, you know, the under or over
63 recovery will just accumulate or reduce the balance in the
64 subsequent period, so then the following year the actual
65 cost for October, November, December, do accumulate in
66 the fund and they're reflected in the following September's
67 balance, so the costs do get cleared out, it's just that they
68 do have this offset.

69 MR. HUTCHINGS: Now Mr. Hamilton, you're aware that
70 the new cost of service methodology was considered by
71 this Board in 1993.

72 MR. HAMILTON: Yes.

73 MR. HUTCHINGS: And adopted for implementation by
74 Hydro, and it is a modified version of that methodology
75 that's before us at the present time, is that correct?

76 MR. HAMILTON: The methodology per se for the island
77 interconnected is for the last ... post ...

78 MR. HUTCHINGS: Okay.

79 MR. HAMILTON: Subject to the question of the 1- versus
80 2-CP and ...

81 MR. HUTCHINGS: Yes, we had the old methodology, the
82 interim methodology, and the proposed methodology,
83 correct?

84 MR. HAMILTON: Yes.

85 MR. HUTCHINGS: And the 1993, you refer to as what?

86 MR. HAMILTON: I guess you can call it a generic
87 methodology.

88 MR. HUTCHINGS: Generic methodology, and the interim
89 methodology is?

90 MR. HAMILTON: The interim methodology, that was the

1 methodology used to set the rates for Newfoundland
2 Power at the 1992 hearing.

3 MR. HUTCHINGS: Okay, and the proposed methodology
4 is the one that's in the present application?

5 MR. HAMILTON: That's correct.

6 MR. HUTCHINGS: Which is not exactly the same as either
7 of the other two?

8 MR. HAMILTON: It is more in line with the generic than
9 the interim.

10 MR. HUTCHINGS: Yes, okay, so the 1993 one you refer to
11 as the generic methodology?

12 MR. HAMILTON: Yes.

13 MR. HUTCHINGS: Okay, and were you aware generally as
14 to what the anticipated impact on cost assignment to the
15 industrial customers was to be of the implementation of the
16 new methodology, the generic methodology from the 1993
17 hearing?

18 MR. HAMILTON: At the '93 hearing you mean? Yes,
19 yeah.

20 MR. HUTCHINGS: And what was that impact intended to
21 be?

22 MR. HAMILTON: Well, the result of the, relative to the
23 interim, it shifted some costs from industrials to
24 Newfoundland Power, if my memory serves me.

25 MR. HUTCHINGS: And do you know even in order of
26 magnitude what sort of numbers were being considered?

27 MR. HAMILTON: Based on the ... have to see I've got the
28 right comparison here now ... based on 1992 I believe that
29 was the test year used for that hearing. The industrial
30 customers would have been assigned a cost of
31 approximately \$38.7 million versus the interim methodology
32 was about \$40.3 million.

33 MR. HUTCHINGS: \$38.7 million and \$40.3 million, were
34 those the two numbers you gave?

35 MR. HAMILTON: Yes.

36 MR. HUTCHINGS: Okay, those are the 1992 numbers,
37 right?

38 MR. HAMILTON: Based on 1992 test year, yes.

39 MR. HUTCHINGS: Okay, if we can go to **IC-90**, I don't
40 know if the cost of service is available. No, perhaps it may
41 be simpler, Mr. Hamilton, if I can ask you to look at **Mr.
42 Osler's pre-filed supplementary testimony of September
43 12, 2001**, at page 7, and that's the supplementary
44 testimony. That's the original, I think. The paragraph 2(a)
45 there deals with the impact of the 1993 cost of service

46 hearing, and refers to **IC-90**, which without looking at it is
47 a question where you were asked to reproduce the 2002
48 forecast cost of service using the cost of service
49 classifications and allocations approved by the Board in
50 1992, and Mr. Osler here, with reference to that cost of
51 service, and the 1992 interim cost of service as identified an
52 impact of about \$1.75 million of benefit from the
53 implementation of the new cost of service in 1993. Do you
54 agree with that number?

55 MR. HAMILTON: The arithmetic looks about right.

56 MR. HUTCHINGS: Yeah, okay, so from the time of the
57 hearing in 1993 the generic methodology was really the
58 improved methodology by the Board for Hydro, wasn't it?

59 MR. HAMILTON: It was the approved methodology used
60 at the next rate application.

61 MR. HUTCHINGS: Uh hum.

62 MR. HAMILTON: The only approved methodology in the
63 sense of what rates were based on in Newfoundland
64 Power's rates was the one approved at the 1992 hearing, the
65 interim methodology, and that was to be used until such
66 time as the methodology was replaced at the next hearing,
67 which would then be something based on the generic
68 methodology.

69 MR. HUTCHINGS: Yes, so the generic methodology was
70 the one that was approved at the cost of service hearing,
71 correct?

72 MR. HAMILTON: For use at the next rate application.

73 MR. HUTCHINGS: Yes.

74 MR. HAMILTON: But until that time, the one approved at
75 the '92 hearing was the approved methodology for rate
76 design purposes.

77 MR. HUTCHINGS: Okay, we'll return to that in a moment
78 but this might be a good time to take the break for the
79 afternoon, Mr. Chair.

80 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
81 Hutchings. Thank you, Mr. Hamilton, we'll break until 3:30.

