

1 (9:34 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
3 morning. Counsel, will there be any preliminary matters this
4 morning?

5 MR. KENNEDY: Not that I'm aware of, Chair, no
6 preliminary matters this morning.

7 MR. NOSEWORTHY, CHAIRMAN: Okay, thank you.
8 Good morning, Mr. Budgell.

9 MR. BUDGELL: Good morning.

10 MR. NOSEWORTHY, CHAIRMAN: Are you ready to
11 begin?

12 MR. BUDGELL: Yes, I am.

13 MR. NOSEWORTHY, CHAIRMAN: Thank you. I ask Ms.
14 Henley Andrews to continue, please, with her cross-
15 examination.

16 MS. HENLEY ANDREWS, Q.C.: Thank you, Mr. Chairman.
17 My recollection, Mr. Budgell, is that when we finished
18 yesterday we had agreed that if you looked at what was in
19 place in 1991, and from a generation perspective, and what
20 at that time was planned in terms of improvements in
21 generation capacity, that you would expect that that should
22 have been adequate to meet what was projected to be the
23 1995 demand and energy needs. Is that correct?

24 MR. BUDGELL: I'm not ... when you say projected to be, I
25 thought it was a hypothetical case we were putting ...

26 MS. HENLEY ANDREWS, Q.C.: It is a hypothetical.

27 MR. BUDGELL: ... case you were putting forward in
28 regards to that particular forecast. I would agree on a
29 hypothetical basis but going back to 1991 on an actual
30 basis, one has to consider what the situation, the capability
31 of the system was at that particular time looking forward,
32 and I don't know whether '95 would have been an
33 appropriate year that you would look at for deficits, but
34 whatever year that is, if '95 is just as good as any, one
35 would look for, based on the tables that Ms. Butler and I
36 went through yesterday, and would determine the timing
37 on the next source and focus decisions on making a
38 decision to meet that deficit once we've convinced
39 ourselves that that's the proper timing. If it's beyond the
40 construction timeframe, then there's time, there's more
41 review of future forecast that one would have to look at,
42 but recognizing, if we're talking 1991, we're talking a time
43 period of actual history where ERCO just shut down in
44 1989, so from the system perspective there wasn't a large
45 requirement for capacity, and as we indicated yesterday
46 that's why there was not a lot of commitment to that
47 particular time in 1991.

48 MS. HENLEY ANDREWS, Q.C.: And if you look at

49 **Schedule 8 to your testimony**, I'm sorry, it should be
50 **Schedule 4** ...

51 MR. BUDGELL: Yes.

52 MS. HENLEY ANDREWS, Q.C.: ... would you agree that
53 the system as it existed in 1991, with a few minor upgrades
54 that we talked about yesterday, for example, there was some
55 discussion at that point of minor replacements at Bay
56 d'Espoir and some relatively inexpensive generation
57 improvements, that what was in place in 1991 was expected
58 to meet both the peak and the energy requirements forecast
59 for 1995.

60 MR. BUDGELL: Well, I don't know. I haven't done the
61 table. I thought we were just talking about a hypothetical
62 case.

63 MS. HENLEY ANDREWS, Q.C.: Yes, but now I'm asking
64 you the specific question.

65 MR. BUDGELL: I can't answer that right now whether ... I'd
66 have to go back and look at the capability in 1995, for
67 instance, the forecast at that particular time, and see how
68 far it would go, but I know that shortly, in that timeframe,
69 we were, projected deficits in the, in roughly that time
70 period.

71 MS. HENLEY ANDREWS, Q.C.: There were deficits, I
72 think, projected ...

73 MR. BUDGELL: I remember in around that time period.

74 MS. HENLEY ANDREWS, Q.C.: ... for 1997. Yeah, okay.
75 Could you go back and ...

76 MR. BUDGELL: There was a table, I believe, filed in the
77 1991 evidence which would be helpful, I don't have that
78 with me right now, if that's what you're relying on for that
79 statement.

80 MS. HENLEY ANDREWS, Q.C.: Yes. Could you produce
81 that table? Could you get that table?

82 MR. BUDGELL: I would assume so, yes. It shouldn't be a
83 problem.

84 MS. HENLEY ANDREWS, Q.C.: Thank you. Now if you
85 look at the energy forecasts, the energy forecast for 2000 is
86 actually ... now back and forth between Schedule 4 and
87 Schedule 8 again. The actual energy, I'm sorry, for 2000,
88 which was 8,057 gigawatt hours, is less than the forecast
89 for 1994, which was 8,162 gigawatt hours. Is that right? So
90 if you take Schedule 8 and the actual energy in 2000 of
91 8,057 ...

92 MR. BUDGELL: Yes. This is all on Schedule 4, the same
93 number.

94 MS. HENLEY ANDREWS, Q.C.: Right. And you look at ...
95 that's right, Schedule 4 shows that the ...

- 1 MR. BUDGELL: Actual was 8,057, in the far right column.
- 2 MS. HENLEY ANDREWS, Q.C.: In 2000, that's right. And
3 that the forecast which was filed in 1991 for 1994 was
4 actually greater than that.
- 5 MR. BUDGELL: That's correct.
- 6 MS. HENLEY ANDREWS, Q.C.: And would you agree that
7 the forecast, which we now have for 2001, of 8,316 gigawatt
8 hours ...
- 9 MR. BUDGELL: That's 2002, I believe.
- 10 MS. HENLEY ANDREWS, Q.C.: Sorry, for 2002 rather, is
11 less than the forecast filed in 1991 for 1995, which was
12 8,331.
- 13 MR. BUDGELL: That's correct.
- 14 MS. HENLEY ANDREWS, Q.C.: And if you look at the
15 forecast for 2010, which is shown on Schedule 8, which is
16 the 8,929 gigawatt hours, that that is actually less than
17 what in 1991 had been forecast for the year 2000.
- 18 MR. BUDGELL: That's correct.
- 19 MS. HENLEY ANDREWS, Q.C.: Now, if you look at
20 Schedule 4, in 1991 Hydro's forecast for energy growth
21 over the period 1991 to 2000 was from 7,547 gigawatt hours
22 to 9,065.
- 23 MR. BUDGELL: I'm not sure that ... what was the first
24 number you ...
- 25 MS. HENLEY ANDREWS, Q.C.: 7,547 from 1991, would
26 have been the starting point.
- 27 MR. BUDGELL: Yes, you're correct.
- 28 MS. HENLEY ANDREWS, Q.C.: And the finishing point
29 was expected to be 9,065 gigawatt hours?
- 30 MR. BUDGELL: That's correct.
- 31 MS. HENLEY ANDREWS, Q.C.: Which was an expected
32 growth by my calculation of roughly 1,500 gigawatt hours
33 or 20 percent of the starting point.
- 34 MR. BUDGELL: I'll have to accept that, your calculation.
- 35 MS. HENLEY ANDREWS, Q.C.: But if you look at the
36 actual energy growth over the same period, it was, it went
37 from 7,464 gigawatt hours in 1991 to 8,057.
- 38 MR. BUDGELL: That's correct.
- 39 MS. HENLEY ANDREWS, Q.C.: Which is only roughly 100
40 gigawatt hours, 500 gigawatt hours?
- 41 MR. BUDGELL: Roughly.
- 42 MS. HENLEY ANDREWS, Q.C.: Okay. Which is roughly
43 ...
- 44 MR. BUDGELL: Roughly 600 gigawatt hours, I guess, from
45 1991.
- 46 MS. HENLEY ANDREWS, Q.C.: Okay. Or about eight
47 percent.
- 48 MR. BUDGELL: Yes.
- 49 MS. HENLEY ANDREWS, Q.C.: Okay. At **page seven and**
50 **eight of your testimony** you show the plant and the
51 equipment which has come into service since 1992 to meet,
52 I guess, both demand and energy requirements.
- 53 MR. BUDGELL: Yes, I do.
- 54 MS. HENLEY ANDREWS, Q.C.: When you look at the
55 three things that have been done or the three projects that
56 have been carried out, were they primarily to meet demand
57 or to meet energy requirements?
- 58 (9:45 a.m.)
- 59 MR. BUDGELL: Two of these items were to meet demand
60 and energy. One was to meet demand only.
- 61 MS. HENLEY ANDREWS, Q.C.: And the one to meet
62 demand only would have been the Interruptible B
63 Contract?
- 64 MR. BUDGELL: That's correct.
- 65 MS. HENLEY ANDREWS, Q.C.: So since 1992 Hydro
66 gained 12 megawatts in capacity from the replacement of
67 the turbine runners at Bay d'Espoir?
- 68 MR. BUDGELL: That's correct.
- 69 MS. HENLEY ANDREWS, Q.C.: And got 46 megawatts of
70 interruptible power from Abitibi in Stephenville?
- 71 MR. BUDGELL: That's correct.
- 72 MS. HENLEY ANDREWS, Q.C.: And also contracted to
73 purchase energy from Star Lake and Rattle Brook?
- 74 MR. BUDGELL: That's correct.
- 75 MS. HENLEY ANDREWS, Q.C.: So what you have
76 effectively achieved is 31 megawatts of additional
77 production from a demand perspective from the Bay
78 d'Espoir and the Star Lake and Rattle Brook?
- 79 MR. BUDGELL: Yes, over the period 1991, as we
80 referenced before, to 1998.
- 81 MS. HENLEY ANDREWS, Q.C.: Yeah. And in addition
82 you have acquired a certain amount of energy, additional
83 energy capacity through those two projects.
- 84 MR. BUDGELL: Yes, we have.
- 85 MS. HENLEY ANDREWS, Q.C.: But it's not quantified here
86 in your, in this part of your evidence.

1 MR. BUDGELL: No.

2 MS. HENLEY ANDREWS, Q.C.: And with respect to Item
3 2 that's shown on page seven, you're familiar with the,
4 what's called the Interruptible B Contract for Stephenville,
5 aren't you?

6 MR. BUDGELL: Yes, I am.

7 MS. HENLEY ANDREWS, Q.C.: And could you describe
8 for the Board how that works?

9 MR. BUDGELL: I think Mr. Henderson has already
10 described it but I hope I give the same story he does.
11 What this is, that we have purchased the right from Abitibi
12 Inc.'s mill in Stephenville, the right to interrupt 46
13 megawatts of their firm power, and we can exercise that
14 right with one-hour notice and it occurs during the time
15 period of December of one year to March of the next year,
16 and we have 25 occasions which we can call on that in that
17 time period. The maximum length is ten hours per day, I
18 believe, and we pay Abitibi for that right a ... there's a
19 discount actually from their demand bill of roughly on an
20 annual basis of 1.2 or between 1.2 and \$1.3 million a year,
21 and I think the calculation of that is in one of the RFIs, but
22 we'll call on that when the system is short on demand and
23 one of the conditions of the contract is that we can't call on
24 that until we're down to our last gas turbine, so it's a, sort
25 of our penultimate choice.

26 MS. HENLEY ANDREWS, Q.C.: And with respect to that
27 ability to interrupt demand, what that really means is that
28 for that period of time Abitibi takes less demand?

29 MR. BUDGELL: Yes.

30 MS. HENLEY ANDREWS, Q.C.: In order that that demand
31 is made available to the system?

32 MR. BUDGELL: The period of time once we've made the
33 request, until we've discontinued the request.

34 MS. HENLEY ANDREWS, Q.C.: 46 megawatts is a fairly
35 decent chunk of demand, isn't it?

36 MR. BUDGELL: It's certainly appreciable, yes.

37 MS. HENLEY ANDREWS, Q.C.: Now, with respect to
38 Newfoundland Power's generation in Port aux Basques,
39 probably got the town wrong, but anyway in terms of the
40 ability to ask Newfoundland Power to utilize its various
41 generation for demand for which they get the generation
42 credit, you're familiar with that as well.

43 MR. BUDGELL: Yes, I am.

44 MS. HENLEY ANDREWS, Q.C.: And with the exception of,
45 well, I guess, even in emergencies, that operates pretty
46 much the same way, would you agree?

47 MR. BUDGELL: Not exactly. We will call upon it in a ...

48 well, it certainly will occur before we go to, I think,
49 Stephenville instance, but it's different in one respect, is
50 that we don't pay for it in advance as we do, so in other
51 words, in the case of Abitibi, the customer who provided
52 that service has been paid up front for that service. In the
53 case of Newfoundland Power, we, through arrangements or
54 agreement with Newfoundland Power, can call upon their
55 generation, and we're referring here of course to the thermal
56 generation because their hydroelectric is operating in any
57 event to the extent possible. We will call upon that
58 generation and then pay for the energy portion of that
59 generation by the event. The capacity credit given to
60 Newfoundland Power, which is similar to the payment that
61 Abitibi receives, is given to Newfoundland Power through
62 the cost of service as a credit. That's the difference
63 between the two, but essentially they're both at times called
64 upon to meet peak.

65 MS. HENLEY ANDREWS, Q.C.: To meet peak.

66 MR. BUDGELL: In a similar way.

67 MS. HENLEY ANDREWS, Q.C.: In a similar way.

68 MR. BUDGELL: Yes.

69 MS. HENLEY ANDREWS, Q.C.: And while the
70 compensation structure is set up differently in that the
71 Newfoundland Power's is a generation credit versus
72 Abitibi's being a direct payment, the effect is that
73 Newfoundland Power is paid for that extra demand.

74 MR. BUDGELL: Yes. They're paid for that demand
75 through the credit.

76 MS. HENLEY ANDREWS, Q.C.: And for the availability of
77 that equipment.

78 MR. BUDGELL: Through the credit, yes.

79 MS. HENLEY ANDREWS, Q.C.: So again when you look
80 at the, at page seven, as a result of the three initiatives that
81 Hydro has taken since 1992, there is 31 megawatts of extra
82 demand and associated energy available and there's 46
83 megawatts of additional demand on an interruptible basis
84 to meet system peaks?

85 MR. BUDGELL: That's correct. I should point out too, just
86 coming back to an earlier conversation you and I had, when
87 you look at the timing here, this is a good example of where
88 we talked about the scheduling or looking forward on
89 generation and when we'd look for deficits. The last item,
90 which is number three, for the two small hydro projects, if
91 people remember, this was started in 1992 looking at an
92 earlier timeframe and as forecasts in the 1990s fell off, our
93 forecast would have progressively gotten lower as we do
94 our two times a year or our official, like, forecast in the fall
95 and then the review. Our forecast would have fallen off as
96 the economic climate in the province deteriorated. So in

1 this particular case, this is why these particular projects
2 that were originally in that RFP schedule for the, I think
3 around '94 to '96 period, had been moved off to 1998 to
4 reflect that that fall off occurs.

5 MS. HENLEY ANDREWS, Q.C.: Uh hum, alright. But from
6 those three projects you have achieved an additional 77
7 megawatts of demand capability since 1992?

8 MR. BUDGELL: Yes.

9 MS. HENLEY ANDREWS, Q.C.: And would you agree
10 with me that if you look at 1991 as shown in Schedule 4, the
11 1991 forecast ...

12 MR. BUDGELL: As filed?

13 MS. HENLEY ANDREWS, Q.C.: As filed. It doesn't matter
14 which one from my perspective. In 1991, since there was
15 no planned additional capacity to be put in operation
16 before 1993, you would have to agree that the system as it
17 was in existence in 1991 was expected to meet the demand
18 of 1,591 megawatts expected for 1993?

19 MR. BUDGELL: Again I'd have to see that table that we
20 talked about earlier on in the undertaking to see what the,
21 I guess, back at that day, what the LOLE indices were for
22 1993.

23 MS. HENLEY ANDREWS, Q.C.: And you can verify that
24 for me then.

25 MR. BUDGELL: Yes. I'm expecting that what you're saying
26 is correct because we, obviously we went ahead with a
27 contract with Abitibi ...

28 MS. HENLEY ANDREWS, Q.C.: Yes.

29 MR. BUDGELL: ... for the interruptible in 1993, so this must
30 have recognized that shortfalls in demand were imminent.

31 MS. HENLEY ANDREWS, Q.C.: Yes.

32 MR. BUDGELL: Whether it was '93 or '94, I can't say right
33 now.

34 MS. HENLEY ANDREWS, Q.C.: Now if you look at
35 Schedule 8 again, there's one thing that really struck me
36 about your demand forecast, and that's that you're
37 forecasting an increase of 133 megawatts in demand
38 between 2000 and 2001.

39 MR. BUDGELL: Yes. Well, one is an actual.

40 MS. HENLEY ANDREWS, Q.C.: Yeah. Well ...

41 MR. BUDGELL: It's not ...

42 MS. HENLEY ANDREWS, Q.C.: ... 2001 over 2000.

43 MR. BUDGELL: Yes.

44 MS. HENLEY ANDREWS, Q.C.: Which is a 9.2 percent

45 increase.

46 MR. BUDGELL: Yes, and the issue here is, the situation,
47 you have to look at both numbers and what underlies both
48 numbers.

49 MS. HENLEY ANDREWS, Q.C.: Yes.

50 MR. BUDGELL: The 2000 actual is based on a weather
51 condition that existed at that particular time and the
52 coincidence of utility and industrial demand. The forecast
53 assumes a coincidence of demands from the industrial and
54 utility group that are based on normal averages or mediums
55 of what actually occurs between the two, so what actually
56 occurred in 2000 is not an event that you can directly
57 compare to the year 2001 because 2000, for instance, was,
58 you never had weather conditions that drove the utility
59 demand, despite the fact, I might say, that the industrial
60 demand was high at that particular time. This occurred in,
61 I think I indicated yesterday, a December time period.

62 MS. HENLEY ANDREWS, Q.C.: Yes.

63 MR. BUDGELL: December 10th, I believe I said.

64 MS. HENLEY ANDREWS, Q.C.: Yes.

65 MR. BUDGELL: The industrial demand in the 1,443 is
66 actually higher in that event, on that occasion, than we're
67 projecting in the 1,576, you might ...

68 MS. HENLEY ANDREWS, Q.C.: Okay.

69 MR. BUDGELL: But what's happening here is the 1,576
70 reflects the weather conditions that I indicated yesterday
71 that we project ahead for normal demand, which was on a
72 normal peak day.

73 MS. HENLEY ANDREWS, Q.C.: Okay. Now, one of the
74 things we talked about yesterday was how you define the
75 normal peak day for the purpose of that number.

76 MR. BUDGELL: Yes, and I can give you an indication of
77 that today ...

78 MS. HENLEY ANDREWS, Q.C.: Okay.

79 MR. BUDGELL: ... if you would permit.

80 MS. HENLEY ANDREWS, Q.C.: Yes.

81 MR. BUDGELL: The demand is based on historic average
82 wind speed and temperature condition, which we derive a
83 wind chill factor, and the wind speed is 46 kilometers per
84 hour and the temperature is minus 13.6, and I should also
85 point out that the wind speed is an average of eight hours
86 prior to the peak and the temperature is an average of 20
87 hours prior to peak. You have to build up peak on the
88 system.

89 MS. HENLEY ANDREWS, Q.C.: Yeah.

1 MR. BUDGELL: So those ... and these are derived from
2 statistics dating back to 1976. So what we're looking at a
3 little earlier on the table, 1,443, you'd have to look at that in
4 light of the conditions that occurred on that particular day
5 relative to the temperature sensitive demand that occurred
6 on that particular day for the utility load, which has the
7 majority of the temperature sensitive demand, as we
8 indicated yesterday, and if the temperature didn't occur and
9 a peak did occur, it's because of industrial loads, it's a
10 coincidence between the two.

11 MS. HENLEY ANDREWS, Q.C.: Yes.

12 MR. BUDGELL: And you have to combine the two
13 quantities to quantify the load. On a go-forward basis
14 we're assuming average peak conditions and we assume the
15 customer load forecast. It just happens to be in this
16 particular forecast that we're looking at a year when, 2001,
17 the actual year was, we didn't meet or, let's say, come up to
18 the level of average peak conditions.

19 MS. HENLEY ANDREWS, Q.C.: Okay. So when we
20 discussed yesterday whether you use your worst-case
21 scenario and you indicated it wasn't your absolute worst-
22 case scenario but it was sort of closer to worst-case, it was
23 one of the sort of things, that was not correct, is that right?
24

25 MR. BUDGELL: No. What we ...

26 MS. HENLEY ANDREWS, Q.C.: It is in fact average?

27 *(10:00 a.m.)*

28 MR. BUDGELL: Yeah. What we actually do is go to each
29 peak day that occurred each and every year in the history
30 and look at those conditions that I just outlined for that
31 day, and then it's the average of that.

32 MS. HENLEY ANDREWS, Q.C.: Okay. So that if you go
33 back to 1976, I'm not going to do this, but if you went back
34 to 1976 and you got that information that you just
35 indicated, which is the average wind speed for the eight
36 hours prior to the peak and the average, and the
37 temperature for the 20 hours prior to the peak, and you got
38 that for every one of those years and then averaged it, that
39 would be the input data for coming up with the starting
40 number for your forecast?

41 MR. BUDGELL: Yes. It would derive a wind chill that
42 would then feed into an equation that's in the load forecast
43 and used for projecting future peaks.

44 MS. HENLEY ANDREWS, Q.C.: Now when you look again
45 at Schedule 4, and you look at the actuals in the period
46 1991 to 2000, there's not a single year in that time period
47 when the peak reached the 1,576 megawatts that you're
48 showing as projected for 2001.

49 MR. BUDGELL: That's correct. The closest to it would
50 have been, I guess, 1996, 1,563.

51 MS. HENLEY ANDREWS, Q.C.: And there was in fact, as
52 you look down that column on Schedule 4, there was only
53 one year in the period from 1991 to 2000 where the peak
54 exceeded 1,500 megawatts.

55 MR. BUDGELL: Yes, and that reflects the fact that the
56 weather conditions that we've had in the mid to late 1990s
57 have been, from a peak perspective, warmer than average.

58 MS. HENLEY ANDREWS, Q.C.: When you look at the
59 experience with respect to your forecasting over the period
60 1991 to 2000, both on the peak side and the demand side,
61 which, as I said by my calculation, with a forecast of 26.2
62 percent for peak growth, with an actual of only 5.04
63 percent, if you look at the highest number which was in
64 1996, and a forecast of 20 percent energy growth, which
65 translated into 7.94 percent, again looking at the highest
66 year, which was 2000 over 1991, is it really reasonable to
67 project 20 percent demand growth and 11 percent energy
68 growth in the period from 2001 to 2010?

69 MR. BUDGELL: I can only answer your question in this
70 way. If we were to accept that we should go with actuals
71 and ignore all the underlying principles that affect customer
72 demand and energy and just go with trend analysis, we'd
73 be going back to methodology that was used about 20
74 years ago, and we can do that if you're, if that's what you're
75 headed for, but I thought the, from a utility perspective, we
76 try to understand and get into the load growth and try to
77 understand what is actually driving the peak. We have no
78 control over the weather. We don't know what next year is
79 going to be, what it's going to hold for us. It could be
80 warmer; it could be colder. You have to realize that utility
81 demand, the heat sensitive part, can vary upwards 70
82 megawatts, downwards 70 megawatts. There's a 140
83 megawatt swing can happen on that demand and we have
84 ...

