

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you and good
3 morning everybody on this gorgeous fall day out there. I
4 trust everybody had a good weekend and ready to get into
5 week two of this hearing. I'd like to welcome any
6 newcomers here this morning. I would before we get
7 started as well, I'd like to introduce Barbara Thistle. Barbara
8 is the Assistant Board Secretary and will be filling in for
9 Ms. Blundon for today. It may go on beyond that but,
10 anyway, we'll take it one day at a time. Welcome, Barbara.
11 I understand that Hydro has a preliminary matter before the
12 next witness is called. Ms. Greene.

13 MS. GREENE, Q.C.: Thank you, Mr. Chair. Good morning.
14 Last week I mentioned that we would be filing
15 supplementary evidence with respect to an allocation of
16 cost issue, and what I have this morning is supplementary
17 evidence to be filed for Mr. Reeves. Mr. Reeves will explain
18 the error that was made and why it needed to be corrected,
19 and that is the purpose of this supplementary evidence.

20 As well we will be filing evidence from Mr.
21 Brickhill hopefully later today which will explain how that
22 works through the cost of service and impacts the
23 allocation of the revenue requirement to our customer
24 groups.

25 The third piece of evidence we will be filing with
26 respect to this issue will be supplementary evidence from
27 Mr. Hamilton who will then take the changes and flow them
28 through the rates and particularly the rates of the Labrador
29 interconnected system customers.

30 So the evidence that we have ready to file this
31 morning is supplementary evidence from Mr. Reeves. The
32 other two supplementary evidence that I have referred to,
33 one from Mr. Brickhill and one from Mr. Hamilton, will be
34 available certainly by tomorrow morning, if not later this
35 afternoon, and I have 17 copies of Mr. Reeves'
36 supplementary evidence that I'd like to circulate at this time.

37 MR. NOSEWORTHY, CHAIRMAN: Is that it, Ms. Greene
38 ...

39 MS. GREENE, Q.C.: Yes, it is. Thank you.

40 MR. NOSEWORTHY, CHAIRMAN: ... for the preliminary
41 matters? Thank you very much. Could you call and
42 introduce your next witness, please?

43 MS. GREENE, Q.C.: Our next witness is David Reeves, the
44 Vice-President of Transmission and Rural Operations.

45 MR. NOSEWORTHY, CHAIRMAN: Good morning, Mr.
46 Reeves.

47 MR. REEVES: Good morning, Chair and Commissioners.

48 MR. NOSEWORTHY, CHAIRMAN: I wonder could you

49 take the Bible in your right hand, please, and stand?

50 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
51 Reeves. You can be seated. You may begin. I understand
52 Mr. Reeves has a presentation ...

53 MS. GREENE, Q.C.: Yes.

54 MR. NOSEWORTHY, CHAIRMAN: ... does he, Ms.
55 Greene?

56 MS. GREENE, Q.C.: First we need to get Mr. Reeves to
57 adopt his pre-filed testimony before ...

58 MR. NOSEWORTHY, CHAIRMAN: Yes, okay.

59 MS. GREENE, Q.C.: Good morning, Mr. Reeves.

60 MR. REEVES: Good morning.

61 MS. GREENE, Q.C.: You filed or there was pre-filed
62 evidence filed with the May 31st application in your name.
63 Do you adopt that pre-filed evidence as your own
64 evidence?

65 MR. REEVES: Yes, I do.

66 MS. GREENE, Q.C.: We just circulated supplementary
67 evidence from yourself as well. Do you adopt this
68 supplementary evidence as your evidence for the purpose
69 of this hearing?

70 MR. REEVES: Yes, I do.

71 MS. GREENE, Q.C.: Mr. Reeves, have you prepared a
72 presentation on the transmission system and the rural
73 systems that Hydro owns and operates?

74 MR. REEVES: Yes, I have.

75 MS. GREENE, Q.C.: I'd ask you now then to present that
76 presentation for the Board.

77 MR. REEVES: Thank you. My presentation will be shown
78 on the screens in front of you and is meant to be a
79 clarification of some of the schedules that was included in
80 the, in my pre-filed evidence, and, as Ms. Greene says, it
81 will be addressed in the transmission and rural operations
82 part of Hydro.

83 (9:45 a.m.)

84 First I should outline that we have basically three
85 regions where we have staff located throughout the
86 province. These are strategically located to be able to deal
87 with our ongoing maintenance and our emergencies that
88 come up from time to time. Our three regions are Central,
89 and you'll see a demarcation line between the regions. The
90 other region is Northern and the last one is Labrador. For
91 the Central Region our headquarters is in Bishop's Falls,
92 the headquarters for the Northern Region is in Port
93 Saunders and the headquarters for the Labrador Region is

1 in Happy Valley.

2 Throughout the regions we also have some
3 depots which are, some are on this but not all of them. We
4 have one in Whitbourne, one in Stephenville, one in St.
5 Anthony and also one in Wabush, and as I said there are
6 others throughout the province. It's a fairly large area that
7 we have to look after and we have our staff positioned in
8 such a way that we get timely responses.

9 The first system which I would like to address is
10 the island interconnected system, and what I've shown
11 here is a picture of a typical thermal station which is located
12 on the west part of the island. It's our, what we call our
13 Bottom Brook Station, and it basically provides power to
14 the Stephenville and Port aux Basques and down the
15 Burgeo areas.

16 The backbone of our system, our transmission
17 system, is our 230 kV system, and on this slide you can see
18 that the 230 system basically goes from east to west and a
19 little bit up to Cat Arm, as you can see. It serves a purpose
20 of tying together our generation which Mr. Henderson will
21 be reviewing prior to his giving testimony. It also ties the
22 generation to our main load centres throughout the
23 province. You will note that there are two main circuits that
24 go from east to west. There's not a lot of diversity in routes
25 except on the west coast where we go from Buchans to
26 Stephenville, and we do have a bit of diversity right there.
27 However, the rest, do the geography and that, especially
28 here on the Avalon, we are not able to get diversity of
29 routes. This means that in a lot of incidents weather
30 patterns that flow through will normally be affecting both
31 transmission lines at the one time.

32 On the left here, if I can get this mouse working,
33 right here, this is a typical tower, what we call a dead end
34 tower on our 230 kV line. These can typically be 40 meters
35 in height and obviously constructed of steel. On the right-
36 hand side of the picture we have what we call a tangential
37 structure. These are the lines that go in basically a straight
38 line, again made of steel, and these are typically around 30
39 meters high. As we go through it you'll see that our 230
40 towers are primarily steel, but as our voltages go down
41 you'll see that most of these are made of wood. The skill
42 sets and the tools that we need to maintain these steel
43 towers are much different than we would need on our
44 distribution system.

45 Adding to our 230 system we have our 138 kV
46 system which picks up the Burin Peninsula down here,
47 picks up out in west, going to Port aux Basques, down to
48 Burgeo, picks up a loop going from Grand Falls to Deer
49 Lake, and also a line that goes up to the Great Northern
50 Peninsula. As I just mentioned, typically our 138 is made
51 of wood poles and these poles are typically around 25, 20

52 to 25 meters high.

53 Moving down in voltage, we also have some 66 K,
54 or 69 kV voltage. This is primarily on the Great Northern
55 Peninsula, up along here, up around St. Anthony, a little bit
56 right here in the Jackson's Arm area and some down there
57 in the south coast and also some feeding the Port aux
58 Basques area. And as you can see on the left here, that the
59 pole heights are getting much less. We don't need the
60 clearances for our voltage to the ground and structures are
61 less complex. That's basically, I guess, our main backbone
62 of our transmission system which provides the power to
63 our distribution systems, to ourselves, to our industrial
64 customers and also to our largest customer, Newfoundland
65 Power.

66 Transmission and Rural Operations also has
67 responsibility for the gas turbines. This one I've shown
68 here is the hardwoods one which is just out past the
69 overpass here in St. John's. We have a similar unit in
70 Stephenville, again 54 megawatts, and we have a third gas
71 turbine which is located in Happy Valley-Goose Bay. We
72 also, even though I don't have a picture, TRO, I'll flip back
73 and forth, Transmission and Rural Operations or TRO,
74 you'll have to excuse me for that, but in TRO we also have
75 responsibility for the maintenance of the frequency
76 converters at both mills, at two of the mills I should say.

77 What I've shown here or tried to depict is that
78 Newfoundland Hydro obviously is not the only utility in
79 Newfoundland that has wires. Our sister utility,
80 Newfoundland Power, also has a fair number of wires.
81 Their highest voltage, as I understand it, is 138. They have
82 a fair bit more of 69 than we do but their 138 basically is a
83 loop which is, goes from Gander around to Sunnyside and
84 then out picking up their load centres in those areas. They
85 also have some here on the Avalon Peninsula, some down
86 in the Burin, and some out west as well.

87 In addition to Newfoundland Power the Deer Lake
88 Power has some transmission from its plant in Deer Lake to
89 Corner Brook, and you'll see these two little circles right
90 here. These are the frequency converters. There's one
91 right here that does some conversion and also there's a
92 frequency converter here at Corner Brook, at Grand Falls,
93 sorry, Grand Falls. So that basically is a simplified drawing
94 from what's behind me of the electrical wires, I guess, on
95 the island.

96 The second system that I'd like to cover is the
97 Labrador interconnected system, and, as you'll see, this is
98 a much less complicated system. Newfoundland Hydro
99 itself basically has one transmission line in Labrador which
100 is the line from Churchill Falls to Happy Valley-Goose Bay,
101 however, we have a customer base in Labrador West and
102 for that we transmit our power over the (unintelligible) lines

1 from Churchill Falls to Labrador City. The third line that's
2 on here which is not part of Hydro, it's part of one of the
3 Hydro groups, is the lines from Churchill Falls to the
4 Quebec border to feed Hydro-Quebec. So while ... and
5 these are 735 kV lines. While there's a lot more power in
6 Labrador, the actual, from a picture point of view or
7 schematic point of view, the actual system is much simpler.

8 The next systems that I would like to address is
9 the rural interconnected systems, and to show these on a
10 drawing that shows the actual lines that go around from
11 place to place would be very complicated and need more
12 than just a screen to show that, so what I've basically
13 shown is I've shown the two approximate locations of our
14 service areas ourselves and Newfoundland Power, and I
15 should say that this is a general geographic representation
16 of it. It's not intended to define our service areas, either our
17 rights of either utility as well, but in Labrador, if I can get
18 this mouse again, you'll see that Hydro's services, all of the
19 domestic customers that are in Labrador, which are sparsely
20 located throughout the Labrador. Here on the island,
21 Newfoundland Power is probably, goes from Port aux
22 Basques right through, follows the Trans Canada, I guess,
23 right through, goes down to Burin and also all the Avalon.
24 We look after the south coast. There are some isolated
25 systems down here as well as being interconnected. In the
26 Baie Verte, Springdale area, Newfoundland Power looks
27 after the two communities there and we look after the
28 outlying communities. They have a couple of outlying
29 communities but I guess we have the majority of those. On
30 the Great Northern Peninsula we service all the domestic
31 and general service customers up there. We have a couple
32 of small areas on the Burin, right over here. We have an
33 isolated diesel plant down here. So this basically is just a
34 general representation, I guess, of these two service areas.

35 The last systems which I would like to address are
36 the rural isolated systems. These are the ones that are
37 serviced from diesel power with the exception of a couple
38 where we do get some, we buy some power from some
39 close by facilities, however, all the rest are serviced by
40 diesel generators, diesel generation. And what is shown
41 here on the slides are two of our typical installations. The
42 one on the left is Postville in Labrador. It's a 675 kilowatt
43 operation and as you can see we have four units. Here is
44 the exhaust, here is the transformation equipment and here
45 is the adjacent community. We typically try to locate these
46 as close as we can to the communities without having an
47 impact on the communities, and that obviously is to keep
48 our cost down for our distribution costs.

49 The one on the right here is Port Hope Simpson,
50 which is a little larger plant again in Labrador. It's 1,210
51 kilowatts. It's one of our newer plants, and, as you can see,
52 it's got the three units of (unintelligible) here. These are

53 pretty high and this is to address the environmental
54 concerns of the plant. This plant is a reasonably modern
55 plant that we've got.

56 The last slide I have is again a duplication of one
57 of the schedules in my evidence. It's got the communities
58 with the size of the kilowatts in brackets, and you'll notice
59 that I've got a line made between Labrador and the island.
60 We have 9 ... we have 25 in total. We have 9 on the island
61 and we have 16 in Labrador. There's two exceptions on this
62 slide. One is in L'Anse-au-Loup, which is one of our larger
63 plants, one of our larger ... I guess it's our largest plant. We
64 have a contract there with Hydro-Quebec to buy secondary
65 energy from a hydro plant which they had developed on
66 their Blanc Sablon system. In Mary's Harbour we purchase
67 hydro electric power from a small non-utility generator,
68 Mary's Harbour Hydro, I think it's called, when it's
69 available. Both these plants, because the energy that we
70 are able to purchase from them is not firm, we still have to
71 maintain a fully operational diesel facility to meet our peak.
72 And that basically is my introduction. Hopefully it's helped
73 to be some clear ... a bit clear in what my schedules are in
74 the back of my presentation, my evidence.

75 MS. GREENE, Q.C.: Thank you, Mr. Reeves. We have
76 hard copies of the slides that were just presented to
77 distribute at this time.

78 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
79 Mr. Reeves.

80 MS. GREENE, Q.C.: That concludes the direct evidence for
81 Mr. Reeves at this time. He's now available for cross-
82 examination.

83 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
84 Greene. We'll move directly then to cross-examination by
85 Newfoundland Power, please.

86 MS. BUTLER, Q.C.: Do you want to mark this, Mr.
87 Chairman?

88 MR. NOSEWORTHY, CHAIRMAN: Pardon?

89 MS. BUTLER, Q.C.: Does it need to be marked?

90 MR. NOSEWORTHY, CHAIRMAN: Okay.

91 MR. KENNEDY: It's ... I guess by the witness' initials. Mr.
92 Reeves' first name is?

93 MS. GREENE, Q.C.: It would be DWR.

94 MR. KENNEDY: DWR No. 1.

95 **EXHIBIT DWR-1 ENTERED**

96 MR. NOSEWORTHY, CHAIRMAN: Thank you, counsel.
97 Is Newfoundland Power in a position to continue?

98 MS. BUTLER, Q.C.: Good morning, Mr. Reeves.

1 MR. REEVES: Good morning.

2 MS. BUTLER, Q.C.: Mr. Reeves, I know you've been with
3 Newfoundland Hydro a long time and you've been VP of
4 Transmission and Rural Operations for the last six years.

5 MR. REEVES: That's correct, yes, since 1995.

6 MS. BUTLER, Q.C.: Thank you. I haven't actually seen a
7 job description for you, so I wonder if you might just
8 explain for me, perhaps by reference to NP-5, if we might,
9 Mr. O'Rielly, page A-1, who you report to and who reports
10 to you and then I'll have a general sense of your
11 responsibilities perhaps. There's an attachment there at
12 page A-1, I believe, Mr. O'Rielly. Sorry, Commissioners,
13 you're going to have to refer to the hard copy.

14 MR. REEVES: Okay. Probably the best chart to look at
15 would be A-1 first.

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

17 MR. REEVES: Okay.

18 MS. BUTLER, Q.C.: And you're shown to the far left?

19 MR. REEVES: That's correct.

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

21 MR. REEVES: And as you indicated, my position as the
22 Vice-President of Transmission and Rural Operations, three
23 main functions. One is to provide the engineering
24 associated with transmission and rural operations, and
25 there's a Director who reports in to me, Mr. Fred Martin.
26 The second one is the actual operations themselves, and
27 this is where the larger group of employees are, which is
28 the maintaining and the operating of the transmission and
29 rural operations headed up by a Director, Mr. Tom Vatcher.
30 The third one is that I provide corporate services,
31 environmental services, to the hydro group, and that one
32 is headed up by the Director, David Kiell.

33 MS. BUTLER, Q.C.: When I was looking at that page A-1,
34 I have to tell you that I was perhaps a little confused about
35 why there would be two directors, both for transmission
36 and rural operations, Mr. Martin and Mr. Vatcher.

37 MR. REEVES: The two functions are completely different.
38 Mr. Vatcher has the day-to-day responsibility of ensuring
39 that the equipment is available for the system to be able to
40 provide service to our customers and also because a lot of
41 our equipment is operated by the system control centre.
42 We don't have direct responsibilities for operation, but we
43 have the responsibility to ensure that that equipment is
44 available for the system operations to use to provide
45 energy to our customers. Mr. Vatcher also has
46 responsibility in the isolated diesel plants and on the
47 distribution systems for the, not only the maintenance but
48 also the operations. We, in TRO we maintain the operators
49 to maintain the isolated diesel plants.

50 Mr. Martin, on the other hand, he has the
51 responsibility of completing the capital budget that we
52 have from year to year, which are either in, to perform major
53 upgrades on our system, change out units, diesel units.
54 Like the Avalon upgrades that we're currently doing right
55 now, that would be a responsibility of Mr. Martin.

56 MS. BUTLER, Q.C.: Now it will come up a little later in your
57 evidence, Mr. Reeves, but of course under your
58 responsibility are both the capital and operating budgets of
59 TRO.

60 MR. REEVES: That's correct, yes.

61 MS. BUTLER, Q.C.: So you just indicated for me that Mr.
62 Martin completes the capital budget. And the operations
63 budget would be?

64 MR. REEVES: That's right. I should also note ... that's
65 correct. I should also ...

66 MS. BUTLER, Q.C.: I'm sorry, let me just make sure I
67 understood your answer. He also has the operational
68 budget?

69 MR. REEVES: Mr. Vatcher does.

70 MS. BUTLER, Q.C.: Mr. Vatcher has the operational
71 budget.

72 MR. REEVES: That's correct, yes, yeah. I should also note
73 that one of Mr. Martin's responsibilities as well is to
74 provide engineering support to the people in the field so
75 that if we have a problem that has arose that requires some
76 engineering work, then Mr. Vatcher, or Mr. Vatcher's
77 people, would phone either Mr. Martin or his people to
78 assist in the solution of that problem.

79 MS. BUTLER, Q.C.: Okay, thank you, Mr. Reeves. And
80 you report directly to Mr. Wells as President?

81 MR. REEVES: That's correct, yes.

82 MS. BUTLER, Q.C.: Now, Mr. Kyle (*sic*), am I pronouncing
83 that correctly? Sorry?

84 MR. REEVES: Pardon me?

85 MS. BUTLER, Q.C.: Mr., is it Kyle (*sic*)?

86 MR. REEVES: Kiell.

87 MS. BUTLER, Q.C.: Kiell?

88 MR. REEVES: Mr. Kiell, yes.

89 MS. BUTLER, Q.C.: Okay. When it says "Properties," can
90 you tell me, is that the same thing as general properties
91 which we'll see referred to later?

92 MR. REEVES: That's correct, yes. Like Mr. Kiell would

1 provide the, some of the surveying functions that we carry
2 out as well as getting leases for land and the like.

3 MS. BUTLER, Q.C.: I think you might have put your
4 volume away too quickly.

5 MR. REEVES: Oh, I'm sorry.

6 MS. BUTLER, Q.C.: I'd like to look at page E-1 as well,
7 which is the breakdown of Mr. Kiell's responsibility.

8 MR. REEVES: Okay.

9 MS. BUTLER, Q.C.: So we have real estate, environmental
10 services and surveys?

11 MR. REEVES: That's correct, yes.

12 MS. BUTLER, Q.C.: And can you elaborate at all on the
13 responsibilities covered by the general properties section?

14 MR. REEVES: What we refer to as properties would be the
15 real estate specialist, and this is the person that would
16 assist our field staff and get leases for entitlement to land
17 that we require to build transmission lines or even to put
18 distribution lines going to our customers where we need
19 easements. The surveying, obviously it's to do with our
20 expansion programs, not only for surveying new pieces of
21 property that we may require but also to do surveys when
22 we design our transmission lines, when we need the
23 information for our engineering staff.

24 *(10:00 a.m.)*

25 MS. BUTLER, Q.C.: Just keep those two flow charts out for
26 a moment, Mr. Reeves. Within the areas that you oversee
27 then, with these three directors underneath you, you are
28 ultimately responsible for TRO's operating budget and the
29 capital budget?

30 MR. REEVES: That's correct.

31 MS. BUTLER, Q.C.: And in terms of the functional areas
32 which the three sections cover, would you ultimately be
33 responsible for the staffing in TRO?

34 MR. REEVES: That's correct, yes.

35 MS. BUTLER, Q.C.: Quality of service?

36 MR. REEVES: Yes.

37 MS. BUTLER, Q.C.: System maintenance?

38 MR. REEVES: Yes.

39 MS. BUTLER, Q.C.: Transportation?

40 MR. REEVES: Yes. We provide a corporate function for
41 transportation but it's in TRO, but once vehicles are
42 purchased and, say, are assigned out to different divisions
43 in the company, we provide support services but they look
44 after their vehicles. You know what I mean.

45 MS. BUTLER, Q.C.: They maintain them, is that what you
46 mean?

47 MR. REEVES: The maintenance of our vehicles, we
48 contract out about 90 percent of our maintenance on our
49 vehicles. We do keep some in-house. What we keep in-
50 house basically is to maintain the booms on our trucks and
51 also some of the maintenance that's associated with our
52 large all-terrain vehicles or off-road vehicles. You may find
53 that in some of our locations we do, still do maintenance on
54 some of our fleet. I think one area might be in Bay D'Espoir
55 where we just do some running maintenance in addition to
56 other things, but on the majority, most of ours is contracted
57 out, so we don't do a lot of maintenance in-house. What
58 my staff would do would be to set the standards that the
59 vehicles are maintained and they would also be involved
60 with some of the service providers to ensure that we're
61 getting the work done that we require to be done.

62 MS. BUTLER, Q.C.: Okay. And purchasing within your
63 division, that would ultimately ...

64 MR. REEVES: We purchase ...

65 MS. BUTLER, Q.C.: ... be your responsibility?

66 MR. REEVES: Yes. We would do the coordination of
67 purchasing for the vehicles in TRO.

68 MS. BUTLER, Q.C.: Okay. But I'm not speaking just
69 specifically of vehicles now. I'm just asking whether
70 ultimately you are responsible for the purchasing within
71 TRO.

72 MR. REEVES: We have a Purchasing Department which is
73 not in my division but we would raise the purchase orders
74 and would go to our materials management people and they
75 would actually do the purchasing, and we would
76 coordinate with them, obviously, to get the products and
77 services that we require.

78 MS. BUTLER, Q.C.: And where does customer service fall,
79 Mr. Reeves? Is that under your division?

80 MR. REEVES: No, it's not ... well, customer service is
81 supposedly right across the company but the department,
82 customer service is actually in Finance, and they provide
83 two critical services to our customers. One is to deal with
84 our customers in dealing with their accounts and whatnot,
85 and we have a 1-800 number for that, and they also receive
86 calls that come in and they also deal with our customers for
87 any concerns or comments that they have with our ... and
88 that's actually located in Finance, but there's a very close
89 liaison, obviously, between my staff and the customer
90 service's staff.

91 MS. BUTLER, Q.C.: At this hearing who will be speaking
92 to customer service?

1 MR. REEVES: Customer service, I can speak to some of it.
2 If it's the customer service, say, some of our workers to the
3 actual customers. If it's to deal with the customer service,
4 the call centre, that would be more appropriately, I guess,
5 given, asked to Mr. Osmond.

6 MS. BUTLER, Q.C.: Okay. And to put things perhaps in
7 perspective for me if not the Board, is it fair to say that at
8 Newfoundland Power the position or the individual who
9 holds the position closest to yours would be Mr. Ludlow?

10 MR. REEVES: That's my understanding. That's who I
11 usually deal with. That's correct.

12 MS. BUTLER, Q.C.: Okay, great. Thanks. I want to turn
13 now, if I might, Mr. Reeves, to the work of the joint
14 committees between Newfoundland Power and Hydro, and
15 I am finished with that binder, thank you. In his opening
16 statement on September 24th, Mr. Reeves, and this is in the
17 transcript for that day at page 17 and line 5 ...

18 MR. REEVES: This is whose evidence?

19 MS. BUTLER, Q.C.: Actually in the transcript, which is on
20 the screen, you'll see it referred to at line 14, and what I'm
21 referring to here is Mr. Browne's, the portion of his opening
22 statement that says, "The utilities cannot find ways to work
23 together to reduce costs." Can I ask you, Mr. Reeves, as
24 one of the vice-presidents of Hydro, whether you agree
25 with that statement?

26 MR. REEVES: I don't necessarily agree with that statement,
27 no.

28 MS. BUTLER, Q.C.: Mr. Browne at this point was referring
29 to the various joint committees whose work was
30 summarized in answer to a question posed by the
31 Consumer Advocate in **CA-201**. Did you sit on any of
32 those committees, Mr. Reeves?

33 MR. REEVES: I sat on the overall Steering Committee and
34 represented Hydro (inaudible).

35 MS. BUTLER, Q.C.: And this work was done in the period
36 '95 to '98, I believe.

37 MR. REEVES: The actual Steering Committee work started
38 around 1997. There was some correspondence or liaison
39 with the two utilities prior to the initiation of this steering
40 committee.

41 MS. BUTLER, Q.C.: Now, there were many committees of
42 course. I'd like to look at the work of at least one. I wonder
43 can we see **CA-201**, and I think you do have to go to the
44 hard copy, but we'll just check. The document I'm looking
45 for is at Tab 11. Do you have that, Mr. Reeves? Thanks.
46 This is the work of the Inventory and Common Steers
47 Committee.

48 MR. REEVES: Probably before we get into that if I could
49 just give a very brief overview of the actual steering
50 committees and task groups. I'm not sure if everybody
51 understands this.

52 MS. BUTLER, Q.C.: No problem. I wonder, Mr. Reeves,
53 can you just get the mic a little closer to you? I'm losing
54 you a bit there. Thanks.

55 MR. REEVES: My voice doesn't carry well. Sorry about
56 that. I don't know if you got a volume control here or
57 something. That's what you need. As I was saying, the
58 Steering Committee started in 1997 and one of the first tasks
59 we took upon ourselves was to develop task groups, as we
60 called them, and in the binder which we have in front of us,
61 I guess, is the results or partial results of the 15 task groups
62 that we set up. One of those task groups had a,
63 subcommittees of four, and the Steering Committee
64 basically, after giving assignments to the task group, we
65 wanted them to review the possible coordination of the two
66 utilities and to come back with a report to the Steering
67 Committee, and it was always the intent of the Steering
68 Committee that we would complete a final document which
69 would summarize all of the activities of the steering, of the
70 task groups, and present that to both utilities. What
71 you've pointed to here is one of the task groups, and it is
72 not a report that was generated by the Steering Committee
73 per se but it was presented to the Steering Committee, so I
74 just wanted to clarify, that's all.

75 MS. BUTLER, Q.C.: I did understand that, but thank you.

76 MR. REEVES: Okay.

77 MS. BUTLER, Q.C.: So this is a report that would have
78 been fed up to you.

79 MR. REEVES: That's correct, yes, to our committee.

80 MS. BUTLER, Q.C.: Thank you. Can you look, please, at
81 page two, the point one at the bottom of the page, and
82 perhaps just read for us there the, I guess the first seven
83 lines? You'll end with the word "measure." It's under
84 "Finding."

85 MR. REEVES: Page two, starting where?

86 MS. BUTLER, Q.C.: Point one, "Combining purchase
87 orders."

88 MR. REEVES: Yes, that's correct, yes.

89 MS. BUTLER, Q.C.: The "Findings" there, the first seven
90 lines, I think it is. It starts with, "In reviewing."

91 MR. REEVES: "In reviewing the subject of combining the
92 purchase of material, it was recognized that both utilities
93 have been involved in joint purchase arrangements with
94 the other Atlantic utilities. Newfoundland Power has
95 participated in a high number of these initiatives with,"
96 sorry. "Newfoundland Power has participated in a higher

1 number of these initiatives than Newfoundland Hydro. The
2 experience provided by the joint Atlantic purchases
3 demonstrates that the mere act of combining quantities did
4 not provide significant cost advantage. The significant
5 opportunity in this area is standardization of product, not
6 only in their general engineering, but to their specific
7 options, packaging and unit of measure."