82 *(break)*

83 *(3:40 p.m.)*

84 MR. NOSEWORTHY, CHAIRMAN: I ask you to continue,
85 Mr. Hutchings, please with your cross.

86 MR. HUTCHINGS: Yes, thank you, Mr. Chairman. Mr.
87 Hamilton in your use of the cost of service study for rate
88 design purposes, by the time I get to that we're essentially
89 past all the revenue requirement issues, is that correct?

90 MR. HAMILTON: The total revenue requirement's been
91 settled and it's assigned two different customer classes,

- 1 yes.
- 2 MR. HUTCHINGS: So whatever happens within the cost
3 of service study is effectively revenue neutral for Hydro?
- 4 MR. HAMILTON: Yes.
- 5 MR. HUTCHINGS: Okay, so it is at that point that
6 individual customers or classes of customers are affected
7 by the decisions that are effected through the cost of
8 service study?
- 9 MR. HAMILTON: The cost of service study is sometimes
10 called the cost allocation study, just seeks to apportion the
11 pie amongst the players, the size of the pie has been
12 determined.
- 13 MR. HUTCHINGS: Yes, okay. Good way of putting it.
14 You've told us already that the rate for Newfoundland
15 Power and the firm rate for the industrial customers falls out
16 directly from the cost of service study, correct?
- 17 MR. HAMILTON: Yes.
- 18 MR. HUTCHINGS: Can you just show us in the cost of
19 service study where that is? Perhaps the third
20 supplemental evidence of Mr. Brickhill is the final version
21 I think we have of the cost of service study.
- 22 MR. HAMILTON: On Schedule 1.3, page 1 of 5, which is
23 page 11 of 94, JAB-1, Revision 2, this shows a unit demand
24 energy and customer amounts.
- 25 MR. HUTCHINGS: And the energy rate for Newfoundland
26 Power, for instance, shows up there under Column 10.
- 27 MR. HAMILTON: Yes.
- 28 MR. HUTCHINGS: And that rate 0.4750 is a result of
29 adding in the deficit allocation and the revenue credit to the
30 rate produced by the cost of service under Column 5, is
31 that correct?
- 32 MR. HAMILTON: Yes.
- 33 MR. HUTCHINGS: Okay, and is it a straightforward
34 question to ask you where the 0.4, or .04142 is derived in
35 the cost of service study, that is the non-demand demand
36 and energy rate for Newfoundland Power before the deficit
37 allocation.
- 38 MR. HAMILTON: The subsequent schedule to 3.1 is 1.3.1
39 and that shows the total cost of service for Newfoundland
40 Power in this case broken down into demand and energy
41 and customer cost.
- 42 MR. HUTCHINGS: Okay, can you give us the page out of
43 94 for that?
- 44 MR. HAMILTON: Page 16.
- 45 MR. HUTCHINGS: 16 of 94?
- 46 MR. HAMILTON: And the total dollar amounts there are
47 then divided by the total energy sales units as identified on
48 page 21 of 94, to yield the unit costs that were on the
49 previous page.
- 50 MR. HUTCHINGS: Okay, and for Newfoundland Power
51 that's a straightforward application using just the total, you
52 don't need to break it down into demand energy and
53 customer for the duration of Newfoundland rate, do you?
- 54 MR. HAMILTON: Demand and energy are combined to
55 yield the total energy charge for Newfoundland Power.
- 56 MR. HUTCHINGS: Right, but I mean looking at this page
57 16 of 94, before deficit and revenue credit allocation,
58 Column 2, is simply the total of Columns 3, 4 and 5, is that
59 correct?
- 60 MR. HAMILTON: That's correct.
- 61 MR. HUTCHINGS: Okay, and you just take this total
62 amount, the \$187 million odd and divide that by the number
63 of kilowatt hours and you come up with Newfoundland
64 Power's rate?
- 65 MR. HAMILTON: No. The customer component is
66 separate. The energy rate is a function of the demand and
67 energy costs.
- 68 MR. HUTCHINGS: So it is just the sum of the demand and
69 energy divided by the kilowatt hours?
- 70 MR. HAMILTON: That's correct.
- 71 MR. HUTCHINGS: So there's a separate customer charge?
- 72 MR. HAMILTON: Right.
- 73 MR. HUTCHINGS: To Newfoundland Power?
- 74 MR. HAMILTON: Yes.
- 75 MR. HUTCHINGS: Okay. Now in the case of the industrial
76 customers, how would you move from this page 16 to the
77 rates that show up on page 11?
- 78 MR. HAMILTON: The total demand cost would be divided
79 by the billing demand units on page 21 to derive the
80 demand unit rate and the energy cost would be divided by
81 the sales units, from page 21 to derive the energy rate.
- 82 MR. HUTCHINGS: Okay. So in this instance, there are two
83 separate calculations because there's a separate demand
84 charge, correct?
- 85 MR. HAMILTON: Correct.
- 86 MR. HUTCHINGS: Okay, and the billing demands from
87 page 21 are simply based upon the forecast provided to
88 you by the industrial customers.
- 89 MR. HAMILTON: That's correct.

1 MR. HUTCHINGS: So the combination of the numbers
2 from pages 21 and 16 are carried forward to page 11 and the
3 demand rate of \$6.77 for the firm power for industrial
4 customers and the energy rate of .02329 dollars, which is
5 2.3 cents, these two numbers are the result of the division
6 of the other numbers that we referred to?