85 MS. HENLEY ANDREWS, Q.C.: But you were ...

86 MR. BUDGELL: We have to forecast with that
87 environment and have a system that can meet the demand.
88 We can't forecast a system and have a system available
89 that meets history or the growth or the lack of growth that's
90 occurred. We have to make some projection on what's
91 occurring and what drives customer demand.

92 MS. HENLEY ANDREWS, Q.C.: But the information that
93 you put into your program, into your computer program,
94 that generates ... I presume it's a computer program that
95 generates these forecasts, from what you said yesterday.

96 MR. BUDGELL: There is a model, yes.

97 MS. HENLEY ANDREWS, Q.C.: The outcome of your

1 forecast is largely dependent upon the information that's
2 put into it.

3 MR. BUDGELL: That's correct.

4 MS. HENLEY ANDREWS, Q.C.: And from the economic
5 point of view, and the economic factors that go into that,
6 every one of those economic factors is somebody's
7 assumption, isn't that right?

8 MR. BUDGELL: Oh, yes, of course, yes.

9 MS. HENLEY ANDREWS, Q.C.: And you can apply a
10 certain amount of subjectivity in one sense, if you look at
11 the accuracy of how those projections have translated in
12 the past versus how they appear to translate in the future,
13 isn't that right?

14 MR. BUDGELL: Oh, yes, yeah. I think you have ... I'm not
15 saying that you ignore totally the past, but the current
16 methodology within ... we're talking about the total island
17 load forecast here, so this is not the forecast that's put
18 forward for rate-setting purposes. We're talking about the
19 forecast that's been used to schedule and to plan plant and
20 generation on the system. This particular forecast ensures
21 that we have the sufficient capability to meet customer,
22 current customer load under a set condition, and we've
23 outlined what the conditions are, recognizing what the
24 industrial customers' requirements are, and provides a
25 suitable level of reserve to assist them, so ...

26 MS. HENLEY ANDREWS, Q.C.: And I realize that, but
27 that's really where I'm focusing at the moment is this issue
28 of projected capital expenses, because when you add
29 capacity to the system, you are, there's an expense that
30 ultimately gets passed on to the consumer.

31 MR. BUDGELL: That's correct.

32 MS. HENLEY ANDREWS, Q.C.: Whether that consumer is
33 an industrial customer or a utility customer, correct?

34 MR. BUDGELL: That's right.

35 MS. HENLEY ANDREWS, Q.C.: So what I'm trying to get
36 a handle on is the system as it is now, first of all, as it was
37 in 1991 at the time that those projections were done, what's
38 been added to it, what's going to be added to it because it's
39 already approved and the projects are already underway
40 over the next number of years, and then your evidence that
41 even with all of that there is a projection that there would
42 be a need for additional capacity by 2007.

43 MR. BUDGELL: That's the current projection but that may
44 not be the projection six months from now. As I indicated,
45 as we move through the 1991, each and every year there'll
46 be a new economic outlook, you'll have additional history
47 so the forecast will essentially, it lags a little bit. We have
48 to pick up history, we have to pick up the indications in the

49 economy that what's going on at the immediate time, but it
50 lags a little bit but eventually it picks it up, so if you saw
51 our forecast going through the, and I think that's in one of
52 the RFIs, going through the 1990s, I think you'd see that
53 they're progressively decreasing, the projections would
54 have been, and if, by the same token, if the economy
55 heated up, if we're ever blessed with that situation, you'd
56 see the opposite occurring, but it may not occur
57 immediately.

58 MS. HENLEY ANDREWS, Q.C.: So what we've been
59 dealing with this morning so far and what we were dealing
60 with late yesterday afternoon is the long-term forecast,
61 correct?

62 MR. BUDGELL: Yes.

63 MS. HENLEY ANDREWS, Q.C.: And the shortfalls that
64 might be anticipated if you, in generation capacity, based
65 upon that forecast over time.

66 MR. BUDGELL: Yes, and can I make one more point?
67 There's a cost-effectiveness study that's been filed in
68 evidence for the decision to go ahead with Granite Canal,
69 and I think you should look at the, one of the appendices
70 to that where in making that decision in 1998/99 period, I
71 think it's '99, we did a Monte Carlo analysis on the years,
72 the sensitive years. We looked out and we said 2002, and
73 I think it was 2003, are the years that we're targeting. What
74 is the probability that load will be lower or higher than that?
75 So we recognize that and that's one of the means that we
76 currently use to reflect that when we make this decision it's
77 just not arbitrarily on one point load estimates. We do
78 have a very, very close look at the deficit years to ensure
79 that the decision we're making is prudent in regards to the
80 timing.

81 MS. HENLEY ANDREWS, Q.C.: Now when you look at
82 **Schedule 10, 11 and 12**, and it's Schedule 10 first, that
83 indicates that forecast, using the LOLH, is for a deficit in
84 2002.

85 MR. BUDGELL: Well, it's actually in 2001. It's a little bit
86 over the 2.8.

87 MS. HENLEY ANDREWS, Q.C.: Yes.

88 MR. BUDGELL: 2002, it's starting to get a little bit higher.

89 MS. HENLEY ANDREWS, Q.C.: Based upon ... now, I
90 know that peak, the actual system peak could occur in
91 December, but having taken that as known, based on 2001
92 to date is there, has there been a shortfall?

93 MR. BUDGELL: No. Under the ... this shortfall ... are you
94 talking in capacity?

95 MS. HENLEY ANDREWS, Q.C.: Yes.

96 MR. BUDGELL: No, there hasn't been a shortfall because

1 our system always has roughly around ... we plan to have
2 a minimum of about 18 1/2 percent reserve on the system.

3 MS. HENLEY ANDREWS, Q.C.: Yes.

4 MR. BUDGELL: So we don't get to a shortfall where it's
5 zero unless something very catastrophic on the system
6 happens, a loss of a major plant like Holyrood or Bay
7 d'Espoir or a number of units, very large units, that add up
8 in excess of 18 1/2 percent. Now I'm not saying we ride a
9 curve and sort of say each and every year we add one or
10 two megawatts in discreet lumps to make sure that we stay
11 exactly at 18 1/2. It goes above and as load grows it
12 decreases down to 18 1/2, so ideally it's a saw tooth
13 function of adding load and, or adding generation to meet
14 load as load grows, but there has not been a deficit or a
15 requirement for additional capacity in this particular year ...

16 MS. HENLEY ANDREWS, Q.C.: And you ...

17 MR. BUDGELL: ... but that's not to say it could have
18 occurred if the forced outage rates and if conditions that
19 you model and do the calculations had occurred. It's just
20 the situation hasn't occurred this year.

21 MS. HENLEY ANDREWS, Q.C.: Now if you look at ... so
22 whether you look at Schedule 10 or whether you look at
23 Schedule 12, and my understanding is that the only
24 difference between them is that Schedule 10 shows the
25 existing generating capability whereas Schedule 12 also
26 incorporates the committed projects.

27 MR. BUDGELL: Yes.

28 MS. HENLEY ANDREWS, Q.C.: And the committed
29 projects are the ones that are outlined on Schedule 11,
30 which is Granite Canal, Beaton and Corner Brook Pulp and
31 Paper.

32 MR. BUDGELL: That's correct.

33 MS. HENLEY ANDREWS, Q.C.: And, but whether you
34 look at Schedule 10 or whether you look at Schedule 12,
35 whether there is in fact a capacity deficit or a peak deficit
36 depends on whether the forecast is correct, whether the
37 conditions in any one of those years is sufficient to
38 generate either the peak or the energy requirements that are
39 forecast.

40 MR. BUDGELL: On a projection basis, yes, of course.

41 *(10:15 a.m.)*

42 MS. HENLEY ANDREWS, Q.C.: Now, I'm going to move
43 on to the short-term forecast. I'd like you to go to your
44 supplementary evidence, **your second supplementary**
45 **evidence at page two**. Now, in ... you indicate that you
46 revised Schedules 5 and 6 with respect to operating load
47 forecasts. Is that right?

48 MR. BUDGELL: That's correct.

49 MS. HENLEY ANDREWS, Q.C.: And that's based on
50 customer forecasts available as of the end of the second
51 quarter of 2001?

52 MR. BUDGELL: That's correct.

53 MS. HENLEY ANDREWS, Q.C.: And that indicates that on
54 the island interconnected system, the net impact of those
55 revised forecasts from your customers is an increase, is a
56 decrease in demand of 24 megawatts and a decrease in
57 energy requirements of 60 gigawatt hours.

58 MR. BUDGELL: That's correct. I should add as well, the
59 2001 also reflect the actuals to the month of August.

60 MS. HENLEY ANDREWS, Q.C.: And the comment that's
61 made is that the higher energy requirements for
62 Newfoundland Power are more than offset by market-
63 related downtime forecast by Abitibi Consolidated.

64 MR. BUDGELL: Yes.

65 MS. HENLEY ANDREWS, Q.C.: And that the reduction in
66 demand in 2001 is largely attributed to Newfoundland
67 Power's revised demand forecast.

68 MR. BUDGELL: That's correct.

69 MS. HENLEY ANDREWS, Q.C.: So Newfoundland Power
70 is now projecting a drop in its demand and an increase in
71 its energy?

72 MR. BUDGELL: According to its latest forecast, yes.

73 MS. HENLEY ANDREWS, Q.C.: And if you look ...

74 MR. BUDGELL: I should ... this is a drop relative to what
75 was previously filed.

76 MS. HENLEY ANDREWS, Q.C.: Exactly.

77 MR. BUDGELL: Okay.

78 MS. HENLEY ANDREWS, Q.C.: Now, if you look at the ...
79 and that change is incorporated in both your
80 supplementary testimony and the supplementary
81 testimony, for example, of Mr. Brickhill and Mr. Henderson.

82 MR. BUDGELL: Hamilton.

83 MS. HENLEY ANDREWS, Q.C.: Hamilton. Is that right?

84 MR. BUDGELL: Yes.

85 MS. HENLEY ANDREWS, Q.C.: Okay. But at lines 16 to 19
86 of your testimony you indicate that subsequent to the
87 preparation of the forecast, Corner Brook Pulp and Paper
88 has revised its firm requirements to 56 megawatts versus 66
89 megawatts.

90 MR. BUDGELL: That's correct.

1 MS. HENLEY ANDREWS, Q.C.: And have they also
2 forecast any changes with respect to their energy
3 requirements?

4 MR. BUDGELL: Yes, they did. Well, through
5 conversations with their people, we estimate that the
6 impact is in the range, somewhere between 80 and 90
7 gigawatt hours less for 2002.

8 MS. HENLEY ANDREWS, Q.C.: And these changes, these
9 changes in the Corner Brook Pulp and Paper forecast, have
10 not been incorporated into the current forecasts ...

11 MR. BUDGELL: No, they have not. The information was
12 not obtained till very recently.

13 MS. HENLEY ANDREWS, Q.C.: Okay. And so they are
14 also not incorporated into the revised cost of service study
15 filed by Mr. Brickhill?

16 MR. BUDGELL: No, they are not.

17 MS. HENLEY ANDREWS, Q.C.: When you look at what
18 Hydro has added in terms of capacity to its system as
19 reflected on page seven, which we talked about, which is
20 basically an addition of 77 megawatts of demand capacity,
21 and then you look at Schedule 11, which is what is fore,
22 what is already committed to be done over the next couple
23 of years, which, as I calculate it at, an additional 87.3
24 megawatts of peak capacity to the system, that's in total
25 adding somewhat in excess of 160 megawatts of peaking
26 capacity. Is that right?

27 MR. BUDGELL: I don't know what sources you're referring
28 to there.

29 MS. HENLEY ANDREWS, Q.C.: Okay. Let me take you
30 through it. If you look at Schedule 10, **Schedule 11 to your**
31 **evidence**, the committed projects, the Granite Canal, the
32 Beaton Project and the Corner Brook Pulp and Paper Cojan
33 (phonetic), that will add 87.3 megawatts of capacity.

34 MR. BUDGELL: That's correct.

35 MS. HENLEY ANDREWS, Q.C.: And firm energy
36 capability of 426 gigawatt hours.

37 MR. BUDGELL: That's correct.

38 MS. HENLEY ANDREWS, Q.C.: And when you look at
39 **page seven of your evidence**, the three initiatives that have
40 been taken since 1992 have added 76 megawatts of peaking
41 capacity?

42 MR. BUDGELL: Yes.

43 MS. HENLEY ANDREWS, Q.C.: And obviously if you add
44 the 76 to the 87.3, then you've got roughly 163 megawatts
45 of peaking capacity that either has been added or will be
46 added to this system over the next couple of years, since
47 1991.

48 MR. BUDGELL: That's correct, but the ... on a go-forward
49 basis that could be less 46 megawatts effective after 2003.

50 MS. HENLEY ANDREWS, Q.C.: Now that depends on two
51 things, isn't that right?

52 MR. BUDGELL: That's correct.

53 MS. HENLEY ANDREWS, Q.C.: Because the Interruptible
54 B Contract with Abitibi expires in 2003.

55 MR. BUDGELL: That's correct.

56 MS. HENLEY ANDREWS, Q.C.: So whether that 46
57 megawatts of interruptible demand is available will depend
58 on two things. One is whether Newfoundland Hydro wants
59 it to be available, isn't that right?

60 MR. BUDGELL: That's correct.

61 MS. HENLEY ANDREWS, Q.C.: And the ...

62 MR. BUDGELL: Or requires it to be available.

63 MS. HENLEY ANDREWS, Q.C.: Or requires it to be
64 available. And the second is whether Abitibi in
65 Stephenville is prepared to make it available.

66 MR. BUDGELL: That's correct.

67 MS. HENLEY ANDREWS, Q.C.: And whether they can
68 come to terms over what the value of it ought to be.

69 MR. BUDGELL: Yes.

70 MS. HENLEY ANDREWS, Q.C.: But in theory it has been
71 available now since 1993, correct?

72 MR. BUDGELL: That's correct.

73 MS. HENLEY ANDREWS, Q.C.: And unless ... you have
74 no reason to believe that it wouldn't be made available at
75 this point in time, do you?

76 MR. BUDGELL: I haven't had any discussions with Abitibi
77 in that regard as yet.

78 MS. HENLEY ANDREWS, Q.C.: But you don't have any
79 reason to believe that it wouldn't be available.

80 MR. BUDGELL: No.

81 MS. HENLEY ANDREWS, Q.C.: When you look at
82 **Schedules 10 and 12 to your evidence**, and this is just more
83 of a technical question as to how it was put together than
84 anything else, there's a footnote that says that the 46
85 megawatts of interruptible load is included in the peak load
86 forecast and included in the determination of LOLH.

87 MR. BUDGELL: That's correct.

88 MS. HENLEY ANDREWS, Q.C.: Our question is whether,
89 when you use the word "included," is whether the 46
90 megawatts of interruptible load is netted off or not netted

1 off.

2 MR. BUDGELL: It's netted off. It's just that it's not netted
3 off this table because we're reflecting Abitibi Stephenville's
4 demand as being the total demand, 72 or whatever
5 megawatts, as being firm demand on the system. The 46
6 megawatts we reflect in our modelling as a DSM initiative
7 and we modelled it as a resource that we can call upon to
8 reduce the generation within the generation model that's
9 producing the LOLH. We could have done it either way
10 and got the, a similar result, but this just happened to be
11 the way that we did the calculation.

12 MS. HENLEY ANDREWS, Q.C.: Okay. So when ... but let's
13 just ... I just need to be sure that I understand so that when
14 you look at peak, or rather when you look at firm energy,
15 you are not including the 46 megawatts?

16 MR. BUDGELL: You mentioned energy. I'm confused.
17 This is ...

18 MS. HENLEY ANDREWS, Q.C.: I'm sorry. Demand.

19 MR. BUDGELL: It's the peak ... on the demand side, the 46
20 megawatts is included in the numbers that you see here,
21 the 1,576.

22 MS. HENLEY ANDREWS, Q.C.: Okay.

23 MR. BUDGELL: Okay.

24 MS. HENLEY ANDREWS, Q.C.: Yes.

25 MR. BUDGELL: Number. It's included in that particular
26 number but we have to remove it or we include a resource
27 in our portfolio of generation and supply side sources, a 46
28 megawatt block with an energy capability roughly
29 equivalent to 25 times 10 hours a day for a winter period of
30 whatever gigawatt hours ...

31 MS. HENLEY ANDREWS, Q.C.: Yeah.

32 MR. BUDGELL: ... that entails in our modelling, and
33 essentially that's one of the resources the program nets off
34 the load shape to arrive at the LOLH hours.

35 MS. HENLEY ANDREWS, Q.C.: But in terms of my
36 question on the interpretation of both Schedule 10 and
37 Schedule 12, which have the same footnote at the bottom,
38 if I'm looking at the existing system with the 1,831 net
39 capacity ...

40 MR. BUDGELL: Yes. That's just generation. That doesn't
41 include the 46.

42 MS. HENLEY ANDREWS, Q.C.: Okay.

43 MR. BUDGELL: That's why the note is added, because it's
44 not, it wasn't taken off the peak and it's not in the 1,831.

45 MS. HENLEY ANDREWS, Q.C.: Okay. So if you wanted
46 to ... if you were looking at the capacity and the

47 interruptible availability you would add the 46 megawatts
48 to the 1,831?

49 MR. BUDGELL: Yes. It could either be taken off the 1,576
50 or added to the 1,831, but you couldn't add it to the 1,831
51 because the 1,831 is the capacity of system that's available
52 for the full year.

53 MS. HENLEY ANDREWS, Q.C.: Okay.

54 MR. BUDGELL: It's just ... it's a modelling issue.

55 MS. HENLEY ANDREWS, Q.C.: Okay. So, and I'm just
56 trying to be sure that I understand where it is, that's all, and
57 so ...

58 MR. BUDGELL: It's in ... what the note is indicating, that it
59 was in the determination of the LOLH.

60 MS. HENLEY ANDREWS, Q.C.: Okay.

61 MR. BUDGELL: It was included.

62 MS. HENLEY ANDREWS, Q.C.: Alright. And it's included
63 because of the modelling option.

64 MR. BUDGELL: Yes.

65 MS. HENLEY ANDREWS, Q.C.: But it's not ... so it's in
66 addition to some of these factors that are set out on the
67 schedules.

68 MR. BUDGELL: Yes.

69 MS. HENLEY ANDREWS, Q.C.: That helps me. Can you
70 confirm that the Interruptible B availability is a factor when
71 considering operating, the operating load forecast in much
72 the same way that the NP generation availability is?

73 MR. BUDGELL: I don't do that analysis. That would be
74 Mr. Henderson.

75 MS. HENLEY ANDREWS, Q.C.: Okay.

76 MR. BUDGELL: I'm sure he includes the cost in the
77 revenue.

78 *(10:30 a.m.)*

79 MS. HENLEY ANDREWS, Q.C.: We already asked him that
80 question, so we'll go with his answer. Now, I'm going to
81 change to a discussion of LOLE and LOLH. My
82 understanding of LOLE is that it's the average number of
83 hours or days each year when peak load is expected to
84 exceed available generating capacity. Is that right?

85 MR. BUDGELL: Yes, more or less. That's a good summary.

86 MS. HENLEY ANDREWS, Q.C.: Alright. And LOLH is an
87 average measure based on accumulated annual or monthly
88 duration of probable interruptions.

89 MR. BUDGELL: Yes, or expected insufficiencies.

1 MS. HENLEY ANDREWS, Q.C.: Okay. Ms. Butler asked
2 you some questions yesterday about the LOLH target of
3 2.8 hours per year versus the LOLE target of .2 days per
4 year.

5 MR. BUDGELL: Yes.

6 MS. HENLEY ANDREWS, Q.C.: Which is the more
7 stringent requirement?

8 MR. BUDGELL: I look at them both as being equivalent.
9 We actually went to the trouble of, when we moved to
10 LOLH, the one factor we kept consistent between the two
11 was the reserve capability on the system. The LOP at the
12 time, or the LOLH, expressed .2 days, we have .2 days per
13 year, ended up with a reserve, let's say, of 18 percent. Then
14 we do an analysis based on a system that exactly provided
15 that level and then we measure the reserve, and then we
16 change the model to the new model, which included all the
17 hours. I indicated to Ms. Butler the fact that the LOLE in
18 days per year only reflected load shapes (unintelligible)
19 peak days 28 values or whatever there was in a particular
20 month, whereas a new one has all the hours. We changed
21 the load shape so we ensured that we picked the value that
22 provided exactly the same system reserve as was previous.
23 So that's the commonality between the two, so they're
24 equivalent.

25 MS. HENLEY ANDREWS, Q.C.: But you would agree with
26 me that .2 days is actually 4.8 hours?

27 MR. BUDGELL: Not the way this works.

28 MS. HENLEY ANDREWS, Q.C.: Okay.

29 MR. BUDGELL: That would be the information ...

30 MS. HENLEY ANDREWS, Q.C.: No ...

31 MR. BUDGELL: That would certainly be the information
32 one would have, .2 times 24 hours, yes. As a matter of fact,
33 I think that was my first impression, but it doesn't work that
34 way.

35 MS. HENLEY ANDREWS, Q.C.: When did Hydro change
36 the units of measure from LOLH to LO, from LOLE to
37 LOLH?

38 MR. BUDGELL: It was in the, around the, I think it was
39 around the mid 1990s. It's when we acquired new software
40 that permitted that capability. I should mention also as an
41 aside, if you went to any utility and you modelled a
42 different mix of generation, it wouldn't, the LOLH wouldn't
43 necessarily give you the same value. In other words, if I
44 say use .2 but change the mix, it's not Bay d'Espoir, so
45 much generation and thermal, you'll end up with another
46 number on reserve.

47 MS. HENLEY ANDREWS, Q.C.: Okay.

48 MR. BUDGELL: So these ... what I'm saying is that the .2,
49 if you look at other utilities, they don't mean the same thing
50 across utilities, they're not equivalent.

51 MS. HENLEY ANDREWS, Q.C.: Uh hum.

52 MR. BUDGELL: Okay. So it's a very important concept,
53 and that's why when I said that we could have had a
54 different mix and it mightn't have been 2.8 hours. It could
55 have ended up to be three hours, four hours, five hours. It
56 would have been higher if we had more thermal than hydro.
57 It would have been higher if we were, our forced outage
58 rates were higher on our plants than they otherwise would
59 have been.