8 MS. BUTLER, Q.C.: Okay, thank you. So both
9 Newfoundland Power and Hydro have been involved in
10 joint purchases.

11 MR. REEVES: That is ... my understanding again, this is
12 not an area that I have direct involvement with, but my
13 understanding from talking to our purchasing people and
14 materials management people, that we did participate with
15 the Atlantic utilities to try to come to arrangements for the
16 joint purchases, yes.

17 MS. BUTLER, Q.C.: And as indicated here in the report,
18 Newfoundland Power had participated in a higher number
19 than Hydro.

20 MR. REEVES: That's what the report says.

21 MS. BUTLER, Q.C.: And the opportunity recognized by
22 the work of this committee was in the area, standardization
23 of product.

24 MR. REEVES: That's correct, yes.

25 MS. BUTLER, Q.C.: Now, looking at page three then,
26 paragraph two, "The committee reviewed," I wonder if you
27 could just read that paragraph for us?

28 MR. REEVES: "The committee reviewed the procurement
29 activities of each utility and identified a number of
30 differences in practices. Newfoundland Power is clearly
31 concentrated on areas such as strategic alliances, supplier
32 development and a focus on suppliers providing value-
33 added services, all designed to reduce material overheads.
34 To achieve these goals, Newfoundland Power directs its
35 procurement activities in a less policy-orientated manner,
36 allowing them to respond quickly to specific initiatives.
37 They concentrate on total value, total value analysis of
38 bids rather than just bid prices. Hydro intends to move in
39 this direction over the next five years, however, is currently
40 policy orientated in its procurement methodology and
41 concentrates on low price purchases consistent with
42 specifications. Hydro is no longer restricted by *The Public*
43 *Tendering Act*, however, materials in excess of \$25,000
44 combined continue to be publicly tendered. Hydro in
45 general uses one or two year purchase orders for most of
46 their inventory products and is currently issuing only
47 short-term orders pending installation of new purchasing
48 and inventory software."

49 MS. BUTLER, Q.C.: Okay. So, Mr. Reeves, as indicated

50 there Hydro intended, and this is February of 1998, to move
51 towards total value analysis of bids over the next few
52 years. That was what was indicated here?

53 MR. REEVES: That's what is indicated here.

54 MS. BUTLER, Q.C.: Did Hydro do so after February '98?

55 MR. REEVES: My understanding that the Purchasing
56 Department has taken a number of initiatives since '97,
57 however, to be able to explain what they specifically are
58 right now, I can't do that. As I was saying, I'm not directly
59 responsible for materials management, however, I do know
60 that we are working, you know, my staff is working with
61 materials management to lower our cost of purchasing and
62 to bundle as much purchases together, to enter into long-
63 range, long-term arrangements with suppliers so that we
64 have to tender less. There are a number of initiatives our
65 materials management people are doing.

66 MS. BUTLER, Q.C.: To the extent that the issue is not your
67 area, can you tell me to whom I might be able to ask more
68 specific questions?

69 MR. REEVES: Of the witnesses that are called, the
70 witnesses responsible for materials management, the
71 person is not a witness so if there's more information that
72 you require on that, I can probably take it on myself that we
73 can provide something to you.

74 MS. BUTLER, Q.C.: Well, what I'm interested in is in terms
75 of the initiatives relevant to this intention stated in
76 February of '98, perhaps you could tell me, because you are
77 ultimately responsible for the budget in your area, with
78 what success, with what financial success the initiatives
79 that you have spoken of broadly has Hydro had since '98.

80 MR. REEVES: From my perspective from TRO, I know that
81 our materials management people have put in place
82 standing orders so that we can, when we require materials,
83 we can go directly to a supplier rather than have to raise
84 individual purchase orders and therefore go for tenders
85 frequently. I also know that we've arranged for, I guess
86 with manufacturers, in particular one that I'm familiar with
87 is like with one of the suppliers of diesel units, where we
88 have an arrangement with them so that if the materials that
89 are required, we can go directly to them and we can also go
90 directly to them for services that we require. I know that we
91 are doing things to lessen the burden of having to go for
92 tendering more frequently, and there are a number of
93 initiatives that we've done to accommodate that.

94 MS. BUTLER, Q.C.: Well the tendering issue is perhaps my
95 next point flowing from that paragraph, but I wonder at this
96 point would it be fair, Mr. Reeves, to ask you for an
97 undertaking in relation to providing us with the information
98 on the initiatives and the financial success of the initiatives
99 to which you refer? Are you prepared to do that?

1 MR. REEVES: Yes.

2 (10:15 a.m.)

3 MS. BUTLER, Q.C.: Thank you. Now in that same
4 paragraph it did say that Hydro was no longer restricted by
5 *The Public Tendering Act*, however, at that point materials
6 in excess of \$25,000 continue to be publicly tendered. Has
7 Hydro since discontinued tendering for materials in excess
8 of \$25,000?

9 MR. REEVES: No. We still publicly tender in excess of
10 \$25,000.

11 MS. BUTLER, Q.C.: And can you tell us why you still do
12 that, notwithstanding that you're no longer restricted by
13 *The Public Tendering Act*?

14 MR. REEVES: Our company feels that to get the best
15 prices for the materials and services that we provide, we
16 feel that public tendering is the best option to take.

17 MS. BUTLER, Q.C.: And in terms of how that decision was
18 reached, and when you say that you consider it to be in the
19 best interest, was there a cost benefit analysis done on
20 that?

21 MR. REEVES: I don't think there was a cost benefit
22 analysis but from dealing with the market that we go out on
23 a year-to-year basis, either on major capital work, these
24 markets can change from year to year. One year you may
25 have a market that is, say there's not a lot of work on the go
26 and you get really good prices, where if you enter into a
27 long-term arrangement with a particular contractor for
28 something, you may not be always getting the best bang
29 for your buck, so we feel that public tendering is still a
30 preferred option for us.

31 MS. BUTLER, Q.C.: Look in the same report to the issue of
32 scrap metals, if I might, on page four, and here I wonder if
33 you'd be kind enough to read the paragraph. I don't think
34 we need to get into the actual details of the scrap wire, etc.,
35 in those four bullets underneath, but just the opening part
36 of the paragraph and then really the balance of the full
37 paragraph, which will go over onto page five.

38 MR. REEVES: Okay. The paragraph that starts with
39 "Newfoundland Power disposes"?

40 MS. BUTLER, Q.C.: Thank you.

41 MR. REEVES: ... "disposes of all scrap wire, metal, street
42 lights, transformers, etc., through a five-year contract with
43 Central Metals. Scrap is picked up by the contractor from
44 each of Newfoundland Power's area warehouses on a
45 monthly or bimonthly basis. Wire and miscellaneous metal
46 are sold by type, by kilogram, all other items on a per unit
47 basis. Prices paid are according to the following schedule.
48 Hydro disposes of all the same items with the exception of

49 transformers through public auction held twice per year at
50 Bishop's Falls. The prices received for each category are
51 not available as the items are auctioned as one lot with
52 specific rates or quantities unknown. Transformers are sold
53 from the Bishop's Falls location to Central Metals at \$10 per
54 unit." Keep reading?

55 MS. BUTLER, Q.C.: Just keep going, thanks.

56 MR. REEVES: "Power volume of scrap appears to be
57 higher than Hydro's. However, because Hydro does not
58 track scrap volumes, this could not be quantified. It has
59 been suggested that Power receive a higher net return on
60 their scrap sales because the scrap dealers know exactly
61 what they are buying. When Power changed to its current
62 method, which requires the scrap dealers to tie their prices
63 paid to metal markets, Power's return on scrap sales
64 increase by over 200 percent."

65 MS. BUTLER, Q.C.: Mr. Reeves, flowing from that
66 paragraph, because we've seen a reference that at this point
67 anyway, February of '98, Hydro was not tracking scrap
68 volumes and was only selling in lots. Since the report
69 identifies that Newfoundland Power had returned, I'm sorry,
70 had improved its return on scrap by 200 percent in their
71 method, has Hydro adopted Newfoundland Power's
72 method?

73 MR. REEVES: My understanding is that from again, from
74 working through this committee and dealing with materials
75 management people, that we have changed the way we
76 dispose of our scrap to accommodate something to the way
77 that Newfoundland Power is doing it.

78 MS. BUTLER, Q.C.: Your understanding on that is from?

79 MR. REEVES: The person who sat on this committee and
80 helped develop this report. That's my understanding.

81 MS. BUTLER, Q.C.: And your understanding is that
82 you've moved towards Newfoundland Power's standard or
83 you're at Newfoundland Power's standard?

84 MR. REEVES: That I would not be able to say. All I
85 remember is that we were moving towards it. We took ...
86 that was one of the things that came out of the
87 coordination that we shared information back and forth,
88 and this is one of the areas where we probably learned
89 something from Newfoundland Power and I know that, you
90 know, the converse is true as well. So my understanding is
91 that if we didn't move all the way there, we were working
92 towards that.

93 MS. BUTLER, Q.C.: Okay. Well I wonder if I might just
94 record an undertaking for you just to provide me with the
95 status of that?

96 MR. REEVES: Yes.

1 MS. BUTLER, Q.C.: Thank you very much. Mr. Reeves,
2 did you also participate with a joint committee with
3 Newfoundland Power in 1999 on inter-utility reliability with
4 Mr. Earl Ludlow, Mr. John Evans and Mr. Dave Collett?

5 MR. REEVES: In 1999, this is ... I'm not sure of the title that
6 you call it. Inter-utility?

7 MS. BUTLER, Q.C.: Reliability, I thought.

8 MR. REEVES: Yes, I did, yes, yes.

9 MS. BUTLER, Q.C.: Okay. And can you tell the panel,
10 please, what was the work of this committee and the result
11 of that committee's work?

12 MR. REEVES: This committee was initiated, I guess, by the
13 two presidents of our companies with the intent that we
14 would be able to exchange information regarding the
15 reliability of service to our customers. The intent was to
16 set targets for ourselves and meet on a monthly basis to
17 monitor our performance towards those targets. It was also
18 intended to be able to exchange, I guess, reliability
19 information, technical information if required, and other
20 pertinent information. It was a more formalized approach
21 from really what was taking place, I guess, over time,
22 because there is a close relationship between ourselves and
23 our customers, in particular Newfoundland Power.

24 MS. BUTLER, Q.C.: And the results of that committee's
25 work, Mr. Reeves?

26 MR. REEVES: That committee is still ongoing, by the way,
27 and from my perspective, and I can only speak from my
28 own perspective, I think that the committee has been
29 reasonably successful. Our relationship with my
30 counterparts in Newfoundland Power, while it was good
31 before, I think it's much closer than it was before, and I
32 think that we now have a better understanding of the
33 things that can affect both our system and theirs and we do
34 exchange a fair bit of information.

35 MS. BUTLER, Q.C.: Thank you. I want to turn now, if I
36 can, to the first of the two budgets for which you are
37 ultimately responsible, and that is the operating budget.
38 Mr. Reeves, out of the total labour force of Hydro, the
39 Transmission and Rural Operation Division has about half
40 of the labour force. Is that correct?

41 MR. REEVES: When you say labour force, you mean total
42 force or the total force of Hydro? We have about 380. I
43 think our complement now is about 855 or something.

44 MS. BUTLER, Q.C.: That's right. Those are the figures that
45 was used ... maybe we could look at **NP-6, Exhibit 3(E)**.

46 MR. REEVES: Did you say **NP-6**?

47 MS. BUTLER, Q.C.: Yes, yeah. Sorry, I think this one is
48 okay though. We can use this **Exhibit NP-6**, page four of
49 four. For the full year 2000, TRO had permanent positions
50 411 and 82 temporaries.

51 MR. REEVES: That's correct, yes.

52 MS. BUTLER, Q.C.: Out of the total combined labour force
53 of 891 plus 188. Looking at permanents alone, 411 of 891,
54 and as of May 2000, permanents alone 380 out of a total of
55 855. So if my math is correct, about what, 45 percent?

56 MR. REEVES: That's a figure that I usually use in my mind,
57 yes.

58 MS. BUTLER, Q.C.: Right, thank you.

59 MR. REEVES: At least on the permanents, yeah.

60 MS. BUTLER, Q.C.: Can you tell me, Mr. Reeves, please,
61 how much your division's annual operating budget for the
62 test year 2002 would be?

63 MR. REEVES: Just in rough figures I think it's around \$34
64 million or something, I think it is.

65 MS. BUTLER, Q.C.: And I wonder is there an exhibit that
66 you can refer me to that actually shows the breakdown of
67 TRO's budget, that's the operating budget, for 2001 and
68 2002?

69 MR. REEVES: No, I don't think there is actually.

70 MS. BUTLER, Q.C.: I wonder could you produce such an
71 exhibit for me so that I can actually see the breakdown of
72 the \$34 million in operating budget that is TRO?

73 MR. REEVES: So approximately \$34 million, you would like
74 it broken down how?

75 MS. BUTLER, Q.C.: I'll show you how we can break it
76 down, to be consistent. You can look at **NP-24**. In **NP-24**
77 you attached a series of Hydro's operating and capital
78 budgets which were submitted to Hydro's Board for
79 approval. You can pick either of them if they are
80 electronically scanned. Alright. They're incomplete.
81 Unfortunately we have to get out a hard copy, Mr. Reeves.

82 MR. REEVES: I've got a copy of that here.

83 MS. BUTLER, Q.C.: Do you? Okay. Perhaps in the
84 interest of us all referring to the same document, you could
85 refer to 2001, which should be the last one. So we should
86 be looking at the last report in that large binder.

87 MR. REEVES: October 31st, 2000?

88 MS. BUTLER, Q.C.: That's the date of the report and it's for
89 the 2001 year, correct?

90 MR. REEVES: That's correct, 2001 operating and capital.

91 MS. BUTLER, Q.C.: Oh, why don't we just wait for the
92 Commissioners to catch up with us here?

- 1 COMMISSIONER SAUNDERS: What page are we at?
2 MS. BUTLER, Q.C.: Page six of that ...
3 MR. REEVES: It's right towards the end of that actual ...
4 MS. BUTLER, Q.C.: Each of the reports in that binder are
5 separated by a blue sheet. Get to the last blue separator
6 and then go to page six of the last document. What I'm
7 asking for, Mr. Reeves, if I might, is your budget broken
8 down this way by salaries, materials maintenance, office
9 supplies, etc.
10 MR. REEVES: What page are you on?
11 MS. BUTLER, Q.C.: I'm on six. Can we break down your
12 division's budget in the same way?
13 MR. REEVES: Yes, that should be achievable, yeah.
14 MS. BUTLER, Q.C.: Thank you very much. And while we
15 have that page in front of us, I will be referring back to it a
16 little later, but when I say, or when you say there materials
17 maintenance, is that the same as systems equipment
18 maintenance?
19 MR. REEVES: That's my understanding, yes.
20 MS. BUTLER, Q.C.: Alright. We can put that binder away
21 for the moment.
22 MR. REEVES: (inaudible)
23 MS. BUTLER, Q.C.: Thank you. And, Mr. Reeves, I think,
24 just so that we're clear, I have an undertaking from you
25 then to produce your TRO budget in that format for 2001
26 and 2002 test year?
27 MR. REEVES: That's correct, yes. 2001, 2002, did you say?
28 MS. BUTLER, Q.C.: Yes. If possible, if the systems
29 equipment maintenance and salaries can be sub-accounted,
30 that would be helpful as well. The other categories I'm not
31 too concerned about.
32 MR. REEVES: What type of accounts would you be
33 interested in?
34 MS. BUTLER, Q.C.: Well, if there are sub-accounts under
35 systems equipment maintenance and salaries, then perhaps
36 we could just see them.
37 MR. REEVES: Okay.
38 MS. BUTLER, Q.C.: Alright. I'll turn now if I might to **NP-**
39 **179**, page four of six, starting with line 11, I believe. What's
40 being described here, Mr. Reeves, is the actual operating
41 budget process. Could you just ...
42 MR. REEVES: Did you say page four?
43 MS. BUTLER, Q.C.: Yes.
44 MR. REEVES: Okay.
45 MS. BUTLER, Q.C.: Could you just read for us, please,
46 lines 11 to 13?
47 MR. REEVES: "The basic budget reporting unit is called a
48 business unit. In total there are approximately 150 business
49 units which need to be budgeted. A budget is prepared on
50 each of these units on an account-by-account basis. The
51 operating budget process" ...
52 MS. BUTLER, Q.C.: That's okay, that's okay. We don't
53 need to read the next one. Just scroll down, if you might,
54 to lines 23 to 24. Yeah, okay. "Staff in the areas prepare
55 their budgets and then input the information on line to the
56 J.D. Edwards system. Budget Department staff assists in
57 the process by giving direction and guidance." Correct?
58 MR. REEVES: That's correct, yes.
59 (10:30 a.m.)
60 MS. BUTLER, Q.C.: So we have 150 individual business
61 units at the basis of this process, inputting their data onto
62 the system.
63 MR. REEVES: That's right. That's throughout Hydro.
64 MS. BUTLER, Q.C.: I'm sorry?
65 MR. REEVES: Throughout Hydro.
66 MS. BUTLER, Q.C.: Yes. And my question is, how many
67 of those 150 business units are in TRO?
68 MR. REEVES: I'm not sure of the exact number. Quite a
69 number. We would have business units in the three
70 regions and each region would have a number of business
71 units which ...
72 MS. BUTLER, Q.C.: Okay. Can you just ...
73 MR. REEVES: ... basically made up of assets. Typically
74 Bishop's Falls, which would probably be the more
75 complicated one because it's a larger region, we would have
76 asset business units. There's an asset business unit for
77 transmission and distribution. There's another one for
78 terminals and generation. Then we would have an asset
79 business unit or a labour unit, which is another business
80 unit. We would have common ones with like common
81 billings. We would have one for manager, there would be
82 one for transportation, transmission labour. There would
83 be a number of them. The exact number I'm not sure but it's
84 probably, you know, tens, you know, like twenties or
85 thirties or forties. I'm not sure what the number is all
86 totalled.
87 MS. BUTLER, Q.C.: So in your division, TRO, of the 150
88 business units, you're estimating that what, you maybe
89 have ...
90 MR. REEVES: I'm not sure how many business units we
91 would have. It would be hazardous of me to guess that

1 right now.

2 MS. BUTLER, Q.C.: Okay. I wonder could we just record
3 an undertaking for you to tell me how many of these 150 are
4 under your responsibility? Alright. Now back to line 17
5 and 18 of the same document, same page, you indicate
6 there ... just scroll up just a tiny bit there, Mr. O'Rielly.
7 Thanks. You're indicating there that, "The operating
8 budget process normally begins in March with a detailed
9 set of budget instructions forwarded to directors and
10 managers and that each area has approximately four weeks
11 to prepare their budgets."

12 MR. REEVES: That's correct.

13 MS. BUTLER, Q.C.: Okay. In terms of seeing what
14 happens next, I wonder if we could refer now to the **Grant**
15 **Thornton Report** for 2001 on page four?

16 MR. REEVES: What year is that report, 2001?

17 MS. BUTLER, Q.C.: Yes. It will come up on the screen
18 actually, Mr. Reeves. Page four, the first bullet, there you
19 go, under "Methodology." Could you just read that first
20 bullet for us there, please, starting with "Operating costs."

21 MR. REEVES: "Operating costs are budgeted at the
22 business unit level where each unit prepares its respective
23 budget on an account-by-account basis. Personnel in the
24 individual units enter this information on line to the J.D.
25 Edwards system. These budgets are then subject to
26 various levels of review and approval by managers,
27 directors, vice-presidents and finally the Management
28 Committee.

29 MS. BUTLER, Q.C.: Okay. So once each of the 150
30 business units completes their budget, there's a number of
31 levels of review of each of the operating unit budgets.

32 MR. REEVES: That's correct.

33 MS. BUTLER, Q.C.: And can you explain to me what
34 happens to the budgets from the time that the individual
35 business units complete their budget till the time that you
36 see it as Vice-President?

37 MR. REEVES: The operating budgets would be input, as
38 we say, by the business unit managers. There would be a
39 consolidated report which would be taken off the J.D.
40 Edwards system. The manager in the region would then
41 review their regional budget with their asset managers,
42 labour managers. Once that's completed and any
43 adjustments are made, then the next step would be that the,
44 in my particular case, the three regional managers' budgets
45 would be amalgamated together and there would be a
46 review done by TRO operations in this particular case and
47 that then would be reviewed by the Director, Mr. Vatcher.
48 Concurrently with that, Mr. Martin and Mr. Kiell would be
49 doing up their reviews. Once that level is finished, then the

50 three of their departments are amalgamated into one report
51 which I then review.

52 MS. BUTLER, Q.C.: So the only one you actually get to
53 see is the final report that's fed up through the work of Mr.
54 Vatcher, Martin and Kiell.

55 MR. REEVES: I see a consolidated one but if we, in my
56 review, we go through it, we need to get down to lower
57 details, then we can do that as well.

58 MS. BUTLER, Q.C.: But you would not review each of the
59 individual 150 business unit budgets.

60 MR. REEVES: No, I would not.

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

62 MR. REEVES: At least the ones that are in my division,
63 whatever that number is.

64 MS. BUTLER, Q.C.: What happens, Mr. Reeves, if you find
65 an issue or an item in one of the portions of the budget
66 that's been, budgets that have been consolidated into this
67 report for you, that you feel needs to be addressed? What
68 is the process after that?

69 MR. REEVES: What I would do is speak to that particular
70 director and they would go back and get the appropriate
71 information and we would have a further discussion on it
72 to resolve the particular issue that might be at hand.

73 MS. BUTLER, Q.C.: And this entire process, according to
74 **Grant Thornton's Report**, page four, just above the first
75 bullet there, he describes as "comprehensive and detailed,
76 commencing with the issue of instructions in March,
77 normally finalized and approved by the Board in October."
78 So we're talking about a nine-month process.

79 MR. REEVES: That's ... it's approved by our Board of
80 Directors. As we indicated, I think we just talked about
81 that, the actual preparation of the budget can take up to
82 four weeks by the people at the business unit level.

83 MS. BUTLER, Q.C.: That's right, at the lowest level.

84 MR. REEVES: Management, which I am a member, we
85 would normally review it, if my memory serves me right,
86 probably in June. Once the budget is finalized at that level,
87 then that's used in the Financial Department to feed into
88 other models that they have to run to get ready for
89 presentation to the Board of Directors, but the actual
90 preparation, say, in TRO, would probably scan at least four
91 weeks, probably be another two or three weeks on top of
92 that to get finalized in preparation of going to the
93 Management Committee.

94 MS. BUTLER, Q.C.: Alright. But I think the author here is
95 addressing the entire process in his description of what
96 happens between March and October.

1 MR. REEVES: That's correct.

2 MS. BUTLER, Q.C.: Alright. Now scrolling up to the top
3 of that page, if I might, the author is addressing the
4 forecasting methodology and assumptions ... I need to take
5 this really slowly. Can you just read for me the sentences
6 down to, well, you can read the whole paragraph if you
7 wish.

8 MR. REEVES: The first paragraph?

9 MS. BUTLER, Q.C.: Please, yeah.

10 MR. REEVES: "The Company's 2001 budget forecast of
11 revenue and expenses were developed to the normal
12 operating budget process which commences in the spring
13 of 2000 and was finalized and approved in October of that
14 year. Consequently, no actual results for 2001 are
15 incorporated in the forecast."

16 MS. BUTLER, Q.C.: I wonder if I might just stop you there.
17 The first point is that in terms of the budget which was
18 approved by the Hydro Board in October of 2000 for the
19 2001 year, obviously no actual results for 2001 could be
20 incorporated in that document. Reading on from that, "The
21 2002 test year forecast."

22 MR. REEVES: "The 2002 test year forecast for revenue and
23 expenses used the 2001 budget as a base and adjusts for
24 any known or planned changes in operating requirements
25 and work plans for 2002."

26 MS. BUTLER, Q.C.: Okay. So we can just stop there. The
27 test year forecast, and this is a forecast that's been
28 presented to this Board in this application, correct?

29 MR. REEVES: That's my understanding.

30 MS. BUTLER, Q.C.: Right. Used the 2001 budget, which
31 was approved by your Board in October of 2000.

32 MR. REEVES: That's correct.

33 MS. BUTLER, Q.C.: And which does not incorporate
34 actuals for 2001.

35 MR. REEVES: That's my understanding. Now obviously
36 the one who has the most control over this budgetary
37 process is probably our Chief Financial Officer, Derek
38 Osmond, but as I understand it, what you're saying is
39 exactly right.

40 MS. BUTLER, Q.C.: Okay. So there's been no adjustment
41 in the 2002 test year forecast for the actuals for 2001. Am
42 I correct?

43 MR. REEVES: That's my understanding but I don't have
44 responsibility, you know, in TRO for that only ...

45 MS. BUTLER, Q.C.: Now can you look back, please, to **NP-**
46 **24**, which were the series of budget, yeah, operating and
47 capital budgets referred to the Board. Commissioners, I can
48 tell you we did copy out of that huge binder the pages that
49 we're going to be referring to in the '99, 2000 and 2001
50 operating capital budgets. If it's easier we can just pass
51 them to the Clerk to be handed out.

52 MR. REEVES: I've got a binder but this is easier. So we're
53 still in this binder.

54 MS. BUTLER, Q.C.: Mr. Reeves, can you go to the 2001
55 budget first, which was approved by Hydro's Board in
56 October of 2000, and it's page six of the document that I
57 think we need to see.

58 MR. KENNEDY: Sorry, what year, counsel, please?

59 MS. BUTLER, Q.C.: 2001. Relative to what I asked you
60 earlier, the reference here to materials maintenance, which
61 is the second entry under the expense group, is system
62 equipment, equipment maintenance.

63 MR. REEVES: Is included in that, that's correct.

64 MS. BUTLER, Q.C.: Okay. And for the 2001 budget, what
65 is carried here is the figure of 16.555 million.

66 MR. REEVES: That's correct, and that would be inclusive
67 for, not only TRO but for all of Hydro, which would include
68 generation link for Holyrood and for all our hydraulic
69 plants.

70 MS. BUTLER, Q.C.: That's fine, thank you. And the total
71 for the year is shown as net operating expenses, 87.011
72 million.

73 MR. REEVES: That's correct, yes.

74 MS. BUTLER, Q.C.: Okay. And you can just keep that
75 document in front of you for a moment. I want to refer now
76 to another exhibit, which is **NP-3**, page three, and this is the
77 document ... Mr. O'Rielly, can you just hold on one second
78 and look at the question? The question that was asked
79 was, "Provide details of the revenue requirement for each
80 of the years '92 to 2002," and the answer, which is a table ...
81 okay, you have to scroll up because the line I'm looking for
82 is line 62. Okay. Line 62 is systems equipment
83 maintenance, and for 2002 the figure there is, I'm sorry,
84 2001, \$17.484 million at line 62.

85 MR. REEVES: Yes, for 2001 the estimate on line 62 is
86 \$17,484,000.

87 MS. BUTLER, Q.C.: Hopefully \$17,484,000.

88 MR. REEVES: Sorry.

89 *(10:45 a.m.)*

90 MS. BUTLER, Q.C.: What I want to just ask you, Mr.
91 Reeves, is how you could explain the difference between
92 that figure, we can keep on the screen, and the one which

1 you just referred to for me in the 2001 budget which was
2 approved by your Board of Directors for the same entry at
3 16.555 million. There's a difference of about \$929,000
4 between the two figures.

5 MR. REEVES: As I indicated, this is a consolidated figure
6 for all of Hydro which I don't have the information on that,
7 I'm sorry.

8 MS. BUTLER, Q.C.: Can I just get an undertaking from you
9 to explain the discrepancy or to have somebody else
10 explain the discrepancy for us?