7 MR. HAMILTON: Yes.

8 MR. HUTCHINGS: Alright. Now if we could move for a
9 moment then to the non-firm industrial rate. That I think
10 you'd agree does not fall out of the cost of service study
11 directly, does it?

12 MR. HAMILTON: No.

13 MR. HUTCHINGS: I notice on page 11 of 94 there is an
14 entry in Column 4, on line 3, that's page 11 of 94, for the
15 energy charge for non-firm which is again the 2.329 cents
16 per kilowatt hour, but there is no demand charge mentioned
17 on that line. I take it that the demand charge is not actually
18 derived in respect of non-firm energy from the cost of
19 service at all, is it?

20 MR. HAMILTON: No. Neither is energy cost.

21 MR. HUTCHINGS: No, and the number that's here for the
22 energy cost is not the actual number that's used as the
23 energy portion of the rate for the non-firm, is it?

24 MR. HAMILTON: No.

25 MR. HUTCHINGS: Okay. Is there a reason why that
26 number is there at all?

27 MR. HAMILTON: I'm inclined to say it shouldn't be there.
28 I'm not sure why its there.

29 MR. HUTCHINGS: Okay. It doesn't seem to be doing
30 anything so...

31 MR. HAMILTON: No, it's really different from the number
32 in Column 9, so it should be, yes, it seems kind of strange
33 there.

34 MR. HUTCHINGS: Okay. Yeah, just explain for us what the
35 number in Column 9 does actually represent.

36 MR. HAMILTON: Under non-firm?

37 MR. HUTCHINGS: Under non-firm, its line 3, Column 9.

38 MR. HAMILTON: I'm not sure what that refers to either.
39 I believe it's the, it reflects the actual fuel from Holyrood
40 that would be used, but I'm not 100 percent sure.
41 (inaudible) an allocation there (inaudible).

42 MR. HUTCHINGS: Okay. Now there were a number of
43 requests for information that related to the non-firm rates
44 and I just want to refer to those initially. Perhaps we could
45 go first to **NP-183**. You're asked here to provide the details
46 of the determination of the rate proposed for Interruptible

47 A emergency power and exceptional power, and those are
48 the types of power that we are referring to as non-firm, is
49 that correct?

50 MR. HAMILTON: Yes, it is.

51 MR. HUTCHINGS: Okay, and the answer indicates that
52 this is not a specifically calculated cost based charge, and
53 it is said that the charge is intended to reflect some value of
54 the generation plant in place to provide the non-firm
55 service. Can you tell me how it was that Hydro came to
56 assign the demand charge of \$1.50 to this particular rate?

57 MR. HAMILTON: Fundamentally we started from a point
58 that the non-firm service should be, not be subsidized by
59 any of the firm load customers, so all the elements of the
60 rate should pay its own way. So working from that starting
61 point the energy was a little more straightforward in that
62 there's a, you can relate to the fuel being provided and
63 that's Holyrood, to the extent they have an accurate
64 estimate of that, then add on the other incidental costs, the
65 10 percent overhead to reflect that incidental sales should
66 have at least as much profit as firm sales and recognize that
67 there's some additional effort on behalf of staff, and then
68 there's the element of the system that provides this actual
69 energy, that there's more involved than just the fuel itself,
70 it is also still the plant, and so to contribute towards to
71 some of the plant to an extent then we determine that a,
72 provide against, I guess, the term free rider concept, which
73 I know Mr. Brickhill referred to yesterday and today and I
74 believe Mr. Wilson in one of his evidence made the same
75 term, that to recover a portion of the rest of the system cost
76 for the benefit, then we set out to determine what would be
77 a reasonable number and we felt that a full demand charge
78 wasn't appropriate because a full system cost are paid by
79 firm customers, so we looked at various ways to measure,
80 come up with a proxy for the number. There is no, at least
81 that I'm aware of, or neither that Foster is aware of, a
82 standard calculation so we looked at the cost of the plant
83 involved with providing the energy, and so we did this
84 calculation some time ago and it yielded a number that
85 people were fairly comfortable with. We didn't try and
86 make it a rigid formula item. It tied in the elements of plant
87 and it made a (inaudible) adjustment because the hydraulic
88 and thermal in it and so it yielded a number that we were
89 comfortable with of \$1.50 and so that was the basis for it.
90 We also looked at other aspects to try and see if there was
91 any other way to make the calculation, I guess, any more
92 objective and as the, overtime I guess we came up with
93 other calculations that gave us numbers in the similar
94 ballpark we made another (inaudible) a little calculation in
95 the cost of the service model that more accurately extracted
96 some of the thermal (*phonetic*) demand cost and return.
97 Those are the calculations as the model got refined, and
98 that yielded similar numbers so we felt that was, 1.50 was a

1 good starting point.

2 MR. HUTCHINGS: Okay. All of the sales that we're talking
3 about here though are interruptible in nature, correct?

4 MR. HAMILTON: Yes, they are.

5 MR. HUTCHINGS: Okay, so these are only amounts of
6 power that can be accessed when Hydro has it available?

7 MR. HAMILTON: That is correct.

8 MR. HUTCHINGS: Okay, so your system is not built for
9 the purpose of providing this type of interruptible power,
10 is it?