60 MS. HENLEY ANDREWS, Q.C.: Why did you make the
61 change?

62 MR. BUDGELL: The program requires ... we wanted to
63 match ... one of the issues that we had in doing our
64 modelling is that we were using a separate model for
65 production costing and for reliability. Production costing
66 was based on an hourly model. All hours of the month
67 were reflected in the model, so we had load shapes that
68 were consistent with what one might expect to occur in the
69 month. When you did your old, when we did the old LOLE
70 calculation, we used a separate load shape that was then
71 calculated on the peak day. You'd only use the, a very
72 discreet set of data points, the peak days from each month.

73 MS. HENLEY ANDREWS, Q.C.: Yes.

74 MR. BUDGELL: And that meant we were carrying forward
75 two data sets in the program and it was a lot easier to
76 maintain one and go forth with what one that reflected the
77 actual shape.

78 MS. HENLEY ANDREWS, Q.C.: So are there benefits of
79 using LOLH versus LOLE?

80 MR. BUDGELL: Not per se. It's just purely an academic,
81 more pure calculation. All hours, obviously having more
82 data points, represents the shape and load of the system
83 more accurately than less data points. It's purely that
84 effect. What I'm going to say is that the answers that we
85 would have achieved in either case would have been
86 identical because we've matched the reserve, but allows us
87 to do better calculations and gives us more flexibility.

88 MS. HENLEY ANDREWS, Q.C.: How did you come up
89 with your 2.8 hours per year for LOLE?

90 MR. BUDGELL: I just explained. It was the equivalent, it
91 was the ... we did system simulations ... what we did was we
92 modelled the current system at the time with an average
93 load shape and we found the megawatt level at which we
94 just hit .2. That was the old value.

95 MS. HENLEY ANDREWS, Q.C.: Where did the .2 come

- 1 from?
- 2 MR. BUDGELL: The .2 is the value that Hydro has used,
3 well, so long as I've been with Hydro, and before then.
- 4 MS. HENLEY ANDREWS, Q.C.: Yeah, but my, I guess my
5 question is ...
- 6 MR. BUDGELL: It was a number that Hydro, well, my
7 predecessors through judgement, through conversations
8 and analysis in the past, have come up with as being a
9 suitable number for our utility given our circumstances.
- 10 MS. HENLEY ANDREWS, Q.C.: How do you know that it's
11 suitable today?
- 12 MR. BUDGELL: Well, most of the utilities would have had
13 a lower number, which would have meant that we would be
14 carrying higher reserves and we would have a more
15 expensive system. We didn't want to go there. You'd see
16 some of that discussion on this mentioned in the reviews
17 of the Board's technical consultant, George Baker, when he
18 did the review back in 1991. There's some interesting
19 discussion on that fact there.
- 20 MS. HENLEY ANDREWS, Q.C.: But you yourself have,
21 you don't know what, whether the .2 reflects or reflected a
22 reasonable reliability. It's just it's a judgement number?
- 23 MR. BUDGELL: It's a judgement number, yes. It ends up
24 with a percent reserve that's not out of line with what other
25 utilities carry.
- 26 MS. HENLEY ANDREWS, Q.C.: Did Hydro conduct any
27 studies or do any research on the value of LOLH versus
28 LOLE?
- 29 MR. BUDGELL: No, not on the ...
- 30 MS. HENLEY ANDREWS, Q.C.: So it was largely the fact
31 that the new computer program in the mid '90s, it was
32 available?
- 33 MR. BUDGELL: This is only units of measure. I don't
34 know what the value would be, to determine the value of
35 one unit of measure versus another. It's the same analysis.
36 All we've done is do the same analysis with another unit of
37 measure. All I'm trying to say is that, it's like if I go out and
38 buy meat, I buy pounds, and tomorrow the government
39 says you do it in kilograms, I buy it in kilograms. You don't
40 have to do a study on whether pounds or kilograms are
41 better. You're still buying, I'm assuming, the same meat,
42 and you're paying the same value. All we've done is
43 change, we're trying to buy the same item.
- 44 MS. HENLEY ANDREWS, Q.C.: From a practical customer
45 point of view as opposed to, we already discussed the
46 actual definition of LOLE versus LOLH, but from a practical
47 customer point of view, what can a customer expect from a
48 reliability point of view from an LOLH of 2.8 hours per
- 49 year? Like what is that scenario?
- 50 MR. BUDGELL: That ensures that we will expand the
51 system and have no less than approximately 18 percent
52 reserve on the system. The customer can ensure that if
53 Hydro has loss of generation no worse than our forced
54 outage rate practices and our load shape stays consistent
55 and our forecasts of course occur as we project, the
56 customer can ensure that we have reserve capacity on the
57 system to meet its requirements, that that's a level of firm
58 that he can be comfortable about.
- 59 MS. HENLEY ANDREWS, Q.C.: When ... how much ...
60 based upon that criteria of LOLH of 2.8 hours per year,
61 what amount of outage would that customer expect to
62 experience?
- 63 MR. BUDGELL: This is only a hypothetical.
- 64 MS. HENLEY ANDREWS, Q.C.: Yes.
- 65 MR. BUDGELL: I couldn't say that. There may not be any
66 outage occur. These are ...
- 67 MS. HENLEY ANDREWS, Q.C.: In a worst-case scenario.
- 68 MR. BUDGELL: Well, again it doesn't depend on an
69 individual customer. Any particular customer can have
70 outages for a lot of reasons. This is only an outage
71 because, that may occur because of generation, if there's
72 insufficient generation on the system. The outage can
73 occur to ... this is not saying ... it's a calculation done
74 assuming all the generation is available to be run to meet
75 load. A customer in the real world can expect an outage
76 because generation is not on the system at the time that an
77 event happens. What I'm saying here is that if we're in a
78 period of time of year where we have one unit at Holyrood
79 running, two units are shut down, and that unit trips off, an
80 outage is going to occur, this indices is not reflecting that
81 event. This is just a hypothetical planning exercise. It has
82 little meaning in the operational sense, if that's where you're
83 coming from.
- 84 MS. HENLEY ANDREWS, Q.C.: And ...
- 85 MR. BUDGELL: And it's a standard analysis that utilities
86 do from that perspective in doing their long-term planning.
- 87 MS. HENLEY ANDREWS, Q.C.: And is it then correct to
88 say that, if we look at Schedule 10 or Schedule 12 of your
89 evidence, that what is reflected then in firm capability, or
90 net capacity rather and firm capability, is 18 percent
91 additional capacity above and beyond the projected need
92 in order to accommodate all those other factors?
- 93 MR. BUDGELL: Is 18 percent above a particular value?
94 The 1,831 may not be 18 percent ... well, it'd be pretty close
95 to the 1,576 because the LOLH is pretty close to 2.8, but ...
- 96 MS. HENLEY ANDREWS, Q.C.: Yeah.

1 MR. BUDGELL: ... it's roughly in that line. It's 18 percent
2 reserve carried on the system.

3 MS. HENLEY ANDREWS, Q.C.: Okay. And there's a net
4 capacity.

5 MR. BUDGELL: There's a net capacity. There's an excess
6 net capacity on the system, a reserve, to meet additional
7 load growth and unforeseen events such as forced outage
8 rates of units, forced outages of units. I believe as well
9 there's a question in an RFI where we show a survey or
10 other utilities, if one needed to get a perspective on where
11 our criteria for a reserve sat relative to other utilities.

12 MS. HENLEY ANDREWS, Q.C.: I've looked at that and
13 actually I will have a question for you on that shortly. To
14 your knowledge has the Public Utilities Board ever been
15 asked to approve this target, this reserve target?

16 MR. BUDGELL: It's presented to the public this table and
17 this discussion, both the criteria and these tables have
18 been presented to the Public Utilities Board every year that
19 I have been associated either in the background or the
20 witness at a hearing, so I think it's been all through the '80s.

21 MS. HENLEY ANDREWS, Q.C.: There's ...

22 MR. BUDGELL: I don't know whether that infers that the
23 Public Utilities Board has ...

24 MS. HENLEY ANDREWS, Q.C.: Addressed its mind to it.

25 MR. BUDGELL: ... addressed it and said it approved it, but
26 we've brought this evidence forward to the Board at every
27 hearing we appear at, and to justify plants, so I assume if
28 one assumes, let's say with Cat Arm or with Hines Lake or
29 with the Holyrood units, the units in the past, if the Board
30 had approved those plant to go in the rates, that that would
31 be some sort of approval, but whether they said that this is
32 the proper number to use, I can't say that.

33 MS. HENLEY ANDREWS, Q.C.: And when you change
34 from LOLE to LOLH, does your ... I understand that, from
35 what you've described, that you have effectively chosen
36 your LOLH so that it is supposed to be a reasonable match
37 with a .2 LOLE, but does adopting an LOLH methodology
38 have any impact on system planning?

39 MR. BUDGELL: No. It's exactly the same as before. It was
40 just a different model, different computer program.

41 MS. HENLEY ANDREWS, Q.C.: So it shouldn't have any
42 impact on the need for additional capacity.

43 MR. BUDGELL: It shouldn't.

44 MS. HENLEY ANDREWS, Q.C.: What is the effect of the
45 load growth on LOLH?

46 MR. BUDGELL: Well, if you have load growth in the
47 absence of any change in your system capability, then
48 your LOLH would increase, and it normally does so on an
49 exponential basis.

50 MS. HENLEY ANDREWS, Q.C.: So if your number of
51 gigawatt hours of usage increases, your LOLH will
52 increase.

53 MR. BUDGELL: Correct.

54 *(10:45 a.m.)*

55 MS. HENLEY ANDREWS, Q.C.: I'd like you to take a look
56 at **PUB-55**, which I think is the document that you referred
57 to a few moments ago in terms of a ...

58 MR. BUDGELL: A questionnaire?

59 MS. HENLEY ANDREWS, Q.C.: Yeah, the answers from
60 other utilities, and ...

61 MR. BUDGELL: What did you say, 55?

62 MS. HENLEY ANDREWS, Q.C.: 55.

63 MR. BUDGELL: I have it.

64 MS. HENLEY ANDREWS, Q.C.: And, Mr. O'Rielly, if you
65 would scroll down to the reference to Hydro-Quebec. You
66 need to keep going. Okay, there we are. Page three of
67 three. Hydro-Quebec has a reliability target, that is LOLE,
68 .1 days per year, and LOLH, 2.4 hours per year.

69 MR. BUDGELL: That's correct.

70 MS. HENLEY ANDREWS, Q.C.: And you would agree
71 with me that the 2.4 hours per year is in fact from a time
72 perspective a direct match to the .1 days per year?

73 MR. BUDGELL: I would agree.

74 MS. HENLEY ANDREWS, Q.C.: And your explanation for
75 that would be that the matching is not a one-to-one
76 relationship but it depends on the type of generation you
77 have on your system?

78 MR. BUDGELL: I would agree. Actually, I know it's the
79 same effect and it is very much a coincidence that that
80 occurred.

81 MS. HENLEY ANDREWS, Q.C.: Okay. And if you look at
82 this schedule on PUB-55, Newfoundland and Labrador
83 Hydro has a capacity reserve of 18.5 percent, Nova Scotia
84 and New Brunswick have 20 percent, but Hydro-Quebec
85 has only 12 percent.

86 MR. BUDGELL: Yes.

87 MS. HENLEY ANDREWS, Q.C.: And Manitoba Hydro has
88 only 12 percent.

89 MR. BUDGELL: Yes, and these are two large hydroelectric-
90 base utilities and typically hydroelectric plants are more
91 reliable than thermal plants and that's why they can live

- 1 with lower reserve.
- 2 MS. HENLEY ANDREWS, Q.C.: Have you looked ... when
3 doing your survey did you look at either the Northwest
4 Territories or the Yukon?
- 5 MR. BUDGELL: No.
- 6 MS. HENLEY ANDREWS, Q.C.: Those two systems,
7 however, are independent systems, not connected to the
8 grid, would you agree?
- 9 MR. BUDGELL: Yes.
- 10 MS. HENLEY ANDREWS, Q.C.: And that they would have
11 some of the same issues in terms of capacity reserve that
12 Newfoundland Hydro has?
- 13 MR. BUDGELL: Yeah. I don't know whether they follow a
14 reliability calculation similar to what we do on the isolated
15 systems or they do it this way. I'm not aware.
- 16 MS. HENLEY ANDREWS, Q.C.: Mr. Chairman, I could ...
17 it's probably just as well to break here.
- 18 MR. NOSEWORTHY, CHAIRMAN: Sure, that's fine. We'll
19 reconvene at five after eleven. Thank you.
- 20 *(break)*
- 21 *(11:13)*
- 22 MR. NOSEWORTHY, CHAIRMAN: Thank you. May I ask
23 Ms. Henley Andrews if you can continue, please?
- 24 MS. HENLEY ANDREWS, Q.C.: Yes, Mr. Chairman. Mr.
25 Budgell, just so that I'm sure I have a handle on this liability
26 issue and this LOLE versus LOLH, you had agreed at the
27 beginning of our discussion on this that LOLE is the
28 average number of hours or days each year when peak load
29 is expected to exceed available generating capacity,
30 roughly?
- 31 MR. BUDGELL: It's the number of hours in a particular
32 year that was measured that the peak load exceeds the
33 capacity system, yes.
- 34 MS. HENLEY ANDREWS, Q.C.: Okay. So, from a
35 customer's perspective, it's the number of hours per year
36 that you could possibly find that you couldn't get all the
37 energy that you, all of the load that you wanted?
- 38 MR. BUDGELL: That probability exists. But again, as I
39 clarified, from an operational perspective this is just a
40 planning perspective, it's not an operational perceptive.
- 41 MS. HENLEY ANDREWS, Q.C.: No. And I realize that.
42 But I'm translating your planning into the expectation of the
43 average customer.
- 44 MR. BUDGELL: That's right.
- 45 MS. HENLEY ANDREWS, Q.C.: Is that there might be a
- 46 time where, and that time would be expected, anticipated to
47 be .2 days per year when the peak load exceeds the actual
48 generating capacity?
- 49 MR. BUDGELL: Yes.
- 50 MS. HENLEY ANDREWS, Q.C.: And in moving from LOLE
51 to LOLH Hydro has effectively accepted its original LOLE
52 criteria that they would be aiming for .2 days per year?
- 53 MR. BUDGELL: Yes.
- 54 MS. HENLEY ANDREWS, Q.C.: And so, in using the
55 LOLH model it has basically been used to achieve exactly
56 the same result?
- 57 MR. BUDGELL: Yes. And I think that's indicated on the
58 footnote to the table we just referred to, which was **PUB-**
59 **55**.
- 60 MS. HENLEY ANDREWS, Q.C.: Okay. Now, on the island
61 interconnected system what's the size of the largest unit?
- 62 MR. BUDGELL: 175 megawatts.
- 63 MS. HENLEY ANDREWS, Q.C.: Okay. And that's at
64 Holyrood?
- 65 MR. BUDGELL: Actually, yes, it is. There's two units at
66 Holyrood. I'm sorry, that's not net, that's the gross
67 capacity. There would be about 166 megawatts.
- 68 MS. HENLEY ANDREWS, Q.C.: 166 megawatts?
- 69 MR. BUDGELL: Yes.
- 70 MS. HENLEY ANDREWS, Q.C.: And if you look at
71 Schedule 10 to your evidence, the first line will do. The net
72 capacity ... and I'm using the first line because the LOLH is
73 pretty close to the target of your 2.8.
- 74 MR. BUDGELL: Yes.
- 75 MS. HENLEY ANDREWS, Q.C.: Your net capacity in
76 megawatts is 1,831 and your forecast peak is 1576?
- 77 MR. BUDGELL: That's correct.
- 78 MS. HENLEY ANDREWS, Q.C.: Which is a difference of
79 255 megawatts?
- 80 MR. BUDGELL: Yes.
- 81 MS. HENLEY ANDREWS, Q.C.: Which is a fair amount
82 larger than your largest unit?
- 83 MR. BUDGELL: That's correct.
- 84 MS. HENLEY ANDREWS, Q.C.: Whereas on your diesel
85 system, your isolated system, the reliability criteria that
86 Hydro uses is whether or not, is making sure that there's
87 enough capacity available if the single largest unit is out?
- 88 MR. BUDGELL: That's correct.

1 MS. HENLEY ANDREWS, Q.C.: Okay. So it's a higher
2 reliability factor for the island?

3 MR. BUDGELL: Yes. One is a deterministic value, the
4 isolated system, whereas this one is based on a
5 probabilistic approach.

6 MS. HENLEY ANDREWS, Q.C.: But the result is an
7 improvement in the reliability?

8 MR. BUDGELL: It's not necessarily the case that there's
9 necessarily improvement in the reliability, because the
10 consideration ... in the isolated system you have, at most,
11 three units.

12 MS. HENLEY ANDREWS, Q.C.: Yes.

13 MR. BUDGELL: Meaning load. And the loss of the largest
14 unit as opposed to the three units gives a level of
15 reliability. You're working two versus three. In the case of
16 the island interconnected system ... it's just not capacity,
17 that's what I'm trying to come around to. For instance,
18 Newfoundland Power has about 30 generating units and we
19 might have about 20 and the Industrial Customers have
20 maybe 10 or more. So there may be 50 units on the system.
21 So different units can be lost or off for different values of
22 time. In the isolated system there's no credence, it's just
23 deterministic, it's just a value. It's the simplest approach.
24 As a matter of fact, before a probabilistic criteria was
25 chosen by Hydro, the .2 back in the 1980s, the criteria
26 before that was 15 percent reserve or the last of the largest
27 unit, it was exactly that. And that's the way most utilities
28 used to do their business back 20 years ago. But we've all
29 moved, most of the large utilities have moved to a
30 probabilistic approach using programs of the sort we have,
31 using criteria as you see outlined in the response to **PUB-**
32 **55** to do these type of calculations on the larger systems.
33 But in the isolated systems, and again, there's another
34 question here that we prepared, indicates that the approach
35 is still on a deterministic basis in those systems.

36 MS. HENLEY ANDREWS, Q.C.: Now, when you look at
37 Schedule 10 in addition to that, if your forecast is on the
38 high side, if your forecast is cautious, then you will have
39 additional reserve also built in, won't you?

40 MR. BUDGELL: There would be additional reserve, yes.

41 MS. HENLEY ANDREWS, Q.C.: Okay. So, in effect, what
42 you have built into your system is the 18.5 percent reserve
43 capacity that we've talked about and any additional reserve
44 that's based upon a bias, if there is any, in the forecasting?

45 MR. BUDGELL: We base the capacity on the expected
46 peak. Yes, the reserve is based on our expected peak.

47 MS. HENLEY ANDREWS, Q.C.: And if the expected peak,
48 if the forecasting for the expected peak leads to a forecast
49 that's high, then there's additional reserve built in?

50 MR. BUDGELL: There would if you come to a timeframe
51 when reserve is added, there would be additions.

52 MS. HENLEY ANDREWS, Q.C.: Yeah.

53 MR. BUDGELL: But there would be additional reserve
54 every time you add because you always ... remember the
55 step function I indicated?

56 MS. HENLEY ANDREWS, Q.C.: Uh hum.

57 MR. BUDGELL: We can't meet it exactly. You can't build
58 parts of plants.

59 MS. HENLEY ANDREWS, Q.C.: No. But you would agree
60 with me that if you look at the forecast for 2001, and if
61 instead of having a forecast of 1500 megawatts you had a
62 forecast ... 1576, you had a forecast of 1500 that would have
63 an impact on the LOLH?

64 MR. BUDGELL: Yes, the LOLH would drop.

65 MS. HENLEY ANDREWS, Q.C.: Okay. Thank you. I'd like
66 you to take a look at **CA-19**. I took it out and then couldn't
67 find it. That contains the month-by-month contribution to
68 LOLH, is that right, that page 2 of 3?

69 MR. BUDGELL: Yes.

70 MS. HENLEY ANDREWS, Q.C.: And when you look at the
71 breakdown in terms of the forecasts for the period 2001
72 through 2006, is it fair to say that the system only faces
73 reliability problems requiring extra generation in a couple of
74 winter months?

75 MR. BUDGELL: That's likely when the event would
76 happen, yes.

77 MS. HENLEY ANDREWS, Q.C.: And that ...

78 MR. BUDGELL: Actually, all those years, I think those are
79 on an actual basis and they're all over 2.84, so there is a
80 probability of each one of those years that we exceed the
81 criteria.

82 MS. HENLEY ANDREWS, Q.C.: That's correct, but if you
83 look at the month where that is most likely to happen would
84 you agree that that, based upon what you have here, would
85 appear to be February?

86 MR. BUDGELL: That's correct.

87 MS. HENLEY ANDREWS, Q.C.: And that, in fact, when
88 you look at 2001 as an example your February contribution
89 to LOLA, which is 1.75, which is roughly 60 percent of the
90 total LOLH?

91 MR. BUDGELL: I haven't done that calculation for this
92 year, but if that's your calculation of it I'd have to accept
93 that that's right. It's a major part of the contribution.

94 MS. HENLEY ANDREWS, Q.C.: Okay. Would you agree

1 that an extra unit of load, whether it's a kilowatt or
2 megawatt, in February increases the calculated annual
3 LOLH more than an extra unit in March?

4 MR. BUDGELL: Both would increase, whether ... I would
5 expect that the increase in February, because it looks like
6 we're more constrained in that particular month, that the
7 increase would be higher in February to the LOLH, the
8 contribution would be higher, yes.

9 MS. HENLEY ANDREWS, Q.C.: And similarly, an increase
10 in February in the demand would have a bigger impact
11 upon the annual LOLH than a unit in July?

12 MR. BUDGELL: Yes.

13 MS. HENLEY ANDREWS, Q.C.: So would you agree that
14 an increased load in the third or fourth highest month isn't
15 nearly as big a problem for LOLH as in the peak month or
16 the second highest peak?

17 MR. BUDGELL: Well, they all contributed because the
18 LOLH criteria is based, not necessarily on a month, it's
19 based on the total for the year. 2.84 doesn't give any
20 credence to an actual month of when it occurs, it's just the
21 total for the year.

22 MS. HENLEY ANDREWS, Q.C.: But when you look at the
23 figures ...

24 MR. BUDGELL: The contributions are different in different
25 months and the majority of them, based on these average
26 load shapes, do occur in February being the highest.

27 MS. HENLEY ANDREWS, Q.C.: Yes. And ...

28 MR. BUDGELL: Followed by January.

29 MS. HENLEY ANDREWS, Q.C.: Followed by January. Can
30 you tell in advance or forecast accurately the month when
31 forecast peak will occur in any year?

32 MR. BUDGELL: No, of course not.

33 MS. HENLEY ANDREWS, Q.C.: That doesn't really matter,
34 does it?

35 MR. BUDGELL: Not really, no. I think it'll occur sometime,
36 I'm pretty sure, between December and March.

37 MS. HENLEY ANDREWS, Q.C.: Okay. But when it occurs
38 really doesn't matter because with your system planning,
39 you're planning for the peak no matter when it occurs, is
40 that right?