11 MS. GREENE, Q.C.: I don't know if it would be helpful, but
12 Mr. Roberts, who's the Corporate Controller, is the witness
13 who will speak to the overall variances for Hydro for ... the
14 variance that is here that is being questioned is a Hydro
15 variance, system equipment maintenance, for more than
16 one division, and any questions concerning that type of
17 question, in the past the appropriate witness has been the
18 Corporate Controller and that had been Hydro's plan for
19 this hearing as well.

20 MR. NOSEWORTHY, CHAIRMAN: Is that satisfactory?

21 MS. BUTLER, Q.C.: Well, Mr. Roberts is not testifying for
22 some time and I think these figures will become relevant
23 prior to that, so if it's not too much trouble, I wouldn't mind
24 the undertaking from this witness to explain the
25 discrepancy so that at least in terms of planning for cross-
26 examination I think that would be helpful, Mr. Chair.

27 MS. GREENE, Q.C.: I'd like to get it clear. When we offered
28 the witnesses to speak to his area of responsibility, if Ms.
29 Butler expects our witness to speak to everything that's
30 going on in the other divisions, I don't think that's a fair ...
31 we will provide an analysis of the request, which is a
32 reasonable request to explain the variance. We would offer
33 Mr. Roberts to explain it on an overall corporate basis and
34 Mr. Reeves can speak to the ones in TRO, if that's
35 satisfactory.

36 MS. BUTLER, Q.C.: I do accept that, Mr. Chairman. The
37 difficulty is, of course, that arising from the first
38 undertaking this morning, we don't have a document that
39 shows us the breakdown of the budget in TRO. I have an
40 undertaking to give me that. Once I have that, it'll be clear
41 to me how much of systems equipment maintenance in the
42 overall budget is in Mr. Reeves' TRO budget, but until I see
43 that, I don't know whether it's the entire figure or some
44 portion of it.

45 MS. GREENE, Q.C.: We obviously will provide it. If we
46 had been asked that among the thousands of questions we
47 have been asked, we would have provided it prior to today.

48 MS. BUTLER, Q.C.: Mr. Chairman, again I accept that had
49 it been asked it would have been provided. Hydro has

50 answered Newfoundland Power's questions. I don't think
51 anybody should be faulted for missing one in a thousand
52 questions.

53 MS. GREENE, Q.C.: But even if it had been asked last
54 week, we would have had it ready for today. We will
55 provide it as we've agreed to do.

56 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Mr. Reeves
57 ...

58 MR. KENNEDY: If I can just be clear on what is being
59 provided, the undertaking itself.

60 MS. BUTLER, Q.C.: As I understand it, it's just the
61 explanation of the discrepancy of \$929,000 between the
62 systems equipment maintenance at line 62 of the 2001 test
63 year budget provided in the application versus the \$16.555
64 million figure for systems equipment maintenance in the
65 budget that Hydro approved for the same year.

66 MS. GREENE, Q.C.: And the other undertaking relates to
67 a breakdown of the TRO budget by the categories that are
68 referred to, for example, on page six of our overall budget.

69 MR. KENNEDY: That was the previous, yeah.

70 MS. GREENE, Q.C.: That was the previous undertaking.

71 MR. KENNEDY: I was going to suggest that after this
72 witness is finished, after Ms. Butler is finished her cross of
73 this witness, if we could just go back over the undertakings
74 that have been provided so that we'll make sure we have
75 them all.

76 MS. BUTLER, Q.C.: Mr. Reeves, as the individual
77 ultimately responsible for TRO's operating budget, can you
78 tell the Board whether your budget for systems equipment
79 maintenance changed between October of 2000, when the
80 first of these documents was prepared, and May of 2001,
81 when the second of the documents was prepared?

82 MR. REEVES: If I understand your question correctly, from
83 the original time that we did our budget, which was done
84 for the original filing ...

85 MS. BUTLER, Q.C.: No. The first time the budget was
86 done was for the Board of Directors.

87 MR. REEVES: For the Board of Directors for 2001?

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

89 MR. REEVES: Okay. Which was last ... which was
90 completed last year and approved last fall.

91 MS. BUTLER, Q.C.: October 2000, yes.

92 MR. REEVES: And where we are right now with our
93 budget, is that what you're saying?

94 MS. BUTLER, Q.C.: Well, where this document on the

1 screen is, which was May of 2001, is presented to the
2 Board, the figures overall changed by \$929,000. In your
3 division are you aware whether your division budget for
4 systems equipment maintenance changed in that period?

5 MR. REEVES: Off the top of my head, I'm sorry, I can't.

6 MS. BUTLER, Q.C.: While we have that document in front
7 of us, I'll just point out that the total net operating expenses
8 for the year, which is at line 80, 2001 ... I'm sorry, it's at line
9 82, is it ... is \$90.204 million, whereas the comparable figure
10 on your budget presented and approved by your Board of
11 Directors was \$87.011 million, a difference of about \$3
12 million. I know this is potentially Mr. Osmond's area, but
13 can you offer any explanation for the \$3 million difference?

14 MR. REEVES: Off the top of my head, I'm sorry, I can't.

15 MS. BUTLER, Q.C.: Do you accept, however, Mr. Reeves,
16 that the test year calculations will scale off the 2001 figures
17 in the exhibit on the screen as opposed to the budget that
18 you presented to your Board of Directors in October of
19 2000?

20 MR. REEVES: It's my understanding that the test year,
21 what we have put in, is a scale of the 2001 budgets.

22 MS. BUTLER, Q.C.: Yes, but it's the 2001 budget that's on
23 your screen.

24 MR. REEVES: I can't comment on that, I'm sorry.

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

26 MR. NOSEWORTHY, CHAIRMAN: Ms. Butler, I'm going
27 to have to ask you for an undertaking now. I would like to
28 recess ten minutes early, if you don't mind ...

29 MS. BUTLER, Q.C.: No problem.

30 MR. NOSEWORTHY, CHAIRMAN: ... at 10 to 11, and we'll
31 reconvene at 11:05. Is that satisfactory?

32 MS. BUTLER, Q.C.: That's fine. Thank you.

33 MR. NOSEWORTHY, CHAIRMAN: Thank you.

34 *(break)*

35 *(11:15 a.m.)*

36 MR. NOSEWORTHY, CHAIRMAN: I apologize to you,
37 Ms. Butler, and others, for that unscheduled interruption
38 and probably giving your line of questioning inappropriate
39 timing, as well. My apologies.

40 MS. BUTLER, Q.C.: Not at all.

41 MR. NOSEWORTHY, CHAIRMAN: You can continue.

42 MS. BUTLER, Q.C.: I'm going to move now, if I can, Mr.
43 Reeves, to the **Grant Thornton 2001** report. When these
44 reports, which are annual, of course, are received at Hydro

45 do you review them as Vice-President of your area?

46 MR. REEVES: Yes, I do.

47 MS. BUTLER, Q.C.: Okay. And page 28, if I might. I think
48 we'll see here that he is discussing system equipment
49 maintenances, which again, is your area?

50 MR. REEVES: For TRO, that's correct, yes.

51 MS. BUTLER, Q.C.: For TRO. The second-last paragraph
52 on that page which starts with the words, "The decrease."
53 Okay, there you go. He's talking about an exhibit, 4.1,
54 which we'll look at in a moment. But he says that the
55 decrease noted for your division for 2001 and 2002 as
56 compared to 2000 was primarily due to certain nonrecurring
57 extra maintenance requirements in central and Labrador
58 regions in 2000. And he details them there. These are
59 obviously maintenance requirements that you'd be able to
60 speak to?

61 MR. REEVES: That's correct, yes.

62 MS. BUTLER, Q.C.: Okay. If we might just look, then, to
63 Exhibit 4.1 to see the figures that Mr. Brushett is referring
64 to? Is it possible to enlarge that slightly? Okay, that's fine.
65 Thank you, Mr. O'Rielly. Alright. System equipment
66 maintenance in TRO for 2001 was budgeted at \$5.967
67 million, is that right?

68 MR. REEVES: That's correct, yes.

69 MS. BUTLER, Q.C.: Since this is your area can you tell me,
70 and given that this document, of course, represents a
71 budget prepared at that time, whether the system
72 equipment maintenance portion of the TRO budget has
73 changed since this forecast?

74 MR. REEVES: Off the top of my head I think it has changed
75 but I can't give you that particular number.

76 MS. BUTLER, Q.C.: Okay. Can you undertake to give me
77 the number, though?

78 MR. REEVES: Yes.

79 MS. BUTLER, Q.C.: Thank you.

80 MR. REEVES: Which will be our latest forecast.

81 MS. BUTLER, Q.C.: Thank you. And given the change in
82 that number, then, can I assume that Hydro's final 2001
83 TRO actuals will vary from what we see here as 5.967
84 million?

85 MR. REEVES: They may, yes. Of course, this is October
86 and our forecast that we have on our computer system now
87 may be changed again, depending on what happens
88 between now and the end of the year.

89 MS. BUTLER, Q.C.: Okay. Well, given that this is your
90 area and you know, likely, what ... well, to the extent that's

1 possible, what may happen between October and
2 December, when you give me the new figure, the new
3 forecast figure for TRO for system equipment maintenance,
4 can you tell me whether you're expecting that to change
5 again after October based on anything in that area that you
6 might know as Vice-President?

7 MR. REEVES: What I will be able to give you is our best
8 guess at this point-in-time. Now, whether we have an ice
9 storm come ...

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

11 MR. REEVES: Whether we have lightening come, whether
12 there are more ... we have a failure of one of our units, there
13 is a lot of things that can happen between now and the end
14 of the year which I will not be able to guesstimate on.

15 MS. BUTLER, Q.C.: No. I appreciate that.

16 MR. REEVES: But it is our best guess at this point in time.

17 MS. BUTLER, Q.C.: Right. Thank you. In that same
18 document, Exhibit 4.1, we see the 1997 figures. In TRO
19 systems equipment maintenance was 3.76 million?

20 MR. REEVES: That's correct.

21 MS. BUTLER, Q.C.: Then 4.7 in '98; 4.5, '99; 8.6 in 2000,
22 which I think he explained, Mr. Brushett explained earlier in
23 the report. And then 2001, 5.9; 2002, 6.5. So excluding 2000
24 for a moment, which is the year Mr. Brushett explained in
25 the earlier part of his report, the TRO budget for system
26 equipment maintenance has grown from 1997 to 2001 by
27 about \$2 million and is expected to grow more, by another
28 500,000, for the test year 2002. Do you agree, Mr. Reeves,
29 that these are significant increases in the TRO budget for
30 system equipment maintenance in that period?

31 MR. REEVES: In this particular category, but there are
32 reasons for that.

33 MS. BUTLER, Q.C.: Okay. Perhaps you might give me the
34 reasons for the growth from 3.7 in '97 to 6.5 projected for
35 2002?

36 MR. REEVES: What you have to realize first, I guess, is
37 that included in all of these budgets is what we call an
38 underlying base, and that's the base that we use for our
39 routine and corrective maintenance. And I would guess in
40 all these budgets that base is around 3 to \$3.2 million.
41 Then on top, and for each year, there would be special
42 projects that we would have on in our operating regions if
43 we are going to do an overall diesel. Some of these are
44 quite expensive. We would call that a project. If we are
45 going to do some testing on our poles we would call it a
46 project. So, each year we would have different projects in
47 there that would accommodate for being above what I call
48 the base budget. In addition to that, in 2000, I think as

49 explained in this report, there was an amalgamation of
50 accounts whereby we rolled up into the maintenance
51 account, not only system equipment maintenance but we
52 included other things like maintenance material which is
53 used for transportation and buildings and grounds. So
54 from the difference between 1999 and 2000 you have a base
55 amount in 2000, you had the projects for that particular
56 year. We had the exceptional expenses for the gas turbine
57 and the Nain overhaul, and on top of that we had the roll
58 up of accounts from other areas. And the roll up of
59 accounts is around \$1.8 million. Now, that \$1.8 million
60 carries forward. So the \$1.8 million, in addition to what I
61 call our routine, is the base of the years 2000, 2001 and
62 2002. So really, what I'm saying is that for years 2000, 2001,
63 2002, what I would call the routine stuff would be the 3 to
64 3.2 that I mentioned, plus the 1.8, which gives us a base
65 around \$5 million. So that is our new base. And on top of
66 that base, then we put our projects. So in 2001 we have
67 projects such like the overhauled diesel plants. That's the
68 majority of the money that's in there, which is about \$1
69 million and a little bit. And in 2002 we have projects in
70 there of about \$1.5 million, which again, is the overhaul of
71 diesel plants. We are going to be doing some pole testing.
72 We are going to be doing some reconditioning of our
73 transformer, all our transformers in Bay d'Espoir, and there's
74 a fair bit of work that we're doing on the environment. And
75 that's just a representation of some of the projects that we
76 do. So we have a base and we build on that base. And in
77 2000, really what I'm saying is that the base went up by \$1.8
78 million. Now, the codes that were rolled up, obviously they
79 are lowered in their respective codes.

80 MS. BUTLER, Q.C.: Okay. I had understood the reason for
81 the anomaly, I'll call it, for the TRO budget for 2000, which
82 is significantly different from any other year on our exhibit.

83 MR. REEVES: Right.

84 MS. BUTLER, Q.C.: Which was explained in Mr. Brushett's
85 report. Are you suggesting to me, Mr. Reeves, that the
86 difference between 3.7 in '97; 5.9 in 2000; and 6.5 in 2002 is
87 due to a recurring expense associated with the accounts?

88 MR. REEVES: That's one aspect of it, that's correct, yes.

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

90 MR. REEVES: Where we roll up accounts.

91 MS. BUTLER, Q.C.: And are you suggesting that that is
92 1.8 million in each of those two years?

93 MR. REEVES: That's my understanding. Starting in 2000
94 the account changes that were made to facilitate the
95 amalgamation of materials used in maintenance is
96 approximately \$1.8 million.

97 MS. BUTLER, Q.C.: All right. It should become clear when

1 we see the results of the first undertaking from this
2 morning, because one of the things that you had agreed to
3 give me was the budget for TRO and, where possible, to
4 breakdown the system equipment maintenance, as well as
5 the salaries. So we should see the base, plus the addition?

6 MR. REEVES: Well, I'm not sure you'll see the ... what
7 you'll see ... that's not the way we actually do it. I'm doing
8 that for a way of explaining it to you. You won't see a base
9 number in there for corrective or ... but what you will see is
10 the different categories, like, I think we will be able to
11 provide like system equipment maintenance, materials as
12 used on our buildings and grounds, materials that's used
13 on our vehicles, our transportation, or fleet.

14 MS. BUTLER, Q.C.: Okay. Well, either way, looking at the
15 exhibit on the screen, there is a significant increase,
16 excluding 2000, for the reasons both you and Mr. Brushett
17 have indicated, significant increase in the budget for your
18 division in system equipment maintenance in that period.
19 My question is, are you satisfied that your division has
20 done all it can to control costs for system equipment
21 maintenance in that period?

22 MR. REEVES: You call it a significant increase. I'm not
23 sure that it's a significant increase once you roll up the
24 accounts, and also, realizing that from year to year we can
25 have a (inaudible) of projects that we have to do. The
26 timing of the overhauls are dictated, not by a budgeting
27 process, but by an overhaul process as required on our
28 units. And some years you may be a bit higher in your
29 projects than others. For instance, in 2001 we have \$1
30 million in there for projects, in 2001 we have \$1.5 million.
31 And that's primarily a result of the timing of when the
32 overhauls are required on our diesel units.

33 MS. BUTLER, Q.C.: I accept, Mr. Reeves, that it will be a
34 matter for the Board to determine whether the increase is
35 significant. But my question was whether you were
36 satisfied that your division has done all it can to control the
37 system equipment maintenance costs in your division in
38 that period?

39 MR. REEVES: Yes, we have.

40 MS. BUTLER, Q.C.: Now, I wonder if we might look to **NP-**
41 **179**, page 1 of 6? We'll look at the question first, Mr.
42 O'Rielly. With regard to Hydro's budget and control
43 processes, question B was "Does Hydro calculate
44 variances or expected variances from its capital and
45 operating budgets, if so, how frequently?" And the answer
46 that was given to B is that "Variances related to capital are
47 calculated monthly. Variances related to operating," which
48 is what we're talking about now, "are reported monthly by
49 means of a comparison to the latest operating forecast,
50 prepared as required, and also on a mandatory basis twice
51 a year, once during the preparation of the annual budget

52 and again in October." Is that correct?

53 MR. REEVES: These are variance ... let's see. It's on page
54 6?

55 MS. BUTLER, Q.C.: Page 1 of 6.

56 MR. REEVES: Page 1 of 6, I'm sorry. Yes, this is the
57 process that we follow that's outlined here.

58 MS. BUTLER, Q.C.: Grand, thank you. I'm speaking now,
59 of course, about your operating budget.

60 MR. REEVES: Yes.

61 MS. BUTLER, Q.C.: So let's look, if we can, to **NP-24**,
62 which is the handout that we gave a moment ago, the three
63 budgets, '99, 2000 and 2001. And I want to start with the
64 1999 budget, page 7. Do you have a piece of paper with
65 you, Mr. Reeves, because we might have to write down a
66 figure or two just to keep some numbers in our head. The
67 system equipment maintenance figure on the '99 budget
68 was 14.101 million, is that correct?

69 MR. REEVES: That's correct, yes.

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

71 MR. REEVES: At the corporate level.

72 MS. BUTLER, Q.C.: At the corporate level, yeah. And
73 you're not able to tell me how much of that is yours?

74 MR. REEVES: Sorry, no.

75 MS. BUTLER, Q.C.: Even percentage wise?

76 MR. REEVES: Not at this point-in-time, no.

77 MS. BUTLER, Q.C.: Let me understand that. You're telling
78 me now, as Vice-President of your area, that you don't
79 know even approximately how much of that 14.1 million
80 would be ...

81 MR. REEVES: This is for the year 1999.

82 MS. BUTLER, Q.C.: Well, for any year. Are you able to tell
83 me even approximately how much of that budget is your
84 responsibility, 10 percent, 90 percent?

85 MR. REEVES: I know it's ... whether it's 40, 60 percent, I'm
86 sorry, I don't know.

87 MS. BUTLER, Q.C.: Okay. Within that range?

88 MR. REEVES: But it's more than 10 percent.

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

90 MR. REEVES: It's less than 90 percent.

91 MS. BUTLER, Q.C.: Okay. It's a significant portion of
92 system equipment maintenance?

93 MR. REEVES: Well, we also have other significant

1 expenses in the Company associated with our Holyrood
2 generating plant and our hydraulic plants in Bay d'Espoir,
3 Cat Arm and the like.

4 MS. BUTLER, Q.C.: Okay. Well, what we're dealing with
5 here are variances. So the figure that was recorded in
6 October '98 for the '99 budget was 14.1 million?

7 MR. REEVES: 14.1 million, yes.

8 MS. BUTLER, Q.C.: And then in October, '99, which is the
9 next year, we have to go to the next document, also at page
10 7, the '99 forecast there has been changed, I'll say slightly,
11 to 14.459 for 1999?

12 MR. REEVES: That's correct, yes, that's what this report
13 says.

14 MS. BUTLER, Q.C.: Thank you. And then the actual filed
15 figure for system equipment maintenance in 1999 is shown
16 in the October, 2000 report for 2001 at page 6. The 1999
17 actual came in at 19.775 million?

18 MR. REEVES: That's correct.

19 MS. BUTLER, Q.C.: So I've got about a \$5.6 million
20 difference between the original forecast for system
21 equipment maintenance in October, '98 and what actually
22 came in as the final figure for that year. Do you recollect,
23 Mr. Reeves, what lead to that \$5.6 million difference for
24 system equipment maintenance in that period?

25 MR. REEVES: The only thing that I can ... when we looked
26 at the first report here, which was 1999, I don't know ...
27 1999. On page 9 of the report for 1999 ...

28 MS. BUTLER, Q.C.: This is for the year '99 which is dated
29 October, '98?

30 MR. REEVES: For 1999 ... well ...

31 MS. BUTLER, Q.C.: Or the other way around?

32 MR. REEVES: It's the one that says '99 on the cover.

33 MS. BUTLER, Q.C.: Yes, okay.

34 MR. REEVES: And it says on page 8 ... or page 9, which
35 you've included, the group of expenses budgeted at 14.1,
36 I think which we agreed to a second ago, in 1999, which is
37 an increase of \$3 million from '98. Of course, this is from
38 '98.

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

40 MR. REEVES: Sorry. That doesn't help us.

41 MS. BUTLER, Q.C.: No. So what we're talking about is the
42 discrepancy between the same figure in the sense that the
43 figure being used to forecast the '99 year on three different
44 occasions. The reason why I'm asking you this, Mr.
45 Reeves, is that relative to the policy which we read out
46 onto the record from **NP-179** a moment ago, variances on
47 the budget would be brought to your attention monthly,
48 right?

49 MR. REEVES: That's correct, for my region, yes.

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

51 MR. REEVES: For my area of responsibility.

52 MS. BUTLER, Q.C.: And a \$5.6 million increase is apparent
53 between October '99, this is in the 2000 report which is
54 dated October '99, at which point you have at least nine
55 months of the year known, right? Am I right? In October
56 '99 you would know the actuals?

57 MR. REEVES: That's correct, yes.

58 MS. BUTLER, Q.C.: Yeah. And then what actually came in
59 for the full year to December 31st, '99 was a \$5 million
60 difference. So we're talking about \$5 million dollars in the
61 last two to three months of the year?

62 MR. REEVES: That's what the figures say, yes, correct.

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

64 MR. REEVES: Now, that's from a corporate level, as I
65 explained. And off the top of my head, TRO may be
66 responsible for some of those expenses. At this point in
67 time I don't know what those were, if, in fact, they were.

68 (11:30)

69 MS. BUTLER, Q.C.: Okay. I guess why I'm troubled or
70 why I'm hesitating, Mr. Reeves, is because I'm wondering
71 if you're monitoring costs on a monthly basis, and given
72 that at least some portion, I'll say significant because you
73 think it's 40 or 60 percent of SEM is your responsibility,
74 how it is that you don't know what the \$5.6 million growth
75 was in the last few months of that year.

76 MR. REEVES: I'm sorry, I can't tell you. It may not have
77 been in my responsibility.

78 MS. BUTLER, Q.C.: All right.

79 MR. REEVES: And the information is not in front of me to
80 explain it to you.

81 MS. BUTLER, Q.C.: All right. Let's have a look, if we can,
82 to 2000. The budget for system equipment maintenance for
83 2000 is first contained in the report dated October '99, and
84 again at page 7. And I believe it was recorded there to be
85 12.298 million?

86 MR. REEVES: This is the 2000 report you're referring to?

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

88 MR. REEVES: And it's on page?

89 MS. BUTLER, Q.C.: Seven.

1 MR. REEVES: Page 7. My pencil is going again. And
2 these are 2000 expenses you're referring to now?

3 MS. BUTLER, Q.C.: Yes. So in October, '99 the forecast
4 for SEM was 12.298 million?

5 MR. REEVES: That's correct, yes.

6 MS. BUTLER, Q.C.: And then, looking at the report dated
7 October, 2000 at which point you've got nine months of the
8 year known, the figure is re-forecast at 19.679 million?

9 MR. REEVES: Correct.

10 MS. BUTLER, Q.C.: And the actual, we have to look at a
11 different document for. It's actually Mr. Robert's pre-file
12 testimony, which I believe is at page 1. No, I'm sorry, it's
13 not John Roberts' testimony. It's JCR-1, which is an exhibit
14 from Mr. Roberts. Line 19. Now, we're talking about the
15 2000 year, 2000 actuals. It's the fourth column.

16 MR. REEVES: 18.977?

17 MS. BUTLER, Q.C.: 18.977 million. It's still almost 6.7
18 million greater than the original budget prepared for system
19 equipment maintenance in October '99. Again, Mr. Reeves,
20 in your capacity as vice-president of your division can you
21 explain the discrepancy for us?

22 MR. REEVES: One of the items which I think is in that
23 particular overexpenditure is the overhaul on the gas
24 turbine, which is highlighted in the **Grant Thornton report**
25 as \$1.8 million for expenditures for that year.

26 COMMISSIONER SAUNDERS: How much was that again,
27 Mr. Reeves?

28 MR. REEVES: \$1.8 million. There was also an unscheduled
29 overhaul on the Nain diesel plant for \$300,000. And the
30 Board will remember we were in the process of replacing or
31 building a new diesel plant in Nain and which had to be
32 delayed by one year. And because it was delayed by one
33 year we had to do an unscheduled overhaul on one of our
34 units to ensure reliability. The \$1.8 million expenditure on
35 the gas turbine was a problem that we were not aware of
36 until sometime throughout the year, and one of the gas
37 generators had to be taken out of service and sent back to
38 the factory. In my area that's the two that I think forms part
39 of why that's over.

40 MS. BUTLER, Q.C.: That would explain 2.1 million of the
41 difference of 6.7 million. And these two figures, actually,
42 that you've given me are, in fact, shown on Mr. Brushett's
43 report for 2001 at page 28. Just a little further down there.
44 No, keep going. Thank you. The decrease noted, you see
45 the reference there to the two projects you just spoke of,
46 Stephenville plant for 1.8 and 300 for Nain diesel?

47 MR. REEVES: That's correct.

48 MS. BUTLER, Q.C.: Okay. And beyond those two you
49 can't help me explain the discrepancy that's missing of
50 another 4 million?

51 MR. REEVES: Just give me a second now?

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

53 MR. REEVES: I think you may also ... and here again, I'm
54 not entirely sure about this, but if you were to go down in
55 both reports, the 2000 report, 2001 report to transportation.
56 See the numbers are different by about \$1 million? I think
57 when the budget was done up originally it was done on the
58 way that I explained a short while ago and how the
59 accounts were spread out differently and they were rolled
60 up in 2000. So part of the reason that the materials
61 maintenance is up is that the revised number, the final
62 number, shows the results of the rolling up. So one of the
63 ones that I referred to rolled up was the transportation, the
64 other one is, and I don't think the detail is here, is buildings
65 and ground maintenance. But, that's one that I'm familiar
66 with.

67 MS. BUTLER, Q.C.: Okay. And Mr. Osmond should be
68 able to give us the details or Mr. Roberts?

69 MR. REEVES: I would suspect it's probably better if it's Mr.
70 Roberts.

71 MS. BUTLER, Q.C.: Okay. But either way, you accept that
72 it appears that the budget for the '99 and the 2000 year were
73 both off by 4 or \$5 million?

74 MR. REEVES: For that one account centre as highlighted
75 here. Now, whether the overall budget is affected, that's
76 another matter which he should be able to explain.

77 MS. BUTLER, Q.C.: Oh, that's correct. But of course, I was
78 only asking you about that systems equipment
79 maintenance entry, right.

80 MR. REEVES: Exactly. But there's a number of things that
81 happens to that account, especially if you roll it up, that it
82 gives the wrong impression that we are not controlling the
83 expenses in that account.

84 MS. BUTLER, Q.C.: Well, that is the first impression, that's
85 correct, so we need to get an answer. For 2001 I'd like to
86 look to **NP-24**, the October, 2000 report. And again, it
87 should be page 6.

88 MR. REEVES: Is this the Grant Thornton?

89 MS. BUTLER, Q.C.: Sorry? The same one.

90 MR. REEVES: Oh, that one right there, okay.

91 MS. BUTLER, Q.C.: Now, for 2001 the current, or the
92 forecast as of October, 2000 was 16.555 million for system
93 equipment maintenance?

1 MR. REEVES: That's correct.

2 MS. BUTLER, Q.C.: And again in JCR-1, line 19, the 2001
3 budget, which was prepared in May, 2001 for this Board
4 from the same subject is 17.484 million, I believe? Line 19.
5 2001. So, in the passage of about six months the category
6 has gone up by approximately \$1 million. Again, since this
7 is at least in part your area in TRO can you explain the
8 difference of \$1 million?