11 MR. HAMILTON: No.

12 MR. HUTCHINGS: No, so your capacity charges are all
13 related to your firm power sales, correct?

14 MR. HAMILTON: That is correct. That's right.

15 MR. HUTCHINGS: So the notion of having a demand
16 charge associated with this type of power sale really
17 assigns a capacity cost that is not, in fact, being caused by
18 the customer to that customer?

19 MR. HAMILTON: The plant wasn't built to provide that
20 service. The customer is deriving a benefit from the use of
21 that plant.

22 MR. HUTCHINGS: Yes, I understand that, but the capacity
23 charge is designed, is it not, to recover over the long term
24 your fixed costs of providing the capacity?

25 MR. HAMILTON: That's right. Plant, your system is built
26 to handle your firm load to the extent that it can provide
27 any other sales along the way as, I'll call them incidental.
28 But any time you make such incidental sales, you have to
29 ensure that the, you're recovering all costs and to the
30 extent that additional contributions can be made from those
31 sales to reduce the firm load customers' rates, then that's
32 fine too.

33 MR. HUTCHINGS: Your firm rates are already designed to
34 recover all of those capacity costs, correct?

35 MR. HAMILTON: They are to the extent that, in this case
36 here we credited back any revenues over cost from like this,
37 wheeling, that type of thing, for ... to reduce the firm load
38 customer rates.

39 MR. HUTCHINGS: Yes. No, I understand that, so in the
40 result you're not over-collecting.

41 MR. HAMILTON: In total we're not over-collecting, no.
42 The free rider concept here is very similar to the free rider
43 concept of wheeling. One can also argue that there should
44 be no charge for wheeling seen as how the plant was put
45 there anyway, so why charge for wheeling. It's the exact
46 same commonalogy. It's there at a point in time you're
47 getting some use of it but without it you couldn't avail of
48 the service, so it's a case of how do you price it and you
49 come up with some mechanism that gets you a reasonable,
50 it's obviously not the same as firm service, no it's not that
51 end, it's not zero, how do you come up with a value and so
52 it's ...

53 MR. HUTCHINGS: In terms of the energy costs, those are
54 fully allocated in the non-firm rate, correct?

55 MR. HAMILTON: The energy costs, yes, as incurred,
56 they'll be recovered in the rate.

57 MR. HUTCHINGS: Yeah, and then you have the 10 percent
58 surcharge on top of that to recover even more costs?

59 MR. HAMILTON: Well to ensure that we make as much
60 profit on that as we do on the other elements and to
61 recover the other costs, yes.

62 MR. HUTCHINGS: Is there a calculation behind the 10
63 percent?

64 MR. HAMILTON: Not an explicit calculation. The large
65 portion of that calculation would be the rate of cost of
66 capital which would be 7.3 odd percent right now, so the
67 remaining 2.7 would cover the other incidental costs of
68 (inaudible) and staff time.

69 MR. HUTCHINGS: So for the purpose of the cost of
70 service, you do forecast some non-firm sales, do you?

71 MR. HAMILTON: We include whatever forecasts are
72 provided by our customers.

73 MR. HUTCHINGS: So ultimately I think it's fair to say that
74 on both the demand charge side of the non-firm rate and
75 the ultimate amount of the energy charge with the 10
76 percent in, there's a degree of judgement applied by Hydro
77 in reaching each part of that rate, is that correct?

78 MR. HAMILTON: Yes.

79 MR. HUTCHINGS: The energy portion of the charge, do
80 you know what that would be today?

81 MR. HAMILTON: No, I don't. I don't know what the price,
82 the average cost of Holyrood is in the tank right now.

83 MR. HUTCHINGS: Okay. That will, the energy charge
84 though will vary with the efficiency factor of the Holyrood
85 units, would it not?

86 MR. HAMILTON: That would vary with the efficiency, it
87 would vary with the price, or cost I should say in the tank?

88 MR. HUTCHINGS: Yes. If we look for a moment to **IC-202**,
89 page 7 of 12. You may need to go back a page just to
90 identify that table, the bottom of the previous page will tell
91 us the table compares the industrial firm energy charge with
92 the industrial non-firm energy charge by month for the year

1 2002, using the average cost of fuel used in the cost of
2 service for each source. So looking at the table then, I take
3 it that the numbers under the heading "Holyrood Non-Firm
4 Energy Rate" would relate to the question I was just asking
5 as to what the charge would be on the energy side of that
6 rate as it was projected at that time.

7 MR. HAMILTON: Right. It's based on the purchases and
8 the forecast of fuel for prices that was available at that time.

9 MR. HUTCHINGS: Okay, and the next column then is the
10 variance from firm which is the amount in addition to the
11 firm energy charge that is built into the non-firm energy
12 charge, correct?

13 MR. HAMILTON: That's correct.

14 MR. HUTCHINGS: Okay, and that energy charge of course
15 varies with the source from which the interruptible energy
16 is provided, is that correct?

17 MR. HAMILTON: That's correct.

18 MR. HUTCHINGS: Okay, and the gas turbine non-firm
19 energy rate and diesel non-firm energy rate which are here
20 give us what the numbers would be if it was at a time that
21 you had to access those sources for the energy?

22 MR. HAMILTON: Yes.

23 MR. HUTCHINGS: And that goes up over ten cents a
24 kilowatt?

25 MR. HAMILTON: Kilowatt hour.

26 MR. HUTCHINGS: Yeah, kilowatt hour. Okay. Looking at
27 your second supplemental evidence, supplementary
28 evidence, Mr. Hamilton, the first page in the table gives us
29 percentage changes for the number, the different rates that
30 are at issue here, and in the non-firm rate under the
31 industrial you show the original submission at an increase
32 of 29.9 percent, September revision is the same, then the
33 October revision is 1.8 percent. Can you explain for us
34 what's happening between September and October?