41 MR. BUDGELL: That's correct.

42 MS. HENLEY ANDREWS, Q.C.: And so you don't need to
43 choose the month that you're planning for?

44 MR. BUDGELL: I don't give any particular significance to
45 it. This is just that it's an average shape. Another year,

46 which is one of the years we indicated earlier in our
47 discussions, the peak occurred in December. It can occur
48 in any of those particular months.

49 MS. HENLEY ANDREWS, Q.C.: And with your system
50 planning it doesn't matter which one?

51 MR. BUDGELL: It doesn't, no.

52 MS. HENLEY ANDREWS, Q.C.: Because you've planned
53 for it whenever it occurs?

54 MR. BUDGELL: That's correct.

55 MS. HENLEY ANDREWS, Q.C.: Now, I'd like to go to **IC-**
56 **217**. Would you agree with me that if you look at **IC-217**
57 for 2002 and compare it to **CA-19**, which we were just
58 looking at, that **IC-217** indicates that on the surface,
59 without the GNP generation, the system LOLH is higher?

60 MR. BUDGELL: That's correct.

61 MS. HENLEY ANDREWS, Q.C.: But if you look at the GNP
62 generation and the GNP load which is higher, as I
63 understand it, generally speaking, than the generation, the
64 LOLH is worse off, isn't it?

65 MR. BUDGELL: I don't understand that last statement.
66 You're losing me.

67 MS. HENLEY ANDREWS, Q.C.: Okay. LOLH is affected
68 by two factors, isn't that right? One is the amount of
69 generation that's available, correct?

70 MR. BUDGELL: I can think of more than two.

71 MS. HENLEY ANDREWS, Q.C.: Alright. Well, let's ... it's
72 affected by at least two factors, one of them is the amount
73 of generation that's available from generating ...

74 MR. BUDGELL: The amount, the type and the capacity
75 and the number.

76 MS. HENLEY ANDREWS, Q.C.: Okay. And the other ...

77 MR. BUDGELL: Of generators.

78 MS. HENLEY ANDREWS, Q.C.: And the other is the
79 actual peak?

80 MR. BUDGELL: The actual peak in each individual month
81 and the energy in each of those months.

82 MS. HENLEY ANDREWS, Q.C.: Okay. Go to **IC-270**, and
83 in particular, the question first, which is C sub 3. So it says,
84 "Please list all the communities and provide the loads by
85 month for each community and the peak loads by month
86 since 1992 and forecasts for 2001 and 2002." And
87 subsection 3 reflects the areas which were part of the St.
88 Anthony/Roddickton system prior to the GNP
89 interconnection, correct?

90 MR. BUDGELL: Yes.

1 MS. HENLEY ANDREWS, Q.C.: Now, could we go to the
2 answer, Mr. O'Rielly? So it's the answer to C sub 3, and it
3 refers us to a table, and it says that the forecasts for the
4 GNP meter delivery points for 2001 and 2002 are available
5 for winter peak demand only. Could we go to that table?
6 That's ... keep going. There it is. And this table, would you
7 agree, Mr. Budgell, shows the peak demand in the GNP area
8 by month?

9 MR. BUDGELL: The St. Anthony/Roddickton section of
10 the GNP, yes.

11 MS. HENLEY ANDREWS, Q.C.: Okay. And while it
12 doesn't show the system total, it's clear when you look at
13 this that there are very few months where the 9.7 megawatts
14 of generation that's available is adequate for Main Brook,
15 Roddickton and St. Anthony?

16 MR. BUDGELL: To meet that load by itself, yes, I agree
17 with you, it can for a number of those months meet the
18 peak demand.

19 (11:30)

20 MS. HENLEY ANDREWS, Q.C.: Okay, and so we know
21 that there are, or have been, any number of months where
22 the load from that part of the Great Northern Peninsula was
23 in excess of the 9.7 megawatt generation capacity?

24 MR. BUDGELL: Yes.

25 MS. HENLEY ANDREWS, Q.C.: Okay. And, in fact, that
26 is similar to what's forecast for the test year?

27 MR. BUDGELL: Yes, for St. Anthony/Roddickton.

28 MS. HENLEY ANDREWS, Q.C.: For St.
29 Anthony/Roddickton?

30 MR. BUDGELL: Yes.

31 MS. HENLEY ANDREWS, Q.C.: So, when you're looking
32 at LOLH, and in particular going back to **IC-217**, when
33 you're looking at the calculation of LOLH for the island
34 interconnected system on the one hand, the St.
35 Anthony/Roddickton area contributes generation, correct?

36 MR. BUDGELL: Yes, it does.

37 MS. HENLEY ANDREWS, Q.C.: But on the other hand, it
38 contributes load to the peak demand?

39 MR. BUDGELL: Yes, it does.

40 MS. HENLEY ANDREWS, Q.C.: And there are any number
41 of months, particularly winter months, in the St.
42 Anthony/Roddickton area where their peak exceeds their
43 generating capability?

44 MR. BUDGELL: Yes.

45 MS. HENLEY ANDREWS, Q.C.: So that you would expect

46 that the St. Anthony/Roddickton area would have a
47 negative impact on LOLH for the system during those time
48 periods?

49 MR. BUDGELL: No, I wouldn't accept that.

50 MS. HENLEY ANDREWS, Q.C.: Why not?

51 MR. BUDGELL: Because that's no different ... what you're
52 doing, you're tying together a generation in an area to load
53 in a particular area. We don't dedicate generation to a
54 particular load. The same thing could be said if I took one
55 of your customers, for instance, Corner Brook Pulp and
56 Paper, the load in Corner Brook at the mill is in excess of
57 your generation.

58 MS. HENLEY ANDREWS, Q.C.: Okay. Well, would you
59 then agree with me that ...

60 MR. BUDGELL: But, I mean, this calculation does not ...
61 the load is modelled in the calculation as the total load of
62 the system and the generation is modelled as a total
63 generation. I don't look at the incremental load in a
64 particular area versus the generation in that particular area
65 and look for a mismatch and see if they're in a deficit or in
66 an excess position in that location.

67 MS. HENLEY ANDREWS, Q.C.: And I realize you don't.

68 MR. BUDGELL: Right. I mean, I can look at the ... take
69 your argument on the opposite side. I can look at Bay
70 d'Espoir and I have a 500 megawatt plant and I got 20
71 megawatts of load. It doesn't mean much to me, right,
72 comparing Bay d'Espoir to St. Alban's load to the Bay
73 d'Espoir plant. But the same thing, it doesn't mean much to
74 me when you take the St. Anthony generation and you're
75 comparing it just to the St. Anthony load. It means
76 something to me if you have an outage, obviously, if that's
77 your point, whether we can meet the requirements of that
78 system under an outage. But in a normal event and talking
79 about LOLH, the load in individual parts of the system is
80 not modelled, nor is it an issue in that calculation.

81 MS. HENLEY ANDREWS, Q.C.: Well, I'm not asking you
82 whether it means anything to you. I'm asking you whether
83 I'm correct, which is that if the load on the St.
84 Anthony/Roddickton system exceeds the generation that's
85 available, then that would tend to increase LOLH?

86 MR. BUDGELL: If the load on the St. John's system is
87 greater than the generation in the Roddickton area it tends
88 to increase the LOLH. If the load in any part of the system
89 is greater than generation in another part of the system it
90 will increase LOLH.

91 MS. HENLEY ANDREWS, Q.C.: So the answer is yes?

92 MR. BUDGELL: The answer is yes for wherever you want
93 to pick.

1 MS. HENLEY ANDREWS, Q.C.: Okay. How would you
2 define load factor?

3 MR. BUDGELL: It's the ratio of average megawatts to
4 people.

5 MS. HENLEY ANDREWS, Q.C.: And how do you calculate
6 a ...

7 MR. BUDGELL: Oh, I'm sorry, I gave you capacity factor.

8 MS. HENLEY ANDREWS, Q.C.: Pardon me?

9 MR. BUDGELL: I was ... no. What I had is all right. It's the
10 ratio of the average load of a customer to the peak of that
11 customer's load factor.

12 MS. HENLEY ANDREWS, Q.C.: So it's the ratio of the
13 average load to the peak?

14 MR. BUDGELL: Yes.

15 MS. HENLEY ANDREWS, Q.C.: And the average load
16 being ...

17 MR. BUDGELL: The energy in the year divided by 8760, if
18 that's the number of hours in a year.

19 MS. HENLEY ANDREWS, Q.C.: Okay. So you take the
20 energy component, you divide it over the number of
21 gigawatt hours, you divide it by the number of hours in a
22 year, and you multiply it by the peak?

23 MR. BUDGELL: No. You divide, that gives you the
24 average megawatts.

25 MS. HENLEY ANDREWS, Q.C.: Yeah.

26 MR. BUDGELL: And then you take that average and
27 divide it by the peak.

28 MS. HENLEY ANDREWS, Q.C.: And divide it by the peak,
29 okay.

30 MR. BUDGELL: That occurred during that same year.

31 MS. HENLEY ANDREWS, Q.C.: Is there a relationship ...
32 or I think there's obviously then a relationship between
33 average load and peak for the purpose of calculating load
34 factor?

35 MR. BUDGELL: For the purpose of calculating load factor,
36 yes, agreed.

37 MS. HENLEY ANDREWS, Q.C.: Is there a relationship
38 between load factor and efficient use of the system by
39 customers?

40 MR. BUDGELL: Depending on the type of system, yes.

41 MS. HENLEY ANDREWS, Q.C.: Okay. And what is that?

42 MR. BUDGELL: Well, if the system was hydraulic, for
43 instance, and had a capacity factor, I'll take it from the
44 generation that was close to the customer load factor, then
45 that would be ideal. If you have thermal generation on
46 your system and you're utilizing it only in the wintertime
47 and not in the summertime, then obviously, then it's good
48 to have a higher load factor. Higher load factor dictates
49 less capacity, I guess, to meet the total load.

50 MS. HENLEY ANDREWS, Q.C.: Okay. It means that
51 there's a better match between the peak requirements and
52 the energy requirements, right?

53 MR. BUDGELL: That's right.

54 MS. HENLEY ANDREWS, Q.C.: Am I correct that the
55 island system coincident peak reflects the combined
56 demand of all of Hydro's customers at a given point in time
57 in the year?

58 MR. BUDGELL: Yes.

59 MS. HENLEY ANDREWS, Q.C.: And that system peak is
60 used in the planning process in a number of different
61 ways?

62 MR. BUDGELL: If it's the total island system peak we're
63 referring to here?

64 MS. HENLEY ANDREWS, Q.C.: Yes.

65 MR. BUDGELL: Yes, for expansion planning.

66 MS. HENLEY ANDREWS, Q.C.: Okay. And system peak
67 is also used in the short-term forecasts, isn't that right?

68 MR. BUDGELL: That then is only the peak that Hydro is
69 called upon by its customers to meet. It's a different peak.

70 MS. HENLEY ANDREWS, Q.C.: Yes.

71 MR. BUDGELL: But that, again, is used in this rate setting
72 environment.

73 MS. HENLEY ANDREWS, Q.C.: And would you agree that
74 the energy requirement for the island interconnected
75 system, as in the number of gigawatt hours to be consumed
76 in the course of the year, varies from season to season, day
77 to day and hour to hour?

78 MR. BUDGELL: I agree.

79 MS. HENLEY ANDREWS, Q.C.: And I think you've
80 indicated already that there is not a lot of variation in that
81 for industrial customers but there is a significant variation
82 for utility customers?

83 MR. BUDGELL: That's correct.

84 MS. HENLEY ANDREWS, Q.C.: And that's because
85 industrial customers are regarded as high load factor
86 customers?

87 MR. BUDGELL: That's correct.

- 1 MS. HENLEY ANDREWS, Q.C.: Which means they have
2 a fairly constant demand over the course of the year when
3 they're in normal operations?
- 4 MR. BUDGELL: That's correct.
- 5 MS. HENLEY ANDREWS, Q.C.: And they consume
6 energy fairly evenly when they're in normal operation?
- 7 MR. BUDGELL: Yes.
- 8 MS. HENLEY ANDREWS, Q.C.: Utility customers, Hydro's
9 utility customers, whether it's the interconnected rural or
10 Newfoundland Power, are not high load factor customers?
- 11 MR. BUDGELL: Some of them may be in the general
12 service area, but if you're talking about residential and
13 normal, that's true, they're not.
- 14 MS. HENLEY ANDREWS, Q.C.: Would you agree that
15 Newfoundland Power's demand is much higher in the
16 winter months?
- 17 MR. BUDGELL: Than their demand in other times?
- 18 MS. HENLEY ANDREWS, Q.C.: Yes.
- 19 MR. BUDGELL: Yes, of course.
- 20 MS. HENLEY ANDREWS, Q.C.: And that Newfoundland
21 Power's demand, even in the winter, varies with the time of
22 day?
- 23 MR. BUDGELL: Yes.
- 24 MS. HENLEY ANDREWS, Q.C.: Okay. As a customer of
25 Hydro's how can you change your peak demand?
- 26 MR. BUDGELL: Which customer are we talking about?
- 27 MS. HENLEY ANDREWS, Q.C.: Well, let's take the
28 industrial customers as an example.
- 29 MR. BUDGELL: By, I would assume ... one with or without
30 generations?
- 31 MS. HENLEY ANDREWS, Q.C.: Without generations.
- 32 MR. BUDGELL: It would have to remove or change one of
33 his processes to take it off line.
- 34 MS. HENLEY ANDREWS, Q.C.: And if you had generation
35 how would you change your peak demand?
- 36 MR. BUDGELL: You can increase your generation, your
37 self generation level, and you could do the same as the
38 customer that didn't have generation, as well, take
39 production processes off line.
- 40 MS. HENLEY ANDREWS, Q.C.: Now, in the case of
41 Newfoundland Power, Newfoundland Power has
42 generation capacity, isn't that right?
- 43 MR. BUDGELL: Yes, they do.
- 44 MS. HENLEY ANDREWS, Q.C.: How can Newfoundland
45 Power change its peak demand?
- 46 MR. BUDGELL: A number of ways. They can do it exactly
47 the same as the industrial, with their generation, and as well
48 Newfoundland Power can if it desires, to use their
49 curtailable loads, as well, which is a modest amount.
- 50 MS. HENLEY ANDREWS, Q.C.: Okay. Curtailable loads
51 being their ability to have customers take less?
- 52 MR. BUDGELL: I understand they have some customers ...
- 53 MS. HENLEY ANDREWS, Q.C.: Similar to ...
- 54 MR. BUDGELL: ... similar to Interruptible B.
- 55 MS. HENLEY ANDREWS, Q.C.: Exactly, similar to ...
- 56 MR. BUDGELL: Not to the same extent, but there is some
57 value, there was.
- 58 MS. HENLEY ANDREWS, Q.C.: Can you control your
59 demand?
- 60 MR. BUDGELL: Can Hydro control the demand?
- 61 MS. HENLEY ANDREWS, Q.C.: No. Can ... I'm sorry. Can
62 an industrial customer actually control its peak?
- 63 MR. BUDGELL: Of course, yes, and some of them do that
64 right now.
- 65 (11:45)
- 66 MS. HENLEY ANDREWS, Q.C.: Is it as easy for a utility
67 customer to control its peak?
- 68 MR. BUDGELL: I would think the industrial customer
69 would have, because it has a control if its processes, would
70 have an easier time to control its peak.
- 71 MS. HENLEY ANDREWS, Q.C.: And that's because the
72 utility customer, on the whole, can't control the temperature
73 at which I set my electric heat or the time of day when I use
74 my electrical equipment, isn't that right?
- 75 MR. BUDGELL: Well, you can control it if you wish. I'm
76 not sure what your comfort level will be if you wish to
77 change it around.
- 78 MS. HENLEY ANDREWS, Q.C.: Yeah. But I'm just saying
79 Newfoundland Power can't control its customers?
- 80 MR. BUDGELL: It can if it desired to do that, but the extent
81 at which it can do it for those electric heat type customers
82 would be very difficult.
- 83 MS. HENLEY ANDREWS, Q.C.: Okay. Can Newfoundland
84 Power control the energy use and the time of use of
85 energy?
- 86 MR. BUDGELL: It would be difficult.

- 1 MS. HENLEY ANDREWS, Q.C.: Okay. Are you aware of
2 any measures that have been taken by Newfoundland
3 Power to control its peak demand in 2001 or 2002?
- 4 MR. BUDGELL: None come to mind right now.
- 5 MS. HENLEY ANDREWS, Q.C.: Now, I'd like to move to
6 Newfoundland Power's revised forecast, and in particular
7 we'll go back to page 2 of your second supplementary
8 evidence. Would you agree that the revised
9 Newfoundland Power forecast for 2001 and 2002 that's
10 reflected in your second supplementary evidence ... I'm
11 sorry. Do you have it there yet?
- 12 MR. BUDGELL: Yes. Is there a particular page I should be
13 referring to?
- 14 MS. HENLEY ANDREWS, Q.C.: Page 2. It's on the screen,
15 actually.
- 16 MR. BUDGELL: Okay.
- 17 MS. HENLEY ANDREWS, Q.C.: Would you agree that that
18 revised forecast significantly reduces Newfoundland
19 Power's demand forecast?
- 20 MR. BUDGELL: Yes, there is reduction.
- 21 MS. HENLEY ANDREWS, Q.C.: And it increases their
22 energy forecast?
- 23 MR. BUDGELL: Yes.
- 24 MS. HENLEY ANDREWS, Q.C.: For an increase in their
25 forecast load factor?
- 26 MR. BUDGELL: That's correct.
- 27 MS. HENLEY ANDREWS, Q.C.: And their forecast load
28 factor, in fact, moves from 49.5 percent to 51.1 percent?
- 29 MR. BUDGELL: In that area.
- 30 MS. HENLEY ANDREWS, Q.C.: Okay. Would you agree
31 with me that this is material to revenue requirement
32 allocation?
- 33 MR. BUDGELL: Yes, very much so.
- 34 MS. HENLEY ANDREWS, Q.C.: Particularly to the revenue
35 allocation to the industrial customers?
- 36 MR. BUDGELL: Yes. And to Newfoundland Power,
37 obviously.
- 38 MS. HENLEY ANDREWS, Q.C.: So it reduces
39 Newfoundland Power's revenue requirement allocation and
40 increases the industrial customers'?
- 41 MR. BUDGELL: Yes, over and above what was as filed.
- 42 MS. HENLEY ANDREWS, Q.C.: That's right. Where did
43 you get Newfoundland Power's revised forecast?
- 44 MR. BUDGELL: From Newfoundland Power.
- 45 MS. HENLEY ANDREWS, Q.C.: Has Hydro reviewed this
46 revised forecast for its reasonableness?
- 47 MR. BUDGELL: We normally, for the purposes of rate
48 hearings, accept Newfoundland Power's forecast.
- 49 MS. HENLEY ANDREWS, Q.C.: Okay. So the answer is
50 no, you haven't reviewed it for its reasonableness?
- 51 MR. BUDGELL: Well, we made the similar observation that
52 you just made in regards that the load factor had been
53 reduced, and the information that we have was because
54 that was a review that they had performed of their load
55 factor in their historical sample that they use.
- 56 MS. HENLEY ANDREWS, Q.C.: Okay. If there's no
57 witness from Newfoundland Power to deal with its forecast
58 how can we here judge its reasonableness?
- 59 MR. BUDGELL: I certainly can't answer that.
- 60 MS. HENLEY ANDREWS, Q.C.: What's your
61 understanding of Newfoundland Power's rationale for the
62 change?
- 63 MR. BUDGELL: I haven't got any explanation, other than
64 the fact that the new forecast reflects an update to the load
65 ... Newfoundland Power normally reflects their energy
66 usage and then applies a load factor on their, I guess on
67 the individual energy demands on the system, and they do
68 every time, I believe, they do a forecast, they do an update
69 to that. I'm assuming that the sample that they're using
70 reflected this change.
- 71 MS. HENLEY ANDREWS, Q.C.: But you don't know that?
- 72 MR. BUDGELL: That's the indication that I know that it
73 does, that's what's occurred. That change is, from our
74 perspective, is not evidenced in long-term samples.
- 75 MS. HENLEY ANDREWS, Q.C.: Now, when I go through
76 the next number of questions I want you to keep in your
77 mind that Newfoundland Power's projected load factor,
78 based upon its new forecast, will go to 51.1 percent. So I
79 just wanted you to keep that in your mind. I'd like you to
80 take a look at **NP-121**, and in particular page 3 of the
81 answer to that. Now, Mr. O'Rielly, I think what I'm going to
82 have to do, unfortunately, is go back to the question so
83 that we can be sure. And you can see that the question
84 asks to complete a table for each of the following
85 customers. And (a) is Newfoundland Power, correct?
- 86 MR. BUDGELL: That's correct.
- 87 MS. HENLEY ANDREWS, Q.C.: Okay. And one of the
88 things that it asks for is energy sales in megawatt hours?
- 89 MR. BUDGELL: That's correct.