9 MR. REEVES: Not on a corporate level.

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

11 MR. REEVES: I'm sorry.

12 MS. BUTLER, Q.C.: While we're there on this document
13 you'll see for 2002 you're forecasting 17. ... sorry, 16.763?

14 MR. REEVES: That's correct, which is down.

15 MS. BUTLER, Q.C.: Okay. 16.763 million in system
16 equipment maintenance for 2002. Well, Mr. Reeves, I'll
17 leave that area now and defer the further questions on it to
18 either Mr. Roberts or Mr. Osmond to see how much faith
19 we can put in the figures that's shown there now on the
20 basis of the discrepancies that we've seen. I want to ask
21 you now about the L'Anse-au-Loop system. Is that within
22 your area, Mr. Reeves?

23 MR. REEVES: That's correct, it is.

24 MS. BUTLER, Q.C.: And can we look at **NP-36**, page 2 of
25 2?

26 MR. REEVES: **NP-36**.

27 MS. BUTLER, Q.C.: There was a separate hearing on the
28 L'Anse-au-Loop system?

29 MR. REEVES: That's correct, yes.

30 MS. BUTLER, Q.C.: Okay. And what we have here, I
31 guess we should just scroll up and have a quick look at the
32 question that was asked, question B. Now, question B.
33 The L'Anse-au-Loop system Hydro was asked to complete
34 the following table showing the projections projected at the
35 '96 hearing. So Hydro has kindly completed the table and
36 shown the figures. The projected revenue to cost coverage
37 for 2002 was forecast in 1996 to be 65 percent. You see that
38 in the final column, final number at the bottom?

39 MR. REEVES: Page 2, that's correct, yes.

40 MS. BUTLER, Q.C.: In other words, the revenue was
41 expected to be 1.3 million, that's column 6, and the cost was
42 expected to be 2.027 million?

43 MR. REEVES: That's correct.

44 MS. BUTLER, Q.C.: Okay. On the same page, the 1999
45 revenue to cost ratio was 49 percent, I believe? Let me just
46 check that.

47 MR. REEVES: The same page?

48 MS. BUTLER, Q.C.: Sorry, page 1 of 2. And please scroll
49 up so that we can see the question that's asked there.
50 Okay. Then you were asked, or perhaps in reverse order,
51 to complete the following table showing the actual costs,
52 revenues and recovery ratios for the L'Anse-au-Loop
53 system in that period. Now, in 1999 it shows revenue to
54 cost coverage of 49 percent being revenue of 1.025 million
55 over cost of 2.087 million? I'm sorry, is that correct?

56 MR. REEVES: That's correct, yes.

57 MS. BUTLER, Q.C.: Yeah. And then in 2002 we have .45
58 million?

59 MR. REEVES: That's correct.

60 MS. BUTLER, Q.C.: .45 percent, I'm sorry, Mr. Reeves. Can
61 you just scroll up the top of that page there, Mr. O'Rielly,
62 for a second, so I can just see the NP number there? Okay.
63 I need to go back to **NP-34** now. Here we have a table for
64 the rural deficit from '92 to 2000 and forecasts. And
65 L'Anse-au-Loop is shown as D in terms of the question.
66 Can we just scroll down and see the answer? All right.
67 L'Anse-au-Loop is shown 1999 with a deficit of 1.062
68 million?

69 MR. REEVES: That's correct.

70 MS. BUTLER, Q.C.: And 2002, a deficit of 1.365 or 366
71 million?

72 MR. REEVES: Correct.

73 MS. BUTLER, Q.C.: So there's been a growth in the deficit
74 for the L'Anse-au-Loop system from '99 to 2002?

75 MR. REEVES: That's correct.

76 MS. BUTLER, Q.C.: And is this because of rising costs in
77 the L'Anse-au-Loop system?

78 MR. REEVES: I would suspect that's probably the ...
79 L'Anse-au-Loop system. Off the top of my head I suspect
80 that we are under a contract with the Hydro Quebec to
81 purchase power, secondary power from them for our
82 system. That was an agreement in 1995. And there was
83 two pricing arrangements. The first pricing arrangement
84 there was a lower cost per energy for us to buy the
85 secondary energy because we had an agreement whereby
86 we could have a lower cost of purchase to collect back our
87 cost of investment of the interconnection. In January of
88 this year we went ... in January this year all of our capital
89 costs have been accounted for now and we are going on
90 the second part, pricing part, which is the share of savings.
91 That means that we have to pay Hydro Quebec a bit more.
92 And really, it's tied into the price of diesel fuel. So

1 whatever our avoided cost is we would pay half of it to
2 Hydro Quebec as a purchase price. So I would visualize
3 that the difference between '99, which was on, say, option
4 1 of the purchasing price, which was a lower cost because
5 we were collecting or we were paying off our capital
6 investment, would be lower than what's in 2002 because we
7 pay more for our energy right now. The actual operating
8 costs, the number of operators, the number of people that
9 are in that system have not changed, really. If anything,
10 they've gone down.

11 MS. BUTLER, Q.C.: So you think it relates to the fact that
12 you pay more for energy?

13 MR. REEVES: That's correct, secondary energy, yeah.

14 MS. BUTLER, Q.C.: Now, let's have a look, if we can, to
15 **NP-209**, page 3 of 3, which, I think, details the cost
16 variances for L'Anse-au-Loop. Okay, I think, actually, you
17 can go back and have a look at the question so Mr. Reeves
18 knows what was asked.

19 MR. REEVES: Oh, I've got the question in front of me.

20 MS. BUTLER, Q.C.: I'm sorry?

21 MR. REEVES: I've got the binder.

22 MS. BUTLER, Q.C.: Okay, thanks. It's helpful to all of us
23 to ...

24 MR. REEVES: If you don't need it.

25 (11:45)

26 MS. BUTLER, Q.C.: **NP-209**. Okay. "(a) At the '96
27 hearing the projected revenue to cost ratio for 2002 was 65
28 percent. Forecast 2002 revenue to cost ratio for L'Anse-au-
29 Loop is now 45 percent. Explain the variation." And the
30 answer ... oh, sorry, just scroll back up. And the answer
31 was given as "The major variance is attributed to an
32 increased operating cost estimate of 549,000 and decreased
33 revenue of 182." So there is an increase in operating cost
34 there, 549,000. And we can go to the table so you can
35 explain them. I think it's page 3 of 3. There you go. Can
36 you just explain what happened here in L'Anse-au-Loop?

37 MR. REEVES: My understanding of the difference in
38 what's in '97 verses what we currently have is a different
39 assignment of cost which was inputted in the cost of
40 service model. It's nothing to do with increases in actual
41 cost that we actually incurred on the system, but it's the
42 way that they were assigned differently in the cost of
43 service model. And the one that basically makes the
44 difference is a distribution to Labrador south.

45 MS. BUTLER, Q.C.: That's right.

46 MR. REEVES: Which is increased in the cost of service
47 model from the 1996 by \$209,000.

48 MS. BUTLER, Q.C.: That's right. I calculated that as an
49 increase of 557 percent from ...

50 MR. REEVES: And what's being charged to the cost of
51 service ... in the cost of service is not an increase in our
52 actual cost.

53 MS. BUTLER, Q.C.: Right. So there's a movement, we can
54 see in the last column, of \$209,580 from another cost of
55 service into this cost of service, is that what you're
56 suggesting?

57 MR. REEVES: What happened in 1997, as I understand it,
58 and I'm not a cost of service expert, okay, you have to take
59 that as a given.

60 MS. BUTLER, Q.C.: All right.

61 MR. REEVES: But my understanding is that in 1997 there
62 was an estimation made of what the cost of service or the
63 cost associated with the L'Anse-au-Loop system which
64 would be assigned in the cost of service model. Now, the
65 L'Anse-au-Loop system was not an isolated ... was not a
66 separated system at the time. It was part of the isolated
67 diesel plants that we have. So there was an estimation
68 made. Since 1997 because of the way that we are now
69 tracking it we are able to make a better and more accurate
70 estimation of the exact costs which are associated with
71 actually running that system by itself where before we
72 didn't do that.

73 MS. BUTLER, Q.C.: Yes. I wanted to follow up on that
74 point. Maybe what we need to have back on the screen,
75 actually, is **NP-36**, page 1 of 2 and lines 9 to 12 there.
76 There you go. You see, in the table there was a good many
77 blanks. And Hydro's answer indicates at lines 9 to 12 that
78 the requested information for that particular system was not
79 available. Right?

80 MR. REEVES: That's what it says, yes.

81 MS. BUTLER, Q.C.: Yeah. Well, this is relative to what
82 you just indicated in your answer to me, that you weren't
83 tracking the costs?

84 MR. REEVES: That's my understanding. Here again, this
85 doesn't fall ... the cost of service calculations does not fall
86 under my responsibility, but that's my understanding of it.

87 MS. BUTLER, Q.C.: I accept that cost of service is not
88 your responsibility. But the L'Anse-au-Loop system is part
89 of your responsibility?

90 MR. REEVES: That is correct.

91 MS. BUTLER, Q.C.: And ... go ahead.

92 MR. REEVES: My responsibility is providing the
93 information to the rates department for the allocation of
94 cost.

1 MS. BUTLER, Q.C.: All right. So in terms of why
2 information is not available for the L'Anse-au-Loop system
3 for '96 and '98, 2000 and 2001, can I just have an
4 understanding from you?

5 MR. REEVES: My understanding of that is that prior to the
6 interconnection with Hydro Quebec when we had a
7 separate cost of service for L'Anse-au-Loop after 1997, I
8 think it was, or '96, '97, prior to that the cost associated
9 with the L'Anse-au-Loop plant was not amalgamated into
10 one centre. Some of the costs were, but others were not.

11 MS. BUTLER, Q.C.: Okay. That would explain ...

12 MR. REEVES: Because it was part of a region, okay, and
13 there was in that region ... there may have been, I don't
14 know, probably eight diesel plants.

15 MS. BUTLER, Q.C.: Okay. That would explain the pre '96.

16 MR. REEVES: Yes.

17 MS. BUTLER, Q.C.: But I'm asking about '96 to '98 and
18 2000 and 2001.

19 MR. REEVES: We do track those costs. Now, whether it's
20 done as a cost of service in those particular years and
21 they're not available to the cost of service model, that's my
22 understanding is that the cost of service were not
23 completed in those years. But here again, that's not my
24 expertise.

25 MS. BUTLER, Q.C.: Okay. Well, let's just go back to where
26 we ... wait now, before I leave that I just want to double
27 check something. Could I just see on that page, please,
28 lines 21 to 22? Oh, not on that page, no. Okay. Can we go
29 back to **NP-209**, please, page 1 of 3? Lines 21 and 22 there.
30 I wonder can we just get the full answer on that page? Just
31 scroll up a few lines. Thank you. Now, here was the
32 answer explaining the major variances in the L'Anse-au-
33 Loop system. And at lines 21 to 23 Hydro as indicated
34 "The, changes to the allocations of the 2002 test year
35 forecast are supported by several years of actual
36 experience." I guess my problem is, referring back to the
37 exhibit that we just had on the screen, there was no
38 information available except for two years. And the note
39 under the table had said that the information was not
40 currently available. So what I need to ask you is, in this
41 answer here, "Changes to these allocations supported by
42 several years of actual experience," what years of actual
43 experience are you using for these variances if there was
44 only two available?

45 MR. REEVES: My understanding of that is that our
46 regional people, since '96 to current, they have a better
47 estimation of the percentages that are used as inputs into
48 the cost of service model. The cost of service model may
49 not have been run in those years, so therefore you were

50 not able to get the results. But for the years that are in
51 question, we are able to make a better estimation as to what
52 percentages of our staff in L'Anse-au-Loop, and the
53 support that feeds into L'Anse-au-Loop, we are able to give
54 a more accurate percentage to our rates department for
55 input into the cost service model.

56 MS. BUTLER, Q.C.: Okay. **NP-209**, page 3 of 3, again.
57 This is the L'Anse-au-Loop revenue cost and estimates.
58 The variance which .. the variance of 549 first, \$549,150, is
59 composed of \$240,532. You'll see that above under the first
60 solid black line?

61 MR. REEVES: 240,532?

62 MS. BUTLER, Q.C.: Yeah, okay.

63 MR. REEVES: That's correct, yes.

64 MS. BUTLER, Q.C.: So we know that 240,532 of it is
65 operating costs?

66 MR. REEVES: That's correct, as we were just talking about.

67 MS. BUTLER, Q.C.: Right. And the difference, you'd have
68 to do the math on, about \$300,000, is increased overheads?
69 Because you've got total operating costs one, two, three,
70 four, five, six lines down at 569 less than an expense credit.
71 So there isn't a subtotal there for overheads, but it looks
72 like overheads have increased by about \$300,000?

73 MR. REEVES: That's correct.

74 MS. BUTLER, Q.C.: Are you able to explain that at all?

75 MR. REEVES: My understanding is the overheads are
76 done after the allocation ... after all our input is given to the
77 rates department and they run it into their model, then
78 there's a certain overhead that is added on in the model
79 itself. If you increase your expenses, your direct expenses,
80 then automatically your overheads will go up. That's my
81 understanding of the model.

82 MS. BUTLER, Q.C.: The person to whom I should address
83 any further questions on that ...

84 MR. REEVES: Mr. Hamilton, I would assume, would be the
85 best one to address on that.

86 MS. BUTLER, Q.C.: Mr. Hamilton. All right. You did
87 mention a moment ago, though, about the price of diesel?

88 MR. REEVES: That's correct, yes.

89 MS. BUTLER, Q.C.: So can I pose some questions to you
90 about that?

91 MR. REEVES: Yes.

92 MS. BUTLER, Q.C.: Okay. The test year 2002 diesel fuel
93 costs in JCR-1, Schedule 1, line 11 is approximately 6.3
94 million. We'll get that document up on the screen, I think,

- 1 Mr. Reeves. Do you accept that that's the figure, 6.3
2 million?
- 3 MR. REEVES: Just a second now.
- 4 MS. BUTLER, Q.C.: Line 11, column 2002.
- 5 MR. REEVES: You say the 2002 forecast for diesel fuel
6 which is line 11 is 6.3 million?
- 7 MS. BUTLER, Q.C.: Yes.
- 8 MR. REEVES: That's correct.
- 9 MS. BUTLER, Q.C.: Okay. And in terms of your area,
10 transmission and rural operations, how much of this would
11 you be responsible for using in rural isolated regions?
- 12 MR. REEVES: I'd say the majority of that would be used in
13 isolated areas.
- 14 MS. BUTLER, Q.C.: Okay.
- 15 MR. REEVES: We have some interconnected stand-by
16 diesel plants but they do not utilize a lot of fuel, only for
17 stand-by.
- 18 MS. BUTLER, Q.C.: Okay. Now, in calculating that 6.3
19 million we have to look at **Exhibit NP-219** to see the cost
20 per litre forecast which Hydro used. Okay, we have there
21 the average diesel fuel cost per litre for the rural isolated
22 systems for each year from '92 to 2000. We can scroll down
23 a little bit there. Okay, thank you.
- 24 MR. REEVES: NP, which was the number, I missed that,
25 please? What was the number?
- 26 MS. BUTLER, Q.C.: That would be **NP-219**.
- 27 MR. REEVES: 219, thank you.
- 28 MS. BUTLER, Q.C.: You're welcome. The cost per litre
29 forecast for the test year 2002 is 42 cents, which, as you can
30 see from the years '92 to 2000, was the highest it ever went?
- 31 MR. REEVES: That's correct.
- 32 MS. BUTLER, Q.C.: Do you know the current price of
33 diesel?
- 34 MR. REEVES: Diesel fuel has dropped in the last little
35 while, I'm unable to say. I see the prices every week, but
36 right now I think it's in the ... I don't know. I'd have to say
37 mid 30s or something. I'm not sure what it is. I'd have to
38 check on that if you really need that number.
- 39 MS. BUTLER, Q.C.: I'd be happy for you to check.
- 40 MR. REEVES: Okay.
- 41 MS. BUTLER, Q.C.: But you think it's mid 30s?
- 42 MR. REEVES: Well, that again is off the top of my head.
- 43 MS. BUTLER, Q.C.: That's a guess, okay.
- 44 MR. REEVES: Yes. Don't hold me to it.
- 45 MS. BUTLER, Q.C.: Okay. Do you know the current
46 forecast for diesel and whether, in fact, what's shown here
47 as the forecast for 2002 had been reduced in Hydro?
- 48 MR. REEVES: From the falling?
- 49 MS. BUTLER, Q.C.: Yes, from 42.
- 50 MR. REEVES: My recollection is that it has not been
51 changed.
- 52 MS. BUTLER, Q.C.: And, Mr. Reeves, are you familiar with
53 the relationship between diesel fuel and the Rate
54 Stabilization Plan, are you aware that variations in the price
55 of diesel are not reflected in the RSP?
- 56 MR. REEVES: That's correct.
- 57 MS. BUTLER, Q.C.: Okay.
- 58 MR. REEVES: That's my understanding.
- 59 MS. BUTLER, Q.C.: So if the price of diesel drops then
60 Hydro's earnings grow?
- 61 MR. REEVES: There's an expense that we don't incur, that's
62 correct.
- 63 MS. BUTLER, Q.C.: Okay. And since the 2002 test year
64 cost per litre, as we see here, is as high as it was ever in the
65 eight-year period prior, a downward fluctuation, which we'll
66 find out the current price of the diesel, but a downward
67 fluctuation in the price of diesel would provide a significant
68 increase in Hydro's cost and would impact rates to
69 consumers?
- 70 MR. REEVES: Well, I'm not sure what impact it would have,
71 personally, but it would have some impact, obviously, yes.
- 72 MS. BUTLER, Q.C.: Okay. Thank you.
- 73 MR. REEVES: Small or large, I'm not sure.
- 74 (12:00)
- 75 MS. BUTLER, Q.C.: Okay, I'm finished with that exhibit,
76 thanks. I want to turn now, if I can, to the capital budget,
77 which is the second budget that you oversee for your area.
78 And here we can refer directly to your testimony at page
79 14, line 7. Thank you. In the transmission and rural
80 operations division, which is yours, the capital budget is
81 \$24.7 million?
- 82 MR. REEVES: That's correct, yes.
- 83 MS. BUTLER, Q.C.: Okay. And this amount, as we can see
84 here, is composed of 16.5 for transmission and 8.1 for rural
85 systems?
- 86 MR. REEVES: That's correct, yes.
- 87 MS. BUTLER, Q.C.: Thank you. Now, in the actual

- 1 application that was presented by Hydro Section A, page
2 A-1. I'm looking at, Mr. O'Rielly, the schedule to the
3 application which has Section A, page A-1 on it. It's the
4 capital budget overview. Yeah, there you go.
- 5 MR. REEVES: It's in Section A?
- 6 MS. BUTLER, Q.C.: Yes. Thank you.
- 7 MR. REEVES: That's correct. There you go.
- 8 MS. BUTLER, Q.C.: That's the page. Mr. Reeves, do you
9 recall this morning I asked you, when we were looking at
10 the corporate flow chart, whether Mr. ... sorry, was it Kiell
11 or Kyle?
- 12 MR. REEVES: Kiell.
- 13 MS. BUTLER, Q.C.: Mr. Kiell's responsibility for when it
14 said properties was also for general properties. And I
15 thought you had indicated yes. Looking at this screen,
16 therefore, can I ask you whether, in fact, your area also
17 includes general properties at 15.684 million?
- 18 MR. REEVES: No, it does not. And I need to correct that.
19 My definition of general properties and yours is probably
20 a little different.
- 21 MS. BUTLER, Q.C.: Well, actually, I'm not certain I have
22 one. All I asked this morning was whether, in fact, Mr.
23 Kyle or Kiell stood for that.
- 24 MR. REEVES: No, he does not.
- 25 MS. BUTLER, Q.C.: Okay.
- 26 MR. REEVES: Matter of fact ...
- 27 MS. BUTLER, Q.C.: Go ahead.
- 28 MR. REEVES: .. all of Mr. Kiell's budget would be in either
29 rural or transmission.
- 30 MS. BUTLER, Q.C.: Okay. That's fine.
- 31 MR. REEVES: Normally. And if there is anything it might
32 be a very small part in general properties. I personally have
33 some responsibility for the general properties, but it's only
34 for the vehicles.
- 35 MS. BUTLER, Q.C.: That's fine.
- 36 MR. REEVES: But the rest of that particular area is
37 somebody else's.
- 38 MS. BUTLER, Q.C.: Okay. Now, two of these, of course,
39 we just saw you deal with in page 14 of your testimony.
40 Can you tell me, then, who stands for generation, that \$6.6
41 million?
- 42 MR. REEVES: As a witness?
- 43 MS. BUTLER, Q.C.: Yes.
- 44 MR. REEVES: Mr. Budgell from a capital perspective.
- 45 MS. BUTLER, Q.C.: Okay.
- 46 MR. REEVES: And from an operating perspective, Mr.
47 Henderson.
- 48 MS. BUTLER, Q.C.: All right. Well, this is the capital
49 budget, so the capital budget ...
- 50 MR. REEVES: The capital budget would be Mr. Budgell.
- 51 MS. BUTLER, Q.C.: Thank you. And for general
52 properties?
- 53 MR. REEVES: Again, Mr. Budgell.
- 54 MS. BUTLER, Q.C.: And that's just a contingency fund
55 there.
- 56 MR. REEVES: I can address questions on contingency.
- 57 MS. BUTLER, Q.C.: Okay, great. Thank you. So the
58 expenses ... I'm sorry. Expenditures for which you are
59 responsible are, as you say, 24.6 million of a total budget of
60 48 capital budget, 48 million?
- 61 MR. REEVES: Well, add on the vehicles, probably 20, 25
62 million. There's a million ...
- 63 MS. BUTLER, Q.C.: Yes. Under the ... I'm sorry.
- 64 MR. REEVES: There's a million and 15, okay.
- 65 MS. BUTLER, Q.C.: And the vehicles are under which of
66 these headings?
- 67 MR. REEVES: General properties.
- 68 MS. BUTLER, Q.C.: Okay. Thank you.
- 69 MR. REEVES: Okay.
- 70 MS. BUTLER, Q.C.: So, 16.8 transmission, 8.1 rural systems
71 and about a million of general properties for vehicles, so
72 about 25 and a half million of a \$48 million budget?
- 73 MR. REEVES: Close to that, yes.
- 74 MS. BUTLER, Q.C.: Pretty close to 50 percent?
- 75 MR. REEVES: Yes.
- 76 MS. BUTLER, Q.C.: That's a significant ...
- 77 MR. REEVES: Right now it so happens in this particular
78 budget some of the significant expenditures are associated
79 with the Avalon upgrades and that's why our budget in
80 TRO is substantially higher for the last number of years.
- 81 MS. BUTLER, Q.C.: Okay. But similar to the operating
82 budget?
- 83 MR. REEVES: Yes.
- 84 MS. BUTLER, Q.C.: You seem to stand for, in terms of your

1 division, approximately half of the capital budget?

2 MR. REEVES: For the year 2002, that's correct.

3 MS. BUTLER, Q.C.: Thank you.

4 MR. REEVES: That's with the exception of Granite Canal,
5 which ...

6 MS. BUTLER, Q.C.: Which is exempt from today's hearing?

7 MR. REEVES: Yes.

8 MS. BUTLER, Q.C.: Okay. I wonder if we might look to
9 **NP-179**, page 2 of 6? And here, like the evidence we
10 reviewed for the operating budget, you're speaking ...
11 Hydro is speaking of the capital budgeting process. And
12 again, could you just read that paragraph for us, please, in
13 terms of the capital budgeting process starting with line 16?

14 MR. REEVES: On page?

15 MS. BUTLER, Q.C.: I have it at page 2 of 6.

16 MR. REEVES: Capital budgeting process, line 16.

17 MS. BUTLER, Q.C.: Thank you.

18 MR. REEVES: Okay. "The capital budgeting process
19 within Hydro is a very intensive and essential process that
20 involves the input of supervisory personnel with
21 budgetary responsibility all the way through each level of
22 management until it is eventually approved by the Hydro
23 Board of Directors before being forwarded to the Public
24 Utilities Board for approval. The process spans
25 approximately nine months, from start to finish, and
26 involves the review and evaluation of every capital budget
27 proposal that is prepared to determine if it should move
28 forward for approval to the next level of supervision."

29 MS. BUTLER, Q.C.: Thank you. So, fairly similar to the
30 operating budget process?

31 MR. REEVES: Yes.

32 MS. BUTLER, Q.C.: And it's also similar in terms of the
33 length of time, about eight or nine months?

34 MR. REEVES: That's correct. But as I said on the
35 operating budget, the actual preparation time from the
36 initiator to where it gets brought to management is a small
37 portion of that which normally accumulates or ends in the,
38 probably, May/June period. And from May/June until the
39 fall of the year other activities take place in amalgamating
40 that into your documents. That is done by the finance
41 department.

42 MS. BUTLER, Q.C.: And the comparison you're trying to
43 draw is that with the capital budgeting process it's with
44 management for a greater period of time, is that the point?

45 MR. REEVES: Well, it's not that it's with management.

46 What we do, from a management perspective, is that we
47 have a look at both the operating and capital budgets prior
48 to inputting into the models that Mr. Osmond and others
49 run to get the overall picture of the Company. And we, in
50 the first instance, in May, basically give approval in
51 principal of all those items. It's not, I guess, unforeseen that
52 if when you run it through all of the financial models that
53 you have to go back and re-look at it, then that's done in
54 September or October before it's all finalized.

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

56 MR. REEVES: But the actual primary review that takes
57 place is, in what I would call, in the spring of the year.

58 MS. BUTLER, Q.C.: In the spring of the year, okay.

59 MR. REEVES: And there's very little adjustments, if any
60 adjustments done after that.

61 MS. BUTLER, Q.C.: And we're talking about the capital
62 budget?

63 MR. REEVES: Both the capital and operating, that's
64 correct.

65 MS. BUTLER, Q.C.: Looking at line 25, though, it does
66 indicate that the first step is for supervisory personnel to
67 review their requirements with regional managers and to
68 plant managers to identify potential projects that meet
69 criteria for capital expenditure?

70 MR. REEVES: That's correct.

71 MS. BUTLER, Q.C.: Okay. And on to page 3 of the same
72 document. Each of these projects, Hydro has indicated at
73 line 9, are reviewed and assessed based on a number of
74 criteria. I wonder if you might be kind enough, Mr. Reeves,
75 to just tell us the six or seven criteria? I think there's a
76 seventh one shown at line 20, Mr. O'Rielly.

77 MR. REEVES: Yeah.

78 MS. BUTLER, Q.C.: Yeah. The seven criteria.

79 MR. REEVES: Starting at line 13.

80 MS. BUTLER, Q.C.: Thank you.

81 MR. REEVES: "To protect human life; to prevent imminent
82 interruption of service to customers; to protect human ...
83 sorry, to protect Hydro's assets against loss or damage; to
84 maintain power system reliability and availability; to
85 comply with pertinent regulations, standards, etcetera, and
86 environmental standards; to meet projected customer load
87 demand; and to reduce costs and improve efficiencies."

88 MS. BUTLER, Q.C.: Right. With these criteria in mind, the
89 same page at line 9, just above it, indicates that when
90 certain requirements are identified the directors undertake
91 a review of the individual proposals?