35 MR. HAMILTON: There's a reduced forecast of non-firm
36 sales and the, it looks like the energy portion is a smaller
37 portion of the total cost, must be a higher load factor
38 assumed in the non-firm sale purchases.

39 MR. HUTCHINGS: And why was there a higher load factor
40 assumed in the October?

41 MR. HAMILTON: Whatever forecast we were provided
42 with, I guess.

43 MR. HUTCHINGS: So you say the higher load factor, there
44 was implicitly a higher load factor in the forecast for the ...

45 MR. HAMILTON: In the forecast that we were provided
46 that is based on, yes.

47 MR. HUTCHINGS: The forecast for the energy. So the
48 percentage that your given there is, in fact, as it says I
49 guess, a percentage of change in revenue so that has the
50 amount of sales built into it. That's not intended to be a
51 percentage increase in the rate.

52 MR. HAMILTON: No. No there's no change in the rate.
53 It's a function of applying the rate to the values provided.

54 MR. HUTCHINGS: So in the various revisions that we've
55 seen the rate for non-firm power, the demand charge has
56 stayed the same, at the 1.50? Is that correct?

57 MR. HAMILTON: The demand charge is the same at the
58 \$1.50. The revised fuel forecast, and I guess timing of the
59 interruptible sales has affected the actual average cost of
60 fuel. Subject to confirmation, I think there's a typo there, I
61 think the October revision is an incorrect percentage.

62 MR. HUTCHINGS: Okay, is there some other number on
63 the record that we can use to to check that?at?

64 MR. HAMILTON: I have a calculation here that's showing
65 27 percent, but, that would look to be more correct, but I'll
66 have to verify it overnight.

67 MR. HUTCHINGS: Okay, well perhaps you can check that
68 overnight and let us know in the morning. So the energy
69 sales are smaller, would that not normally give rise to a
70 lower load factor rather than a higher load factor?

71 MR. HAMILTON: The demand drops proportionately
72 more.

73 MR. HUTCHINGS: Okay.

74 MR. HAMILTON: It's only a small reduction in energy but
75 there's a larger reduction in demand.

76 MR. HUTCHINGS: Well if it's in fact only a one or two
77 percent decline then it's a different issue than we had
78 before.

79 MR. HAMILTON: That's right. It's not significant enough
80 of a change in the numbers I'm looking at here to cause
81 that, so either my table here is incorrect or the percentage
82 there is incorrect.

83 MR. HUTCHINGS: Okay, well you can let us know what
84 your investigation shows up on that. I just want to speak
85 briefly, Mr. Hamilton, about the wheeling rate. Can you
86 just briefly explain the derivation of the wheeling rate that
87 is included in the current proposal?

88 MR. HAMILTON: It's the, basically it's calculated the same
89 as it has been in the past and it takes total revenue
90 requirements of transmission system out of the cost of
91 service and divides by a total energy through transmission
92 less adjustment for compensation to Grand Falls and it
93 yields an average cost of going through that system.

1 MR. HUTCHINGS: Okay, and all the wheeling that we're
2 talking about obviously is going back and forth between
3 Grand Falls and Stephenville, correct?

4 MR. HAMILTON: Currently that's all there is, yes.

5 MR. HUTCHINGS: Yes, okay. The rate that's derived, in
6 fact, is based upon all of your transmission costs
7 throughout the entire system, including the Great Northern
8 Peninsula?

9 MR. HAMILTON: Yes.

10 MR. HUTCHINGS: Okay, and we heard the debate
11 yesterday with Mr. Brickhill about where the electricity
12 goes, and where it doesn't go, but is it fair to say that this
13 wheeling could occur quite well whether or not the Great
14 Northern Peninsula was connected to the grid.

15 MR. HAMILTON: Yes.

16 MR. HUTCHINGS: Yes, so that the cost of that line should
17 not necessarily impact what the wheeling rate should be.

18 MR. HAMILTON: The concept of the wheeling rate, I
19 guess, like any other numbers, it's, because it's an
20 incidental service, it's how you derive a correct value for it,
21 it's not a cost base rate in its narrowest sense because you
22 didn't build any plant to provide this service, it's an
23 incidental so it's a case of trying to come up with a
24 reasonable value, some might say well you can charge
25 whatever the market will bear, but again how do you come
26 up with the value to the customer. The problem one runs
27 into is, as Mr. Brickhill pointed out yesterday, identifying
28 the exact route the energy is going to actually take is
29 number one, and therefore what you're trying to measure in
30 terms of the cost of going over the line. It was decided
31 some years ago, I guess, to come up with an average cost
32 so that wherever it went you do basically the same kind of
33 number to avoid, there's not enough activity to justify
34 doing detailed studies on it. You get into problems of well
35 when is it, the timing of the wheeling, for example, would
36 greatly affect the loss level, assuming the line already has
37 some load on it because either you do it for firm load
38 purposes, then you could argue that the transport over that
39 line is incremental and therefore any increase in losses
40 (inaudible) which is not linear, of course, is a higher rate of
41 losses and therefore by using an average number you're
42 actually getting lower losses than if you used an actual
43 calculation. The line length the route is taking is a good
44 measure of that, so I guess historically the average cost of
45 transmission plant on a per kilowatt hour basis is what's
46 been used.