- 1 MS. HENLEY ANDREWS, Q.C.: And the other thing that
2 it asks for is the coincident peak?
- 3 MR. BUDGELL: That's right.
- 4 MS. HENLEY ANDREWS, Q.C.: Which is the maximum
5 demand?
- 6 MR. BUDGELL: That's the maximum demand on our
7 system.
- 8 MS. HENLEY ANDREWS, Q.C.: Okay. Now, can we go
9 back to page 3? It's my understanding that this is the table
10 of information provided by Hydro with respect to that
11 request for information and with respect to Newfoundland
12 Power. Is that right?
- 13 MR. BUDGELL: That's correct.
- 14 MS. HENLEY ANDREWS, Q.C.: Okay. Now, we've already
15 discussed, a few minutes ago, how you calculate load
16 factor?
- 17 MR. BUDGELL: Yes.
- 18 MS. HENLEY ANDREWS, Q.C.: By our calculation this
19 exhibit shows that Newfoundland Power's load factor over
20 the period from 1996 had varied from 46.2 percent to 50.8
21 percent?
- 22 MR. BUDGELL: I haven't got the calculation on the table.
23 I'll have to accept your numbers.
- 24 MS. HENLEY ANDREWS, Q.C.: I'd also like you to
25 undertake to verify that?
- 26 MR. BUDGELL: This is for the period?
- 27 MS. HENLEY ANDREWS, Q.C.: From 1996 to 2000.
- 28 MR. BUDGELL: I already ... I have numbers for ... this is a
29 peak on our system. I have ... you'll have to appreciate that
30 we track information from Newfoundland Power on the total
31 load, not the load on ... this is the generation that we meet,
32 this number is affected by their generation.
- 33 MS. HENLEY ANDREWS, Q.C.: Yes.
- 34 MR. BUDGELL: So it's the capacity that our system sees.
35 Newfoundland Power, in doing their forecast, the first
36 forecasts are total requirements and then nets off the
37 generation. So the history that I have under those
38 forecasts would be reflecting the total load of
39 Newfoundland Power, which would include what their
40 generation would meet. Because it's going to be difficult to
41 track the actual load factor on the basis of the net of their
42 generation.
- 43 MS. HENLEY ANDREWS, Q.C.: Well, for the purpose of
44 allocating costs on Hydro's system, Newfoundland Power's
45 total load factor is irrelevant, isn't it?
- 46 MR. BUDGELL: No. You have to remember that's one of
47 the factors that's built into the capacity credits.
- 48 MS. HENLEY ANDREWS, Q.C.: Yes.
- 49 MR. BUDGELL: In the rate calculations.
- 50 MS. HENLEY ANDREWS, Q.C.: Okay.
- 51 MR. BUDGELL: And Hydro, when it has the forecast
52 provided by Newfoundland Power, which is the net to us,
53 we make assumptions on what their generation is, bring it,
54 we then bring it back, put a credit back to bring it to the
55 total load and then apply the credits. So actually, what
56 actually happens in rates is that the load factor then is a
57 different number. It's based on the net ... the generation
58 credits for rate setting purposes. But maybe that's not
59 where you're coming from, from this perspective. I don't
60 know.
- 61 MS. HENLEY ANDREWS, Q.C.: Well, I'll actually
62 eventually get to that part, as well. But, in fact, what you're
63 saying is that apart from the generation credit that
64 Newfoundland Power gets their load factor, for the purpose
65 of rate setting, is set on the basis of their net generation, of
66 the net after you take off the generation credit?
- 67 MR. BUDGELL: That's correct.
- 68 MS. HENLEY ANDREWS, Q.C.: And as a result, they're
69 also getting a benefit on the calculation of their portion of
70 the revenue requirement?
- 71 MR. BUDGELL: That's correct.
- 72 MS. HENLEY ANDREWS, Q.C.: So they're getting
73 compensation in two different ways?
- 74 MR. BUDGELL: I don't know if it's in two different ways.
75 Its compensation is in view of the fact that the generation
76 is available to the system, the overall system.
- 77 MS. HENLEY ANDREWS, Q.C.: Yeah. But the fact that it's
78 ... that the generation available is netted off against their
79 demand for the purpose of calculating their load factor
80 affects their load factor?
- 81 MR. BUDGELL: Yeah. Yes, in as far as the calculations in
82 the rates.
- 83 (12:00)
- 84 MS. HENLEY ANDREWS, Q.C.: Okay. So do you have
85 load factor figures for Newfoundland Power?
- 86 MR. BUDGELL: I only have load factor figures for the total
87 produced and purchased.
- 88 MS. HENLEY ANDREWS, Q.C.: Okay. For what years?
- 89 MR. BUDGELL: For '86 to 2000.
- 90 MS. HENLEY ANDREWS, Q.C.: Okay. And do you have

1 a figure as to what Newfoundland Power's projected load
2 factor is now for ... or load factor would be now based upon
3 its new forecast for 2001 and 2002?

4 MR. BUDGELL: Based on the forecast as filed, it was .5.

5 MS. HENLEY ANDREWS, Q.C.: Yes.

6 MR. BUDGELL: Based on the load factor that was in the
7 supplemental evidence, my second supplemental it was
8 .513.

9 MS. HENLEY ANDREWS, Q.C.: And looking at the
10 information that you have with respect to the period from
11 1996 to 2000 has Newfoundland Power's load factor ever
12 been .513 or greater?

13 MR. BUDGELL: Yes, it has for several years.

14 MS. HENLEY ANDREWS, Q.C.: And what years were
15 they?

16 MR. BUDGELL: The year 2000 it was .513, in the year ... I
17 said '86, by the way, I have dated back to '86, not '96. Are
18 you just interested in '96?

19 MS. HENLEY ANDREWS, Q.C.: I'm just interested in 1996
20 onward.

21 MR. BUDGELL: In '96 the only instance is 2000.

22 MS. HENLEY ANDREWS, Q.C.: Okay.

23 MR. BUDGELL: For '96 on.

24 MS. HENLEY ANDREWS, Q.C.: And 2000 was a
25 particularly warm year, wasn't it?

26 MR. BUDGELL: I believe so.

27 MS. HENLEY ANDREWS, Q.C.: And, in fact, when we had
28 been discussing both the forecasts and the actuals for 2000
29 you've pointed out to me on a number of times that ... a
30 number of occasions that the peak in 2000 would have been
31 lower because of such a warm winter?

32 MR. BUDGELL: Yes. The late 1990s were warmer than
33 normal.

34 MS. HENLEY ANDREWS, Q.C.: Okay. And that would
35 normally affect ... that might also have served to increase
36 Newfoundland Power's load factor in 2000 above and
37 beyond what the average?

38 MR. BUDGELL: No. You'd have to look at the peak day.

39 MS. HENLEY ANDREWS, Q.C.: Yes.

40 MR. BUDGELL: The year being warmer than normal would
41 affect the energy take.

42 MS. HENLEY ANDREWS, Q.C.: Yeah.

43 MR. BUDGELL: That can affect the low factor, as well, but
44 I think Newfoundland Power normalized for that, but you'd
45 have to look at the peak. But the peak, the peak was not
46 there, the peak conditions that would have drove ... a high
47 peak had not occurred.

48 MS. HENLEY ANDREWS, Q.C.: No. And we know that,
49 because when we look at 2000 we have the actual date on
50 that?

51 MR. BUDGELL: That's right.

52 MS. HENLEY ANDREWS, Q.C.: And we also know that
53 the energy requirements were reduced to some extent in
54 2000?

55 MR. BUDGELL: Yes.

56 MS. HENLEY ANDREWS, Q.C.: So it would be reasonable
57 to expect that 2000, that load factor would improve in 2000
58 for utility customers, given what actually occurred?

59 MR. BUDGELL: Yes.

60 MS. HENLEY ANDREWS, Q.C.: So in 2000 you would
61 expect both a lower peak and a higher load factor for
62 Newfoundland Power, based upon the weather that
63 occurred?

64 MR. BUDGELL: Yes. Well, that's the evidence.

65 MS. HENLEY ANDREWS, Q.C.: Okay. But now when we
66 talk about 2001, and in particular when we talk about 2002
67 we're forecasting, right?

68 MR. BUDGELL: That's correct.

69 MS. HENLEY ANDREWS, Q.C.: And we normally don't
70 forecast based upon the warmest year, do we?

71 MR. BUDGELL: No, we don't.

72 MS. HENLEY ANDREWS, Q.C.: No. And that's because
73 you have to look pretty much at the average if you're ... you
74 can either look at worst case, you can look at average, or
75 you can look at best case, but if you want to get something
76 that's a reasonable forecast you wouldn't look at the
77 warmest year, would you?

78 MR. BUDGELL: Not if your intentions are to ensure that
79 there is adequate capacity to meet peak.

80 MS. HENLEY ANDREWS, Q.C.: Okay. Can you tell me,
81 based upon the information that you have, what your
82 calculation of Newfoundland Power's load factor was for
83 1996?

84 MR. BUDGELL: .484.

85 MS. HENLEY ANDREWS, Q.C.: And for 1997?

86 MR. BUDGELL: .505.

87 MS. HENLEY ANDREWS, Q.C.: For 1998?

- 1 MR. BUDGELL: .502.
- 2 MS. HENLEY ANDREWS, Q.C.: For 1999?
- 3 MR. BUDGELL: .508.
- 4 MS. HENLEY ANDREWS, Q.C.: And for 2000 you've
5 already told us that it was .513?
- 6 MR. BUDGELL: That's correct.
- 7 MS. HENLEY ANDREWS, Q.C.: Now, as you pointed out
8 earlier today, at page 2 of your evidence, the second
9 supplemental evidence, you indicate that Newfoundland
10 Power's higher energy requirements are more than offset by
11 market down time for Abitibi?
- 12 MR. BUDGELL: That's correct.
- 13 MS. HENLEY ANDREWS, Q.C.: In what circumstances
14 would you get higher energy requirements associated with
15 a lower peak?
- 16 MR. BUDGELL: I'd have to know the ... are you referring
17 the question in the context of a particular customer?
- 18 MS. HENLEY ANDREWS, Q.C.: No, Newfoundland Power.
- 19 MR. BUDGELL: Newfoundland Power. Only if there was
20 something material that has happened in the system.
- 21 MS. HENLEY ANDREWS, Q.C.: Are you aware of
22 anything that's happened, material that's happened in the
23 system?
- 24 MR. BUDGELL: I'm not aware of anything significant that's
25 happened between pre-filed and supplemental.
- 26 MS. HENLEY ANDREWS, Q.C.: Would you agree that
27 generally a decrease in demand is not accompanied by an
28 increase in energy?
- 29 MR. BUDGELL: On a projected basis, no. Yeah, I would
30 agree that that would not be expected.
- 31 MS. HENLEY ANDREWS, Q.C.: Okay. Under your
32 proposed industrial contracts which were pre-filed with the
33 Board, and you don't actually need to ... you're not going
34 to need to look at it for this question. The industrial
35 customers have to declare their demand for the subsequent
36 year by October 1st, isn't that right?
- 37 MR. BUDGELL: That's correct.
- 38 MS. HENLEY ANDREWS, Q.C.: And that demand is called
39 their amount of power on order?
- 40 MR. BUDGELL: That's correct.
- 41 MS. HENLEY ANDREWS, Q.C.: So, in the case of Corner
42 Brook Pulp and Paper, as an example, because they have
43 revised their forecast for 2002, correct?
- 44 MR. BUDGELL: Exactly was the exercise of making that
45 determination or putting in their power in order that lead us
46 to question the forecast that we were using up to that time
47 period.
- 48 MS. HENLEY ANDREWS, Q.C.: Because their existing
49 contracts also require that the industrial customers notify
50 Hydro before October 1st of their amount of power on
51 order for the following calendar year, isn't that right?
- 52 MR. BUDGELL: That's correct.
- 53 MS. HENLEY ANDREWS, Q.C.: Okay. So, the revision by
54 Corner Brook Pulp and Paper of its forecast from 67
55 megawatts to 53 megawatts in 2002 now means that its
56 demand for 2002 or firm demand for 2002 is 56 megawatts,
57 right?
- 58 MR. BUDGELL: That's what I understand, yes.
- 59 MS. HENLEY ANDREWS, Q.C.: And based upon your
60 current proposal Corner Brook Pulp and Paper will pay the
61 firm rate for that 56 megawatts of demand?
- 62 MR. BUDGELL: Only if that's reflected in the forecast
63 which Hydro determines its rates on.
- 64 MS. HENLEY ANDREWS, Q.C.: Yes.
- 65 MR. BUDGELL: The supplemental evidence right now is
66 based on 67.
- 67 MS. HENLEY ANDREWS, Q.C.: Yes. But, if you ... but the
68 question was, with respect to Corner Brook Pulp and Paper,
69 is that right now they have locked in for 2002 to a demand
70 of 56 megawatts, is that right?
- 71 MR. BUDGELL: That's correct.
- 72 MS. HENLEY ANDREWS, Q.C.: And that they will pay
73 whatever Hydro's firm rate turns out to be, demand rate, for
74 that 56 megawatts?
- 75 MR. BUDGELL: That's correct.
- 76 MS. HENLEY ANDREWS, Q.C.: If Corner Brook Pulp and
77 Paper exceeds that demand, if they have a need for
78 additional demand, pursuant to Hydro's proposed
79 contractual relationship they will have to pay ... first of all,
80 the demand will have to be available, correct?
- 81 MR. BUDGELL: That's correct.
- 82 MS. HENLEY ANDREWS, Q.C.: And secondly, they
83 would have to pay whatever Hydro's non-firm rate would
84 be for that additional demand above and beyond the 56
85 megawatts?
- 86 MR. BUDGELL: That's correct.
- 87 MS. HENLEY ANDREWS, Q.C.: Which on the whole is a
88 less attractive rate, the rate that you're proposing, than the
89 demand rate?

- 1 MR. BUDGELL: I'm ...
- 2 MS. HENLEY ANDREWS, Q.C.: Is it cheaper or ...
- 3 MR. BUDGELL: I don't ... my memory right now, I don't
4 recall the actual number.
- 5 MS. HENLEY ANDREWS, Q.C.: Okay.
- 6 MR. BUDGELL: But I remember earlier discussions about
7 it. If I can be reminded what the values are? I don't have
8 the numbers in front of me, I don't ...
- 9 MS. HENLEY ANDREWS, Q.C.: Okay.
- 10 MR. BUDGELL: ... know whether one was higher than the
11 other, but I believe it was higher. I believe you're right.
- 12 MS. HENLEY ANDREWS, Q.C.: Okay. Now, if Corner
13 Brook Pulp and Paper has a lower demand in 2002 than 56
14 megawatts.
- 15 MR. BUDGELL: Yes.
- 16 MS. HENLEY ANDREWS, Q.C.: It will have to pay for the
17 56 megawatts that it's ordered anyway, right?
- 18 MR. BUDGELL: That's correct.
- 19 MS. HENLEY ANDREWS, Q.C.: And that's because Hydro
20 recovers the demand charge from the industrial customers
21 regardless of their actual demand? In other words, if
22 Corner Brook Pulp and Paper orders 56 megawatts for 2002
23 they pay for 56 megawatts except in exceptional
24 circumstances even if they only use 50?
- 25 MR. BUDGELL: That's right. That's the concept of the
26 power order.
- 27 MS. HENLEY ANDREWS, Q.C.: Newfoundland Power has
28 a blended rate?
- 29 MR. BUDGELL: Yes.
- 30 MS. HENLEY ANDREWS, Q.C.: So it pays only for the
31 energy that it consumes?
- 32 MR. BUDGELL: The rate is an energy charge.
- 33 MS. HENLEY ANDREWS, Q.C.: The rate is an energy
34 charge. But the rate has built into it a demand cost and an
35 energy cost?
- 36 MR. BUDGELL: Yes. There was a demand and energy
37 component that went into the rate, you're correct.
- 38 MS. HENLEY ANDREWS, Q.C.: That's based upon the
39 cost of service?
- 40 MR. BUDGELL: Yes, that's correct.
- 41 MS. HENLEY ANDREWS, Q.C.: And the cost of service
42 assumes a certain load factor for Newfoundland Power?
- 43 MR. BUDGELL: That's correct.
- 44 MS. HENLEY ANDREWS, Q.C.: And if Newfoundland
45 Power's load factor for the purpose of the cost of service
46 increases, then its rate will decrease? The amount of its
47 share of the revenue requirement will decrease?
- 48 MR. BUDGELL: That's correct.
- 49 MS. HENLEY ANDREWS, Q.C.: And if Newfoundland
50 Power's ... on the converse is that if Newfoundland Power's
51 load factor decreases when the rates are being set it will
52 pick up a larger share of the revenue requirement?
- 53 MR. BUDGELL: That's correct.
- 54 MS. HENLEY ANDREWS, Q.C.: And that will be reflected
55 in its rate?
- 56 MR. BUDGELL: That's correct.
- 57 MS. HENLEY ANDREWS, Q.C.: So when we're looking at
58 this hearing and the setting of the rates for 2002, the
59 amount of the demand cost that's contained in
60 Newfoundland Power's rates depends on what its forecast
61 demand and forecast load factor for 2002 are?
- 62 MR. BUDGELL: That's correct.
- 63 MS. HENLEY ANDREWS, Q.C.: And if Newfoundland
64 Power overstates its energy requirement for 2002 and
65 understates its demand for 2002 the industrial customers
66 will pick up costs in their rates set for 2002 that are not
67 properly theirs?
- 68 MR. BUDGELL: I don't know about the energy component,
69 because the energy, whether it's increased or decreased,
70 would mean more or less Holyrood, so there would be a
71 commiserate decrease in costs.
- 72 MS. HENLEY ANDREWS, Q.C.: Okay.
- 73 MR. BUDGELL: But what you're saying from a demand
74 component is correct.
- 75 MS. HENLEY ANDREWS, Q.C.: Okay. So if
76 Newfoundland Power overstates its ... understates its
77 demand for 2002 the industrial customers will pick up the
78 costs in their rates for 2002 that are not properly theirs?
- 79 MR. BUDGELL: Yes, the portion of fixed costs that go into
80 those rates.
- 81 MS. HENLEY ANDREWS, Q.C.: Okay. But, unlike the
82 industrial customers, Corner Brook Pulp and Paper, for
83 example, that we just discussed, Newfoundland Power has
84 no penalty if its demand is greater than its forecast, correct?
- 85 MR. BUDGELL: No. That's correct.
- 86 MS. HENLEY ANDREWS, Q.C.: That's correct. And ...
- 87 MR. BUDGELL: Not that I'm aware of, I'm saying.
- 88 MS. HENLEY ANDREWS, Q.C.: Okay.

1 MR. BUDGELL: I'm not aware that there is any penalty.

2 MS. HENLEY ANDREWS, Q.C.: Because they don't have
3 to pay a premium if their demand is above their forecast?

4 MR. BUDGELL: No, not in the same way that industrial
5 have, that is correct.

6 MS. HENLEY ANDREWS, Q.C.: And they only pay for
7 their energy?

8 MR. BUDGELL: That's right.
9 (12:15)

10 MS. HENLEY ANDREWS, Q.C.: So would you agree with
11 me that Newfoundland Power, in setting their rates for 2002,
12 would benefit from an understatement of its demand for
13 2002?

14 MR. BUDGELL: I don't want to go so far as to say that
15 Newfoundland Power purposely understated or overstated
16 ...

17 MS. HENLEY ANDREWS, Q.C.: Oh, no, no.

18 MR. BUDGELL: ... its demand to do anything under ...

19 MS. HENLEY ANDREWS, Q.C.: But the practical effect ...

20 MR. BUDGELL: But the practical effect of what you're
21 proposing is true.

22 MS. HENLEY ANDREWS, Q.C.: I'd like to turn to **IC-80**.
23 And go to the ... and you can see the question was to
24 provide the short and long-term forecasts filed with the
25 Board in each of the rate referrals made by Hydro since
26 1977, together with the actual loads experienced in each of
27 the years covered by the forecasts. So could you go to the
28 table, please, Mr. O'Rielly? Alright. When you look at this
29 table, Mr. Budgell, would you agree with me that the
30 actuals are in all circumstances, lower than the forecasts?

31 MR. BUDGELL: That's correct.

32 MS. HENLEY ANDREWS, Q.C.: And who amongst the
33 customers would contribute to that?

34 MR. BUDGELL: All customers contribute. This is an
35 energy number.

36 MS. HENLEY ANDREWS, Q.C.: Yes.

37 MR. BUDGELL: All customers contribute. If I was to, on
38 a percentage basis, indicate which group of customers
39 contribute most, I would say industrial.

40 MS. HENLEY ANDREWS, Q.C.: Okay. Industrial to the
41 energy numbers or to the differences?

42 MR. BUDGELL: Industrial forecasts normally don't come
43 up to what we project.

44 MS. HENLEY ANDREWS, Q.C.: Okay.

45 MR. BUDGELL: The biggest is usually with industrials on
46 a percentage basis.

47 MS. HENLEY ANDREWS, Q.C.: Okay. For your
48 projections in your second supplemental evidence you've
49 changed Schedule 5, correct?

50 MR. BUDGELL: That's correct.

51 MS. HENLEY ANDREWS, Q.C.: But you haven't change
52 Schedule 8, correct?

53 MR. BUDGELL: Schedule 8 was?

54 MS. HENLEY ANDREWS, Q.C.: The long-term forecast?

55 MR. BUDGELL: No, there's no change in that schedule.

56 MS. HENLEY ANDREWS, Q.C.: Okay. And that's because
57 the forecasting that's used with respect to Schedule 5 is
58 short-term versus long-term?

59 MR. BUDGELL: That's correct. We haven't completed the
60 exercise of revising the long-term.

61 MS. HENLEY ANDREWS, Q.C.: Would you agree that for
62 the test year 2002, every increase in Newfoundland Power's
63 load factor impacts the industrial customers?

64 MR. BUDGELL: Are you speaking from a perspective of ...

65 MS. HENLEY ANDREWS, Q.C.: From a portion of cost
66 point of view.

67 MR. BUDGELL: From a prior cost allocation setting the
68 rates?

69 MS. HENLEY ANDREWS, Q.C.: Yes.

70 MR. BUDGELL: Yes.

71 MS. HENLEY ANDREWS, Q.C.: Would you agree that one
72 of those ways is that increases in system load ...

73 MR. BUDGELL: I should go back, though. That's
74 assuming the industrials stay static.

75 MS. HENLEY ANDREWS, Q.C.: That's correct.

76 MR. BUDGELL: While this is happening. I mean, both of
77 them could be (inaudible) and the impact could be moot.

78 MS. HENLEY ANDREWS, Q.C.: But I agree.

79 MR. BUDGELL: Yeah, okay. I just wanted to clarify that.

80 MS. HENLEY ANDREWS, Q.C.: And similarly, a decrease
81 in the industrial customers' load factor would increase
82 Newfoundland Power's costs?

83 MR. BUDGELL: Yes. The same effect happens to either
84 party if one is static and the other changes.

85 MS. HENLEY ANDREWS, Q.C.: Okay. But we know now
86 what the industrial customers demand is going to be for

1 2002, don't we?

2 MR. BUDGELL: For the megawatt demand, yes.

3 MS. HENLEY ANDREWS, Q.C.: Because it's fixed by
4 contract?

5 MR. BUDGELL: Yes.

6 MS. HENLEY ANDREWS, Q.C.: Now, in terms of the ways
7 in which an increase in Newfoundland Power's load factor
8 increases the industrial customers' costs, would you agree
9 that one of the ways is that increases in system load factor
10 shift more hydraulic generation costs to energy rather than
11 demand?

12 MR. BUDGELL: I'm not as familiar with the cost of service
13 ...

14 MS. HENLEY ANDREWS, Q.C.: That would be Mr.
15 Brickhill?

16 MR. BUDGELL: ... methodology. That would be Mr.
17 Brickhill would be the best to answer that question.

18 MS. HENLEY ANDREWS, Q.C.: Would you agree that
19 increases in the Holyrood forecast generating capacity
20 factor shifts more of the Holyrood generation costs to
21 energy from demand, or would that also be better put to
22 Mr. Brickhill?

23 MR. BUDGELL: I'd have to defer that to Mr. Brickhill.

24 MS. HENLEY ANDREWS, Q.C.: Would you agree that an
25 increase in Newfoundland Power's load factor reduces
26 Newfoundland Power's relative allocation of demand
27 related costs based on coincident peak?

28 MR. BUDGELL: Can you repeat that again, please?

29 MS. HENLEY ANDREWS, Q.C.: Would you agree that an
30 increase in Newfoundland Power's load factor reduces
31 Newfoundland Power's allocation of demand related costs
32 based on coincident peak?

33 MR. BUDGELL: Yes.

34 MS. HENLEY ANDREWS, Q.C.: Would you also agree
35 that once the rate is set Newfoundland Power is indifferent
36 to the relationship between its forecast demand and its
37 actual because of its rate being an energy only rate?