- 1 MR. REEVES: That's correct.
- 2 MS. BUTLER, Q.C.: And then looking down at line 25,
3 right through to line 28. After the directors finish their
4 review, proposals are reviewed by the vice-president of a
5 division and then the Management Committee as a final
6 review?
- 7 MR. REEVES: That's correct.
- 8 MS. BUTLER, Q.C.: Okay. So the several levels of review.
9 Mr. Reeves, from your experience, how many projects
10 would normally be reviewed and actually make it to the final
11 cut of the capital budget in the area for which your
12 responsible?
- 13 MR. REEVES: Oh, in the area I'm responsible for. On
14 average I would say that Hydro, and we'll probably have in
15 the vicinity of 175 to 200 projects per year. I would visualize
16 that probably if you take the average, half of those would
17 be ours, probably a little bit higher. There are a number of
18 projects that are brought forward at the different levels that
19 do not make the cut at the manager, or director, or my level.
20 What percentage that don't make the cut, I can't hazard a
21 guess. I only know the ones I'm involved in.
- 22 MS. BUTLER, Q.C.: I'm satisfied with that. Mr. Reeves, I
23 don't know if you sat through Mr. Wells' testimony, but I
24 recall him saying, and of course, I might be putting my own
25 words on it, but the message generally was that projects
26 are always being reviewed and entries always being
27 scrutinized to see where you could cut?
- 28 MR. REEVES: That's correct, yes.
- 29 MS. BUTLER, Q.C.: Okay. So through the capital
30 budgeting process, of course, that's the general thrust, see
31 where you can safely cut and still provide the most efficient
32 electricity?
- 33 MR. REEVES: That is our purpose, that there are certain
34 work that is required to be done to ensure the reliability of
35 our system at the most economic cost, and we do that, yes,
36 that's correct.
- 37 MS. BUTLER, Q.C.: Okay. Now, in the TRO portion of the
38 capital budget there was certain data provided in **NP-97**,
39 and it showed the comparison of the budget and the actual
40 and the difference for transmission and rural systems for
41 each year from '92 to 2000. Now, unfortunately, if you just
42 have a glance at the first of these you can see, Mr. Reeves,
43 that these are done on a page by page basis?
- 44 MR. REEVES: That's correct.
- 45 MS. BUTLER, Q.C.: So what I've done for you, but you can
46 ... we'll keep the exhibit on the screen in case anybody
47 wants to double check a number. Is we've prepared a
48 handout which puts the summary on each of all eight years
49 on the one page. So looking at the first one on the screen,
50 Mr. Reeves, so that you know what we've done, we took
51 the transmission figure here for budget '92 of 12.6 million
52 and the actual for 9.45 million and we've put that on our
53 exhibit. And the same thing for rural systems, we took the
54 11.338 million and the 8.923 million and we put that to the
55 right of the exhibit. Oh, I'm sorry, to the bottom of the page
56 of the exhibit. If you'd like to take ...
- 57 MR. REEVES: You've used information from **NP-97**?
- 58 MS. BUTLER, Q.C.: Yes. And each page of it. And we can
59 double check the numbers.
- 60 MR. REEVES: No, no, I just want to make sure where you
61 used the information from.
- 62 MS. BUTLER, Q.C.: Yeah. But I'm quite content to have
63 you double check the numbers if you'd like.
- 64 MR. REEVES: No. Well, I trust you.
- 65 MS. BUTLER, Q.C.: Okay. Thanks. Well, let's hope we've
66 done it with complete accuracy. Looking at the summary,
67 then, of **NP-97** ...
- 68 MR. KENNEDY: Sorry, counsel, should we enter that as an
69 exhibit and call it **NP-1**. I believe it's the first exhibit
70 introduced by Newfoundland Power. It's not an exhibit of
71 the witness, per se.
- 72 MS. BUTLER, Q.C.: I'm satisfied with that, Mr. Chair.
- 73 **EXHIBIT NP-1 ENTERED**
- 74 MS. BUTLER, Q.C.: Thank you, Mr. Reeves. Okay. All
75 right. So in terms of spending patterns for the transmission
76 portion of your responsibility first, let's take it by year. The
77 budget was over budget by 3.19 million in '92? I'm sorry, it
78 came in under budget. In other words, you budgeted more
79 than you actually spent in '92?
- 80 MR. REEVES: Yes.
- 81 MS. BUTLER, Q.C.: And the same thing for '93, 3.9 million?
- 82 MR. REEVES: That's correct.
- 83 MS. BUTLER, Q.C.: In fact, we can all look at these figures
84 ourselves. The only year in which the transmission area
85 spent its full budget was in 1995 when it was just \$294,000
86 over?
- 87 MR. REEVES: That's correct.
- 88 MS. BUTLER, Q.C.: So the exhibit shows, and this is, in
89 fairness, coming right off of **NP-97**, the several sheets, that
90 on average the transmission has been 20 percent below
91 budget in terms of what you've actually spent?
- 92 MR. REEVES: What we'd actually put in that budget and
93 what we spent in that year.

1 MS. BUTLER, Q.C.: Yeah. And for rural systems, again,
2 `92, 2.9 million under; `93, 1.04; `94, 4.3; etcetera. On
3 average, 26 percent, you've spent 26 percent less than
4 you've actually budgeted for in each of those years. And
5 these are the two primary sections for your department?

6 MR. REEVES: That's correct, yes.

7 MS. BUTLER, Q.C.: Okay. Now, Mr. Brushett, in his
8 report, again, **Grant Thornton 2001**, had addressed these
9 underspendings in a general way. He talked about the total
10 capital budget as being, on average, underspent by 15
11 percent. We can have a look at that at page 14. And you
12 see the paragraph there, the information used. Okay, we
13 need to see the table above it, though, Mr. O'Rielly.
14 Thanks. Okay. So referring to the table which spans the
15 period `96 to 2000 Mr. Brushett says that the information
16 used to calculate percentages in that table included the
17 capital budget for the year and the total actual capital
18 expenditures. And then he goes on to say that it was
19 normalized for events that would be considered
20 exceptional.

21 (12:15)

22 MS. BUTLER, Q.C.: And he talks about three normalizing
23 adjustments. I wonder would you just be kind enough to
24 give us these normalizing adjustments so that we're all
25 familiar with what he did there, starting with transmission
26 in 1998?

27 MR. REEVES: I'll get closer to the mic. The first one is in
28 transmission in 1998. And this was associated with we had
29 money in our budget to complete upgrades starting with
30 TL-217, and because of an ice storm in Quebec that
31 occurred we were unable to get the steel as we required and
32 we had to delay that by one year. In 1997 there was
33 transmission lines included for the proposed Argentinia
34 smelter. However, due to circumstances outside of our
35 control, that one had to be cancelled. And the last one is
36 in 1999 on the rural systems. And this one had to do with
37 the main diesel plant, I think, which I've probably already
38 mentioned where that project has to be delayed, and that
39 one had to be delayed because we were unable to get a
40 building permit from the town in the Town of Nain.

41 MS. BUTLER, Q.C.: That's right.

42 MR. REEVES: And while Mr. Brushett has taken these
43 particular projects out, there may have been other ones of
44 which might have been taken out if I were to do that, to
45 normalize it, because there were several reasons why we
46 don't spend the dollars that we budget in a particular year.

47 MS. BUTLER, Q.C.: Right. Well, that's what we're
48 addressing. Looking at the handout that we've just had
49 identified as **NP-1**, and just comparing it, for the moment,
50 to the document that's on the screen. The document that

51 we prepared as **NP-1** show that transmission was
52 underspent annually by an average of 20 percent. And on
53 the screen, with normalizing factors such as the three he's
54 indicated here, Mr. Brushett's figure is 12.41 percent. So in
55 other words, even with these normalizing events, the
56 transmission portion of your budget has still come in on
57 average 12.41 percent lower than budget. Do you agree
58 with that?

59 MR. REEVES: And that comment is where in the report?

60 MS. BUTLER, Q.C.: Well, the table above shows
61 transmission as being, on average, 12.41 percent.

62 MR. REEVES: That's correct, yes, I see that there, yes.

63 MS. BUTLER, Q.C.: Yeah. And then he ...

64 MR. REEVES: That's what this table says.

65 MS. BUTLER, Q.C.: The table says that. And then
66 underneath that he said the information used to calculate
67 these percentages has been normalized for these items?

68 MR. REEVES: Those particular items have been
69 normalized, that's correct.

70 MS. BUTLER, Q.C.: Right. Whereas my table ...

71 MR. REEVES: Does not normalize that.

72 MS. BUTLER, Q.C.: ... had no normalization. I showed you
73 being 20 percent over?

74 MR. REEVES: Exactly. Under.

75 MS. BUTLER, Q.C.: Right. Sorry?

76 MR. REEVES: Under.

77 MS. BUTLER, Q.C.: Under, I'm sorry. And then in rural
78 systems, again, my figure was 26 percent, his figure, with
79 the normalizing, is 19.88 percent?

80 MR. REEVES: And yours is 26.

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

82 MR. REEVES: That's correct, under.

83 MS. BUTLER, Q.C.: But, I think the point is still the same.
84 If Hydro is overstating its capital expenditures in these two
85 significant areas of the budget, transmission and rural
86 systems, which together add up to close to 50 percent of
87 the overall budget, the result is a potential overstatement
88 of rate base in a test year and that affects consumers' rates,
89 correct?

90 MR. REEVES: If there was an overstatement it would affect
91 consumer rates, that's correct.

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

93 MR. REEVES: But to what degree, I'm not sure.

1 MS. BUTLER, Q.C.: No. And that's somebody else's area.
2 COMMISSIONER SAUNDERS: Ms. Butler, excuse me, if I
3 might. Are we talking about the same years here? I look at
4 the handout and we're talking of '92 to 2000.
5 MS. BUTLER, Q.C.: And this one just deals with '96 to
6 2000.
7 COMMISSIONER SAUNDERS: And looking at **Grant**
8 **Thornton** it's '96?
9 MS. BUTLER, Q.C.: Yeah. So, Mr. Brushett only dealt with
10 five years of the period.
11 COMMISSIONER SAUNDERS: Yes.
12 MS. BUTLER, Q.C.: And said that even with his five years
13 normalized the figure was 12.4 and 19.8. My period is
14 larger, not normalized. Still, same message.
15 COMMISSIONER SAUNDERS: But the 20 and the 15 are
16 not apples to apples, are they?
17 MS. BUTLER, Q.C.: Not truly apples to apples, no. Thank
18 you.
19 MR. REEVES: And you should also see that while you're
20 correcting your ... like in transmission, for instance, you will
21 notice in the years 1999 and 2000.
22 MS. BUTLER, Q.C.: Yes.
23 MR. REEVES: That we were one percent underspent and
24 two percent underspent.
25 MS. BUTLER, Q.C.: I'm sorry, I don't see that one.
26 MR. REEVES: According to your table.
27 MS. BUTLER, Q.C.: Is it on my exhibit?
28 MR. REEVES: On your table.
29 MS. BUTLER, Q.C.: Yes, okay.
30 MR. REEVES: Prior to that the minus 54 percent would
31 have been the Avalon upgrades, significant portion. The
32 '97, I'm not sure. That may have been some of the same.
33 But there has been an improvement in the underestimations
34 of our budgets.
35 MS. BUTLER, Q.C.: I accept what you're saying in terms of
36 how some years are significantly lower or higher than the
37 other. But, perhaps the fairer reflection, on average, with
38 the normalization as coming from the accountant's report,
39 you accept that there's still 12 and 20 percent ...
40 MR. REEVES: As Mr. Wells, I think, explained when he
41 was on the stand is that prior to '96 Hydro on its capital
42 budget was not regulated. And I guess, I think, and I
43 would agree with that, is that the carry overs from one year
44 to the other was probably not close attention paid to that.
45 But, since we have become regulated we are concentrating
46 on spending the dollars as we budget them. I think it's fair
47 to say that what you're looking at here is the budget
48 against what actually gets spent in that particular year.
49 MS. BUTLER, Q.C.: Right.
50 MR. REEVES: But what you don't show on your table is
51 what we actually budgeted and what we actually spent. I
52 think you would have a different table. Because we may
53 budget, say, \$1 million this year to do a project. We spend
54 \$900,000 of it in this year. We have budgeted \$1 million.
55 We spend \$900,000 this year. And if you only look at that
56 figure you'll see that we only spent 90 percent of our
57 budget. But what you don't see in your table here is that
58 we spent the other 100,000 next year.
59 MS. BUTLER, Q.C.: Well, I accept what you're saying, that
60 if you're only going to look at it as an individual year we
61 might have a problem. But when we're looking at it as a
62 pattern of years it should correct itself, shouldn't it?
63 MR. REEVES: No, it should not. Because what you got
64 here is budget and it doesn't show you actuals. It's budget
65 verses what we actually spent in that particular year against
66 what we budgeted in that year.
67 MS. BUTLER, Q.C.: All right. Well, the exhibit ...
68 MR. REEVES: But one of the problems ...
69 MS. BUTLER, Q.C.: Sorry.
70 MR. REEVES: One of the things that we had been
71 concentrating on is to spend the money as we budget.
72 MS. BUTLER, Q.C.: All right. Well, what about **NP-1**, is
73 your criticism the same on this table, does this not compare
74 the actuals, the budget and the actuals?
75 MR. REEVES: **NP-1**, which is this one?
76 MS. BUTLER, Q.C.: Yes.
77 MR. REEVES: This is the table I was referring to. This one
78 is ... what you've shown here is the budget.
79 MS. BUTLER, Q.C.: Um hum.
80 MR. REEVES: And what we spent in that particular year
81 against the budget, it does not show what we spent in
82 other years against that budget. Do you understand what
83 I'm saying?
84 MS. BUTLER, Q.C.: I think I do. If you took the total
85 budget for each of the years, '92 to 2000, and the actual
86 budgets for '92 to 2000 you should end up with the same
87 results, shouldn't you?
88 MR. REEVES: Say that again, please?
89 MS. BUTLER, Q.C.: Yeah. If you just took the total.

1 MR. REEVES: The total which is 13.1 million?
2 MS. BUTLER, Q.C.: No, that's an average.
3 MR. REEVES: Okay.
4 MS. BUTLER, Q.C.: If you took your total budget for '92 to
5 2000 and your actual budget for '92 to 2000 you'd still end
6 up with the fact that you have over budgeted.
7 MR. REEVES: Well, if you started off, say, if you started
8 off in 1992 with a clean slate, you have no work on the go.
9 MS. BUTLER, Q.C.: Right.
10 MR. REEVES: So you budgeted \$12.6 million. We spent
11 9.4 of that. The other \$3 million, a number of things could
12 have happened to it, but some of that money got brought
13 over into the following year. So if you went down to 2000
14 then and say that we were going to spend \$19,000 you
15 need to include in that what we carried over from the
16 previous year if you're going to add the two columns up.
17 What's here is not a performance ... or a measurement of
18 our performance in completing our budgeted figures verses
19 our actuals. What you got in here is what our performance
20 is in regard to what we budgeted and what we spent in the
21 year that we said we were going to spend it.
22 MS. BUTLER, Q.C.: Okay. Well, I won't argue the point.
23 But I think what I'm trying to say to you is that if I added
24 up each of the figures in the budget column.
25 MR. REEVES: All of the ... yes.
26 MS. BUTLER, Q.C.: And I added up each of the figures in
27 the actual column.
28 MR. REEVES: Yes.
29 MS. BUTLER, Q.C.: I would still find that in that eight year
30 period you had spent less than you budgeted.
31 MR. REEVES: I think that is probably a fair estimation,
32 because there's a number of things that happened. There
33 are projects that we cancelled and cancelled intentionally,
34 and for good reason. I can give you examples of that, if
35 you'd like. Like, a couple of years ago in our budget we
36 had, there was a requirement for diesel fuel in Nain and
37 what we included in our budget was to install new fuel
38 tanks. Concurrently with having that in our budget we
39 talked to the suppliers in the area to see if we could enter
40 into an arrangement with them so they could supply our
41 fuel and we would buy from them as required. We were
42 successful in doing that at a lower cost to our customers.
43 Therefore, what we did, we cancelled the capital work order.
44 Now, that showed up in our budget for two years because
45 it took us that long to get a long-term arrangement with that
46 supplier. So, because it's in the budget it doesn't
47 necessarily mean that we're going to spend the money as
48 it's there. And as we said a couple of minutes ago, that it's

49 a continual review process for our capital budgets. It starts
50 right at the level. But from earlier on in the year, the
51 following year when it's approved by the Public Utilities
52 Board ... now, we will even evaluate it as we're raising the
53 work orders to do those jobs. And if we have alternatives
54 we will take those if they're cheaper, because things
55 change.

56 MS. BUTLER, Q.C.: Yeah. This, I think, will be my last
57 question before we break, Mr. Reeves. And I hear what
58 you're saying. But I guess what this picture presents to me
59 is the opposite of what Mr. Wells was saying in the sense
60 that I thought he was saying to the capital budgeting
61 process things come forward and we cut and see where we
62 can cut to keep the capital budget as low as possible. And
63 in your two areas, transmission and rural systems,
64 historically it's been the opposite, the budget has always
65 been higher than what you've actually spent?

66 MR. REEVES: We do not bring forward budgeted projects
67 which we feel are not necessary. That's the message, I
68 think, Mr. Wells ... that's the message that I would give to
69 you. I can't speak on behalf of Mr. Wells. That's the
70 message that I would give to you. However, in carrying
71 out our capital program that we have approved, we try
72 every effort to lower the budgeted costs that we have put
73 in there. If there are other ways to do it, we also try to do
74 that. But what's happening, and there's ... in my opinion,
75 there's three reasons why we underspend on our budget.
76 The first one is that, as I explained, some jobs are cancelled
77 for good reason. The second one is that we have what I
78 call multi-year projects. There's two types of those. The
79 first one is what I call the multi-year project like an upgrade
80 of a line TL-217 where we physically can't get it done in one
81 year. It was an \$18 million job. We did it over two years.
82 And we estimated that we would spend a certain amount of
83 money in one year and a certain amount of money in the
84 second year. On an \$18 million trying to fine tune it so that
85 you'd get that exact cash flow exactly right for one year
86 verses another is a very ticklish job and the likelihood of
87 hitting that is not that great. But if you are out \$200,000 or
88 \$300,000 on a total project cost it doesn't effect it, but it's
89 just a cash flow problem. The other one that we have on
90 multi-year projects are projects that we attempt to do in one
91 year, but for reasons, some within our own control, some
92 outside of our control, where we don't finish in that year
93 and we have to bring it forward into the next year. So that's
94 the two multi, what I call the two multi-year categories. The
95 third one is our ability to be able to forecast and budget
96 what a project will cost us. And Mr. Wells, in his evidence,
97 on that one right there, I think he said that, and I agree with
98 the numbers, is that our experience over the last number of
99 years is between 1.8 and 7.1 accuracy that we usually
100 underspend. So, we've taken ... and we've noticed this is a
101 concern, it's a concern for us. We've taken corrective

1 action to ensure that what we budget is what we spend,
2 legitimately spend. And, as Mr. Wells said, we have some
3 new software tools in place, we have a better coordination
4 between our engineering staff and the operation staff so
5 that when an engineering job gets finished and is ready to
6 be commissioned or whatever, that the staff is available to
7 do that. We also had started more critical reviews
8 throughout the year with our engineering director and his
9 staff to ensure that we set and maintain our schedules.
10 And I guess the last one that we've done, and hopefully
11 this will help overcome some of the way that we have been
12 budgeting, is that where typically we have been trying to
13 get a lot of what I call the smaller jobs into one year. What
14 we're typically finding is that the engineering work that's
15 required, we can't start spending money in that job until
16 January in the year that it's approved. And what we did
17 find is that if you start your engineering work in January
18 you're up until the late fall until you're actually doing the
19 construction work. What we're doing now, and we started,
20 I think it was last year we started, is that we are budgeting
21 a small amount of dollars in the previous year from the year
22 we wanted to do the project so that we can do the
23 engineering work in the fall of the year, so that when we get
24 the money approved in the following year we got all of our
25 tender specifications ready and we can go to tender and we
26 can do the construction in the summer, late summer or early
27 fall so it's finished in that particular year. So these are some
28 of the steps that we've done to try and overcome the
29 problem of what you are alluding here, which seems to be
30 underspending. But what you've got here in your table I
31 don't think is ... our performance is not to the degree as
32 you're showing in your table.

33 MS. BUTLER, Q.C.: Can I close on his point, though, Mr.
34 Reeves? And that is, you appreciate the danger to
35 consumers of over budgeting in a test year?

36 MR. REEVES: I agree with that statement. However, you
37 also have to realize that our budget is based on estimates,
38 to the best of our abilities. And some of our projects we
39 overspend, some we underspend. We would like to believe
40 that the positives and the negatives will balance out one
41 another. They don't always do that.

42 MS. BUTLER, Q.C.: Mr. Chair, that would be a fine place to
43 break, if you don't mind.

44 MR. NOSEWORTHY, CHAIRMAN: Thank you, Ms.
45 Butler. Thank you, Mr. Reeves. We'll reconvene at 2:00.

46 (break)

47 (2:00 p.m.)

48 MR. NOSEWORTHY, CHAIRMAN: Good afternoon, I
49 believe Hydro has some additional documents before we
50 get started. Ms. Greene, is that correct ... to circulate?

51 MS. GREENE, Q.C.: Yes, thank you, Mr. Chair. What we
52 have ready to file, two pieces of documentation that were
53 referred to earlier. The first is a copy of responses to **NP-**
54 **304 to 311**, which were filed, I believe, Thursday afternoon
55 by Newfoundland Power, and are related to evidence of Mr.
56 Henderson, and we have copies to distribute of our
57 responses to **NP-304 to 311**. The other document that we
58 have ready to file is the **supplementary evidence of Mr.**
59 **Brickhill** that I referred to this morning which indicates the
60 allocation of costs and how the revenue requirement will be
61 allocated to different customers as a result of the change in
62 the allocation of costs that we've talked about, so I do have
63 copies of both of these to distribute at this time.

64 MR. NOSEWORTHY, CHAIRMAN: Thank you.

65 MS. GREENE, Q.C.: I would point out that the responses
66 to **NP-304 to 311** and the evidence of Mr. Brickhill, both of
67 that are in the same pile that have just been distributed.

68 MR. NOSEWORTHY, CHAIRMAN: Is that it, Ms. Greene?

69 MS. GREENE, Q.C.: Yes, it is. Thank you, Mr. Chair.

70 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.
71 In addition, I'm not sure whether it was given to each
72 individual personally or just placed on your desk, and it
73 may get lost in the mass of paper, I'll just mention the fact
74 that the Board's Secretary circulated a letter from the Town
75 Council of Makkovik for your information. Okay, thank
76 you very much, and ...

77 MR. KENNEDY: Mr. Chair, just one more point. There is
78 also a notice been provided by the Conservation Corps. of
79 Newfoundland and Labrador, that they intend to make a
80 presentation at the oral submissions in October. It's not
81 stated expressly, but presumably that's in St. John's, and
82 that they're looking for documentation so I'll contact the
83 Board Secretary and let her know to provide that
84 information.

85 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
86 Mr. Kennedy. Ms. Butler, are you ... sorry, I didn't mean ...

87 MS. BUTLER, Q.C.: That's okay.

88 MR. NOSEWORTHY, CHAIRMAN: Are you in a position
89 to proceed?

90 MS. BUTLER, Q.C.: Yes, thank you, Mr. Chairman.

91 MR. NOSEWORTHY, CHAIRMAN: Mr. Reeves, are you?

92 MR. REEVES: Yes, Mr. Chair.

93 MR. NOSEWORTHY, CHAIRMAN: Okay, please proceed.

94 MS. BUTLER, Q.C.: Mr. Reeves, I'm still addressing an
95 issue or two arising from the capital budget.

96 MR. REEVES: Yes.

1 MS. BUTLER, Q.C.: And my next series of questions deals
2 with **B-46** and **B-57** of the capital budget as filed.

3 MR. REEVES: 46 and 47?

4 MS. BUTLER, Q.C.: 46, actually, and 57.

5 MR. REEVES: 57.

6 MS. BUTLER, Q.C.: And we'll go to 46 first. Thank you,
7 Mr. O'Rielly. For this item, it's a capital project over
8 \$50,000. The explanation relates to the replacement of 136
9 kilowatt diesel unit at the community of Harbour Deep.

10 MR. REEVES: That's correct.

11 MS. BUTLER, Q.C.: And can you enlighten the Board, if
12 not myself, to exactly where Harbour Deep is on the island
13 of Newfoundland?

14 MR. REEVES: Harbour Deep is located on the Northern
15 Peninsula.

16 MS. BUTLER, Q.C.: Thank you, so it's actually on the ...

17 MR. REEVES: It's on the east side, midway up the Great
18 Northern Peninsula.

19 MS. BUTLER, Q.C.: Right, and the proposed cost of this is
20 indicated here on page B-46 as \$282,000.

21 MR. REEVES: That's correct.

22 MS. BUTLER, Q.C.: Which is the cost of replacing the unit
23 rather than completing and overhaul of the unit.

24 MR. REEVES: That's correct, yes. The unit being replaced
25 has 94,000 operating hours on it and it was purchased in
26 1975.

27 MS. BUTLER, Q.C.: Oh, I think you said it would have
28 94,000 by 2002.

29 MR. REEVES: Yes.

30 MS. BUTLER, Q.C.: Okay, at page B-57 there's a reference
31 to an upgrade of the diesel plant at Harbour Deep for a
32 capital cost of \$515,000, also for the same community.

33 MR. REEVES: That's correct.

34 MS. BUTLER, Q.C.: Okay, and here the proposal is to
35 upgrade the building by constructing a new diesel hall and
36 refurbishing the existing hall to serve as a control room,
37 office, and washroom.

38 MR. REEVES: That's correct.

39 MS. BUTLER, Q.C.: The total improvements then, if you
40 add those two together, is \$797,000. I wonder if we might
41 just look now at **NP-230**, lines 18 and 19. This is in relation
42 to a question that we posed over this capital project for this
43 community. Mr. Reeves, are you aware that there is a
44 continued debate regarding the potential relocation of the
45 residence at Harbour Deep?

46 MR. REEVES: Yes, as a matter of fact, I heard an interview
47 late last week from a resident of Harbour Deep who
48 supposedly is the last resident that does not want to move.

49 MS. BUTLER, Q.C.: That's right. As I understand it, 53 of
50 54 residents have indicated their desire to move.

51 MR. REEVES: I'll take your number on that one, but there's
52 a high percentage of people that would like to move and be
53 involved in a program with government for relocation.

54 MS. BUTLER, Q.C.: And I think the press you spoke of
55 was actually on September 21st, but given that, if you
56 assume for the moment that my information is correct, that
57 53 of 54 people, families, wish to move from the community
58 of Harbour Deep. I wonder if you can address the
59 appropriateness of a capital cost of \$797,000 as
60 improvements to the diesel unit and the housing at that
61 community at this time.

62 MR. REEVES: As Mr. Wells indicated during his
63 testimony, ours is not to question, I guess, the fact that
64 service is required in the community. Once we take it upon
65 ourselves to provide the service in the community as we
66 have in Harbour Deep, we have to maintain the service
67 there and it is not acceptable to us, and I'm sure not our
68 customers in Harbour Deep, that if we have an abnormally
69 high number of outages which would cause a low reliability
70 in that community. We have looked at Harbour Deep for
71 the last number of years, and realizing exactly what you're
72 saying, is that that is a community that may be relocated
73 and we have delayed, in our opinion, as long as we can, the
74 capital expenditures that is required in there to maintain a
75 reliable service. What we are planning to do, as we
76 indicated in our answers, is that if, in fact, the community
77 is still there next year and we have to go and upgrade it,
78 which we think we do, we will be looking at options of
79 putting in generation there which can be reused in other
80 locations at minimum cost.

81 (2:15 p.m.)

82 MS. BUTLER, Q.C.: Well that's what I wanted to ask you
83 about. On the same page that we have on our screen at
84 lines 23 and following, you did indicate an answer to a
85 question that Hydro was continuing to review alternatives
86 to address the problems, including the potential for
87 containerizing the units. Containerizing the units means
88 making them mobile?

89 MR. REEVES: Well that's one option. A containerized unit
90 is one that can be in a trailer, is one option for a
91 containerized unit, but there are others that you can bring
92 in and have on skids that are not on, say, that will require
93 more facilities to make the mobile, but containerized would
94 be a unit that's a stand alone unit, not in a diesel plant.

1 These units are harder to maintain in the middle of winter
2 when we have to do our maintenance or we have problems.
3 We don't go a lot with those for that particular reason, but
4 in cases we have used containerized units, and in this
5 particular case where there is the question, obviously this
6 is one that we would look at for an application like that and
7 take additional, I guess, concerns that we have in
8 maintaining a plant like that, we would take that because
9 there is a possibility that the community may go.