47 MR. HUTCHINGS: You use this as an example of the free
48 rider principle?

49 MR. HAMILTON: You could say that there's no plant put

50 there to provide wheeling so therefore there's no direct cost
51 incurred in shipping the energy, with the exception of the
52 extent that you could prove where the energy is actually
53 coming from, there might be incremental loss impact that
54 you're trying to identify. It's mainly a case of, it's sort of
55 paying for rent of the medium but we aren't going to
56 change the medium to ship it there.

57 MR. HUTCHINGS: No, I understand that but if we can
58 drag the analogy perhaps a little too far, the plant upon
59 which we're riding here does not include the line up the
60 Great Northern Peninsula. Correct?

61 MR. HAMILTON: No, the, it is a very small portion of the
62 total transmission plant one would argue, but to come up
63 with (inaudible) to figure out specifically where the energy
64 is coming from, for example, Cat Arm power, or Hines Lake
65 power, or Port aux Basque power, you can pick up from
66 anywhere, depending on way the system is loaded at that
67 point in time, then how do you determine the proportionate
68 cost of each of those transmission lines that might be
69 providing that energy flow and it was deemed a long time,
70 it's an exercise in, implied great precision with no precision
71 (*phonetic*), because as I said, I mean, how do you value a
72 plant that's been fully recovered in firm rates, so we're just
73 trying to come with a number to the reflect that there's a
74 benefit derived by the customer and contribution, so this
75 is what's been used for years.

76 MR. HUTCHINGS: So you do not recognize the benefit in
77 excluding areas of the plant that are obviously not being
78 used for the purpose?

79 MR. HAMILTON: Well to do that, then you have to try
80 and come up with a precise calculation of the value or
81 benefit, losses, etcetera, through the line that is actually
82 being used and except depending on actual loading at the
83 point in time, every hour of the day would be coming from
84 a different direction and a different impact on the system
85 and losses, so which line do you actually charge for, and
86 typically I think most utilities tend to come up with a flat
87 rate. Some might have a rate that kind of varies by
88 distance, so the per kilowatt hour by 100 miles, 200 miles,
89 whatever, that type of thing, or density.

90 MR. HUTCHINGS: Yeah, okay. I think I know where
91 you're coming from. I want to move on then while we're on
92 the subject of losses to transformer losses. Perhaps we
93 could bring up **IC-227**. There are a number of questions
94 put here in respect of transformer losses, but perhaps, you
95 know, I'll leave it to you, Mr. Hamilton, to refer to these
96 answers to the extent you see fit, but just to try to explain
97 to us how it is that transformer losses are now handled
98 within the cost of service study. Perhaps you could scroll
99 down to the answer (a).

100 MR. HAMILTON: As outlined in **IC-227**, right now losses

1 on common transformers are allocated amongst
2 participating rate classes, so it would be the whole system;
3 the distribution transformers are therefore in the
4 distribution level in hydro rural; common transformer
5 losses are allocated amongst all rate classes based on the
6 transmission level usage; losses on transformers
7 specifically assigned to customers are added to the demand
8 and energy of the customer groups for costing purposes,
9 so in the case of the specific, Newfoundland Power would
10 be in the retail, Newfoundland Power portion of the cost
11 study, if it's to be assigned to industrial customers, then
12 the industrial portion of the cost of service and losses on
13 customer owned transformers would be invoiced to
14 customers. The twist there is that right now there is only
15 one customer owned transformer for industrial customers
16 and that's with Abitibi Consolidated in Stephenville and
17 currently they have not been, or historically they have not
18 been billed for those losses.

19 MR. HUTCHINGS: And they have been specifically
20 assigned to the industrial class?

21 MR. HAMILTON: That's correct.

22 MR. HUTCHINGS: Okay. So I take it from that description
23 then that there is no prescribed voltage at which Hydro
24 typically will regard itself as delivering power to its
25 customers, it delivers at a number of different voltages.

26 MR. HAMILTON: It delivers at a number of different
27 voltages, typically classified as transmission supply.

28 MR. HUTCHINGS: Yes, okay. I mean these go from 230, to
29 66, and 138. They're different levels for different customers
30 and even sometimes a single customer will have several
31 different levels, correct?

32 MR. HAMILTON: Yes.

33 MR. HUTCHINGS: Okay. Would you agree with me that
34 the losses to be experienced in transformation from 230 kV
35 down to 13 or whatever the customer's usage may be at,
36 will be greater than the losses associated with the
37 transmission from 66 down to 13?

38 MR. HAMILTON: It can be.

39 MR. HUTCHINGS: That's seems to imply there'd be
40 situations where it would not be. What do you think those
41 would be?

42 MR. HAMILTON: It depends on the nature of the
43 transformers involved, and how many steps are in between.

44 MR. HUTCHINGS: Yes, okay.

45 MR. HAMILTON: The transformer characteristics
46 determines the level of losses, not just the voltage from and
47 to.

48 MR. HUTCHINGS: Yes, okay. There can be different
49 technologies, I guess, or methodology.

50 MR. HAMILTON: There's efficient transformers and
51 inefficient transformers, and that sort of thing and I guess
52 the ...