38 MR. BUDGELL: I don't know. Can you just repeat that
39 question again? Are you just talking from the concept of
40 demand or are you just talking about from an energy?

41 MS. HENLEY ANDREWS, Q.C.: I'm actually just talking
42 about demand which is that once ...

43 MR. BUDGELL: I don't know whether they'd be indifferent.
44 I mean, I'm sure they'd be pleased with load growth as
45 opposed to decreases in load.

46 MS. HENLEY ANDREWS, Q.C.: From a cost ...

47 MR. BUDGELL: But the concept ...

48 MS. HENLEY ANDREWS, Q.C.: They don't pay you more?

49 MR. BUDGELL: They pay us more money if their energy is
50 more, right.

51 MS. HENLEY ANDREWS, Q.C.: Yeah. But they don't pay
52 for the increased demand that they might use?

53 MR. BUDGELL: No.

54 MS. HENLEY ANDREWS, Q.C.: Except through their
55 energy rate?

56 MR. BUDGELL: That's right.

57 MS. HENLEY ANDREWS, Q.C.: And for Corner Brook
58 Pulp and Paper, which is also referred to on page 2 of your
59 supplemental evidence, the revision to 56 megawatts from
60 67 megawatts will also affect the cost allocation?

61 MR. BUDGELL: Yes, I understand it will.

62 MS. HENLEY ANDREWS, Q.C.: But, Corner Brook Pulp
63 and Paper will have to pay the non-firm rate if it actually
64 needs more demand than what it's ordered?

65 MR. BUDGELL: That's correct.

66 MS. HENLEY ANDREWS, Q.C.: And it will have to pay for
67 56 megawatts of demand regardless of whether it uses it?

68 MR. BUDGELL: Yes.

69 MS. HENLEY ANDREWS, Q.C.: When you say in your
70 evidence on page 2, again we're at the supplementary
71 evidence, or the second supplementary evidence that, or
72 somewhere, that there'll be a final cost of service filed by
73 Hydro before the end of the hearing?

74 MR. BUDGELL: Yes, I understand that would be the case,
75 that would reflect any changes or mistakes or errors that
76 have been noted, and I assume any direction that we
77 receive from the Board in that regard ...

78 MS. HENLEY ANDREWS, Q.C.: And that's expected to be
79 filed before the hearing actually concludes?

80 MR. BUDGELL: I don't know whether it would be before.
81 I suspect it will be after the hearing concludes.

82 MS. HENLEY ANDREWS, Q.C.: Okay.

83 MR. BUDGELL: But I don't think we'll have a Board order
84 before the hearing concludes, that's my problem.

85 MS. HENLEY ANDREWS, Q.C.: Okay. This is a very good
86 place to break, Mr. Chairman.

87 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
88 Henley Andrews. Thank you, Mr. Budgell. We'll

1 reconvene at 2:00.

2 (break)

3 (2:00 p.m.)

4 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
5 afternoon. Any preliminary matters please, Counsel, before
6 we begin?

7 MR. KENNEDY: Yes, Chair. I believe Hydro will be
8 reporting on the undertakings and I just add as well that for
9 the advisement of the panel that it's the intention of the
10 counsels to have a meeting after we're finished tomorrow
11 for the purposes of discussing some scheduling issues and
12 as well to solicit the views of counsel concerning final
13 submissions in the hopes that we will get there one day, so
14 ... and then I would be reporting to the panel subsequent to
15 that meeting about its outcome.

16 MR. NOSEWORTHY, CHAIRMAN: Our very best wishes
17 to you. Ms. Greene?

18 MS. GREENE, Q.C.: Thank you, Mr. Chair. I have a copy
19 of the list of undertakings that were provided yesterday
20 that I would like to distribute at this time. As in the past,
21 the reference to the transcript is given as well as a general
22 description of the subject matter, and I would like to review
23 each one now because with the exception of two, I believe
24 we are in a position to respond to all of them. The first
25 undertaking was given to counsel for Newfoundland
26 Power, and it was agreed that we would confirm whether
27 abandonment charges had been recovered with respect to
28 Hope Brook Gold Mine and the answer is no, which was
29 the indication yesterday by Mr. Budgell.

30 The second undertaking was again given to
31 counsel for Newfoundland Power and it's found on page
32 13, lines 30 to 44 of the transcript, and we were asked to
33 check to see if there were any undepreciated costs
34 remaining for transmission line 255 after the shut down of
35 the Hope Brook mine. We have again checked this and as
36 indicated by Mr. Budgell yesterday, there are no, or there
37 were no undepreciated costs at that time with respect to
38 TL-255 and the terminal station associated with it.

39 The next two undertakings relate to VHF mobile
40 radio system, and I have a document to distribute at this
41 time which will address both of those undertakings.

42 MR. KENNEDY: Chair, I believe that's U-Hydro No. 14.

43 **U-HYDRO NO. 14 ENTERED**

44 MS. GREENE, Q.C.: Thank you. The first undertaking
45 listed with respect to the VHF mobile radio system relates
46 to the increase in cost associated with the revised update
47 that was filed on October 31st. Counsel for Newfoundland
48 Power asked that we provide explanation of the increase in

49 cost for this project, the increase being from what was filed
50 on May 31st, 2001, and what was contained in the October
51 31 update, and the first half of U-Hydro No. 14 is the
52 answer to that question where you will see in the table, the
53 first column with numbers is for the original, and that would
54 be as filed on May 31st. The second column entitled
55 "revised" would be the current estimate for that component
56 for that project. The difference is noted in the last column,
57 and then there are notes to explain the variance from the
58 original as filed, and the revised as of October 31, and as
59 Mr. Budgell indicated yesterday, the increase in cost is
60 primarily as a result of the project becoming a two year
61 project.

62 The second undertaking with respect to the VHF
63 mobile radio system was to provide a breakdown of the
64 component costs of the equipment, and that is contained
65 in the second part of U-Hydro No. 14 where there is a
66 breakdown of the revised estimate of the equipment
67 contract which is shown in the first table of \$5.8 million.

68 The next undertaking was to provide a copy of the
69 architectural portion of the technology strategic plan, and
70 Mr. Budgell indicated yesterday that report is not
71 completed and when it is completed it will be filed.

72 The next undertaking related to providing
73 information on the cost of the emissions monitoring at the
74 stacks at Holyrood. That is the one that I don't have ready
75 for today. The last undertaking was an undertaking given
76 to counsel for Industrial Customers, and it related to the
77 determination of the forecast winter peak, and Mr. Budgell
78 answered that question this morning.

79 So from the list of undertakings provided
80 yesterday, there are two outstanding. One being the
81 architectural portion of the technology strategic plan, and
82 the other relating to the costs of the emission monitoring at
83 Holyrood. Thank you, that completes ...

84 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
85 Greene.

86 MS. BUTLER, Q.C.: Excuse me, Mr. Chairman, if I might. In
87 relation to one of the undertakings, I had reviewed with
88 Ms. Greene earlier this morning, and again, just before we
89 started, and my error, I assume, because of the way the
90 question was specifically put, but unfortunately the
91 undertaking that I thought I was getting was for
92 undepreciated ... this is in relation to the second
93 undertaking, page 13 ... undepreciated plant costs
94 remaining for TL-250 and 255, that's the lines and the
95 terminal stations after the shutdown of the Hope Brook
96 Gold Mine. I accept that by the time the question got put
97 to Mr. Budgell, it appears that I was asking only about the
98 255, but if Hydro doesn't mind, the undertaking I was
99 looking for was a little different than what ultimately got

1 recorded.

2 MS. GREENE, Q.C.: And that's not a problem, it's just that
3 I knew from the conversation that there must have been a
4 misunderstanding, so I asked Ms. Butler, so if it is with
5 respect to TL-250 and the terminal station, yes, we will
6 provide that as well.

7 MS. BUTLER, Q.C.: Thank you very much.

8 MR. NOSEWORTHY, CHAIRMAN: Thank you. Ms.
9 Henley Andrews, I'd ask you to continue please?

10 MS. HENLEY ANDREWS, Q.C.: Thank you. Mr. Budgell,
11 one of the things that you mentioned this morning in
12 answer to one of the questions that I posed about
13 Newfoundland Power's forecast for 2001 and 2002, that is
14 the revised forecast, and I guess probably for their, all their
15 forecasts, you mentioned something about normalizing
16 factors. Do you recall that?

17 MR. BUDGELL: Yes.

18 MS. HENLEY ANDREWS, Q.C.: Okay, what were you
19 talking about?

20 MR. BUDGELL: I understand from the forecast basis,
21 Newfoundland Power normalizes their energy forecast for
22 weather.

23 MS. HENLEY ANDREWS, Q.C.: And what do you mean
24 by that?

25 MR. BUDGELL: Well, they reflect in their projections
26 average weather conditions.

27 MS. HENLEY ANDREWS, Q.C.: That's your
28 understanding?

29 MR. BUDGELL: That's my understanding, yes.

30 MS. HENLEY ANDREWS, Q.C.: But you have no way of
31 knowing whether they've actually done that with respect to
32 this forecast?

33 MR. BUDGELL: No, I wouldn't.

34 MS. HENLEY ANDREWS, Q.C.: There's one really minor
35 thing that we think must be a typographical error actually
36 in one of the answers to information requests, and I just
37 thought that I'd run it by you to see whether we're right or
38 not, and that is with respect to **CA-48**, page 4, and in
39 particular, lines 2 and 3. It says the island interconnected
40 system should have sufficient generating capacity to
41 satisfy a lost load expectation, which is LOLE target of not
42 more than 2.8 hours per year.

43 MR. BUDGELL: Yes, the ...

44 MS. HENLEY ANDREWS, Q.C.: Should that be ...

45 MR. BUDGELL: I say it could be, remember I was talking
46 this morning ... I referred to loss of load, expectation of loss
47 load hours as being, to me it means the same thing.

48 MS. HENLEY ANDREWS, Q.C.: So should that actually be
49 LOLH or ...

50 MR. BUDGELL: Yes.

51 MS. HENLEY ANDREWS, Q.C.: Okay, so that should be
52 LOLH?

53 MR. BUDGELL: Yes.

54 MS. HENLEY ANDREWS, Q.C.: Thank you. Now I want
55 to move on to a discussion of your capital budget. Do you,
56 yourself, ever conduct cost benefit analysis?

57 MR. BUDGELL: I have in the past.

58 MS. HENLEY ANDREWS, Q.C.: As part of your current
59 position do you do that?

60 MR. BUDGELL: No, not in my current position.

61 MS. HENLEY ANDREWS, Q.C.: What, when you talk
62 about having conducted a cost benefit analysis, what do
63 you mean?

64 MR. BUDGELL: I'm sorry, you did ask cost benefit. I
65 normally refer to it as cost effectiveness, the type of
66 analysis typically in planning, system planning does, is
67 what's called cost effectiveness.

68 MS. HENLEY ANDREWS, Q.C.: Yes.

69 MR. BUDGELL: And the difference in cost effectiveness is
70 usually these are analyses done when one recognizes that
71 there is no alternative than to proceed with some measure
72 to address a requirement or need. Then the decision rests
73 on which of a group of alternatives is least cost, so you're
74 looking at the cost and effect of different alternatives, and
75 the fact that it says cost effectiveness means that you've
76 got to recognize that you're not comparing a mouse and an
77 elephant. I mean they have to have some relatively in the
78 effect that it has on the overall system. So that's the type
79 of analysis that I'd be ...

80 MS. HENLEY ANDREWS, Q.C.: Familiar with doing.

81 MR. BUDGELL: More familiar with. Cost benefit analysis
82 sometimes is synonymous for me. It's referred to as the
83 same type of analysis, but there is times it has different
84 benefits because one can ... it has a different meaning. One
85 can infer from cost benefit, you're doing an analysis of
86 whether it's beneficial to do a project or not do a project.

87 MS. HENLEY ANDREWS, Q.C.: Given the cost.

88 MR. BUDGELL: Yes, given the cost, and those are, to me,
89 two distinct analyses.

90 MS. HENLEY ANDREWS, Q.C.: Yes, okay. In terms of

1 Hydro's capital policy, capital budgeting policy, in terms of
2 when a cost benefit analysis is done versus when it's not
3 done, which type of cost benefit analysis does that refer
4 to?

5 MR. BUDGELL: I'd have to go to the section that's written
6 up in the budget.

7 MS. HENLEY ANDREWS, Q.C.: Okay.

8 MR. BUDGELL: Now this is page **B-6**.

9 MS. HENLEY ANDREWS, Q.C.: Yes.

10 MR. BUDGELL: And I'm starting with the paragraph, I
11 guess, "Many", the word starting "many".

12 MS. HENLEY ANDREWS, Q.C.: Yes.

13 MR. BUDGELL: Many of the explanations refer to cost
14 benefit studies, and it should be recognized that because
15 of the nature of the individual project, not all decisions to
16 proceed are supported by formal cost benefit studies. For
17 example, when the level of safety or reliability of service to
18 customers would be clearly jeopardized if a project did not
19 proceed, a formal cost benefit study would not be required
20 to support the decision to proceed. There is really no
21 alternative but to proceed. The majority of projects
22 included in Hydro's 2002 capital budget have no formal
23 cost benefit study supporting the decision to proceed.
24 These projects are required for one or more of the following
25 reasons. And I won't go through the reasons, just jump
26 down below. Notwithstanding this, however, before actual
27 construction or implementation of a project is started,
28 engineering analysis is undertaken to ensure that the most
29 appropriate technical and cost effective solution has been
30 identified. Further, where there are a number of technically
31 acceptable alternatives to address a particular problem, or
32 when implementation of a new alternative may offer cost
33 advantages over an existing condition, cost effectiveness
34 analyses are performed. That's our policy.

35 MS. HENLEY ANDREWS, Q.C.: No, I understand what
36 your policy is, but what I was trying to get at is you've
37 identified for me what, and you did that yesterday as well,
38 I think for Ms. Butler, that from your perspective there are
39 two different types of cost benefit analysis. There is the
40 cost effectiveness, which is what you've described as
41 being more familiar with yourself, which is when there's no
42 alternative and you're just looking at which of the bids, or
43 whatever, is least cost.

44 MR. BUDGELL: Yes.

45 MS. HENLEY ANDREWS, Q.C.: And then there is the type
46 of cost benefit analysis that looks at whether the benefit of
47 the proposal is worth the cost.

48 MR. BUDGELL: Yes.

49 MS. HENLEY ANDREWS, Q.C.: So when the policy, from
50 your perspective, when the policy shown on **B-6** refers to
51 cost benefit studies, what type of cost ... which of those
52 two types of cost benefits studies would be done if a cost
53 benefit study was required for a project?

54 MR. BUDGELL: It could be either. I'm normally familiar
55 with cost effectiveness, that type of study. That's the
56 normal, the norm within system planning, the ones that I am
57 the most familiar with, that I am directly responsible for.
58 These are ones, the projects that have been identified as
59 being situations that don't meet our criteria for planning of
60 the system, so we're looking at alternatives, so normally
61 cost effectiveness type of analysis.

62 *(2:15 p.m.)*

63 MS. HENLEY ANDREWS, Q.C.: Now, do you have any
64 particular training in evaluating benefit versus cost?

65 MR. BUDGELL: I have been, my ... when I did engineering
66 in university, I did engineering economic analysis courses.
67 I have also done courses since then subsequent.

68 MS. HENLEY ANDREWS, Q.C.: Okay, when was the last
69 planning study that you did?

70 MR. BUDGELL: In which regard?

71 MS. HENLEY ANDREWS, Q.C.: Well the last, I mean one
72 of the things that your evidence, we went through this
73 yesterday, indicates that you're responsible for the
74 completion of planning studies which result in the
75 recommendation of new generation, transmission and
76 distribution facilities.

77 MR. BUDGELL: Yeah, and I'm ... is it in distribution,
78 generation, or transmission?

79 MS. HENLEY ANDREWS, Q.C.: It doesn't matter to me.
80 I'm asking which was the last one that you did?

81 MR. BUDGELL: From a generation perspective, the last
82 one we did was in relation to the Corner Brook Pulp and
83 Paper and ACI.

84 MS. HENLEY ANDREWS, Q.C.: You mean the Beaton
85 project?

86 MR. BUDGELL: Yes.

87 MS. HENLEY ANDREWS, Q.C.: Now that project is
88 actually a Fortis and Abitibi Consolidated project, isn't that
89 right?

90 MR. BUDGELL: I understand that's the arrangement.

91 MS. HENLEY ANDREWS, Q.C.: Okay, and the other one
92 is Corner Brook Pulp and Paper?

93 MR. BUDGELL: Yes.

1 MS. HENLEY ANDREWS, Q.C.: What was your role in
2 those planning studies, or that planning study?

3 MR. BUDGELL: I'm the director of the department. I
4 oversaw the analysis. I also participated in the discussions
5 with the companies.

6 MS. HENLEY ANDREWS, Q.C.: And what was the
7 purpose of that planning study?

8 MR. BUDGELL: The purpose of that planning study was
9 to follow the direction that the government had provided
10 for us to speak to those customers and report back to
11 government on our findings.

12 MS. HENLEY ANDREWS, Q.C.: So what exactly were you
13 doing, and what was in the planning study? What were
14 you looking at?

15 MR. BUDGELL: I was looking at the costs of proceeding
16 with these alternatives.

17 MS. HENLEY ANDREWS, Q.C.: And in the process of
18 doing that, was a cost benefit analysis done?

19 MR. BUDGELL: There was an analysis done, yes.

20 MS. HENLEY ANDREWS, Q.C.: Okay, as ...

21 MR. BUDGELL: Cost effectiveness analysis.

22 MS. HENLEY ANDREWS, Q.C.: Okay, now cost
23 effectiveness, you've told me, was when there's no
24 alternative, and you look at which is the least cost?

25 MR. BUDGELL: I look at cost effectiveness in terms of I
26 looked at the cost effectiveness amongst a bunch of
27 alternatives. I indicated that I can use the analysis for
28 both.

29 MS. HENLEY ANDREWS, Q.C.: Okay, alright, now in
30 terms of the portion of the capital budget that you're
31 testifying on, is perhaps the best way to deal with it, what
32 has your role been in the preparation of that part of the
33 capital budget?

34 MR. BUDGELL: The system planning department would
35 have done the analysis associated with a couple of the
36 projects that were in this, in the budget, both in the
37 generation area and in the transmission area.

38 MS. HENLEY ANDREWS, Q.C.: Okay.

39 MR. BUDGELL: TRO.

40 MS. HENLEY ANDREWS, Q.C.: When the process started
41 in system planning, in your department, how many projects
42 were originally put forward for 2002 as potential projects
43 that you were looking at?

44 MR. BUDGELL: I don't recall.

45 MS. HENLEY ANDREWS, Q.C.: Do you have a rough
46 number?

47 MR. BUDGELL: I actually don't recall. I know that it
48 wasn't, there wasn't a lot of projects for 2002. If you, and
49 the reason I'm saying that is that normally we do, we put
50 forth a five year capital program, and I don't remember the
51 split between 2002, 3, 4, and 5.

52 MS. HENLEY ANDREWS, Q.C.: When was your last five
53 year capital program completed?

54 MR. BUDGELL: In advance of this application.

55 MS. HENLEY ANDREWS, Q.C.: And when was the last
56 one done before that?

57 MR. BUDGELL: It would have been in, it would have
58 ended approximately just before that.

59 MS. HENLEY ANDREWS, Q.C.: So when you say that
60 there was one done in advance of this application, that's a
61 five year capital planning?

62 MR. BUDGELL: We would have reviewed, our normal
63 process, and let me go back, maybe I'm confusing you.

64 MS. HENLEY ANDREWS, Q.C.: Yeah.

65 MR. BUDGELL: Our normal process, which I indicated on
66 the capital, was we'd start in December of a year, and it
67 ends in coming forward to the Board in November of the
68 next year.

69 MS. HENLEY ANDREWS, Q.C.: Uh hum.

70 MR. BUDGELL: So last year in 2000 we would have done
71 our 2001 budget, completed it, and went to the Board for
72 submission. At the same time as this was going on, we
73 obviously had prepared the application for this particular
74 hearing, so both, we had, we actually had to have the
75 people within the organization move ahead with two years
76 at the same time.

77 MS. HENLEY ANDREWS, Q.C.: Okay, so they were doing
78 the planning for the 2001 capital budget, and the planning
79 for the 2002 capital budget at the same time?