10 MS. BUTLER, Q.C.: But as I understand the, excuse me,
11 application, and this is part of your, of course, seeking
12 approval of the 2002 capital budget, what you've put
13 forward is, in the first component of it at **B-46**, at a
14 proposed cost of \$282,000, the replacement of the diesel
15 unit and not the containerization of it.

16 MR. REEVES: And what the cost differential is at this
17 point, I don't know. It may cost us just as much to
18 containerize it as it is to do the modifications to the plant.

19 MS. BUTLER, Q.C.: But until you study that you can't
20 possibly know, unless you knew the ...

21 MR. REEVES: We know that we can do the upgrade of the
22 plant for the money that we have allocated and as ...

23 MS. BUTLER, Q.C.: Well wait now, I'm talking about the
24 unit first, because there's two components to that. There's
25 the unit and then there's the building.

26 MR. REEVES: The unit itself, the replacement of the unit,
27 I think that needs to be done next year if the community is
28 still there. That's got nothing to do with the
29 containerization of the plant.

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

31 MR. REEVES: But the one that is in question, in my mind,
32 is the actual method that we use to upgrade that plant there
33 if it's required after next year.

34 MS. BUTLER, Q.C.: You're talking about the building now,
35 Mr. Reeves?

36 MR. REEVES: The building, what I'm calling the plant.

37 MS. BUTLER, Q.C.: Alright, that's the \$515,000 portion.

38 MR. REEVES: Sorry, that's correct, yes, and whether that
39 is going to be the way that we have as presented in our
40 budget, or whether it's going to be a containerization of the,
41 some of the units are there, or the new ones, that's an
42 option that we will have to look at, but we know that that
43 will cost us money as well.

44 MS. BUTLER, Q.C.: Okay, if the unit itself, that's the diesel
45 unit, were fully replaced at a cost of \$282,000, which is the
46 proposed budget portion of **B-46**, but containerized, then
47 would you be able to move the unit to another location if

48 the community itself is relocated?

49 MR. REEVES: If we, on the unit that we've got in our
50 budget, the stand alone one that we just talked about, not
51 the upgrading the plant, that is for installation into a
52 building, okay. If we go with a containerized unit, in all
53 probability that will cost us more for that particular ...

54 MS. BUTLER, Q.C.: But how do you know that?

55 MR. REEVES: Well, because we're going to buy a unit and
56 right now it's just a unit with no shell around it, no chassis
57 on it, or nothing, so to go out and buy a container, that
58 same unit but in a container will cost us more.

59 MS. BUTLER, Q.C.: Then you could save the \$515,000 for
60 the building.

61 MR. REEVES: We will save some portion of that, but now
62 in the other, there are other units in the plant and if we, and
63 we have to do some upgrading of that plant, so what we
64 would be doing is taking the units that are currently in the
65 plant that are not being replaced, and putting those in
66 containers, so on the one hand, in all likelihood, we will
67 probably save on the upgrading of the plant, but the actual
68 replacement of the unit, the other item, will probably cost
69 us more.

70 MS. BUTLER, Q.C.: Alright, but you're not able to refer me
71 to a study that's been done of the two options?

72 MR. REEVES: No, because it's not complete yet, and as I
73 said earlier on in my testimony, as we raise work orders,
74 and when this ... I'm saying when this budget gets
75 approved and we look at next year raising the actual capital
76 job cost to do that work, we will have all the evaluations
77 done at that point in time and we will go with the most
78 economic option.

79 MS. BUTLER, Q.C.: But currently you're asking for
80 approval of these amounts in the test year budget?

81 MR. REEVES: That's right, and that's not unsimilar to, as I
82 mentioned earlier this morning as well, with the Nain fuel
83 storage, whereby we knew we needed additional fuel, in the
84 community of Nain. One option, the option we would have
85 is to build a fuel tank. We were exploring another option
86 which we did not have finalized. Once we finalized it we
87 were able to delay it by one year and then the second year,
88 so it's in the same category of that. We know ... pardon
89 me?

90 MS. BUTLER, Q.C.: So it may be deferred, is that what
91 you're saying? So it may in fact be deferred?

92 MR. REEVES: This work will not be ... we need to do some
93 work in Harbour Deep. Whether it's as we've got it in this
94 exact budget, the way it's laid out here, or whether we go
95 with a containerized set up needs to be finalized, and the

1 cost comparison for one versus the other, I'm not sure what
2 it is.

3 MS. BUTLER, Q.C.: I want to turn now, if I can, to an issue
4 of cost allocation and that concerns the Bottom Brook
5 project. There is a west coast substation called Bottom
6 Brook, is there, Mr. Reeves?

7 MR. REEVES: That's correct. As a matter of fact, it's the
8 one I used in my presentation this morning.

9 MS. BUTLER, Q.C.: Yes, there was a picture of it.

10 MR. REEVES: Just happened to be one that we had in our
11 library that I happened to use. I didn't know you were
12 going to ask a question on it.

13 MS. BUTLER, Q.C.: I did ask Ms. Greene if you had that
14 available though on your screen, the presentation from this
15 morning.

16 MR. REEVES: Okay, let's have a go.

17 MS. BUTLER, Q.C.: While we're waiting for that, Mr.
18 Reeves, your division is responsible for the Hydro
19 transmission line system and the associated substation
20 maintenance?

21 MR. REEVES: That's correct.

22 MS. BUTLER, Q.C.: And is transmission line No. TL-250
23 terminated at the Bottom Brook substation?

24 MR. REEVES: We have quite a number of transmission
25 lines and I don't have them all to memory.

26 MS. BUTLER, Q.C.: No, that's okay.

27 MR. REEVES: So I carry these drawings with me.

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

29 MR. REEVES: Okay, the same as the one on back, and the
30 question you're asking is line?

31 MS. BUTLER, Q.C.: TL-250, does it terminate at the Bottom
32 Brook substation?

33 MR. REEVES: It does.

34 MS. BUTLER, Q.C.: So what customers are served by line
35 TL-250 please?

36 MR. REEVES: It's the communities down in the Burgeo
37 region, and if you go to ... as you can see on this particular
38 slide right here, it's the green line in the south cost ... Terry,
39 do you want to show it? No, the next one over. No, no, no,
40 in the middle, that one right there. That's the TL-250 you're
41 referring to, and where the arrow is pointing right now is
42 Grandy (*phonetic*) Brook.

43 MS. BUTLER, Q.C.: I'm sorry, Mr. Reeves, I didn't catch
44 that.

45 MR. REEVES: Where the arrow is pointed right now is
46 Grandy Brook on the south coast of Newfoundland.

47 MS. BUTLER, Q.C.: Mr. Reeves, are you aware that several
48 times a year, most recently in July of this year, your crews
49 performed maintenance work on BUS No. 1 and associated
50 equipment at the Bottom Brook substation?

51 MR. REEVES: I can't say that they did or didn't. I'm not
52 surprised by that.

53 MS. BUTLER, Q.C.: Okay, why would you not be surprised
54 by that?

55 MR. REEVES: Because we perform maintenance on a lot of
56 our equipment, and usually do preventative maintenance
57 throughout the year checking it to ensure that we are going
58 to maintain reliability.

59 MS. BUTLER, Q.C.: Okay, assuming my question, the facts
60 in my question to be accurate and that, in fact, several
61 times a year your crews do perform maintenance work there,
62 while the maintenance is being performed, can you tell the
63 Board whether your customers at Burgeo and LaPoile
64 would experience an outage?

65 MR. REEVES: It would depend on the type of equipment
66 that is actually taken out of service.

67 MS. BUTLER, Q.C.: Could you give me an example?

68 MR. REEVES: If we had to take the breaker out of service
69 that feeds TL-250, then in all probability the people in that
70 area would be without power for a short period of time.

71 MS. BUTLER, Q.C.: And an example where they wouldn't?

72 MR. REEVES: If the outage was going to be of any
73 extended period, and I don't know if this is the case, we
74 may bring in some mobile generation.

75 MS. BUTLER, Q.C.: Are you aware that Newfoundland
76 Power's line 400L services that area?

77 MR. REEVES: 400L services the Burgeo area?

78 MS. BUTLER, Q.C.: Yeah, Burgeo, LaPoile.

79 MR. REEVES: I didn't think Newfoundland Power had any
80 lines on the south coast of Newfoundland.

81 MS. BUTLER, Q.C.: Okay, let me rephrase the question.
82 I'm sorry. The customers of Burgeo and LaPoile did not
83 experience an outage due to the fact that line 250 was being
84 served through Newfoundland Power's line 400L.

85 MR. REEVES: Well that must be, what you're referring to
86 is some arrangement in Bottom Brook itself that allows us
87 to provide power around a breaker that we have there, if
88 that's what you're referring to.

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

1 MR. REEVES: But Newfoundland Power does not have a
2 line that services down in that area that we can use as an
3 alternate supply, if that's your question.

4 MS. BUTLER, Q.C.: I stand corrected. I think your answer
5 is correct, but am I telling you something or suggesting
6 something to you that's not your area, Mr. Reeves?

7 MR. REEVES: No.

8 MS. BUTLER, Q.C.: No, okay.

9 MR. REEVES: This is my area. Now the only thing about
10 it is that the actual configuration of the Bottom Brook
11 terminal station, I don't have it on the top of my head right
12 now.

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

14 MR. REEVES: And the operations of that station falls
15 under Mr. Henderson, but ... and they would make the
16 arrangements with Newfoundland Power if there is an
17 alternate way that we can do it. We also, and I'm sure we
18 would do this if we're able to do some temporary jumpers or
19 something. I wouldn't be surprised with that, but our
20 objective would be to do our maintenance in such a fashion
21 that we do not cause outages to our people.

22 MS. BUTLER, Q.C.: Absolutely, I think my point though is
23 more directed at this, and that is that if what I'm suggesting
24 to you is accurate, and I think you're telling me that you
25 believe it to be ...

26 MR. REEVES: Well, I'd have to look at the drawings to be
27 sure as to what you're saying, and I don't have that
28 information in front of me right now.

29 MS. BUTLER, Q.C.: Okay, well assuming for the moment
30 that it's accurate then, the 400L and associated equipment
31 at Bottom Brook substation provides a benefit to your
32 customers at Burgeo and LaPoile.

33 MR. REEVES: If we are able to do that, go around our
34 breaker there?

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

36 MR. REEVES: Okay, but I don't know that we're using your
37 transmission line. I'm not sure of that. I'd have to look at
38 the arrangement, I'm sorry.

39 MS. BUTLER, Q.C.: And you would defer to who in
40 particular?

41 MR. REEVES: Defer it to myself. I just don't have the
42 information in front of me to be able to tell you that.

43 MS. BUTLER, Q.C.: Grand, well, I'll accept an undertaking
44 on it if you could?

45 MR. REEVES: Okay.

46 MS. BUTLER, Q.C.: Thank you.

47 MR. REEVES: I don't have a copy of the system in front of
48 us and we have 54 stations across the island and how each
49 one are inter-tied together ... I'm sorry.

50 MS. BUTLER, Q.C.: I didn't expect you to have it
51 committed to memory. Can I ask you just a couple of quick
52 questions please about the Bay d'Espoir street lighting
53 issue. Is that again your area?

54 MR. REEVES: Oh yeah, we maintain the street lighting
55 issue in Bay d'Espoir, and if it's regarding the maintenance,
56 I can answer that, yes.

57 MS. BUTLER, Q.C.: Okay, does your budget include the
58 \$60,000 grant provided to the Town of Bay d'Espoir?

59 MR. REEVES: My particular budget does not.

60 MS. BUTLER, Q.C.: Can you tell me to who I should defer
61 the questions then if it's in somebody else's budget?

62 MR. REEVES: Probably Mr. Osmond might be the one to
63 ask. I'm not sure, it's either him or maybe the operations
64 budget for that area. I'm not sure where it is.

65 MS. BUTLER, Q.C.: Well, I won't ask you to give me an
66 undertaking, Mr. Reeves, but perhaps I'll just ask Ms.
67 Greene if she could let me know to whom I should put that
68 question later.

69 MR. REEVES: Okay.

70 MS. BUTLER, Q.C.: Mr. Reeves, there are two issues that
71 are fairly large issues that I've left separate from the capital
72 budget and operations budget this morning or this
73 afternoon, because it seemed to me that they cross over
74 into both budgets, and the first of these is staffing and
75 positions that are filled within your areas of TRO. I wonder
76 if we could look at **NP-6**? While that's coming up, Mr.
77 Reeves, can you tell me, was there an organizational
78 change within Hydro around 1995 that created TRO as a
79 division?

80 MR. REEVES: Prior to '95 there was, excuse me one second
81 ... prior to '95, the way that Hydro was basically structured,
82 there was one operational department which was headed
83 by one VP and it had operating responsibilities for both the
84 hydraulic, Holyrood and what we call TRO. There was a
85 separate division which was for engineering and
86 construction, and what happened in 1995 is that there was
87 two, there were two operating divisions created. One was
88 generation, which included Holyrood and Bay d'Espoir and
89 its associated plants, and the other one was TRO. What
90 we did with the engineering staff is that there was
91 engineering staff associated with each department, and the
92 engineering staff still coordinate and, as a matter of fact,
93 some of the engineering I have done in TRO is actually

1 done by generation, because, and it's primarily associated
2 with the gas turbines because they have the expertise in
3 generation.

4 MS. BUTLER, Q.C.: Alright, it was apparent to me by
5 looking at **NP-6(a) and (b)**, which you see there in the
6 answer, (a) and (b), details of staffing levels by
7 departments are attached, so in the attachment, going to
8 page two of four, there you go, looking at the bottom of the
9 page 95, okay, we see an entry for TRO.

10 MR. REEVES: That's correct, yes.

11 MS. BUTLER, Q.C.: But if you looked above in '94, '93, and
12 '92, etcetera, you would not see a reference to TRO.

13 MR. REEVES: That's correct because there was still a TRO
14 section but it was in what we called operations division at
15 the time.

16 MS. BUTLER, Q.C.: Okay, and were you ...

17 MR. REEVES: That's like you probably don't see one up
18 there for production as well in 1994.

19 MS. BUTLER, Q.C.: Okay, and then you became the first
20 Vice-President of TRO then?

21 MR. REEVES: That's right.

22 MS. BUTLER, Q.C.: Okay, now how many permanent
23 employees did TRO have when it was first created, when
24 you first became Vice-President of this section?

25 MR. REEVES: From the table that's in front of me, we had
26 473, and that would include the three departments as I
27 explained earlier, Operations, Engineering, and
28 Environment.

29 MS. BUTLER, Q.C.: And 56 in temporary?

30 MR. REEVES: Yes, the 56 in temporary, as I understand it,
31 is the, for December of that year and the people that were
32 on payroll sometime throughout that month.

33 MS. BUTLER, Q.C.: Okay, a total of ...

34 MR. REEVES: It may not have been the ones that were on
35 year end. It was sometime during the month of December.
36 That's what that figure means to me.

37 MS. BUTLER, Q.C.: Okay, I'll have a look in a moment, if I
38 might, to the last page of the exhibit and we'll see if that
39 assumption is right, but in any event the two numbers add
40 to 529.

41 MR. REEVES: 529 is correct, yes.

42 MS. BUTLER, Q.C.: Okay, now page four of four, the note
43 following the table, and it talks about when the figures
44 speak of. There you go. The note says, "information
45 provided is forecast year end with the exception of May
46 2001".

47 MR. REEVES: Projections for year end 2001 (inaudible),
48 and you've got current, the same as May 2001, is that the
49 note you're referring to?

50 MS. BUTLER, Q.C.: No, the one under that.

51 MR. REEVES: Oh, the one below it. "information provided
52 are forecast year end with the exception of May 2001".
53 That's what the note says, yes, but as I understand it, for
54 the temporary people the way that it's reported is that
55 anybody that was hired on or was on temporary payroll for
56 the month of December is included in that number, so it's
57 not December 31st.

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

59 MR. REEVES: We may have laid off some more people
60 towards the end of, you know, sometime during December.
61 That would be included in this number.

62 MS. BUTLER, Q.C.: Alright, my concern is more with the
63 fact that the note suggests that it's forecast year end as
64 opposed to actual year end. In other words, can you tell
65 me that the figures that you've given us in answer to this
66 question, each of those years are the actual permanent and
67 temporary positions for the actual year end as opposed to
68 the forecast year ends?

69 MR. REEVES: Well the permanents are forecasted for year
70 end, December 31st, and as I said, my understanding of
71 what's here for temporary is not year end, but is the way
72 that the information is collected and it's for people that
73 were on during that month.

74 MS. BUTLER, Q.C.: Well in order to, perhaps, do the
75 exercise in a manner that ...

76 MR. REEVES: And why that was done is that the
77 information that was collected above for year end figures
78 that was available to us in our systems was done that way
79 so to be consistent, the way that it was given for looking
80 forward for forecasts, we gave them in the same manner.

81 MS. BUTLER, Q.C.: Well is it possible to tell us the actual
82 permanent staff at year end '94, '95, '96, etcetera, instead of
83 the forecast?

84 (2:30 p.m.)

85 MR. REEVES: I'm only talking temporaries now, I'm not
86 talking permanents.

87 MS. BUTLER, Q.C.: I'm sorry, I was looking at permanent.

88 MR. REEVES: Okay, I'm sorry, but the comments I was
89 telling you in regards to, for the month versus year end is
90 for temporary. Permanents are year end.

91 MS. BUTLER, Q.C.: But just look at the note, "information

- 1 provided is forecast year end as opposed to actual year
2 end".
- 3 MR. REEVES: Yeah, I don't know why that says forecast
4 because this history is in the past, isn't it? 2000?
- 5 MS. BUTLER, Q.C.: Yes, but I wondered whether they
6 were relying on forecast documents as opposed to actual.
7 Can we just clarify that these are the actual year end?
- 8 MR. REEVES: Somebody can clarify that other than me, I
9 guess. Okay.
- 10 MS. GREENE, Q.C.: I can clarify that for the record that is
11 misleading. For the permanent that is the actual as of the
12 end of the year for the permanent staff, and the confusion
13 probably is the difference between how we ... as Mr.
14 Reeves was trying to explain, the difference between the
15 permanent and the temporaries, and as Mr. Wells indicated,
16 we are going with a full-time equivalency so we will have a
17 base in 2000 going forward, but those numbers for
18 permanent are ...
- 19 MR. REEVES: Are year end.
- 20 MS. BUTLER, Q.C.: Alright, let's scroll back up then to
21 page two of four.
- 22 MR. REEVES: I need to make sure that I understand the
23 questions so I can answer the questions you're asking me.
- 24 MS. BUTLER, Q.C.: We're just going to compare the
25 numbers now for '96 to 2000. I'm sorry, Mr. O'Rielly, it is the
26 next page. Okay, so we have the figure for '95, 473 for
27 permanent and 56 for temporaries.
- 28 MR. REEVES: So '94 was 473 and 56, right, is that what
29 you're saying?
- 30 MS. BUTLER, Q.C.: That's what the exhibit showed, yes.
- 31 MR. REEVES: Okay.
- 32 MS. BUTLER, Q.C.: For a total of ...
- 33 MR. REEVES: And the next year you're taking is which?
- 34 MS. BUTLER, Q.C.: A total of 529. In 1996 it looks like 425
35 plus 60 temporaries?
- 36 MR. REEVES: Yes.
- 37 MS. BUTLER, Q.C.: Again in the TRO division.
- 38 MR. REEVES: Yes.
- 39 MS. BUTLER, Q.C.: And 1997, 420 plus 47?
- 40 MR. REEVES: Yeah.
- 41 MS. BUTLER, Q.C.: For a total of 467.
- 42 MR. REEVES: Yes.
- 43 MS. BUTLER, Q.C.: 1998 was 406 plus 68 for a total of 474.
- 44 MR. REEVES: Yes.
- 45 MS. BUTLER, Q.C.: '99 was 412 plus 73 for a total of 485,
46 and 2000 was 411 plus 82 for a total of 493.
- 47 MR. REEVES: 493.
- 48 MS. BUTLER, Q.C.: And May 2001 was 380 plus 128 for a
49 total of 508, is that right?
- 50 MR. REEVES: Well it's not a fair comparison to add those
51 two numbers together.
- 52 MS. BUTLER, Q.C.: No, I agree. Do you have better
53 numbers for 2001 now?
- 54 MR. REEVES: My understanding or our temporaries in
55 2001 at year end will be around 51, a comparable number
56 because what was ... we were asked the question, to file ...
57 what was requested was the total number, and I took it
58 upon myself to find out what the TRO portion of that is and
59 it's 51, and it makes a total of 431.
- 60 MS. BUTLER, Q.C.: Now are these numbers that we're
61 working with here head counts of actual people working or
62 are they full-time equivalents which are referred to in
63 Newfoundland Power's books as FTE's?
- 64 MR. REEVES: These would be head counts.
- 65 MS. BUTLER, Q.C.: For permanent.
- 66 MR. REEVES: For the permanents, and also for the
67 forecasts (*sic*), and also for the temporaries, okay, it's
68 positions. Now in the permanents now, there's a difference
69 in what I call a permanent complement position and also a
70 head count. A head count is when I look around the room
71 and we are here, but a complement for this room may be 10
72 positions higher. In TRO we have 380 in the year 2001, 380
73 complement positions, but there are times through the year
74 where they are not all filled. That's our complement. There
75 is a difference, so when you use the terminology, head
76 count, it means something different to me.
- 77 MS. BUTLER, Q.C.: I honestly thought this was the
78 number of permanent people employed on May 2001.
- 79 MR. REEVES: This would be our total complement
80 positions that we have in TRO. Now whether that's filled
81 or not at any one point in time, the likelihood of that
82 happening with that number of people is that there's
83 probably vacancies of varying amounts throughout the
84 year.
- 85 MS. BUTLER, Q.C.: Okay, there is an exhibit that shows
86 the difference though. **Grant Thornton's report, exhibit**
87 **three**. This is the **2001 report**. Exhibit three.
- 88 MR. REEVES: Exhibit 3(e), isn't it?
- 89 MS. BUTLER, Q.C.: Exhibit 3(e).

1 MR. REEVES: And you'll see in Exhibit 3(f) is the actual.
2 MS. BUTLER, Q.C.: I wonder if we can just look at 3(e) first
3 so the Board can keep up with us here. Okay, that's (g), so
4 you've gone too far there ... (e), okay. Thank you. Now in
5 the year 2001 which is what we were speaking of, TRO has
6 filled and vacant, 380. That's the same number we saw from
7 your earlier exhibit, but it has filled ...
8 MR. REEVES: We have a complement of 380 in Exhibit 3(e),
9 and if you look at 3(f), we are estimating 365.
10 MS. BUTLER, Q.C.: That's right.
11 MR. REEVES: As filled positions.
12 MS. BUTLER, Q.C.: Just hold that screen there one
13 second. When you say the complement, looking to the top
14 left-hand corner of the screen, what I was saying was that's
15 filled and vacant, that's the definition of complement. Do
16 you see that there?
17 MR. REEVES: That's correct yes.
18 MS. BUTLER, Q.C.: Versus filled is 365.
19 MR. REEVES: That's right.
20 MS. BUTLER, Q.C.: So the number is 365 for the
21 permanents.
22 MR. REEVES: The people that are in the number of
23 permanent positions in a complement that are filled at that
24 point in time when that number was taken is 365, but our
25 complement is 380.
26 MS. BUTLER, Q.C.: Correct, now are you expecting, Mr.
27 Reeves, production or efficiency gains in TRO in 2002?
28 MR. REEVES: We are always looking to have efficiency
29 gains in our company, and in particular, TRO, which I have
30 most control over. Every time that we have a vacancy we
31 evaluate that to determine if we can do our business a little
32 differently and to have efficiencies. Now ...
33 MS. BUTLER, Q.C.: But the forecast here is the same
34 number.
35 MR. REEVES: That's right, but what we, the way that we
36 look after budgeting for efficiencies as we'll see in another
37 schedule here, is that if we know that there's something
38 coming, say, next year, and we are planning to do it, and we
39 know it this year for next year, we will put a number in our
40 budget but that will not be put in my TRO budget. That
41 will normally be put into the finance budget as a lump sum
42 and it will be additive (*phonetic*) for all the divisions in the
43 company, and the reason we do that is because these
44 documents are fairly widely spread throughout the
45 company and what we don't want to do is to give, I guess,
46 advance knowledge of some of the things that we may be
47 doing within the company, so this is the way that we try to
48 budget these things, so in my budget for next year, if there
49 was some efficiencies which we are planning to do, which
50 right now, and we have an estimated, and it's in our budget
51 for next year, you would not see that in my budget.
52 MS. BUTLER, Q.C.: I wouldn't see the dollar value.
53 MR. REEVES: No, no, nor would you see a change in the
54 complement.
55 MS. BUTLER, Q.C.: Even on this screen here I would not
56 see the reduction planned in the number of positions?
57 MR. REEVES: No, you would not see that.
58 MS. BUTLER, Q.C.: Alright, so the fact that you're using
59 the same number of 380 for TRO in Exhibit 3(e) does not
60 mean that you don't intend to reduce the complement of
61 staff positions in TRO in the year 2002.
62 MR. REEVES: That is correct.
63 MS. BUTLER, Q.C.: Okay, because in your evidence, and
64 this is pages 6 to 9, I don't think we need to look at your
65 actual testimony because it's referred to in another exhibit
66 **NP-20**. I think your evidence spoke generally about the
67 initiatives, do you recall that, Mr. Reeves?
68 MR. REEVES: I listed in my evidence so many initiatives
69 that we have on the go, there are some smaller ones that I
70 didn't list, but I tried to catch the more significant ones.
71 MS. BUTLER, Q.C.: Okay, and then we asked a question
72 about them and this is what you'll see on the screen here
73 now, **NP-20**, page 1, lines 7 and following, and then onto
74 the next page, and I'll just go through that if I can. You
75 talked here, or Hydro spoke of initiatives in the area of
76 productivity and efficiency and the first example was a 1995
77 initiative that resulted in the elimination of six full-time
78 equivalent positions.
79 MR. REEVES: That's correct, yes.
80 MS. BUTLER, Q.C.: Okay, and then the next one was in
81 1996, another initiative that changed TRO from six regions
82 to three, and we'll see there at line 18, resulted in the
83 elimination of 19 full-time equivalent positions.
84 MR. REEVES: That's correct.
85 MS. BUTLER, Q.C.: And then the third in 2001, a review of
86 line worker coverage resulting in the elimination of 17.5.
87 MR. REEVES: That's on the next page.
88 MS. BUTLER, Q.C.: Yeah, that's on the next page, line 7,
89 17.5 full-time equivalent positions, a total of 42.5 full-time
90 equivalent positions saved with these three initiatives
91 alone. Are you able to tell the Board though how many
92 FTE's existed in TRO in the period '95 to 2000 before these
93 initiatives took place?

1 MR. REEVES: And you mean FTE's which is a combination
2 of permanents plus temporaries?

3 MS. BUTLER, Q.C.: Well you see, the problem I have is
4 that the initiatives you're talking about, you talk of FTE's,
5 but quite honestly I didn't think Hydro ...

6 MR. REEVES: Why we went to FTE's in this particular
7 response is that in particular on the one that's on the
8 screen here, for the line worker coverage, is that we had
9 driver ground workers, actually it was 13 of them, which we
10 changed from permanent status to half time status, so that's
11 why we went to FTE's in that particular response right
12 there. It was easy to do. We had 11 line workers, 6 1/2
13 driver ground workers, 13 half time, gives you 17 1/2. It's as
14 simple as that.

15 MS. BUTLER, Q.C.: Do you have FTE data for '95 to '99?

16 MR. REEVES: No, we don't.

17 MS. BUTLER, Q.C.: Okay, so if you don't have the FTE
18 data for '95 to '99, how can we analyze or compare your
19 productivity of efficiency gains on an FTE basis now?

20 MR. REEVES: It wasn't put here .. we put it here in such a
21 way that we tried to make it, I guess, as clear as possible, to
22 ... instead of coming out and saying that we laid off all
23 these extra people, we wanted to be as fair as we could to
24 say that we only decreased our complement by 6 1/2 but in
25 actual fact it was 13.