53 MR. HUTCHINGS: All other things being equal, my
54 statement was correct, for the same transformer or same
55 series of transformers?

56 MR. HAMILTON: One would expect the losses to be
57 slightly higher.

58 MR. HUTCHINGS: Yes, okay, alright. So why was it that
59 Hydro determined it should change its treatment of
60 transformer losses?

61 MR. HAMILTON: On the basic premise that the rates are
62 designed for an average voltage level, a typical voltage
63 level if you would, and to the extent that the metering is not
64 at that voltage level then there's an inherent inaccuracy in
65 the number and by recovering losses of the specific
66 transformers involved it was felt to be equitable because of
67 some of the different voltage levels that are involved and
68 for the sake of customers that buy their own transformers,
69 the extent that they buy a more efficient transformer versus
70 a less efficient transformer, they would reap the benefit or
71 dis-benefit thereof rather than penalizing other customers.
72 So that element of equity would be there so that, for
73 example, Stephenville where they bought their own
74 transformer, they would only have to pay for their directly
75 controlled losses, so to speak, and that would then reflect
76 their correct share of the losses. The specifically assigned
77 transformers, they would be the transformers directly
78 related to those customers. Again they would pay the
79 losses that are unique to them and not to have to worry
80 about other people's losses. The losses related to common
81 transformers or a common system, they're there for some
82 reason of benefit to more than one customer, so they get
83 lumped into the whole grouping, and that's a function of
84 common versus specifically assigned, but the intent is to
85 try and have an improvement in equity so that customers
86 pay for their respective transformer losses rather than an
87 averaging.

88 MR. HUTCHINGS: Okay. You have customers obviously
89 who buy power at 230 kV, correct?

90 MR. HAMILTON: Yes.

91 MR. HUTCHINGS: Okay, and in that instance there is no
92 transformation, transformer cost imposed on Hydro's
93 system at all, is there?

94 MR. HAMILTON: If they're buying at 230, that's fine, but
95 the problem is that the metering is not at 230, so their
96 metering is on the low side of transformer and you're trying

1 to determine then how much did they buy at 230, so you're
2 trying to get back to the other side of the transformer, and
3 so you're adding on the losses to that transformer, being
4 specific to the transformer that's involved to come up with
5 an accurate measure of what they are buying, as opposed
6 to taking an average level of losses and saying well that's
7 what you actually bought, because ultimately you're going,
8 everyone is going to pay losses.

9 MR. HUTCHINGS: Yes, and all the losses have to get paid
10 for.

11 MR. HAMILTON: Right, so it's a question of I guess,
12 depending on what the numerator is and your denominator
13 is in, you can have losses at a lower percentage (inaudible)
14 and therefore lower losses, higher sales for a lower unit rate
15 and you're applying it to a higher sales level, then you will
16 pay the same amount. The fundamental issue here really is
17 one approach fairer in terms of more accurate cost recovery,
18 causality, so to speak.

19 MR. HUTCHINGS: Yeah, but I mean compare the situation
20 of your customer who takes delivery at 230 and the one
21 that takes delivery at 66, in your current proposal, as I
22 understand it, the customer who takes delivery at 230 will
23 be paying for all of the transformation losses from 230
24 down to his usage voltage and the transformation from 230
25 to 66 for the other customer will be a common cost, is that
26 correct?

27 MR. HAMILTON: There would be some difference in the
28 level of losses there.

29 MR. HUTCHINGS: There would be a difference in the level
30 of losses but there is also be a difference who pays, isn't it?

31 MR. HAMILTON: Pardon, I missed something.

32 MR. HUTCHINGS: Okay, under your proposed system, for
33 a customer who takes delivery at 230 kV, how are the losses
34 on that transformer dealt with, who pays?

35 MR. HAMILTON: On a specifically assigned or customer
36 owned, that customer pays for it. If it's a common
37 transformer, it's assigned to the system allocated with all
38 the losses.

39 MR. HUTCHINGS: Okay. Compare that to a situation of a
40 customer who had a specifically assigned transformer but
41 received power at 66 kV, and the transformer was used to
42 get it down to his usage voltage, what's that customer
43 paying?

44 MR. HAMILTON: Somewhere along the way though it had
45 to get down from 230 to 66, so the question is where is that
46 transformer.

47 MR. HUTCHINGS: Yes.

48 MR. HAMILTON: And if that transformer is again

49 specifically assigned to that customer, that customer is
50 paying for that transformer and transmission thereafter.

51 MR. HUTCHINGS: Yeah, everything is fine, but if the
52 transformation from 230 down to 66 is common, what's the
53 effect then?

54 MR. HAMILTON: It would be in the total losses on the
55 transmission system.

56 MR. HUTCHINGS: So the customer who's taking at 66 kV
57 is better off than the customer who's taking at 230 because
58 they don't have to pay for as much losses.

59 MR. HAMILTON: Only if the transformer is classified as
60 common.

61 MR. HUTCHINGS: If, yeah, if the transformer from 230
62 down to 66 kV is common, correct?

63 MR. HAMILTON: Correct.

64 MR. HUTCHINGS: Yeah, and is that not typically the case
65 for your customers that those who take at 66 kV are taking
66 power that has been transformed by a common transformer
67 down to 66 kV?