80 MR. BUDGELL: Yes, in the fall.

81 MS. HENLEY ANDREWS, Q.C.: Yes, in the fall.

82 MR. BUDGELL: There was a shorter period of time allotted
83 for the 2002, that's the point I'm trying to make.

84 MS. HENLEY ANDREWS, Q.C.: Yes, and that was in the
85 fall of 2000.

86 MR. BUDGELL: That was in the fall of 2000.

87 MS. HENLEY ANDREWS, Q.C.: Okay, the ... am I correct
88 that as part of ... but you say you have a five year plan?

89 MR. BUDGELL: There is a five year budget, yes, a five

- 1 year capital budget.
- 2 MS. HENLEY ANDREWS, Q.C.: Okay, and was that also
3 prepared in the fall of 2000, or was that started ...
- 4 MR. BUDGELL: I think the 2002, the emphasis, obviously
5 from the perspective of the rate hearing, the emphasis for
6 the 2002 year was on the 2000 budget, not on the
7 subsequent years, so I don't think there was materially too
8 much examination given to future years above what was
9 given back in the year, the 2000 to 2001 exercise for the 2001
10 budget.
- 11 MS. HENLEY ANDREWS, Q.C.: Okay.
- 12 MR. BUDGELL: Okay, the time didn't permit for people to
13 recast and look totally at the five year plan again. We
14 would be essentially just completing that process now if we
15 were in a normal year.
- 16 MS. HENLEY ANDREWS, Q.C.: So right at the moment
17 there is no five year capital plan for system planning?
- 18 MR. BUDGELL: For system planning, no, system
19 planning's proposals, or any proposals would be in the
20 2001 that were prepared back in 2001, and we haven't
21 changed anything.
- 22 MS. HENLEY ANDREWS, Q.C.: Okay, I'm still confused.
- 23 MR. BUDGELL: System planning did a five year, or had a
24 five year budget done in 2000 ...
- 25 MS. HENLEY ANDREWS, Q.C.: For it's 2001 capital
26 budget application.
- 27 MR. BUDGELL: Yes, but the application is only for one
28 year.
- 29 MS. HENLEY ANDREWS, Q.C.: Yes.
- 30 MR. BUDGELL: But in the process of doing that we did
31 five years.
- 32 MS. HENLEY ANDREWS, Q.C.: Okay.
- 33 MR. BUDGELL: And everybody in the organization who
34 would have budgeting responsibilities or submit projects
35 to budgets would have done that.
- 36 MS. HENLEY ANDREWS, Q.C.: Uh hum.
- 37 MR. BUDGELL: But that's static. That's where things sit
38 today. The only things that changed for the hearing is that
39 individuals that had items in the 2002 budget year, had to
40 look very closely at those items because those were being
41 brought forward into the rate referral, and there wasn't time
42 permitted to initiate a full review of the five year plan, and
43 in the short window before the hearing started.
- 44 MS. HENLEY ANDREWS, Q.C.: Alright, now I understand
45 now, so let's go back to the fall of 2000 for a moment. In
- 46 coming up with your budget for 2001 and 2002, but also in
47 coming up with your five year plan, somebody or some
48 people must have developed information on what capital
49 projects they would like to see carried out in that period, is
50 that right?
- 51 MR. BUDGELL: Oh yes, yes, people in the organization, in
52 the organization that do prepare budgets within their area,
53 do prepare budgets, and I think Mr. Reeves went through
54 some description of that process when he was on the
55 stand.
- 56 MS. HENLEY ANDREWS, Q.C.: Okay, and for the portion
57 of the budget, the roughly \$13 million that you're
58 responsible for, that would also be true?
- 59 MR. BUDGELL: Yes. I have to characterize ... I am
60 reporting, I am ... for the purposes of this hearing, I am
61 appearing on behalf of the budget for the generation area.
62 This generation area, the responsibility of the budget items
63 go outside of my responsibility.
- 64 MS. HENLEY ANDREWS, Q.C.: Okay.
- 65 MR. BUDGELL: But ... okay?
- 66 MS. HENLEY ANDREWS, Q.C.: Yeah.
- 67 MR. BUDGELL: As long as you understand that.
- 68 MS. HENLEY ANDREWS, Q.C.: I do now, and I thought
69 that that was the case. Now with respect to the, so with
70 respect to the generation budget, the portion of the budget
71 that relates to generation, were you involved at all in
72 developing that?
- 73 MR. BUDGELL: I was involved in the discussions
74 associated with this year's budget, yes, as part of the rates
75 team that reviewed the budgets going forward, and
76 reviewed the justifications, and assisted with the
77 preparation of RFI's associated with the hearing on these
78 items.
- 79 MS. HENLEY ANDREWS, Q.C.: So do you have any
80 knowledge of exactly where the process started? I mean do
81 you have any knowledge of how many projects for
82 generation were originally proposed?
- 83 MR. BUDGELL: No, I wouldn't have that knowledge.
- 84 MS. HENLEY ANDREWS, Q.C.: Now with respect to the,
85 what I'll ... with respect to the technology part of the
86 budget, who would have been responsible for that?
- 87 MR. BUDGELL: That would have started within the
88 information systems and technology group.
- 89 MS. HENLEY ANDREWS, Q.C.: And are they under your
90 direction?
- 91 MR. BUDGELL: No.

1 MS. HENLEY ANDREWS, Q.C.: Okay, so you don't have
2 any knowledge either as to how that budgeting process
3 would have started?

4 MR. BUDGELL: Well, I know generally how the budgeting
5 process ... within the individual departments, whether it's in
6 TRO or IS & T, budget proposals are brought forward to
7 supervisory ... like normally prepared by supervisors, asset
8 managers.

9 MS. HENLEY ANDREWS, Q.C.: Uh hum.

10 MR. BUDGELL: I guess that's the term we use within the
11 corporation, and these asset managers bring budgets
12 forward to their respective superiors, their supervisors, and
13 it eventually ends up to the director level, which I am at,
14 but in my section ... there's 12 of us so I can just look
15 outside the door and I see everybody. Mr. Reeves has to
16 deal with several hundred people, so his process is a lot
17 more complicated than mine. He has budget proposals
18 coming from Bishop Falls, coming from Goose Bay, and
19 Port Saunders and St. Anthony, and all of these things are
20 coming in. They are reviewed at the divisional level down
21 in the areas, and then the areas sort through these projects
22 and decide what their priorities are to bring forward to the
23 appropriate director of that particular portion of the
24 company, the department, and then once the directors have
25 gone through it, and they have combed out projects that
26 they think don't meet their asset test, then these projects go
27 to the vice-president level, and then there's another review
28 at that level, and then only after that level do projects then
29 come forward and go to management committee for a final
30 look, and then from the management committee, sometimes
31 projects are sent back, they're changed, they're modified,
32 moved to different years because of discussions, and then
33 they go to Hydro's board of directors, and then they go to
34 this Board for approval. That's the process, but I'm ...

35 MS. HENLEY ANDREWS, Q.C.: Okay, let me try and ...

36 MR. BUDGELL: So it's kind of difficult to go right down to
37 the level in the bowels of the company where budgets
38 originate.

39 MS. HENLEY ANDREWS, Q.C.: Okay.

40 MR. BUDGELL: It could be far removed from me in some of
41 the divisions.

42 (2:30 p.m.)

43 MS. HENLEY ANDREWS, Q.C.: In terms of the capital
44 budget, when you were doing, when Hydro was in the
45 process of preparing its capital budget in the fall of 2000 for
46 2001 and 2002 as you've just discussed, did any proposals
47 come forward to you in your position as director from your
48 group of 12 for capital projects?

49 MR. BUDGELL: Yes.

50 MS. HENLEY ANDREWS, Q.C.: Okay, are any of those in
51 the capital budget for 2002?

52 MR. BUDGELL: Yes, we participated, we did the ... I'm
53 saying as far as proposals now ... in some extent, assisted
54 with proposals. The Ebbe (*phonetic*) line.

55 MS. HENLEY ANDREWS, Q.C.: Yes.

56 MR. BUDGELL: The justification for that would have been
57 done by system planning.

58 MS. HENLEY ANDREWS, Q.C.: Which one is that?

59 MR. BUDGELL: Ebbegumbaeg, the line.

60 MS. HENLEY ANDREWS, Q.C.: Yes, that's what I thought
61 you were talking about.

62 MR. BUDGELL: E-b-b-e-g-u-m-b-a-e-g, for the benefit of
63 those ...

64 MS. HENLEY ANDREWS, Q.C.: Believe it or not, I
65 actually, having thought it was "gum bag" for a long time,
66 I now know how to spell it. Okay, so that came through
67 your department?

68 MR. BUDGELL: Yes, the justification did. We were
69 requested to prepare the justification by the generation
70 section.

71 MS. HENLEY ANDREWS, Q.C.: Okay.

72 MR. BUDGELL: Or the systems operations generation
73 section.

74 MS. HENLEY ANDREWS, Q.C.: But that was, so that
75 wouldn't have been ...

76 MR. BUDGELL: It was their budget.

77 MS. HENLEY ANDREWS, Q.C.: It was their budget.

78 MR. BUDGELL: But we did the justification for it.

79 MS. HENLEY ANDREWS, Q.C.: Okay.

80 MR. BUDGELL: I indicated as well there is a couple of,
81 there is a transformer changeout in one location on the Baie
82 Verte Peninsula.

83 MS. HENLEY ANDREWS, Q.C.: Yeah.

84 MR. BUDGELL: And I believe there is one other in that
85 area.

86 MS. HENLEY ANDREWS, Q.C.: Now the transformer ...

87 MR. BUDGELL: Burlington substation, I believe one was.

88 MS. HENLEY ANDREWS, Q.C.: Uh hum.

89 MR. BUDGELL: And there was one other budget, and I
90 don't recall what was in the rural area, but it wouldn't have
91 been in the generation area.

1 MS. HENLEY ANDREWS, Q.C.: Okay, now ...

2 MR. BUDGELL: Which I'm reporting on today.

3 MS. HENLEY ANDREWS, Q.C.: Now the generation, the
4 Ebbegumbaeg, I still want you to call it that ... line,
5 although you prepared the justification, that is not part of
6 your system planning budget, correct?

7 MR. BUDGELL: No, you see what happens is that system
8 planning never has a budget at the end of the day. I'll try
9 and explain it. We, we, the budget proposals coming to the
10 division are normally poked into these particular categories,
11 so there's no system planning section, so our budgets
12 would be put under either, if our responsibilities are
13 generation planning, and of course our generation
14 responsibilities would have been associated with Granite
15 Canal, and this one is not being reviewed by this Board,
16 and the other projects would have been the transmission or
17 distribution projects. Now we don't have any transmission
18 projects in the 2001 or 2002 time period. The 2001 projects
19 on the go right now are reliability improvements because of
20 the transmission, although there is an aspect of one of the
21 projects which we were involved in changing the ampacity
22 at one of the lines, it's into that project, and the other
23 projects are in the distribution area, but we have no
24 additional generation, which I have indicated in my
25 evidence, in the rural areas for this budget.

26 MS. HENLEY ANDREWS, Q.C.: Okay, so what you're, I
27 think what you've told me is that system planning does not
28 have a capital budget of its own.

29 MR. BUDGELL: We prepare budget proposals but they
30 end up in the budget process in divisional budgets under
31 different headings.

32 MS. HENLEY ANDREWS, Q.C.: Now in terms of the
33 preparation of those budget proposals, do the proposal
34 ideas originate with system planning, or do you simply
35 assist other departments with preparation of budget
36 proposals for things that they have already identified?

37 MR. BUDGELL: Both.

38 MS. HENLEY ANDREWS, Q.C.: Okay, in terms of the
39 capital budget for 2002 that we are now looking at, what
40 budget items, in terms of the idea for the budget items,
41 would have originated with system planning?

42 MR. BUDGELL: Only the ones that are in the TRO section,
43 the two that I mentioned.

44 MS. HENLEY ANDREWS, Q.C.: Okay, which is the
45 transformer changeouts.

46 MR. BUDGELL: One is the transformer and I did mention
47 the other, but I'll have a look and get it for you. The
48 transformers was the Burlington substation.

49 MS. HENLEY ANDREWS, Q.C.: Yeah.

50 MR. BUDGELL: The Ebbegumbaeg, I mentioned. I'm sorry,
51 there's three. Ebbegumbaeg, which we ... well it wasn't
52 always, but we did support for it, and the voltage
53 regulators for Barachois.

54 MS. HENLEY ANDREWS, Q.C.: Okay.

55 MR. BUDGELL: So that's **B-41 and B-42**.

56 MS. HENLEY ANDREWS, Q.C.: B-41 and B-42?

57 MR. BUDGELL: Yes.

58 MS. HENLEY ANDREWS, Q.C.: Did system planning,
59 when the process started, want to have more than those
60 particular capital projects in B-41 and B-42, done in 2002?

61 MR. BUDGELL: I don't, I won't go as far as to say we had
62 proposals prepared, but we were aware in the rural areas,
63 for instance, that there was potential for other projects that
64 could be done which we did not proceed with in preparing
65 the budget. We consciously discussed it and didn't.

66 MS. HENLEY ANDREWS, Q.C.: Okay, but in terms of
67 preparing a budget for submission for consideration, the
68 two items that you submitted were just the B-41 and the B-
69 42, both ...

70 MR. BUDGELL: There might have been some others
71 submitted and might have been moved off. I don't recall ...
72 again ...

73 MS. HENLEY ANDREWS, Q.C.: Because that's my
74 question, were there others that were submitted?

75 MR. BUDGELL: I don't remember whether it was in 2001 or
76 2002, I remember alternatives associated with the
77 transformer in the Goose Bay area popping in and out of
78 the budget, depending on which forecast we were dealing
79 with ... there was an issue ... I remember there was
80 discussion and information coming forth from customer
81 services in regards to possible fish plant activity on the
82 Labrador coast which is an item which is always difficult for
83 us because we don't try to move with a budget until we
84 really know definitely what is definitely going to occur, and
85 there was those type of things going on.

86 MS. HENLEY ANDREWS, Q.C.: Your budget proposals, I
87 presume, the ones that would go forward would be written
88 ones?

89 MR. BUDGELL: Yes.

90 MS. HENLEY ANDREWS, Q.C.: And if we take a look at **B-
91 41** as an example, would that be the entire budget proposal
92 that would go forward from system planning?

93 MR. BUDGELL: No.

94 MS. HENLEY ANDREWS, Q.C.: And what else would

- 1 have gone forward with that?
- 2 MR. BUDGELL: There would have been a detailed estimate
3 and a justification.
- 4 MS. HENLEY ANDREWS, Q.C.: A detailed estimate?
- 5 MR. BUDGELL: Well there's ... budgets are normally
6 prepared with estimates of costs broken down into
7 construction materials, internal/external forces, labour,
8 contracts, IEC escalation, the estimates.
- 9 MS. HENLEY ANDREWS, Q.C.: And the justification?
- 10 MR. BUDGELL: The justification would have been detailed
11 in regards to any analysis in support of this budget. Like
12 this one would have been a voltage regulator, so very likely
13 there was a load and voltage study done in support of this.
- 14 MS. HENLEY ANDREWS, Q.C.: Why would that have not
15 been filed with the Board as part of the approval process?
- 16 MR. BUDGELL: The Board set the process here and we're
17 following the Board's direction in regards to what items and
18 information level is supplied to the Board. If the Board or
19 the intervening parties require additional information, it's
20 only a matter to ask. This is the standard that we have
21 followed and Newfoundland Power have followed.
- 22 MS. HENLEY ANDREWS, Q.C.: But you would agree,
23 apart from whether the standard that has been followed,
24 which frankly what that is doesn't bother me one way or the
25 other ...
- 26 MR. BUDGELL: It is a big concern, you know, because like
27 if details on capital budgets, and Ms. Greene didn't refer to
28 it today, but I will, maybe at her exception, but we provided
29 estimates, detailed estimates to Newfoundland Power at
30 their request. We had some reservations in supplying that.
31 When we give ... this is public documentation, and we just
32 give detailed estimates that if it's approved well then go out
33 to tender. If tenderers have that information in their hands,
34 we're not going to get very good bids. I can tell you what
35 they're going to bid if I ... right, and if that detailed
36 information went to the Board, or was available, widely
37 known to everybody in regards to estimates, or you
38 needed that amount of detail on the estimates to make a
39 decision on whether a project would go ahead, I mean it's
40 going to be a very difficult situation to manage a utility,
41 and to go out and do tenders and build projects. That's
42 only one issue. I'm just talking about costs, but as you're
43 talking about justification, if there are justifications in the
44 budgets where there are questions arising and we go to the
45 Board each year, or we have since 1996, and the Board or
46 the Board's consultants have questions and asked
47 questions, which they do of us, and they do of
48 Newfoundland Power, then additional information will be
49 supplied.
- 50 MS. HENLEY ANDREWS, Q.C.: Well, I guess where I'm
51 coming from frankly is that if what is being submitted here
52 reflects the process then from my perspective, I think it's
53 totally inadequate. Now that's not your fault, or that's ... I'm
54 not throwing that at your feet, but what I'm saying to you
55 is that let's take a look at **B-41** as an example. This project
56 involves purchase and installation of voltage regulators on
57 the Barachois system. All it tells me is the nature of the
58 project, correct?
- 59 MR. BUDGELL: That's right.
- 60 MS. HENLEY ANDREWS, Q.C.: Now you've got ... and it's
61 \$112,000, so it's above the \$50,000 small project amount,
62 correct?
- 63 MR. BUDGELL: Yes.
- 64 *(2:45 p.m.)*
- 65 MS. HENLEY ANDREWS, Q.C.: Now if I go to **B-6**, page
66 B-6 of the capital budget, B-6 tells me in theory when cost
67 benefit studies need to be done, isn't that right?
- 68 MR. BUDGELL: That's correct.
- 69 MS. HENLEY ANDREWS, Q.C.: And it says if the project
70 is required to protect human life, to meet projected
71 customer load demand, etcetera, etcetera ...
- 72 MR. BUDGELL: Which this one does.
- 73 MS. HENLEY ANDREWS, Q.C.: Okay, but let's go back to
74 **B-41**.
- 75 MR. BUDGELL: Which the second sentence refers to, the
76 one you didn't read.
- 77 MS. HENLEY ANDREWS, Q.C.: Peak load level on the
78 feeder has resulted in low voltage levels, right?
- 79 MR. BUDGELL: Yes.
- 80 MS. HENLEY ANDREWS, Q.C.: But that doesn't tell me,
81 you're right, it tells me that the peak load has resulted in
82 low voltage levels, but it doesn't tell me that it's urgent,
83 does it?
- 84 MR. BUDGELL: No.
- 85 MS. HENLEY ANDREWS, Q.C.: And it doesn't tell me that
86 there's going to be a problem meeting customer load
87 demand?
- 88 MR. BUDGELL: But if I told you it was urgent, and it was
89 part of the process, and we don't get approval until ...
90 what's the point? If it was urgent we would have come to
91 the Board as a non-budgeted proposal, so it's not urgent.
92 It's required in the year 2002, because that's when we put it
93 in the budget.
- 94 MS. HENLEY ANDREWS, Q.C.: Okay, well let's ...

1 MR. BUDGELL: So it's obviously not urgent.

2 MS. HENLEY ANDREWS, Q.C.: Now when you look at
3 that, when you look at that simple sentence that says peak
4 load level on the feeder has resulted in low voltage levels,
5 and you look at the criteria that are on page 6 of your
6 capital budget, which of those do you consider that it
7 comes within?

8 MR. BUDGELL: To meet projected load demand.

9 MS. HENLEY ANDREWS, Q.C.: Okay, now when ...

10 MR. BUDGELL: And it could be three, the imminent
11 interruption of customer services because if the voltage
12 erodes to an extent in this particular case, we had low
13 voltage at the end of the feeder, that this particular
14 customer is subjecting his household equipment, or his
15 household equipment can be subjected to low voltages, he
16 can lose appliances and those type of things.

17 MS. HENLEY ANDREWS, Q.C.: Let's go back to **B-41**
18 again.

19 MR. BUDGELL: That's where I'm at.

20 MS. HENLEY ANDREWS, Q.C.: Yeah, well you said it
21 would be number two, which is to meet projected customer
22 load demand.

23 MR. BUDGELL: Load demand has grown on the feeder to
24 the extent where voltages at the end of the feeder have
25 decreased below accepted standards.

26 MS. HENLEY ANDREWS, Q.C.: But your proposal doesn't
27 say that, does it?

28 MR. BUDGELL: It's low voltage level, we refer to low
29 voltage levels, in the context that we refer to it, it's
30 obviously below our criteria.

31 MS. HENLEY ANDREWS, Q.C.: But ...

32 MR. BUDGELL: I agree, you may not understand that from
33 the ...

34 MS. HENLEY ANDREWS, Q.C.: And the Board may not,
35 members of the Board may not.

36 MR. BUDGELL: And the Board may not, I agree.

37 MS. HENLEY ANDREWS, Q.C.: And they're the ones who
38 are reviewing the budget.

39 MR. BUDGELL: That's right, and could ask the question
40 about which standard that would be.

41 MS. HENLEY ANDREWS, Q.C.: Okay, and there's certainly
42 nothing in that that indicates that there is an imminent
43 interruption of customer service, isn't that right?

44 MR. BUDGELL: No, except that it could damage equipment
45 if it is low voltage.

46 MS. HENLEY ANDREWS, Q.C.: But again, there's nothing
47 in the proposal as presented or submitted that says that.

48 MR. BUDGELL: No.

49 MS. HENLEY ANDREWS, Q.C.: So if I'm looking at this, if
50 I'm looking at your criteria for doing a cost benefit study,
51 and I'm looking at your capital project proposal, I have no
52 information from that single page that indicates to me
53 whether a cost benefit analysis is or is not required, isn't
54 that right?

55 MR. BUDGELL: I don't agree. The project will provide a
56 more stable and regulated source of power to Hydro's
57 customers, it's got low voltage level, there must be some
58 indication that there's a problem.

59 MS. HENLEY ANDREWS, Q.C.: But you can have ...

60 MR. BUDGELL: And if you look at **PUB-30** where the
61 Board is asking for details on the budget, we provided the
62 details. I accept your point. I mean it's just that somebody
63 has to set down the level of information that's required to
64 satisfy the budget. If we're supplying minimal information
65 and if there's a requirement through due process that more
66 information has to be provided, we have to be given
67 direction on to what level that is.

68 MS. HENLEY ANDREWS, Q.C.: Okay, let me, let me just
69 ask you a different question, because I understand where
70 you're coming from on that answer as well. Within Hydro,
71 if you submitted to the Vice-President to whom you report,
72 just this page without the detailed estimate and without the
73 detailed justification, would it be approved?

74 MR. BUDGELL: My Vice-President would ask for
75 additional information, as the Board has.

76 MS. HENLEY ANDREWS, Q.C.: Would you ever send to
77 your Vice-President a capital project proposal that was the
78 equivalent of just that one page?

79 MR. BUDGELL: Our process does not submit this page to
80 our Vice-President.

81 MS. HENLEY ANDREWS, Q.C.: Okay, your process
82 submits ...

83 MR. BUDGELL: The cost estimate and the justification
84 sheets.

85 MS. HENLEY ANDREWS, Q.C.: Okay, so your Vice-
86 President doesn't have to come back to you to look for the
87 cost estimate and the detailed justification. Your Vice-
88 President may very well have to come back to you with
89 questions.

90 MR. BUDGELL: He'll come back with questions, yes.

91 MS. HENLEY ANDREWS, Q.C.: Okay, one of the
92 questions that was deferred to you, I believe, by Mr.

1 Reeves was with respect to diesel generating units and
2 upgrades, or what are called overhauls?

3 MR. BUDGELL: No, Mr. Reeves, I'm sure if you were
4 talking of overhauls, he would deal with that. I don't have
5 any involvement with diesel overhauls.

6 MS. HENLEY ANDREWS, Q.C.: Well ...

7 MR. BUDGELL: If he was talking about diesel generation
8 additions associated with new load requirements he would
9 defer to me.

10 MS. HENLEY ANDREWS, Q.C.: Well, it's my
11 understanding from Mr. Reeves' testimony that Hydro has
12 now adopted a policy for replacing diesel generating units
13 in isolated communities after five overhauls?

14 MR. BUDGELL: Yes, I have heard that testimony and I
15 understand that that's the case, but that's a TRO initiative,
16 it's within their division. They generate and they follow
17 through on that. That's their standard.

18 MS. HENLEY ANDREWS, Q.C.: So you had, but
19 previously they did as many as six or seven overhauls,
20 correct?

21 MR. BUDGELL: Yes, yeah, in some cases, or maybe they
22 overhauled until it fell to pieces, or a problem happened on
23 the ...

24 MS. HENLEY ANDREWS, Q.C.: So you don't know where
25 that change in policy originated, like from whom it
26 originated?

27 MR. BUDGELL: It was in their ... they researched and
28 checked with other utilities in regards to that matter and
29 devised their own policies.