26 MS. BUTLER, Q.C.: I'm sorry, can you try that again? I
27 missed that.

28 MR. REEVES: To answer your question, it is in FTE's. We
29 made a judgement call, I guess, in responding to this
30 question right here, because some of the positions that we
31 actually decreased went from permanent full-time to half
32 time, so that is a half a person, okay, a half an FTE if you
33 want to call it.

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

35 MR. REEVES: Okay, so that's why we used FTE's right
36 here, because we were dealing with two classifications
37 which was the line workers, which were full positions that
38 we eliminated, and then there were driver ground worker
39 positions that we eliminated half of their time, and to be
40 able to respond to it as clearly as we could, we put it into
41 the FTE format, realizing that Hydro and, in fact,
42 Newfoundland ... TRO, is not on the FTE system, and you
43 can't use an FTE comparison against the way that we do
44 our budget, you're right.

45 MS. BUTLER, Q.C.: Mr. Reeves, back to the question
46 though, if there's no FTE data for '95 to '99, for the reasons
47 that you've explained and which I accept, how can you
48 compare your productivity and efficiency gains now on
49 this basis?

50 MR. REEVES: On the FTE basis? You can't.

51 MS. BUTLER, Q.C.: You can't.

52 MR. REEVES: You had, the way that we do it is that we
53 have, in this particular case, for the 17.5, we have 11 less
54 permanent positions, that's easily measurable.

55 MS. BUTLER, Q.C.: Okay, that's fine.

56 MR. REEVES: Okay, and we have 13 driver ground workers
57 which were hired on and working with us full-time, and now
58 they're half-time.

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

60 MR. REEVES: That's what it is. In that particular case, you
61 know, unless we hire back on some of our line workers,
62 unless we keep our line workers ... our driver ground
63 workers on for all the time, but to look at a set of numbers
64 of FTE's then and FTE's now, no, we do not have that.

65 MS. BUTLER, Q.C.: Okay, can you tell us this, or tell the
66 Board this, how many FTE's are there currently in TRO?
67 (2:45 p.m.)

68 MR. REEVES: We don't maintain FTE data in Hydro. We
69 are moving down that road but we are not there yet.

70 MS. BUTLER, Q.C.: Alright, moving away then from the
71 FTE's for the reasons that you've just indicated, and
72 despite the way the answer to this particular question was
73 put, I understand why you did it that way, what is the
74 actual reduction in the positions on a non-FTE basis?

75 MR. REEVES: For which period?

76 MS. BUTLER, Q.C.: '95 to 2000.

77 MR. REEVES: '95 to 2000. We've gone from permanent
78 positions of 473.

79 MS. BUTLER, Q.C.: And temporaries of 56 for a total of
80 529.

81 MR. REEVES: 529, and we went right up to 2001 which is
82 380 and 51, which is a total of 431.

83 MS. BUTLER, Q.C.: If you use the 51 for year end, yeah.

84 MR. REEVES: Yes, that's correct, which is the right ... well,
85 it's the year end figure comparable to the numbers above,
86 if you want to do a fair comparison.

87 MS. BUTLER, Q.C.: Okay, although we're only at October.

88 MR. REEVES: Yeah, but it's our forecast.

89 MS. BUTLER, Q.C.: It's a forecast and not an actual.

90 MR. REEVES: That's right, okay, yeah.

1 MS. BUTLER, Q.C.: And the total is ...

2 MR. REEVES: The difference?

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

4 MR. REEVES: 98, that's permanents and temporaries.

5 MS. BUTLER, Q.C.: Right, so your evidence is that the
6 staff in TRO, permanent and temporaries, has actually
7 reduced from 529 in 1995 to 432 in the year 2001?

8 MR. REEVES: That's strictly on a complement or a head
9 count, as you call it, number. What that relates into dollars
10 can be different.

11 MS. BUTLER, Q.C.: That's what I'm going to look at now.

12 MR. REEVES: Because you have to realize that the
13 permanent complement that we've made reference to from
14 473 down to 380, those people are working with us all year
15 long.

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

17 MR. REEVES: Okay, and that's quite easy to determine
18 what their salaries were then and what they are now.
19 Where they go from the temporary, which was 56 to 51,
20 okay, and in actual fact that's a decrease of four, the length
21 of time that they would work in 1995 versus what they work
22 now, is not a straight comparison.

23 MS. BUTLER, Q.C.: However, if you've lost '98 bodies, you
24 should expect to see some reduction in salaries, shouldn't
25 you?

26 MR. REEVES: You will.

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

28 MR. REEVES: And you will in the permanent complement.
29 That's where you'll see the most of it. The temporary one,
30 as I'm trying to explain, is a little harder to ... and that
31 depends on your workload as we talked earlier this
32 morning, what project we have on for a particular year,
33 whether it's up or down, that's all effected by our temporary
34 staff.

35 MS. BUTLER, Q.C.: Alright, well let's look then at **Exhibit**
36 **3(a) of Grant Thornton's 2001 report**, and see the actual
37 salaries for TRO.

38 MR. REEVES: Yes.

39 MS. BUTLER, Q.C.: Okay, there we have it. Now he's only
40 got here '97 to 2001 and then the forecast 2002, but you'll
41 see that there's gross salaries, permanent salaries in (b), and
42 then if you can just go to (c), you've got temporary salaries
43 and in (d) you've got overtime.

44 MR. REEVES: That's correct, yes.

45 MS. BUTLER, Q.C.: Okay, so let's scroll back up to (a)

46 please. To be fair to you, Mr. Reeves, how would you
47 prefer to do it? Do you want to do the gross salaries or do
48 you want to take ...

49 MR. REEVES: The gross salaries are not broken out by
50 division.

51 MS. BUTLER, Q.C.: That's correct, they're not, so we have
52 to take permanent, add them to temporaries, and then add
53 ...

54 MR. REEVES: Which is in (b), (c), and (d), would be better
55 for me.

56 MS. BUTLER, Q.C.: Okay, I wonder whether the overtime
57 has to be included for the purpose of this exercise. Can we
58 just do it on permanent and temporary?

59 MR. REEVES: If you want.

60 MS. BUTLER, Q.C.: Well, as it happens I have that done
61 for you on an exhibit but I didn't include the overtime. We
62 should still see a reduction in permanent and temporary
63 salaries, right?

64 MR. REEVES: You won't in what you're going to go
65 through right now.

66 MS. BUTLER, Q.C.: Why not?

67 MR. REEVES: Because the year 2001 is not the actual cost
68 for my division. It's ... and I need to explain that a bit to
69 you. Is that ...

70 MS. BUTLER, Q.C.: Wait now, just hold that thought while
71 I get it on the screen here. Can I just see the full of (a) and
72 (b) together there please? Alright, so you're suggesting
73 that what's shown for 2001 for TRO of \$19.434 million is not
74 your division?

75 MR. REEVES: It is my division but you have to realize that
76 in that number, as I explained a few minutes ago, because
77 we want to keep information confidential within the
78 company before we do a restructuring, that is the full
79 complement, the dollars associated with the full
80 complement for my division in 2000. What happened earlier
81 this year, we eliminated 31 permanent positions. The
82 elimination of those are not in that, are not subtracted from
83 that \$19 million. In actual fact, where the savings are
84 budgeted in these accounts here is up in finance, as I
85 indicated a couple of minutes ago, because last year we
86 had anticipated savings that we were going to be achieving
87 this year, both in my division and in other divisions in
88 Hydro, and we made an estimation of that and we put that
89 reduction in salaries up in the finance division. However,
90 when the budget was done up, and it had not been
91 released, okay, then what needed to be put in my budget so
92 that we wouldn't be giving the information out in advance
93 of the announcement is that my budget, TRO, showed my

1 full complement for last year. Also in the \$19 million is that
2 each year, I think as you discussed here already, we have
3 a vacancy reduction in Hydro and that is budgeted in one
4 area, which is again finance, so of the \$1 million I have 45
5 percent of the staff in TRO, I would expect that we would
6 have to achieve savings of that \$1 million by \$450,000, that
7 \$19.4 million should be down by \$454,000 in addition to the
8 savings that we've achieved. So to compare that number
9 there in 2001 is not a fair comparison for what you're about
10 to do.

11 MS. BUTLER, Q.C.: Well let me just ask a couple of
12 questions flowing from that explanation. Looking at (b) on
13 the screen and the line for Transmission and Rural
14 Operations, '97, right across to 2001. In any other year that
15 there was similar savings, are you telling me that those
16 savings were also recorded in finance?

17 MR. REEVES: Yes, but what you've got here are actual
18 figures, up to 2000 you have actual figures.

19 MS. BUTLER, Q.C.: Okay, so for 2000 ...

20 MR. REEVES: Okay, but 2001, because of the timing of the
21 preparation of the information that was reviewed ...

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

23 MR. REEVES: We did not put it in that way, and here again
24 we put in the full complement, we take off it any potential
25 savings that we anticipate having, we'll put it up in finance.
26 We also take off any vacancy reduction that we anticipate,
27 it goes up in finance, and throughout the year that is then
28 reforecasted into the particular divisions.

29 MS. BUTLER, Q.C.: Okay, so for the year 2001, without
30 giving away your hand in terms of the information you
31 wanted to keep confidential, the savings that you would
32 say should belong in that \$19.434 million figure would be
33 what?

34 MR. REEVES: There's a \$2 million difference there right
35 now, is that correct? Do you agree with that?

36 MS. BUTLER, Q.C.: Yes, almost exactly \$2 million
37 difference between 2000 and 2001, yeah.

38 MR. REEVES: The exact savings that we're going to
39 achieve this year as a result of the efficiencies ... I don't
40 have that figure on the top of my head but I think what
41 we've already achieved will be in the vicinity of a million
42 dollars from the reduction ...

43 MS. BUTLER, Q.C.: A million dollars?

44 MR. REEVES: Yes, that's the 31 positions that we've
45 eliminated already. I think our vacancy reduction will be
46 probably \$450,000.

47 MS. BUTLER, Q.C.: I'm sorry, I didn't get that?

48 MR. REEVES: \$450,000, if I take my portion which I expect
49 I will be taking.

50 MS. BUTLER, Q.C.: Okay, so just so that we're clear ...

51 MR. REEVES: So that's \$1.5 million.

52 MS. BUTLER, Q.C.: Are you saying then that of the
53 salaries, permanent salaries shown for 2001 for your
54 division of \$19.434 million, really there should be savings
55 of how much off that?

56 MR. REEVES: Well what just came up in my head is
57 probably at least \$1.5 million.

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

59 MR. REEVES: That's in the complement. Now the other
60 thing that will come into play here, what the actual figure
61 will be is, I don't know, because the actual positions that
62 we declared redundant this year was done early in the year
63 and so we put, you know, we probably did achieve the full
64 savings. They won't be, the full savings won't be
65 recognized until next year.

66 MS. BUTLER, Q.C.: Let's have a look and see if we can
67 address this a little more closely ... **NP-20**, page 2 of 2 (b).
68 The answer given here was the following table shows an
69 estimate of the initiatives savings starting with the first full
70 year after implementation.

71 MR. REEVES: Correct.

72 MS. BUTLER, Q.C.: Okay, so does this table assist in terms
73 of the savings?

74 MR. REEVES: Well, other than what I just said in regard to
75 the \$1 million savings as a result of the changes we made
76 this year, you'll see that the, in the estimated annual
77 savings from 2001 and 2002 is approximately \$1 million.

78 MS. BUTLER, Q.C.: Yeah, \$942,000, yeah.

79 MR. REEVES: Okay, so that's where I got the information
80 for the \$1 million that we anticipate as an annual saving by
81 the reductions we made early this year.

82 MS. BUTLER, Q.C.: Okay, so just so that we're clear and
83 I'm tying the two exhibits together now, the exhibit on the
84 screen is suggesting that the initiatives discussed in your
85 evidence saved Hydro on average \$942,000 per year up to
86 and including 2001, and those initiatives plus the reduction
87 or elimination of positions in 2002 will save you in 2002
88 \$1.996 million.

89 MR. REEVES: That's right.

90 MS. BUTLER, Q.C.: But your evidence is that those
91 savings are not reflected in the salary figures for your
92 department. They are reflected in the figures for finance?

93 MR. REEVES: In the year 2001 and 2002.

1 MS. BUTLER, Q.C.: Correct, okay, now ...

2 MR. REEVES: What you have to realize is that if you were
3 just to compare 2000 to 2001 from this table, you would
4 only see a \$1 million reduction because the savings in
5 previous years were obviously achieved in previous years
6 and the budgets were done up in that manner.

7 MS. BUTLER, Q.C.: Now if the savings that we see on the
8 screen from initiatives in your department which relate to
9 positions being lost or salaries being reduced are recorded
10 in the finance section, I guess what I'm curious about Mr.
11 Reeves is how it is that you can manage your budget if the
12 elimination of those positions is recorded in somebody
13 else's budget?

14 MR. REEVES: See what happens is that once the, when I
15 see my budget for the first time, which is the annual
16 budget, which I would have seen last year, it would have
17 the full complement of positions in there, and as I say, the
18 vacancy reduction, I know it's there. I know I'll have to
19 achieve that in the upcoming year. That's over in Mr.
20 Osmond's budget. But as we move through the year,
21 starting in January and going forward, as we achieve
22 vacancies, then that gets moved over into my area as well.
23 If we make, if we eliminate positions we will reflect that into
24 our budget so that from that point on I will see what our
25 budget is. So on an ongoing basis throughout the year the
26 budget is reforecasted a number of times and the
27 information that we're dealing with at any point in time is
28 the most current information for us to be looking at to
29 regulate it. What you see here is basically for budgeting
30 purposes where you probably look at it once a year or
31 twice a year and it's done a year in advance. It's not a good
32 monitoring tool in regard to being able to control your
33 budget as you're going through the year, and what you
34 want and what we have on a monthly basis are the adjusted
35 budget figures to accommodate the changes that we've
36 made, and that's where we control our budgets to.

37 MS. BUTLER, Q.C.: Alright, but what I'm hearing you say
38 really is that we have to be careful when we look at the
39 budget.

40 MR. REEVES: The way that it's presented here, and for the
41 reasons that I stated, if you're just looking at the
42 department, you need to understand what's in there and
43 what's not in there, that's correct, as I've explained.

44 MS. BUTLER, Q.C.: Can I ask you, I think lastly on the
45 issue of the salaries, and relevant to something that I think
46 Mr. Wells deferred to you, he suggested that it wasn't
47 really fair to simply look at statistics for permanent and
48 temporary positions when there may be workers provided
49 under contract as a separate category. Are you able to help
50 us with that?

51 (3:00 p.m.)

52 MR. REEVES: There's a number of things that Hydro
53 contracts out and probably I can just go through the
54 categories as I've got them in my mind. The first one
55 relates basically to our capital project, capital projects, and
56 for all intents and purposes, I would say the bulk of our
57 capital budget is contracted out, either materials or labour.
58 The second item in regard to contracting out is that we also
59 contract out some of our work that's done by the
60 operations department and this has been historically done.
61 Again, these would be for larger extensions or larger
62 upgrades. I guess the third category, if I can just go
63 through my notes here right now ... the third category, I
64 guess, are associated with our vehicles. Our vehicle
65 maintenance, 90 percent of the maintenance on our vehicles
66 would be contracted out. As Mr. Wells also explained in
67 his evidence is that the work that our unionized people
68 carry out in TRO and other divisions, we are not able to
69 contract out work at the same time as laying off permanent
70 people. That's not uncommon to a lot of contracts, I'm
71 sure. I think Newfoundland Power has a similar clause in
72 their contract. But historically, Hydro contracts out a lot of
73 its major, major work, and what we maintain in-house is the
74 capability of being able to do the, what I would call the
75 smaller jobs in regard to pole placements or emergency that
76 is required to get our customers back on, we maintain some
77 of that, but the philosophy is that for all of the major work
78 we try to contract it out and only maintain a permanent
79 staff sufficient to deal with the ongoing operations that we
80 have at hand, which is transmission, distribution, and rural
81 operations.

82 MS. BUTLER, Q.C.: So do you see that there is a third
83 category of staff that we should be looking at, or do you
84 accept that we should simply be looking at permanent and
85 temporary to give the full picture?

86 MR. REEVES: When you say to look at, in regard to what?
87 In regard to comparing what?

88 MS. BUTLER, Q.C.: Well, I had the impression, correct me
89 if I'm wrong, from the President that when I put to him that
90 the permanent plus temporary contingent or complement
91 had increased over a period of time, that his answer was
92 well, it's really not fair to simply look at those two
93 categories because there is a third category of contracted
94 out ...

95 MR. REEVES: I'd have to look at his evidence but, his
96 statements, but the way that I recall his statement is that
97 there are several ways that a company can run their
98 business. They can go from one extreme and neither one
99 of these is Hydro, so I'm just using examples ... they can go
100 from one extreme where their employees does all the work
101 associated with their company. There's the other extreme

1 where a company could contract out all of its work and it's
2 not a fair comparison to try to look at some information to
3 see what a company is actually doing. That's what I
4 garnered from what he was trying to say.

5 MS. BUTLER, Q.C.: Well are you satisfied then for the
6 purposes of your testimony that using Exhibit 3(a), if we
7 might, Mr. O'Rielly, of the **Grant Thornton report**, does
8 give the most accurate comparison of the changes in total
9 staff complement over that period of time?

10 MR. REEVES: From my perspective in TRO and that's only
11 really what I can speak to. What I feel I can control is my
12 permanent complement level. If I can get that down I know
13 I'm going to be saving costs. If I keep my temporary costs
14 down, okay, I know I can save costs. Now that one can go
15 up and down depending on our maintenance program, as
16 I said. What I don't have to worry too much about from a
17 control perspective in regard to salary is the work that we
18 do in our capital, because that has been, and continues to
19 be contracted out and that will depend on the size of our
20 capital work program. For instance, how many employees
21 were on TL-217 upgrade, from controlling my costs within
22 the company, what I've done is that we've said that we can
23 do that job in this manner for this amount of dollars. What
24 staff they use, it's really, it's not that it's irrelevant to me,
25 but it's not something that I need to worry about
26 controlling. What I need to control about is my permanent
27 staff and the temporary staff that I hire on from year to year.
28 That's what I feel I control.

29 MS. BUTLER, Q.C.: Well that is honestly, Mr. Reeves,
30 what I would have expected. I've given you the wrong
31 exhibit here, it's **NP-6**, page 2 of 4, started ...

32 MR. REEVES: **NP-6**?

33 MS. BUTLER, Q.C.: **NP-6**, yeah, the table. There you go.
34 Is this the best indicator, Mr. Reeves?

35 MR. REEVES: From my ... the three categories that I just
36 went through.

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

38 MR. REEVES: This would be the best indicator.

39 MS. BUTLER, Q.C.: Okay, thank you. Just one more
40 second. There is just one other issue on labour that I
41 wanted to speak to you about before we break if I might,
42 and that's budgeting for overtime. Can you tell us how you
43 use overtime in the completion of capital work? In other
44 words, do you include the cost in your capital project
45 budgets?

46 MR. REEVES: Normally it's not ... eventually it ends up in
47 our capital budget, yes, but again, if we hire on a temporary
48 person who is going to be working on a capital job, and
49 that's all they're going to do with us, we will charge them

50 directly into that capital budget, and any overtime that they
51 would incur would go directly into the capital budget.
52 Other temporary people or our permanent people, because
53 they are not specifically working on a particular job, then
54 they would be assigned to the department, like the
55 engineering department, and then they would charge their
56 appropriate time out to the different capital jobs that would
57 be on the go at any particular point in time. But as an
58 example, for our permanent staff, my understanding is that
59 they are paid overtime. It gets charged up to the operating
60 budget, and then we take a capitalized expense credit when
61 it is charged back into the capital job.

62 MS. BUTLER, Q.C.: Okay, I just want to see if I can
63 compare what you've just told me to what **Grant**
64 **Thornton's 2001 report** said on page 26, to see whether
65 we're saying the same thing or something different.

66 MR. REEVES: 26?

67 MS. BUTLER, Q.C.: Yes, page 26.

68 MR. REEVES: I hope it is.

69 MS. BUTLER, Q.C.: The last bullet on page 26, I think.
70 Okay, thank you. The author said there that Hydro does
71 not budget for overtime on capital projects which
72 amounted to \$700,000 in 2000. Are we saying something
73 different?

74 MR. REEVES: No, the salary category that we're in in the
75 Grant Thornton report is salaries and benefits, right?

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

77 MR. REEVES: So this would be in our operating budgets,
78 as I understand it.

79 MS. BUTLER, Q.C.: He makes reference unfortunately in
80 that section to the capital ...

81 MR. REEVES: I realize that.

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

83 MR. REEVES: But what it, to me what that means is that in
84 our operating budgets we do not, we do not budget for
85 capital overtime.

86 MS. BUTLER, Q.C.: I see.

87 MR. REEVES: For the very same reason I just explained to
88 you, our permanent staff will be working on capital, which
89 flows through the operating budget, or we get a credit
90 back, so if \$10 is charged against a job then we get a \$10
91 credit back for the job from the capitalized money.
92 Therefore, the operating budget is indifferent.

93 MS. BUTLER, Q.C.: Okay, I see.

94 MR. REEVES: It's not to say that we don't spend overtime
95 on capital.

1 MS. BUTLER, Q.C.: No.

2 MR. REEVES: Okay? And it's not to say we don't budget
3 for it, because if we budgeted for it it would be in our
4 capital budget.

5 MS. BUTLER, Q.C.: Yes, which is basically what it says
6 there, but I understand your explanation. Okay, I wonder,
7 Mr. Chairman, if that might be an okay place to break.

8 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.
9 We will break now and we'll reconvene at a little after 3:20,
10 please.

11 *(break)*

12 *(3:30 p.m.)*

13 MR. NOSEWORTHY, CHAIRMAN: I'd ask you to
14 continue, Ms. Butler, please.

15 MS. BUTLER, Q.C.: Thank you, Mr. Reeves. The issue of
16 transportation also crosses over into both operating
17 budget and capital budget. I'll address with you first the
18 issue of transportation that I think address operational
19 budget. Can I ask you first about fuel, and what does
20 Hydro do to minimize mileage and fuel costs for the fleet of
21 vehicles over which certainly you'd have some
22 responsibility in TRO.

23 MR. REEVES: What do we do to minimize fuel costs?

24 MS. BUTLER, Q.C.: Yes. What productivity or efficiency
25 savings have you attempted to achieve in the area of fuel
26 in TRO?

27 MR. REEVES: I guess other than to purchase vehicles that
28 have a better efficiency in regard to usage of fuel in them,
29 obviously we can't cut out using vehicles. We need
30 vehicles for our travel, so that's not an option; however,
31 when we purchase vehicles we endeavour to purchase
32 vehicles which will give us the greatest efficiency in, in
33 fuel.

34 MS. BUTLER, Q.C.: Does Hydro tender for the supply of
35 gas, gasoline?

36 MR. REEVES: No, it does not. We do not keep any, I
37 shouldn't say we don't keep any, we keep very few caches
38 of fuel for vehicles because we're spread out so much, but
39 I think we have one in Bishop's Falls which is for
40 emergency use and we may have one in Bay d'Espoir, that's
41 only the two that comes to my mind, but other than that we
42 would, we would go to the nearest gas station and fill up.
43 We are into an arrangement with a vehicle management
44 company, PHH, and we subscribe to their blue card service
45 and as part of that service they give us a 5% discount on
46 our purchases for fuel and also in regard to maintenance
47 they also give us a 5% discount on our maintenance, as I
48 understand it. So we are involved in that as well.

49 MS. BUTLER, Q.C.: So Hydro does not have an approved
50 supplier of gasoline for your vehicles ... like Ultramar, or
51 Esso, or Petro Canada.

52 MR. REEVES: No we do it through the PHH system and
53 most retail outlets will accept the PHH card and they give
54 us the discount through PHH.

55 MS. BUTLER, Q.C.: Have you approached suppliers of
56 gasoline to come to the depot to service the fleet of
57 vehicles at a depot, save the vehicles having to go to
58 different service stations to be serviced?

59 MR. REEVES: Not that I'm aware of. We have not done
60 that. Our depots are, like there's only two or three main
61 depots that we have, its not like here in the City, our depots
62 are usually far away, a long way off from some suppliers
63 that we could take advantage of that, there's probably only
64 one or two locations that we could take advantage of that.
65 One may be Bishop's Falls, but other than that if we're up
66 in Port Saunders or other locations, I'm not sure how they
67 get their fuel delivered up there, they may get a truck going
68 up once and a while, but I doubt it if somebody could
69 deliver fuel to us each day.

70 MS. BUTLER, Q.C.: Does Hydro have a policy of insisting
71 that its drivers use self-service?

72 MR. REEVES: I'm not aware ... we have a policy that we
73 burn regular gas.

74 MS. BUTLER, Q.C.: And does Hydro have an information
75 system to track costs by vehicle number?

76 MR. REEVES: What Hydro has we take advantage of two
77 components for tracking costs, as I said, a PHH card
78 through an agreement with PHH. They track our costs for
79 all gasoline, diesel, fuels in other words, they also track and
80 we have worked on a credit card up to \$1,300. They
81 accumulate those costs into a database and it is done by
82 vehicle. These costs are then on a monthly basis, on a
83 monthly timeframe are uploaded into our JDE system, our
84 JD Edwards system. On our JD Edwards system the other
85 part of the costs which are associated with vehicles by
86 vehicle number is the purchases or repairs over \$1,300.
87 Those two components are then added together into the
88 transportation reports by vehicle and we are able to track
89 both costs on a monthly basis.

90 MS. BUTLER, Q.C.: Does Hydro contract out fleet
91 management, as opposed to fleet maintenance?

92 MR. REEVES: What do you mean by fleet management?
93 Like, for instance we have a very small staff which basically
94 looks out to our transportation assets. We have one Asset
95 Manager and one Specialist. Also in that department we
96 have a Supervisor of a small staff as well, the ones that do
97 the maintenance primarily in our booms and off road

1 vehicles, as I explained to you this morning. We, those two
2 people, the Asset Manager and the Specialist, basically do
3 our management of our fleet. We take advantage of PHH
4 for gathering costs and the like.

5 MS. BUTLER, Q.C.: I wonder if we can look, Mr. Reeves,
6 please at **NP-23**, page 1 of 12. Now I thought in this
7 question, yes (d), line 7 ... "Has Hydro analyzed contracting
8 out parts or all of its vehicle management? And the answer
9 to (d), can we put that up please, Mr. O'Rielly? Was that
10 Hydro had not completed a review analyzing the
11 contracting out of its vehicle management.

12 MR. REEVES: That's correct. And what we mean by that
13 is that we have not looked at contracting out the
14 replacement of those two people that we have on staff.

15 MS. BUTLER, Q.C.: Alright. You were also asked in the
16 same question whether Hydro had investigated leasing
17 versus buying. That was (c), and the answer to that was
18 "No analysis completed evaluating leasing versus
19 purchasing of vehicles".

20 MR. REEVES: That's correct. From the people in our
21 section and transportation, they participate with other
22 groups across the country who also have fleets and
23 utilities, and it is our understanding that most utilities
24 owned most of their fleet. However, to ensure that we are
25 making the right decision next year in our tendering of our
26 vehicles, we plan to put an option in there whereby we will
27 ask suppliers for tendering on our vehicles to give us
28 options for possible leasing, so we will again determine, at
29 that point in time, if the decision that we are currently
30 making is the right one.

31 MS. BUTLER, Q.C.: Now you had indicated that there was,
32 I think, only three people involved in fleet management.

33 MR. REEVES: In actual, what I call the asset business unit,
34 there are more people in it, but the Asset Manager and the
35 Specialist, and then there's the maintenance part of a
36 supervisor and a number of employees there that actually
37 does the maintenance on our vehicles. There's also a third
38 part of that section which is transport, which is moving
39 materials around the province. We have a very small staff
40 there as well. I think there's two employees there.