68 MR. HAMILTON: There are some that are common, some
69 that are specifically assigned.

70 MR. HUTCHINGS: Okay. Looking **IC-227**, you were asked
71 in question (d) to identify the effects for Newfoundland
72 Power and industrial customers if transformer losses below
73 66 kV were specifically assigned and transformer losses
74 from generation voltage down to 66 kV were assigned
75 common. Let me just ask you is that not on its face a more
76 fair way of dealing with those losses?

77 MR. HAMILTON: We didn't think so.

78 MR. HUTCHINGS: Why not?

79 MR. HAMILTON: Because the extent that transformers
80 can identify that are specific customers, and I guess this
81 goes back to one of the questions Mr. Brickhill had, there's
82 a series of allocations in any cost study, but ideally
83 anything that might be specifically assigned can be done
84 with very good precision. So in the case of these
85 transformers they can be done fairly accurately in terms of
86 specifically assigned, customer owned, or common, to the
87 extent that we can identify then the losses associated with
88 those transformers accurately will then (inaudible) to do
89 so.

90 MR. HUTCHINGS: If I can interrupt you there for a
91 moment though, the customer who's taking at 230 kV is
92 paying the same price as the customer taking at 66 kV, are
93 they not, if they're both industrial customers, shall we say?

94 MR. HAMILTON: If they're both industrial customers, if
95 one is Hydro rural versus an industrial it's a different rate,

1 or Newfoundland Power has a different rate and they're
2 allocated different numbers.

3 MR. HUTCHINGS: Yeah, I understand that, but for ease of
4 comparison if we have two industrial customers, one taking
5 66 kV and the other at 230, they're both paying the same
6 rates, correct?

7 MR. HAMILTON: That's correct.

8 MR. HUTCHINGS: But if one is taking at 230, they're going
9 to be paying more losses than the one is taking at 66,
10 correct?

11 MR. HAMILTON: More than likely.

12 MR. HUTCHINGS: Yeah, is that not a discriminatory rate?

13 MR. HAMILTON: It's more fair than using an average for
14 all.

15 MR. HUTCHINGS: What do you mean by using an
16 average for all?

17 MR. HAMILTON: Well alternatively you come up with
18 one average loss rate for everybody and apply it, and share
19 it out in everybody's rates so it's a case of (inaudible)
20 precision versus averaging is more fair.

21 MR. HUTCHINGS: Have you surveyed the practices of
22 other utilities on the question of transformer losses?

23 MR. HAMILTON: I reviewed them yes, and I guess over
24 the years many meetings have been held, I participated in
25 numerous meetings myself. Back in eighties it was a very
26 big issue at several meetings of the section of the Canadian
27 Electrical Association that I was involved in, and there are
28 a lot of different practices around back in the seventies and
29 eighties and there was a particular committee struck to
30 address an area of commonality, I guess, to try to arrive at
31 some common treatment for losses for utilities, trying to
32 come up with some basis for why people do what they do,
33 and is there some logic, is there some standard that can be
34 arrived at, and well I guess the findings of the group was
35 that there's a wide range of justifications and
36 rationalizations, past practice, that sort of thing, that I
37 guess the bottom line was that the extent that a rate is
38 designed for the certain voltage level involved, that the
39 extent that metering isn't at that level that the meter reading
40 be adjusted to take it to that voltage level, and I know
41 several utilities did change their practices during that time,
42 and I guess, this is a further reflection of that here too.

43 MR. HUTCHINGS: There are utilities, are there not, who
44 will provide a credit for taking at a relatively higher voltage
45 or an extra charge if you require the power at a relatively
46 lower voltage, beyond the standard transmission.

47 MR. HAMILTON: And that's a function again, as I say,
48 you design the rate for delivery at a particular voltage and

49 if your metering is at a different voltage, you adjust for it,
50 or if the transformer is owned or not owned, you might
51 have a transformer of ownership discount, again you're
52 trying to arrive at, you have some basis for your rate to the
53 extent that the circumstances of a particular customer is
54 different from that average, then you would provide credits
55 or extra charges to move it to that average.

56 MR. HUTCHINGS: Have you within Hydro explored any
57 other rate design element that could take into account the
58 problem I've outlined with transformer losses, beyond what
59 you proposed here?

60 MR. HAMILTON: We looked at discussing the idea of just
61 going, I'll call it the low side of the transformer, and using
62 it as a direct meter reading for the low side. Again, as you
63 pointed that, even a low side, there are again a wide range
64 of voltages and that has other inherent items with it and
65 some might argue that administratively the low side would
66 be easier, you don't have to make those adjustments. The
67 end result would be you'd end with slightly higher unit
68 rates because your sales would be at a lower level and as
69 most things, anytime you change that there'd be some
70 group of customers better off than another group of
71 customers. It's a case of where is the more equitable, fairer
72 location to use as your reference point.

73 MR. HUTCHINGS: So it comes down to a matter of
74 judgement as to which of the proposed treatments is more
75 fair.

76 MR. HAMILTON: That's correct.

77 MR. HUTCHINGS: That's probably a good place to break,
78 Mr. Chair. I don't expect to be very much longer, but there
79 is one item that Mr. Hamilton is going to get for me in the
80 morning and I may have a few other questions.

81 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
82 Hutchings. Thank you, Mr. Hamilton. Given that
83 everybody boycotted, including myself, my 2:00 o'clock
84 time, I will revert back to 9:30 tomorrow morning (*laughter*).

85 *(hearing adjourned to November 29, 2001)*