30 MS. HENLEY ANDREWS, Q.C.: Do you know, personally
31 know?

32 MR. BUDGELL: I didn't ...

33 MS. HENLEY ANDREWS, Q.C.: You're assuming that they
34 researched, is that ...

35 MR. BUDGELL: Well, I didn't ... let me say it another way.
36 I sat in the back while Mr. Reeves was talking, but he was
37 referring to what other utility practices were, so I only am
38 assuming from that comment that he had been in, or his
39 people were in contact with the practices of other utilities.
40 Now our people in that area meet regularly, or at least every
41 year, with most of the large isolated diesel system
42 operators across Canada. I believe this year actually the
43 meeting was here in St. John's, and we sponsored it, and
44 they are aware of what these other companies do, and what
45 their practices are from an operating perspective, but the
46 replacement and the overhaul of diesels is a decision which
47 the operations division make. System planning doesn't, I

48 don't get involved unless requested into the day-to-day
49 activities.

50 MS. HENLEY ANDREWS, Q.C.: So you don't have any
51 involvement in planning studies, for example, that would
52 deal with the cost benefits of extra overhauls versus new
53 generation and that type of thing.

54 MR. BUDGELL: If I'm looking at new generation, and if
55 there is an overhaul in the forecast, i.e., the budget, then I
56 would take into effect that that cost is there in the budget,
57 in the decision. What I'm saying is that if you have a
58 situation where a large diesel unit is about to get its fifth or
59 sixth overhaul and it's the year before we're going to
60 replace a unit in a particular station, then I might make the
61 suggestion that let's put the (inaudible) together and not
62 spend the money on the overhaul, which are major
63 expenditures, and the next year replace a unit ... why not
64 put the new unit in and replace that unit and then we'd save
65 at least one of the capital expenditures. That would be my
66 involvement, and that would be through discussion when
67 the budgets are compared. We ... when my group prepares
68 our budgets, I sit with the other directors and let them
69 know what I'm doing or planning and conversely we sit and
70 get a view of what they're doing, so that the two dovetail
71 together, so we're not going to management, let's say, with
72 redundant budgets. If I'm doing something that will affect
73 somebody else, they'll pull theirs and we'll decide which
74 one is the more appropriate to go forward with.

75 MS. HENLEY ANDREWS, Q.C.: Okay, so let's, just before
76 we break, can you give me an example of a situation on the
77 isolated system where that's happened, where there's been
78 a plan for an overhaul and you've been talking about new
79 generation?

80 MR. BUDGELL: Yeah, I think the Ramea system, we were
81 looking at quite a high cost in overhaul of units, of existing
82 units in the capital program, and there was an analysis and
83 a study done in relation to that. There are other instances.

84 MS. HENLEY ANDREWS, Q.C.: Well just, okay, well
85 perhaps we should ...

86 MR. BUDGELL: Ramea is one.

87 MS. HENLEY ANDREWS, Q.C.: Perhaps we should break,
88 Mr. Chairman.

89 MR. NOSEWORTHY, CHAIRMAN: That's fine. I would
90 ask for everybody's cooperation at keeping the breaks
91 about 15 minutes. I notice that on occasion we've strayed,
92 I think, well beyond that, and I try and like to maintain the
93 15 minutes or so for the break period. Thank you.

94 (break)

95 (3:15 p.m.)

1 MR. NOSEWORTHY, CHAIRMAN: Thank you. Counsel,
2 do you have a preliminary matter?

3 MR. KENNEDY: Chair, just one comment that counsel
4 needs to finish early today so with the panel's permission,
5 the intention is to break at quarter to four this afternoon.

6 MR. NOSEWORTHY, CHAIRMAN: Absolutely, that's
7 fine.

8 MR. KENNEDY: Seeing how we we're all back very early
9 from our break. *(laughter)*

10 MR. NOSEWORTHY, CHAIRMAN: I won't respond.
11 Could I ask you to continue, Ms. Henley Andrews, please.

12 MS. HENLEY ANDREWS: Yes, so Mr. Budgell when we
13 look at the role of system planning, I take it then that
14 system planning really deals with expansions to the
15 existing generation, transmission and distribution, is that
16 correct?

17 MR. BUDGELL: That's the primary role, expansions or
18 upgrades to the equipment, I'm not just talking like the
19 replacement, it's because of load growth.

20 MS. HENLEY ANDREWS: Okay, so you don't, a system
21 planning, does system planning have any role at all in
22 establishing criteria for replacements or those types of
23 things?

24 MR. BUDGELL: I did confer with Mr. Reeves during the
25 break in regards to what you may be misunderstanding
26 from the comments that might have been made, because I
27 was trying, we were trying to find that reference that you
28 referred to and in regard to the upgrades, the one
29 involvement that we did, we do do associated with that ...
30 if they're going to change out a machine in one of the diesel
31 systems, they'll come to us and confirm the proper size for
32 the new machine that goes into the system, because it
33 might be smaller, or it could be a little larger, if there's a load
34 requirement.

35 MS. HENLEY ANDREWS: Okay.

36 MR. BUDGELL: Okay. I think that's the reference, as far as
37 I can ...

38 MS. HENLEY ANDREWS: So from a system planning
39 point of view, you're looking at upgrades and expansions
40 primarily, but if you take TRO as example, replacements to
41 existing facilities, like direct replacements, those types of
42 things, the criteria for that would be determined in their
43 department.

44 MR. BUDGELL: Yes.

45 MS. HENLEY ANDREWS: And those, if you take a criteria
46 such as LOLH which we talked about this morning, which
47 is ... system planning has in place for its reserve ...

48 MR. BUDGELL: Yes.

49 MS. HENLEY ANDREWS: ... capacity. Would that be, that
50 criteria be something that is adopted by system planning
51 on its own or would that be a criteria or a policy that would,
52 as to what the amount ought to be, be something that
53 would be approved higher up.

54 MR. BUDGELL: Obviously it would have to be approved
55 by management.

56 MS. HENLEY ANDREWS: And management being the
57 management committee?

58 MR. BUDGELL: Yes.

59 MS. HENLEY ANDREWS: Now the last question that I
60 have on page **B-6**, at least I hope it's the last question on
61 page B-6, is can you think of any capital project that could
62 not be interpreted as falling within one or more of these
63 criteria?

64 MR. BUDGELL: I don't have one that comes to mind right
65 now.

66 MS. HENLEY ANDREWS: Isn't it true that these criteria are
67 sufficiently broad that ...

68 MR. BUDGELL: No, no, I'm sorry. If, I should say, we
69 would be doing cost, I'd indicated even though it indicates
70 to meet projected customer load demands and it says you
71 don't do cost effectiveness analysis, we would be doing it
72 anyway. From a system planning ... this is from a different
73 perspective is that if you lost a piece of equipment or it is
74 imminent to meet customer load demand, if we were adding
75 generation we would be doing it. If we were adding new
76 transmission, we would be doing a cost effectiveness
77 analysis. If we were adding a new diesel unit to the diesel
78 system, we would be doing a cost effectiveness analysis,
79 or sorry ...

80 MS. HENLEY ANDREWS: Yeah, but now you're, okay
81 you're, I understand what you're saying but first of all ...

82 MR. BUDGELL: This is just speaking from a generic sense,
83 it's not talking to system planning itself, from the
84 perspective of the budget and the budgets coming forth
85 from the others areas of the divisions.

86 MS. HENLEY ANDREWS: But we've already had evidence
87 before the Board, and I think it you've been here for pretty
88 well all of it, that only two of the capital projects that are
89 proposed for 2002 required cost benefit analysis, cost
90 benefit studies. Do you remember that?

91 MR. BUDGELL: I remember the discussion to that extent
92 with Mr. Reeves, I believe.

93 MS. HENLEY ANDREWS: Okay, and I think what I'm
94 trying to get at is that when we look this policy on page **B-**

- 1 6, we have two problems, you and I, when we talk about it
2 and probably others as well, and one is that there are
3 different interpretations of what's meant by a cost benefit
4 study, wouldn't you agree?
- 5 MR. BUDGELL: There certainly is.
- 6 MS. HENLEY ANDREWS: And it is very difficult to
7 conceive of a capital project which would not fit one of the
8 criteria down below, if you gave them the broadest possible
9 interpretation, correct?
- 10 MR. BUDGELL: I couldn't come up with one in that
11 moment, but by the same token it would be difficult to do
12 a cost benefit analysis on an item that protects human life.
13 It'd be difficult to do a cost benefit analysis on a project
14 that presents (*sic*) or prevents imminent interruption to
15 customer services. It would be difficult to do one that
16 protects Hydro's assets against loss and damage, because
17 all of that would cost, would mean you're bearing a risk.
- 18 MS. HENLEY ANDREWS: Yeah, well let's take the human
19 life one now as an example, because that's a really good
20 example. Wouldn't you agree that the issue of protection
21 of, first of all, you can never protect human life completely
22 in any work situation, wouldn't you agree?
- 23 MR. BUDGELL: I would agree, you would never be able to,
24 but you have to move on items that you recognize is, is a
25 risk to people.
- 26 MS. HENLEY ANDREWS: And the question is not only
27 whether it's a risk but to what extent it's a risk?
- 28 MR. BUDGELL: Yes, of course.
- 29 MS. HENLEY ANDREWS: So you, you may very well be
30 able to design a workplace that absolutely minimizes the
31 risk to human life but the cost of doing that may be out of
32 proportion to the risk, wouldn't you agree?
- 33 MR. BUDGELL: That's a possibility, but most of the
34 examples that I come across are not to that extent.
- 35 MS. HENLEY ANDREWS: Okay, but ...
- 36 MR. BUDGELL: It, it's possible.
- 37 MS. HENLEY ANDREWS: Now I want to take a look at the
38 **B-19**, which is the continuous emission monitoring.
- 39 MR. BUDGELL: Yes.
- 40 MS. HENLEY ANDREWS: Now we had some discussion
41 on that yesterday, isn't that right?
- 42 MR. BUDGELL: That's correct.
- 43 MS. HENLEY ANDREWS: Or you did with Ms. Butler?
- 44 MR. BUDGELL: Yes.
- 45 MS. HENLEY ANDREWS: I take it that when you look at
46 this one which is \$801,000, again there's an indication that
47 a formal cost benefit study was not required. Correct?
- 48 MR. BUDGELL: That's correct.
- 49 MS. HENLEY ANDREWS: And when you look at the
50 proposal, all it says is a recent health risk assessment
51 concluded that quantification of the emissions should be
52 undertaken, correct?
- 53 MR. BUDGELL: That's correct.
- 54 MS. HENLEY ANDREWS: However, as I understand it
55 from you, the emissions at the present time are within the
56 regulatory guidelines, correct?
- 57 MR. BUDGELL: That's correct.
- 58 MS. HENLEY ANDREWS: And the purpose of this study
59 is to identify whether there is a health risk, correct?
- 60 MR. BUDGELL: In a sense, yes.
- 61 MS. HENLEY ANDREWS: Because the section of the, on
62 the page that Ms. Butler referred you to yesterday from the
63 report, my understanding was that they wanted to look at
64 the particulate (*phonetic*), the ambient air quality to
65 determine whether, for example, I think one example was the
66 degree of problem that could be encountered by children
67 eating snow and animals and that type of thing.
- 68 MR. BUDGELL: Yes.
- 69 MS. HENLEY ANDREWS, Q.C.: So there's, if you look at
70 your **B-6**, it's not to protect human life, is it?
- 71 MR. BUDGELL: It could be. It could be, if emissions, if it
72 was determined that the level of emissions emitted were
73 above the standards because right now we're assuming the,
74 the company doing this analysis was assuming a ratio, they
75 don't know whether the ratio is correct or not.
- 76 MS. HENLEY ANDREWS: But based upon the study that
77 they've done they believe you're within the regulatory
78 requirements.
- 79 MR. BUDGELL: I agree. They do.
- 80 MS. HENLEY ANDREWS: And, in fact, there are no nox or
81 sox requirements.
- 82 MR. BUDGELL: That is currently, currently at this time, I
83 agree.
- 84 MS. HENLEY ANDREWS: And there is, in fact, no
85 evidence of a risk to human life.
- 86 MR. BUDGELL: Well, I don't know. I'm not an expert in
87 emissions and effect on human life.
- 88 MS. HENLEY ANDREWS: And it's not to meet projected
89 customer load demand or to prevent imminent interruption
90 of customer service, or to comply with the regulations and

1 standards, because we've just dealt with that, or ...

2 MR. BUDGELL: Well not yet, but there are, there are
3 indications that standards may be applied.

4 MS. HENLEY ANDREWS: Okay, and that really
5 underscores my point a few moments ago, doesn't it, which
6 is that just about any capital project can be brought within
7 the criteria on page **B-6** in order to exempt it from a formal
8 cost benefit study. Would you agree?

9 MR. BUDGELL: Yes. Not, no, not any project, but I would
10 agree that this particular project would. I'd have the same
11 difficulty of coming up with a cost benefit study for this
12 particular analysis, or this particular project. The cost, I
13 know, but the benefits are pretty hard to quantify because
14 they're based on the risk, an unquantified risk.

15 MS. HENLEY ANDREWS: What ... changing the subject,
16 what is the intent of a technology plan?

17 MR. BUDGELL: In which context?

18 MS. HENLEY ANDREWS: In Hydro's context. What's the
19 purpose of having, developing a technology plan?

20 MR. BUDGELL: Are you talking from the IS, information
21 services perspective?

22 MS. HENLEY ANDREWS: Yes.

23 MR. BUDGELL: My interpretation of a technology plan is
24 to develop a plan of what software and hardware
25 technology we're going to support within the organization,
26 to do, to carry on our business.

27 MS. HENLEY ANDREWS: And that's not complete yet,
28 correct?

29 MR. BUDGELL: That's my understanding.

30 MS. HENLEY ANDREWS: Now the part of, the part of the
31 budget which you're answering for, as I understand it, is
32 the information systems.

33 MR. BUDGELL: Yes.

34 MS. HENLEY ANDREWS: And there's a number of
35 components of that that are proposed in this budget,
36 agreed?

37 MR. BUDGELL: Yes.

38 MS. HENLEY ANDREWS: And one of those is the
39 document management system.

40 MR. BUDGELL: That's correct.

41 MS. HENLEY ANDREWS: Which I had a second ago.

42 MR. BUDGELL: It's **B-60**.

43 MS. HENLEY ANDREWS: B-60, and that's a \$140,000?

44 MR. BUDGELL: \$104,000.

45 MS. HENLEY ANDREWS: \$104, I'm sorry, \$104,000?

46 MR. BUDGELL: That's correct.

47 MS. HENLEY ANDREWS: Which of the criteria on page
48 **B-6** would this come within to exempt it from the need for
49 a cost benefit study?

50 MR. BUDGELL: It doesn't, it doesn't meet any of the
51 criteria that is on that page.

52 MS. HENLEY ANDREWS: And yet, under cost benefit
53 study it says a formal cost benefit study was not required.

54 MR. BUDGELL: It says that, yes.

55 MS. HENLEY ANDREWS: Hydro manages its documents
56 now, wouldn't you agree?

57 MR. BUDGELL: As best it can in different ways within
58 different parts of the Company, yes.

59 MS. HENLEY ANDREWS: And would you agree that a
60 document management and imaging system is simply a
61 different way of managing documents?

62 MR. BUDGELL: Yes. Hopefully, a more efficient way.

63 MS. HENLEY ANDREWS: And that in order to, would you
64 agree with me that in order to justify the cost of the
65 document management and imaging system, you would
66 want to be satisfied that you were actually going to get
67 efficiencies?

68 MR. BUDGELL: That's right and that's part of the \$104,000
69 was to hire a consultant to give us a report. This is like a
70 feasibility study being done by a consultant, with a pilot,
71 to give us information that we can look at the benefits to
72 the organization of going this way.

73 MS. HENLEY ANDREWS: Why would a feasibility study,
74 now I understand from an accounting perspective why a
75 feasibility study would become part of your capital costs
76 after you decided to go ahead with something, but why
77 would a feasibility study ...

78 MR. BUDGELL: It costs over \$50,000 so it has got to go
79 into the budget as an item, that's again one of the...

80 MS. HENLEY ANDREWS: Is it a capital cost?

81 MR. BUDGELL: Yes, we capitalize these, these
82 expenditures.

83 MS. HENLEY ANDREWS: Now you, there was some
84 discussion yesterday with respect to **B-61**, which is the
85 additional corporate applications.

86 MR. BUDGELL: Yes.

87 MS. HENLEY ANDREWS: And I think I understood from

1 you that part of the \$517,000 was intended to purchase
2 some type of load forecasting, or some type of load
3 software.

4 MR. BUDGELL: Yes, it's, it's a short term load forecast for
5 several days ahead, a system for Mr. Henderson's group
6 actually, for doing their dispatch and their generation
7 plans.

8 MS. HENLEY ANDREWS: And as I understand it, the
9 remainder of the money is not yet allocated to any
10 particular project?

11 MR. BUDGELL: That's exactly right. It's general provision
12 of monies for projects do arise from time to time during the
13 run of the year for support software.

14 MS. HENLEY ANDREWS: The Board, under the
15 legislation, has an obligation to approve each of Hydro's
16 capital projects, would you agree?

17 MR. BUDGELL: Yes.es.

18 MS. HENLEY ANDREWS: How can the Board approve an
19 amount of money for unknown and unidentified software?

20 MR. BUDGELL: It's, it's very, it's part of the business. It's
21 very similar to, in the distribution area there's allotment of
22 funds for connection of customers, but we don't know,
23 maybe, both us and Newfoundland Power put forth
24 provisions in our budget for monies to connect customers
25 up. We don't identify that there's definitely going to be
26 customers there.

27 MS. HENLEY ANDREWS: But you know, based upon
28 previous years' experiences with expenses and hookups
29 and you know ...

30 MR. BUDGELL: Yeah, we, these, these type of monies get
31 spent from each year to year.

32 MS. HENLEY ANDREWS: But you're not, it's not being,
33 this part isn't proposed as being part of your operating
34 budget, this is proposed as being part of your capital
35 budget, correct?

36 MR. BUDGELL: Yes, I agree, because this part of our
37 process, this part of our system is that these items have to
38 be capitalized. We could put it in our operating budget, I'm
39 assuming if a decision had been made that way, but I'm
40 assuming it's coming forth as capital because that is
41 deemed to be the proper place where it belongs.

42 MS. HENLEY ANDREWS: When there's, the technology
43 plan is still a work in progress, right?

44 MR. BUDGELL: Yes, there were supposed to be, we talked
45 about a part that was supposed to be completed this fall
46 and the application by the end of this year, and very likely
47 through those, through that process there would be

48 identified specific software that the Corporation may have
49 to avail of to proceed along the lines of the strategic plan
50 lays out. These items haven't, where the studies haven't
51 been completed yet.

52 MS. HENLEY ANDREWS: Why couldn't the purchase of
53 that software be delayed for the 2003 capital budget until
54 it's known exactly what the Company wants or needs?

55 MR. BUDGELL: Well you'd have the interim period of a
56 year of not having any money to act upon the decision
57 that's coming forth in December of this year. You'd have a
58 year's delay.

59 MS. HENLEY ANDREWS: But don't...

60 MR. BUDGELL: Isn't it more prudent to move ahead,
61 recognizing that there are expenditures of this sort made
62 from year to year.

63 MS. HENLEY ANDREWS: But you, you would agree that
64 certain costs can be deferred and certain costs can't?

65 MR. BUDGELL: Oh, I agree, yes.

66 MS. HENLEY ANDREWS: And the technology plan which
67 is still not even submitted to Hydro, it's still not even
68 finalized, once it has been finalized or once it's been
69 submitted and reviewed by the Company, the fallout from
70 that plan, on a go forward basis, could mean that software
71 purchased in February of 2002 would not be suitable for the
72 implementation of the plan.

73 MR. BUDGELL: I'm assuming here that the purchases
74 would be made consistent with the recommendations of the
75 plan. Then there may be other software that had to be
76 purchased within the Company separate, like there's
77 requests come into Hydro or into the IS department,
78 looking for specific software to do a particular work and
79 within the IS department those requests would go to a
80 group within the Corporation which would review that
81 request and make a recommendation whether that software
82 should be purchased for that purpose, and I used the
83 example with Ms. Butler, it might be tool management or
84 tracking at Holyrood. Those are the type of non-business
85 or major business like JDE type applications that the
86 Corporation needs or there might be a requirement to
87 update, let's say Lotus Notes, to be consistent or
88 compatible with something else, if ... as we move ahead in
89 the Corporation so there are purchases of this type of
90 software that is necessary to be made, but again I can't
91 quantify or identify what the particular items are, in the
92 absence of this plan.

93 MS. HENLEY ANDREWS: And you can't identify whether
94 it's going to be necessary to make that decisions or
95 whether it's simply going to be a desire on the part of
96 Hydro to make that decision?

1 MR. BUDGELL: I know it's an ongoing requirement of the Corporation to expend these monies each and every year.

2

3 MS. HENLEY ANDREWS: Yet, well, you know that monies are spent in each and every year, but whether particular money needs to be spent in one year versus another year is a question of judgement in some cases?

4

5

6

7 MR. BUDGELL: Preparation of budgets is a, is an exercise in judgement. Agree.

8

9 MS. HENLEY ANDREWS: Well, let me just give you an example, perhaps is the best way to go about it, and that's to say let's take Microsoft Word, standard everyday word processing package. Upgrades come out for that type of thing on a regular basis, wouldn't you agree?

10

11

12

13

14 MR. BUDGELL: Yes.

15 MS. HENLEY ANDREWS: And you don't have to upgrade.

16

17 MR. BUDGELL: No.

18 MS. HENLEY ANDREWS: Your product can work quite nicely without the upgrade in many circumstances.

19

20 MR. BUDGELL: It may or it may develop a problem. I don't know.

21

22 MS. HENLEY ANDREWS: And you might want to upgrade.

23

24 MR. BUDGELL: In the case of Hydro, that would be a very large decision given the number of users, and the, even your example it's not, it's like moving to Microsoft 1999 to Microsoft 2000, just because it came out. I don't think that type of exercise goes on.

25

26

27

28

29 MS. HENLEY ANDREWS: Okay, but what I'm saying to you, no, I'm not, I'm not trying to suggest that, but what I'm saying to you is that even if it were identified that there were some aspects of the upgrade that could be useful, on the whole upgrading to the latest version of something would not be an urgent item.

30

31

32

33

34

35 MR. BUDGELL: No. Of course, not. If what you have is working perfectly well and serves the purpose, of course not.

36

37

38 MS. HENLEY ANDREWS: That's a good place to break.

39 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms. Henley Andrews. Would you have any notion of how long you might be in this cross-examination of Mr. Budgell, please.

40

41

42

43 MS. HENLEY ANDREWS: I have a much better notion of it than I did this morning. I think I'll take the better of the morning tomorrow, but should be finished by lunch.

44

45

46 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.

47 Thank you, Mr. Budgell. We'll reconvene at 9:30 tomorrow morning.

48

49 *(hearing adjourned to November 7, 2001)*