41 MS. BUTLER, Q.C.: I think if we look at **NP-5**, you'll
42 actually see the organizational chart. First of all (b) as in
43 baby ... three. (b) as in baby ... three, its not electronically
44 stored. Just wait for the Commissioners now to get their
45 copy.

46 MR. SAUNDERS: Where are we Ms. Butler?

47 MS. BUTLER, Q.C.: **NP-5**.

48 MR. SAUNDERS: Yes, I have that.

49 MS. BUTLER, Q.C.: (b)(iii). It's a schedule. To the right
50 you'll see Asset Manager Administration, MacPherson and
51 under the middle column, underneath that individual's name
52 you'll see a Transportation Officer, H.D. Whalen. So would
53 that position be one of the ones which is involved in fleet
54 management?

55 MR. REEVES: The ones that I have listed previously, no,
56 it would not be. This department here is what I would
57 consider to be a user group and there's a small fleet here in
58 St. John's whereby there's a number of cars in our fleet and
59 as people need to travel to, for whatever reason, whether
60 it's in, I guess, the engineering section or whatever, we
61 have a small fleet and there is somebody assigned in the
62 administration section to coordinate that. These people
63 would not be responsible for the purchase of vehicles, or
64 the setting of standards of the maintenance of the vehicles
65 which would be the responsibility of our asset business
66 unit and transportation.

67 MS. BUTLER, Q.C.: So you would not consider this
68 particular position to be involved in fleet management.

69 MR. REEVES: Not per se, no.

70 MS. BUTLER, Q.C.: On (e) (iii), again to the right, under the
71 Asset Manager section, you have a T.E. Brinston, Asset
72 Manager, Transportation.

73 MR. REEVES: That's correct. That's the Asset Manager for
74 transportation.

75 MS. BUTLER, Q.C.: Fleet Specialist, J.T. Hiscock.

76 MR. REEVES: That's correct. That's the one I was
77 referencing.

78 MS. BUTLER, Q.C.: Fleet Maintenance Supervisor,
79 Manuel, and Transport Supervisor, Thomas. Do you
80 consider all four positions to be in fleet management?

81 MR. REEVES: I, the, well these are the ones I was referring
82 to a couple of minutes ago, and ...

83 MS. BUTLER, Q.C.: All four.

84 MR. REEVES: All four of those, yes. When I said that we
85 do have a small staff for doing the maintenance on our
86 vehicles for booms and off road vehicles, that's the work
87 that Mr. Manuel and his people would do out of Bishop's
88 Falls. The transport services, the two drivers that we have
89 here for moving materials around the province, okay, but
90 neither one of those, while they perform transport or
91 transportation services, they're not into fleet management.

92 MS. BUTLER, Q.C.: And none of the individuals that are
93 referred to by position on (e)(iii) or (b)(iii) have investigated
94 so far the benefits of leasing versus buying?

95 MR. REEVES: I think it's fair to say that this would be the

1 responsibility of Mr. Brinston, which is on (e)(iii). Like he'll
2 be doing that work for us as the Asset Manager in
3 coordination with the people in most likely our finance
4 department will probably be doing some of the calculations
5 that are required for that. Mr. Brinston has talked to other
6 utilities, he's in the user group, of transportation services
7 for different utilities and I know he has indicated to me that
8 he has talked to other utilities about whether you should
9 lease or buy, and the feeling he's getting from his
10 counterparts in other utilities is that the general practice is
11 that most utilities purchase their vehicles instead of leasing
12 and the reasons that he was stating to me for that was that,
13 there's probably four reasons that I remember off the top of
14 my head. One is that the vehicle, a lot of the vehicles that
15 we use are very speciality vehicles, like line trucks, and the
16 like, not an everyday common item that rolls off the
17 assembly line. A lot of the vehicles that we have, we have
18 to modify them to put different attachments on them and
19 what not. That again is not a, off the assembly line type
20 thing. We have, we put very high mileages on our vehicles
21 over the life of the machine and a lot of those mileages are
22 put on in such a fashion that we are out in the worst kind
23 of weather, and in some cases in very rough driving
24 conditions and our vehicles do get a lot of hard use. Now
25 whether there are leasing companies out there that will be
26 able to provide us with with that service at a cheaper cost
27 than what we currently do now that is something that we
28 are currently committed to investigate and we will be doing
29 that starting next year, as I indicated, but as I say, the
30 feeling that Mr. Brinston is getting is that most utilities
31 across Canada, from his counterparts, purchase instead of
32 lease.

33 MS. BUTLER, Q.C.: And none of these individuals in these
34 four positions, according to the answer we have earlier
35 seen, have yet considered the issue of contracting out the
36 full fleet management.

37 MR. REEVES: In my opinion here what you would contract
38 out is probably just two parts of that. It would be a
39 Specialist and your Asset Manager. That's really the
40 management of that group. I, most utilities, maintain their
41 buckets and their off road vehicles so I think we would
42 have to maintain that small maintenance group right there.
43 I think Newfoundland Power has something very similar to
44 that over in their Donovans site. So, I think that's common
45 to the utility, so I don't think we would contract out that,
46 that's not part of management. The transport services is
47 something that, yes, we have had some preliminary looks
48 at that, but we're still into the investigative stages. We've
49 only got two employees there, but as I indicated before, we
50 have to do that in such a fashion that all requirements are
51 met from us. So really,

52 MS. BUTLER, Q.C.: Sorry, Mr. Reeves, go ahead.

53 MR. REEVES: Pardon me, there's only to people here I
54 would consider to be management of the assets of
55 transportation. These are the people that are doing our
56 purchasing, coordinating our standards, checking out our
57 repair shops to see that the repairs are done properly,
58 looking at our reports, so I think there's two people here
59 that if we were going to contract out management, that's
60 who we would contract out.

61 MS. BUTLER, Q.C.: And the total cost associated with
62 managing the fleet of vehicles in-house is approximately
63 what?

64 MR. REEVES: Two salaries.

65 MS. BUTLER, Q.C.: Which would be approximately what?

66 MR. REEVES: I don't know. \$80,000, that's off the top of my
67 head. I (inaudible).

68 MS. BUTLER, Q.C.: Well Mr. Reeves, as Vice-President of
69 TRO are you satisfied without having examined the
70 concepts of leasing versus buying to date, beyond what
71 you've told us and the issue of contracting out beyond
72 what you've told us, that you have done all you can to
73 keep the transportation costs in TRO as low as possible?

74 MR. REEVES: Yes, I feel we have done that, yes.

75 MS. BUTLER, Q.C.: Can I turn now to transportation
76 issues in the capital budget and here again at **NP-23**, page
77 10 of 12, Hydro ...

78 MR. REEVES: Can we put away these charts now?

79 MS. BUTLER, Q.C.: Yes. Here we have Hydro vehicles by
80 location and class for the year 2000 which is the last full
81 year, of course, that you have.

82 MR. REEVES: Page 12, page 10, I mean.

83 MS. BUTLER, Q.C.: Yes. Have you got that Mr. Reeves?
84 The bottom of the page then, the total count that Hydro
85 gave us was 282 for total vehicles.

86 MR. REEVES: That's correct, yes.

87 MS. BUTLER, Q.C.: Now I wonder if you can just tell us
88 your definition of vehicle.

89 MR. REEVES: This, this table right here, it's on-road
90 vehicles, not vehicles that would be used across the
91 whitherland, the all-terrain vehicles, the muskogs, the
92 Nodwells (*phonetic*), so this is on-road vehicles.

93 MS. BUTLER, Q.C.: I gather that the definition of vehicles
94 used here was not the same as what Newfoundland Power
95 uses, so there's no skidoos?

96 MR. REEVES: That's correct, no.

97 MS. BUTLER, Q.C.: Trailers?

1 MR. REEVES: No. Well trailers, I don't think so. No,
2 they're probably not included in this list. Our definition is
3 given on page one, if I'm not mistaken, of this response.

4 MS. BUTLER, Q.C.: Uh hum. No skidoos, trailers, off-road
5 vehicles as you say or the heavy track machines called
6 Nodwells, and other brand names.

7 MR. REEVES: Nodwells or the like, that's correct, yes.

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

9 MR. REEVES: I don't think trailers are included to be
10 honest.

11 MS. BUTLER, Q.C.: I wonder whether we couldn't have
12 your complete list though, would that be too much to ask.

13 MR. REEVES: We can provide that, yes.

14 MS. BUTLER, Q.C.: Great, thank you.

15 MR. REEVES: Like in this particular format, this, these
16 tables right here are not the way that they come off the JDE
17 system and it took us a, to put it in this format, so that it
18 would be easily comparable for yourselves, took a little bit
19 of time so to develop it we will endeavour to do that as
20 quickly as we can for our other ones.

21 MS. BUTLER, Q.C.: Thank you. Now on page 16 of your
22 testimony at line 5, you indicated that Hydro plans to
23 spend \$1.8 million on the replacement of 35 vehicles,
24 defined using this particular definition, next year. Is that
25 correct?

26 MR. REEVES: That's right. Yes. That's right.

27 MS. BUTLER, Q.C.: So we're talking about the test year
28 and we know now this is without reference to trailers,
29 quads, skidoos, and other off-road vehicles.

30 MR. REEVES: We would normally budget for those
31 separately in our budget.

32 MS. BUTLER, Q.C.: Okay. So we're talking about ...

33 MR. REEVES: Like a skidoo might be, I don't know, might
34 be in the tools and equipment category. A Nodwell could
35 run an half-million dollars. We would budget as a separate
36 item.

37 MS. BUTLER, Q.C.: Yeah, I'm going to come back and talk
38 to you about a particular Nodwell in a moment. Okay, so
39 would this total \$1.8 million be similar to vehicle
40 expenditures in prior years?

41 MR. REEVES: Off the top of my head I think it is
42 approximate, yes.

43 MS. BUTLER, Q.C.: Can you tell us what attempt Hydro
44 makes to ensure that the overall purchase cost of vehicles
45 is as low as possible?

46 MR. REEVES: But as I explained to you previously, we
47 have standardized our vehicles as much as we can so that
48 we are (inaudible) you know like we've even, our colour for
49 instance, we've, at one point in time the colour of our
50 vehicle, we had a particular colour, but now we buy the
51 colour that's closest to it to have it so as it closer to a
52 standard that is being produced in that particular year. We
53 go to public tender for our vehicles and we do all our
54 purchases primarily at the one time as best we can, early in
55 the year so that we can take advantage of bulk buying.

56 MS. BUTLER, Q.C.: I'm sorry, that's disappeared off the
57 screen. Back to that exhibit, the actual table, 10 of 12, sorry,
58 Mr. O'Rielly, it's **NP-23**, page 10 of 12. Okay, so we know
59 we're talking about 282 total vehicles here which is cars and
60 minivans, pick-ups.

61 MR. REEVES: Cars, minivans, pick-ups, vans, medium duty
62 trucks and heavy duty trucks.

63 MS. BUTLER, Q.C.: What I'd like to do is eliminate the
64 trucks and just talk about cars and minivans. So we see,
65 you have to see the heading of the table there, okay. Cars
66 and minivans first, and pick-ups and vans second. Only
67 the first two columns we need to look at and the total were
68 59 and 146, for the year 2000, a total of 205.

69 MR. REEVES: That's correct.

70 MS. BUTLER, Q.C.: Okay, now look at page 12 of 12 for the
71 year 2002 which is the test year. Same two columns, 61 cars
72 and 152 of the other ... 213.

73 MR. REEVES: That is correct, yes.

74 MS. BUTLER, Q.C.: Okay, so we've got a simple
75 calculation of an increase of eight only in those vehicles,
76 not the medium duty or heavy duty trucks. Now I wonder
77 if we could just turn to **NP-261** for a moment, and looking
78 at the total number of employees for the year 2000 ... 1,079
79 and for the year 2002, 977.

80 MR. REEVES: Okay.

81 MS. BUTLER, Q.C.: What we have is a decrease in the
82 number of employees by 102 and 8 additional cars and pick-
83 ups in the fleet, between 2000 and 2002. I'm just trying to
84 rationalize why 8 additional cars and pick-ups are needed
85 when you plan to decrease the number of employees by
86 102 bodies in that period.

87 MR. REEVES: There's a response if I remember correctly,
88 there was an information request issued on this particular
89 one, I think, similar to your question.

90 MS. BUTLER, Q.C.: On cars and minivans.

91 MR. REEVES: Well, not on cars and minivans but on
92 vehicles in general and my recollection of the reason for
93 this is that included in here are some vehicles which we

1 have purchased for our projects, multi-year projects like the
2 Avalon upgrade, Granite Canal, or what not, and that is the
3 main reason why that number has gone up.

4 MS. BUTLER, Q.C.: I'm sorry, maybe we should have a
5 look at the answer to the specific question. The Avalon
6 upgrade I could see, but you think Granite Canal was
7 included?

8 MR. REEVES: As a vehicle that we would purchase and
9 charge to capital projects with all the costs associated with
10 that vehicle and this is not abnormal for us. If we have a
11 project, and the Avalon upgrade is an example that is
12 probably a better one to use, where we have construction
13 work over a five year period, so rather than lease on a
14 short-term basis, we would go out and purchase a vehicle
15 for that.

16 MS. BUTLER, Q.C.: For the Avalon upgrade.

17 MR. REEVES: And that, again, would increase your fleet
18 for that period of time and at the end of the project what we
19 would normally do if there was any useful life left in the
20 vehicles, then we would incorporate that into our fleet and
21 retire an older unit, but not to increase our fleet.

22 MS. BUTLER, Q.C.: That's what I wanted to ask you about.
23 If the Avalon upgrade project is been underway since,
24 what 1998?

25 MR. REEVES: Yes.

26 MS. BUTLER, Q.C.: That shouldn't explain the need for
27 new vehicles between now and 2002.

28 MR. REEVES: I was using that as an example. Okay?

29 MS. BUTLER, Q.C.: But it happens to be an example that
30 was used in the formal answer as well. And when it comes
31 to the ... sorry?

32 MR. REEVES: Okay. Can we, if you wouldn't mind my
33 referring to that response that we gave.

34 MS. BUTLER, Q.C.: I wish I could tell you the number,
35 that's one I don't have here.

36 MR. REEVES: I might be able to help us. **PUB-51**, or, no
37 try **NP-263**.

38 MS. BUTLER, Q.C.: **NP-263**.

39 MR. REEVES: Yes. Is that the one? Yeah. Seventeen
40 vehicles were assigned to various projects and will either
41 be disposed of, and there was one additional vehicle which
42 was purchased and assigned to the IS & T group here on
43 the Eastern Newfoundland.

44 MS. BUTLER, Q.C.: What line are you reading from, sorry?

45 MR. REEVES: On line 10 to 13.

46 MS. BUTLER, Q.C.: I guess my question arising from this,
47 Mr. Reeves, is if vehicles are being purchased for a
48 particular capital project, doesn't that perhaps make it even
49 more important to review the possibility of leasing a vehicle
50 for that term of the actual project?

51 MR. REEVES: And we do that, and that's one of the
52 responsibilities of Mr. Brinston, because all of the requests
53 for capital projects go in to him and that range from
54 probably two months up to five years.

55 MS. BUTLER, Q.C.: I'm sorry, I thought I had understood
56 you to indicate earlier that you didn't lease vehicles.

57 MR. REEVES: We don't normally lease vehicles for our
58 fleet ... what I would call our permanent fleet of which is
59 leased right here, but that's not to say that we wouldn't
60 lease a vehicle throughout the year if we have a short term
61 requirement to conduct a, to conduct a particular job.

62 MS. BUTLER, Q.C.: Actually, I understand the distinction
63 you're are making but I guess what I am addressing is the
64 longer term project, say a two-year project and the benefits
65 of leasing vehicle for that as opposed to purchasing a
66 vehicle.

67 MR. REEVES: I guess well Mr. Brinston makes a judgement
68 call, and says that if we wanted a vehicle for three or four
69 years he would normally go to purchase that, especially
70 depending on the type of job that it's going to be working
71 on, but he also, he may in some cases rent a vehicle or he
72 may lease it, and I don't think he does a whole lot of leasing
73 right now but I know he is looking at that on a job-by-job
74 basis and he will make those decisions.

75 MS. BUTLER, Q.C.: Your explanation then for the decrease
76 in employees of 102, but the increase in vehicles of eight,
77 that's cars now and minivans, not trucks, is the projects?

78 MR. REEVES: Yes, as we state in this answer right here.
79 That's correct.

80 He MS. BUTLER, Q.C.: Even though they're cars and
81 minivans and not the trucks.

82 MR. REEVES: The trucks would be heavy duty, medium
83 duty trucks which is used primarily, I would imagine, by our
84 line workers, by our people maintaining the hydraulic
85 plants, definitely the heavy duty trucks would be our line
86 workers, but for instance, people on the Avalon upgrade,
87 and I keep going back to that one because we made a
88 decision back some time ago to do that. We made a
89 decision to, to have a vehicle, or several vehicles actually
90 for those upgrades, we needed it for our supervisor, we
91 needed it for our line inspectors, we needed it for our
92 material handlers. There's a number of vehicles that we
93 require to do our capital project. We don't include that in
94 what I call our normal fleet. Our normal fleet has not

1 changed except for this one addition to IS & T very much
2 of anything, but our numbers will fluctuate up and down
3 because the way that our vehicle records are kept in the
4 JDE system, tracks all vehicles, it doesn't matter if they are
5 just on our regular operating fleet or whether it's to do with
6 capital. But we buy them, they get bought through,
7 through our purchasing system and then they're charged
8 out to the capital project as required and some vehicles
9 may be charged out to several projects.

10 MS. BUTLER, Q.C.: Alright, let me turn now to see if we
11 can finish this this afternoon, to the capital budget item on
12 page (b), that's (b) as in baby, 18 of the capital budget
13 section of the application, and this addresses, Mr. Reeves,
14 the purchase intended of a \$177,000 track machines for the
15 Cat Arm site. Are you familiar with that issue?

16 MR. REEVES: I'm somewhat familiar with that one. That's
17 on (b) 18.

18 MS. BUTLER, Q.C.: While we're waiting for that to come
19 up, was there a picture of a track machine on your slide
20 show that might benefit us?

21 MR. REEVES: Not really, because what's in our slide show
22 is, are the track machines which are primarily used for the
23 maintenance of our line. This particular track machine is
24 really to transport materials and people from Jackson's Arm,
25 I guess, into our Cat Arm plant, a road which we do not
26 plow because we feel that it is more economical to maintain
27 a track machine like this than plow the road in to the plant.

28 MS. BUTLER, Q.C.: We do know though that this is an
29 enclosed track machine and it's one of these 32 inch wide
30 track vehicles, is that the concept?

31 MR. REEVES: It's a wide, at one point in time what was
32 there was a unit very similar to what they used on the ski
33 slopes for tracking, for snow grooming and it is enclosed
34 because our people are transported and this is not my
35 direct responsibility, even though I did at one point in time
36 have responsibility for that area, but what we do if we have
37 problems with the plant in the middle of the winter, we
38 needed enclosed track vehicle so that people that are going
39 in there are out of the weather and will have a good
40 opportunity to get in there, they can go in weather
41 conditions that they would not normally be able to go if
42 they never had an enclosed vehicle.

43 MS. BUTLER, Q.C.: Let's have a look at what was said
44 about the purpose of the capital expenditure in page (b) 18.
45 It said the project involved the purchase of an enclosed
46 track machine used to transport personnel, tools and
47 equipment to the Cat Arm site during adverse weather
48 conditions, failure to get personnel and equipment to the
49 site could result in extended outages. A formal cost benefit
50 study was not required and there are no future

51 commitments, the project will be complete in 2002, correct?
52 Now in **NP-103**, there was some details given.

53 MR. REEVES: Now I should say that this is in the
54 generation aspect of it. Mr. Budgell, will be addressing
55 that, but I will endeavour to answer your questions. There
56 is one thing that I'm unsure about right now, which as I
57 understand it, is that we do not plow that road throughout
58 the winter. The only thing that is used is the track machine.
59 That's my understanding.

60 MS. BUTLER, Q.C.: Well in terms of your area, TRO, would
61 you be able to address for me the one that's on the screen
62 now and that is information on the number of enclosed
63 track machines that Hydro has on the island.

64 MR. REEVES: Okay. I'll ... definitely that one.

65 MS. BUTLER, Q.C.: Yeah, okay, alright. That's 103, page
66 1 of 2 the table there starting at line 16.

67 MR. REEVES: Just a second now. Okay, yes.

68 MS. BUTLER, Q.C.: It appears that Hydro owns 32
69 enclosed track vehicles on the island.

70 MR. REEVES: That's correct, yes.

71 MS. BUTLER, Q.C.: Okay, and you're talking now in terms
72 of the capital budget this year of purchasing another and
73 placing it at the Cat Arm site.

74 MR. REEVES: Replacing the unit that is currently there,
75 that's correct, yes. It's not an additional vehicle to our fleet.

76 MS. BUTLER, Q.C.: Sorry, I thought it was an additional
77 vehicle. I thought the other one had been retired
78 previously.

79 MR. REEVES: It is my understanding is that there is a
80 vehicle there now which we are replacing.

81 MS. BUTLER, Q.C.: Alright. Now these existing vehicles,
82 the 32 existing, are located in the places that are indicated
83 there on the screen. Are you telling me that one of these,
84 that the one this is replacing is included in the 32?

85 MR. REEVES: I don't think it is. No. This one does not
86 include the one for Cat Arm. These are primarily the units
87 which are assigned to TRO for our line maintenance.

88 MS. BUTLER, Q.C.: Alright. So there's 32 others in
89 addition to the one currently at Cat Arm that you are going
90 to replace?

91 MR. REEVES: That would be my understanding, yes. I
92 stand to be corrected because, again, I don't have
93 responsibility for generation, but that's the way, my
94 understanding the way the figures are generated.

95 MS. BUTLER, Q.C.: Geographically, can you tell me where
96 Springdale is relative to Cat Arm? Do you know by, in

1 terms of driving time?

2 MR. REEVES: No. You have to go on the road which is
3 right here, come down here, and go into Springdale.

4 MS. BUTLER, Q.C.: By driving time, could you help me?

5 MR. REEVES: Driving, that might be what, two, three hours
6 at least, probably a bit longer. I'm not sure.

7 MS. BUTLER, Q.C.: What about Stephenville to Cat Arm
8 driving time?

9 MR. REEVES: Probably about three hours again, two and
10 a half to three hours.

11 MS. BUTLER, Q.C.: And the operator for the vehicle, that's
12 the track, enclosed track vehicle that you say is currently at
13 Cat Arm, do you know where he or she is located, the
14 resident?

15 MR. REEVES: That would, my understanding that would
16 be the operator who is located in around the Jackson's Arm
17 area, associated with the plant.

18 MS. BUTLER, Q.C.: Jackson's Arm, okay. Now do you
19 ever move these units that are shown here from place to
20 place?

21 MR. REEVES: We do when we have larger jobs on the go
22 in regard, the ones that are on the screen here to enable us
23 to do maintenance on our lines, yes.

24 MS. BUTLER, Q.C.: Right, and are some of these enclosed
25 track vehicles used for construction?

26 MR. REEVES: I would classify it more as reconstruction.
27 If we have a line that is in problems and, and fails, or we
28 have to do some reconstruction work on it, then some of
29 these would be used. However, for the major part of what
30 I would call our construction program which is in our
31 capital budget, these would not be used.

32 MS. BUTLER, Q.C.: Alright, now is this a separate fleet
33 from the production division or is this the entire fleet?

34 MR. REEVES: I'm not aware that generation or production
35 requires these vehicles as we do, like their main reason for
36 having vehicles is to get from actually one location to
37 another. They may have other requirements like cranes and
38 what not for lifting heavy pieces around, but for other than
39 the transport of material and personnel from some of our
40 locations to the actual generating plants they would not
41 have a big requirement, not as we would do to bring people
42 from say the Trans Canada in 20 miles on the road to work
43 on a transmission line. They have different environments
44 that they operate in, and in generation where these are
45 required would be obviously Cat Arm, which this
46 one is for, the Upper Salmon Plant from the Bay d'Espoir
47 area is another one, and Hines Lake, to a certain degree, but

48 the Hines Lake from Howley is a very short piece of road
49 and don't normally warrant a vehicle like this and here again
50 I don't think that the Bay d'Espoir plant personnel have an
51 enclosed track vehicle that they use for getting material and
52 equipment back and forth to the Upper Salmon. So I think
53 Cat Arm is the only place they have a requirement of this.

54 MS. BUTLER, Q.C.: In the interest of finishing at a decent
55 hour close to the usual completion time I just want to see
56 if I can tidy up this area a little bit, Mr. Reeves.
57 Newfoundland Power asked about the efficiencies that
58 might be gained by using already existing enclosed track
59 vehicles that's in close proximity to the Cat Arm site and
60 the answer to the question **NP-103(b)**, I think we should
61 look at. Okay. You see, it says there until 1998 there was
62 a similar track machine available and stationed at Cat Arm,
63 that's what I had understood.

64 MR. REEVES: Yeah, and here again I'm trying to be helpful
65 here and trying to answer your questions. More rightfully
66 these questions should be answered by Mr. Budgett, but
67 I'm just trying to be helpful.

68 MS. BUTLER, Q.C.: That's okay, but I think though it does
69 indicate at line 9 that the machine that you were talking
70 about was already disposed off so there is no machine, and
71 has not been any machine, at Cat Arm since 1998?

72 MR. REEVES: See, what it says here until 1998 there was a
73 similar track machine, or track truck available and stationed
74 at Cat Arm to transport workers and material and groom a
75 trail for the use of individual snow machines. This machine
76 experienced maintenance problems and was disposed off at
77 the end of its useful life. Since then alternate methods
78 using a "go track" to groom the trail in winters have been
79 used. However, this has proven to be ineffective,
80 especially in heavy deep snow. That's the piece that I think
81 they currently have as a "go track". That is also a larger
82 piece of off, off road vehicle. Okay. During this period
83 when a proper track machine was not available, extended
84 outages have been avoided.

85 MS. BUTLER, Q.C.: Could you hold that thought there for
86 a moment because you have indicated, of course, that the
87 idea was to be able to service Cat Arm and, you know,
88 prevent an extended outage and this says "during this
89 period extended outages have been avoided".

90 MR. REEVES: I guess, because they got a go track there
91 now, okay, and the circumstances of transporting a large
92 number of people or material in there to maintain the plant
93 has not been a requirement. However, if next year we have,
94 probably what I should do is just defer this if you'd like, but
95 my understanding is that there is a vehicle there now, it's
96 not the one that they would rather have for their particular
97 requirement. They'd like to have a unit similar to what they
98 had prior to 1998. The one they have there now, however,

1 even though we have, it's been suitable because we haven't
2 had any major outages. However if we had major outages
3 the road is not plowed, we have to get a fair number of
4 people, a fair bit of material in there, the existing machine
5 that we have is not suitable.

6 MS. BUTLER, Q.C.: Yes, but we're speaking hypothetically
7 because this answer does indicate that extended outages
8 have been avoided without the machine there.

9 MR. REEVES: I'm not saying the machine is not there.

10 MS. BUTLER, Q.C.: Well the Nodwell (*phonetic*) for which
11 your talking about spending \$177,000 is not there.

12 MR. REEVES: I hadn't done the research on this particular
13 one. We will purchase a vehicle for them when they want
14 to buy it, if it gets approved. That's the service that we
15 provide the generation. I'm just trying to be helpful.

16 MS. BUTLER, Q.C.: Okay. Mr. Chairman if I could stop
17 there it would be helpful. I can't say I'm finished, but I'm
18 certainly almost finished.

19 MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you
20 very much Ms. Butler, Mr. Reeves. We, may I ask the
21 industrial customers who will be leading there cross.

22 MS. HENLEY ANDREWS: I will, Mr. Chairman.

23 MR. NOSEWORTHY, CHAIRMAN: Okay. Thank you
24 very much and we'll reconvene at 9:30 tomorrow morning.

25 (hearing adjourned to October 2, 2001)